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RBI WPS (DEPR): 04/2017:
Corporate Leverage in EMEs:
Has the Global Financial Crisis Changed the Determinants?

Reserve Bank of India placed on its website today a Working Paper* titled "[Corporate Leverage in EMEs: Has the Global Financial Crisis Changed the Determinants?](#)" by Snehal S. Herwadkar under the Reserve Bank of India Working Paper Series.

Has the global financial crisis changed the pivotal determinants of corporate leverage in EMEs? This paper attempts to address this issue using a panel-GMM framework and quantile-analysis for 10 major EMEs. Analysing 19-year database covering the period 1996-2014, the study finds that enabling conditions in the financial markets in the post-crisis period facilitated higher corporate leverage notwithstanding slower growth, which is in contrast to its largely pro-cyclical behaviour. Furthermore, the results suggest that global factors like world GDP growth and Fed shadow rate assumed centre stage while some of the traditional drivers like domestic growth and firm-specific factors faded away as determinants of corporate leverage in the post-crisis period. These findings evince policy concerns, as the former set is exogenously determined depriving the EMEs of their conventional endogenous domestic set of policy levers.

** The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*

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