



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल/email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

Department of Communication, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 022- 22660502

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**RBI Working Paper No. 07/2020:
Impact of Leverage on Firms' Investment: Decoding the Indian Experience**

The Reserve Bank of India today placed on its website a Working Paper titled "[Impact of Leverage on Firms' Investment: Decoding the Indian Experience](#)" under the Reserve Bank of India Working Paper Series*. The paper is authored by Avdhesh Kumar Shukla & Tara Shankar Shaw.

The paper focuses on the relationship between firms' leverage and their investment behavior in India. The empirical results suggest that firm-level leverage could provide early signals about the movements in investment cycle. Furthermore, the paper finds that firm's leverage adversely affects its investment activity in a non-linear manner *i.e.*, firm's leverage at lower level has a positive impact on its investment while at higher level it affects investment negatively. The paper concludes that the initiatives to clean up balance sheets of banks and deleveraging by non-financial corporates should help in revival of the investment cycle. The results are consistent with the agency cost of debt and trade-off theory of capital structure, where firms set target for leverage by balancing costs and benefits of debt.

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Ajit Prasad
Director

* 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.