

**CORPORATE GOVERNANCE AND COST OF EQUITY CAPITAL IN BANKING SECTOR:
THE CAPM ANALYSIS ON UZBEKISTAN**

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ABSTRACT

Corporate governance in banking sector has recently become a highly debated research topic since banking sector is systematically important for an economy. In addition, corporate governance in banking sector differs from that of the non-financial sectors due to banking sector is highly leveraged along with higher information asymmetries and opaque sector in the economy (Levine R., 2004). In the last two decades, there have been several changes in bank ownership and capital structures because of the consequences of the worldwide financial crises. Since 2000, Uzbekistan has also brought higher attention for the corporate governance issues in banking sector by accepting necessary financial reforms and corporate governance policies; however, most banks have not yet achieved effective corporate governance practices. Therefore, more specific studies must be done in the area of exploring the effective corporate governance mechanisms as well as possible channels by which corporate governance positively impacts on the development of the economy. Recently, most studies have recognized many channels by which corporate governance mechanism impacts on the development of the countries, such as lower cost of capital, better access to financing, better performance, reducing the possibility of financial crises (Claessens S., 2006). For this purpose, we intend to analyze the nexus between corporate governance mechanisms and cost of equity capital in banking sector of Uzbekistan. In this paper, the CAPM methodology is used to assess the impacts of corporate governance mechanisms, mainly ownership and control together with investor protection mechanisms on cost of equity capital for both the listed banks at Tashkent Republican Stock Exchange and unlisted banks in banking sector of Uzbekistan over the period 2003-2018.

This study finds a positive association between government ownership and the cost of equity capital in banking sector whereas investor protection mechanism has a significant negative impact on the cost of equity capital. Additionally, this study also confirms that the passive roles of external and internal corporate governance on cost of equity capital. Another important finding is that the banks with higher capital regulation and higher financial leverage ratios have higher cost of equity capital. However, there is no size effect on cost of equity capital in banking sector. Moreover, listed banks in TRSE is not enough power to decrease cost of equity capital in banking sector while new monetary policy has not been supporting for lowering cost of equity capital since 2017. To sum up, the corporate governance mechanisms are still ambiguous in banking sector of Uzbekistan. The investor protection is recognized as an effective corporate governance mechanism to encourage lower cost of equity capital. In the other hands, government mechanism on corporate governance is not confirmed as an effective instrument in banking sector while external and internal corporate governance mechanism do not effectively work to manage the cost of equity capital. In addition, non-state banks are more likely to have stronger corporate governance mechanism than the banks with state ownership in Uzbekistan. Furthermore, the expansion of stock market is not at certain level where can reduce the cost of equity capital in banking sector of Uzbekistan.

Keywords: CAPM, cost of equity capital, corporate governance, banking sector, stock market, Uzbekistan