

ABSTRACT

This paper investigates the causes and balance sheet effect consequences of the liability dollarization of non-financial sectors in India. The results from the panel GLS procedures suggest that both sector-specific (tangibility, leverage ratio, export share) and macroeconomic condition variables (inflation, real exchange rate change, budget deficits) are significant in explaining the corporate sector liability dollarization. Consistent with this argument, real exchange rate depreciations are found to be contractionary, in terms of investments for sectors. Macroeconomic instability, as proxied by budget deficits and inflation, appears to have a significant negative effect on the performance of the firms in the non-financial sectors, in terms of their investments, sales and profits. It can be seen that crisis made a positive influence on FCBs & all the sectoral variables became positively related. Our results also stress the importance of strong macroeconomic policy stance for an endogenous de-dollarization process along with regulatory measures to limit vulnerabilities caused by dollarization.