

# **The impact of the Bank of Japan's Exchange-traded fund and Corporate bond purchases on firms' capital structure**

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## **Abstract**

This research explores the effects of the BOJ's ETF and CB purchases on firm capital structure, using the data of listed industrial companies in the Tokyo Stock Exchange First and Second Section during the period 2009-2018. Exploiting the fact that companies whose stocks have been indirectly purchased via ETFs and companies whose bonds are eligible for the CB purchases could be identified, Difference-in-Differences method was applied to measure the average treatment effects of the purchasing program on firms' capital structure. I find evidence that following the expansion of the BOJ's ETF purchases in 2013, Nikkei 225 companies lower the leverage ratio, rely more on stock issuance, and become less dependent on bond issuance and long-term bank debt as compared to Non-Nikkei 225 component companies. On the other hand, after the CB purchases implementation, CB eligible firms increase their leverage ratio by issuing more corporate bonds relative to CB ineligible firms. They also substitute long-term bank debt with bond debt, but with a smaller magnitude. These results indicate that the ETF and CB purchases by the BOJ have a considerable and persistent impact on corporate capital structure and securities issuance determination even after controlling for firm characteristics and macroeconomic factors, suggesting the important role of the credit supply side.