NBP Narodowy Bank Polski

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“Macroeconomic and institutional determinants of capital structure decisions” by Marco Botta, Luca Colombo - comments

Puropse

- How the macroeconomic and institutional environment influence debt ratios and their dynamics?

Conclusions

- Around 80% of the variation in leverage is explained by the interaction between firm-level characteristics and macroeconomic or institutional variables
- Capital structure decisions are strongly affected by country-level indicators
- Convergence towards target leverage is on average very slow and deviations from the optimum require a number of years before dying out
- Firms are not always actively engaging in reducing the distance from the optimal debt-equity ratio
- When firms need to access financial markets to raise new capital, they take decisions in line with the trade-off view, while if they don’t need external capital they do not seem concerned about accessing financial markets simply for rebalancing their capital structure
- Given that issuing equity seems to be significantly costlier during bad market conditions, this result implies that firms may prefer deferring leverage adjustment until market conditions become more favorable
- The quality of institutions also affect the dynamic behavior of firms, with the degree of market friendliness not only affecting target leverage but also the speed of adjustment towards it

Questions

- Did you somehow account for FX effects for firms that issue FX debt?
- Whats the impact for the economy of firms being outside target leverage?
- Which countries have the highest dept ratios?