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The Impact of Economic Policy Uncertainty on Corporate Capital Structure

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Abstract. Rising economic policy uncertainty has become a defining feature in China and globally in recent years. This paper reviews and synthesizes relevant literature on economic policy uncertainty and its impacts. Using the Baker Index as a measure of economic policy uncertainty and selecting Shanghai and Shenzhen A-share listed companies as the sample, it empirically examines the effects of economic policy uncertainty on corporate capital structure.Employing panel regression for benchmark analysis, the study further validates its conclusions through robustness tests and conducts in-depth mechanism analysis. Findings reveal that heightened economic policy uncertainty leads to reduced corporate leverage. Specifically, this uncertainty lowers leverage by increasing cash holdings, reducing operational risk, and strengthening financing constraints.

Keywords: Economic policy uncertainty, Baker Index, Capital structure, Leverage ratio.

1. Introduction

Over the past decade, events such as the European debt crisis and Brexit have severely impacted global economic development. Escalating trade frictions, rising unilateralism, and protectionism have intensified. Particularly since 2020, the outbreak and ongoing spread of COVID-19 have further exacerbated the already sluggish global economy, introducing greater uncertainty and severe challenges to worldwide development.To counter global economic volatility and uncertainty, nations have implemented economic policies with greater frequency than before. For instance, following the COVID-19 outbreak, major world powers adopted relatively loose economic policies and unconventional monetary measures such as negative interest rates. Amid this shifting policy landscape, economies struggle to accurately predict future policy directions, leading to heightened perceptions of economic policy uncertainty.

Against this backdrop, China faces substantial uncertainty. Global conflicts have delivered a powerful shock to China's real economy. Simultaneously, China's virtual economy has experienced rapid growth, with enterprises becoming overly reliant on financial markets for profits while real investment—the pillar of the national economy—remains severely inadequate. This significant disconnect between the real and virtual economies poses substantial risks. In response, the Chinese government has continuously introduced policies to alter this situation and stabilize the national economic environment. However, macroeconomic regulation simultaneously heightens the uncertainty stemming from economic policies, thereby affecting corporate investment. This impact is further amplified by the characteristic of China's market being highly policy-driven.

As market entities fundamentally driven by profit, enterprises must assess the returns and costs of any investment project before making decisions. Yet, as the invisible hand of macroeconomic regulation, the government's economic policies inevitably influence these assessments.For enterprises, if government economic policy adjustments are predictable in advance, implemented stably afterward, clearly directed, and of moderate intensity, then enterprises will form sound expectations and make more accurate judgments about the future. If government policies change frequently, it will increase the difficulty of enterprise judgment and adversely affect enterprise investment decisions.For instance, following the 2008 financial crisis, significant macroeconomic volatility led to frequent government policy announcements. While these policies aimed to stimulate economic recovery, the resulting uncertainty actually suppressed corporate investment, complicating global economic

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recovery.Consequently, academic research on the economic consequences of policy uncertainty has proliferated. This research helps businesses better navigate risks stemming from policy shifts while providing theoretical foundations and recommendations for formulating robust economic policies and improving the macroeconomic environment.

This study primarily examines the impact of economic policy uncertainty on corporate capital structure. Building upon a review and synthesis of relevant literature on economic policy uncertainty and its effects, the Baker Index is adopted as the metric for measuring such uncertainty. Using annual data from 2014 to 2023 for A-share listed companies on the Shanghai and Shenzhen stock exchanges as the research sample, the study investigates the influence of economic policy uncertainty on corporate capital structure.Empirical analysis primarily employs regression methods, followed by testing and mechanism analysis across three channels: cash holdings, operational risk, and financing constraints. Robustness tests are conducted by substituting the dependent variable.

2. Literature Review

2.1. Economic uncertainty

In economics, economic uncertainty can be categorized into real economic uncertainty and economic policy uncertainty. Real economic uncertainty primarily refers to fluctuations in key economic indicators, making it difficult to accurately predict the future development of the real economy.Economic policy uncertainty arises when policy targets cannot accurately anticipate the timing, methods, or extent of government policy formulation or adjustments. This uncertainty generates risks that cannot be preemptively assessed or quantified, representing a subjective perception bias among economic participants regarding policy outcomes. In market economies, while governments cannot directly control key real economy variables, they remain the primary formulators of economic policies. Consequently, research on economic uncertainty has predominantly focused on the latter dimension.

Current literature primarily employs three methods to measure economic policy uncertainty: (1) Direct measurement using relevant economic data, such as stock market implied volatility (VIX) or the variance of unpredictable components within economic variables (Jurado, 2015). These indicators offer advantages like objectivity and continuity but only reflect policies generating economic data, failing to encompass all economic policies. (2) Methods employing exogenous events as dummy variables, such as using government transitions to measure economic policy uncertainty (Julio and Yook, 2012) or core leadership changes (Chen Deqiu and Chen Yunsen, 2018). These approaches offer the advantage of exogeneity and ease in identifying causality. However, they lack continuity and cannot provide data for years outside the exogenous event. (3) Employing the Economic Policy Uncertainty Index (EPU) based on news texts represents the most widely adopted approach. Baker (2016) extracts keywords from newspapers, calculates the ratio of articles containing these keywords to the total monthly newspaper articles, and derives the EPU index through normalization.For China, Baker (2016) selected the South China Morning Post from Hong Kong as the text source for extracting economic policy keywords. Given its construction method comprehensively considers both the continuity and breadth of economic policy uncertainty, this index has gained increasing recognition in academic circles in recent years.

2.2. Economic Uncertainty and Corporate Capital Structure

Baker et al. (2016) notes that prior to policy implementation, firms cannot accurately anticipate the content of government policies, and after implementation, they cannot predict the intensity of policy execution. Consequently, corporate behavior is significantly influenced by governmental policy uncertainty. Existing literature on the relationship between economic policy uncertainty and corporate capital structure focuses on two aspects: its impact on corporate leverage levels and its influence on the dynamic adjustment of capital structure.

Zhang et al. (2015) found that rising economic policy uncertainty led to a decline in leverage ratios among Chinese listed firms, with a greater reduction observed in regions with higher marketization levels and among non-state-owned enterprises. Subsequently, Khan et al. (2019) reached the same conclusion.Ji Yang et al. (2018) utilized quarterly data from Chinese listed firms between 2003 and 2014 to examine the heterogeneous effects of economic policy uncertainty on state-owned enterprises (SOEs) and non-state-owned enterprises (NSEs). Their study revealed that rising uncertainty significantly negatively impacts NSEs but positively affects SOEs, with an overall positive effect on listed firms.Further analysis revealed that implicit government guarantees for SOEs explain this divergence. Gong Rukai et al. (2019) found that the negative impact of economic policy uncertainty was particularly pronounced in non-state-owned enterprises, manufacturing, small and medium-sized enterprises, and short-term periods. Tan Xiaofen et al. (2022) argued that highly profitable enterprises experienced a stronger negative impact on their leverage ratios.

Additionally, some scholars have examined the relationship between the two from the perspective of dynamic capital structure adjustment. Wang, Chao, Yang, et al. (2018) conducted research using data from Chinese industrial enterprises and found that EPU slows the pace of corporate leverage adjustment toward the optimal leverage ratio by suppressing uncertainty avoidance among firms and financial institutions.Gong Rukai (2021), utilizing data from non-financial enterprises listed on China's A-share market from 1998 to 2015, found that when corporate leverage exceeds the optimal level, increased macroeconomic policy uncertainty slows the pace of dynamic capital structure adjustment. Conversely, when leverage falls below the optimal level, rising uncertainty accelerates the pace of dynamic capital structure adjustment.

3. Theoretical Analysis

As an unavoidable systemic risk for firms, economic policy uncertainty affects corporate leverage in two ways: by altering internal decision-making preferences and by influencing external financing conditions, ultimately shaping overall leverage levels.

From the perspective of internal decision-making preferences, corporate decisions influenced by precautionary, speculative, and risk-averse motives are closely correlated with leverage levels. (1) Regarding precautionary motives, heightened economic policy uncertainty increases uncertainty in future cash flows, prompting firms to hold more cash and reduce debt (Peng, Yu, et al., 2018; Wang, Hongjian et al., 2014). (2) Regarding speculative motives, heightened economic policy uncertainty significantly suppresses corporate investment (Gulen et al., 2016; Tan Xiaofen and Zhang Wenjing, 2017). According to real options theory, firms view investment opportunities as call options, whose value increases with greater uncertainty in future cash flows.Thus, higher uncertainty weakens firms' current investment willingness, partially affecting debt financing scale and thereby reducing leverage ratios. Conversely, rising economic policy uncertainty often leads firms to prioritize market-driven investment opportunities, enhancing investment efficiency (Rao, et al., 2017) and prompting reductions in inefficient investments and financial leverage. (3) Regarding risk-aversion motives, heightened economic policy uncertainty amplifies the negative impact of operational risks by increasing uncertainty in product demand. Consequently, corporate management tends to manage debt levels to mitigate adverse shocks from external uncertainties (Rao, et al., 2017; Gong, et al., 2019).

From the perspective of external financing environments, banks' credit terms and lending willingness determine the difficulty and scale of corporate financing, thereby influencing corporate leverage levels. (1) Increased economic policy uncertainty complicates banks' assessment of corporate creditworthiness and repayment capacity, compelling them to tighten credit terms, increase approval rigor, narrow the scope of lending companies, and reduce loan approval rates for enterprises. (2) Rising uncertainty weakens banks' willingness to lend. (Nini et al., 2012; Tian Guoqiang and Li Shuangjian, 2020) (3) Economic policy uncertainty creates an unclear future outlook, lowering banks' expectations for the future while prompting them to set aside more reserves to address potential

market, credit, and liquidity risks (Tian Guoqiang and Li Shuangjian, 2020). This clearly reduces the scale of credit and diminishes the external funding available to enterprises.Based on the above analysis, this paper proposes the following hypotheses.

Hypothesis 1: When economic policy uncertainty rises, corporate leverage levels decline.

Increased uncertainty impacts future cash flow conditions. Driven by precautionary motives, firms will seek to balance production, consumption, and investment by cutting costs and increasing revenue, choosing to hoard highly liquid cash to mitigate the negative effects of uncertainty.Additionally, heightened economic policy uncertainty exacerbates information asymmetry, making shareholder oversight of management more challenging. According to agency theory, when shareholders struggle to effectively monitor corporate managers, the latter may pursue self-interest maximization—such as income, luxury consumption, and leisure time—by accumulating substantial cash holdings. Increased cash reserves significantly enhance a firm's internal financing capacity and debt-servicing ability, thereby reducing its leverage ratio. Integrating the above analysis, this paper proposes the following hypothesis.

Hypothesis 2: Rising economic policy uncertainty reduces corporate leverage by increasing cash holdings.

Amid heightened macroeconomic policy uncertainty, firms face greater unpredictability in their external environment, potentially increasing operational risks. Such heightened risks may prompt firms to adopt more conservative financial policies, such as increasing cash reserves to mitigate uncertainty-induced shocks.Additionally, for some firms, expanding investments or business scale in uncertain environments serves as a coping strategy, potentially requiring greater external financing to support growth. Thus, amid heightened economic policy uncertainty, firms may tend to increase leverage to secure additional funding. Based on the above analysis, this paper proposes the following hypothesis.

Hypothesis 3: Rising economic policy uncertainty increases corporate leverage by amplifying business operational risks.

Generally speaking, the cost and accessibility of equity and debt financing influence a firm's financing constraints. Increased economic policy uncertainty can affect both equity and debt financing, leading to tighter financing constraints for firms. When firms face higher financing constraints, they not only struggle to obtain external funding but also become less willing to take on debt due to rising borrowing costs, thereby reducing their leverage ratios. In summary, this paper proposes the following hypotheses.

Hypothesis 4: Increased economic policy uncertainty reduces corporate leverage by strengthening financing constraints.

4. Variables and Data

4.1. Variable Selection

The explanatory variable is economic policy uncertainty (EPU), constructed using text analysis methodology. First, articles related to economic policy uncertainty in the Hong Kong South China Morning Post are identified. Then, their proportion relative to the total number of articles in the given month is calculated. Finally, this ratio undergoes normalization to derive the monthly economic policy uncertainty index.Since China's economic policy uncertainty index is monthly data, this study references existing literature to first derive quarterly indicators using formula (4.1), then average these quarterly values to obtain annual EPU data.

$$EPU_t=(3EPU_m+2EPU_{m-1}+EPU_{m-2})/6 \quad (1)$$

A company's capital structure refers to the value composition and proportional relationships of capital from different sources, representing the financing portfolio obtained through various channels over a specific period. Using total debt/total assets to measure corporate leverage (Lev), we treat leverage as the dependent variable.For robustness testing, current liabilities/total assets are used to measure short-term leverage (Lev_s), while non-current liabilities/total assets measure long-term leverage (Lev_l).

Control variables include: (1) Firm size, as larger firms often possess greater capacity for diversification, efficient resource allocation, and comprehensive utilization. The logarithm of total assets serves as a proxy for firm size. (2) Corporate profitability, as bankruptcy probability correlates closely with profitability. Highly profitable firms typically hold greater surpluses and free cash flow. The ratio of operating revenue to operating costs represents profitability; (3) Operational efficiency, measured by asset turnover—the ratio of operating revenue to average total assets. Higher values indicate faster asset turnover;(4) Firm growth capability: Measured by year-end total asset growth rate. A higher value indicates stronger growth potential and greater expansion prospects. (5) Macroeconomic controls: GDP growth rate and money supply growth rate (using M2 as the monetary measure).

Beyond benchmark regression results, the channels proposed in the hypotheses were also tested. To examine the cash holding channel, the level of cash holdings was measured using the ratio of cash and cash equivalents to total assets (Cash). To validate the financing constraint channel, this study constructs the SA index: $SA=-0.737\times size+0.043\times size^2-0.04\times age$.

Table 1. Variable Definitions

Variable Type	Variable Name	Definition
Dependent Variable	Lev	Total Liabilities/Total Assets×100
	Lev_s	Current Liabilities/Total Assets×100
	Lev_l	Non-Current Liabilities/Total assets × 100
Independent Variable	lnEPU	Economic Policy Uncertainty
Control Variables	Size	Logarithm of Total Assets
	Profit	Operating Revenue/Operating Costs × 100
	Turnover	Operating Revenue/Average Total Assets
	Growth	Year-End Total Asset Growth Rate
	GDP	GDP Growth Rate
	M2	Money Supply Growth Rate
Instrument variable	lnEPUF	Calculate the weighted economic policy uncertainty index for seven countries using China's import and export share with each major trading partner as weights, then take the logarithm.
Cash holdings	Cash	Cash and Cash Equivalents/Total Assets
Operating risk	OU	If the standard deviation of the monthly stock return rate during the quarter is below the median of all enterprises, it is set to 0; otherwise, it is set to 1.
Financing Constraint	SA	SA=-0.737*size+0.043*size2-0.04*age Take absolute value.

4.2. Sample Selection and Data Sources

This study selected data from A-share listed companies on the Shanghai and Shenzhen stock exchanges between 2014 and 2023 as the analysis sample. Economic policy uncertainty data were

sourced from the Baker Index published on thewww.policyuncertainty.com, while other variables were obtained from the CSMAR database and the iFind database.

Considering the impact of data availability and quality on research outcomes, the sample underwent the following adjustments: (1) Exclusion of listed companies subject to special treatment such as ST or *ST designations, as well as those placed under PT or delisted during the observation period; (2) Exclusion of financial sector listed companies; (3) Exclusion of listed companies with significant missing critical data; (4) Truncation of primary variables at the top and bottom 1% of values. This process yielded a final sample of 10,415 observations.

5. Empirical Analysis

5.1. Model Construction

The following fixed-effects model was constructed:

$$lev_{i,t} = \beta_0 + \beta_1 lnEPU_t + \gamma X_{i,t} + \theta Y_t + \mu_i + \mu_t + \varepsilon_{i,t} \quad (2)$$

where i represents firm, and t represents year. $Lev_{i,t}$ tdenotes firm leverage ratio, and lnEPU represents the economic policy uncertainty index; $X_{i,t}$ denotes firm-level control variables; Y_t denotes macro-level control variables; μ_i denotes industry fixed effects; μ_t denotes time effects.

To verify that economic policy uncertainty affects corporate leverage by increasing cash holdings, this paper constructs the following model:

$$lev_{i,t} = \beta_0 + \beta_1 lnEPU_t + \beta_2 lnEPU_t \times cash_t + \gamma X_{i,t} + \theta Y_t + \mu_i + \mu_t + \varepsilon_{i,t} \quad (3)$$

To verify that economic policy uncertainty can affect corporate leverage by increasing operational risk, this paper constructs the following model:

$$lev_{i,t} = \beta_0 + \beta_1 lnEPU_t + \beta_2 lnEPU_t \times OU_t + \gamma X_{i,t} + \theta Y_t + \mu_i + \mu_t + \varepsilon_{i,t} \quad (4)$$

To verify that economic policy uncertainty can affect corporate leverage by strengthening financing constraints, this paper constructs the following model:

$$lev_{i,t} = \beta_0 + \beta_1 lnEPU_t + \beta_2 lnEPU_t \times SA_t + \gamma X_{i,t} + \theta Y_t + \mu_i + \mu_t + \varepsilon_{i,t} \quad (5)$$

5.2. Descriptive Statistics

Overall, the leverage ratio level Lev is relatively high, with an average of approximately 45%. However, significant variation exists among firms, with a maximum value of 97.7221%, a minimum value of 6.8205%, and a standard deviation of 20.647.Regarding the term structure, the mean long-term leverage ratio is 9.3177%, while the mean short-term leverage ratio is 33.8317%. Evidently, the mean short-term leverage ratio is substantially higher than the long-term ratio, and short-term leverage ratios exhibit greater inter-firm variability, making them more susceptible to interference from other factors.

The mean of the economic policy uncertainty index logarithm was 6.05, fluctuating between 4.8 and 6.7. Additionally, the standard deviation reached 0.58. Since the economic policy uncertainty index only varies over time and does not differ across firms, it reflects the high volatility and uncertainty of China's economic policies during the sample period.

Table 2. Descriptive Statistics

Variable Name	Mean	Mean	Mean	Mean	Mean	Mean	Mean
lev	45.1976	20.6475	6.8205	44.2851	97.7221	0.250	2.474
levs	33.8317	20.3295	3.6845	30.3762	115.7645	1.292	5.475
levl	9.3177	10.1523	0.0000	5.5736	48.1350	1.646	5.686
lnEPU	6.0534	0.5817	4.8303	6.2532	6.6373	-0.888	2.630
Size	22.4841	1.2217	19.6394	22.3843	26.0267	0.417	3.328
Profit	26.5124	17.1599	-8.6776	23.3956	78.6860	0.890	3.743
Turnover	143.9352	156.0035	4.1700	100.5400	1061.1600	3.362	17.363
Growth	13.7307	33.4413	-41.3671	6.9087	221.0461	3.496	20.022
GDP	5.8609	1.8006	2.2000	6.4000	8.1000	-0.951	2.662
M2	10.2059	1.543	8.1740	9.6982	13.3431	0.571	2.297
Cash	16.2863	11.135	1.2091	13.5044	56.4843	1.360	4.906
OU	0.5000	0.500	0.0000	1.0000	1.0000	-0.000	1.000
SA	3.7019	0.285	3.1062	3.6663	4.2989	0.178	2.211

5.3. Sample Regression Analysis

Table 3 presents the benchmark regression results. The findings indicate that after controlling for a series of covariates, the coefficient of the core explanatory variable—economic policy uncertainty (lnEPU)—remains significantly negative at the 5% level regardless of whether time or individual fixed effects are included. Column (2) estimates a coefficient of -0.9667, implying that a one- -unit increase in lnEPU reduces corporate leverage by 0.9667 units.This supports the hypothesis that rising economic policy uncertainty leads to a decline in corporate leverage ratios, consistent with economic theory.

Regarding control variables, after controlling for industry and time fixed effects, the coefficient for firm size is positively significant at the 1% level. This indicates that an increase in a firm's size can provide collateral and guarantees for debt financing, leading to an upward trend in leverage ratios.Conversely, the coefficient for profitability is negatively significant at the 1% level, meaning that enterprises with higher profitability exhibit lower leverage ratios. This may stem from stronger profitability potentially yielding higher excess profits and stable internal cash flows, thereby reducing reliance on bank credit. By allocating internal resources, enterprises can mitigate the negative impact of elevated EPU shocks.Additionally, asset turnover exhibits a positive correlation with leverage, indicating that increased asset turnover enhances corporate leverage. Conversely, corporate growth shows a negative correlation with leverage, suggesting that higher revenue growth rates facilitate deleveraging.

Table 3. Regression Results

	(1)	(2)
	Lev	Lev
lnEPU	-1.1940**	-0.9667**
	(-2.4381)	(-2.4031)
Size	4.2073***	4.2552***
	(25.3114)	(16.6706)
Profit	-0.2200***	-0.2002***
	(-18.3356)	(-16.0408)
Turnover	0.0460***	0.0363***
	(33.1474)	(29.1977)
Growth	-0.0147**	-0.0108***
	(-2.3995)	(-3.2238)
GDP	-0.1095	-0.0630
	(-0.7737)	(-0.7196)
M2	-0.0454	0.0460
	(-0.3144)	(0.5040)
Constant	-56.6785***	-35.6796***
	(-9.4611)	(-5.4693)
Time Fixed Effect	No	Yes
Industry fixed effect	No	Yes
N	10415	10415
R^2	0.3653	0.3414
F	574.51	236.82

5.4. Mechanism Analysis

The regression results for the cash holding channel show that in Column (1) of Table 4, the interaction term between economic policy uncertainty and cash (lnEPU×Cash) is significantly negative at the 1% level. This indicates that increased economic policy uncertainty can reduce corporate leverage by raising corporate cash holdings, validating Hypothesis 2.

Regarding the operational risk channel, Column (2) of Table 4 shows that the coefficient of the interaction term lnEPU×OU is significantly positive at the 5% level. Since higher OU indicates greater operational risk, this suggests that increased economic policy uncertainty can raise corporate leverage by amplifying operational risk, validating Hypothesis 3.

Regarding the financing constraint channel, Column (3) of Table 4 shows that the coefficient of the interaction term lnEPU×SA is -1.3019 and significant at the 1% level. This indicates that increased economic policy uncertainty can elevate corporate leverage by tightening financing constraints, confirming Hypothesis 4.

Table 4. Mechanism Analysis Regression Results

	(1)	(2)	(3)
	Lev	Lev	Lev
lnEPU	-4.4326***	-4.0836***	-10.2922***
	(-11.4815)	(-10.4429)	(-7.9982)
lnEPU×Cash	-0.0078***		
	(-2.7359)		
lnEPU×OU		0.1207**	
		(2.5483)	
lnEPU×SA			-1.3019***
			(-4.8847)
Size	-5.8530***	-5.8222***	-5.6823***
	(-19.3964)	(-19.2747)	(-18.7180)
Profit	-0.1942***	-0.1995***	-0.2028***
	(-13.0564)	(-13.4699)	(-13.6860)
Turnover	0.0341***	0.0339***	0.0340***
	(23.0070)	(22.8638)	(22.9574)
Growth	-0.1596***	-0.1615***	-0.1609***
	(-40.0749)	(-40.7396)	(-40.7011)
GDP	0.1633	0.1219	0.1866*
	(1.5670)	(1.1513)	(1.7922)
M2	0.2165**	0.1121	0.2646**
	(1.9986)	(0.9797)	(2.4323)
Constant	138.6275***	140.4239***	127.4172***
	(20.2414)	(20.4385)	(17.5983)
Time Fixed Effect	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes
N	10415	10415	10415
R^2	0.2697	0.2697	0.2711
F	414.89	414.72	417.69

Overall, from an internal perspective, economic policy uncertainty reduces corporate leverage by increasing risk aversion and mitigating operational risks. Externally, it lowers leverage by imposing tighter financing constraints.

5.5. Robustness Tests

To ensure the reliability of empirical results, this study employs robustness tests by replacing the dependent variable.

To mitigate the interference of corporate leverage measurement methods on empirical results, this paper replaces overall corporate leverage with short-term and long-term leverage ratios and reruns the regression for Model(2). The results are presented in Table 5.Controlling for industry and year fixed effects, the coefficient of lnEPU for short-term leverage is -4.2901, significant at the 1% level, while the coefficient for long-term leverage is -0.2508, significant at the 10% level. This indicates that our research conclusions remain robust after changing the measurement method of the dependent variable.

Furthermore, based on the above results, we observe that the negative impact of increased economic policy uncertainty is more pronounced on firms' short-term leverage ratios.

Table 5. Robustness Tests

	(1)	(2)
	Levs	Levl
lnEPU	-4.2901***	-0.4508*
	(-11.2110)	(-1.8432)
Size	-5.8561***	3.6461***
	(-19.3996)	(22.9099)
Profit	-0.1982***	-0.0430***
	(-13.3849)	(-5.5104)
Turnover	0.0340***	-0.0048***
	(22.9115)	(-6.0859)
Growth	-0.1609***	-0.0037*
	(-40.6474)	(-1.7579)
GDP	0.1696	0.0103
	(1.6277)	(0.1877)
M2	0.2065*	0.1521***
	(1.9074)	(2.6637)
_Constant	138.9979***	-70.8811***
	(20.2921)	(-19.6269)
Time Fixed Effect	Yes	Yes
Industry fixed effect	Yes	Yes
N	10415	10415

6. Summary

This study employs annual data from A-share listed companies on the Shanghai and Shenzhen stock exchanges between 2014 and 2023 for empirical testing and analysis. The findings reveal: (1) Rising economic policy uncertainty leads to a decline in corporate leverage ratios, a conclusion that remains valid after robustness tests involving variable substitutions. (2) Mechanism analysis reveals that economic policy uncertainty reduces corporate leverage through three channels: increasing cash holdings, reducing operational risk, and strengthening financing constraints.

Based on these findings, the following recommendations are proposed: (1) Governments should prioritize stability in policy formulation, maintain policy consistency, avoid frequent policy changes and abrupt shifts, and guide the market toward forming reasonable expectations. (2) Regulatory authorities should guide banks in providing relief measures to enterprises, appropriately strengthen liquidity support, when necessary, ensure finance better serves the real economy, and mitigate the adverse effects of uncertainty on enterprises. (3) Enterprises should enhance internal capital management and implement effective risk control measures to ensure adequate cash reserves for weathering external environmental changes.

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