**Capital structure in Russia.
Strategic choice or Respond to Constraints?**

The debt-to-equity choice is one of the crucial corporate decisions influencing a firm's value. Major theories were introduced for developed markets with a set of strict assumptions. These assumptions are not always true for Eastern European and Central Asia countries. These markets require special attention since the market environment differs substantially. Previous research state that emerging markets are characterized by nontransparent information, insider trading, high level of state ownership, high level of regulation and bureaucracy, pyramid ownership, agency costs, illiquid markets, and weak corporate governance (Bekaert & Harvey, 2003; Buchanan et al., 2011; Enikolopov & Stepanov, 2013; Mitton, 2008; Sprenger & Lazareva, 2021).

Our paper aims to figure out if the fragmentation of the Eastern European and Central Asia markets from the assumptions that lay behind the capital structure theories, allows us to test the capital structure correctly. If not, do the barriers of the markets make this choice more comprehensive?

Our empirical part presents the results of capital structure choice on the example of the Russian market. The Russian market is characterized by a high level of information asymmetry, a low level of economic freedom, limited property protection rights, and nontransparent firms (Lazareva et al., 2007; McCarthy et al., 2013). Starting 2014 Russian market faced a period of sanctions as a result of geopolitical actions. Since that period, the decreased co-movement between the Russian and global equity markets was identified (Nivorozhkin & Castagneto-Gissey, 2016). In February 2022 with the beginning of the military operation, the Russian market experienced a shock followed by the closure of equity and debt markets for a short period. The economic sanctions that followed influenced a set of strategic industries and Russian and global economies as a whole. As a result, we expect a structural break in the financial decisions of the Russian companies with the fragmentation from the rest of the countries alongside the hybridization of private and state sectors.

We start our analysis with the environment description: the development of the equity and debt markets, corporate governance, and ownership structure. We identify the set of macroeconomic and institutional constraints. Our sample constists of all firms currently or previously included in the MOEXBMI index. We get the sample of 158 firms. We test whether common capital structure determinants apply to emerging markets. Finally, we test the internal motives that drive conservative debt policy, namely financial constraints and financial flexibility.

We summarize our results as follows. We suggest that capital structure choice faces the following hierarchy of constraints in Russia. First, the choice is constrained by the underdevelopment of equity and bond market levels. Macro factors and the institutional environment add to the barriers to external capital and make it more expensive. Next, the choice of leverage is influenced by the company's ownership structure and the level of state regulation in the industry. We assume that after these constraints, it is time for companies to choose a capital structure within generally accepted capital structure theories. Thus, the capital structure choice is a two-step procedure, where the estimation of the current environment state is the first one, and the firm's motives choice is the second one.

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