

The Relationship between Political Risks and Capital Adequacy Ratio: Evidence from GCC Countries Using a Dynamic Panel Data Model (System-GMM)

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Abstract : This paper contributes to the existing literature by investigating the impact of political risks on the capital adequacy ratio in the banking sector of Gulf Cooperation Council (GCC) countries, which is the first attempt for this nexus to the best of our knowledge. The dynamic panel data model (System-GMM) showed that political risks significantly decrease the capital adequacy ratio in the banking sector. For this purpose, we used political risks, bank-specific, profitability, and macroeconomic variables that are utilized from the data stream database for the period 2005-2017. The results also actively support the “too big to fail” hypothesis. Finally, the robustness results confirm the conclusions derived from the baseline System-GMM model.

Keywords : capital adequacy ratio, system GMM, GCC, political risks

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