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Article

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International Journal of Energy Economics and Policy

ISSN: 2146-4553

available at http: www.econjournals.com

International Journal of Energy Economics and Policy, 2018, 8(6), 89-101.

Oil Price and Banking Sectors in Gulf Cooperation Council Economies before and after the Global Financial Turmoil: Descriptive Analysis

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Received: 20 August 2018 **Accepted:** 18 October 2018 **DOI:** https://doi.org/10.32479/ijeep.7074

ABSTRACT

In this paper, we analyze the evolution of the banking sector in the six gulf cooperation council (GCC) countries including concentration, trends in credit growth, balance sheets, and financial safety as well as oil price over the period 2000–2014. In general, our analysis finds that the level of capitalization of banks in GCC countries appears comfortable despite the adverse effect of the financial crisis. Despite apparent financial soundness, there are certain weaknesses in the banking sector of GCC countries which needs investigation. Firstly, GCC countries have registered sharp growth in of credit in consonance with the steady rise in the price of oil straining the liquidity position of banks. Secondly, some banking systems in GCC countries are highly exposed to households secured by their salaries especially in Bahrain (50–60%) and Qatar 70%). Thirdly, although the overall NPLs ratio in the GCC banking sector is at historically low levels, however, it has remained high when compared to the average NPLs ratio of the global banks. Finally, we find that banks in GCC countries seem to keep low levels of liquidity compared to international standards.

Keywords: Oil Price, Banking Sector, Credit Growth, Financial Statements, Financial Soundness, Global Financial Crisis, Gulf Cooperation Council Countries
JEL Classifications: G20, G21, C23, L2

1. INTRODUCTION

The banking sector in gulf cooperation council (GCC) countries has a dominant position in the financial sector (Al-Hassan et al., 2010). These economies are primarily driven by oil revenues and want to diversify and expand their economies. Al-Obaidan (2008) argues that the financial sector is one of the most economically feasible diversification options available to these economies. The GCC regions have a significant financial sector with well-capitalized and profitable banks (Al-Musalli and Ismail, 2012; Zeitun, 2012). The banking sector in the region is the second largest contributor to the GDP after the oil sector, as well as the main driver of the non-oil GDP growth in these economies (Loghod, 2010). The current literature is, however, lacking analyses or comparisons of the financial systems of the GCC countries (e.g., Al-Hassan et al., 2010; Abraham, 2013; Ashraf et al., 2016; Saif-Alyousfi et al., 2017a; 2017b; 2018a; 2018b; Al-Muharrami and Murthy, 2017). Al-Hassan et al. (2010) analysis of the banking sector in the GCC over the period 2002–2007 and did not take into account the changes that took place in the Gulf banking system during and after the global financial crisis as in this study. In this paper, we analyze the banking sector in GCC economies including concentration, trends in credit growth, balance sheets, and financial safety as well as the trend of oil prices before, during and after the global financial crisis. Thus, this study is the first study that evaluates the banking sector in GCC economies over the period of 2000–2014.

Prior to the period of the global financial crisis (2000–2007), when the oil and gas prices are high, increase government spending, high liquidity in the banking sector, bullish sentiments of the consumer and investors resulted in rapid rise in bank lending to non-oil creating domestic imbalances (e.g., bubbles of asset price) (Tata and Mazarei, 2008; Al-Hassan et al., 2010; Kammer and Dorsey, 2011; Kern, 2012). During the period of the global financial crisis (2008–2009), the hydrocarbon revenues decrease; there is a reversal of the short-term capital inflows to the GCC countries and straining of the rollover of external debt, especially for the private sector in the gulf region.

The global financial crisis has revealed that the GCC banking sector has some weaknesses. High exposure to equity prices, construction and real estate sector and increasing dependence on external financing (Al-Hassan et al., 2010; Ghosh, 2014; Kammer and Koranchelian, 2013; Kern, 2012) are some of these weaknesses. During the global financial crisis, the Central Bank of Kuwait has stopped the trading in Gulf Bank share after the bank has suffered huge losses in foreign currency derivative contracts in 2008 (Maghyereh and Awartani, 2014b). After the global financial crisis, the levels of bank profitability, capitalization and liquidity improve as a result of decline in the ratio of loans to total deposits as well as increase government support which is expected to continue in future (Al-Hassan et al., 2010; Baraka et al., 2013; 2014; 2015; Kern, 2012).

An in-depth analysis of the performances of the banking sector in GCC countries is necessary to identify the strengths and weaknesses as well as the gaps and understand how the financial systems in GCC countries, especially the banking sector, can be affected by the changes in the GCC economic conditions. The remainder of this section is organized as follows: section 2 illustrates the structure of the GCC banking sector; section 3 describes the profile in the growth of credit to commercial banks in GCC countries; section 4 shows the analysis of the GCC banking sector balance sheet during the study period; section 5 shows the analysis of credit risks of the GCC banking sector; and section 6 concludes with policy implications.

2. STRUCTURE OF THE GCC BANKING SECTOR

Banking has a prominent position in the GCC economies. Total assets of the banking sector in GCC economies as a percentage of GDP grow from 85% in the year 2000 to 125% of GDP in 2007. Even after the global financial crisis, though the percentage declines to 110% of GDP in 2012, it rose to 121% by the end of 2014. Nonbank financial institutions have limited presence in the GCC economies. Investment funds tend to remain largely focused on domestic equity and real estate. In addition, most of the investment funds are banks' ownership: 245 investment funds in Saudi Arabia, 71 in Kuwait, 45 in UAE, 17 in Oman, 6 in Qatar and 4 in Bahrain at 7th September 2015.

At the country level, Bahrain has the largest banking sector in the gulf region, with average assets amounting to almost 169% of GDP for the period 2000–2014, while Oman has the smallest banking sector assets at 61% of GDP during the same period. The UAE has the second largest banking sector with assets of 132% of GDP; followed by Kuwait at 101% of GDP; Qatar at 97% of GDP; and Saudi Arabia at 67% of GDP over the same period (Table 1).

Over the period of 2000–2007, Bahrain's banking sector has the highest average level of total assets amounting to 135% of GDP; while the average total assets of the banking sector in Oman is the lowest (52% of GDP) during the same period. In the case of Kuwait, Qatar and Saudi Arabia, the average total assets of the banking sector as a percentage of GDP is 100%, 85%, and 64% respectively (Table 1).

In 2008, except in Bahrain and Oman, total asset of the banking sector as a percentage of GDP the banking sector in all GCC countries go down. The ratio declines to 142%, 94%, 84% and 68% respectively for UAE, Qatar, Kuwait and Saudi Arabia. The total assets of the Bahrain's banking sector grow to 252% of GDP, while, in the case of Oman, the ratio goes up to 66% of

Table 1: Total banking sector assets 2000–2014 as % of GDP

Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC
2000	106	99	52	80	62	109	85
2001	103	115	51	85	63	111	88
2002	74	120	52	85	68	111	85
2003	101	103	52	84	64	105	85
2004	119	94	50	76	65	107	85
2005	140	81	45	80	61	120	88
2006	187	84	50	85	61	133	100
2007	246	101	64	103	71	162	125
2008	252	84	66	94	68	142	118
2009	222	120	70	113	85	162	129
2010	222	112	68	125	72	152	125
2011	197	100	65	98	62	135	110
2012	186	92	71	108	64	140	110
2013	192	99	74	118	68	144	116
2014	194	109	79	120	71	152	121
Average	169	101	61	97	67	132	105

Source: IMF Reports, and GCC Central Banks and Calculation by the Researcher. GCC: Gulf cooperation council

GDP during the same year (Table 1). Oman banking sector is the smallest in the GCC region. It may be recalled here that in 2008, the Central Bank of Kuwait halted trading in the Gulf Bank stocks and appointed an auditor to monitor operations after the bank suffered big losses in currency derivative contracts. Both Kuwait and the UAE introduce the system of deposit insurance in the year 2008 to ensure financial stability. To tide over the crisis, the central banks of UAE and Saudi Arabia Monetary Agency (SAMA) inject liquidity into their banking systems. Qatar, to the contrary, invests in the stocks of the country's banks in the said year (Maghyereh and Awartani, 2014b; 2014a).

Post-financial crisis, during the last 5 years (2010–2014), an average of total assets of Bahrain's banking sector are 198% of GDP; followed by the UAE at 145% of GDP, Qatar at 114% of GDP, Kuwait at 102% of GDP. In the case of Oman and Saudi Arabia, the average levels of total assets of the banking sector as a percent of GDP are 71 and 67% respectively during the same period (Table 1).

The banking sector in GCC countries is dominated by foreign banks. This is the result of the reduction of entry barriers and licensing restrictions for foreign banks in the Gulf region. In GCC countries, a number of foreign banks represent 54% of the total number of banks at the end of 2014. The percentage of foreign banks is highest in Bahrain: Of the total number of 103 banks in the country, 57 are foreign banks accounting for 74% of the total assets of the Bahrain's banking sector at the end of 2014 (Table 2).

In 2014, the number of foreign banks in UAE is 28 banks representing 55% of the total number of banks in the country. Assets of foreign banks constitute, 76% of the total assets of UAE's banking sector. There are 12 foreign banks both in Kuwait and Saudi Arabia. However, foreign banks assets in Kuwait represent 50% of total banking sector assets, while it is 36% of Saudi banking sector assets at the end of 2014. Assets of foreign banks in Oman and Qatar have totaled 50% of the total assets of the banking sector in each country. At the end of 2014, assets of foreign banks represent 73% of the total assets in the banking sector of Oman, while it is 29% for the banking sector in Qatar (Table 2).

3. TRENDS IN CREDIT GROWTH OF THE GCC BANKING SECTOR

In the last decade, GCC countries have experienced rapid growth in domestic credit to the private sector as percentage of GDP (DCPS), rising from 34.31% of GDP in 2000 to 53.08% of GDP at the end of 2014 or at an average of 47.18% over the period of 2000–2014 (Figure 1 and Table 3). During the period of 2000–2014, Kuwait has witnessed the highest significant growth in DCPS at 64.32, while Saudi Arabia's credit growth has the lowest growth rate in the Gulf countries at around 34.81% of GDP over the same period. As for other GCC countries, Bahrain witnesses the second largest credit growth in the region at almost 55.65% of GDP; followed by the UAE at 53.01%; Oman at 38.48%; and Qatar at 36.86% of GDP (Figure 1 and Table 3).

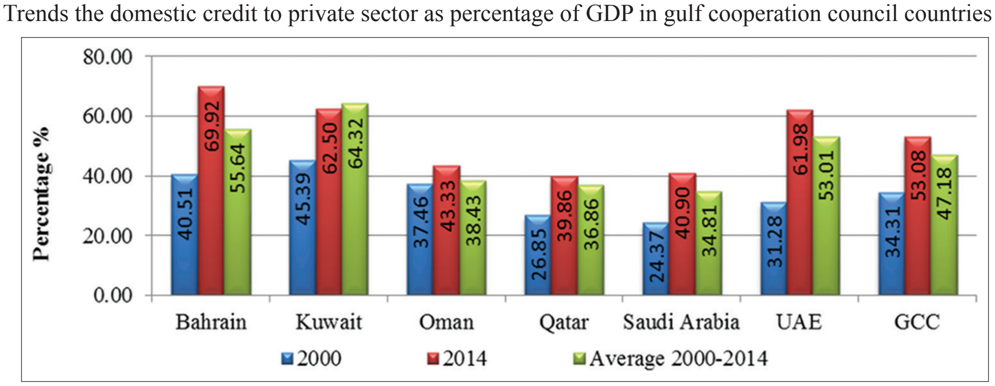
The average DCPS is more than their counterparts in other developing and emerging countries (Figure 2 and Table 3). During the period of 2000–2014, DCPS in GCC countries grow by an average of 47.18% of GDP compared to 38.6% in the Arab World; 40.71% in MENA; and 39.37% of GDP in South Asia. The average level of DCPS grows by an average of 128.28% in

Table 2: Structure of the domestic and foreign banking sector in GCC countries in the end of 2014

Country	Total	Domestic	Foreign	As % of banking sector assets	
	Banks	Banks No. (%)	Banks No. (%)	Domestic assets %	Foreign assets %
Bahrain	103	46 (45)	57 (55)	0.26	0.74
Kuwait	23	11 (48)	12 (52)	0.50	0.50
Oman	18	9 (50)	9 (50)	0.71	0.29
Qatar	18	9 (50)	9 (50)	0.27	0.73
Saudi Arabia	24	12 (50)	12 (50)	0.64	0.36
UAE	51	23 (45)	28 (55)	0.24	0.76
GCC	237	110 (0.46)	127 (54)		

Source: Bahrain Central Bank, 2014; Kuwait Central Bank, 2014; Oman Central Bank, 2014; Qatar Central Bank, 2014, SAMA, 2014; UAE Central Bank, 2014. gulf cooperation council

Figure 1: Trends the domestic credit to private sector as percentage of GDP in gulf cooperation council countries 2000–2014



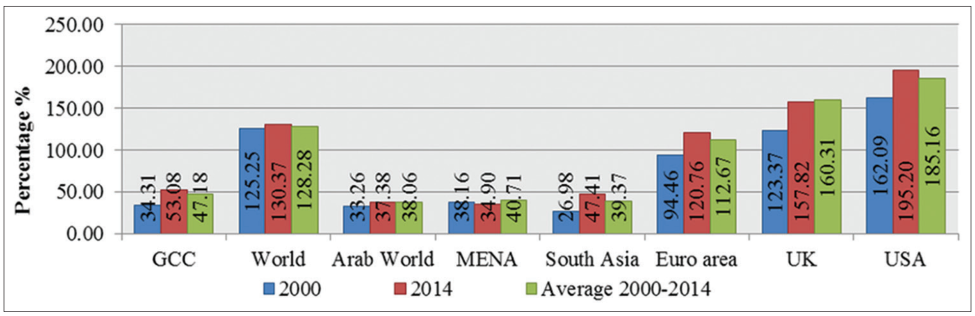
Sources: Country authorities; IFS and world economic outlook (IMF); and researcher calculate

Table 3: Trends the domestic credit to private Sector (% of GDP) during the period 2000–2014

Year	GCC countries							Other regions					
	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC	World	MENA	South Asia	Euro area	UK	USA
2000	40.51	45.39	37.46	26.85	24.37	31.28	34.31	125.25	38.16	26.98	94.46	123.37	162.09
2001	41.82	64.29	40.13	34.89	27.26	34.42	40.47	126.23	41.59	27.36	95.86	129.25	170.21
2002	44.36	66.67	38.90	28.68	29.11	36.12	40.64	123.26	42.08	30.33	96.17	133.17	161.69
2003	42.13	67.74	36.79	29.99	28.40	36.18	40.20	127.18	40.95	30.21	98.33	137.03	176.56
2004	43.94	63.44	34.23	28.98	32.35	37.72	40.11	127.13	39.69	34.41	100.26	144.50	183.94
2005	43.68	58.48	30.65	33.72	35.42	43.77	40.95	129.51	40.47	37.70	105.62	150.90	187.85
2006	44.88	57.43	30.73	36.00	33.72	47.30	41.68	132.30	40.38	40.11	110.90	161.60	197.71
2007	53.12	66.08	35.55	41.58	37.07	56.04	48.24	132.23	44.13	41.92	117.23	177.69	206.30
2008	64.21	63.54	35.12	40.80	37.68	67.08	51.41	126.74	44.92	44.77	122.41	200.61	188.02
2009	71.44	85.17	46.70	51.74	45.63	84.05	64.12	135.06	50.35	43.48	129.02	201.09	196.53
2010	67.70	79.25	42.35	44.70	39.27	75.04	58.05	129.44	43.63	45.92	129.00	190.54	190.71
2011	68.91	64.47	40.24	39.28	34.19	63.99	51.85	124.66	40.12	46.36	127.02	175.10	182.35
2012	69.13	58.70	41.53	36.52	36.44	59.07	50.23	126.33	34.90	46.83	124.11	166.42	186.00
2013	68.89	61.58	42.69	39.27	40.29	61.07	52.30	128.44	34.39	46.71	118.97	155.49	192.31
2014	69.92	62.50	43.33	39.86	40.90	61.98	53.08	130.37	34.90	47.41	120.76	157.82	195.20
Average	55.64	64.32	38.43	36.86	34.81	53.01	47.18	128.28	40.71	39.37	112.67	160.31	185.16

Sources: Country authorities; IFS and World economic outlook (IMF); and researcher calculate

Figure 2: Trends the domestic credit to private sector as percentage of GDP in different region 2000–2014



Sources: Country authorities; IFS and world economic outlook (IMF); and Researcher Calculate

the world, 185.16% in the USA and 160.13 in the UK during the same period (Figure 2 and Table 3).

An increase in the average global oil price led to increasing the DCPS (Figure 3). Al-Hassan et al. (2010), Poghosyan and Hesse (2009) and Crowley (2008) argue that increased oil prices have strengthened non-oil GDP growth and government spending, resulting in increase in the level of business confidence, regional and domestic private activities as well as investments. Over the period of 2000–2014, average oil prices grow by USD 64.67 to reach USD 93.17 per barrel at the end of 2014 compared to USD 30.38 per barrel in 2000. In turn, DCPS in the Gulf region grows by 47.18% of GDP over the same period to reach 53.08% at the end of 2014 compared to 34.31% of GDP in 2000 (Figure 3). In addition, an increase in the deposits of the banking sector has strengthened its capacity of lending (Figure 4 and Table 3): At the end 2014, Bahrain has witnessed the highest level of deposits and credit growth as a percentage of GDP (at 127.7 and 69.72, respectively). It is lowest in Oman (54.6 and 43.33 respectively) (Figures 1 and 4 and Table 3).

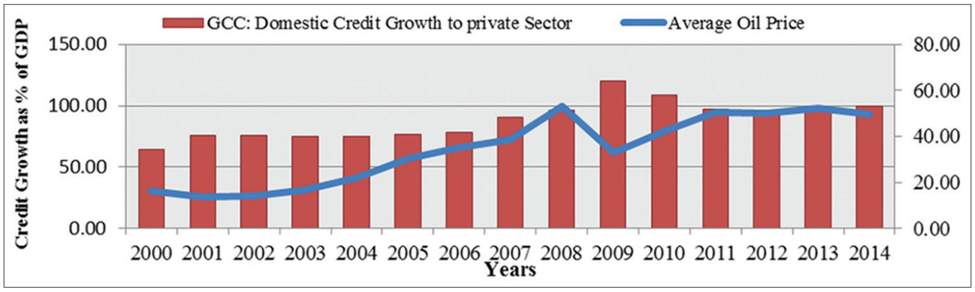
Al-Hassan et al. (2010) argue that the experience at the global level suggests that high rates of DCPS during economic recovery may lead to increase in the levels of credit default, especially when the economic activity starts slowing down. The recent higher growth in DCPS is driven by the revival of projects, which are frozen during the past five years (Central Bank of Bahrain, 2014a; 2014b).

4. BALANCE SHEETS OF GCC BANKING SECTOR: STYLIZED FACTS

The banking sector in the Gulf region still depends on the deposits and loans as the main sources and uses of funds (Figures 3 and 5). Banking sector' assets in GCC countries mainly consist of loans as well as securities investments. Oman has the highest level of loans at 70% of total assets during the period of 2014; while Bahrain has witnessed the lowest level of loans in the Gulf region at 55% of total assets in the banks' balance sheet during the same period. The said ratio is 65% in the balance sheet of banks' in Qatar at the end of 2014, followed by Kuwait, Saudi Arabia, and the UAE at 62, 60 and 60%, respectively (Figure 5).

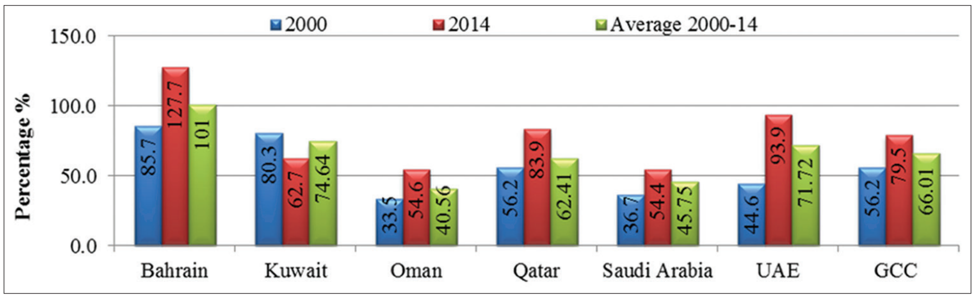
Securities investments as a percentage of total assets are 10% in both Oman and the UAE; 13% in Kuwait; and 17% in Qatar and about 21% in Bahrain and Saudi Arabia (Figure 2). During the global financial crisis, the banking sectors have witnessed significant losses on these securities investments by mark-to-market

Figure 3: Trends the oil prices and domestic credit to private sector in gulf cooperation council countries 2000–2014



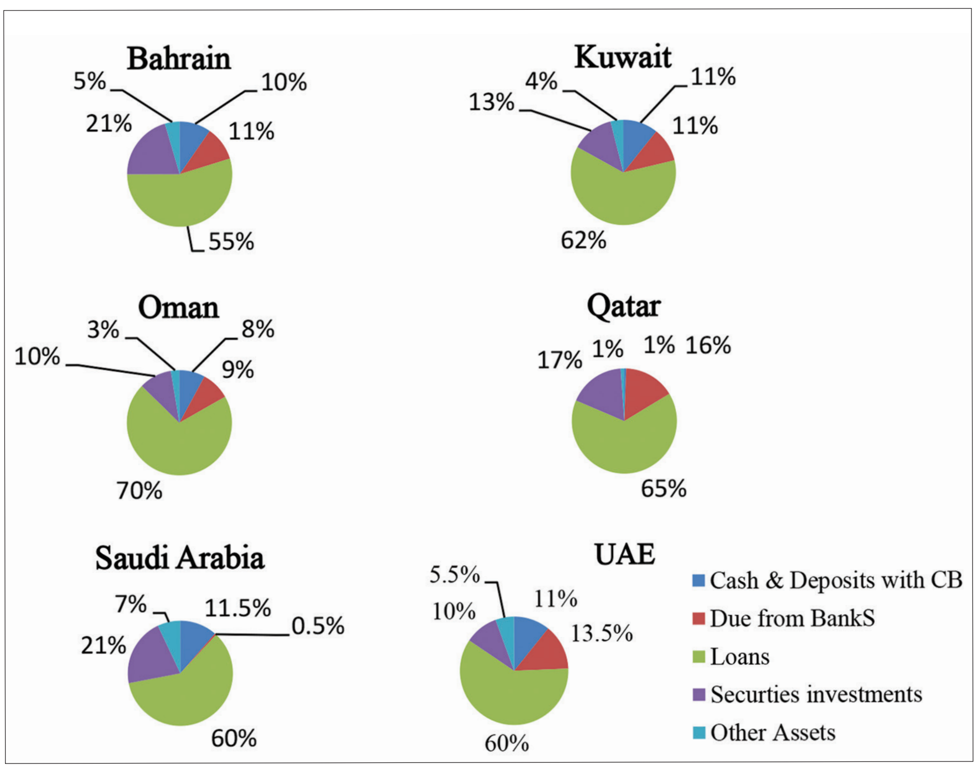
Source: Country authorities; IFS and world economic outlook (IMF); and researcher calculate

Figure 4: Trends the banking sector deposits as percentage of GDP in GCC countries 2000–2014



Source: Different versions of gulf central banks

Figure 5: Assets structure of banking sector in gulf cooperation council countries 2014



Source: Gulf central banks and researcher calculate, 2014

valuations of their trading portfolios, despite there being no evidence to indicate the investment book of banks are in the classes of high-risk assets, financial derivatives or stocks (Al-Hassan et al., 2010). At the end of 2008, the GCC banking sector held almost 18% of their portfolio investments in different securities, with only around 1% of this percentage in stocks and derivatives (Bahrain, 2009; ICAEW, 2014b; 2014a; IMF, 2009; 2014).

Due from banks, constitute almost 16% of total assets in Qatar; approximately 14% in the UAE; 11% in Bahrain and Kuwait; and 0.5% in Saudi Arabia, which is the lowest due from banks in GCC countries at the end of 2014.

Customer deposits constitute the highest component of banks' liabilities in GCC countries. At the end of 2014, the percentage of customer deposits is at the highest level in Saudi Arabia (75%); followed by Bahrain at 73%; Kuwait and Oman at 70% each, UAE at 62% and Qatar at 60% (Figure 6). This means that the customer deposits are the main source to finance loans GCC banks.

Shareholders' equity as a percentage of total liabilities is at the lowest level at 12% in Saudi Arabia; while it is at the highest level at 15% Oman. Bahrain, Kuwait, Qatar and the UAE have a similar level of shareholders' equity as a percentage of total liabilities at the end of 2014. Furthermore, the item due to banks constitutes 17 and 14% of total liabilities in Qatar and UAE respectively at the end of 2014. Bahrain and Saudi Arabia have witnessed the lowest level of due to banks as a percentage of total liabilities at 4 and 6%, respectively. It is nine and 7% respectively in Kuwait and Oman's banking sectors (Figure 6).

Reliance on bond financing is low in the banking sector in GCC countries. On a comparative basis, however, bond financing as a percentage of total liabilities is highest in Qatar (4%), while in the Oman and Bahrain 2% at the end of 2014. The said ratio in Saudi Arabia, Kuwait, and the UAE is only 1% at the end of 2014 (Figure 6). This leads to heightened mismatch between assets and liabilities in the GCC banks.

Furthermore, except for Bahrain, foreign liabilities in the balance sheet of banks GCC countries are still limited (Figure 7). The average level of foreign liabilities to total liabilities in the banking sector of Bahrain is 79% during the period of 2000–2014. This suggests that the foreign liabilities have played a major role in the lending activities Bahrain banks. Average foreign liabilities as a percentage of total liabilities in the UAE and Qatar are 16% during the same period and it averages 27 and 23% respectively for these countries during the global financial crisis. In general, foreign liabilities in the balance sheet of GCC banks have grown since the global financial crisis. The average foreign liabilities as a percentage of total liabilities in the banking sector of Oman, Kuwait, and Saudi Arabia are 10, 9 and 8% respectively during the period of 2000–2014. During the global financial crisis, the average levels of foreign liabilities as a percentage of total liabilities are 14, 11, and 9% respectively in Oman, Kuwait, and Saudi Arabia.

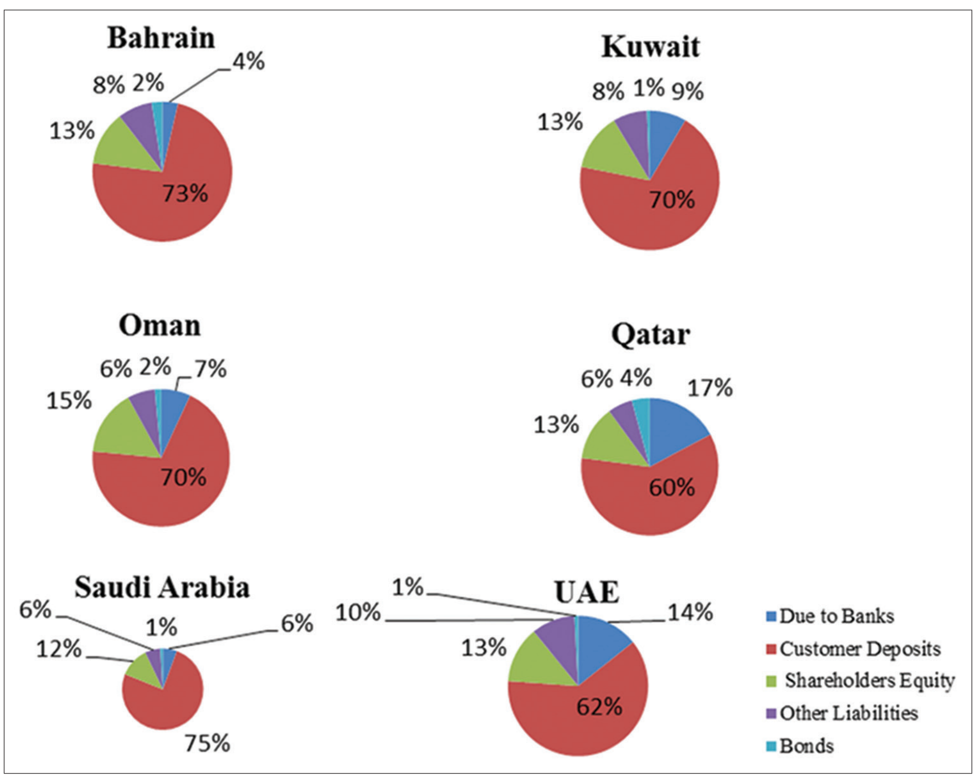
5. FINANCIAL SOUNDNESS INDICATORS OF GCC COUNTRIES

5.1. Capitalization

Capitalization of the banking sector in GCC is presented in Table 4. The minimum regulatory CAR is 12% in Kuwait and Bahrain; 11% in the UAE; 10% in Qatar and Oman; and e8% in Saudi Arabia (GCC Authorities, 2015). According to IMF (2010), a higher level of capitalization during 2000–2007 is associated with higher level of profitability**.** In 2008, profitability is adversely affected by the higher level of provisioning. Post- global financial crisis, there is an overall decline in the level of capitalization with a corresponding drop in the level of profitability.

During 2000–2007 and also during the global financial crisis of 2008–2009, the banking sector in Qatar has the highest average level of CAR of 24 and 20.2% respectively; while the banking sector in the UAE has the lowest average level of CAR at 17.2 and 13% respectively during the same period. As for Bahrain, it averages 23.2 and 18.1%, at 20.2 and 17.1% in Kuwait, at 19.5

Figure 6: Liabilities and equity structure of banking sector in gulf cooperation council countries 2014



Source: Gulf central banks and researcher calculate, 2014 and 16.0% in Saudi Arabia; and at 17.3 and 14.7% respectively in Oman over the same period.

Post-global financial crisis, the CAR of the banking sector in Oman is at the lowest average level in the Gulf countries at 15.8%; as a result of capital injections into banks by the UAE government in 2009, banks in UAE has the highest average level at 19.9% during the same period (Baraka et al., 2015). The average level of CAR of the banks in Bahrain, Kuwait, Saudi Arabia and Qatar are 19.4, 18.2, 17.7 and 17.3% respectively during the same period (Table 4).

5.2. Asset Quality

The asset quality of the banking sector in GCC countries has improved over the period 2000 to 2007 (Table 5): Average ratio of NPLs to total loans ratio has witnessed a decline from 9.7% in 2000 to reach around 2.5% at the end of 2007 in GCC countries. The said ratio reduces from 19.2 to 12.7 respectively in 2000 in Kuwait and UAE to 3.2 and 2.9 in 2007.

There is a sharp rise in NPLs ratio in 2009 (Table 5). NPLs ratio in the banking sector of Kuwait increases from 5.3 in 2008 to 11.5% in 2009. Banks in Qatar has the lowest level of NPLs ratio which increases from 1.2 in 2008 to 1.7 in 2009. The NPLs ratio in the banks of Bahrain, UAE, Oman and Saudi Arabia rise from 2.3, 2.3, 2.1 and 1.4% in 2008 to 3.9, 4.3, 2.7 and 3.3% respectively in 2009. Over the period of 2010–2014, the average NPLs ratio is highest in the banking sector of Kuwait at 5.7%: the Gulf Bank in Kuwait is closed in 2009 due to NPLs problem. UAE banks have the second highest average level of NPLs ratio (7.01%) during this period. The average value of the said ratio is 5.2, 2.2, 1.8 and 1.8 in the banks of Bahrain, Oman, Saudi Arabia and Qatar respectively.

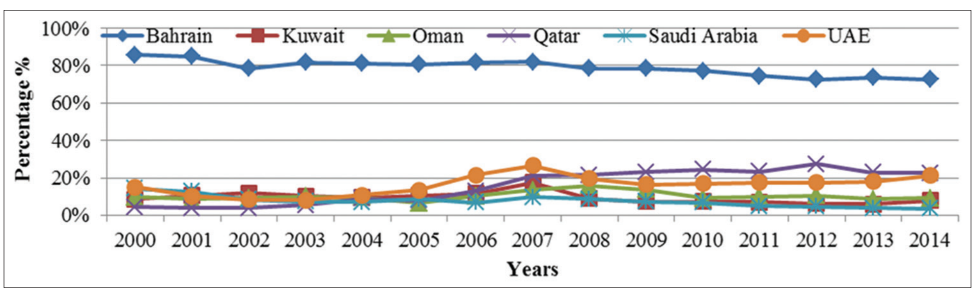
The fall in asset quality during the global financial crisis, which has reflected in the rise in NPLs ratio, is more prominent in countries that have faster growth in credit prior to the global financial crisis and higher exposure to real estate and construction sectors. Loan growth has witnessed the highest average level in Banks in Saudi Arabia and UAE at 80 and 36% respectively before the global financial crisis period and around 29 and 46% during the global financial crisis of 2008. The supervisory and regulatory authorities in the Gulf countries have directed the banks to create LLPs in expectation of increasing NPLs in the future.

In general, GCC banks' provision to NPLs is high compared to the international standards. Banks in Saudi Arabia had the highest average level of provisions for NPLs among the GCC countries: it averages 142.7% during the period of 2000–2014. Kuwait has the lowest average level at 41.8%. The average level of banks' provisions for NPLs in the UAE is 91.1%, followed by Qatar, Oman, and Bahrain at an average level of 88.5, 83.8 and 66.9%, respectively over the same period (Table 5).

5.3. Profitability

GCC banking sector has stable traditional sources of income. Net interest income constitutes the major source of banks' income in the region; it ranged between 57% and 90% of total gross income across the GCC countries during the period of 2000–2014 (Table 6). During 2000–2007, Bahrain's banking sector has the

Figure 7: Trends of foreign liabilities to total liabilities for the banking sector in gulf cooperation council countries 2000–2014



Source: Different versions of gulf central banks 2000–2014

Table 4: Financial soundness indicators (capitalization) of GCC countries 2000–2014 (%)

Capitalization	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
Capital adequacy ratio																
Bahrain	17.0	25.8	23.4	23.8	25.7	26.9	22.0	21.0	18.1	19.6	19.9	19.9	19.3	19.2	18.3	21.3
Kuwait	22.2	22.0	19.7	18.4	17.3	21.1	21.2	19.4	17.1	16.7	18.9	18.5	18.0	18.9	18.3	19.2
Oman	17.4	16.8	17.2	17.6	17.6	18.5	17.2	15.8	14.7	15.6	15.8	15.9	16.0	16.2	15.1	16.5
Qatar	24.3	24.6	24.6	25.3	24.9	24.5	22.2	21.7	20.2	16.1	16.1	20.6	18.9	16.0	16.3	21.1
Saudi Arabia	19.8	19.6	19.2	19.4	17.8	17.8	21.9	20.6	16.0	16.9	17.6	17.6	18.2	17.9	17.9	18.5
UAE	20.2	20.0	18.3	18.9	16.9	17.4	16.6	14.4	13.0	19.9	20.7	20.0	21.2	19.3	18.1	18.3
Capital to assets																
Bahrain	12.7	12.7	12.8	12.9	13.6	13.7	14.3	12.6	12.9	12.4	13.7	13.7	12.6	11.8	12.2	13.0
Kuwait	11.5	11.2	10.4	10.7	12.1	13.0	11.7	12.6	11.7	12.1	13.9	12.4	12.6	12.2	11.3	12.0
Oman	12.4	13.2	13.6	12.6	12.9	14.6	12.9	14.5	13.3	13.5	13.5	12.5	13.0	13.5	11.7	13.2
Qatar	11.5	12.1	12.3	14.0	13.5	12.8	15.1	13.5	15.5	16.1	16.1	20.6	18.9	16.0	16.5	15.0
Saudi Arabia	8.1	8.4	8.8	8.8	8.0	8.8	9.3	9.9	10.1	11.9	12.8	14.2	13.9	13.6	13.8	10.7
UAE	10.6	10.9	11.2	11.4	11.1	11.9	12.6	10.5	11.8	16.0	16.6	17.2	16.8	15.2	12.3	13.1

Sources: IFS and World economic outlook (IMF); country authorities; and researcher calculate

Table 5: Financial soundness indicators (asset quality) of GCC countries 2000–2014 (%)

Asset quality	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
NPLs to total loans																
Bahrain	7.8	7.9	8.1	10.3	7.6	5.8	4.8	2.3	2.3	3.9	5.1	4.9	5.8	5.6	4.6	5.8
Kuwait	19.2	10.3	7.8	6.1	5.3	4.1	3.9	3.2	5.3	11.5	8.9	7.3	5.2	3.6	3.5	7.0
Oman	8.7	8.4	9.3	12.8	11.0	7.0	4.9	3.2	2.1	2.7	2.7	2.2	2.1	2.0	2.0	5.4
Qatar	6.9	7.2	7.7	8.1	6.3	4.3	2.2	1.5	1.2	1.7	2.0	1.7	1.7	1.9	1.7	3.7
Saudi Arabia	2.6	3.3	3.7	5.4	2.8	1.9	2.0	2.1	1.4	3.3	3.0	2.2	1.7	1.3	1.1	2.5
UAE	12.7	11.2	12.8	14.3	12.5	8.3	6.3	2.9	2.3	4.3	5.6	7.2	8.4	7.3	6.5	8.2
Bank provisions to NPLs																
Bahrain	80.3	80.5	80.6	67.7	68.0	67.7	68.5	74.0	84.0	60.3	49.5	53.6	53.1	56.0	59.4	66.9
Kuwait	50.1	53.7	64.3	39.7	42.5	48.1	47.8	48.2	41.6	38.3	33.9	29.5	26.9	31.7	30.4	41.8
Oman	76.1	78.4	83.6	85.4	87.6	97.4	109.6	111.8	127.3	59.8	65.6	63.3	69.6	71.5	70.5	83.8
Qatar	83.2	84.6	85.0	85.4	87.6	84.3	94.0	90.7	83.2	84.5	85.1	87.2	97.5	96.8	99.1	88.5
Saudi Arabia	95.5	110.1	119.2	128.2	175.4	202.8	182.3	142.9	153.3	89.8	122.3	132.8	145.1	157.4	182.9	142.7
UAE	86.0	88.5	88.5	88.5	94.6	95.7	98.2	100.0	102.6	85.0	89.0	90.0	85.1	93.4	81.2	91.1
Loan growth																
Bahrain	14.0	14.3	14.5	14.5	14.6	36.4	21.7	45.2	4.2	3.7	50.9	10.7	2.7	7.2	34.8	19.3
Kuwait	10.5	10.9	12.4	13.2	19.0	28.9	39.5	10.9	3.2	5.1	2.8	18.6	11.0	19.1	20.4	15.0
Oman	2.1	2.4	2.5	2.5	3.6	7.7	18.4	18.6	20.0	7.7	11.1	20.8	15.3	9.6	8.9	10.1
Qatar	19.8	21.6	22.2	20.0	54.9	43.6	42.8	50.5	13.5	8.9	24.0	17.1	18.2	21.5	22.8	26.8
Saudi Arabia	29.8	29.6	28.8	30.2	32.2	24.1	17.6	43.3	28.6	3.6	5.1	14.0	18.5	7.7	14.3	48.5
UAE	28.6	30.4	32.8	34.4	35.1	45.7	45.3	32.9	45.7	4.2	9.3	4.8	13.2	1.2	19.9	25.6
Net loans to total assets																
Bahrain	40.5	41.0	41.2	41.2	40.5	46.4	47.7	46.8	45.8	44.8	46.8	44.9	42.7	24.1	33.4	41.9
Kuwait	45.4	51.2	59.8	67.5	71.5	75.9	76.1	80.6	80.9	81.1	80.2	77.2	79.0	70.8	75.3	71.5
Oman	93.1	96.3	92.7	91.9	92.7	89.3	88.6	80.6	83.8	86.8	84.5	89.9	83.9	70.0	75.3	86.6
Qatar	42.3	43.2	46.4	47.2	42.7	55.2	54.9	67.2	82.4	77.5	71.5	69.6	61.5	45.0	55.0	57.4
Saudi Arabia	28.7	26.9	28.2	29.9	45.9	57.3	51.8	56.2	63.9	49.0	44.5	64.9	72.1	55.6	61.8	49.1
UAE	65.7	69.5	76.9	78.9	80.7	76.5	74.9	69.7	79.6	80.6	82.5	81.9	82.3	75.6	73.3	76.6

Sources: IFS and world economic outlook (IMF); country authorities; and researcher calculate

lowest level of net interest income to gross income ratio at an average level of 64.8%; the said ratio is highest (85.8%) in Oman. In 2008, net interest income to the gross income of banks declines to 57.1% and 78.1% in Bahrain and Oman respectively. After the financial crisis, the average ratio of net interest income to gross income for the banking sector in Qatar is the highest (82.2%) among GCC countries and is lowest (69.1%) in the case of banks in Saudi Arabia.

The average ROE of GCC banks during 2000–2007 is 19.4%. During 2008–2009, the average value of the said ratio is 14.6 and it is 13.1% during 2010–2014 (Table 6). Banks in Saudi Arabia has the highest average level of ROE (29.6%) during 2000–2007 and the said ratio is the lowest (9.5%) in Oman during the said period. In 2008, ROE of banks in Saudi Arabia declines to 22.7%, while the value of the said ratio increases to 12.6% in the case of banks in Oman. Post- global financial crisis period (2010–2014), ROE in the banking sector in Qatar is the highest average level (17.8%) amongst the GCC countries and it is lowest (8.3%) in the case of banks in Kuwait.

The average returns on assets (ROA) of banks in GCC countries are 2.3% during 2000–2007; it is 1.8 during 2008–2009 and 1.7 during 2010–2014 (Table 6). Prior to the global financial crisis (2000–2007), banks in Qatar have the highest average level of ROA of 2.9%, followed by banks in Saudi Arabia and Kuwait at 2.6% each, banks in UAE at 2.1% and banks in Bahrain and Oman at 1.7% each. During 2008–2009 and post-global financial crisis (2010–2014), banks in Kuwait has the lowest level of average ROA at 0.9 and 1.1% respectively, while banks in Qatar has the highest level of ROA at 2.9 and 2.4% respectively during 2008–2009 and 2010–2014.

The average NIM as a percentage of total assets prior to the crisis (2000–2007) of GCC banks is 3.2% and continues at the same level during 2008–2009 and goes marginally down to 3.1% during 2010–2014. Prior to the global financial crisis, banks in Oman have the highest average level of NIM as a percentage of total assets (3.8%); the said ratio is the lowest (2.7%) in banks in Kuwait. During and after the global financial crisis, banks in UAE have the highest level of NIM as a percentage of total assets at 3.7% and 4.01% respectively. It is lowest (2.4 and 2.2%) in the case of banks in Bahrain. The drop in profitability in the banking sector in some of the GCC countries is due to a slowdown in the economic activities in those countries or loan loss provision due to the exposure of the banks in those countries to certain sectors like real estate and construction (IMF, 2014).

The ripple effect of the global financial crisis is more palpable in Kuwait and Bahrain due to the linkage of their stock markets with the developed world. In 2008, the Gulf Bank, which is one of the three largest banks in Kuwait, suffers heavy losses due to the transaction of foreign exchange derivatives. The bank is recapitalized by Kuwait Investment Authority (KIA) via capital injection by shareholders and the Kuwaiti government in the ratio of 68 and 32% respectively (Al-Hassan et al., 2010; AL-Omar and AL-Mutairi, 2008; Enders et al., 2008). Profitability in the

Table 6: Financial soundness indicators (profitability) of GCC countries 2000–2014 (%)

Profitability	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
ROA																
Bahrain	1.4	1.5	1.5	1.9	2.2	2.1	2.1	1.2	1.3	1.2	1.1	1.2	1.2	1.1	1.4	1.5
Kuwait	2	2	1.8	2	2.5	3.3	3.7	3.6	0.9	0.7	1.2	1.1	1.2	1.0	1.0	1.9
Oman	0.8	1.3	1.5	1.2	1.7	2.3	2.3	2.1	1.7	2.1	1.9	1.8	1.8	1.8	1.8	1.7
Qatar	1.7	2.2	2.4	2.5	2.8	4.3	3.7	3.6	2.9	2.6	2.6	2.7	2.4	2.1	2.1	2.7
Saudi Arabia	1.9	2.1	2.2	2.2	2.4	3.4	4.0	2.8	2.3	1.9	2.0	2.1	2.1	2.0	2.5	2.4
UAE	1.8	1.7	2	2.3	2.1	2.7	2.3	2.0	2.1	1.4	1.3	1.5	2.0	2.0	1.8	1.9
GCC	1.6	1.8	1.9	2.1	2.3	3.1	3.1	2.5	1.9	1.6	1.7	1.7	1.8	1.7	1.8	
ROE																
Bahrain	1.1	13.2	13.2	18.3	20.8	14.3	15.4	18.4	16.9	10.6	9.6	10.7	11.5	16.2	13.2	13.6
Kuwait	17.6	18.2	17.4	18.6	20.9	26.2	28.8	29.4	7.7	6.1	9.1	8.1	9.0	7.4	8.0	15.5
Oman	1.7	5.2	5.9	1.8	13.5	15.6	17.8	14.3	12.6	15.0	13.4	12.4	12.4	11.0	12.2	11.0
Qatar	19.2	19.5	20.2	20.8	20.8	28.5	27.2	30.4	21.5	19.3	19.9	18.6	17.7	16.5	16.5	21.1
Saudi Arabia	21.6	22.6	24.25	25.9	31.7	38.5	43.4	28.5	22.7	14.2	13.6	15.0	15.1	14.6	18.2	23.3
UAE	14.9	14.6	15.5	16.4	18.6	22.5	18.2	19.3	17.3	10.9	10.4	11.4	11.5	15.3	13.7	15.4
GCC	12.7	15.6	16.1	17	21.1	24.3	25.2	23.3	16.5	12.7	12.8	12.7	12.9	13.5	13.6	
NIM																
Bahrain	2.4	2.5	2.3	2.5	2.1	3.9	4.0	4.0	2.4	1.7	1.4	1.8	1.8	3.0	3.1	2.6
Kuwait	2.1	2.3	2.4	2.6	2.6	3.3	3.5	3.0	3.6	2.7	2.9	3.0	2.9	3.1	2.8	2.9
Oman	2.6	3.2	3.9	4.1	4.2	4.6	4.5	3.8	3.3	3.5	3.6	3.5	3.2	3.0	3.0	3.6
Qatar	2.7	2.9	3.0	3.0	3.0	3.1	4.1	3.7	3.5	3.4	3.7	3.6	3.0	3.0	2.9	3.2
Saudi Arabia	2.6	3.2	3.5	3.6	3.4	3.2	4.2	3.9	3.4	3.2	3.2	3.1	2.9	2.8	2.7	3.3
UAE	3.0	3.2	3.1	3.2	3.3	3.8	3.5	3.3	3.7	3.9	3.8	4.0	4.1	4.1	4.2	3.6
GCC	2.6	2.9	3.1	3.2	3.1	3.7	4.1	3.6	3.3	3.1	3.1	3.2	2.9	3.2	3.1	
Net-interest income to gross income																
Bahrain	64.9	64.5	63.6	65.5	62.9	64.3	59.9	72.8	57.1	67.3	65.4	66.0	86.4	84.6	83.7	68.6
Kuwait	82.1	80.5	80.1	78.3	79.7	75.8	79.7	79.1	83.2	80.7	80.2	79.7	74.7	81.7	80.3	79.7
Oman	89.4	88.2	87.8	88.8	84.0	85.4	84.9	77.9	78.1	80.7	83.5	80.9	80.0	72.7	77.4	82.6
Qatar	81.3	80.2	79.9	79.6	73.3	60.9	73.7	77.6	75.2	80.2	84.9	82.0	80.6	81.8	81.6	78.2
Saudi Arabia	89.3	89.1	88.6	88.4	78.5	71.1	72.7	80.1	79.1	76.4	72.2	69.1	68.1	68.6	67.5	77.2
UAE	80.1	78.3	77.6	76.2	73.5	70.6	84.6	76.6	79.3	81.0	80.8	82.4	80.3	77.7	74.6	78.2
GCC	81.2	80.1	79.6	79.5	75.3	71.4	75.9	77.4	75.3	77.7	77.8	76.7	78.4	77.9	77.5	

Sources: IFS and World economic outlook (IMF); country authorities; and researcher calculate. ROA: Returns on assets

banking sector in Bahrain is the second least profitable sector after Kuwait among GCC countries during the crisis period of 2008–2009. As a result of the crisis, the Arab Banking Corporation and Gulf International Bank in Bahrain have registered huge losses during the global financial crisis period (USD 0.9 billion and USD 1.1 billion, respectively) due to the exposure of their portfolios in several advanced economies (Al-Ajmi et al., 2009; Bahrain, 2009).

On the other hand, the banking sector in Qatar has been least affected by the global financial crisis due to the booming gas sector in the said country, and the government support to Qatari banks. The Qatari government bought real estate assets and stocks of Qatari banks up to approximately USD 6.01 billion which represent 6.1% of GDP at the end of the first half of 2009 (Callen et al., 2014; Kammer and David, 2011; Al-Hassan et al., 2010; Muharrami, 2009). Moreover, it may be mentioned that the Qatari banks have the second highest diversified sources of income in the Gulf countries.

5.4. Liquidity

Deposits are the main source of liquidity of the banking sector in GCC countries (Table 7). The deposits constitute between 40 and 78% of GCC banking sector's total assets during the period 2000–2014. Prior to the global financial crisis, during the after global financial crisis period, Bahrain's banking sector has the lowest average ratio of deposits to total assets at 48.8, 46.4 and 50.5% respectively. The said ratio is the highest (73.4, 70.4 and 74.1 respectively) in the case of banks in Saudi Arabia during the same periods. Most of these deposits are demand deposits.

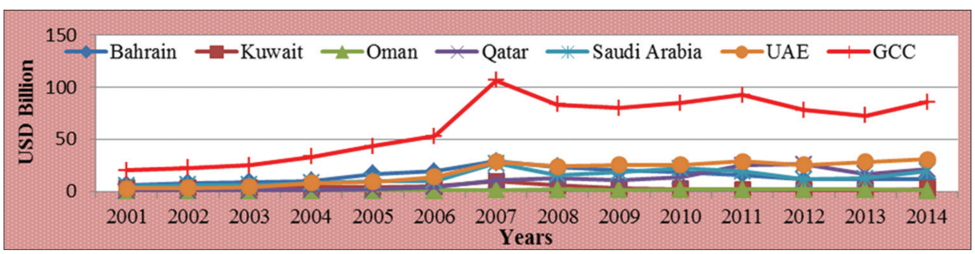
Loans to total deposit ratio is a major indicator of the liquidity risk. If the ratio is less than one, it indicates that the bank depends on its own deposits to provide the loans without any external borrowing. If the ratio is more than one, i.e., the loans more than the deposits, it indicates that the bank has become dependent on external financing, in other words, there is a funding gap. When the liquidity risk is too high, it implies that the bank does not have sufficient liquidity and may not be able to face the fall-out of economic crisis or any unexpected funding needs by customers (van den End, 2013; 2014; Rengasamy, 2014). Liquidity risk in the banking sectors in GCC countries is very high (Table 7) which implies that banks in GCC countries have become significantly dependent on external financing: external financing rises by more than four-fold to reach USD 86 billion at the end of 2014 compared to USD 20 billion in 2001 (Figure 8). On an average over the period of 2000–2014, the banking sector in the UAE, Bahrain, and Saudi Arabia have the highest level of external financing at USD 18.5, USD 15.5, and USD 14 billion, respectively. Banks in Oman have the lowest level of external financing of USD1.3 billion; followed by Kuwait banks at around USD 3.8 billion; and Qatar at USD 11 billion during the same period.

Table 7: Financial soundness indicators (liquidity) of GCC countries 2000–2014 (%)

Liquidity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
Loans to total deposits																
Bahrain	88.7	90.4	91.5	92.5	163.8	269.4	124.7	126.4	122.3	107.9	116.7	126.7	144.3	217.3	200.6	138.9
Kuwait	90.6	98.7	110.2	113.4	116.7	137.5	134.9	140.8	130.9	132.5	133.2	183.9	132.7	112.1	123.4	126.1
Oman	125.3	137	143.3	119	127	123	125	116	120	119	111	109	109	97.9	102	118.8
Qatar	107.1	104.1	103.8	101.0	95.5	103.6	108.7	138.4	149.1	140.6	118.3	117.1	112.1	104.4	107.7	114.1
Saudi Arabia	140.7	144	138.8	147	138	137.7	137	136	124	129	136	136	132	129	134.7	136.0
UAE	100.0	107.8	109.5	109.9	111.8	112.9	116.5	107.6	125.1	124.2	115.4	115.8	113.7	99.4	101.1	111.4
Liquid assets to total assets																
Bahrain	18.3	25.4	31.2	31.3	32.3	33.6	32.3	29.6	26.2	27.1	26.2	26.8	26.8	25.5	23.3	27.7
Kuwait	16.3	14.8	14	12.9	15.7	13.8	34.5	32.9	28.4	27.9	22.8	26.5	27.3	25.4	29.5	22.8
Oman	16.5	17.1	17.35	31.5	20.6	21.5	20.9	22.3	15.5	24.8	22.3	20.7	28.3	24.5	25.7	22.0
Qatar	19.5	22.1	23.4	32.1	29.8	26.4	28.9	31.1	32.9	36.3	38.5	36.3	38.1	50.9	47.3	32.9
Saudi Arabia	31.4	30.6	30.3	29.4	27.3	28.9	25.4	21.7	22	25.3	24.7	22.6	23.7	21.5	25.9	26.0
UAE	34.8	33.8	22.7	23.2	26.9	16.4	13.2	20.8	20.4	17.8	15.3	15.1	15.1	24.2	25.5	21.7
Deposits to assets																
Bahrain	50.1	50.3	50.5	51.0	48.8	47.6	44.2	41.7	46.4	48.5	50.4	51.8	52.5	47.6	50.2	48.8
Kuwait	60.9	62.1	60.5	59.4	58.5	62.8	62.3	61.6	59.0	61.8	64.4	62.8	62.5	62.2	60.9	61.4
Oman	58.4	61.1	64.6	77.1	73.8	72.8	71.0	68.8	68.4	70.8	72.1	75.6	74.1	64.7	74.7	66.2
Qatar	72.2	74.3	75.0	75.5	72.1	71.7	68.9	61.1	57.2	57.2	61.4	60.2	63.6	66.2	66.2	66.9
Saudi Arabia	72.4	75.3	75.7	73.4	73.1	70.8	73.7	72.5	70.4	69.2	72.1	74.1	75.0	73.9	75.3	73.1
UAE	70.1	71.5	72.1	72.8	73.0	67.8	66.3	64.8	66.7	66.1	68.3	68.1	68.7	69.4	69.4	69.0
Demand deposits to total deposits																
Bahrain	40.9	52.4	50.7	59.9	65.1	54.1	43.9	33.2	35.3	23.7	23.3	26.1	25.3	41.5	48.1	41.6
Kuwait	32.3	33.5	35.1	36.7	33.8	43.0	34.9	28.7	11.7	14.0	16.4	22.0	33.2	36.9	57.9	31.3
Oman	14.6	14.9	15.2	15.7	24.8	24.9	22.4	22.5	20.3	24.2	25.7	25.1	31.8	46.8	44.5	24.9
Qatar	25.5	27.6	26.8	27.8	26.4	34.2	29.7	27.4	26.5	22.7	24.5	26.9	26.4	20.4	21.7	26.3
Saudi Arabia	45.2	46.6	49.7	48.5	49.9	45.6	41.2	43.4	40.5	46.1	53.8	58.1	59.8	61.1	65.2	50.3
UAE	15.8	16.6	17.1	17.3	22.5	23.8	21.1	23.0	22.9	23.2	21.5	24.4	26.1	33.0	38.1	23.1

Sources: IFS and world economic outlook (IMF); country authorities; and researcher calculate

Figure 8: Trends of External Financing of GCC Banks during the Period of 2000-2014



Source: BIS Consolidated Banking Statistics.

The average level of liquid assets to total assets ratio of banks in GCC countries is 24.7% during 2000–2007; it is 25.4% during the global financial crisis period 2008–2009 and 26.9% during 2010–2014 (Table 7). Prior to the global financial crisis (2000–2007), banks in Bahrain sector have the highest average level of liquid assets to total assets ratio of 29.3%, followed by banks in Saudi Arabia at 28.1%. Liquid assets to total assets ratio of banks in Qatar, UAE, Oman and Kuwait are 26.7, 24, 21 and 19.4% respectively. During 2008–2009 and post- global financial crisis (2010–2014), banks in UAE have the lowest level of average liquid assets to total assets ratio at 19.1 and 19% respectively, while banks in Qatar have the highest average level of liquid assets to total assets ratio at 34.6 and 42.2% respectively during 2008–2009 and 2010–2014 (Table 7).

6. CONCLUSION

In general, the level of capitalization of banks in GCC countries appears comfortable despite the adverse effect of the global financial crisis. However, experience suggests that the position might become vulnerable especially in those countries which have registered high credit growth and have significant exposures to real estate and construction (which by nature, are pro-cyclical). Despite apparent financial soundness as presented earlier in the write-up, there are certain weaknesses in the banking sector of GCC countries which needs investigation.

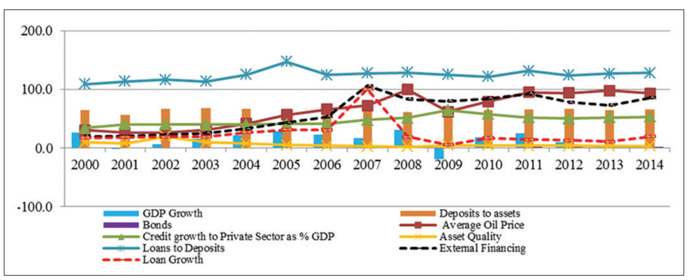
Firstly, GCC countries have registered sharp growth in of credit in consonance with the steady rise in the price of oil straining the liquidity position of banks. International experience suggests that swift growth of credit during the period of high real economic growth leads to high level of loan impairment when there is a reversal in economic conditions. During the global financial crisis, there is a sharp decline in oil prices that have resulted into a slowdown in the economic activity, as well as worsening banks' asset quality. This phenomenon has drawn the attention of the policymakers in GCC economies and is examining policy measures that can reduce the influence of oil prices on the economic activities and finally on the health of the financial sector (IMF, 2015; Figure 9).

Secondly, there are concerns regarding asset management practices of banks in GCC countries. GCC banks have huge exposure to few customers and also to institutions having significant exposures in real estate and equity market which are prone to volatilities in the marketplace. In addition, some banking systems in GCC countries are highly exposed to households including expats secured by their salaries which are associated with the level of economic activities in the respective countries (for example, in Bahrain, the personal domestic credit that secured by salary ranging between 50% and 60% of the total personal domestic credit, while more than 70% in Qatar during the period 2005–2014). As a result, a slowdown in economic activities in those GCC economies results in massive loan defaults.

Thirdly, other pressing issue varies across countries but often include the resolution of NPLs, curbing consumer lending, and curtailing directed lending. Brownbridge (1998) and Kammer (2013) NPLs, which is an important indicator of risk has reduced the quality of banks assets and eroded the banks' profits. Brownbridge (1998) also argues that high NPLs ratio lead to financial distress and bank failure. Furthermore, he also stresses that the severity of bad debt problems is attributable to moral hazard on bank owners and the adverse selection of bank borrowers. Although the overall NPLs ratio in the GCC banking sector is at historically low levels, however, it has remained high when compared to a group of selected emerging and developed countries as well as the average NPLs ratio of the global banks during the period of 2005–2014 (Figure 10). This may be due to their risky strategies. The average NPLs ratio to total loans in the banking sector of UAE and Kuwait (6.01 and 5.8%) have witnessed almost double than the average NPLs ratio of the global banks (3.01%) while it has experienced 4.6% in Bahrain and 3.6% in Oman during the same period (Figure 10). However, the delinquency periods for NPLs under loan classification norms differ, being more conservative in Qatar, and Saudi Arabia, and less so in the UAE, Kuwait, Bahrain, and Oman. In other word, enforcing NPLs ceilings, increasing financing and coverage of the problem loan fund, stronger enforcement of provisioning rules, and stricter requirements for the accurate classification of NPLs in GCC countries are still needed.

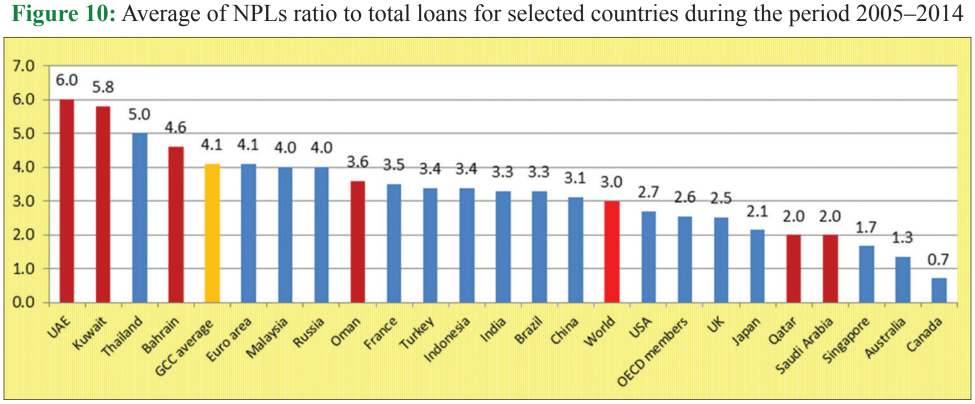
Fourthly, there is a need to evaluate the liquidity management practices of banks in GCC countries. In general, banks in GCC countries seem to keep low levels of liquidity compared to international standards. Loan to total deposits or liquidity risk of banks in GCC countries are extremely high (Table 7 and Figure10). Though banking institutions in GCC countries rely comparatively more on stable deposits as their major source of funds, little share of bond financing obscures the ability of banks in managing the maturity mismatches between assets and liabilities in their balance sheet. Furthermore, increase in the reliance of some banks of GCC countries on external financing during recent years has significantly increased banks' susceptibility to conditions of external credit. This has been proved during the global financial crisis as liquidity of banks is squeezed with the constriction in the conditions of global liquidity.

Figure 9: Key indicators of performance in gulf cooperation council economies



Sources: IFS and world economic outlook (IMF); country authorities; and researcher calculate

Figure 10: Average of NPLs ratio to total loans for selected countries during the period 2005–2014



Sources: IFS and world economic outlook (IMF); and world bank data

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