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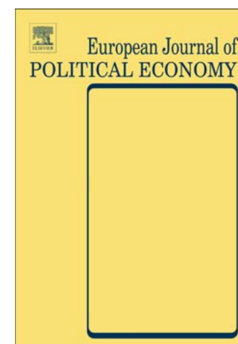

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Bank dividend policy and the global financial crisis: Empirical evidence from Europe

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ABSTRACT

The global financial crisis has caused controversial discussions about the capital base of the banking industry in Europe. Dividend cuts and omissions have been suggested as one possibility to improve the financial strength of banks by retaining earnings. However, there are fears that investors could interpret a reduction of dividends as a sign for future problems. The dividend signalling and dividend smoothing hypotheses quite clearly are the theoretical basis for these worries. The basic idea of this study is that without empirical evidence supporting the hypothesis dividends did matter in the past, banks should not fear dividend cuts or even dividend omissions. The empirical evidence from the European banking industry reported here does not indicate that dividend signalling and dividend smoothing are relevant economic phenomena.

JEL CLASSIFICATIONS: E3,G1,G3
KEYWORDS: Dividend policy, dividend signalling, regulation, bank capital base, cointegration analysis, financial crisis

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