The Impact of Oil Price Shocks on Islamic Banking: Evidence from QISMUT plus 3 Countries

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ABSTRACT

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Keywords: ??? AQ2

INTRODUCTION

Over the last thirty years, oil prices have fluctuated significantly with a series of huge rises and falls. From 2001 to 2009, energy prices in international exchange platforms have increased strongly, and recorded high prices for oil have accompanied by important volatility. However the global financial crisis of 2008-2009 caused a negative impact on the oil prices and as a result prices suddenly decreased.

What is the impact of the oil price movement on Islamic banking performance? Is it any direct link between oil price shocks and Islamic bank performance? The purpose of this study is to find an answer such questions and provide the first empirical academic literature due to less attention and scarce investigation on this field.

Therefore, QISMUT plus 3 Countries (Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, Turkey, Bahrain, Kuwait and Pakistan) are selected, where is approximately 93% share of Islamic banking assets are concentrated in this 9 core markets.

Literature Review/Research Gap

In the literature, there is no any research explicitly focused on the impact of oil price shocks on the Islamic banking system performance. However, many of studies have investigated different variables that impact the performance of Islamic banking system and striving to indicate reasons behind them. Some of these studies were detailed on Table 1.

Table 1: Summary of the literature on credit risk

Author	Scope	Period	Methods	Empirical results
Samad (2004)	Bahrain	1991-2001	Financial ratios	1. No any difference between islamic and conventional banks in profitability and liquidity.
Demirguc and others (2004)	72 countries	1995-1999	Regression analysis	1. Tighter regulations boost the cost of financial intermediation on bank activities. 2. Inflation positively effect on overhead costs and bank margins.
Alkassim (2005)	GCC countries	1997-2004	OLS	1. The profitability in big conventional banks are less 2. Islamic banks profitability are supported by high capital ratios
Osamah & Mirzaei (2017)	30 oil-exporting countries	2000–2014	GMM model	1. A increase (decline) in oil prices is linked with a fall (rise) in NPLs 2. Oil prices movements have asymmetric impact on bank problem loans.
Chuan & Chiang (2018)	China	2000–2014	CAMEL	1. Increase in oil price reduce banking management efficiency, capitalization, liquidity and earning power performance.

Research Questions

1. Does the oil price shocks effect overall performance of the islamic banking in selected countries?
2. Does the oil price negativly affect bank performance, if yes, is it any methods to minimize the impact of oil price?

Research Method

The main part of proposed project consists of analyzing the impact of oil price shocks on the financial markets which is mostly the quantitative research. These issues include data collection, statistical techniques used for the establishment and methods used for the evaluation of the accurateness of the results. Major qualitative research methods were used for the implementation of this research, including working papers, policy papers, articles, and statistics. The key sources of research will be scientific books and journal articles in this field.

For conducting this research, it is advised to employ cutting edge models in time series econometrics like, panel structural vector autoregression (SVAR) model.

Findings

The analysis approved that oil price movements have significantly impact islamic bank performance. It also determined link between oil price shocks, bank balance sheets, and credit growth in the QISMUT plus 3 Countries.

We also identified that there was a difference relation during time period. A significant positive relationship was founded before financial crisis between oil price and islamic bank performance. However after the crisis, islamic banks performance are more immunized to the movements of oil price.

Overall, this findings suggest that the impact of oil price shocks on islamic banking performance should be taken into account by policy makers for macro prudential regulation purposes in selected countries.

Theoretical and Practitioner Implications

The oil price shocks-islamic bank performance in QISMUT plus 3 Countries is rarely investigated (no any study) example under oil price shocks-bank performance framework, therefore it is a good empirical academic literature for the future research.

It uses the panel structural vector autoregression (SVAR), which to the best of our knowledge has not been applied to the QISMUT plus 3 Countries case.

Limitations (if any)

1. Different bank react to oil crashes at different speed.
2. Banks' profits are sticky, so the bank's profits will not change right after the oil shocks, instead, it takes long time to show.
3. Oil price may have different impact on large banks and small banks.
4. Islamic stock market variables are not included in study.

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Coordinator of the department of economics and management Khazar university baku/Azerbaijan from 06/09/ 2017- up to now	Doctoral degree Marmara university, institute of banking and insurance, Dept. of banking, turkey, 2012-2016	English - Advanced	Serhat Yüksel, Shahriyar Mukhtarov, elvin mammadov, "Influencing Factors of the profitability in banking Sector: An analysis for post-soviet countries", Prague economic Paper, [Thomsen Reuters- impact factor (SSCI): 0.825]- submitted
Lecturer at Dept. of economics and management, Azerbaijan state university of economics Baku /Azerbaijan from 04/10/ 2017- up to now	Master`s degree Azerbaijan state university of economics Finance, Baku /Azerbaijan 2009- 2011	Turkish - Advanced	Serhat Yüksel, Shahriyar Mukhtarov, elvin mammadov, "comparing the efficiency of turkish and azerbaijani banks: an application with data envelopment analysis", international Journal of economics and financial issues, 2016, 6(3), 960-968. [SCOPUS- impact Factor (SJR): 0.194]
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Lecturer at Dept. of economics and management, Azerbaijan state university of Economics Baku /azerbaijan from 10/03/ 2017- up to now	Master`s degree Marmara university, institute of Banking and insurance, dept. of Banking,/ Turkey, 2010- 2012	Turkish - Advanced	Ceyhun mikayilov, vusal shkurov, shahriyar mukhtarov, "Does urbanization boost pollution from transport?" acta universitatis agriculturae et silviculturae mendelianae brunensis. 2017. [SCOPUS- impact factor (SJR): 0.257]- Accepted
Lecturer at Dept. of World Economy at Qafqaz University, Azerbaijan from 09/ 2011-13/02/ 2017	Bachelor`s degree UNEC, TUDIFAK, Dept. of International Economic Relations, / Azerbaijan, 2006-2010	Azeri - Native	

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