

## THE ROLE OF DIVIDEND POLICY IN INCREASING THE LEVEL OF BANK CAPITALIZATION

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A B S T R A C T	K E Y W O R D S
<p>The article examines foreign and domestic literature to show the role of dividend policy of commercial banks in increasing the level of capitalization of banks and examines the advantages of a regular dividend policy. In particular, when studying the scientific views of researchers, a number of shortcomings and issues in the dividend policy of commercial banks were identified. Also, commercial banks are examined as active participants in the stock market, as well as financial data on dividends payout was investigated. Based on the research conducted, conclusions and practical recommendations were established.</p>	<p>Commercial bank, stock, dividend, dividend policy, capital, investor.</p>

### Introduction

In the development of the banking sector, which is the locomotive of the economy, commercial banks constantly feel the need for resources to ensure further development of their activities and to expand the scope of their activities. In the conditions of healthy competition, the opportunities to attract any resources for free and use them without compensation are limited.

This situation, in turn, shows that banks should pay special attention to the dividend policy. It is known that commercial banks are required to constantly increase their authorized capital in order to ensure their financial stability. In order to increase the authorized capital, it is necessary to place the bank's shares on the stock market, and for this, first of all, it is necessary to attract foreign and local investors to the shares. The amount of dividend paid per share is one of the important issues that interest investors. Because the attractiveness of shares is determined by the rational dividend policy conducted by banks. Unfortunately, this issue is not on the main agenda of our banks.

Therefore, in order to develop the banking system of Uzbekistan, increasing the role of the dividend policy in joint-stock commercial banks based on best practice is an urgent and practical issue, and in this regard, it is necessary to pay serious attention to the dividend policy.

Based on the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025, with the support of international financial institutions, step-by-step privatization of state shares in JSCMB "Ipoteka-bank", "Uzpromstroybank" JSCB, "Asaka" JSCB, JSC "Aloqabank", JSCB «Qishloq qurilish bank» and "Turonbank" JSCB, in which the institutional change (transformation of their activity) in the first stage, and the sale of a package of state shares in the second stage [1], shows

that the fulfillment of the task set in the period is inextricably linked with the dividend policy of commercial banks.

Today, commercial banks are carrying out the necessary work on the implementation of the above issues.

## **Review of literature on the subject**

Although there are many views on the issue of dividend policy, even today the researches carried out in this field of management of the dividend policy of banks have not lost their relevance. Especially this issue has been in the constant focus of researchers and economists.

Commercial banks, as issuers, gain the opportunity to place additional shares by guaranteeing constant dividend payments to shareholders, thereby increasing the banks' capitalization. That is why commercial banks should pay special attention to dividend policy [2]. In this regard, Sh.Abdullaeva and A.Omonov say that "the sale of preferred shares, as well as ordinary shares, is the most expensive way of forming bank capital. Because the owners of preferred shares will have the right to participate directly in the distribution of bank profits compared to the owners of ordinary shares, as a result of which the amount of bank dividends to be paid may decrease" [3].

R. Kurbanov, one of the local scientists, paid special attention to the modern ways of increasing the level of capitalization of banks in his researches [4,5,6,7].

Foreign scientists Ross N. Dickens and K. Michael Casey studied the assessment of the direct impact of regulations and taxes on the dividend policy of commercial banks, and it was noted that the dividend policy of commercial banks has different characteristics compared to the dividend policy of other sectors and industries [8]. Also, foreign researchers, like L. Lepetit, C. Meslier, F. Strobel, L. Wardhana conducted studies on bank dividends, agency costs, and the rights of shareholders and creditors, and found that the level of dividend payments in banks is more strongly influenced by agency costs than by creditors [9]. Another group of scholars, Enrico Onali, Philip Molyneux, Giuseppe Torluccio, and Ramilya Galiakhmetova, studied the relationship between CEO powers, government control, and bank dividends [10].

## **Research Methodology**

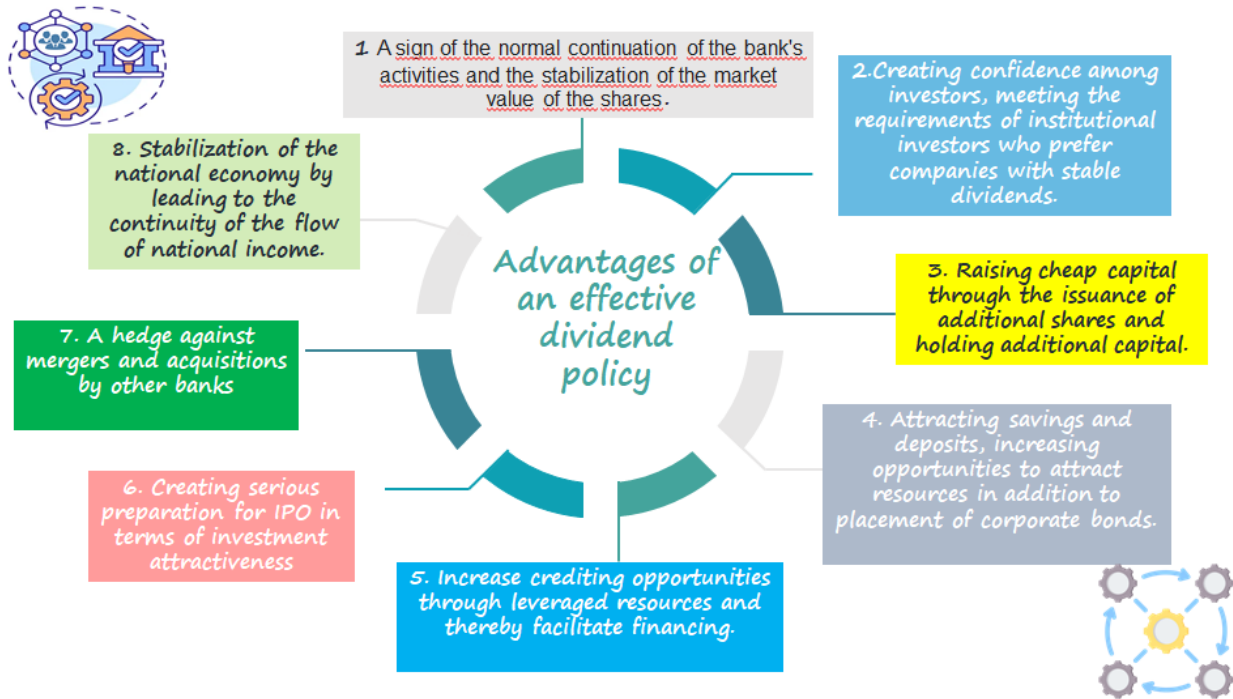
In the preparation of the article, practical data on increasing the level of capitalization of commercial banks were analyzed, and all the used data were researched by the author based on the current legal documents and statistical indicators of the Central Bank. Grouping, comparison, systematic approach, and structural analysis methods were used in the article.

## **Analysis and Results**

Increasing the level of capitalization and strengthening the financial stability of commercial banks is a necessary condition for ensuring the stability of the country's banking system[11,12]

Commercial banks, as issuers, get the opportunity to place additional shares through the payment of constant dividends to shareholders, thereby increasing the banks' capitalization. That is why commercial banks should pay special attention to dividend policy. Dividend policy is one of the powerful tools to achieve strategic goals of banks. Consequently, even when the income of the banks is sufficient, dividend payments play an important role in increasing the investment attractiveness of banks, the level of capitalization, the liquidity of its shares and, as a result, in ensuring the financial stability of banks.

Taking into account the above, the effective dividend policy of commercial banks in increasing the level of bank capitalization gives the following advantages (pic 1).



**Picture1. Advantages that commercial banks can achieve through an effective dividend policy**

As can be seen from the data in the above picture, we believe that a number of aspects should be given special attention in order to formulate a reasonable and effective dividend policy for commercial banks.

In the dividend policy of commercial banks, it is necessary to take into account the level of profitability of shares paid to investors, along with regular attention to paying dividends. Since shares are considered a high-risk security, the dividend rate of commercial banks should be higher than the interest rate of savings and deposits.

**Table 1. Analysis of dividend payments of "Uzpromstroybank" JSCB [14]**

Indicators	2018	2019	2020	2021
<b>For ordinary shares:</b>	3,30%	7,632%	0	0
Amount of dividends calculated for payment (million soums)	71 350,16	353 150,08	0	0
<b>For special shares:</b>	<b>23%</b>	<b>23%</b>	<b>23%</b>	<b>23%</b>
Amount of dividends calculated for payment (million soums)	1616,9	1616,9	1616,9	1616,9
<b>Annual inflation rate (in %)</b>	14,3	15,2	11,1	9,98

As can be seen from the given table, the dividend payments on common and preferred shares by "Uzsanoatqurilishbank" ADB and their corresponding inflation rate are indicated. The main purpose of this is to provide an accurate assessment of the income received by the customers by comparing the percentage of dividend paid by the bank with the annual inflation rate. As we can see, although the bank's dividend payments on common and preferred shares were higher than the inflation rate until 2016, since 2018, only the dividend payments on common shares have decreased from the inflation rate. In 2020 - 2021, we can see that the bank did not pay any common stock dividend at all.

**Table 2. Analysis of dividends calculated and paid by JSCB «Qishloq qurilish bank» [15]**

Years	Counted dividends (mln.soums)	Paid dividends (mln.soums)	Calculation of dividends on shares (in %)		Annual inflation rate (in %)
			Ordinary	Ordinary	
2018	15 664	15 547	2,52%	25,00%	14,3
2019	27 278	27 147	0%	25,00%	15,2
2020	268	110	0%	25,00%	11,1
2021	268	235	0%	25,00%	9,98

Table 2 shows that in 2018-2021, ATB "Kishloqkurilishbank" had differences in the amount of calculated and paid dividends in each financial year. This indicates that deficiencies were made in organizing the process of paying dividends to shareholders, or shareholders did not apply for dividends. This situation can negatively affect the investment attractiveness of the bank. If we analyze the dividends paid per share by "Qishloqqurilishbank" ADB, in 2018, the bank paid continuous dividends. In particular, during this period, a dividend of 29.81 soums (25%) was paid to preferred shares. In 2018, the dividend for one share of ordinary shares was 3.00 soums (2.52%), it should be noted that no dividend was paid for ordinary shares in 2019-2020.

As a result of our research and studies, in the practice of commercial banks, the dividend policy is established by distributing the bank's net profit. However, investors are not satisfied with the fact that almost all commercial banks pay dividends below the annual rate of inflation.

As a result, the growth rate of capitalization of commercial banks does not correspond to today's demand. Therefore, for the development of the banking system of Uzbekistan, increasing the role of the dividend policy in commercial banks based on advanced foreign experience is an urgent and practical issue, and from this point of view, banks are required to pay serious attention to this issue. In our opinion, it is necessary to take into account the level of annual payments and regular increases in dividends. This should be one of the listing requirements of the commercial banks of our country in organizing the IPO practice in the international stock market. Most commercial banks cannot meet the IPO requirements of developed international stock exchanges. Therefore, national stock exchanges should develop and implement strategic financial plans[13].

The dividend policy of banks plays an important role in the rapid development of the stock market due to the expansion and new direction of active participants in the stock market of developed countries.

It is desirable for commercial banks as issuers to issue additional shares instead of paying regular dividend payments to shareholders. Because this situation serves to increase the level of capitalization of banks and increase their prestige in the market. But today, many commercial banks are diverting dividends for consumption instead of capitalizing dividends calculated for stocks.

This situation can slow down the economic development of banks and reduce their competitiveness and the interest of foreign investors.

It should be noted that we cannot say that the level of liquidity of shares is high for the stock market of our country. Also, the main factor in the formation of the stock price is the amount of the paid dividend.

At the current stage of economic development, it is appropriate for banks to focus not on paying dividends, but on reissuing issues to solve the serious problem of capital adequacy in front of them. Because the increase of authorized capital as the main source of private capital leads to constant interest of local and foreign investors in bank shares. Otherwise, the financial condition of banks will deteriorate and the liquidity of shares will decrease, which will have a negative impact on the development of the stock market and the banking system.

In today's practice, the low demand for shares of banks in the primary market and the inability to sell shares at prices higher than their nominal value is one of the negative situations facing banks.

In countries where the stock market is developing, the share price of banks in the secondary market will depend on the effective dividend policy of these banks. In this case, the secondary market rate of banks paying high dividends is too high or it is not possible to buy such shares. On the other hand, the share price of banks that pay a minimum dividend on the secondary market does not rise above the nominal value for a certain period.

## CONCLUSION AND SUGGESTIONS

The following conclusions and practical proposals were formed based on our studies in order to increase the role of dividend policy in the development of the banking sector:

First, the constant payment of dividends by commercial banks improves their position in the financial market by attracting capital through the issuance of additional shares, and attracts investors through regular dividend payments, playing a key role in creating investment attractiveness for IPOs, and as a means of protection in mergers and acquisitions by other banks. gives advantages.

Secondly, one of the important issues facing the banking system is to effectively organize the processes of privatization and transformation of the state-owned commercial banks, and to ensure that the dividend payments are constant and not lower than the annual inflation rate in order to sell their shares to foreign investors.

Thirdly, the ability of commercial banks to pay constant dividends is evaluated by the amount of net profit and financial stability they received in the reporting year, and the main importance of the dividend policy is to increase the number of shareholders, as a result, effective management of bank capital is achieved.

Fourthly, taking into account that in the international experience, the presence of the state share in the charter capital of banks is very low, in order to effectively carry out the processes of privatization and transformation, commercial banks with a state share should seriously review the dividend policy and, of course, increase the dividend payments, as a result of which foreign investors are interested in bank shares. can be increased.

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