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ANALYSIS OF FINANCIAL PERFORMANCE OF THE COMMERCIAL BANKS IN THE GULF COOPERATION COUNCIL (GCC) COUNTRIES

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DOCTOR OF PHILOSOPHY
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ANALYSIS OF FINANCIAL PERFORMANCE OF THE COMMERCIAL BANKS IN THE GULF COOPERATION COUNCIL (GCC) COUNTRIES

By

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Thesis Submitted to
School of Economics, Finance and Banking,
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In Fulfillment of the Requirement for the Degree of Doctor of Philosophy
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ABSTRACT

Research on performance of banks in the Gulf Cooperation Council (GCC) countries is very limited despite being one of the key global banking markets, main suppliers of oil around the globe, and economies that attract significant foreign direct investment (FDI). Hence, this study provides new insight on bank performance using bank-specific, macroeconomic, and financial structure indicators. Using the generalized method of moments dynamic model estimation, this study analyses the performance of banks in GCC countries over the period from 2000-2015. This study finds that the performance of foreign banks is better than that of domestic banks and the performance of listed banks is better than that of unlisted banks. The results show that there is a significant direct impact of oil price shocks, FDI inflows, and financial crisis on bank performance. It also finds that the bank-specific factors, macroeconomic factors and financial structure indicators are significant determinants of bank performance. In terms of theories, the study finds evidence to support the moral hazard theory, competition-stability theory, defensive expansion theory and traditional intermediation theory (except Bahraini banks). The results are also robust when controlling for the Arab Spring transition period as well as when using alternative risk and bank competition measures. The results show that Arab Spring increases bank risk. The findings of this study have major policy implications. Gulf authorities need to enhance bank protection against risk by improving the application of Basel III especially during the crisis period like the Arab Spring. Gulf Banks also need to track the changes in oil prices as this also have impact on bank performance. There is a need for some ease of restrictions on the entry of foreign banks in the domestic market in the Gulf countries (except for Bahrain) as it can enhance bank performance.

Keywords: bank performance, macroeconomic and financial structure indicators, financial crisis, Arab Spring, GCC countries.
ABSTRAK


Kata kunci: prestasi bank, penunjuk struktur ekonomi makro dan kewangan, krisis kewangan, Arab Spring, negara GCC
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LIST OF ABBREVIATIONS

GCC  The Gulf Cooperation Council
UAE  United Arab Emirates
MNCs Multinational Corporations
MNBs Multinational Banks
MNEs Multinational Enterprises
SMEs Small and Medium Enterprises
IMF  International Monetary Fund
WDI  World Development Indicators
WTO  World Trade Organization
OPEC Organization Of Petroleum Exporting Countries
MENA Middle East and North Africa
MSCI Morgan Stanley Capital International
IPOs Initial Public Offering
NBFI Nonbank financial institutions
SAMA Saudi Arabia Monetary Agency
KIA  Kuwait Investment Authority
CEE Central and Eastern European Countries
SFA Stochastic Frontier Approach
FSAs Firm-Specific Advantages
HRSAs Home Region-Specific Benefits
SCP The Structure–Conduct–Performance Theory
RMP Relative Market Power Hypothesis
ESX X-Efficiency Hypothesis
NIIO New Empirical Industrial Organization
M&As mergers and acquisitions
P&As Purchases and Assumptions
GPI  Gross Personal Income
CPI consumer price index
UNCTAD United Nations Conference on Trade and Development
WTI  West Texas Intermediate
ROA Return on Assets
ROE Return on Equity
NIM  Net Interest Margin
Tobin’s Q Measure of The market-Based Shareholders Value
SDROA Standard Deviation of ROA
SDROE Standard Deviation of ROE
COST Cost-Income-Ratio
NIR  Non-Interest Revenues
OPC  Opportunity Cost
LR  Liquidity Risk
DMDEP  Demand Deposits Ratio
MR  Market Risk
NPLs  Non-performing Loans
LLPs  Loan Loss Provision
CAR  Capital Adequacy Ratio
LOAN  Loan to Total Assets
LNGRTH  Loan Growth
SIZE  Bank Size
OBSs  Off-Balance Sheet Activities
GDP  Real GDP Growth
INF  Inflation Rate
RIR  Real Interest Rate
FDI  Foreign Direct Investment Inflows
OIL  Oil Price shocks
HHI  The Herfindahl-Hirschman Index of Market Concentration
MARKE_CAP  Stock Market Capitalization to GDP
DCPS  Domestic Credit to Private Sector to GDP
LISTED  Listed Banks as dummy variable
FOREIGN  Foreign bank's ownership as dummy
CRISIS  Global Financial Crisis as dummy variable
COUNTRY  Country Dummies
ROAA  Average Return on Assets
ROAE  Average Return on Equity
SDROAA  Standard Deviation of Average ROA
SDROAE  Standard Deviation of Average ROE
CR5  Five Largest Bank Concentration Ratio
Lerner  Lerner Index of Market Power Measure
Boone  Boone Indicator of Bank Competition Measure
ZROE  Z-score measures based on ROE a measure of default risk
ZROA  Z-score measures based on ROA a measure of default risk
ZROA1  Z-score measures based on ROA a measure of bank portfolio
ZROA2  Z-score measures based on ROA a measure of leverage risk
ArabSpringI  Arab Spring Revolution Period
LLRs  Loan Loss Reserves
VROA  Variance of ROA
VROE  Variance of ROE
GMM  Generalized Method of Moments
CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The financial services commercial banking sector is one of the most important service sectors in a nation's economy (Huang, Chiang, & Tsai, 2015; Saci, Giorgioni, & Holden, 2009). Banks provide a safe linkage between the savers and the borrowers. Therefore, government and the central bank of any country are always concerned to ensure continuing strength and stability of the country's banking and financial system for capital formation, innovation, the creation of job opportunities (Huang et al., 2015). There are five key elements in the financial climate of any economy viz., money; financial institutions; financial tools; and system and rules (Karim & Alam, 2013; Saif-Alyousif, Saha, & Md-Rus, 2017a).

Banks are the main component of the financial system of any country and are also active players in financial markets of any a nation (Dhanabhakyam & Kavitha, 2012). Efficiency in the financial performance of banks is, therefore, the key to ensuring economic growth and development. Analysis and evaluation of bank performance can identify the inherent strengths and also weaknesses in the financial position of banks. According to, Rachdi (2014) evaluation of bank performance is important for all parties: bank managers, borrowers, depositors, and regulators. Soundness in the financial health of banks also attracts shareholders interest to strengthen their capital base to bring it in line with the regulatory and prudential requirements.

Globalization and internationalization initiatives of the government of many countries have opened up the domestic banking sector by allowing foreign banks to enter domestic markets and
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