Foreign Debt and Firm Performance: Evidence from French Non-Financial Firms

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Abstract: We investigate the impact of foreign currency debt on firm performance for a sample of non-financial French firms studied over the period 2002 to 2012. As foreign currency debt is both a financing and hedging instrument against foreign exchange risk, we mobilize optimal hedging theory and capital structure theory. When we study the impact on firm value, our main results show that before and after the financial crisis of 2008, foreign debt had the same behavior as domestic debt. We find that during the crisis period, foreign debt positively affects firm value. Investors perceive foreign debt as a natural hedging instrument that is likely to reduce the costs of underinvestment, alleviate cash flow volatility, limit the costs of financial distress, and generate tax shield benefits. Also, our results show that foreign leverage negatively affects the firm performance proxied by ROA and ROE, during and after the financial crisis. However, this impact is positive in the pre-crisis period.

Keywords: foreign currency derivatives, foreign currency debt, foreign currency hedging, firm performance

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