Political Instability and Banks Performance in the Light of Arab Spring: Evidence From GCC Region

Bassam Omar Ali Jaara[1]

[1] Business School, Al Ahliyya Amman University, Amman, Jordan

Correspondence: Bassam Omar Ali Jaara, Business School, Al Ahliyya Amman University, Amman, Jordan. Tel: 962-5-350-0211.

Abstract

The purpose of this empirical study is to investigate the consequences of the Arab spring on the banks financial performance at the level of Islamic and conventional banks in the Gulf Cooperative Council (GCC). The sample of this empirical research comprises 20 Islamic banks and 37 conventional banks during the period 2000-2018. The quantitative research methodology was employed by using Bivariate analysis and a panel regression on longitudinal data. The empirical findings show that the Arab spring had a direct negative influence on the bank's performance in the GCC, whether Islamic or non-Islamic banks. The direct negative influence is most prominent on the banking system in the GCC region in the inability of these banks to enhance and maintain their financial performance and profitability level during the Arab spring. The results also revealed influenced negatively on the country-specific variables. These findings considered to be a caution to policymakers when establishing a strategy for microeconomic and macroeconomic financial performance. It is broadly known that the Arab spring has an important influence on the economies of the GCC countries. Notably, the influence of the Arab spring on the banking industry performance and profitability has not so far been exposed to detailed investigation. Therefore, this research pursues to shed light on this gap by employing robust quantitative analysis. It differentiates between pre and post the Arab spring, it also classified banks into Islamic and non-Islamic and it employs micro and macroeconomic variables to investigate the influence of Arab spring effectively. It`s also the first to examine the micro and macroeconomic variables across both Islamic and non-Islamic banks pre and post the Arab spring. This research employed both Bivariate analysis and a panel regression on longitudinal data on both Islamic and conventional banks.

Keywords: banking industry, political instability, Arab spring, GCC region, microeconomics, macroeconomic, panel regression

1. Background

There is convincing indication that effective and efficient banking financial system is a vital indicator of economic growth. Certainly, several previous academic studies investigated the impact of political factors on the economy and banking performance. Rodrik (1991) argues that political instability has a significant negative influence on the country macroeconomic factors. For instance, inflation, unemployment, and investment opportunities. Brini and Jemmali (2016) show that the instability of a country political situation increases the banks risk and affects the banks financial performance.

Yahya, Mosab and Akhtar (2014) claim that political factors have significant impact on the bank's performance and the instability of the country macroeconomic situation. Therefore, Khan (2014) reported that the popular uprising that enveloped the Middle East region in December 2010 dramatically spread across Arab countries with major protests and unrest that took place against oppressive regimes in Tunisia, Libya, Egypt and Yemen into to what became known as the Arab Spring.

In the same context, International Monetary Fund (2020) confirms that the recent political and economic fluctuations in the Middle East region influenced negatively economic activities. The economic impact of the Arab Spring in the Levant region, the conflict between Saudi Arabi and Yemen. Political and economic instability in Bahrain and the drop-down of oil prices affected the economic indices in the Middle East countries particularly the Gulf Cooperative Council (GCC).

Notably, the Gulf Cooperation Council (GCC) is a political and economic alliance that consists of six countries: Bahrain, Kuwait, KSA, Qatar, UAE and Oman. The GCC has a historical banking sector view with the first conventional bank opened in Bahrain in 1918. The first Islamic saving bank established in 1963 in Egypt, and since then, Islamic banking finance has seen significant development in the GCC region as well as in the Middle East and Asia. However, the first Islamic bank opened in the GCC region was Dubai Islamic Bank in 1973, in 1975 the Islamic Development Bank was established in Saudi Arabia, this is followed by Kuwait Finance House and Bahrain Islamic Bank in 1977 and 1979 respectively (Iqbal and Molyneux, 2005).

In the same regard, a large number of studies have investigated the banking industry in GCC countries, including the comparison between both types of banks in terms of financial performance by Tabash (2019) and Ledhem and Mekidiche (2020), the efficiency measured of banking industry whether Islamic or non-Islamic banks by Iqbal and Molyneux (2005), Bader, Mohammad and Ariff (2008), and Majid and Battisti, (2008) In addition, Ali (2010) and Ariss (2010) investigated both Islamic and conventional banks financial stability.

Importantly, the limited number of empirical investigations on the influence of political risks such as, Arab Spring on the banks performance and profitability has raised the importance of filling this gap. This research paper investigates the consequences of Arab spring on the bank's financial performance in the GCC in the level of Islamic and conventional banks during the period 2000-2018, by using Bivariate analysis and a panel regression on longitudinal data.

2. Literature Review

The previous empirical investigation has concentrated on investigating the relationship between economic growth and political instability, which is a research area of deep interest to policymakers and economists. Given the aim of this research, the researcher discusses a brief review of the related literature to the aim of this research.

Karim, et al. (2013) show that the banking theory comprises three main approaches with respect to the conventional banking sector. First, the bank profit is generated from the variance between the profit of the depositor's money on the liability side and the interest on the loans offered to borrowers on the asset side. The second approach represents asset transformation in which banks seek to reduce the average risk per investment by diversifying their assets. The third approach of the banking theory is the integration between the assets side and liabilities

The conventional banks, according to Albertazzi and Gambactora (2010) is a financial institution works as intermediary that deals with the investor's money and as financial broker between the borrower and the lender. Thus, the conventional bank generates profit through the variance between the interest paid to the depositor and the interest paid by the borrower. In contrast, Islamic banks implement PLS investment in which both the bank and the investor agree to participate in investment and share profit or loss based on the agreed ratio between both parties.

Consequently, Ali (2010) suggests that Islamic banks operate their finance of investment based on equitable rules of wealth distribution, integrity, justice, trust and fairness. Moreover, Islamic banks promote social justice for which financial investment that is based on injustice and exploitation is forbidden. However, both conventional and Islamic banking organisations aim in their financial operation to increase net profit, as well as shareholder's wealth. The distinction between both types of banks is found in the applied instruments for funding their financial transactions. This significant difference between both types sheds light on classifying the sample of the study into Islamic and conventional banks

Alesina and Drazen (1991) reported that political instability affects the country ability to reduce the inflation stability program. In a similar paper, Alesina and Perotti (1996) examined the relationship between GDP growth and political factors, by examining 113 countries during 1950-1982. The findings suggest that the GDP growth rate decreases in any country that suffers from political instability. In the same regard, Castro and Veiga (2004) find that there is a significant relationship between political instability and inflation rate. Aisen and Veiga (2008) showed similar results and reported that the volatility in the inflation rate is highly related to political instability, in the same context, Aisen and Veiga (2013) show that the political risk influences the growth level of the country economy and affect negatively the banks performance by decreased capital accumulation. Beser and Kilic (2017) reported that the Arab Spring succeeded to effectively bring structural changes with regards to economic, social and political factors to many countries in the region.

In a more recent paper, Alyousfi (2020) explored the influence of Arab spring in Yemen on the banking sector in the GCC region, using (GMM) panel regression on 45 conventional banks and 25 Islamic banks throughout 2000-2018. The empirical findings revealed that Yemen was influenced negatively by the average of the acquired deposits and granted loans. In the same context, alyousfi et al (2018) studied the influence of the Arab spring on the fluctuations

in the gas and oil price on the GCC banks during the period 2000-2017. The finding of this research suggested that there is significant correlation between oil and gas prices and banks performance.

Echevarría & Enríquez, (2019) examined the impact of the Arab Spring on the Egyptian real Gross Domestic Product per capita. The findings showed an accumulated loss in the growth rate of real GDP per capita of 12.04% during the Arab spring revolution in Egypt. BBC (2016) confirms that the Arab Spring major protest has cost the region a growth loss of 614 billion dollars since 2011 according to the UN. The estimate is the first by its kind of major economic body. It is according to the UN's Economic and Social Commission for Western Asia (ESCWA) equivariant to 6% of the regional total GDP for the period 2011-2015. The uprisings of the Arab Spring that started in Tunisia that made leaders topple in four major countries and led to war in Syria, Libya and Yemen created economic and social stagnation since 2011.

Several previous academic studies have investigated the impact of the political crisis on the banking industry by using micro and macroeconomic data. Yahya, Mosab and Tabash (2014) argued that political instability influences the financial performance and profitability of the banking system. Ali etal (2020) confirms that political instability will lead to high possibility of systemic banking recession, political instability in a country can affect banking system in neighbouring countries. Şanlısoy, Aydın and Yalçınkaya (2017) reported that a stable political system will lead to steady growth in the country economy. Tang and Abosedra, (2014) reported that countries with the stable political system will result in increasing private investors, which will reflect positively on the economic growth rate. Castro and Veiga (2004) reported that political instability will increase the inflation rate and will affect the banking system. Alyousfi (2020) showed similar results and argued that political instability affects negatively the banking system whether Islamic or conventional banks.

The recent political and economic fluctuations in the Middle East region succeeded to effectively bring structural changes with regards to economic, social and political factors and influenced negatively economic activities such as, the drop-down of oil prices. Consequently, since the banking system is a financial intermediation institution and works as a financial broker between the depositor and borrower, there is a high probability that the recent political instability in the GCC region has affected the financial performance and profitability of commercial banks whether Islamic or non-Islamic. Therefore, the existing empirical studies confirm the importance of political instability such as the Arab spring on the banking system. In the same regard,

Several studies have examined the relationship between political instability and banks performance, whereas, a limited number of researches have taken place using longitudinal data on both Islamic and conventional banks Therefore, this research pursues to shed light on this gap by employing robust quantitative analysis. it differentiates between pre and post the Arab spring, it also classified banks into Islamic and non-Islamic and it employs micro and macroeconomic variables to investigate the influence of Arab spring effectively. The empirical results will add contribution from a fresh perspective and will be able to be applied to both Islamic and non-Islamic banks. Importantly, effective financial performance during the time of political instability will maintain profitability levels.

3. Research Methodology

This research investigates the consequences of the Arab spring on the banking industry in the GCC by applying a population sample of both types of banks. The sample involves all GCC countries over the period 2000-2018. However, this research conducts its methodology by following the methodology of alyousfi (2018) Muhammad (2018) and alyousfi etal (2020). All banks operating in the GCC countries, which have available data over the period 2000-2018 were involved in this study to explore the consequences of the Arab spring on the banking industry.

This study applied F-testing, (R^2) and T-testing to test the rationality of the panel regression outcomes. However, the F-test was implemented to investigate the significance level to the overall model and R^2 was applied to determine the goodness of fit of the model. Furthermore, T-test was used to investigate the significance level for each variable, respectively (Wooldridge, 2012). This study also applied return on assets ($ROA_{i,j,t}$) and return on equity ($ROE_{i,j,t}$) as the dependent factor which indicates the performance and profitability for the bank I in country J at time t, in order to proxy bank performance and profitability levels (Pratt, 2010). However, the sample in this study included both types of banks throughout 2000-2018 (20) Islamic banks and (37) conventional banks.

3.1 Research Hypothesis

Drawing on a panel regression analysis in this empirical study, three different hypotheses are stipulated that could examine the consequences of the Arab spring on the banks financial performance in the GCC region as follow;

H0: the Arab spring had insignificant impact on the performance and profitability of banking system in the GCC region

H1: the Arab spring showed a significant impact on the performance and profitability of banking system in the GCC region

Based on the proposed aforementioned hypotheses, the first hypothesis is directly related to the bank's performance and Arab spring. The hypothesis suggests that the financial performance of the commercial banks in the GCC region are not affected during the period of Arab spring, given that there are two types of banks operating in the GCC. This research classified the data analysis into Islamic and conventional banks, in order to test the hypothesis effectively. The return on assets ratio is applied here to examine the banks performance and profitability, return on equity is applied as a robustness test of the bank's performance and profitability. In addition, the Arab spring is applied here as a dummy variable to test the influence of Arab spring on the banking industry in the GCC region

H0: Arab spring had an insignificant consequence on the internal bank's strategies for the bank's performance and profitability

H1: Arab spring had a significant consequence on the internal bank's strategies for the bank's performance and profitability

Based on the proposed hypothesis of the internal variable, the second hypothesis is directly associated with the internal bank environment for the bank's performance and profitability. The suggested assumption indicates that the internal environment strongly contributes to determining the performance of both Islamic and non-Islamic banks. In line with the hypothesis, four different variables were included in this study to measure and assess whether the Arab spring influenced the internal bank strategies of both Islamic and conventional banks.

- The natural logarithm of the total assets of banks is performed as a proxy to investigate the influence of the size of bank on the performance levels.

- Market value over the book value is performed as a proxy to examine the potential growth in the future for both Islamic and conventional banks.

- Cash over total assets is performed as a proxy to measure the percentage of the available cash for both Islamic and conventional banks.

- Total equity over total assets is performed to as a proxy to measure the banks capital level.

H0: the Arab spring had an insignificant impact on the country economic variables and banking system in the GCC.

H1: the Arab spring had a significant impact on the country economic variables and banking system in the GCC.

Drawing on the proposed hypotheses, the external economic variables that were applied; gross domestic product (GDP), GDP growth and inflation. However, the assumption here is that the macro-economic variable can promote the performance and profitability of the banking industry in the GCC. To this end, the proposed model will be based on the internal and exterior variables represented as the consequences of Arab Spring on the banking industry in the GCC region.

Given that the factor interval $ROA_{i,j,t}$ is represented as the dependent variable to examine performance and profitability for a bank I in country j at time t, this study applied random, pooled and fixed effect methods to analyse the panel data. In addition, $ROE_{i,j,t}$ is employed as another dependent variable in the robustness test, in order to test the financial performance and profitability for a bank I in country j at time t. According to Jaara et al (2017) this tool is accurate when the study sample includes time series and cross-sectional. "This method is more suitable when the sample of study includes cross-sectional units with time series for each unit".

3.2 Model Specification and Analysis Method

This paper applied several micro and macroeconomic variables to explore the consequences of Arab spring on the banking industry in the GCC. Given the aim of this paper the variables that have been examined in this paper were extracted from earlier empirical studies as follow:

3.2.1 Dependent Variables

This research paper applied return on assets ROA as the first dependent variable, which is measured by net profit over total assets. This ratio measures the financial performance and profitability. Pratt (2010) this ratio allows evaluating how the managers are efficient to use their assets to generate profit. However, a high rate of this ratio indicates that the bank is able to create a high profit from a low amount of assets in proportion.

The second dependent variable is the return on equity (ROE), which is a proxy for the bank performance and profitability, which is measured by net profit divided by total equity. Ross, Westerfield & Jordan (2008) this ratio

allows determining how the investment of the shareholders is employed to generate profit.

3.2.2 Independent Variables

The first independent variable in this research is the Arab spring, which is measured by the Arab spring is a dummy variable equal to 1 if the year between 2011-2018 and 0 otherwise, to determine whether a particular year influenced the financial performance and profitability of banks. Bank size is applied to explore the relationship between Arab spring and bank performance pre and post the Arab spring. Market to book value ratio, equity to total assets is used as a proxy for capitalization, the available cash is measured by cash to total assets. In the same regard, country specific factors are the inflation rate, Gross Demotic Products and growth in the GDP rate. However, the explanation of the applied variables is presented in the following table.

Table 1. Model specification

Variable	Definition
Dependent variable	
Return on Assets	Net profit divided by total assets
Return on Equity	Net profit divided by total equity
Independent variables	
$\beta 0$	Intercept coefficient
$\beta 1+\beta 2+\beta 4+\beta 5+\beta 6+\beta 7+\beta 8$	Coefficient of the independent variables
$\beta 3$	Coefficient of the control variables
Arab Spring	
Arab Spring	Arab spring as a dummy variable is equal to 1 if the year between 2011-2018 and 0 otherwise
Bank-specific characteristics	
Bank size	the natural logarithm of total assets
Market to book value	the market price over the book value
Capital ratio	Equity to total assets
Cash to total assets	cash over total assets
Country variables	
GDP	is performed as an index for the demand of banks services
Growth GDP	how fast the economy of a particular country is growing to show the increase in the adjusted inflation market value of goods and services.
Inflation	is a quantitative assessment of the rate of price level of selected basket of goods and services in the country in a specific time.
ε	error term that is not serially correlated and uncorrelated with all variables

$$ROA_{i,j,t} = B_0 + B_1 AS + B_2 MB_{i,j,t} + B_3 SIZE_{j,t} + B_4 Capital_{i,j,t} + B_5 CASH_{i,j,t} + B_6 GDP\ Growth_{i,j,t} + B_7 Inflation_{i,j,t} + B_8 GDP_{i,j,t} + \varepsilon$$

To explore the consequences of Arab Spring on the banking industry in the GCC region, this research follows the methodology of several authors such as, alyousfi (2018) Muhammad (2018) and alyousfi etal (2020) and employs both Bivariate analysis and a panel regression on longitudinal data. The panel regression employed here is fixed effect, random effect and pooled effect. The Hausman test is employed to choose between random and fixed effect.

4. Empirical Findings

4.1 Correlation Matrix

Table 2. Correlation matrix

All Sample

		ROA	ROE	Arab Spring	Market to book Ratio	Bank Size	Capital ratio	Cash to Assets	GDP growth	Inflation	GDP
ROA	Pearson Correlation	1									
	Sig. (2-tailed)										
ROE	Pearson Correlation	.410**	1								
	Sig. (2-tailed)	.000									
Arab Spring	Pearson Correlation	-.283**	-.049	1							
	Sig. (2-tailed)	.000	.112								
Market to Book Ratio	Pearson Correlation	.376**	.383**	-.325**	1						
	Sig. (2-tailed)	.000	.000	.000							
Bank Size	Pearson Correlation	-.087**	.039	.427**	-.012	1					
	Sig. (2-tailed)	.006	.205	.000	.718						
Capital ratio	Pearson Correlation	.396**	.015	-.150**	-.011	-.474**	1				
	Sig. (2-tailed)	.000	.617	.000	.728	.000					
Cash to Assets	Pearson Correlation	.876**	.443**	-.164**	.281**	-.100**	.325**	1			
	Sig. (2-tailed)	0.000	.000	.000	.000	.001	.000				
GDP growth annual	Pearson Correlation	.294**	.083**	-.209**	.187**	-.157**	.184**	.232**	1		
	Sig. (2-tailed)	.000	.009	.000	.000	.000	.000	.000			
Inflation consumer prices annual	Pearson Correlation	.067*	-.065*	-.107**	.067*	.064*	.088**	.043	.225**	1	
	Sig. (2-tailed)	.039	.041	.001	.042	.043	.006	.180	.000		
GDP	Pearson Correlation	.023	.012	.336**	.103**	.535**	-.065*	.034	-.127**	.066*	1
	Sig. (2-tailed)	.482	.708	.000	.002	.000	.042	.284	.000	.038	

The findings show a negative correlation between the Arab spring and the banks specific factors. This indicates that when commercial banks whether Islamic or non-Islamic banks exposed to political instability may face issues in managing efficiently their assets to generate profit due to the financial risk of instruments adopted. For instance, a decrease in the capital ratio and cash to total assets will influence negatively the bank's performance.

In the same regard, the market to book value was found to have a positive effect on the return on assets (ROA), which in turn increases the opportunity of growth for banks in the future. Similarly, the capital ratio had a positive influence on the return on assets (ROA), and ultimately enhanced the banks performance. In addition, Bank size which is referred to as a proxy for the banks' total assets showed a negative correlation with most of the factors in the statistical model, particularly with the measurement of return on assets, and the measures of the buffer capital as discussed earlier. This shows that banks with a large size of assets have less restriction with increasing the quality capital base and optional reserves which lead to an increase in the opportunity of liquidity risk cause a panic-driven run.

In addition, cash to total assets shows a positive correlation with respect to the bank's performance. The growth of GDP was found to have an insignificant positive correlation with the banks ROA and a significant positive correlation with banks ROE, where the constant growth in GDP leads to an increase in the profitability levels.

Moreover, it was also found that the relationship between inflation rate and GDP indicated a significant positive correlation with the banks performance. Empirical findings show that the increase in the inflation rate and GDP leads to an increase in the loan levels that may positively affect the bank's profitability as commercial banks, including Islamic or non-Islamic work as a financial broker between the depositor and borrower. However, the aforementioned banks differ in the way their financial transaction is funded.

In the same regard, the findings showed a significant negative correlation between the Arab spring and the country variables. For instance, the findings suggest that Arab spring influenced negatively on the GDP growth rate and inflation rate, these results are identical with the findings of world banks. World Bank (2019) showed that the GDP growth rate in the kingdom of Saudi Arabi decreased from 9.997 in 2011 to 0.331 in 2019. In addition, the GDP growth rate in the United Arab Emirates decreased from 6.93 in 2011 to 1.67 in 2019. Moreover, the GDP growth rate in Qatar decreased from 4.7 in 2011 to 0.5 in 2019. Therefore, the findings suggest that the banking industry in the GCC states significantly weakened during the period of political instability, which is due to Weak banking policies to encounter political instability problems.

4.2 Bivariate Analysis

Table 3. The impact of Arab Spring on all samples

Arab Spring		Mean	T	Sig. (2-tailed)	Mean Difference
ROA	1 arab spring	.014	-9.365	0.000	-0.010
	0 otherwise	.024			
ROE	1	.099	-1.824	0.069	-0.031
	0	.130			
Market to Book value Ratio	1	1.320	-10.727	0.000	-1.003
	0	2.323			
Size	1	10.187	15.417	0.000	0.494
	0	9.692			
Capital ratio	1	.136	-4.947	0.000	-0.029
	0	.165			
Cash to Assets	1	.007	-5.384	0.000	-0.004
	0	.012			
GDP growth annual	1	3.517	-6.727	0.000	-2.076
	0	5.593			
Inflation consumer price annual	1	2.149	-3.378	0.001	-0.674
	0	2.823			
GDP	1	11.261	11.209	0.000	0.322
	0	10.939			

The above table compares the financial performance of both Islamic and conventional banks pre and post the Arab spring. The results indicate that the banking industry influenced strongly during the Arab spring revolution. For instance, the mean of return on assets (ROA) showed a mean difference of (-0.010) and return on equity revealed a mean difference of (-0.031). This indicates that the financial performance of both types of banks is affected negatively by the Arab spring.

In the same context, market to book value, cash to assets and capital ratio showed a negative mean difference of (-1.003) (-0.004) and (-0.029) respectively. However, in terms of country specific variables, the Arab spring affected negatively the GDP growth rate and inflation rate by (-2.076) and (-0.674) respectively. On the contrary, the Arab spring revealed an insignificant impact on the GDP.

Importantly, the banking industry is a financial intermediation institution based on the trust between the bank and the customer, when the country exposed to political risk such as Arab spring, this will influence the bank ability to acquire deposits and granting loans, and this will forces banks to require more guarantees from the borrowers, in order to grant loans. On the contrary, depositors will prefer to keep money in cash during the time of political instability and this will reduce the banks ability to acquire deposits. This indicates to that Islamic and non-Islamic banks in the GCC region needs to formulate a new effective strategy to overcome political instability such Arab spring.

World Bank (2019) claims that the unemployment rate increased dramatically in the GCC countries. For instance, the unemployment rate in Yemen increased from (20.084) in 2010 to (24.041) in 2019, the unemployment rate in KSA increased from (5.3) in 2009 to (6.05) in 2019, it also increased in Bahrain by (5.3) in 2019. This indicates that increasing the unemployment rate will influence negatively the banks ability to acquire deposits and granting loans, which will reflect negatively on the banks performance, whether Islamic or non-Islamic.

These results are identical to the findings of recent academic studies. Alyousfi (2020) examined the influence of the Arab Spring on Yemen, the researcher found that the political instability reduced the banks ability to offer loans and influenced negatively the deposits ratio. In the same line, Ghosh (2016) and Arayssi, Fakih, and Haimoun (2019); reported that the Arab Spring decreased the profitability levels and it has negative impact on economic growth and banks performance.

Table 4. The impact of Arab Spring on Islamic banks and conventional banks

Islamic Banks					*Conventional Banks*					
Arab Spring	Mean	T	Sig. (2-tailed)	Mean Difference	Arab Spring		Mean	T	Sig. (2-tailed)	Mean Difference
ROA 1	0.012	-5.974	0	-0.013	ROA	1	0.016	-7.141	0	-0.008
0	0.025					0	0.024			
ROE 1	0.088	-3.162	0.002	-0.037	ROE	1	0.105	-0.944	0.346	-0.027
0	0.125					0	0.132			
Market to Book Ratio 1	1.474	-5.073	0	-1.076	Market to Book Ratio	1	1.233	-10.72	0	-0.993
0	2.55					0	2.226			
Bank Size 1	10.032	9.075	0	0.505	Bank Size	1	10.273	13.434	0	0.511
0	9.527					0	9.762			
Capital Ratio 1	0.137	-4.792	0	-0.062	Capital ratio	1	0.136	-2.563	0.011	-0.015
0	0.199					0	0.151			
Cash to Assets 1	0.006	-3.529	0	-0.006	Cash to Assets	1	0.008	-3.932	0	-0.004
0	0.012					0	0.012			

Interestingly, Table (4) indicates that conventional banks are less influenced by the Arab spring than their counterparts. The conventional banks return on assets (ROA) showed a mean difference of (-0.008%) as compared with (0.013%) for Islamic banks pre and post the Arab Spring, the return on equity in the Islamic banks showed a mean difference of (-0037) and (-0.027) for the conventional banks. This is shows that both types of banks are affected by the Arab spring, whereas conventional banks showed more effective financial performance than Islamic banks in terms of ROA and ROE.

Importantly, this is due to differences in principles that take part in financial operations between both types of banks. As mentioned earlier, the philosophy of the Islamic banks undertaken is followed with profit and loss sharing transactions (PLS) with regards to sharing the risk with the depositors and borrowers, in order to contribute to the community. In addition, Islamic banks suffer from a limited number of short-term funding tools, which may affect their ability to seek short-term finance.

Given that conventional banks showed a higher returns on assets than Islamic banks during the Arab spring, this indicates that managing assets in the conventional banking system is more effective than Islamic banking systems during the time of political instability. Commercial banks, including Islamic or conventional banks offer loans based on a long-term basis to the borrower through short-term deposits that can be withdrawn at any point of time. This as a result may lead to assets liability mismatch and in turn lead to liquidity risk problems and so expose bankruptcy problems to the banks.

Similarly, Table 4 shows that conventional banking system have better market book value ratio this indicates that conventional banks have a greater potential of growth in the future than Islamic banks, which ultimately lead to higher financial performance for conventional banks compared to their counterparts. In the same regard, the average size of Islamic banks is smaller than the size of non-Islamic commercial banks. According to the results, the mean of Islamic banks total assets (0.505) compared with (0.511) for the conventional banks due to the new financial foundation of the Islamic banking system started in the 1970s with no opportunity to expand as their counterparts.

The findings show that conventional banks are more effective in-terms of capital ratio and cash to assets. Therefore, conventional banks are more stable than Islamic banks, relevant theoretical models suggest that commercial banks are set to have more equity capital investment to reduce risk in several types such as moral hazard problems. This as a result generates several learning opportunities for Islamic banks to improve from the financial system of the conventional banking system.

There are several researchers Gait and Worthington (2008); Sole (2007) and Okte (2010) argued that the key principle of profit and loss sharing transaction prevent Islamic banks more than conventional banks from being exposed to financial risk, on the one hand. On the other hand, conventional banking systems count on interest rates and charges to increase the bank's returns and maximize the shareholder's wealth. Furthermore, the following sections will highlight panel regression and factors by using two dependent variables, in order to provide an accurate view of the consequences of the Arab Spring on the financial performance of the conventional banking system and Islamic banking system.

4.3 Regression Analysis

The panel regression in this section was applied to explore the impact of Arab spring and the financial performance of Islamic and conventional banks for the period 2000-2018. Two different dependent variables were applied to explore the consequences of the Arab spring and the Hausman test was also used, in order to explore the appropriate model. Therefore, if the Husman test was insignificant then the Random-effect model is preferred.

4.3.1 All Sample Regression Analysis

Table 5. All sample fixed effect regression model

Model1: Return on assets (ROA)					Model2: Return on Equity (ROE)				
	Coefficient	Std. Error	t-ratio	p-value		Coefficient	Std. Error	t-ratio	p-value
Const	−0.0418567	0.0178628	−2.343	0.0193	Const	0.128807	0.124637	1.033	0.3017
Arab Spring	−0.00585282	0.00073999	−7.909	<0.0001	Arab Spring	−0.0230170	0.00522519	−4.405	<0.0001
Market to Book Ratio	0.00077454	0.00020161	3.842	0.0001	Market to Book Ratio	0.00761557	0.0014097	5.402	<0.0001
Bank Size	0.00530553	0.0018051	2.939	0.0034	Bank Size	0.036057	0.0125977	2.862	0.0043
Capital ratio	0.030758	0.00599366	5.132	<0.0001	Capital ratio	−0.327735	0.0321666	−10.19	<0.0001
Cash to assets	0.991466	0.0214986	46.12	<0.0001	Cash to assets	5.01024	0.147831	33.89	<0.0001
GDP growth annual	0.00022205	5.21E-05	4.264	<0.0001	GDP growth annual	0.00154658	0.000370535	4.174	<0.0001

Inflation consumer prices	−0.000136340	8.17E-05	−1.669	0.0955	Inflation consumer prices	−0.000965783	0.00057117	−1.691	0.0912
GDP	−0.000451293	0.00260101	−0.1735	0.8623	GDP	−0.0334169	0.0181042	−1.846	0.0653
Mean dependent var	0.019652		S.D. dependent var	0.016191	Mean dependent var	0.128844		S.D. dependent var	0.092561
Sum squared resid	0.035607		S.E. of regression	0.006507	Sum squared resid	1.845777		S.E. of regression	0.046627
LSDV R-squared	0.849917		Within R-squared	0.806609	LSDV R-squared	0.764033		Within R-squared	0.660241
LSDV F(64, 841)	74.41493		P-value(F)	2.40E-301	LSDV F(64, 849)	42.95251		P-value(F)	1.60E-222
Log-likelihood	3309.792		Akaike criterion	−6489.583	Log-likelihood	1538.743		Akaike criterion	−2947.487
Schwarz criterion	−6176.996		Hannan-Quinn	−6370.211	Schwarz criterion	−2634.328		Hannan-Quinn	−2827.946
Rho	0.348365		Durbin-Watson	1.144971	Rho	0.340067		Durbin-Watson	1.227138

The results as shown above represent the findings of the regression analysis of both Islamic and conventional banks. The return on assets represents the dependent factor in the first model, it was assessed by the net profit over total assets, whereas the return on equity represents the dependent factor in the second model. The regression model includes 20 Islamic banks and 37 conventional banks with unbalanced panel regression. According to Green (2008) the Hausman test can be used to determine the effect of random, pooled and fixed regression. The null hypothesis claims that the proposed regression model is fixed effect vs random effect vs pooled effect to examine the correlation between the regressors and the unique errors. If the null hypothesis is accepted, then the random effect is consistent, and the random model is preferred. However, if the results of the Hausman test show insignificant findings, then the null hypothesis is accepted, and the random effect is preferred. Therefore, the fixed effect model is applied in this regression.

The t-test and f-test results show that the regression models are significant at 5% whereas the R2 is (84%) for the first model and the R2 is (76%) for the second model. This indicates that the research explains (84%) of the factors that affect the performance of Islamic and conventional banks. In similar terms, 84% and 76% of the changes in the financial performance of banking system in the GCC region determined because of fluctuations in the explanatory factors.

The findings of the regression model reveal that Arab spring had a significant negative influence on the banking system in the GCC region in both models. This indicates that political instability can affect the financial performance of commercial banks whether Islamic or non-Islamic banks, in fact banking system is a financial intermediation institution, which is based on the trust between the bank and the depositors and any instability in the country economy will influence on the banks ability to acquire deposits and granting loans. In the same regard, during the time of political instability depositors will fear to keep their deposits in the banks.

On the contrary, banks will require additional guarantees for granting loans, which will lead to reducing banks interest income on loans. In the same context, market to book ratio and bank size has a significant positive impact on the banks performance in both regression models, this indicates that increasing the assets size and the market price will lead to the potential for growth in the future. On the contrary

Interestingly, growth in GDP revealed significant positive influence on the financial performance of banking system

in the GCC region, this indicates to that country with a strong economy will reflect positively on the banks performance and their ability to granting loans, which will reflect positively on the banks interest and non-interest income. Remarkably, the inflation rate showed a negative significant impact on the financial performance, which is shows that increasing the inflation rate will force the central banks to increase the interest rate, in order to prevent customers from borrowing.

Importantly, these findings are identical with the results of earlier studies; Alesina and Drazen (1991); Veiga (2004); Aisen and Veiga (2008) and Alyousfi (2020) reported that political instability affects the country ability to reduce inflation, also the political instability influences the economic growth and affects negatively the banks performance by decreased the capital accumulation.

4.3.2 Islamic Banks

The following regression shows the outcomes of the explanatory factors which have an influence on the performance of the Islamic banks through using longitudinal data on Panel regression.

Table 6. Islamic banks regression model

Model3: Return on Assets (ROA)				Model 4: Return on Equity				
	Coefficient	Std. Error	t-ratio	p-value		Coefficient	Std. Error	t-ratio	p-value
Const	−0.0976877	0.0117994	−8.279	<0.0001	Const	−0.633698	0.102562	−6.179	<0.0001
Arb Spring	−0.00614729	0.00101976	−6.028	<0.0001	Arab Spring	−0.0411629	0.00886157	−4.645	<0.0001
Market to Book Ratio	0.00113857	0.00027063	4.207	<0.0001	Market to Book Ratio	0.0044978	0.00236087	1.905	0.0577
Bank Size	0.012467	0.00118931	10.48	<0.0001	Bank Size	0.0716434	0.0100775	7.109	<0.0001
Capital ratio	0.0870794	0.00917941	9.486	<0.0001	Capital ratio	−0.253554	0.0563913	−4.496	<0.0001
Cash to Assets	0.926573	0.0331606	27.94	<0.0001	Cash to Assets	5.32399	0.280059	19.01	<0.0001
GDP growth annual	0.000363725	9.61E-05	3.784	0.0002	GDP growth annual	0.00221611	0.00083407	2.657	0.0083
GDP	−0.00256713	0.00114055	−2.251	0.0252	GDP	0.00344402	0.00978999	0.3518	0.7252
Inflation consumer prices	−0.000266525	0.00014943	−1.784	0.0755	Inflation consumer prices	−0.00386191	0.00130782	−2.953	0.0034
Mean dependent var	0.01771		S.D. dependent var	0.019591	Mean dependent var	0.107302		S.D. dependent var	0.113456
Sum squared resid	0.015328		S.E. of regression	0.007295	Sum squared resid	1.213581		S.E. of regression	0.064468
R-squared	0.865076		Adjusted R-squared	0.861328	R-squared	0.685738		Adjusted R-squared	0.677128
F(8, 288)	230.8173		P-value(F)	1.80E-120	F(8, 292)	79.64521		P-value(F)	7.07E-69
Log-likelihood	1044.541		Akaike criterion	−2071.082	Log-likelihood	402.6865		Akaike criterion	−787.3730
Schwarz criterion	−2037.838		Hannan-Quinn	−2057.773	Schwarz criterion	−754.0090		Hannan-Quinn	−774.0222

The results as shown above represent the findings of the regression analysis of Islamic banks. The return on assets represents the first dependent factor was assessed by the net profit over total assets, whereas the return on equity represents the second dependent factor was assessed by the net profit over total equity. The regression model includes 20 Islamic banks with unbalanced panel regression.

The t-test and f-test results show that the regression models are significant at 5% whereas the R2 is (86%) for the first model and the R2 is (68%) for the second model. This indicates that the research explains (86%) of the factors that affect the performance of Islamic banks. In similar terms, 86% of the changes in the financial performance of Islamic banks determined because of fluctuations in the explanatory factors.

Interestingly, given that Arab spring showed a significant negative impact on the Islamic bank's performance in both models. This explains that Islamic banks suffered from the lack of financial policies to encounter political instability such as Arab spring. Importantly, since Islamic banks in a period of growth, there is a limited number of available financial to for Islamic banks to fund their transactions, for instance, Islamic banking system suffers from the unavailability of several financial tools such as, bond and treasury bills, this affects their ability to fund their transactions on a short term basis.

According to the findings, the market value to book value had a positive significant impact on the Islamic banks performance in both models, where an increase in the market price reflected in the book value indicates the potential for growth in the future. This indicates that Islamic banks have the ability to offer adequate investment to both investors and depositors which in turn helps increase the Islamic bank ability to raise their profit over short and long terms. Islamic banks operationalise their financial transactions through profit and loss sharing transactions (PLS) which enable both the Islamic bank and the investor to contribute to the investment transaction. However, in case of financial loss in the investment, both the Islamic banks and the other partner in the contract will share the financial loss based on shareholding in the capital.

In the same context, the results above show that the size of assets has a positive significant influence on the return on assets (ROA) random-effect model. This explains that banks of large size of assets have better financial performance than banks with small size of assets. Therefore, these findings are consistent with the theory of the Islamic banking system where Islamic banks adhere to Sharia laws to invest in assets instead of trading in money.

The findings of the regression analysis show a positive significant impact of the capital ratio on the Islamic banks financial performance in the first model and negative impact in the second model, while Islamic sharia principles prohibit charging interest, it does not prohibit gain on capital. Therefore, Islamic financial services board ensure capital equity for investment proposed at Islamic banks which ultimately reduce financial risk at any type to prevent loss and moral hazard. These findings are identical with previous academic study conducted by Jaara *et al* (2021) reported that '*there are substantial variances between both Islamic and conventional banks in terms of the determinants of banks' profitability, whereas Islamic and conventional banks should invest more in equity'*.

Moreover, the cash ratio was found to have a significant positive impact on the Islamic banks financial performance in both models, this indicates that an increase in the percentage of cash to total assets will lead to a decrease in the financial risk and enhance the Islamic banks financial performance. In addition, trends and expectations in the cash volume can serve as a source of liquidity that enhances potential growth for investment in the future. Importantly however, Islamic banks with an adequate percentage of cash enhance their ability to invest at feasible cost in order to generate higher profitability levels and decrease financial risks.

In the same regard, GDP, inflation and growth were incorporated in this research to examine the effect of the country economic condition on banks performance. The regression analysis results show that the country's GDP had a positive significant influence on the Islamic banks performance. Interestingly, this shows that a country with a strong and efficient economy has a significant effect on financial performance. Thus, the outcomes show consistency with the null hypothesis where an improved country's economy allows Islamic banks to engage in new investments. In contrast, the findings of the inflation rate show significant negative impact of the inflation rate on the bank's performance.

The findings show consistency with prior research conducted by Alesina and Drazen (1991); Ghosh (2016); alyousfi et al (2018) and alyousfi (2020) reported that political instability affects the country ability to reduce the inflation stability program. This was evidenced when an increase in the inflation rate leads to a decrease in the purchasing power which ultimately lead to a gradual increase in the percentage of bank loans given to the investors and thus, an increase in the profitability level of Islamic banks.

4.3.3 Conventional Banks

The following regression shows the outcomes of the explanatory factors which have an impact on the conventional banks financial performance.

Table 7. Conventional banks regression model

Model 5: Return on Assets				Model 6: Return on Equity				
	Coefficient	Std. Error	t-ratio	p-value		Coefficient	Std. Error	t-ratio	p-value
Const	−0.00901115	0.00759	−1.187	0.2356	Const	−0.0298128	0.04791	−0.6222	0.534
Arab Spring	−0.00363460	0.00069	−5.281	<0.0001	Arab Spring	−0.0218746	0.0044	−4.972	<0.0001
Market to Book Ratio	0.00117	0.00025	4.615	<0.0001	Market to Book Ratio	0.01525	0.0016	9.532	<0.0001
Bank Size	0.00135	0.00073	1.845	0.0656	Bank Size	0.02847	0.00455	6.254	<0.0001
Capital ratio	0.02637	0.00614	4.292	<0.0001	Capital ratio	−0.275051	0.0327	−8.412	<0.0001
Cash to Assets	1.01654	0.02766	36.75	<0.0001	Cash to Assets	4.93195	0.17295	28.52	<0.0001
GDP growth annual	0.00021	5.81E-05	3.692	0.0002	GDP growth annual	0.00147	0.00037	3.96	<0.0001
GDP	1.23E-05	0.00075	0.01626	0.987	GDP	−0.0138959	0.00477	−2.913	0.0037
Inflation consumer prices	1.16E-05	8.99E-05	0.1287	0.8976	Inflation consumer prices	−0.000191648	0.00057	−0.3376	0.7358
Mean dependent var	0.0206		S.D. dependent var	0.01416	Mean dependent var	0.13942		S.D. dependent var	0.0783
Sum squared resid	0.02597		S.E. of regression	0.00658	Sum squared resid	1.07121		S.E. of regression	0.04211
R-squared	0.78711		Adjusted R-squared	0.78428	R-squared	0.71451		Adjusted R-squared	0.71073
F(8, 600)	277.301		P-value(F)	277.3009	F(8, 604)	188.96		P-value(F)	#######
Log-likelihood	2199.97		Akaike criterion	−4381.937	Log-likelihood	1076.34		Akaike criterion	−2134.670
Schwarz criterion	−4342.231		Hannan-Quinn	−4366.491	Schwarz criterion	−2094.904		Hannan-Quinn	−2119.205

The results shown in the table above show findings of the regression analysis for conventional banks. The Hausman test was performed to examine the null hypothesis. Based on the results of the Hausman test, the null hypothesis is

accepted, and the random effect is taken into account. In similar basis, the t-test and f-test show that the regression model is significant at 5%, where the R2 stands at (78%) in the first model and (71%) in the second model. This indicates that this research explains (78%) of the variables that show either positive or negative impact on the conventional banks financial performance. This also indicates that the variation in the financial performance of conventional banks is (78%) and (71%) explained by the changes in the explanatory factors.

The above panel regression analysis revealed that Arab spring has a significant negative impact on the conventional banks financial performance, which illustrates that political instability influences the financial performance of conventional banks in the GCC region, which is due to the fact that political instability influence the banks ability to acquire deposits and granting loans due to the customer fear from the political instability.

However, due to the sample classification of the study with two different types of banks, the findings of the regression analysis are similar to the results of the previous regression model. For instance, the results reveal a significant positive relationship between the market to book value and the financial performance in the conventional banks in both models. This also indicates that an increase in the market price compared with the book value imrpoves a potential growth for investment in the future.

In the same regard, the table above regression shows a significant positive impact of the banks size on the financial performance of conventional banks. This also indicates that the large size of assets in the conventional banks has a potential impact on the bank's ability to manage their assets efficiently and generate profit due to financial risk involved by the conventional banking system. Likewise, the results show a significant positive impact of the capital ratio on the return on assets (ROA). Furthermore, the findings also show a positive insignificant positive impact of cash ratio on the conventional bank's financial performance.

Remarkably, the results of the regression model show that GDP growth had a significant positive influence on the financial performance of conventional banks. Interestingly, this shows that a country with a strong and efficient economy has a significant impact on the country financial performance which in turn enhances banks performance.

The increase in the parentage of cash to total assets can reduce the financial risk and enhance the financial performance of conventional banks. In contrast, the findings show that the inflation rate had an insignificant positive impact on the financial performance in the first model. and significant negative impact in the second model, when the inflation rate increases, the purchase power ability decreases and in turn the percentage of bank loans to investors increases, and so this enhances the profitability level of Islamic banks.

5. Conclusion

It is broadly known that the Arab spring has a substantial influence on the economies of the GCC countries. Notably, the influence of the Arab spring on the banking industry performance and profitability has not exposed to detailed empirical investigation. Therefore, this research pursues to fill this gap by employing robust quantitative analysis. it differentiates between pre and post the Arab spring; it also classifies banks into Islamic and non-Islamic and it employs micro and macroeconomic variables to explore the consequences of Arab spring effectively. It also the first to examine the micro and macroeconomic variables across both Islamic and non-Islamic banks pre and post the Arab spring. This research employed both bivariate analysis and a panel regression on longitudinal data on 20 Islamic banks and 37 conventional banks throughout 2000-2018.

The empirical results reported that the Arab spring has a direct significant negative influence on the bank's performance in the GCC, whether Islamic or non-Islamic banks. the direct negative influence is most prominent on the banking industry in the GCC region in the inability of these banks to enhance and maintain their financial performance and profitability level during the Arab spring. The results also indicate that the Arab spring has a direct significant negative influence on the country specific variables.

The findings of this study have potential implications for the policymakers. Whereby, policymakers should shed the light on the significance of effective internal bank's strategies when designing policy to encounter political instability and enhance financial performance. The empirical results propose that the limited number of available Islamic financial tools influences their ability to encounter political problems. In addition, conventional banks invest in risky financial tools, which have a significant impact on the financial performance during the time of political instability.

The findings propose that Islamic banks need to improve their financial tools, in order to increase their ability to encounter political instability and enhance their financial performance. This study has investigated the consequences of the political instability on the banking industry in the GCC region. This research area has not previously acquired adequate investigation, particularly, in terms of the impact of Arab Spring on the financial performance of both Islamic and conventional banks. Further studies should shed light on political instability and financial performance

not only in Islamic countries but also in western countries, in order to assist in the development of a platform from which to respond to such issues in the future.

The empirical results of this study are subject to several limitations. Although the Arab spring has taken place in several countries in the Middle East and North Africa, the sample of this study focused on the GCC countries only, because the Islamic banking industry is still under development in the North African Countries. In the same context, cross county sample is exposed to limitations in terms of the number of observations for each country in the sample size.

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