

# Accepted Manuscript

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PII: S1059-0560(17)30405-7

DOI: [10.1016/j.iref.2017.05.006](https://doi.org/10.1016/j.iref.2017.05.006)

Reference: REVECO 1426

To appear in: *International Review of Economics and Finance*

Received Date: 16 July 2015

Revised Date: 17 May 2017

Accepted Date: 18 May 2017

Please cite this article as: Pindado J., Requejo I. & Rivera J.C., Economic forecast and corporate leverage choices: The role of the institutional environment, *International Review of Economics and Finance* (2017), doi: 10.1016/j.iref.2017.05.006.

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## Economic forecast and corporate leverage choices: The role of the institutional environment

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### Abstract

We investigate how the expected performance of the economy affects corporate debt decisions using a broad sample of companies from developed and emerging economies. High transparency between lenders and borrowers and strong legal protection of the two parties involved in the lending relationship facilitate indebtedness. These characteristics simultaneously alleviate the pro-cyclical effect of the expected performance of the economy on debt. Conversely, inefficient insolvency regimes and high rates of default at a country level hamper corporate borrowing. In addition, firms' debt decisions are more sensitive to economic expectations in countries suffering these problems.

*Keywords:* economic expectations, capital structure, transparency, legal protection, insolvency, credit default.

*JEL Classification:* E44, G32, K29.

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