Dividends paid out by some European banks actually exceeded the value of their capital shortfalls while at others, capital shortfalls were larger than dividends that have been retained.

For healthier European banks, turn off the dividend spigot

By Vishy Acharya, Diane Namn Pham

European banks, high litigation and revenue pressure are key, according to a study of 34 banks by a New York University Stern School of Business professor Vishy Acharya and his colleague Diane Namn Pham. The study found that European banks are paying out much more in dividends than they are retaining as earnings, and that this has resulted in capital shortfalls, which is why some banks have begun to reduce dividends.

The study found that European banks have a significant mismatch between dividends paid and retained earnings, with dividends exceeding retained earnings for all but six banks. The authors note that this trend is not unique to Europe, and that it is also evident in the United States and China. They also note that this trend is likely to continue, as banks are facing increased pressure to reduce dividends due to the need for capital to support new business activities.

The authors suggest that regulators should take action to address this mismatch, and that banks should consider reducing dividends in order to maintain capital adequacy. They also suggest that banks should focus on improving their business models, rather than relying on dividends, in order to achieve long-term sustainability.

The study is the latest in a series of reports that Acharya has published on the topic of bank dividends. His previous research has found that banks in the United States and China have also been paying out more in dividends than they are retaining, and that this has resulted in capital shortfalls. The authors note that this trend is a concern for regulators, as it can undermine the stability of the financial system.

The authors recommend that banks should consider reducing dividends in order to maintain capital adequacy, and that regulators should take action to address this mismatch. They also suggest that banks should focus on improving their business models, rather than relying on dividends, in order to achieve long-term sustainability.

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