In March, we launched a monthly ECA Lecture series, which intends to bring distinguished academics, policymakers and other experts to the Bank to discuss issues relevant for our region, and expose us to cutting edge research and thinking to challenge and contribute to the Bank’s intellectual climate.

We were happy to have Sebnem Kalemli-Ozcan of University of Maryland as our first speaker. She spoke about corporate debt, a topic of great interest and concern for our region. Sebnem shared data from her six-year investigation showing that the decline in private investment in Europe is directly linked to corporate debt deleveraging.

If you missed Sebnem’s lecture, click the links below the photo to see a recorded version and a copy of her presentation. We also include a round-up of Bank research on these issues for further reading.

The World Bank’s spring meetings are fast approaching and we will be issuing our Spring Economic Update. The update will have our latest views on economic growth in ECA and will feature Financial Inclusion. Also, on April 11, be sure to attend our Spring Meetings ECA Talk, “Migration in Europe and Central Asia,” where panels will include Sergei Guriev of EBRD and Caglar Ozden of the Bank.

Happy reading!

Asli Demirguc-Kunt

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Corporate debt was the focus of the March 6 inaugural ECA Lecture. The extensive rise in corporate leverage during the 2000s led to sluggish recovery in Europe in the aftermath of the 2008 crisis due to a debt overhang effect. In spite of extensive policy intervention in Europe, both in terms of monetary policy and bank regulation aimed at easing the credit supply to firms, investment remains low because firms are still going through a process of deleveraging.

Corporate debt is on the rise in Asian countries with a twist: a significant amount of this debt is in U.S. dollars. Exchange rate appreciations due to capital inflows into Asian countries will lead firms to take on even more leverage given the positive net worth shock to balance sheets. There are important lessons of Europe for Asian countries in terms of detrimental effects of high corporate leverage.

**RELATED WORLD BANK RESEARCH**

*Corporate Debt Overhang and Investment*

Eduardo Borensztein and Lei Sandy Ye
This paper investigates the link between corporate debt overhang and investment activity at firms in large emerging market and developing economies. It analyzes the extent to which investment may be discouraged by high debt levels that put at risk future profits. Using balance sheet data from a half-million firms, the analysis suggests that corporate debt overhang discourages private investment.

**Gross Capital Flows by Bank, Corporates, and Sovereigns**

Stefan Avdjiev, Bryan Hardy, Sebnem Kalemli-Ozcan, and Luis Serven

This paper constructs a new dataset of quarterly capital flows by sector and establishes how banks and corporations are the main debt issuers in advanced economies while sovereign debt is more important in emerging economies.

**Capital Inflows, Equity Issuance Activity, and Corporate Investment**

Charles W. Calomiris, Mauricio Larrain, and Sergio L. Schmukler

This paper analyzes how equity capital inflows may trigger increased corporate investment in developing countries. This complements the channel of corporate debt issuance. The paper finds that inflows imply more than a transfer of equity ownership from domestic to foreign investors. Foreign purchases of equity have financial and real consequences for firms.

**Corporate Debt Maturity in Developing Countries: Sources of Long- and Short-Termism**

Juan J. Cortina, Tatiana Didier, and Sergio L. Schmukler

This paper documents short-term and long-term borrowing by developing country firms, using corporate bond and syndicated loan market data. The data show that such firms borrow shorter term in domestic bond markets and longer term in syndicated loan markets. However, only large firms from developing countries issue bonds and syndicated loans. The short-termism in developing countries is partly explained by a lower proportion of firms using these markets, with more firms relying on other shorter-term instruments.

**Which Emerging Markets and Developing Economies Face Corporate Balance Sheet Vulnerabilities? A Novel Monitoring Framework**

Erik Feyen, Norbert Fiess, Igor Zuccardi Huertas, and Lara Lambert

This paper uses balance sheet information from more than 14,000 non-financial companies in markets around the world to build a Corporate Vulnerability Index tracking
non-financial corporate debt. The index shows corporate vulnerability sharply increased after 2013 then stabilized in 2016. Regional trends are more heterogeneous and point to significant corporate vulnerabilities in Eastern Europe and Central Asia.

**Risks and Returns: Managing Financial Trade-Offs for Inclusive Growth in Europe and Central Asia**

2017 – Europe and Central Asia Studies  
David Michael Gould and Michael Melecky

During the 1990s, emerging economies in Europe and Central Asia (ECA) chose a model of rapid financial development emphasizing bank credit expansion often funded by foreign capital. Although boosting financial inclusion of firms and households, the model was accompanied by lower efficiency and increased financial vulnerability. Two waves of crises, in the late 1990s and after 2008, eroded trust in banks and job creation in credit-dependent firms.


Extending the maturity structure of finance is often considered to be at the core of financial development. Attempts at directly boosting the supply of long-term finance have not been free of controversy and have sometimes led to substantial costs to taxpayers. This study brings new data and research and provides policy advice on this important issue.

**CALENDAR OF EVENTS**

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