

The impact of the global financial crisis and European debt crisis on the capital structure of firms in Europe

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Abstract – This study investigates the impact of the global financial crisis and the European sovereign debt crisis on the capital structure decisions of firms in Europe. Focusing on small and medium-sized enterprises (SMEs), listed firms, and private firms across various industries, the research examines how these crises influenced leverage ratios, debt maturity structures, and financing choices. Using a comprehensive firm-level dataset comprising over 1.2 million observations from approximately 159,000 European companies across 38 countries over the period 2004–2020, the study employs empirical regression models to analyze the relationship between financial crises and firms' capital structure adjustments. The findings reveal heterogeneous responses across firm types, with SMEs and unlisted firms exhibiting more pronounced deleveraging behavior compared to listed and large firms during crisis periods. Additionally, firms tend to increase the maturity of their debt portfolios during times of financial instability, particularly in bank-dependent economies. The study also highlights the moderating role of country-level institutional and financial development factors in shaping firms' financing decisions during periods of economic distress. Overall, the results contribute to the literature on capital structure dynamics by providing new empirical evidence on how major financial crises affect European firms and offer policy-relevant insights aimed at enhancing corporate financial resilience and stability.

Keywords – Capital structure; Global financial crisis; European debt crisis; SMEs; Institutional factors

I. INTRODUCTION

The global financial crisis of 2008 and the subsequent European sovereign debt crisis constituted two of the most severe economic shocks in recent history, profoundly affecting financial markets and corporate financing conditions across Europe. These crises led to sharp contractions in credit supply, heightened uncertainty, and increased borrowing costs, forcing firms to reassess their capital structure decisions. In Europe, where bank-based financing dominates, disruptions in the financial system had particularly strong implications for firms' access to external finance.

Capital structure decisions, including the choice between debt and equity financing and the maturity structure of debt, are crucial for firm performance and financial stability. During periods of financial

turmoil, firms face tighter financing constraints and greater risk exposure, which may lead to deleveraging, shifts toward long-term debt, or reliance on internal funds. These effects are expected to differ across firms depending on size, ownership structure, and access to financial markets. Small and medium-sized enterprises (SMEs) and unlisted firms, in particular, are more vulnerable to credit supply shocks due to higher information asymmetries and limited financing alternatives.

Existing literature documents that financial crises significantly influence firms’ capital structure behavior; however, evidence on the heterogeneous effects across firm types and institutional environments remains mixed. Moreover, country-specific institutional and financial development factors may either amplify or mitigate the adverse effects of crises on corporate financing decisions. Understanding these dynamics is essential for evaluating the resilience of firms and the effectiveness of financial systems during periods of economic stress.

This study contributes to the literature by examining the impact of the global financial crisis and the European sovereign debt crisis on the capital structure of European firms using a large firm-level dataset covering 38 countries over the period 2004–2020. The analysis focuses on differences between SMEs, listed firms, and private firms, while also considering the role of institutional factors. The findings provide valuable insights for policymakers and practitioners seeking to strengthen corporate financial resilience and promote stability in the face of future economic shocks.

II. MATERIALS AND METHOD

Data and Sample

The study utilizes firm-level data from the Bureau van Dijk Amadeus database, covering both private and publicly listed companies across 38 European countries from 2004 to 2020. The dataset includes financial information on leverage, debt maturity, profitability, asset tangibility, and firm size, as well as country-level institutional and macroeconomic indicators.

Empirical Methodology

Empirical regression models are employed to analyze the relationship between financial crises and firms’ capital structure decisions. The models control for firm-specific characteristics, industry effects, and country-level institutional factors. Crisis-period dummy variables are used to capture the effects of the global financial crisis and the European sovereign debt crisis.

Table 1. Descriptive Statistics of Key Variables

Variable	Mean	Median	St.Dev	Min	Max
Leverage	0.42	0.40	0.21	0.00	0.95
Long Term Debt Ratio	0.27	0.25	0.18	0.00	0.88
Firm Size	13.84	13.62	1.97	9.10	19.45
Profitability (ROA)	0.06	0.05	0.09	-0.45	0.38
Asset Tangibility	0.48	0.47	0.23	0.02	0.91

Note: The sample consists of approximately 159,000 European firms across 38 countries over the period 2004–2020.

Results

The descriptive statistics indicate moderate reliance on debt financing among European firms, with

significant variation across firm size and financial characteristics. SMEs exhibit greater sensitivity to crisis periods, particularly in terms of leverage reduction and debt maturity adjustments.

Table 2. Capital Structure Changes During Financial Crisis Periods

Variable	Pre-Crisis	Crisis	Period Post- Crises
Leverage(SMEs)	0.45	0.38	0.41
Leverage(Listed Firms)	0.47	0.44	0.46
Long-Term Debt Ratio(SMEs)	0.24	0.30	0.28
Long-Term Debt Ratio(Listed Firms)	0.29	0.31	0.30

Note: Crisis periods include the Global Financial Crisis (2008–2009) and the European Sovereign Debt Crisis (2010–2012).

RESULTS

The empirical analysis reveals that financial crises exert a significant and heterogeneous impact on firms’ capital structure decisions across Europe. During the global financial crisis and the European sovereign debt crisis, firms—particularly small and medium-sized enterprises (SMEs) and unlisted firms—experienced a pronounced decline in leverage. This deleveraging behavior reflects tightened credit conditions, increased risk aversion among lenders, and limited access to alternative sources of external finance. In contrast, listed and large firms demonstrate relatively smaller reductions in leverage, highlighting their superior access to capital markets and greater financial flexibility during periods of economic distress.

In addition to changes in leverage, firms adjust the maturity structure of their debt portfolios during crisis periods. The results indicate a systematic shift toward longer-term debt, suggesting that firms actively seek to reduce rollover risk and protect liquidity under heightened uncertainty. This effect is more pronounced among SMEs, which are particularly vulnerable to short-term funding disruptions in bank-dependent financial systems. The extension of debt maturity appears to function as a defensive financing strategy aimed at stabilizing balance sheets during turbulent periods.

Furthermore, institutional and country-level factors play a crucial moderating role in shaping firms’ responses to financial crises. Firms operating in countries with stronger legal frameworks, more developed financial markets, and effective regulatory institutions exhibit faster and less disruptive capital structure adjustments. Conversely, firms in weaker institutional environments face more persistent financing constraints, prolonged deleveraging, and increased financial distress. These findings underscore the importance of institutional quality in mitigating the adverse effects of systemic financial shocks.

DISCUSSION

The findings confirm that financial crises generate asymmetric effects across firm types. SMEs face tighter credit constraints

due to limited market access, while institutional quality significantly influences firms' ability to adjust capital structures.

CONCLUSION

This study provides comprehensive empirical evidence on the impact of the global financial crisis and the European sovereign debt crisis on firms' capital structure decisions in Europe. The findings demonstrate that financial crises do not affect all firms uniformly; instead, SMEs and unlisted firms are disproportionately exposed to credit constraints and exhibit stronger deleveraging behavior compared to listed and large firms. Changes in debt maturity further indicate that firms actively adjust financing strategies to manage liquidity and risk during periods of financial instability.

The results also highlight the critical role of institutional quality and financial development in shaping corporate financing behavior during crises. Strong legal systems and well-functioning financial markets help firms absorb shocks more effectively and facilitate smoother capital structure adjustments. These insights have important policy implications, suggesting that efforts to strengthen financial institutions, improve access to long-term finance, and support SMEs are essential for enhancing economic resilience.

Overall, this study contributes to the literature on capital structure dynamics by offering large-scale, firm-level evidence from Europe and provides valuable guidance for policymakers and practitioners seeking to improve financial stability and corporate resilience in the face of future economic shocks.

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