IMPACTS OF POLITICAL INSTABILITY ON BANK PERFORMANCE: (EVIDENCE FROM ETHIOPIAN BANKING SECTOR)

Alemu Ademe
College of Business and Economics, Department of Banking and Finance, Bonga University, Ethiopia
*Corresponding Author:
Email: alaltophero@gmail.com

Accepted by Editors: 17-08-2023 | Completed Revision: 19-09-2023 | Published: 06-10-2023

Abstract
The soundness of the banking sector is very important because they play a pivotal role in economic growth. This article sought to investigate the Impacts of political instability on financial institution performance evidence from Ethiopian banks. The study employed 16 out of 26 banks due to the availability of audited panel data from the National Bank of Ethiopia (NBE) and the ministry of finance and economic development (MoFED), for the period ranging from 2013 to 2021. For the study, the panel regression model was employed. The study used two common measures of performance, proxied by either ROA or ROE as the dependent variables. Eight independent variables are also used. The descriptive and multiple linear regression analyses were done. The results documented that political violence & ethnic conflicts, and inflation have a significant negative effect on ROA and ROE, but non- performing loans have a significant and negative effect on ROA and a significant and positive effect on ROE, while deposit volume, operational efficiency, financial risk, and GDP have a positive and significant effect on ROA and ROE. The finding also reveals liquidity has a positive and insignificant effect on ROA and ROE. Political instability is a serious problem for the sustainable development of the country's banking sector. Thus, the study gives worthy acumens for the Government, regulators, and interested parties for enhancing the performance of the banking sector in Ethiopia.

Keywords: War, Bank Performance, Ethiopia, OLS

1. Introduction

It is obvious, Ethiopian banking sectors are engines that stir Ethiopian economic growth and their roles are never underestimated. Banking sector failure could lead to the collapse of the aggregate economy (Bushashe, 2023). because Ethiopian economic destinies have depending on the banking industry (Alene, 2020). The banking scheme of Ethiopia is the backbone of the economy in which a substantial part of its business enhances and distributes financial sources to investment activity, industry, and commerce (Yahya et al., 2017). The soundness of the banking sector is one of the most economically imperative and is closely intertwined with other sectors. To test the soundness of a bank is to measure its profitability (Shifa, 2019& Alene, 2020). The Ethiopian economy is highly supported by the banking sector (Hailegebreal, 2016). Commercial banks with better financial performance are better able to withstand negative shocks and contribute to financial sector stability (Athanasoglou, Sophocles & Delis, 2008). Although the banking sector has managed to turn a profit recently, the vicious circle in Ethiopia's

political situation certainly continues to threaten the sustainability of progress in bank performance through its direct and indirect effects. Political instability and terrorism have numerous economic adverse consequences. These can be classified into short-term direct effects, medium-term confidence effects, and long-term productivity effects. Economic costs of terrorism include the destruction of life and property, restoration of systems, and affected infrastructure (Woldesenbet et al., 2022). Political instability increases the bank's risk and affects the bank's financial performance (Brini &Jemmali 2016).

The escalating conflict and fragility in Ethiopia are major concerns when political violence and ethnic conflict are experienced frequently in terms of the past decade especially, the youth was known as (Qeerroo) movement for freedom and democracy (Khafaga et al., 2022). For the past decade, the Ethiopian political regime has led to ethnic conflict, violence against human and democratic rights, and war the consequence is property destruction, displacement, and death of people, bank robberies, and miscarrying investment (Amsalu, 2020 & Compaoré, 2020). The National Bank of Ethiopia (NBE) has closed all branches found in Tigray Region following "robbery by the armed group, Tigray Peoples Liberation Front (TPLF)". Each commercial bank has hundreds of branches in conflict-affected areas (NBE 2022). The national bank reported almost two-billion-birr loans were lost in the event of in Tigray war. Wegagen bank's NPL hoisted at 2.9 billion, while its loss in the Tigray war was 1.2 billion birrs, as well as development bank of Ethiopia's (DBE's) non-performing loan (NPL) in Tigray, jumped from 2.4 billion before the war to 10 billion birrs. Out of DBE's total NPL, Tigray alone constituted 12 percent of it. As a result, DBE's profit for the year shrank from 7.8 billion to 3.7 billion birrs. The bank's net profit for the year is 3.3 billion birrs, dropping the 600 million birrs in dividends paid to the government (NBE 2022).

The consequence of conflict and civil war has demolished crops worth 16 million quintals, worth 44 billion birrs (BBC, 2021). Ethiopian political condition is one of the main obstacles to the growth of the banking sector. Ethiopian domestic politics have fostered violence and ongoing tension over the years. Ethiopia has witnessed an explosion of violence and conflict (Jima, 2021). The main reason for Ethiopia's political instability is that the conventionally ruling government wants to stay in power forever (Arriola, 2009). War and ethnic conflicts leading to lower investor and consumer confidence, trade disruption, and undermining incentives to save could lead to momentous economic stagnation, with adverse effects and endanger entire economies of a given nation (Rother et al., 2016) and (Polache, 2010). It also increases the inflation rate and negatively affects bank performance (Alyousfi 2020; Castro & Veiga 2004). Although IMF, (2019) and (Rother et al., 2016) underlined that war and conflict can lead to lower performance in the banking sector, and deteriorate banks' capacity to sustain financial intermediation and payment systems. Huang, (2019) initiate that political instability influence banks 'income statement and balance sheet. As a result, the financial soundness of the banking sector in Ethiopia is not a bargaining issue, and investigating the factors that can influence the industry is a vastly researchable area (Hailegebreal, 2016). The above serious issues motivated the researcher to put some sort of contribution to the Impacts of political instability on financial institution performance from Ethiopia's banking sector.

2. Theoretical Background

A bank is a financial institution in which a substantial part of its business consists of the mobilization of deposits and providing loans and advances, it is a lifeblood of industry, commerce, and trade (Shifa, 2019). Profitability of financial institutions specifically banks is affected by both firm-specific and macroeconomic variables. Bank profitability is commonly measured by proxy return on assets and returns on equity it is expressed as a function of firm- specific and macroeconomic determinants (Sufian, 2009).

There are numerous studies dealing with the profitability of the banks in the Ethiopian context a study conducted by (Alene, 2020) internal (Capital Adequacy, Bank Size, Deposit Ratio, Credit Risk, and cost of funds), external factors (inflation rate, real economic growth rate, exchange rate), industry-specific (lending rate). The study used regression analysis to examine the data for the period from 2005 to 2019. The results show that bank-size capital adequacy ratios and deposit ratios are positively and significantly associated with the profitability of Ethiopian commercial banks. Another key bank-specific explanatory variable is liquidity. Liquidity has a significant and negative relationship with a bank's profitability (measured by NIM). The last significant variable is lending interest rate, which has a negative significant influence on ROA & ROE, whereas three macro-economic variables haven't a significant influence on ROA, ROE &NIM.

Melaku (2016) has examined Asset size, capitalization, labor productivity, liquidity, non- interest income, credit risk, and overhead efficiency influence on the profitability of banks with a proxy of (ROA). The study used fixed effects regression model from 2004 to 2011. Results show that bank-specific variables are far more important than external variables in explaining profitability. The Asset size, capitalization, labor productivity, liquidity, and non- interest income were positively and significantly related to the bank's profitability, while credit risk and overhead efficiency negatively influence the profitability of the bank.

Bushashe (2023) studies the factors affecting Ethiopia's private bank performance. The study employed a causational research design and data from 2010–to 2021. The result shows that industry-specific factors and external factors have a significant negative effect on bank performance. Internal factors have a significant positive effect on bank performance and the banking industry. Besides, industry-specific positively mediate the relationship between bank-specific factors and bank performance. The external factor does not affect bank and industry-specific variables Athari, (2021) study examines the effects of domestic political risk and global economic policy uncertainty factors on the profitability of Ukrainian banks during the 2005–2015 period. The results show that domestic political stability and global economic policy uncertainty have significant positive and negative effects, respectively, on the profitability of Ukrainian banks. Similarly, the results for traditional determinants show that the profitability of Ukrainian banks is determined by the bank and industry-specific determinants.

Elshaday et al., (2018) evaluated the financial performance of commercial banks in Ethiopia from 2007 to 2016, Return on Asset and Return on Equity are the selected dependent variables while the independent variables were loans, capital adequacy ratio, bank size, leverage ratio, loan yield ratio, loan loss reserve ratio, and operational cost efficiency. The study was analyzed using the random effect model; the result indicates capital adequacy ratio (CAR), credit interest income (CIR), and Size of the bank (SIZE)

have a positive and statistically significant effect on financial performance. Non-Performing Loans (NPL), Loan Loss Reserve (LLP), Leverage Ratio (LR), and Operating Cost Efficiency (OCE) has a negative and statistically significant impact on a bank's financial performance.

(Lemi et al., 2020) Return on Asset and Return on Equity is the selected dependent variables while money supply, cash reserve requirement, GDP growth rate, inflation rate, and firm- specific factor including leverage, bank size, and credit risk were independent variable. The study used regression analysis to examine the data for the period from 2000 to 2017. The result shows broad money supply and credit risk have a negative and statistically significant effect on banks' financial performance whereas inflation, GDP, and leverage had positive and statistically significant impacts on the profitability of Ethiopian commercial banks however leverage influences ROA. On the other hand, Cash reserve ratio and bank size were found to have insignificant effects on profitability.

(Shifa, 2019) analyze the determinants of the profitability of commercial banks in Ethiopia. business mix indicators, risk aversion index, management efficiency, liquidity risk, bank size, external determinants; ownership, market concentration, and GDP, were regressed against return on asset for the period 2007 to 2016. By using the pooled OLS technique, Results show business mix indicators, risk aversion index, management efficiency, liquidity risk, and bank size had a significant effect on the return on asset, besides properties, there were other external determinants. Market concentration and GDP are not insignificant in determining the return on assets of Ethiopian commercial banks. In the study conducted by (Sime et al., 2020) return on assets (ROA) and return on equity (ROE) as dependent on financial performance variables while management efficiency, customer deposit, capital adequacy, and loan-to-deposit ratio are related to bank's financial performance.

The study used Both descriptive statistics and econometrics models specifically fixed effects estimation used to analyze the relationships of the dependent variable with explanatory variables for the period from 1997 to 2017. The key findings of the study indicate that bank- specific determinants are of great importance in explaining the financial performance of commercial banks. Operating efficiency, customer deposits to total assets ratio, capital adequacy ratio, and loan-to-deposit ratio were positively and significantly associated with banks' financial performance. Except for Ethiopia, few studies have examined the impacts of political instability on bank profitability in the banking sector and other sectors of the economy.

(Yahya et al., 2017), Examine the impact of political instability and macroeconomic and bank-specific factors on Islamic banking profitability in the context of Yemen. The results reveal that the capital adequacy ratio is a negative and insignificant effect on ROA and ROE. In addition, the result shows that company size, asset management, liquidity, and deposits have a significant and positive impact on banks' profitability; GDP, inflation (IR), and political instability have a significant positive impact on Yemen banks' profitability. Another study (Jadah, et al., 2020) investigated the impact of political instability on bank performance, during the ISIS era (2009-2013) before the Islamic State of Iraq and Syria and during ISIS. The results show a significant negative correlation between political instability in the ISIS era and bank performance.

(Şanlısoy et al., 2017) identifies the impact of political instability on the profitability of Turkish banks. Selected political risk indicator variables and some endogenous,

macroeconomic, and financial variables that affect bank profitability are also included. The result shows that political risk negative impact on bank profitability. A study conducted by Obalade et al., (2021) Political Risk and Banking Sector Performance in Nigeria. The results show the impact of political risk on bank performance depends on performance peroxide ROA. In particular, political risk was found to be negatively related to banks' return on invested capital and positively related to worsening credit risk. Hasanov & Bhattacharya, (2019) used a sample of OECD countries to determine the impact of political factors on the likelihood of a banking crisis. They point out that countries with more stable governments tend to be less likely to experience banking crises. Ethiopian political fluctuation effectively brings structural changes to the economy, and social and political aspects and negatively influences financial institution performance and economic growth directly and indirectly.

Several scholars have studied the impacts of political instability on banks performance both Islamic and conventional banks across the country, Surprisingly, to my knowledge, there is no empirical study on the potential impacts of political instability on financial performance in the Ethiopian banking industry. Despite major incidents such as anti-government protestors and war between the Ethiopian army and the Tigray people liberated Front (TPLF), it will certainly affect the banking sectors and other infrastructure of the country in the period 2013-2021. This paper fills a gap in the literature by rigorously examining the impacts of political instability on the financial performance of the Ethiopian banking sector a channel that has not been noted in the literature. And to realize the following sub-objectives: To examine the impact of the bank-specific factor on financial performance in Ethiopia bank. To analyse the impact of the external factor on financial performance in Ethiopia bank. To evaluate political factors that influence the financial performance of the banking sector in Ethiopia.

Hypotheses of the Study

H1: Volume of deposits has a significant positive effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H2: Liquidity has a significant positive effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H3: Nonperforming loan has a significant negative effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H4: Financial risk has a significant negative effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H5: Operation efficiency has a significant positive effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H6: GDP has a significant positive effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H7: inflation has a significant positive effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

H8: political violence and ethnic conflicts have a significant negative effect on the bank performance (ROA & ROE) of the Ethiopian banking sector during the period 2013–2021.

Conceptual framework from the literature review mentioned above, the investigator developed the following graphic representation of the conceptual framework.

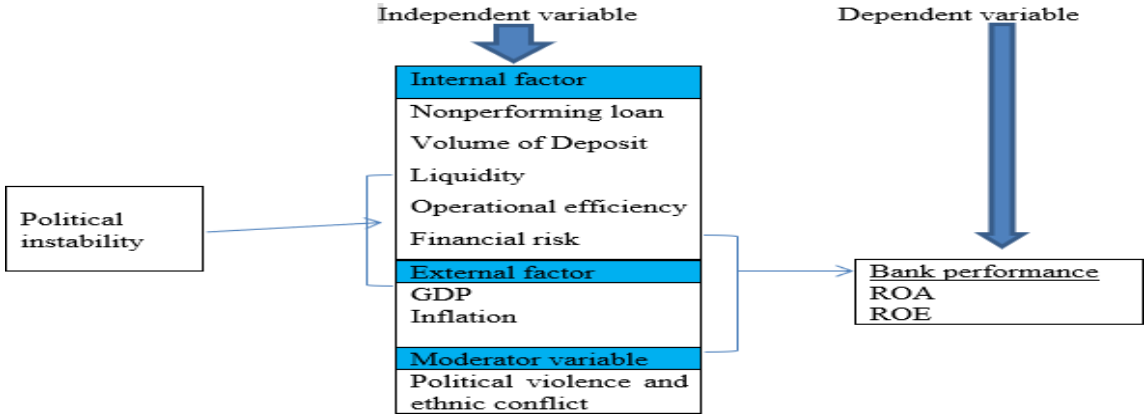

Figure 1. Conceptual framework

3. Methods

This study employed a quantitative research method and an explanatory research design. There was a critical review of the secondary panel data obtained from audited annual reports of the National Bank of Ethiopia (NBE) and the ministry of finance and economic development (MoFED), over the 9 years study periods (2013- 2021 (G.C)). As per the National Bank of Ethiopia annual report of 2020/21, 26 commercial banks have been found in operation. Among those, 16 banks were judgementally selected, considering that these banks have adequate data during the study periods.

Methods of Data Analysis, Interpretation and variable with measurement

After the data collection process has been accomplished, descriptive and inferential data analysis methods were customized. For the current study, the panel regression model was employed. EVIEWS 12. The diagnostic tests of the classical linear regression model were also conducted at a 5% level of significance. The study specifies eight independent variables such as liquidity (LQ), nonperforming loan (NPL), the volume of deposit (VD), financial risk (FR) and operational efficiency (OE) macroeconomic variable gross domestic product (GDP), inflation (IN) and moderator variable political violence and ethnic conflict (PV&C), into its model for investigating the Impacts of political instability on the financial performance of Ethiopian banking sector of sampled banks, a panel regression model was formulated as follows $Yit = \alpha + Xit'\beta + u$, it Where Yit characterizes dependent variable (ROA, ROE, i at time t), Xit was predictor variable for bank i at time t; α was intercept/constant term, β was coefficient which represents predictor variables' slope, and ui,t was the error term (scalar). While i denote cross-sections (bank), t represents time-series dimensions (years).

The general model specified for the study was:

$$ROA\ i,t=\alpha+\beta1(LQi,t)+\beta2(NPLi,t)+\beta3(CRi,t)+\beta4(VDi,t)+\beta5(ASi,t)+\beta6(GDPi,t)+\beta7(INFi,t)+\varepsilon i,\ ui,t$$

$$ROE\ i,t=\alpha+\beta1(LQi,t)+\beta2(NPLi,t)+\beta3(CRi,t)+\beta4(VDi,t)+\beta5(ASi,t)+\beta6(GDPi,t)+\beta7(INFi,t)+\varepsilon i,\ ui,t$$

Table 1.Variables with its measurement and hypothesis

	Variable	Measure	Notation
Dependent variable	Profitability	Net profit before tax/total assets	(ROA)
	Profitability	Net profit before tax/total equity	(ROE)
	Volume of deposit	Deposits/total assets	VD
	Liquidity	Liquid asset/ total asset	LQ
	Nonperforming loan	Nonperforming loan /gross loan ratio	NPL
	Financial risk	Total liability/total asset	FR
	Operation efficiency	Total operating expense/total assets	OE
	gross domestic product	Annual real GDP growth	GDP
	Inflation	Rate of inflation	IN
	Political violence and ethnic conflict	1 for the year presence of conflict and war, 0 for the year absence of conflict and war	PV&C

4. Results and Discussion

Table 2. Correlation Matrix of Explanatory Variables

	VD	PV_C	OE	NPL	LQ	IN	GDP	FR
VD	1							
PV_C	0.213	1						
OE	-0.044	-0.108	1					
NPL	0.149	0.150	-0.011	1				
LQ	-0.246	-0.061	-0.123	0.038	1			
IN	0.184	0.368	-0.174	0.326	0.0466	1		
GDP	-0.225	-0.095	0.047	-0.338	0.128	-0.735	1	
FR	0.216	0.166	-0.002	0.188	-0.266	0.184	-0.179	1

Source: EVIEWS version 12 outputs.

Table 3. Testing serial correlation test for Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RESID(-1)	-0.820452	0.097776	-8.391104	0.0000
D(RESID(-1))	0.052053	0.079026	0.658683	0.5115
Durbin-Watson stat	2.090270			

Source: EVIEWS version 12 outputs.

Table 4. Testing serial correlation test for Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RESID (-1)	-0.954745	0.091887	-10.39046	0.0000
D(RESID(-1))	0.136075	0.072237	1.883721	0.0622
Durbin-Watson stat	1.728776			

Source: EVIEWS version 12 outputs.

Table 5. Testing Heteroskedasticity problem for model 1 ROA

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	221.3349	120	0.0687

Source: EVIEWS version 12 outputs.

Table 6. Testing Heteroskedasticity problem for model 2 ROE

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	161.9334	120	0.0595

Source: EVIEWS version 12 outputs.

Table 7. Descriptive statics

	ROA	ROE	VD	PV_C	OE	NPL	LQ	IN	GDP	FR
Mean	0.027	0.190	0.736	0.666	0.029	0.032	0.236	0.127	0.080	0.875
Median	0.027	0.180	0.730	1.000	0.028	0.026	0.217	0.126	0.080	0.880
Maximum	0.053	0.420	0.800	1.000	0.042	0.140	0.567	0.210	0.104	0.940
Minimum	0.010	0.090	0.650	0.000	0.016	0.011	0.120	0.074	0.041	0.820
Std. Dev.	0.008	0.060	0.035	0.473	0.006	0.021	0.083	0.048	0.019	0.026

Source: EVIEWS version 12 outputs

Table 8. Multiple regression analysis for model 1.

Dependent Variable: ROA
Total panel (balanced) observations: 144

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.045706	0.033993	-1.344566	0.1813
VD	0.043209	0.025249	1.711334	0.0896
PV_C	-0.003495	0.001411	-2.477545	0.0146
OE	0.144750	0.008547	1.333526	0.0849
NPL	-0.118350	0.061437	-1.926363	0.0760
LQ	0.011334	0.010525	1.076874	0.2837
IN	-0.034348	0.020298	-1.692206	0.0932
GDP	0.086100	0.048286	1.783132	0.0771
FR	0.711369	0.383944	1.852793	0.0664

R-squared	0.679395
Adjusted R-squared	0.629612
F-statistic	4.804386
Prob(F-statistic)	0.000000

Source: EVIEWS version 12 outputs
Note: significance at 1, 5, 10 percent levels.

Table 9. Multiple regression analysis for model 2

Dependent Variable: ROE
Total panel (balanced) observations: 144

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.269655	0.254464	-1.059698	0.2914
VD	0.281213	0.189005	1.487862	0.1394
PV_C	-0.023573	0.010560	-2.232373	0.0274
OE	0.394330	0.171801	2.295278	0.0235
NPL	0.214947	0.228084	0.942404	0.0479
LQ	0.062648	0.078786	0.795169	0.4281
IN	-0.145935	0.151942	-0.960469	0.3388
GDP	0.681298	0.361454	1.884882	0.0619
FR	0.287202	0.140389	2.045763	0.0427

R-squared	0.641502
Adjusted R-squared	0.572789
F-statistic	4.262685
Prob(F-statistic)	0.000000

Source: EVIEWS version 12 outputs
Note: significance at 1, 5, and 10 percent levels.

The data collected from annual reports of each banking sector were analyzed with the help of software (EVIEWS 12.) and then was interpreted in the following section. Results of Diagnostic Tests, diagnostic tests to safeguard against the possibility of finding and deducing counterfeit regression results, every estimator of the model should have to meet the ordinary least-squire (OLS) assumptions before the estimation is carried out. If the estimators of the model satisfy the OLS assumptions it is possible to say the estimators are Best Linear Unbiased Estimators (BLUE). The estimators of models should satisfy all ordinary least-squire (OLS) assumptions (Brooks, 2008). Accordingly, appropriate diagnostic tests for each ordinary least squire (OLS) assumption were conducted.

Testing Multi-collinearity problem, to assure this implicit assumption, the researcher of the present study used a correlation matrix of explanatory variables as presented to assure this implicit assumption, the researcher of the present study used a correlation matrix of explanatory variables as presented. Above Table 2 Correlation Matrix of Explanatory Variables indicates that according to (Tay,2017) Multicollinearity is a severe problem if the correlation between two independent variables is greater than 0.8 But, as it is shown in table 4.3 above, the highest observed correlation for explanatory variables of this study was -0.735 between inflation and GDP which is below 0.8. So possibly to ignore, Multicollinearity was not a serious problem for this study.

As noted, (Tay, 2017). The best-renowned test for detecting serial correlation is the Durbin Watson test. Accordingly, if the computed nearest to two in an application, it is assumed that there is no Autocorrelation problem. Thus, as shown in tables 3 & 4 the computed above in this study was 2.09 & 1.72 respectively which is nearest to 2 implying the absence of an autocorrelation problem. Thus, this implies that error terms are not correlated with one another for different observations in this study.

Accordingly, to detect the Heteroskedasticity problems, the Breusch-Pagan test was utilized in this study. This test states that if the p-value is significant at a 95 confidence interval, the data has a Heteroskedasticity problem, whereas if the value is insignificant (greater than 0.05), the data has no Heteroskedasticity problem. Thus, as shown in tables 5 and 6 there is no Heteroskedasticity problem for this study hence the p-value is 6.78% or (0.0687) 5.95% or (0.0595) respectively showing insignificant values.

Table 7 illustrate the descriptive inquiry of the variables used in the study. The mean values of ROA and ROE are 0.027 and 0.190, respectively. It shows that the percentages of ROA and ROE are lesser, while the standard deviations for both are also trivial 0.008 and 0.060, respectively. This scenario indicates that there is no high variation. The volume of deposits measured as Deposits/total assets registered a high mean of 0.736, while the standard deviation is not the highest 0.035. The mean value of the political violence and ethnic conflict (pv&c) dummy variable is 0.666 which expresses the high value and moderate standard deviation which is 0.47.

Operational efficiency (OE) measured as Total operating expense/total assets is 0.029 while the standard deviation is 0.006. The mean value of a non-performing loan measured as a Nonperforming loan /gross loan ratio is 0.032, while the standard deviation is 0.021. Liquidity is measured as Liquid asset/ total asset and the registered mean value is 0.236 whereas the standard deviation is 0.083. Financial risk measured as total liability /total asset mean value is 0.875 it is the highest and small standard deviation of 0.026. Macro-economic variables (GDP) mean value is 0.080 and deviation is 0.019, and the inflation registered to mean is 0.127 while the standard deviation is 0.048.

Table 4 and Table 5 illustrate the results of regression analysis between dependent and independent variables. The R-square is 67.9% and 64% for the first and second models, respectively. Adjusted R square indicates how well the model variance explained as well as adjusted R-square closest to 1 is an indication that the model is strongly elucidated by the variables included in the study whereas the Adjusted R-square nearest to 0 is indicating that the model is not strongly elucidated by the variables used in the study Morgan et al (2004). Independent variables explain 67.9% of variants in the dependent variable (ROA), while for ROE, the independent variables explain 64% of the variations of ROE, and the remaining variants are explained by other factors not included in the study. In the sense, Liquidity, Volume of deposits, non-performing loan, financial risk, Operation efficiency, gross domestic product, Inflation, and political violence and ethnic conflicts for both models respectively.

This study found that volume, of deposits, operation efficiency, GDP, and financial risk have a positive and significant effects on bank performance peroxide by ROA, this indicates that direct relationship between dependent and independent variables, whereas political violence and ethnic conflict, non-performing loan and inflation have a negative and significant effect on bank performance proxied by ROA, this indicates that inverse relationship among dependent and independent variable. Despite this, the study found that liquidity has no significant effect on ROA

In addition, for model two operation efficiency, non-performing loan, GDP and financial risk have a positive and significant effects on ROE. This means those variables increase shareholder capital increase while political violence and ethnic conflict have a negative and significant effects on ROE. This also shows that conflicts and instability increase bank performance decrease at both prospects. But non-performing loan influence negatively ROA, but positively affect ROE Regardless this, the study found that the volume of deposits, liquidity, and inflation are insignificant. From this, it is possible to conclude that the most important determinants of the Ethiopian banking industry are focused on this variable.

The regression result in the table 8and 9 shows that the impacts of the volume of deposits on bank performance as proxied by Return on Assets (ROA) is positive and significant at a significant level (p-value of 0.0896) at a 10 % confidence interval, but has insignificant effect on ROE. This is an indication that when the volume of deposits increases, its return on assets will also raise. As a result, the 1st hypothesis (H1) that the volume of deposits has a positive and significant effect on bank performance is not rejected. The result of this study is consistent with the result of (Huang et al., 2019) and (Alene 2020).

It is shown in the table above that political violence and ethnic conflict has a significant and negative effect on bank performance for both prospects (p-value of 0.0146) at a 5% confidence interval for ROA and (p-value of 0.024) at 5% for ROE. This scenario indicates political violence and ethnic conflict increase bank performance decrease subsequently leads to crisis. As a result, the 8th hypothesis (H8) that political violence and ethnic conflict have a significant negative effect on bank performance in Ethiopia is accepted. The result of this research is consistent with the previous studies done by Compaoré et al., 2020).

Operational efficiency has a significant positive effect on the return on assets and return on equity of the Ethiopian banking sector (with a p-value of 0.0849) at a 10% confidence interval and (with a p-value of 0.0235) at a 5% confidence interval. This is an

indication that when the Operational efficiency increases, its return on assets and return on equity will also raise. It was hypothesized that operational efficiency has a positive effect on the bank's performance. Thus the 5th hypothesis (H5) is accepted showing that while the Operational efficiency of companies increased, the profitability of the industry will move in the same direction. This result was also proved by (Obalade et al., 2021), but not consistent with empirical results (Yahya2017).

As it is found in this study, non-performing loan (NPL) has a negative and significant effect on ROA (with a p-value of 0.0760) at a 10% confidence interval but are positively associated with ROE. (With a p-value of 0.0479) at 5% Hence, the 3rd hypothesis is accepted. This result is consistent with the previous study conducted by Elshaday et al., (2018), which found that non-performing loans significant negative effect on banks' financial performance.

It is found that liquidity has a positive and insignificant effects on the ROA and ROE of bank performance. Thus the 2nd hypothesis is rejected that liquidity has a significant effect on the Ethiopian banking sector. This result is similar to Melaku et al., 2016, and Yahya, 2017) and is not consistent with empirical results (Alen. 2020).

The regression result of this study revealed that the effect of financial risk on the Ethiopian banking sector's performance is significant and negative ROA, (with a p-value of 0.0664) at 10%.and ROE (with a p-value of % 0.0427) at 5% Hence, the 3rd hypothesis is accepted, this indicates that financial risk increases inversely bank performance decrease. This finding is consistency with (Yahya et al., 2017).

The regression in the above table 4 and 5 indicated that macroeconomic variable inflation has a significant negative effect on ROA a p-value of 0.0932) at 10% but insignificant effects on ROE. However, this scenario during high inflation era the performance of the banking sector decreases and GDP has a positive and significant effect on bank performance at ROA and ROE (with a p-value of 0.0771) at 10% (with a p-value of 0.0619) at 10% this means during the economy growing era also bank performance increasing thus the 4th and 5th hypothesis are accepted this result is consistence with Yahya (2017) and Obalade (2021).

5. Conclusion

The conclusion contains a brief summary of the research results and a discussion that answers the research objectives. This study examines the impact of political instability, on the performance of the Ethiopian banking sector. For the study, a sample of sixteen banks was chosen from the population of twenty-six banks in Ethiopia. Return on asset (ROA) and returns on equity (ROE), were taken as dependent variables while independent variables were divided into three categories: bank-specific variables, namely volume of deposit, operational efficiency, liquidity, financial risk, non-performing loan, and macro-economic variables GDP and inflation rate and moderator variable political violence and ethnic conflict.

The analysis was performed in three stages. First, the descriptive statistics showed that Political violence and ethnic conflict, volume of deposits, and financial risk have a higher mean value whereas liquidity and inflation have mediocre mean value finally operational efficiency; non-performing loans and GDP have a lower mean value. Second, correlation analysis was done to check Multicollinearity. The third stage was a multiple regression analysis to evaluate the effect of the independent variables on bank performance. The results of the study indicate that operating efficiency, GDP, and financial risk have

positive and significant effects on ROA and ROE, while political violence and ethnic conflict have a significant and negative effects on ROA and ROE The study also found that the volume of deposits has a positive and significant effect on ROA but statically insignificant on ROE, at the same manner inflation has a negative and significant effect on ROA but statically insignificant on ROE and surprisingly NPL has a significant negative effect on ROA but positive and significant effect on ROE, finally liquidity has no significant effect on bank performance. In terms of implications, it is obvious that conflict and political instability have influenced bank performance. Governments facing conflict and/or political instability need to address their root causes and try to mitigate their negative effects with the appropriate design and implementation of political strategy for the sake of stable growth and peace. Also, commercial banks in Ethiopia should emphasize more on those significant variables which influence bank performance

References

Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. Journal of international financial Markets, Institutions and Money, 18(2), 121-136.

Athari, S. A. (2021). Domestic political risk, global economic policy uncertainty, and banks' profitability: evidence from Ukrainian banks. Post-Communist Economies, 33(4), 458-483.

Adefemi A. Obalade, B., L. & Joseph O., (2021). Political risk and banking sector performance in Nigeria. Banks and Bank Systems, 16(3), 1-12. doi:10.21511/bbs.16 (3).2021.01.

Ahmed, A. (2020). TPLF attacks Ethiopian National Defence Forces Base in Tigray. office of the Ethiopian prime minister,

Alene, A. (2020). Determinants of Commercial Banks Profitability: Empirical Evidence from Ethiopian

Arriola, L. R. (2009). Patronage and political stability in Africa. Comparative Political Studies, 42(10), 1339-1362.

BBC. (2021). Counting agricultural costs of the war. The Report Ethiopia. http://the reporterethiopia.com

Belay, T., (2020). Ethiopia Conflict Insight, IPSS Peace and Security Report Vol.

Addis Ababa Unversity.

Brini, R., & Jemmali, H. (2016). The Impact of the political instability on Conventional Banks' stability: Evidence in Tunisia. International Journal of Banking and Finance Research, 2(3), 105-113

Bushashe, M. A. (2023). Determinants of private banks performance in Ethiopia: A partial least square structural equation model analysis (PLS-SEM). Cogent Business & Management, 10(1), 2174246.

Compaoré, A., Mlachila, M. M., Ouedraogo, R., & Sourouema, S. (2020). The impact of conflict and political instability on banking crises in developing countries. International Monetary Fund.

Elnahass, M., Marie, M., & Elgammal, M. (2022). Terrorist attacks and bank financial stability: evidence from MENA economies. Review of Quantitative Finance and Accounting, 1-45.

Elshaday, T., Kenenisa, D., & Mohammed, S. (2018). Determinant of financial performance of commercial banks in Ethiopia: Special emphasis on private commercial banks. African Journal of Business Management, 12(1), 1-10.

Gobat, J., & Kostial, M. K. (2016). Syria's conflict economy. International Monetary Fund.

Hailegebreal, D. (2016). Macroeconomic and firm specific determinats of profitability of insurance industry in Ethiopia. Global Journal of Management and Business Research.

Hasanov, R., & Bhattacharya, P. S. (2019). Do political factors influence banking crisis?. Economic Modelling, 76, 305-318.

Huang, C. L., & Chen, C. R. (2019). The impacts of political instability on banking development and operational efficiencies. National Chung Cheng University.

Huang, C.L. (2019). The Impacts of Political Instability on Banking Development and Operational Efficiencies. National Chung Cheng University

Jadah, H. M., & Mohammed, N. H. (2020). The impact of the political instability on bank's performance: evidence from Iraq. THE IRAQI MAGAZINJE FOR MANAGERIAL SCIENCES, 16(65).

Jima, A. O. (2021). Vicious circle of Ethiopian politics: Prospects and challenges of current political reform. Cogent Social Sciences, 7(1), 1893908.

Lemi, B. A., Rafera, M. K., & Gezaw, M. (2020). Macroeconomic and bank specific determinants of commercial bank profitability in Ethiopia. International Journal of Commerce and Finance, 6(2), 198-206.

Lie, J. H. S., & Mesfin, B. (2018). Ethiopia: A political economy analysis. Norwegian Ministry of Foreign Affairs. https://www.researchgate.net/publication/ 325869690

Melaku, A. (2016). Determinants of Bank Profitability in Ethiopia: A Case Study of Private Commercial Banks. Research Journal of Finance and Accounting, ISSN 2222- 1697

Neumayer, E. (2004). The impact of political violence on tourism: Dynamic cross-national estimation. Journal of conflict resolution, 48(2), 259-281.

NBE. (2022). Ethiopia shuts banks in Tigray after "TPLF robbery".New Business Ethiopia.http://newbusinessethiopia.com.

. The Report Ethiopia http://the reporterethiopia.com

NBE. (2022). Central bank considers putting Tigray bad loans off balance sheet. The Report Ethiopia http://the reporterethiopia.com

Pasten, R., & Cover, J. P. (2010). The political economy of unsustainable fiscal deficits. Cuadernos de Economía, 169-189.

Polachek, Solomon, and Daria Sevastianova. 2012. "Does Conflict Disrupt Growth? Evidence of the Relationship between Political Instability and National Economic Performance." The Journal of International Trade & Economic Development, 21 (3): 361–388.

Roba, G. O. (2019). Indigenous mechanisms of preserving sacred natural sites in Guji Oromo, Adoola Reedde, and Anna Sorra districts, southern Ethiopia. Cogent Food & Agriculture, 5(1609765).

Rother, M. B., Pierre, M. G., Lombardo, D., Herrala, R., Toffano, M. P., Roos, M. E., & Manasseh, M. K. (2016). The economic impact of conflicts and the refugee crisis in the Middle East and North Africa. International Monetary Fund.

Sackey, R. E.-N. (2020). A Step towards Resilience: Response to the Conflict- Induced Displacement in the West-Guji andGedeo Zones of Ethiopia 2018. Master's thesis, UiT Norges arktiske universitet.

Şanlısoy, S., Aydın, Ü. Yalçınkaya, A., & Elif, A. (2017). Effect of political risk on bank profitability. International Journal of Business Management and Economic Research (IJBMER), 8(5), 998-1007.

Shifa, M. A., Debela, K. L., & Tarfa, E. G. (2019). Determinants Of The Profitability Of Commercial Banks In Ethiopia. Copernican Journal of Finance & Accounting, 8(4), 185-201.

Shifa, M.A., Debela, K.L., & Tarfa, E.G. (2019). Determinants of the profitability of commercial banks in Ethiopia. Copernican Journal of Finance & Accounting, 8(4), 185–201. http://dx.doi. org/10.12775/CJFA.2019.024.

Sime, K., Lemmie, K., & Gutu, E. (2020). The determinant of commercial banks financial performance in Ethiopia. Jurnal Perspektif Pembiayaan dan Pembangunan Daerah, 8(1), 31-40.

Smith, L. (2007). Political violence and democratic uncertainty in Ethiopia (Vol. 192). United States Institute of Peace.

Sufian, F. (2009). Factors influencing bank profitability in a developing economy: Empirical evidence from Malaysia. Global Business Review, 10(2), 225-241.

Tay, R. (2017). Correlation, variance inflation and multicollinearity in regression model. Journal of the Eastern Asia Society for Transportation Studies, 12, 2006-2015.

Temin, J., & Badwaza, Y. (2019). Aspirations and realities in Africa: VI. Ethiopia's quiet revolution. Journal of Democracy, 30(3), 139–153. https://doi.org/10.1353/jod. 2019.0048

The African Report. (2020). The four great political challenges of Abiy Ahmed. https://www.theafricareport. com/33842/the-four-great-political-challenges-of abiy- ahmed/

Van Der, B. C. (2018). The challenge of reform within Ethiopia's constitutional order. https://www.research gate.net/publication/328964803

Woldesenbet, E., Gebreluel, G., & Bedasso, B. (2022). Economic Development and Political Violence in Ethiopia. The Global Economic Governance Programme, Blavatnik School of Government, University of Oxford, Working Paper, 145.

Yahya, A. T., Akhtar, A., & Tabash, M. I. (2017). The impact of political instability, macroeconomic and bank-specific factors on the profitability of Islamic banks: An empirical evidence. Investment Management and Financial Innovations, 14(4), 30-39. doi:10.21511/imfi.14(4).2017.04.