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Global Economic Uncertainty and Bank Dividend Policy in Southeast Asia: The Moderating Role of Institutional Ownership

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Abstract

This study examines how global economic uncertainty affects bank dividend payouts and investigates whether institutional ownership moderates this relationship in ASEAN banking. The study analyzes annual data for 45 listed banks in Indonesia, Malaysia, Singapore, Thailand, the Philippines, and Vietnam from 2014–2024. The study measures global economic uncertainty using the World Uncertainty Index (WUI), while dividend payouts are captured by the Dividend Payout Ratio (DPR). We use a two-step System Generalized Method of Moments (System GMM) estimator to address dividend persistence and potential endogeneity. The results show that global economic uncertainty significantly reduces bank dividend payouts, suggesting that banks retain a larger share of earnings when uncertainty increases. Dividend payouts also exhibit significant persistence. Institutional ownership significantly moderates the effect of uncertainty. Specifically, higher institutional ownership mitigates the negative impact of global economic uncertainty on dividends. These findings indicate that institutional investors influence bank payout decisions primarily through a conditional governance mechanism rather than direct control over payout levels. This study contributes to the literature by integrating global uncertainty and ownership structure into a dynamic framework and providing cross-country evidence from the ASEAN banking sector.

Keywords global economic uncertainty, world uncertainty index, dividend policy, institutional ownership.

1. Introduction

Global economic uncertainty can materially affect corporate financial decisions by increasing uncertainty surrounding future earnings, financing conditions, investment opportunities, and financial risks. This issue is particularly important in banking, where high leverage and stringent capital and liquidity requirements constrain financial decisions. Under heightened uncertainty, banks face a fundamental trade-off between distributing earnings to shareholders and retaining funds to preserve financial flexibility and strengthen their capacity to absorb future shocks.

The relationship between uncertainty and dividend policy is theoretically ambiguous. The precautionary motive suggests that firms retain a greater share of earnings when uncertainty increases, as internal funds provide a buffer against adverse conditions and reduce reliance on external financing. Consistent with this view, previous studies report that uncertainty is associated with lower dividend payouts (Buchanan et al., 2017; Attig et al., 2021; Choi & Park, 2024). Conversely, the signaling perspective suggests that managers may maintain dividend

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payments to convey confidence in future earnings and financial strength. The effect of uncertainty on dividend policy may therefore depend not only on firms' financial conditions but also on the governance environment shaping managerial decisions.

This governance dimension is particularly relevant for banks because dividend payments directly affect internally generated capital. Institutional investors may influence payout decisions through their monitoring capacity, financial expertise, and ability to constrain managerial discretion. Drawing on Agency Theory, institutional ownership can shape corporate resource-allocation decisions, including dividend policy (Jensen & Meckling, 1976). Prior studies have examined the direct relationship between institutional ownership and dividends (Chang et al., 2016; Jory et al., 2017). However, less attention has been given to whether institutional ownership alters the way firms adjust dividend payouts in response to external uncertainty. This distinction is important because institutional investors may either support dividend stability to protect shareholder interests or favor earnings retention when uncertainty threatens financial resilience.

Despite the growing literature on uncertainty and dividend policy, several gaps remain. First, existing studies largely rely on country-specific measures of economic or policy uncertainty, while evidence on the effect of broader global uncertainty remains limited. Second, the literature has predominantly focused on non-financial firms or individual-country settings, providing limited evidence from ASEAN banking systems. Third, institutional ownership has primarily been examined as a direct determinant of dividend policy rather than as a governance mechanism that moderates the effect of external uncertainty on dividend decisions. These gaps raise an important question: does institutional ownership alter the sensitivity of bank dividend payouts to global economic uncertainty?

This study addresses this question using an annual panel of listed banks from Indonesia, Malaysia, Singapore, Thailand, Philippines, and Vietnam over 2014–2024. Global economic uncertainty is measured using the World Uncertainty Index (WUI), dividend policy is captured by the Dividend Payout Ratio (DPR), and institutional ownership is examined as a moderating variable. A dynamic panel System Generalized Method of Moments (System GMM) approach is employed to account for dividend persistence and potential endogeneity.

This study makes three contributions. First, it extends the uncertainty–dividend literature by examining the effect of global economic uncertainty on bank dividend payouts in the ASEAN banking sector. Second, it advances the corporate governance literature by conceptualizing institutional ownership as a moderating mechanism rather than solely as a direct determinant of dividend payouts. Third, the dynamic panel framework accounts for the persistence of dividend decisions and addresses potential endogeneity in the empirical relationship. Collectively, these contributions provide insight into how external uncertainty and ownership structure jointly shape dividend decisions in banking markets.

Accordingly, this study examines whether global economic uncertainty affects bank dividend payouts and whether institutional ownership moderates this relationship in ASEAN banking.

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2. Literature Review

2.1 Dividend Policy in the Banking Sector

Dividend policy concerns the allocation of earnings between shareholder distributions and retained earnings. Beyond meeting shareholder preferences, this decision is strategically important because retained earnings provide internally generated resources for investment, liquidity, and risk absorption. The trade-off is particularly pronounced in banking, where dividend distributions must be balanced against capital adequacy, liquidity requirements, asset quality, and the capacity to absorb unexpected losses.

Several theoretical perspectives explain dividend decisions. Agency Theory views dividends as a mechanism for mitigating conflicts between managers and shareholders by reducing resources under managerial discretion and strengthening external monitoring (Jensen & Meckling, 1976). The Bird-in-the-Hand perspective emphasizes shareholders' preference for relatively certain current dividends over uncertain future capital gains. Signaling Theory further suggests that dividend decisions convey information about managers' expectations regarding future earnings and financial conditions. Dividend stability may therefore signal confidence, whereas dividend reductions may be interpreted as adverse signals.

Together, these perspectives highlight the tension between shareholder distributions and the preservation of internal financial resources. This tension is particularly important in banking because retained earnings strengthen internal capital and enhance banks' capacity to absorb adverse economic shocks. Bank dividend policy should therefore be viewed not merely as a distribution decision, but as a strategic mechanism through which banks balance shareholder interests and financial resilience. This perspective provides the foundation for examining how external uncertainty and ownership structure influence bank dividend decisions.

2.2 Economic Uncertainty and the Precautionary Motive

Economic uncertainty arises when economic agents face greater difficulty in forecasting future economic conditions, cash flows, financing needs, and investment opportunities. Its consequences may be particularly pronounced in banking because changes in macroeconomic conditions can simultaneously affect credit demand, borrowers' repayment capacity, asset quality, liquidity, profitability, and capital adequacy. Consequently, uncertainty may directly affect banks' financial resilience and dividend decisions.

The precautionary motive provides a theoretical basis for expecting a negative relationship between uncertainty and dividend payouts. When future conditions become less predictable, firms have stronger incentives to retain earnings as a buffer against adverse shocks, preserve financial flexibility, and reduce reliance on external financing. Pecking Order Theory reinforces this argument by suggesting that firms generally prefer internal funds to external financing, particularly when external capital becomes more costly or difficult to obtain under unfavorable market conditions (Myers & Majluf, 1984).

This mechanism is particularly relevant to banks. Greater global uncertainty may increase the

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risk of loan-quality deterioration, weaken profitability, constrain liquidity, and increase the demand for capital buffers. Under such conditions, retained earnings provide an internally generated source of financial protection and strengthen banks' capacity to absorb future shocks. The precautionary motive therefore suggests that banks will distribute a smaller proportion of earnings as dividends when uncertainty increases.

Empirical evidence generally supports this expectation. Buchanan et al. (2017) find that uncertainty reduces both the likelihood and magnitude of dividend payments, while Attig et al. (2021) document a negative relationship between economic policy uncertainty and dividend payouts. Similarly, Choi and Park (2024) show that greater economic policy uncertainty is associated with more conservative dividend policies. Evidence from the banking sector is also consistent with this argument, with Vo et al. (2025) reporting that greater uncertainty can encourage banks to reduce dividend payments to preserve internal capital and financial flexibility.

However, the relationship between uncertainty and dividend policy is not necessarily uniform. Signaling considerations suggest that managers may maintain dividends during periods of uncertainty to communicate confidence in future performance. Consistent with this argument, Lee et al. (2025) find that uncertainty does not necessarily reduce dividend payments, while Lei et al. (2015) show that political uncertainty may encourage firms to preserve dividend stability. These contrasting findings suggest that the dividend response to uncertainty may depend on the institutional and governance environment surrounding managerial decisions.

This study extends the literature by examining global economic uncertainty, measured by the World Uncertainty Index (WUI), in the ASEAN banking sector. The cross-country nature of the WUI enables the examination of banks exposed to common global economic developments while operating under different institutional and regulatory environments. Given banks' incentives to preserve internal capital and financial flexibility during periods of heightened uncertainty, this study proposes the following hypothesis:

H1: Global economic uncertainty has a negative effect on bank dividend policy.

2.3 Institutional Ownership as a Corporate Governance Mechanism

Institutional ownership represents the proportion of a firm's equity held by institutional investors. Its relevance to dividend policy stems primarily from institutional investors' monitoring capacity, financial expertise, and ability to influence managerial decisions and corporate resource allocation.

Agency Theory suggests that institutional investors can mitigate agency conflicts by monitoring managers and constraining managerial discretion over corporate resources (Jensen & Meckling, 1976). Dividend payments may further reduce agency problems by limiting internally controlled funds. Accordingly, institutional ownership can shape dividend decisions by strengthening governance and aligning managerial actions with shareholder interests. Previous studies support this relationship, showing that institutional ownership and ownership stability influence dividend payments and payout policies (Chang et al., 2016; Jory et al., 2017).

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In banking, this governance role may become particularly important because dividend decisions directly affect internally generated capital. Institutional investors may therefore influence not only dividend levels but also how banks adjust payouts when financial conditions change.

2.4 Institutional Ownership as a Moderator of the Uncertainty

The impact of global economic uncertainty on corporate dividend policy is inextricably linked to a firm's corporate governance framework. During periods of elevated global uncertainty, banks are generally incentivized to preserve internal capital. However, institutional investors, operating through active monitoring and strategic oversight, play a pivotal role in shaping managerial responses to such external macroeconomic shocks.

The theoretical implications of institutional ownership in this context present competing perspectives. On one hand, institutional investors might advocate for higher earnings retention during uncertain periods to bolster capital buffers and enhance financial resilience. Conversely, effective institutional monitoring can actively mitigate excessive managerial conservatism, thereby ensuring dividend stability provided the bank maintains the financial health requisite for continuous payouts. Consequently, institutional ownership possesses the potential to either exacerbate or attenuate the adverse effects of uncertainty on dividend payouts.

While existing literature extensively covers the independent effects of macroeconomic uncertainty and institutional ownership on dividend policy, their interactive dynamics remain substantially underexplored. Prior studies have predominantly focused either on the direct ramifications of uncertainty on dividends or the agency conflict dimensions of institutional ownership (e.g., Buchanan et al., 2017; Chang et al., 2016; Jory et al., 2017; Attig et al., 2021; Choi & Park, 2024). There is a critical lacuna in understanding whether institutional ownership reshapes the sensitivity of bank dividend decisions to global economic uncertainty.

This interaction is particularly salient in the ASEAN banking sector, a region characterized by diverse institutional and regulatory frameworks yet exposed to synchronous global economic shocks. Building on the premise that robust institutional oversight acts as a counterweight to excessive risk-aversion, this study proposes the following hypothesis:

H2: Institutional ownership mitigates the negative effect of global economic uncertainty on bank dividend policy.

3. Research Method

Research Design and Data Sources. This study constructs a dynamic panel dataset to investigate the impact of global economic uncertainty on bank dividend policy and to evaluate the moderating role of institutional ownership. The sample comprises publicly listed commercial banks across six major ASEAN economies—Indonesia, Malaysia, Singapore, Thailand, Philippines, and Vietnam—spanning an 11-year period from 2014 to 2024. This specific observation window captures a broad spectrum of macroeconomic volatilities, including early post-crisis monetary adjustments, the severe economic disruptions of the COVID-19 pandemic, and subsequent inflationary shocks, thereby providing a robust setting to evaluate the

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transmission of global uncertainty. The empirical estimation relies on a strongly balanced panel of 45 cross-sectional banking institutions, yielding 495 firm-year observations. The dataset integrates firm-level financial and governance attributes with country-level macroeconomic indicators. Bank-specific variables, notably the Dividend Payout Ratio (DPR), institutional ownership (INST), and fundamental control variables (SIZE, ROA, LDR, CAR, and NPL), are hand-collected from audited annual reports and consolidated financial statements published by the respective institutions. To capture external shocks, global economic uncertainty is proxied by the World Uncertainty Index (WUI), while domestic macroeconomic conditions (GDP growth and inflation) are sourced from the World Bank and the International Monetary Fund (IMF) databases. This multi-level data integration facilitates a comprehensive assessment of how distinct institutional structures within ASEAN banks filter the systemic impacts of global uncertainty.

Sample Selection. The initial universe for this study encompasses all commercial banks publicly listed in the six selected ASEAN economies (Indonesia, Malaysia, Singapore, Thailand, Philippines, and Vietnam) spanning the 2014–2024 observation period. To ensure the integrity of the dynamic panel estimations, we apply a strict data filtering process. Specifically, banks are required to possess continuous, publicly available data for all empirical variables throughout the entire study period. We systematically exclude institutions with incomplete annual reports, missing institutional ownership disclosures, or insufficient financial metrics necessary to compute the fundamental control variables. Following this rigorous filtering process, the final sample consists of a strongly balanced panel of 45 cross-sectional banking institutions. Over the 11-year observation window, this yields a robust final dataset comprising 495 firm-year observations, which serves as the empirical foundation for testing the formulated hypotheses.

Variables and Measurement. The dependent variable in this study is bank dividend policy, measured by the Dividend Payout Ratio (DPR), which represents the percentage of net income distributed to shareholders as dividends. The primary explanatory variable is global macroeconomic uncertainty, proxied by the World Uncertainty Index (WUI). The WUI is explicitly selected over domestic uncertainty indices as it better captures the systemic, cross-border macroeconomic shocks affecting the diverse ASEAN banking sector. Institutional ownership (INST) serves as the moderating variable, defined as the proportion of outstanding shares held by institutional investors. To empirically test the moderating mechanism, we introduce an interaction term ($WUI \times INST$) into the estimation model. This term isolates whether the active oversight of institutional investors structurally alters the sensitivity of bank dividend payouts to global economic uncertainty. To mitigate omitted variable bias, the model incorporates a robust set of control variables categorized into bank-specific fundamentals and macroeconomic indicators. Bank-level controls include firm size (SIZE), measured as the natural logarithm of total assets; profitability (ROA), calculated as the ratio of net income to total assets; liquidity risk (LDR), represented by the ratio of total outstanding loans to total deposits; capitalization (CAR), computed as the ratio of core capital to risk-weighted assets; and asset quality (NPL), defined as the ratio of non-performing loans to total gross loans.

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Finally, macroeconomic controls account for the broader economic environment using the annual Gross Domestic Product growth rate (GDP) and the annual inflation rate (INF).

Empirical Specification and Estimation Strategy. Because corporate dividend policy inherently exhibits persistence, where current payout decisions are heavily anchored to prior distributions, estimating a static model would yield biased coefficients. To account for this dynamic nature and potential endogeneity among firm-level variables, we employ a dynamic panel data specification. The empirical estimation is conducted in two sequential stages to test the direct and interactive effects.

Model 1: Baseline Direct Effects. The first model isolates the direct impact of global economic uncertainty and institutional ownership on bank dividend policy, controlling for firm fundamentals and macroeconomic conditions:

$$DPR_{ict} = \alpha + \rho DPR_{i,ct-1} + \beta_1 WUI_{ct} + \beta_2 INST_{ict} + \beta_3 SIZE_{ict} + \beta_4 ROA_{ict} + \beta_5 LDR_{ict} + \beta_6 CAR_{ict} + \beta_7 NPL_{ict} + \beta 8 GDP_{ct} + \beta_9 INF_{ct} + \varepsilon_{it} \quad (1)$$

Model 2: Moderation Effect. The second model introduces the interaction term (WUIt x β2INSTit) to test whether the presence of institutional investors moderates the impact of macroeconomic uncertainty on dividend payouts:

$$DPR_{ict} = \alpha + \rho DPR_{i,ct-1} + \beta_1 WUI_{ct} + \beta_2 INST_{ict} + \beta_3 (WUI_{ct} \times \beta_2 INST_{ict}) + \beta_4 SIZE_{ict} + \beta_5 ROA_{ict} + \beta_6 LDR_{ict} + \beta_7 CAR_{ict} + \beta_8 NPL_{ict} + \beta_9 GDP_{ct} + \beta_{10} INF_{ct} + \varepsilon_{ict} \quad (2)$$

In Equation (2), the dependent variable DPRit represents the dividend payout ratio of bank i country c and period t. To account for potential dividend persistence over time, the model includes the first-order lagged dependent variable ρDPRi,t-1. The primary explanatory variables are macro-level economic uncertainty, measured by the World Uncertainty Index WUI, and corporate governance structure, represented by institutional ownership INST. To evaluate whether institutional ownership moderates the effect of global uncertainty on dividend policy, an interaction term between the two constructs, WUI times INST, is incorporated.

The specification also controls for several bank-specific characteristics and macroeconomic factors. Bank-specific controls include firm size SIZE, operationalized as the natural logarithm of total assets, profitability via Return on Assets ROA, operational liquidity risk using the Loan-to-Deposit Ratio LDR, solvency via the Capital Adequacy Ratio CAR, and asset quality using the Non-Performing Loan ratio NPL to capture credit risk. Finally, macroeconomic conditions are controlled for using the annual growth rate of Gross Domestic Product GDP and the inflation rate INF, while α represents the constant term and ε denotes the idiosyncratic error term.

To estimate these equations, we utilize the two-step System Generalized Method of Moments (S-GMM). The S-GMM estimator is specifically designed to resolve the Nickell bias inherent in dynamic panels characterized by a short time dimension (T = 11) relative to the cross-section (N = 45). By utilizing internal instruments derived from the lagged levels and differences of the endogenous regressors, S-GMM efficiently controls for unobserved heterogeneity, simultaneity, and dynamic endogeneity.

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To validate the robustness and internal consistency of the S-GMM estimations, we rely on two standard diagnostic criteria. First, the Arellano–Bond AR(2) test is evaluated to confirm the absence of second-order serial correlation in the differenced residuals. Second, the Hansen test of overidentifying restrictions is conducted to verify the joint validity of the selected instrument set. Satisfying both diagnostic conditions ensures that the coefficient estimations, particularly the interaction term (β_3), are statistically robust against specification errors.

4. Finding and Discussion

Descriptive Statistics. The final balanced panel dataset comprises 495 firm-year observations from 45 commercial banking institutions across six ASEAN economies over the 2014–2024 period. As reported in Table 3, the sample exhibits substantial cross-sectional and temporal heterogeneity across all primary variables. The dependent variable, Dividend Payout Ratio (DPR), averages 39.271% with a standard deviation of 13.962%, spanning from 0.000% to 86.300%. This wide dispersion underscores significant variation in earnings distribution strategies among ASEAN banks. Global economic uncertainty (WUI) records a mean value of 0.150 (ranging from 0.017 to 0.413), reflecting severe external macroeconomic fluctuations during the 11-year observation window. Institutional ownership (INST) displays high concentration, with an average equity holding of 69.300% (ranging between 26.000% and 98.700%), confirming the dominant governance role played by institutional investors in the region.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DPR	495	39.271	13.962	0	86.3
WUI	495	0.15	0.091	0.017	0.413
INST	495	0.693	0.166	0.26	0.987
GDP	495	4.059	3.192	-9.52	9.43
INF	495	2.615	1.842	-1.14	6.39
SIZE	495	29.783	3.279	24.51	35.47
ROA	495	1.431	0.671	0.13	3.84
LDR	495	85.242	8.201	60.2	114.2
CAR	495	18.141	4.949	8.9	44.2
NPL	495	2.133	1.092	0.07	8.88

Regarding bank fundamentals, the sampled institutions maintain strong capitalization and earnings profiles, reflected by an average Capital Adequacy Ratio (CAR) of 18.141% and a Return on Assets (ROA) of 1.431%. Credit risk remains well-managed, with a mean Non-Performing Loan (NPL) ratio of 2.133%, while liquidity risk (LDR) averages 85.242%.

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The correlation analysis reveals preliminary bivariate associations. DPR is negatively correlated with institutional ownership (r = -0.172) and positively correlated with profitability (r = 0.221) and capitalization (r = 0.226). Conversely, WUI shows a weak positive correlation with DPR (r = 0.023). Crucially, pairwise correlation coefficients among all independent regressors remain well below the standard 0.700 threshold, the highest correlation observed is between ROA and SIZE (r = 0.505), confirming that the empirical models are not confounded by severe multicollinearity.

Global Economic Uncertainty and Bank Dividend Policy. The baseline empirical results evaluating the direct impact of global economic uncertainty on bank dividend policy are presented in Table 4. Across all System GMM (S-GMM) specifications (Columns 3 and 4), the lagged dependent variable (DPRi,c,t-1) is positive and statistically significant at the 1% level ($\rho \approx 0.691$ - 0.703, $p < 0.01$). This coefficient magnitude confirms strong dividend persistence within ASEAN commercial banks, aligning with Lintner's (1956) classic dividend smoothing hypothesis. Banks do not instantaneously adjust their payout ratios to short-term earnings fluctuations; rather, current dividend decisions remain heavily anchored to historical payout practices to signal stability to capital markets. After accounting for dividend inertia and dynamic endogeneity, the empirical evidence demonstrates that global economic uncertainty exerts a statistically significant negative effect on bank dividend policy. In the fully specified S-GMM model (Column 4), the coefficient on WUI is -7.068$ ($p < 0.05$), consistent with the baseline S-GMM estimate of -7.842$ ($p < 0.01$) in Column 3. This negative relationship provides strong empirical support for H1 and corroborates the precautionary motive of capital retention. Facing heightened macroeconomic uncertainty, bank executives experience diminished visibility over credit risk exposures, liquidity constraints, and asset quality deterioration. Consequently, managers prioritize internal capital accumulation over immediate cash distributions to absorb potential unexpected systemic shocks.

These findings extend the empirical literature on uncertainty and payout policy (e.g., Buchanan et al., 2017; Attig et al., 2021; Choi & Park, 2024) to the banking context of emerging and developed ASEAN markets. Crucially, the dominance of the precautionary motive indicates that during period of elevated global uncertainty, capital preservation imperatives outweigh the signaling benefits of maintaining high current payout ratios. Regarding firm-level controls, bank profitability (ROA = 3.529, $p < 0.05$) and capital adequacy (CAR = 0.929, $p < 0.10$$) exhibit positive and statistically significant impacts on dividend payouts in the dynamic S-GMM model. These results indicate that highly capitalized and profitable banking institutions possess greater financial flexibility to sustain shareholder distributions even amidst systemic macroeconomic headwinds. Conversely, liquidity risk (LDR) and macroeconomic controls (GDP and INF) do not display statistically significant impacts under the robust S-GMM framework.

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Table 2. Baseline Dynamic Panel Regressions Uncertainty and Bank Dividend Policy (DPR)

	(1)	(2)	(3)	(4)
VARIABLES	FE	FE	SGMM	SGMM
L.DPR			0.703***	0.691***
			(0.0490)	(0.0520)
WUI	-29.58***	-28.01***	-7.842***	-7.068**
	(6.712)	(6.619)	(2.939)	(2.957)
INST	16.15	9.886	-0.890	-0.00460
	(12.98)	(12.84)	(9.327)	(9.626)
SIZE	8.391***	8.646***	-0.701	-0.700
	(1.961)	(1.934)	(0.812)	(0.786)
ROA	4.375***	4.687***	3.108*	3.529**
	(1.124)	(1.196)	(1.715)	(1.725)
LDR	-0.369***	-0.413***	-0.0557	-0.0560
	(0.0866)	(0.0859)	(0.0912)	(0.0839)
CAR	0.739***	0.538**	0.985**	0.929*
	(0.209)	(0.211)	(0.494)	(0.487)
NPL	0.389	0.460	0.354	0.316
	(0.581)	(0.571)	(0.403)	(0.378)
GDP		0.162		-0.0626
		(0.119)		(0.0743)
INF		-0.935***		-0.102
		(0.216)		(0.0891)
Constant	-206.4***	-201.3***	16.22	17.08
	(58.34)	(57.46)	(18.33)	(17.94)
Observations	495	495	450	450
R-squared	0.172	0.205		
Number of Groups	45	45	45	45
AR2 (p-value)			0.530	0.510
Hansen (p-value)			0.639	0.483
Number of Instrument			20	20

*Notes: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

The Moderating Mechanism of Institutional Ownership. To test whether institutional ownership alters the sensitivity of bank dividend payouts to global macroeconomic shocks (H2), we introduce the interaction term (WUI x INST) into the dynamic empirical model. The estimation results across Fixed Effects (FE) and two-step System GMM (S-GMM) specifications are reported in Table 3. In the baseline FE estimations (Columns 1 and 2), the interaction term is negatively signed. However, static panel estimators are known to suffer from severe Nickell

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bias and endogeneity un-adjustment in dynamic financial settings. Upon applying the robust two-step S-GMM estimator (Columns 3 and 4) which properly instruments for dynamic endogeneity and unobserved cross-sectional heterogeneity—the coefficient of the interaction term (WUI x INST) becomes positive and statistically significant (β3 = 181.6, p < 0.05$ in Column 3; β3 = 180.2, p < 0.10$ in Column 4). Concurrently, the direct constituent term WUI remains negative and statistically significant (β1 = -128.5, p < 0.10$). The positive interaction coefficient (β3 > 0) confirms that institutional ownership mitigates the negative impact of global economic uncertainty on bank dividend payouts. Active institutional oversight prevents excessive managerial retrenchment during uncertain periods, enabling financially resilient banks to sustain dividend stability. The model is statistically valid, as confirmed by non-significant test statistics for AR(2) (p = 0.262$) and the Hansen test (p = 0.610$).

Table 3. Moderation Regressions: Institutional Ownership as a Moderator

	(1)	(2)	(3)	(4)
VARIABLES	FE	FE	S-GMM	S-GMM
L.DPR			0.703***	0.693***
			(0.0654)	(0.0651)
WUI	10.17	29.50	-131.3**	-128.5*
	(23.91)	(24.44)	(59.13)	(65.87)
INST	26.00**	22.97**	-32.09	-30.42
	(11.52)	(11.33)	(25.25)	(25.80)
WUI*INST	-57.29	-82.40**	181.6**	180.2*
	(37.77)	(38.58)	(84.87)	(93.12)
SIZE	7.766**	7.776**	-0.654	-0.609
	(3.067)	(2.946)	(0.798)	(0.786)
ROA	4.482***	4.942***	3.032*	3.461**
	(1.618)	(1.647)	(1.648)	(1.719)
LDR	-0.390*	-0.451**	-0.0697	-0.0658
	(0.211)	(0.196)	(0.107)	(0.100)
CAR	0.817*	0.612	0.815**	0.751**
	(0.460)	(0.434)	(0.371)	(0.377)
NPL	0.120	0.0875	0.466	0.403
	(0.884)	(0.894)	(0.445)	(0.427)
GDP		0.181		-0.0756
		(0.109)		(0.0569)
INF		-1.107***		0.0131
		(0.342)		(0.113)
Constant	-193.9*	-181.9*	40.32	38.35
	(96.25)	(90.75)	(32.96)	(31.50)

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Observations	495	495	450	450
R-squared	0.183	0.228		
Number of groups	45	45	45	45
AR2 (p-value)			0.348	0.262
Hansen (p-value)			0.762	0.610
Number of Instrument			20	20

*Notes: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1.*

5. Conclusion

This study investigates the strategic interplay between global macroeconomic uncertainty, institutional governance, and bank dividend policy across six ASEAN economies over the 2014–2024 period. Utilizing a dynamic System GMM estimation framework, the empirical evidence demonstrates that elevated global economic uncertainty exerts a statistically significant negative effect on bank dividend payouts. This finding confirms the primacy of the precautionary motive over short-term signaling considerations, as bank executives systematically prioritize internal capital preservation to buffer against systemic macroeconomic volatility. Simultaneously, the significant lagged dividend payout ratio verifies strong dividend persistence, confirming that ASEAN banks adjust cash payouts incrementally relative to historical baselines. Crucially, while institutional ownership exerts no direct baseline impact on dividend levels reflecting strict macroprudential capital constraints it serves as a pivotal conditional governance mechanism. The positive interaction effect demonstrates that institutional investors mitigate the negative impact of global uncertainty on dividend distributions. Active institutional oversight counteracts excessive managerial retrenchment during external shocks, ensuring that financially sound banks maintain dividend stability without compromising required capital buffers. Ultimately, dividend policy in ASEAN banking amidst global uncertainty is best understood as a dynamic equilibrium that balances prudential capital preservation with active institutional governance.

Theoretical Implications. This study offers important theoretical contributions by synthesizing the precautionary motive, Agency Theory, and Signaling Theory into an integrated framework tailored to the banking sector. First, the empirical support for the precautionary motive refines Signaling Theory in environments characterized by macroeconomic volatility. While traditional signaling theory posits that managers preserve dividend levels to signal financial strength, our findings indicate that systemic global uncertainty reshapes this priority. Under severe external shocks, the precautionary imperative to build internal loss-absorbing capital buffers takes precedence over the capital market signaling benefits of maintaining unadjusted cash payouts. Second, this study advances Agency Theory by demonstrating that institutional governance in heavily regulated banking sectors operates through a conditional monitoring channel rather than a direct linear mechanism. Contrary to the standard agency model which treats institutional investors as passive demanders of high cash distributions our findings reveal that institutional monitoring functions as an active guardrail against excessive managerial conservatism. During periods of uncertainty, sophisticated institutional investors prevent unmonitored bank

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executives from executing unwarranted payout cuts, thereby optimizing the balance between prudential capital retention and shareholder income expectations. Finally, by incorporating these dynamics into a dynamic estimation framework, this study reconciles Lintner's dividend smoothing model with external macroeconomic shocks. Dividend policy in ASEAN banking is neither mechanically static nor blindly reactive; rather, it reflects a dynamic theoretical equilibrium where historical payout inertia is conditionally adjusted by systemic uncertainty and refined by institutional oversight.

Practical and Policy Implications. The empirical findings of this study yield critical practical and policy insights for bank executives, institutional investors, and bank supervisors across ASEAN economies. For Bank Executives and Board of Directors. Bank managers must abandon rigid, static target dividend payout ratios in favor of state-contingent, dynamic payout strategies. During periods of heightened global uncertainty (WUI), executives should proactively adjust earnings retention to reinforce capital adequacy buffers (CAR) before credit defaults or liquidity pressures materialize. Rather than viewing dividend reductions as a negative signal, management should transparently communicate precautionary capital retention as a value-maximizing strategy designed to maintain long-term balance sheet resilience. For Institutional Shareholders and Asset Managers. Institutional investors must calibrate their governance frameworks to distinguish between unjustified managerial cash hoarding and rational precautionary retention. Monitoring mechanisms should evaluate dividend adjustments within the broader context of a bank's capital position, profitability (ROA), and macroeconomic risk exposure. By adopting a long-term horizon, institutional shareholders can support temporary payout moderation during systemic shocks, ensuring that banks maintain the solvency necessary to generate sustainable future cash flows. For Banking Regulators and Macroprudential Authorities, central banks and regulatory bodies across ASEAN (e.g., OJK, MAS, BNM) should incorporate global macroeconomic uncertainty indicators, such as the World Uncertainty Index, into their macroprudential stress-testing models and supervisory guidance. Rather than imposing blanket, rigid dividend restrictions during crises, regulators should encourage flexible, risk-weighted capital conservation buffers. Transparent regulatory communication regarding macroprudential expectations can prevent market panics when banks cut payouts to strengthen financial resilience during severe external shocks.

Limitations and Directions for Future Research. While this study offers robust empirical insights into bank dividend policy under global uncertainty, several limitations highlight valuable avenues for future inquiry. First, the empirical setting is restricted to listed commercial banks across six ASEAN economies. Although ASEAN provides a compelling environment characterized by high institutional ownership and exposure to global trade shocks, the findings may not fully generalize to banking systems in developed markets or non-ASEAN emerging economies. Future research could expand the cross-country scope or conduct comparative analyses between market-based banking systems (e.g., the United States and the United Kingdom) and bank-based systems in emerging Asia. Second, global economic uncertainty is captured solely through the World Uncertainty Index (WUI). Although WUI provides a standardized, cross-country measure of macroeconomic shocks, uncertainty is inherently multi-

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dimensional. Future studies could incorporate alternative risk proxies, such as Economic Policy Uncertainty (EPU), the Geopolitical Risk (GPR) index, or climate-related transition risk metrics, to evaluate whether distinct uncertainty dimensions trigger heterogeneous managerial dividend responses. Third, institutional ownership is specified as an aggregated equity percentage. In emerging markets, institutional investors are non-homogeneous entities with divergent investment horizons and governance mandates. Future research could decompose institutional ownership into specific categories, such as domestic versus foreign institutional investors, state-owned/sovereign wealth funds versus private funds, or dedicated versus transient institutional holdings. Isolating these investor typologies would clarify which specific institutional cohorts exert the strongest monitoring influence during periods of macroeconomic stress. Fourth, this study focuses exclusively on cash dividend payouts as the primary distribution metric. Although cash dividends represent the predominant payout channel in ASEAN banking, future studies could investigate alternative capital distribution mechanisms, including share repurchases, special dividends, and the dynamic speed of dividend adjustment (SOA). Finally, while the two-step System GMM estimator effectively addresses dynamic endogeneity and unobserved cross-sectional heterogeneity, future empirical designs could strengthen causal identification by exploiting quasi-natural experiments, staggered difference-in-differences (DiD) frameworks, or exogenous macroeconomic shock events to further isolate the causal linkages between global uncertainty and bank payout behavior.

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