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## Robustness 1

### Leverage, firm and institutional effects
### (Dependent variable: total financial debt to total assets)

| | I | II | III | IV |
|---|---|---|---|---|
| growth | 0.0255 (10.29)*** | 0.0253 (10.33)*** | | |
| M/B ratio | | | -0.0231 (-19.56)*** | -0.0233 (-20.41)*** |
| profit | -0.2910 (-39.47)*** | -0.3031 (-41.46)*** | -0.1259 (-9.39)*** | -0.1539 (-12.20)*** |
| sector_lev | 0.6041 (62.51)*** | 0.5611 (61.89) *** | 0.3938 (19.94)*** | 0.4631 (25.70)*** |
| size | 0.0117 (28.35)*** | 0.0108 (26.47) *** | 0.0165 (25.53) *** | 0.0172 (28.51) *** |
| tangibility | 0.2276 (84.49) *** | 0.2319 (87.77) *** | 0.1212 (19.38) *** | 0.1183 (20.24) *** |
| bankruptcy | 0.0118 (5.81)*** | | -0.0086 (-2.48)** | |
| corruption | 0.0008 (8.59)*** | | -0.0002 (-1.13) | |
| credit_rights | 0.0057 (6.39)*** | | -0.0048 (-3.29)*** | |
| enforcement | 0.0015 (29.57)*** | | 0.0008 (7.60)*** | |
| freedom | -0.0010 (-2.93)*** | | -0.0033 (-6.73)*** | |
| bank_concen | | 0.0590 (13.57)*** | | 0.1134 (14.27)*** |
| deposits | | 0.0087 (11.85)*** | | -0.0001 (-0.08) |
| financial_dev | | 0.1054 (15.39)*** | | 0.0142 (1.12) |
| stock_ market | | -0.0033 (-1.54) | | -0.0105 (-2.39)** |
| constant | -0.3756 (-11.05)*** | -0.3797 (-44.91)*** | -0.0044 (-0.11) | -0.2975 (-23.62)*** |
| | | | | |
| Observations | 103,410 | 107,592 | 18,847 | 20,794 |
| F-statistic | 1,459.85 | 1,701.11 | 310.29 | 474.10 |
| P-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| R-Squared | 0.1423 | 0.1418 | 0.1371 | 0.1587 |

The dependent variable is total financial debt to total assets. As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Columns III and IV. Columns I and III include institutional-legal variables. Columns II and IV include institutional-financial variables. Robust (Huber-White) OLS regressions are estimated, and *t*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional effects**
**(Dependent variable: total financial debt to market value of assets)**

| | I | II | III | IV |
|---|---|---|---|---|
| growth | -0.0032 (-0.70) | -0.0032 (-0.70) | | |
| M/B ratio | | | -0.0553 (-45.60)*** | -0.0564 (-45.55)*** |
| profit | -0.3318 (-24.77)*** | -0.3652 (-26.09)*** | -0.1391 (-11.90)*** | -0.1750 (-15.15)*** |
| sector_lev | 0.3553 (16.58)*** | 0.4530 (21.47) *** | 0.3448 (17.41)*** | 0.4421 (24.20)*** |
| size | 0.0150 (23.20)*** | 0.0143 (22.14) *** | 0.0105 (17.16)*** | 0.0104 (17.95) *** |
| tangibility | 0.1448 (21.78) *** | 0.1410 (21.02) *** | 0.1145 (18.30)*** | 0.1165 (19.57) *** |
| bankruptcy | -0.0335 (-8.91)*** | | -0.0243(-6.90)*** | |
| corruption | 0.0009 (5.17)*** | | 0.0002 (1.51) | |
| credit_rights | -0.0085 (-5.49)*** | | -0.0038 (-2.66)*** | |
| enforcement | 0.0008 (7.46)*** | | 0.0008 (7.78)*** | |
| freedom | -0.0051 (-9.87)*** | | -0.0048 (-10.07)*** | |
| bank_concen | | 0.1453 (15.78)*** | | 0.1387 (17.02)*** |
| deposits | | 0.0073 (6.03)*** | | 0.0054 (5.20)*** |
| financial_dev | | -0.0393 (-2.69)*** | | -0.0053 (-0.42) |
| stock_ market | | -0.0658 (-12.86)*** | | -0.0413 (-9.16)*** |
| constant | 0.0947 (2.27)** | -0.2526 (-17.09)*** | 0.2314 (5.93) | -0.1520 (-11.64)*** |
| | | | | |
| Observations | 18,223 | 17,998 | 18,847 | 20,794 |
| F-statistic | 317.29 | 415.23 | 522.56 | 680.06 |
| P-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| R-Squared | 0.1483 | 0.1703 | 0.1371 | 0.2620 |

The dependent variable is total financial debt to market value of assets. As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Columns III and IV. Columns I and III include institutional-legal variables. Columns II and IV include institutional-financial variables. Robust (Huber-White) OLS regressions are estimated, and *t*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

## Robustness 2

### Leverage, firm and institutional effects
### (Random-effects with robust standard errors)

| | I | II | III | IV |
|---|---|---|---|---|
| growth | 0.0282 (13.38)*** | 0.0289 (13.79)*** | | |
| M/B ratio | | | -0.0057 (-2.02)** | -0.0065 (-2.46)** |
| profit | -0.39630 (-32.84)*** | -0.4000 (-33.41)*** | -0.2972 (-12.38)*** | -0.3020 (-13.17)*** |
| sector_lev | 0.7993 (36.31)*** | 0.8078 (37.50)*** | 0.5965 (12.09)*** | 0.6649 (13.72)*** |
| size | 0.0366 (22.66)*** | 0.0351 (22.02)*** | 0.0447 (16.69) *** | 0.0447 (16.75)*** |
| tangibility | 0.1984 (26.06)*** | 0.1992 (26.26)*** | 0.1585 (8.08)*** | 0.1484 (7.86)*** |
| bankruptcy | 0.0393 (7.34)*** | | -0.0133 (-1.26) | |
| corruption | 0.0004 (2.32)** | | 0.0009 (2.42)** | |
| credit_rights | 0.0189 (8.91)*** | | -0.0168 (-4.22)*** | |
| enforcement | 0.0011 (8.52)*** | | 0.0004 (1.42) | |
| freedom | -0.0028 (-7.13)*** | | -0.0007 (-0.91) | |
| bank_concen | | 0.0544 (5.17)*** | | 0.1006 (4.32)*** |
| deposits | | 0.0078 (4.19)*** | | -0.0043 (-1.46) |
| financial_dev | | 0.1415 (9.35)*** | | -0.0648 (-2.12)** |
| stock_ market | | -0.0344 (-7.86)*** | | 0.0003 (0.03) |
| constant | -0.5220 (-13.35)*** | -0.6706 (-25.61)*** | -0.5524 (-7.58)*** | -0.6192 (-14.15)*** |
| Observations | 103,398 | 107,581 | 18,847 | 20,794 |
| Wald test | 4,341.83 | 4,376.97 | 821.23 | 836.33 |
| P-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Columns III and IV. Columns I and III include institutional-legal variables. Columns II and IV include institutional-financial variables. Robust (standard errors) random-effects GLS regressions are estimated. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. Wald test statistic refers to the null hypothesis that all coefficients on the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional effects**
**(Random-effects with cluster-robust standard errors)**

| | I | II | III | IV |
|---|---|---|---|---|
| growth | 0.0282 (5.20)*** | 0.0289 (6.40)*** | | |
| M/B ratio | | | -0.0057 (-1.61) | -0.0065 (-2.12)** |
| profit | -0.39630 (-10.27)*** | -0.4000 (-10.09)*** | -0.2972 (-9.56)*** | -0.3020 (-10.39)*** |
| sector_lev | 0.7993 (14.38)*** | 0.8078 (14.02)*** | 0.5965 (10.99)*** | 0.6649 (11.62)*** |
| size | 0.0366 (8.15)*** | 0.0351 (10.41)*** | 0.0447 (11.68) *** | 0.0447 (14.66)*** |
| tangibility | 0.1984 (7.37)*** | 0.1992 (8.44)*** | 0.1585 (6.62)*** | 0.1484 (6.82)*** |
| bankruptcy | 0.0393 (2.11)** | | -0.0133 (-0.49) | |
| corruption | 0. 0004 (0.85) | | 0.0009 (1.46) | |
| credit_rights | 0.0189 (3.19)*** | | -0.0168 (-1.77)* | |
| enforcement | 0.0011 (3.19)*** | | 0.0004 (0.68) | |
| freedom | -0.0028 (-2.21)** | | -0.0007 (-0.56) | |
| bank_concen | | 0.0544 (1.20) | | 0.1006 (2.78)*** |
| deposits | | 0.0078 (0.95) | | -0.0043 (-1.22) |
| financial_dev | | 0.1415 (4.10)*** | | -0.0648 (-1.49) |
| stock_ market | | -0.0344 (-3.60)*** | | 0.0003 (0.03) |
| constant | -0.5220 (-3.83)*** | -0.6706 (-8.52)*** | -0.5524 (-4.42)*** | -0.6192 (-12.82)*** |
| | | | | |
| Observations | 103,398 | 107,581 | 18,847 | 20,794 |
| Wald test | 7,037.73 | 1,775.60 | 1,552.14 | 1,524.26 |
| P-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Columns III and IV. Columns I and III include institutional-legal variables. Columns II and IV include institutional-financial variables. Cluster-robust (standard errors clustered within countries) random-effects GLS regressions are estimated. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. Wald test statistic refers to the null hypothesis that all coefficients on the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional (legal) effects (Testing hypothesis 2 with Hausman-Taylor estimator and robust standard errors)**

| | I | II |
|---|---|---|
| growth | 0.0188 (8.72)*** | |
| M/B ratio | | -0.0001 (-0.02) |
| profit | -0.3857 (-29.99)*** | -0.3221 (-12.40)*** |
| sector_lev | 0.7708 (22.73)*** | 0.6010 (8.24)*** |
| size | 0.0646 (19.44)*** | 0.0659 (10.74)*** |
| tangibility | 0.1899 (15.94)*** | 0.1591 (5.56)*** |
| bankruptcy | 0.0269 (4.74)*** | -0.0256 (-2.21)** |
| corruption | 0. 0005 (2.68)*** | 0.0010 (2.49)** |
| credit_rights | 0.0178 (8.12)*** | -0.0177 (-4.22)*** |
| enforcement | 0.0013 (9.42)*** | 0.0003 (1.04) |
| freedom | -0.0040 (-9.30)*** | -0.0008 (-0.94) |
| constant | -0.7591 (-13.41)*** | -0.8145 (-8.07)*** |
| | | |
| Observations | 103,398 | 18,847 |
| Wald test | 50,055.74 | 8,086.08 |
| P-value | 0.0000 | 0.0000 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Column II. Robust (standard errors) Hausman-Taylor regressions are estimated. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. Wald test statistic refers to the null hypothesis that all coefficients on the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional (legal) effects (Testing hypothesis 2 with Hausman-Taylor estimator and clustered robust standard errors)**

| | I | II |
|---|---|---|
| growth | 0.0187 (5.76)*** | |
| M/B ratio | | -0.0001 (-0.02) |
| profit | -0.3856 (-12.43)*** | -0.3220 (-10.05)*** |
| sector_lev | 0.7889 (15.60)*** | 0.5912 (9.58)*** |
| size | 0.0648 (7.30)*** | 0.0657 (9.54)*** |
| tangibility | 0.1895 (6.21)*** | 0.1591 (5.56)*** |
| bankruptcy | 0.0265 (1.27) | -0.0250 (-1.17) |
| corruption | 0. 0005 (0.76) | 0.0010 (1.79)* |
| credit_rights | 0.0178 (2.71)*** | -0.0177 (-1.95)** |
| enforcement | 0.0013 (2.62)*** | 0.0004 (0.53) |
| freedom | -0.0040 (-2.27)** | -0.0008 (-0.52) |
| constant | -0.7706 (-4.88)*** | -0.8109 (-5.89)*** |
| | | |
| Observations | 103,398 | 18,847 |
| Wald test | 58,980.74 | 6,093.12 |
| P-value | 0.0000 | 0.0000 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Column II. Cluster-robust (standard errors clustered within countries) Hausman-Taylor regressions are estimated. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. Wald test statistic refers to the null hypothesis that all coefficients on the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

## Robustness 3

### Leverage, firm and institutional (financial) effects (Robust OLS regressions using lagged explanatory variables)

| | I | II |
|---|---|---|
| growth | 0.0389 (11.97)*** | |
| M/B ratio | | -0.0234 (-14.49)*** |
| profit | -0.4734 (-42.30)*** | -0.2474 (-13.03)*** |
| sector_lev | 0.8383 (70.09)*** | 0.6620 (29.59)*** |
| size | 0.0128 (23.58)*** | 0.0272 (34.07)*** |
| tangibility | 0.1946 (59.10)*** | 0.1231 (17.63)*** |
| bank_concen | 0.0594 (9.88)*** | 0.1179 (11.26)*** |
| deposits | 0. 0066 (6.81)*** | -0.0051 (-3.89)*** |
| financial_dev | 0.1505 (15.60)*** | 0.0420 (2.52)** |
| stock_ market | -0.0337 (-11.47)*** | -0.0337 (-11.47)*** |
| constant | -0.4471 (-39.08)*** | -0.4392 (-26.36)*** |
| | | |
| Observations | 94,142 | 20,301 |
| F-statistic | 1,459.04 | 483.42 |
| P-value | 0.0000 | 0.0000 |
| R-Squared | 0.1212 | 0.1664 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Column II. Robust (Huber-White) OLS regressions are estimated, using lagged explanatory variables. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional (financial) effects (Robust two-stage least squares regressions using lagged institutional-financial variables as instruments)**

| | I | II |
|---|---|---|
| growth | 0.0405 (12.69)*** | |
| M/B ratio | | -0.0271 (-16.30)*** |
| profit | -0.4882 (-46.57)*** | -0.2716 (-13.59)*** |
| sector_lev | 0.8870 (77.30)*** | 0.6744 (27.81)*** |
| size | 0.0129 (23.58)*** | 0.0289 (34.18)*** |
| tangibility | 0.2085 (66.95)*** | 0.1256 (16.90)*** |
| bank_concen | 0.0546 (9.53)*** | 0.1271 (11.31)*** |
| deposits | 0. 0076 (8.06)*** | -0.0050 (-3.50)*** |
| financial_dev | 0.1536 (16.49)*** | 0.0590 (3.18)*** |
| stock_ market | -0.0294 (-9.99)*** | -0.0323 (-5.10)*** |
| constant | -0.4770 (-43.86)*** | -0.4725 (-26.63)*** |
| | | |
| Observations | 107,476 | 17,950 |
| F-statistic | 1,792.26 | 510.65 |
| P-value | 0.0000 | 0.0000 |
| R-Squared | 0.1284 | 0.1828 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Column II. Robust (Huber-White) two-stage least squares regressions are estimated, using lagged institutional-financial variables as instruments for the institutional-financial variables. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional (financial) effects (Robust two-stage least squares regressions using lagged firm-level and lagged institutional-financial variables as instruments)**

| | I | II |
|---|---|---|
| growth | 0.0422 (11.51)*** | |
| M/B ratio | | -0.0259 (-15.02)*** |
| profit | -0.4993 (-41.96)*** | -0.2922 (-14.12)*** |
| sector_lev | 0.8704 (68.24)*** | 0.6875 (27.69)*** |
| size | 0.0136 (23.60)*** | 0.0288 (33.56)*** |
| tangibility | 0.2085 (60.08)*** | 0.1258 (16.63)*** |
| bank_concen | 0.0651 (10.37)*** | 0.1251 (10.98)*** |
| deposits | 0. 0072 (6.48)*** | -0.0058 (-3.94)*** |
| financial_dev | 0.1638 (15.91)*** | 0.0576 (3.06)*** |
| stock_ market | -0.0364 (-11.41)*** | -0.0320 (-4.94)*** |
| constant | -0.4856 (-40.02)*** | -0.4773 (-26.61)*** |
| | | |
| Observations | 84,901 | 17,303 |
| F-statistic | 1,420.00 | 494.06 |
| P-value | 0.0000 | 0.0000 |
| R-Squared | 0.1300 | 0.1837 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Column II. Robust (Huber-White) two-stage least squares regressions are estimated, using lagged firm-level variables and lagged institutional-financial variables as instruments for the institutional-financial variables. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

**Leverage, firm and institutional (financial) effects (Two-step system-GMM dynamic panel data estimation)**

| | I | II |
|---|---|---|
| leverage (lagged) | 0.7019 (54.86)*** | 0.6694 (24.17)*** |
| growth | 0.0734 (19.40)*** | |
| M/B ratio | | 0.0064 (1.88)* |
| profit | -0.5058 (-34.86)*** | -0.3821 (-12.00)*** |
| sector_lev | 0.2704 (9.39)*** | 0.1963 (3.70)*** |
| size | 0.0229 (6.89)*** | 0.0529 (6.76)*** |
| tangibility | 0.1083 (7.40)*** | 0.1902 (5.89)*** |
| bank_concen | 0.0142 (1.92)** | 0.0551 (2.64)*** |
| deposits | 0. 0027 (1.75)* | -0.0052 (-1.89)* |
| financial_dev | 0.0820 (5.56)*** | -0.0432 (-1.28) |
| stock_ market | -0.0180 (-5.17)*** | -0.0240 (-2.75)*** |
| constant | -0.3962 (-7.92)*** | -0.6913 (-6.91)*** |
| Observations | 106,058 | 17,916 |
| Wald test | 6,342.37 | 1,432.78 |
| P-value | 0.0000 | 0.0000 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Column II. Robust two-step system-GMM dynamic panel data estimation with all the financial variables as endogenous (except the variable deposits). *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. Wald test statistic refers to the null hypothesis that all coefficients on the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

## Robustness 4

### Leverage, firm and institutional effects
### (Dependent variable: loglev=ln(leverage/1-leverage))

| | I | II | III | IV |
|---|---|---|---|---|
| growth | 0.2414 (9.89)*** | 0.2505 (10.54)*** | | |
| M/B ratio | | | -0.2497 (-13.03)*** | -0.2406 (-12.85)*** |
| profit | -3.6108 (-37.24)*** | -3.6806 (-38.97)*** | -1.5068 (-7.90)*** | -1.7605 (-9.77)*** |
| sector_lev | 5.7501 (58.95)*** | 5.6043 (61.50) *** | 3.5762 (18.39)*** | 3.8526 (21.72)*** |
| size | 0.0736 (19.31)*** | 0.0667 (17.93) *** | 0.1502 (23.14) *** | 0.1582 (26.15) *** |
| tangibility | 1.2429 (54.53) *** | 1.2620 (57.30) *** | 0.8158 (15.45) *** | 0.8661 (17.89) *** |
| bankruptcy | 0.0095 (0.48) | | -0.0914 (-2.72)*** | |
| corruption | 0.0037 (3.67)*** | | -0.0008 (-0.44) | |
| credit_rights | 0.0395 (4.31)*** | | -0.1063 (-0.68) | |
| enforcement | 0.0088 (17.76)*** | | 0.0083 (7.50)*** | |
| freedom | -0.0152 (-4.82)*** | | -0.0275 (-5.26)*** | |
| bank_concen | | 0.1475 (3.46)*** | | 0.7802 (10.51)*** |
| deposits | | 0.0368 (5.29)*** | | -0.0336 (-2.97)*** |
| financial_dev | | 0.4199 (5.97)*** | | 0.5165 (4.03)*** |
| stock_ market | | 0.0375 (1.94)** | | -0.0672 (-1.67)* |
| constant | -4.9793 (-19.96)*** | -5.5262 (-65.47)*** | -3.2330 (-7.60)*** | -5.5690 (-42.13)*** |
| | | | | |
| Observations | 95,616 | 99,789 | 17,306 | 19,112 |
| F-statistic | 924.03 | 1,085.79 | 175.93 | 262.02 |
| P-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| R-Squared | 0.0935 | 0.0940 | 0.1069 | 0.1238 |

The dependent variable is loglev=ln(leverage/1-leverage). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Columns III and IV. Columns I and III include institutional-legal variables. Columns II and IV include institutional-financial variables. Robust (Huber-White) OLS regressions are estimated, and *t*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.

## Robustness 5

**Leverage, firm and institutional effects**
**(Tobit regression)**

| | I | II | III | IV |
|---|---|---|---|---|
| growth | 0.0413 (11.85)*** | 0.0427 (12.49)*** | | |
| M/B ratio | | | -0.0328 (-16.77)*** | -0.0339 (-17.50)*** |
| profit | -0.5007 (-41.50)*** | -0.5199 (-43.79)*** | -0.2477 (-11.25)*** | -0.2825 (-13.59)*** |
| sector_lev | 0.9672 (72.54)*** | 0.9417 (74.62) *** | 0.6878 (25.65)*** | 0.7718 (31.51)*** |
| size | 0.0164 (29.17)*** | 0.0152 (27.61) *** | 0.0312 (33.93) *** | 0.0326 (38.09) *** |
| tangibility | 0.2248 (65.60) *** | 0.2256 (67.68) *** | 0.1451 (18.42) *** | 0.1398 (19.03) *** |
| bankruptcy | 0.0281 (9.89)*** | | -0.0096 (-2.00)** | |
| corruption | 0.0009 (6.52)*** | | 0.0001 (0.47) | |
| credit_rights | 0.0133 (10.59)*** | | -0.0107 (-5.17)*** | |
| enforcement | 0.0011 (15.64)*** | | 0.0009 (5.84)*** | |
| freedom | -0.0023 (-5.36)*** | | -0.0041 (-6.04)*** | |
| bank_concen | | 0.0739 (12.50)*** | | 0.1381 (12.56)*** |
| deposits | | 0.0085 (8.45)*** | | -0.0060 (-4.30)*** |
| financial_dev | | 0.1924 (19.80)*** | | 0.0434 (2.46)** |
| stock_ market | | -0.0446 (-14.68)*** | | -0.0312 (-5.27)*** |
| constant | -0.4304 (-12.49)*** | -0.5780 (-49.08)*** | -0.1947 (-3.53)*** | -0.5687 (-31.84)*** |
| Observations | 103,398 | 107,581 | 18,847 | 20,794 |
| F-statistic | 1,470.99 | 1,742.73 | 391.10 | 561.60 |
| P-value | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Pseudo R-Squared | 0.2984 | 0.3059 | 0.8588 | 0.9167 |

The dependent variable is the book-value debt ratio (*leverage*), as defined in Table A1 (Appendix). As an alternative to the variable *growth*, the explanatory variable *M/B ratio* is incorporated in Columns III and IV. Columns I and III include institutional-legal variables. Columns II and IV include institutional-financial variables. Robust (Huber-White) Tobit regressions are estimated. *T*-statistics are given in brackets. Significance at levels of 1%, 5%, and 10% indicated by ***, **, and *, respectively. The *F*-statistic tests the null hypothesis that all coefficients of the explanatory variables are equal to zero. Table A1 in the Appendix provides definitions of all the variables.