COLLEGE OF EUROPE

BRUGES CAMPUS

ECONOMICS DEPARTMENT

The Determinants of Bank Capital Structure in Europe

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for the

Degree of Master of Arts in European Economic Studies
Specialisation: European Economic Integration and Business

Academic Year 2015-2016

Abstract

The following Master's thesis deals with the determinants of banks' capital structure in Europe. The main purpose of the thesis therefore is to provide a deeper insight into how large listed European banks determine their capital structure and how regulation plays into this. Gropp and Heider (2010) and Octavia and Brown (2010) find that the standard determinants of non-financial firms' capital structure apply to bank as well. This thesis expands research by analysing the capital structure determinants of 100 large listed European banks between 2004 and 2014. The main findings can be summarised as follows: The standard determinants of non-financial firms' capital structure apply to large European banks as well. This means banks determine their capital structure in a similar way as non-financial firms. Evidence is collected that regulatory requirements are of second-order importance for banks' capital structure. The estimated results indicate that larger banks tend to be more leveraged whereas signs can be found that dividend paying and high growth banks are less leveraged. Asset risk proves to be a reliable determinant of capital structure and more risky banks are less leveraged. The existence of deposit insurance schemes across Europe does not impact banks' capital structure and bank-fixed effects prove to be of major importance for European banks' capital structure.