

Bank credit and trade credit: The moderating role of financial constraints

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ABSTRACT

Trade credit is an important source of financing, and its proper management is essential to the survival and thriving of firms. Meanwhile, bank credit also plays as a critical funding source, especially in the setting of developing and emerging markets with high level of information opaqueness and low institutional quality. The current research examines the determinants of accounts payable using a sample of 590 firms listed in Vietnam from 2015 to 2022, focusing on the choice between bank credit and trade payables. We utilize panel data estimation methods, including the fixed effects model (FEM) and the random effects model (REM). The study provides evidence supporting the substitution effect between banks' short-term and long-term loans and trade credit. Therefore, it is evident that many firms, when granted access to bank loans, exhibit a propensity to favor borrowing from banks rather than relying on accounts payable. The study differs from other similar studies by examining both short-term and long-term loans, rather than just short-term bank financing.

Furthermore, the analysis of the moderating effect of financial constraints reveals that firms that less financially constrained firms seek more bank credit than trade credit. Again, this emphasizes the priority for bank loans over supplier financing, as well as the role of bank credit in a bank-based financial market such as Vietnam. We also find that cash holdings, annual revenue growth rates and firm size are significantly related to trade credit use. The results are robust throughout several robustness checks and the effort to control for the potential endogeneity issue. Based on the research findings, we offer implications for relevant stakeholders on managing of external financing, including both bank and interfirm financing.

Key words: bank credit, trade credit, moderating effect, financial constraint

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1 INTRODUCTION

2 Firms need financial resources for their production
3 and investment activities. However, firms have dif-
4 ficulties in sourcing their financial resources. In de-
5 veloping countries, firms do not have many official
6 financing options¹. The lack of financing options
7 induces firms in these economies to rely on credit
8 granted by banks and suppliers. In fact, bank debt and
9 trade payables collectively account for a fairly high
10 proportion of the balance sheet.

11 Bank credit is provided in various forms, ranging
12 from short-term loans, overdrafts, and invoice dis-
13 counting, to long-term loans. The credit is granted
14 following creditworthiness evaluation based on nu-
15 merous factors, including information from firms' fi-
16 nancial statements to the lender. Meanwhile, trade
17 credit is provided by suppliers through payment ex-
18 tensions (typically between 30 and 90 days). The lit-
19 erature stresses that trade credit could be a helpful
20 source of funding in an environment plagued with in-
21 formation asymmetry that compromises banks' abil-
22 ity to properly evaluate creditworthiness properly²⁻⁵.

Compared to banks, suppliers do not find informa-
23 tion asymmetry a serious issue, since they make de-
24 cisions based on the intimacy grown through the re-
25 peated behaviour of customers.

26
27 Choosing between trade payables and bank credit
28 is not always straightforward. Companies can meet
29 their financing needs with bank credit to keep financ-
30 ing costs low, provided it is available. They may turn
31 to trade payables when bank financing is inaccessible,
32 indicating a substitution effect between payables and
33 bank credit^{2,6,7}. Alternatively, companies can adopt
34 a diversification strategy, using both bank and sup-
35 plier credit to maintain a mix of funding sources. This
36 way, they can rely on the other if one source becomes
37 unavailable. In this scenario, payables and bank debt
38 cover additional financial needs are covered propor-
39 tionally, reflecting a complementary approach to fi-
40 nancing^{8,9}. The extra cost of using both sources can
41 be seen as a premium to avoid financial constraints.
42 Because of its specific nature of not belonging to the
43 banking sector, trade credit is not highly regulated
44 by authorities. Trade credit is essential for entities

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45 facing challenges in accessing credit institutions and
 46 capital markets¹⁰⁻¹². However, payables can be an
 47 expensive source of finance for firms. García-Teruel
 48 and Martínez-Solano¹³ document that UK firms face
 49 tradeoffs while using trade credit and in fact have a
 50 target level of accounts payable, and that larger firms
 51 with better access to alternative financing rely less on
 52 supplier credit. Abuhommous¹⁴ also finds that Jorda-
 53 nian firms have a target accounts payable ratio. Luo¹⁵
 54 finds that the Covid-19 pandemic pressures firms that
 55 use account payables, so firms need to adjust to their
 56 target payable ratio even faster.

57 Investigating whether the relationship between bank
 58 credit and trade credit is supplementary or substi-
 59 tutive is crucial. Furthermore, it is essential to find
 60 whether the financial constraint moderates the link
 61 between bank credit and account payables. In other
 62 words, does financial constraint motivate firms to use
 63 both bank and trade credit, thus enhancing their comple-
 64 mentary effect between them? Or, do less finan-
 65 cially constrained firms with easier access to bank
 66 loans try to take more on this source of financing,
 67 rather than supplier credit?

68 In Vietnam, the financial market is still fledgling with
 69 low institutional quality and weak corporate gover-
 70 nance¹. Therefore, creditors might hesitate to lend
 71 because of high information asymmetry and weak
 72 creditor protection. In this setting, the role of trade
 73 credit as a substitute for bank credit could be more
 74 substantial. At the same time, as firms have few fi-
 75 nancing options, the two financing sources could be
 76 used together to fill the financing gaps. Therefore, in a
 77 developing country with a bank-based financial mar-
 78 ket such as Vietnam, the link between the two types of
 79 financing remains complex, yet lacks empirical exam-
 80 ination is lacking. In this research, we use a sample of
 81 listed firms in Vietnam from 2010 to 2022 to investi-
 82 gate the link between the two funding sources of fund-
 83 ing to see which expectation is more realistic in this
 84 economy. We expand the literature by examining not
 85 only the link between short-term loans and payables,
 86 but long-term loans. Typically, long-term loans have
 87 not been studied in previous studies as both payables
 88 and short-term loans are more related to short-term
 89 operations. In our study, we build hypotheses to test
 90 the relationship between bank loans (including both
 91 short- and long-term ones) and trade payables to of-
 92 fer a more well-rounded view, at least in the context
 93 of a developing country as Vietnam. Finally, we also
 94 examine the other determinants of the use of trade
 95 credit to understand more comprehensively the nature
 96 of trade financing in this country.

After the introduction, the research continues as fol- 97
 lows. Section 2 presents the literature review on which 98
 hypotheses are built. Section 3 presents the research 99
 methodology comprising empirical models, variable 100
 construction, and estimation strategies and research 101
 sample. Section 4 provides the estimation results and 102
 discussion, which we base on the implications in Sec- 103
 tion 5. 104

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT 105 106

The relationship between bank credit and trade credit 107 108

Bank loans have been identified as an important factor 109
 in both developed and developing countries¹⁶. It is 110
 offered after creditworthiness evaluation based on the 111
 borrower's past performance. However, some level of 112
 information asymmetry exists between corporate in- 113
 siders and outsiders, which limits banks' capacity to 114
 evaluate firms' creditworthiness^{5,17} correctly. Firms 115
 plagued by information asymmetry often have diffi- 116
 culty obtaining bank loans, especially during financial 117
 crises. 118

This lack of bank credit may induce firms to con- 119
 sider trade credit as a substitute source of financ- 120
 ing¹⁸⁻²⁰. In contractionary periods, suppliers gener- 121
 ally have fewer difficulties facing information asym- 122
 metry due to the intimate knowledge about a regu- 123
 lar buyer and the ability to repossess and redeploy the 124
 goods sold²¹. Hence, suppliers with low financing 125
 costs could provide the much-needed trade credit to 126
 financially limited purchasers to nurture a long-term 127
 relationship^{12,22}. This phenomenon can be referred 128
 to as the "redistribution" effect. 129

Numerous studies have investigated the benefits of 130
 trade credit. One of the primary advantages of trade 131
 credit for purchasers is that the granted period buys 132
 them time to evaluate the product's quality^{13,23}. The 133
 buyer can decline payments if the faulty products re- 134
 sult in decreased transaction costs. Obtaining trade 135
 credit with favourable terms and conditions helps 136
 lower overall borrowing costs^{24,25}. Furthermore, 137
 firms can match their payments to suppliers with cus- 138
 tomer, eliminating the gap between cash inflow and 139
 cash outflow. As a result, the cost of managing inven- 140
 tory would be reduced. Financially constrained firms 141
 typically use trade credit to address excessive costs 142
 and the unavailability of capital market funding aris- 143
 ing from asymmetric information. Importantly, trade 144
 credit is shown to help enable the survival of firms in 145
 financial crises^{22,26,27}. 146

147 However, if firms do not make use of the early dis- 197
 148 count facility, trade credit can be an expensive source 198
 149 of financing^{28,29}. High cost is the reason why firms 199
 150 prefer short-term bank loans, and only when firms 200
 151 cannot obtain more bank loans will they resort to 201
 152 trade credit, creating what is called a “pecking order” 202
 153 in the choice of financing sources. 203

154 **Determinants of trade payables**

155 **Short-term bank loans**

156 The firm’s accounts payable level is influenced by its 204
 157 ability to secure external financing, including short- 205
 158 term bank loans. Trade credit is generally more ex- 206
 159 pensive than bank credit due to higher direct costs 207
 160 of funds^{17,29}. Consequently, firms with easy access 208
 161 to bank loans tend to rely less on trade credit. This 209
 162 aligns with the pecking order theory for short-term 210
 163 funding sources, where firms prioritize bank credit 211
 164 to minimize financing costs and only resort to trade 212
 165 credit when bank loans are not available. Further- 213
 166 more, studies by Petersen and Rajan²⁹, Chen et al.⁴, 214
 167 Bussoli et al.²², and Psillaki & Eleftheriou⁷ provide 215
 168 evidence of the substitution effect, indicating a neg- 216
 169 ative relationship between payables and short-term 217
 170 loans.

171 On the other hand, firms may follow a financing di- 218
 172 versification strategy, using both payables and bank 219
 173 loans to avoid the danger of funding sources drying 220
 174 up⁸. The diversification motive is further supported 221
 175 by Tsuruta³⁰, Lawless et al.³¹ and Kestens et al.³². The 222
 176 studies point to a complementary effect rather than a 223
 177 substitution relationship between trade payables and 224
 178 short-term bank loans. Despite the fact that trade 225
 179 credit demands additional expenses, firms may re- 226
 180 gard it as an “insurance premium”. The diversifica- 227
 181 tion strategy might benefit firms with high levels of 228
 182 constraints^{8,20}. Trade credit helps to reduce liquidity 229
 183 risk³³ and alleviate financial difficulties during crises. 230
 184 Because there are reasons to expect both positive and 231
 185 negative links between accounts payable and short- 232
 186 term debt, we establish the first two hypotheses as fol- 233
 187 lows: 234

188 **Hypothesis 1a: There is a positive association be-** 235
 189 **tween short-term loans and account payables.** 236

190 **Hypothesis 1b: There is a negative association be-** 237
 191 **tween short-term loans and account payables.** 238

192 **Long-term bank loans**

193 Garcia-Teruel & Martinez-Solano³⁴ argue that com- 242
 194 panies with access to bank loans tend to exhibit re- 243
 195 duced reliance on trade credit, because trade credit is 244
 196 more expensive than bank credit. This is consistent 245
 246

with the research results of Rodriguez-Rodriguez³⁵ 197
 and the findings of Petersen and Rajan²⁹ for small US 198
 firms, which implies that firms that generate more re- 199
 sources internally tend to rely less on supplier debt. 200
 Short-term loans are a more relevant determinant in 201
 the case of payables, since accounts payable refer to 202
 the funds owned by suppliers that have to be paid 203
 within a year. However, since banks also provide 204
 long-term debt, its effect on trade credit should also be 205
 examined. Garcia-Teruel & Martinez-Solano¹³ find 206
 that long-term bank loans negatively relat to accounts 207
 payable in Belgium, Finland, France, Greece, Spain, 208
 Sweden and the UK. 209

Consequently, in this research, we use the same hy- 210
 pothesis regarding their linkage with trade payables 211
 for both long-term and short-term loans. 212

Hypothesis 2a: There is a positive association be- 213
tween long-term loans and account payables. 214

Hypothesis 2b: There is a negative association be- 215
tween long-term loans and account payables. 216

217 **Cash holdings**

Although firms could delay the repayment to their 218
 suppliers, trade credit obligations must be honored. 219
 Late supplier credit payments result in costs, includ- 220
 ing the price discounts, the likelihood of encounter- 221
 ing late payment penalties and the resulting deterio- 222
 ration in credit reputation³⁶. Wu et al.³⁶ uncover a 223
 positive effect of trade payables on cash holdings in 224
 China, with firms holding an additional \$0.71 in cash 225
 for every \$1 of credit payable. Consistently, Abdulla 226
 et al.³⁷ consistently show that cash holdings positively 227
 impact trade credit. 228

However, Chaieb³⁸ suggests that holding cash has a 229
 negative and statistically significant effect on the cost 230
 of debt. In other words, this implies that the higher 231
 liquidity a company maintains, the lower its cost of 232
 debt. In situations with substitution effect between fi- 233
 nancial debt and account payables, firms are likely to 234
 hoard more cash to reduce the cost of debt. 235

Consequently, since there are potentially two direc- 236
 tions of the effect of cash holdings on trade payables, 237
 we propose the following hypothesis: 238

Hypothesis 3: There exists a significant association 239
between cash holdings and account payables. 240

241 **Size**

Large and reputed firms are generally considered as 242
 less risky, and tend to have superior financial condi- 243
 tions, access to loans, creditworthiness, and bargain- 244
 ing power than smaller firms^{23,34,39,40}. The size of the 245
 buyer firm can impact the terms of trade credit. As 246

247 a result, we can anticipate a positive correlation be- 298
 248 tween size and trade payables, as suppliers are more 299
 249 inclined to extend credit to large firms with favourable 300
 250 terms and conditions. 301

251 On the contrary, large firms could use less vendor 302
 252 credit, since they have better access to other sources of 303
 253 financing sources due to higher creditworthiness and 304
 254 reputation^{41,42}. Moreover, Atanasova⁴³ and Cori- 305
 255 celli & Frigerio⁴⁴ argue that small firms suffer stricter 306
 256 credit limits and consequently rely on supplier credit 307
 257 as financial resources. If a substitution effect exists 308
 258 between bank credit and trade credit, we should wit- 309
 259 ness a negative correlation between size and trade 310
 260 payables. 311

261 Based on two potential opposite relationships, the hy- 312
 262 pothesis is proposed below: 313

263 **Hypothesis 4: Size is associated with accounts 314**
 264 payable.

265 **Inventory holdings**

266 Fisman & Love⁴⁵ illustrate the utilization of trade 315
 267 credit varies among industries but remains relatively 316
 268 consistent within industry. Industries, such as tech- 317
 269 nology service firms and restaurants lacking tangible 318
 270 inventories, have a limited need for trade credit. This 319
 271 differentiates them apart from industries that heavily 320
 272 relying on tangible inventories⁴⁶. Inventories directly 321
 273 affect a firm's trade credit policy⁴⁷. 322

274 Naturally, Caglayan et al.⁴⁸ naturally find a positive 323
 275 correlation between trade payables and inventories, 324
 276 suggesting that firms tend to increase their invento- 325
 277 ries and trade payables when purchasing on credit 326
 278 from suppliers. Similarly, Cunat⁴⁹ and Yazdinejad & 327
 279 Jokar⁵⁰ identify a positive relationship between in- 328
 280 ventories and trade payables, arguing that firms with 329
 281 higher inventories tend to have higher trade payables 330
 282 since inventories can be collateral. Interestingly, Fer- 331
 283 nandez et al.⁵¹ document a negative relationship be- 332
 284 tween the two factors. 333

285 Therefore, a positive relationship between trade 334
 286 payables and inventories is anticipated. 335

287 **Hypothesis 5: There is a positive relationship be- 336**
 288 tween inventory holdings and accounts payable. 337

289 **Sales growth**

290 Previous studies by Garcia-Teruel & Martinez- 338
 291 Solano³⁴ and Petersen & Rajan²⁹ provide a 339
 292 theoretical perspective, suggesting that firms with 340
 293 growth opportunities tend to seek more financing 341
 294 from suppliers, resulting in a positive correlation 342
 295 between sales growth and accounts payable. 343

296 Sales growth has a notable impact on trade 344
 297 payables⁵². Firms that are more vulnerable to 345
 346

market imperfections are more likely to use more 298
 trade credit to manage growth. Cunat⁴⁹ suggests 299
 that fast growing firms can rely on trade payables 300
 when other sources of finance are not sufficiently 301
 available. Fisman & Love⁴⁵ argue that industries that 302
 utilize trade payables grow faster in poorly developed 303
 financial markets. 304

We posit that obtaining more trade credit is neces- 305
 sary for firms to invest in projects with growth poten- 306
 tial, especially in Vietnam, a relatively young financial 307
 market. As a result, we propose the following hypoth- 308
 esis: 309

Hypothesis 6: There is a positive relationship be- 310
 tween sales growth and accounts payable. 311

312 **The impact of financial constraint on the 313** link between bank credit and accounts 314 payable

A firm's accessibility to bank credit is affected by its 315
 size and asset tangibility. Firms with more tangible 316
 assets may have greater access to external funds⁵³. 317
 Large firms tend to have higher creditworthiness and 318
 better access to capital markets compared to small 319
 firms^{41,42}. Size and tangible assets can be regarded as 320
 factors that help firms benefit more from bank credit, 321
 thus increasing the levels of short-term debt. There- 322
 fore, firms with higher levels of size and asset tangi- 323
 bility should have better access to bank loans at better 324
 terms and conditions, thus being less financially con- 325
 strained and reducing the need for trade credit. 326

The hypothesis is represented as follows: 327

Hypothesis 7: Financial constraints tend to increase 328
 the negative effect of bank credit on on accounts 329
 payable. 330

331 **RESEARCH METHODOLOGY**

332 **Empirical model**

The research employs the following baseline model to 333
 evaluate the hypotheses from H1 to H6: 334

$$335 \text{Paya}_{it} = \beta_0 + \beta_1 \text{Size}_{it} + \beta_2 \text{Shortdebt}_{it} + 336 \\ 337 \beta_3 \text{Longdebt}_{it} + \beta_4 \text{Cash}_{it} + \beta_5 \text{Inventory}_{it} + \\ 338 \beta_6 \text{Salegr}_{it} + \alpha_i + \varepsilon_{it}$$

The research employs the following model to evaluate 338
 the hypothesis from H7: 339

$$340 \text{Paya}_{it} = \beta_0 + \beta_1 \text{Size}_{it} + \beta_2 \text{Shortdebt}_{it} + 341 \\ 342 \beta_3 \text{Longdebt}_{it} + \beta_4 \text{Cash}_{it} + \beta_5 \text{Inventory}_{it} + \\ 343 \beta_6 \text{Salegr}_{it} + \beta_6 \text{FC} * \text{Shortdebt}_{it} + \beta_7 \text{FC} * \text{Longdebt}_{it} \\ 344 + \beta_8 \text{FC} * \text{Cash}_{it} + \alpha_i + \varepsilon_{it}$$

Where: Paya is the dependent variable, measured as 344
 the ratio of trade payables to total assets^{34,37}. Size 345
 is the logarithm value of total assets^{34,54}. Shortdebt 346

is the main variable of interest, measured as the ratio of bank loans of less than one year to total assets. Longdebt is another main variable of interest, measured as the ratio of bank loans of more than one year to total assets^{34,55}. Cash is the proxy for cash holdings, measured as the ratio of cash holdings to total assets³⁷. Inventory is the variable representing the level of inventories, measured as the ratio of total inventories to total assets^{45,49}. Salegr is the annual growth rate of revenue^{34,55}. FC is the financial constraint variable, proxied by size and asset tangibility. The interaction variables formed between FC and bank credit, and cash are included to evaluate the hypothesis H7. α_i is the individual effect, and ε is the residual.

362 Research sample and estimation strategies

The research employs a panel dataset covering 590 firms listed in Vietnam from 2010 to 2022. The financial data are retrieved from the Thomson Refinitiv database. We remove firms with fewer than three years of observation due to extreme values are likely to be attached to these cases. The final data comprises 3,658 firm-year observations.

We employ panel data estimation methods, including fixed effects model (FEM) and random effects model (REM). As panel data have individual effects, these methods are more appropriate than Ordinary Least Squares (OLS). To further ensure the robustness of the research findings, we employ random effects with industry dummies to control for the characteristics of the industry on the tendency to use trade payables⁴⁵. Finally, we try to address potential endogeneity issues emanating from the two-way relationship between the dependent and independent variables, in this case the choice between trade and bank credit could be simultaneously determined⁵⁶. All the models have been tested for the existence of problematic multicollinearity through the Variance Inflation Factor test⁵⁷. All the VIF values are lower than 4, indicating that the models are not subject to high level of multicollinearity.

388 RESEARCH RESULTS AND 389 DISCUSSIONS

390 Descriptive statistics and correlation matrix

Table 1 presents the descriptive values of the variables in the model. Paya on average accounts for approximately one tenth of the total assets. Shortdebt's mean value is to somewhat similar to that of Paya, indicating that the two sources of financing might play equal roles in corporate capital structure. Longdebt

has a higher mean of 13.85 percent. Compared to Luu & Nguyen⁵⁵, who examined listed firms in Vietnam from 2011 to 2019, we have a similar value of Paya, but a smaller value of Shortdebt and a higher value of Longdebt. This could be due to the effect of Covid-19 that makes long-term lending much more risky for banks.

Cash is also close to Paya, with hortdebt and Longdebt values. Inventory, on average, accounts for one-fifth of the total assets. Salegr is not favorable, with a negative value of 0.2 percent. This could be due to the effect of Covid-19 outbreak that negatively affects the performance of firms in Vietnam.

Table 2 presents the pairwise correlation coefficients of variables in the model. We can see that Shortdebt is positively linked to Paya, while Longdebt is negatively related to Paya. Cash is negatively related to Paya, suggesting a substitution effect rather than the argument that firms prepare cash to pay vendors. Large firms tend to use less vendor financing, supporting substitution effect. As firms have more inventory, they use more trade financing to support the associated costs. Overall, we can see evidence to support the dominating substitution effect, except for the positive correlation between Paya and Shortdebt. However, it is crucial to note that the correlation coefficients refer only to the association between two variables, without considering the other covariates, and this can easily lead to biases in estimating coefficients. Therefore, it is important to proceed with multivariate regressions to verify the hypotheses established above.

428 Regression results and discussion

Table 3 displays regression results using the Fixed Effects model (FEM), Random Effects Model (REM), REM with endogenous treatment (REM_endo), and REM with industry dummies. As previously discussed, we make an effort to address the potential endogeneity issue emanating from the two-way relationship between the dependent and independent variables, in this case the choice between trade and bank credit could be simultaneously determined⁵⁶. We use the one-period lead value of Paya ($Paya_{t+1}$), rather than the current value of Paya, as the dependent variable.

From Table 3, Shortdebt is generally negatively and significantly related to Paya, suggesting that firms tend to consider the two sources of financing as substitutes. Trade credit is more expensive than bank credit^{17,55,58}. Therefore, firms with easy access to bank loans rely less on trade credit to save funding costs for short-term needs³⁴, in line with the hypothesis 1b.

Table 1: Descriptive statistics of the variables

Variable	Obs	Mean	Standard deviation	Min	Max
Paya	3,658	0.1093	0.1014	0.0000	0.9057
Shortdebt	3,658	0.1181	0.1462	0.0000	0.7638
Longdebt	3,658	0.1385	0.1606	0.0000	0.7981
Cash	3,658	0.1247	0.1288	0.0001	0.8828
Size	3,658	27.8336	1.5659	23.5902	33.9896
Inventory	3,658	0.2135	0.1757	0.0000	0.8589
Salegr	3,658	-0.0017	0.4986	-7.5548	1.0432

Source: author's calculation from research data

Table 2: Correlation matrix

	Paya	Shortdebt	Longdebt	Cash	Size	Inventory	Salegr
Paya	1.0000						
Shortdebt	0.1110	1.0000					
Longdebt	-0.1589	-0.3907	1.0000				
Cash	-0.1065	-0.1244	-0.1821	1.0000			
Size	-0.1265	0.0456	0.2189	0.0073	1.0000		
Inventory	0.1530	0.2934	-0.1689	-0.2062	-0.0066	1.0000	
Salegr	0.0422	0.0134	0.0539	0.0113	0.0512	0.0010	1.0000

Source: author's calculations from research data.

449 It is interesting to see that even though Vietnam is
 450 a young financial market with few financing options,
 451 firms still want to use less vendor credit, if they can use
 452 more short-term bank loans. This result also nullifies
 453 the diversification motive established in the research
 454 by Tsuruta³⁰ and Kestens et al.³². Therefore, in Viet-
 455 nam, firms tend to view bank credit and vendor credit
 456 as substitutes, rather than complements, and ignore
 457 the insurance premium effect.

458 With regard to Longdebt, we also find negative and
 459 significant coefficients in all four columns. Even
 460 though debt of longer maturity is not meant to sup-
 461 port short-term financing needs, there is evidence
 462 of some substitution effect between long-term bank
 463 loans and accounts payable, supporting the hypoth-
 464 esis 2b. This result is in line with the study of Luu &
 465 Nguyen⁵⁵ in Vietnam. The findings for Shortdebt and
 466 Longdebt variables suggest that even though Vietnam
 467 is a market plagued by information asymmetry and
 468 low institutional quality, commercial banks, through
 469 their extensive networks and huge volume of credit
 470 granted, can squeeze information effectively.

471 For the Cash variable, we also witness a negative rela-
 472 tionship between cash holdings and accounts payable,

473 in line with the hypothesis 3. This result negates
 474 the view that firms prepare cash to pay trade credit
 475 as in Wu et al.³⁶ and Abdulla et al.³⁷. Meanwhile,
 476 Chaieb³⁸ suggests that abundant cash helps lower the
 477 cost of debt, and while we document that there is a
 478 negative linkage between bank loans and trade credit,
 479 it is natural to expect that firms prioritize more debt in
 480 their capital structure and hoard more cash to reduce
 481 the cost of debt.

482 For Inventory and Salegr, these two variables are posi-
 483 tively relate to Paya, consistent with the hypotheses
 484 5 and 6. Caglayan et al.⁴⁸ find a positive correla-
 485 tion between trade payables and inventories, indicat-
 486 ing that firms tend to rely on vendor financing to fund
 487 inventories. Cunat⁴⁹ identifies a positive relation-
 488 ship between inventories and account payables, argu-
 489 ing that firms with higher inventories tend to have
 490 higher trade payables as inventories can serve as col-
 491 lateral. Garcia-Teruel & Martinez-Solano³⁴ and Pet-
 492 tersen & Rajan²⁹ provide a theoretical perspective,
 493 suggesting that firms with growth opportunities tend
 494 to gain more financing from suppliers, resulting in
 495 a positive correlation between sales growth and ac-
 496 counts payable. Growth opportunities are quite in-

497 tangible and usually cannot serve as collaterals; as a
 498 result, firms might have to resort to the support from
 499 their suppliers, rather than banks to fund their expansion.
 500

501 Table 4 presents the regression results for Model 2, i.e.,
 502 Model 1 with interaction variables between financial
 503 constraints (FC) and bank credit. First, we use Size to
 504 gauge the level of financial constraint. Compared to
 505 Model (2) suggested in Section 3, we remove the individual
 506 variables Size, Shortdebt and Longdebt, because the Variance
 507 Inflation Factor test indicates that including of these variables
 508 leads to serious multicollinearity among the regressors.
 509

510 The results align with Table 3 for Cash, Inventory and
 511 Salegr. Specifically, Inventory and Salegr are positively
 512 related to Paya, indicating that firms with higher
 513 inventories and revenue growth rates tend to rely on
 514 vendor financing. On the other hand, if firms exhibit
 515 a stronger preference for bank credit than trade credit,
 516 they could hold more cash to reduce the cost of debt,
 517 leading to a negative correlation between cash holdings
 518 and accounts payable.

519 Importantly, the interaction variables (Size*bank
 520 credit) have negative and significant coefficients.
 521 Larger firms tend to experience more substitution
 522 effects between bank credit and trade credit. This
 523 provides evidence supporting the hypothesis H7: for
 524 firms that are not less financially constrained, they
 525 will seek more bank credit, rather than trade credit.
 526 Increasing bank credit, especially short-term debt,
 527 could lead to bankruptcy risk; however, this risk is
 528 less problematic for large firms. At the same time, a
 529 higher level of bank credit might indicate that firms
 530 can access official financing at a favorable conditions.
 531 Previous studies also confirm that firms generally prefer
 532 bank credit, and only if bank credit is limited will
 533 they switch to trade credit⁵⁵.

534 To complete the analysis, Table 5 presents the regression
 535 results for Model 2, with asset tangibility being used
 536 to indicate the level of financial constraint. Tang
 537 is measured as the ratio of the net value of property,
 538 plant and equipment to total assets. We find that the
 539 results are similar to those in Table 4. This again
 540 confirms the validity of the hypothesis H7: for firms
 541 that are not less financially constrained, they will seek
 542 more bank credit, rather than trade credit.

543 CONCLUSION AND IMPLICATIONS

544 The current research examines the determinants of accounts
 545 payable of 590 firms listed in Vietnam from
 546 2015 to 2022. Vietnam serves as an appropriate research
 547 setting since it is a developing country with
 548 a young financial market plagued by information

549 asymmetry and inadequate protection of the rights of
 550 debtholders. In this setting, trade credit, or vendor financing,
 551 could be more significant role in providing the much-needed
 552 funding for firms' operations.

553 Our study provides consistent evidence supporting the
 554 substitution effect between bank loans and trade credit,
 555 with bank loans being considered at short and long-term
 556 maturity. In the context of Vietnam, it is evident that many
 557 firms, when granted access to bank loans, tend to favor
 558 borrowing from banks rather than relying on accounts payable.
 559 This result is highly consistent with the previous results on
 560 the stronger preference for bank credit, and only when bank
 561 credit is limited in contractionary periods would firms
 562 switch to vendor financing. Further analysis of the moderating
 563 effect of financial constraints reveals that firms that are
 564 less financially constrained firms seek more bank credit,
 565 rather than trade credit. Again, this emphasizes the
 566 preference for bank loans over supplier financing in the
 567 context of Vietnam.

568 Based on the findings regarding the priority for bank
 569 loans, the implications could be for suppliers to, perhaps,
 570 provide more attractive offers to the buyer firms or for
 571 the latter to take advantage of the discount provided
 572 through early payments. As for the banks, to serve as the
 573 chief source of funds in the economy, banks can collaborate
 574 with suppliers to utilize the information collected by the
 575 latter in the process of creditworthiness verification. This
 576 would benefit both the banks and suppliers.

577 Future studies can delve into moderating the effect of
 578 other factors, like the country's governance. This avenue
 579 has not been exploited in the literature.
 580

582 ABBREVIATIONS

- 583 FC – Financial constraint
- 584 FEM – Fixed Effects Model
- 585 OLS – Ordinary Least Squares
- 586 REM – Random Effects Model
- 587 TDNH – Tín dụng ngân hàng
- 588 TDTM – Tín dụng thương mại

589 CONFLICT OF INTEREST STATEMENT

590
 591 The authors declare that they have no conflicts of interest
 592

593 AUTHOR CONTRIBUTIONS

594 Liem Nguyen is responsible for hypothesis development,
 595 data curation and regression estimation.

596 Anh Tran is responsible for writing the introduction and
 597 hypothesis development.

Table 3: Regression result of model (1)

	FEM	REM	REM_endo	REM_industry
	Paya	Paya	Paya(t+1)	Paya
Shortdebt	-0.161*** [-12.77]	-0.123*** [-10.51]	-0.0131 [-1.01]	-0.132*** [-11.28]
Longdebt	-0.153*** [-13.92]	-0.134*** [-12.89]	-0.0406*** [-3.49]	-0.140*** [-13.51]
Cash	-0.0887*** [-7.13]	-0.0846*** [-7.19]	-0.0344** [-2.42]	-0.0851*** [-7.28]
Size	0.0181*** [7.06]	0.00656*** [3.64]	-0.00421** [-2.16]	0.00903*** [5.04]
Inventory	0.0157 [1.30]	0.0351*** [3.21]	0.0226* [1.81]	0.0467*** [4.26]
Salegr	0.00724*** [4.00]	0.00757*** [4.18]	0.00456* [1.88]	0.00729*** [4.03]
Industry dummies				Yes
_cons	-0.347*** [-4.90]	-0.0399 [-0.80]	0.231*** [4.29]	-0.132** [-2.52]
No of observations	3658	3658	2955	3658

Note: *, ** and *** indicate significant at 10, 5 and 1 percent respectively. The numbers in squared brackets are t-statistics.

Table 4: Regression result of model (2) – FC = Size

	FEM	REM	REM_ind	REM_ind_endo
	Paya	Paya	Paya	Paya(t+1)
Cash	-0.0849*** [-6.78]	-0.0830*** [-7.04]	-0.0828*** [-7.06]	-0.0363*** [-2.58]
Inventory	0.0132 [1.08]	0.0338*** [3.09]	0.0450*** [4.09]	0.0392*** [3.14]
Salegr	0.00768*** [4.21]	0.00780*** [4.29]	0.00763*** [4.20]	0.00473* [1.95]
Shortdebt*size	-0.00464*** [-10.71]	-0.00388*** [-9.56]	-0.00399*** [-9.89]	-0.00102** [-2.27]
Longdebt*size	-0.00489*** [-12.56]	-0.00447*** [-12.27]	-0.00454*** [-12.54]	-0.00189*** [-4.67]
Ind dummies			[2.38]	[3.37]
_cons	0.152*** [33.52]	0.139*** [25.28]	0.120*** [7.70]	0.0929*** [6.13]
No of observations	3658	3658	3658	2955

Note: *, ** and *** indicate significant at 10, 5 and 1 percent respectively. The numbers in squared brackets are t-statistics.

Table 5: Regression result of model (2) – FC = Tang

	FEM	REM	REM_ind	REM_ind_endo
	Paya	Paya	Paya	Paya(t+1)
Cash	-0.0903*** [-7.02]	-0.0860*** [-7.13]	-0.0879*** [-7.33]	-0.0394*** [-2.76]
Inventory	0.00339 [0.27]	0.0194* [1.73]	0.0308*** [2.76]	0.0316** [2.51]
Salegr	0.00686*** [3.72]	0.00702*** [3.83]	0.00674*** [3.68]	0.00435* [1.80]
Shortdebt*Tang	-0.124*** [-6.04]	-0.0963*** [-5.10]	-0.112*** [-5.89]	0.000474 [0.02]
Longdebt*Tang	-0.148*** [-9.81]	-0.126*** [-9.61]	-0.140*** [-10.48]	-0.0589*** [-4.02]
Ind dummies			[1.30]	[2.92]
_cons	0.140*** [31.79]	0.129*** [23.80]	0.133*** [8.27]	0.0983*** [6.19]
No of observations	3658	3658	3658	2955

Note: *, ** and *** indicate significant at 10, 5 and 1 percent respectively. The numbers in squared brackets are t-statistics.

598 Tien Pham is responsible for writing the results and
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600 An Le is responsible for writing the results and discus-
601 sions.

602 Thy Le is responsible for writing the conclusion.

603 Viet Nguyen is responsible for writing the conclusion.

604 All members are responsible for proofreading the
605 manuscript.

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Nợ vay ngân hàng và tín dụng thương mại: Tác động điều tiết của hạn chế tài chính

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TÓM TẮT

Tín dụng thương mại (TDTM) là nguồn tài chính quan trọng và việc quản lý đúng đắn nguồn này là cần thiết cho sự tồn tại và phát triển của công ty. Trong khi đó, tín dụng ngân hàng (TDNH) cũng đóng vai trò là nguồn tài trợ quan trọng, đặc biệt là trong bối cảnh các thị trường đang phát triển và mới nổi có mức độ thiếu minh bạch thông tin cao và chất lượng thể chế thấp. Sử dụng mẫu gồm 590 công ty niêm yết tại Việt Nam trong giai đoạn 2015-2022, nghiên cứu này xem xét các yếu tố quyết định TDTM, tập trung vào sự lựa chọn giữa TDNH và TDTM. Chúng tôi sử dụng các phương pháp ước tính dữ liệu bảng, bao gồm mô hình FEM và REM, với các biến giả trong ngành. Nghiên cứu cung cấp bằng chứng ủng hộ mối quan hệ thay thế giữa các khoản vay ngắn hạn và dài hạn từ ngân hàng và TDTM. Do đó, công ty có xu hướng thích vay vốn từ ngân hàng hơn. Hơn nữa, phân tích về tác động điều tiết của các ràng buộc tài chính cho thấy các công ty ít bị ràng buộc về tài chính sẽ ưu tiên tín dụng ngân hàng hơn, thay vì TDTM. Điều này nhấn mạnh đến ưu tiên cho các khoản vay ngân hàng hơn tại Việt Nam. Ngoài ra, lượng tiền mặt nắm giữ, tỷ lệ tăng trưởng doanh thu hàng năm và quy mô công ty có tác động đến mức TDTM. Dựa trên các phát hiện nghiên cứu, chúng tôi đưa ra những hàm ý cho các bên liên quan có liên quan về việc quản lý tài chính bên ngoài, bao gồm cả tín dụng ngân hàng và tín dụng giữa các công ty.

Từ khoá: tín dụng ngân hàng, tín dụng thương mại, tác động điều tiết, hạn chế tài chính

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