

# Capital Structure Determinants in German SMEs: Panel Analysis and Policy Recommendations<sup>1</sup>

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## Abstract

This study investigates the financing decisions within German SMEs, examining firm-specific, macroeconomic, and news-related determinants. Utilizing a 10-year dataset encompassing 13,051 SMEs, we employ a dynamic panel data model with an unbiased Dynamic Panel Fractional (DPF) estimator to identify the key variables influencing the debt-to-equity ratio. The findings underscore the importance of factors such as the non-debt tax shield, firm size, interest rate spread, and the economic policy uncertainty index.

study's findings propose the following policy implications: 1) Policy initiatives targeting firm size and non-debt tax shields affect SME leverage; 2) Policies addressing the term spread and economic uncertainty influence debt levels across various German industries; 3) Industry-specific SME policies are advisable, due to the significant industry effects on German SME leverage; 4) SME policy incentives yield short-term effects on capital structures, as SMEs adjust leverage within 8 months.

*Keywords:* SME policy, capital structure, SMEs, financing decisions, leverage, panel data.

*JEL Classification:* G32, G38, L25, L26, M13, C23

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