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# Assessing the Effect of Dynamics of Oil Prices on Banking Sector Profitability: Evidence from UAE

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## Abstract

This study investigates the impact of oil price dynamics and other determinants on the profitability of banking sector. The analysis covers a six-year period, from 2017 to 2022, utilising panel data methods. The focus is on the United Arab Emirates' banking sector, examining 10 banks, comprising both conventional and Islamic financial institutions. The random effects model results reveal a significant positive relationship between oil price dynamics and bank profitability, affirming the economic importance of oil. Loan loss provisions and leverage ratios exhibit negative and significant effects on profitability, underscoring prudent risk management needs and balanced leverage management to ensure sustained profitability. Deposit growth, deposit ratio, and income diversification positively and significantly influence bank profitability, reflecting opportunities to bolster performance. The study also uncovers a negative and significant correlation between cost efficiency and bank profitability, indicating the significance of cost efficiency in determining the profitability of the UAE banking sector. The findings have strategic implications for stakeholders to capitalise on oil revenue flows while supporting policies that account for asset quality, operational

efficiency, and revenue diversification to drive long-term profitability and stability in the banking sector. The study suggests that future research should expand the sample size to include the GCC banks, in order to more comprehensively examine the effect of oil prices on banking sector profitability. © 2026, Faculty of Economics and Administration. All rights reserved.

## Author keywords

Banking sector; GCC; Loan loss provisions; Oil price; Oil-exporting country; Profitability; UAE

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