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*Research Paper*

# Do Political Risks Influence Sharia Bank Stability? The Case of Southeast Asia

Zulfa Muasaroh Binti Rahmawati [a,1*], Titis Miranti [a,2], Ulfi Kartika Oktaviana [a,3], Yenny Kornitasari [b,4]

[a] Faculty of Economics, Universitas Islam Negeri Maulana Malik Ibrahim Malang, Indonesia
[b] Graduate School of International Development (GSID), Nagoya University, Japan
[1] 210503110048@student.uin-malang.ac.id*, [2] titis@uin-malang.ac.id, [3] ulfi@akuntansi.uin-malang.ac.id, [4] kornitasari.yenny.i2@s.mail.nagoya-u.ac.jp

*Corresponding author

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**ABSTRACT**

To address a gap in the literature which has largely focused on other regions like the Middle East and North Africa, this study examines the influence of political risk on the stability of Sharia banks in Southeast Asia, a region characterized by rapid economic growth alongside significant political uncertainties. This study employs a quantitative methodology, utilizing panel data regression with a Fixed Effects Model to analyze data from 17 of the largest Sharia banks in Southeast Asia over the period of 2018-2022, obtained from the annual financial reports of these banks. The key findings indicate that political risk has a significant negative impact on the stability of Sharia banks in the region. In contrast, the quality of regulation and the total assets of the banks were found to have a significant positive influence on their stability. Other internal factors, such as the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and Return on Assets (ROA), did not show a statistically significant effect on bank stability in the context of this study. This study provides valuable insights for academics, bankers, and government authorities by emphasizing that Southeast Asian policymakers and regulators must actively manage political risks and continuously improve financial regulations to ensure the stability of the Sharia banking sector.

## Introduction

Financial system stability and productivity determine a country's economic success, especially in the banking sector (Boachie et al., 2023; Ehigiamusoe & Samsurijan, 2021). Bank stability can be measured using financial ratios that reflect a bank's health and financial performance (Kirimi et al., 2022; Saadaoui & Ben Salah, 2023). Various internal and external factors can affect these ratios. External factors, such as financial market fluctuations, regulatory changes, and poor economic conditions, can also lead to bank instability (Yahya et al., 2017). Poor economic conditions often affect bank stability, leading to a decrease in asset quality, an increase in bad loans, and a decrease in the demand for credit (Jufri et al., 2021). In addition, changes in political policies, such as fiscal or monetary policies, can create uncertainty for banks (Bitar et al., 2017). Other external factors, such as political crises, rebellions, or political instability, can disrupt overall economic stability, which, in turn, can affect the financial stability of the banking sector (Rezgallah et al., 2019). Political uncertainty often causes panic in financial markets, triggering large fund withdrawals from banks and increasing liquidity risk.

Countries in the Southeast Asian Region face various forms of political risk that could affect their economic and financial conditions. Political risks include unexpected changes in government policy, social conflicts, corruption, and geopolitical issues that negatively impact investments and capital owned by banks (Melega, 2025; Uddin et al., 2017; Yunan et al., 2024). The 1997-1998 monetary crisis and political conflicts had a profound and far-reaching impact on the banking sector in Southeast Asia, including Sharia banking (Rusliani, 2018). Rais et al. (2023) argued that the Asian financial crisis that hit several countries in the Southeast Asian region, including Thailand and Indonesia, exacerbated by political instability. The monetary crisis worsened as political instability and pressure on the president to resign caused Indonesia's currency to plunge further. Indonesia's banking sector has experienced tremendous pressure (Mutho & Anshori, 2021). Many banks faced liquidity and solvency problems due to high levels of bad loans and massive withdrawals of funds by panicked customers, leading to uncontrollable losses (Lu, 2023). Boubaker et al. (2023) stated that wars involving political risks trigger supply chain disruptions, soaring inflation, financial market volatility, and uncertainty that worsen the stability of a country's financial system, including the banking sector. Chotewetsin (2022) describes how Thailand faced an economic crisis when political risks hit, which also affected the policies and flexibility of the Thai banking systems.

Rezgallah et al. (2019) mentioned the importance of political instability as one factor influencing the banking sector's risk-taking. Political instability increases risk-taking and government ineffectiveness, thereby impacting banking stability. Al-Shboul et al. (2020) corroborate that political risk has a statistically significant impact on bank stability (Belkhir et al., 2017; Şanlısoy Assist et al., 2017). Although Sharia banks have some inherent protection through Islamic principles, they remain vulnerable to economic and political instability (Rahmawati, 2023). Therefore, to stabilize the chaotic situation caused by the tumult of the monetary crisis exacerbated by political tension, most governments in Southeast Asia intervened on a large scale, including rescue packages for affected banks, debt restructuring, and unhealthy bank closures (Cheong et al., 2024).

From the existing literature, most research tends to centre on MENA countries (Belkhir et al., 2017; Elamer et al., 2020; Mateev et al., 2022). Hence, there is still a lack of literature

discussing the impact of political risk on banking stability in other regions such as Southeast Asia, even though this region also faces significant political risk threats such as government instability, social conflict, and geopolitical tensions (Vuong et al., 2024). Apart from the threat of tension caused by political risks in each country, global events during the research period, such as the Russia-Ukraine war, were the main reasons for this research. The war extends to Southeast Asia through inflationary pressures, market uncertainty, and decreased investment (Islam & Pandow, 2025; Prabowo & Sihaloho, 2024). The global conflict, which began in early 2022, shows the significant impact of geopolitical tensions on the global economy (Orhan, 2022; Izzeldin et al., 2023), including the energy, trade, military, and finance and banking sectors. The war impacts all countries that have relations with Russia, including the Asian region (Lim & Kim, 2022; Ilman & Anam, 2023). However, it is still infrequent for research to focus on the political risks affecting banking stability in Southeast Asia.

Studies on bank stability under risky political conditions are relevant, especially in Southeast Asia. The region is a fast-growing economic center but is vulnerable to various political risks, including unexpected changes in government policy, social conflict, and political instability (Prabowo & Sihaloho, 2024). Within this case, understanding how local and global political risks affect bank stability, especially in Southeast Asia, is critical for assisting regulators, bankers, and policymakers in formulating appropriate mitigation strategies. Therefore, this study aims to examine the effect of political risk on the stability of Sharia banks in Southeast Asia. The results of this study can inform policy and develop effective mitigation strategies. In addition, this study seeks to enrich the literature on Islamic banking stability in Southeast Asia, providing a new perspective that can serve as the basis for further research.

### *Hypothesis Development*

Bank stability is important for maintaining a country's financial system and economy (Alshubiri et al., 2024). Previous studies have revealed that bank stability could be influenced by internal and external factors (Oktaviana & Miranti, 2024; Vuong et al., 2024). Internal factors include the capital adequacy ratio (CAR), credit risk, liquidity risk, profitability, and total assets (Al-Shboul et al., 2020). External factors include GDP growth, regulatory quality and political risk. GDP growth creates a conducive environment for banking sector growth (Boukhatem & Moussa, 2018). Regulatory quality reflects the effectiveness and compliance with the applicable banking regulations (Karim et al., 2022). Political risk reflects the uncertainty associated with political changes and policy. This study integrates these variables to analyze their contributions to bank stability (Belkhir et al., 2019). This study mainly explores how political risk affects bank stability in Southeast Asia, along with other internal and external variables.

The Capital Adequacy Ratio (CAR) reflects a bank's ability to absorb losses due to risks arising from operational and financing activities (Sang, 2021). The higher the CAR of a bank, the better its resilience to cover future risks. CAR is an important indicator of a Sharia bank's resilience because substantial capital allows the bank to absorb losses and fulfil its obligations (Dao & Nguyen, 2020), thus supporting operational stability. In this study, CAR is a foundation that influences a bank's ability to face external pressure when political risk strikes.

$H_1$: CAR has a significant effect on bank stability.

According to Ghenimi et al. (2017), risk and liquidity risks may indicate bank stability. One of the causes of failure that can threaten the stability of a bank is a high NPF ratio or bad financing (Atichasari et al., 2023). A high NPF ratio indicates poor credit management (Kryzanowski et al., 2023). Effective credit risk management is crucial for maintaining the quality of bank assets and minimizing potential loss. There is a low credit risk because there are no speculative transactions in their financing. In this study, a bank's ability to manage credit risk influences resilience when economic shocks occur during political tension.
$H_2$: Credit Risk has a significant effect on bank stability.

Liquidity risk reflects a bank's ability to meet its short-term obligations. The financing-to-deposit Ratio (FDR) is often used to indicate liquidity risk. A high FDR indicates that the bank uses most of its deposit funds for financing, which has the potential to reduce the availability of liquid assets to meet urgent needs, such as withdrawals by customers (Kurniawati & Indriyani, 2022). Boďa and Zimková (2021) state that banks with high liquidity risk are vulnerable to financial stress, especially in unpredictable market conditions, which are common during political instability. High liquidity risk can trigger customer distrust, leading to large fund withdrawals. This occurred when a chaotic monetary crisis hit Indonesia in 1998, which was exacerbated by poor political conditions (Mutho & Anshori, 2021). Therefore, high liquidity risk can significantly reduce bank stability.
$H_3$: Liquidity Risk has a significant effect on bank stability.

Return on Assets (ROA) is a measure of profitability that reflects a bank's operational efficiency in utilizing assets to generate profits. Banks with high ROA can strengthen their capital by accumulating retained earnings. This substantial capital serves as a buffer to absorb unexpected losses, thereby increasing bank stability (Kayakus et al., 2023). In contrast, banks with low profitability tend to be more vulnerable to financial stress because of their lack of capacity to absorb risk. In this study, profitability is analyzed as a factor that can influence the ability of Islamic banks to overcome operational pressures and maintain stability amidst political uncertainty.
$H_4$: Profitability has a significant effect on bank stability.

Gross Domestic Product (GDP) growth reflects overall economic conditions. When GDP growth increases, people's income increases, so the ability to meet debt repayment obligations also improves. This reduces the level of problematic financing and improves the quality of bank assets. According to Boukhatem and Moussa (2018), good economic growth provides a buffer for the banking sector to face systemic risks. With lower credit and liquidity risks, bank stability increases. In this study, GDP is considered an external variable that can impact the stability of Islamic banks during times of political threat in an unstable country.
$H_5$: GDP has a significant effect on bank stability

Political risk reflects the impact of political instability on the economy and the banking sector. Political uncertainty can lead to a decline in investor confidence, a slowdown in investment, and an increase in problematic financing (Julio & Yook, 2012). Ashraf (2017) suggests that high political risk increases banks' propensity to take excessive risks, which can threaten their stability. Political instability often leads to banking crises (Laeven and

Valencia, 2013). Therefore, political risk is a significant external factor in determining the stability of banks.
$H_6$: Political Risk has a significant effect on bank stability.

Regulatory quality reflects the effectiveness of supervision and the legal framework in maintaining stability in the banking sector. Strong regulations ensure that banks have adequate capital, manage risks well, and prevent harmful practices (Fard et al., 2020). Belkhir et al. (2017) show that good regulatory quality can increase bank's resilience to economic shocks. In this study, regulatory quality is analyzed as an external factor that can impact the stability of Islamic banks during times of political threat in unstable countries.
$H_7$: Regulatory Quality has a significant effect on bank stability.

Banks with significant total assets have advantages in portfolio diversification and liquidity management. Good diversification allows banks to reduce credit risk, whereas a strong liquidity position provides flexibility in dealing with financial stress (Al-Shboul et al., 2020). According to Budiman and Hersugondo (2022), large banks have better access to capital markets for additional liquidity than smaller banks. This provides excellent stability, particularly in volatile market conditions. In this study, total assets are considered because total assets are one of the factors that can impact the stability of Islamic banks when the political threat of a country is unstable.
$H_8$: Total assets have a significant effect on bank stability.

## Method

### *Research Design*

This study employed data to analyze bank stability using the Z-score, which is measured against the main independent variables of the study. Model selection was performed using the Chow and Hausman tests, indicating that the Fixed Effects (FEM) model is more appropriate than the Random Effects (REM) model. The FEM model controls for unobserved individual heterogeneity between banks and ensures unbiased estimates. This study has an observational longitudinal design, utilising time series and cross-sectional data to identify the long-term influence of independent variables on bank stability using a panel data regression approach.

### *Sample and Data Resource*

The study population represents all Sharia banks in Southeast Asia. The sample was determined through purposive sampling, with the provision of Sharia banks that published annual financial statements in the 2018-2022 research period (Table 1). The selected sample includes Sharia banks in the Asian Bank Global's ten largest Sharia banks.

The study included seven Sharia institutions from Indonesia, seven from Malaysia, and one each from Thailand, Brunei Darussalam, and the Philippines, representing a fairly balanced regional composition across national and cross-border scales. This distribution indicates that Indonesia and Malaysia dominate the sample population, whereas Thailand, Brunei, and the Philippines are underrepresented. Consequently, research must consider differences in regulatory systems, macroeconomic conditions, political risk, and policy quality across countries as important variables.

Table 1. Bank Samples from Each Country

| No. | Bank | Country |
|---|---|---|
| 1 | Bank Muamalat Indonesia | Indonesia |
| 2 | Bank BTPN Syariah | Indonesia |
| 3 | Bank Mega Syariah | Indonesia |
| 4 | Bank Panin Dubai Syariah | Indonesia |
| 5 | Bank BCA Syariah | Indonesia |
| 6 | Bank BJB Syariah | Indonesia |
| 7 | Bank Syariah Bukopin | Indonesia |
| 8 | Maybank Islamic | Malaysia |
| 9 | CIMB Sharia bank | Malaysia |
| 10 | Bank Rakyat | Malaysia |
| 11 | RHB Sharia bank | Malaysia |
| 12 | Bank Islam Malaysia | Malaysia |
| 13 | Public Sharia bank | Malaysia |
| 14 | Bank Muamalat malaysia | Malaysia |
| 15 | Sharia Bank of Thailand | Thailand |
| 16 | Bank Islam Brunei Darussalam | Brunei Darussalam |
| 17 | Amanah Sharia bank of Philippine | Philippines |

### *Model Estimation*

In this study, the Z-score was used to represent bank stability. The research data are structured as panel data. Thus, the appropriate analysis technique used in this study was panel data regression.

$$Z_{score(i,t)}=\alpha+\beta 1_{i,t}CAR_{i,t}+\beta 2_{i,t}NPF_{i,t}+\beta 3_{i,t}FDR_{i,t}+\beta 4_{i,t}ROA_{i,t}+\beta 5_{i,t}GDP_{i,t}+\beta 6_{i,t}PR_{i,t}+\beta 7_{i,t}RQ_{i,t}+\beta 8_{i,t}TA_{i,t}+e \quad \ldots(1)$$

Description:
CAR: Capital Adequacy Ratio
NPF: Non-Performing Financing
FDR: Financing to Deposits Ratio
ROA: Return on Asset
GDP: Gross Domestic Product
PR: Political Risk
RQ: Regulatory Quality
TA: Total Assets
e: error

CAR represents the capital adequacy ratio, NPF represents credit risk, FDR represents liquidity risk, and ROA represents the profitability ratio. GDP represents the economic condition of a country. PR represents the political risk of a country's political conditions. RQ represents the government policy, and TA represents the bank's total assets.

## Results

This study aims to explore the effects of CAR, credit risk, liquidity risk, profitability, GDP, political risk, regulatory quality, and total assets on Sharia bank stability in Southeast Asia. The study's results include a description of the research data, correlation between variables, and panel data regression analysis results. Table 2 shows the mean, maximum, minimum, and standard deviation of the research data. A reasonably high standard deviation in the Z-score indicates considerable variation in the stability of Sharia banks in Southeast Asia. The range of values in the table also shows a significant difference between the most unstable bank in Thailand in 2021 and the most stable bank in Indonesia in 2021. Meanwhile, variations in the political risk variable indicate different political situations, and the range of values indicates political stability and instability in each country. Brunei Darussalam had the highest political stability score in 2022, while the Philippines scored the lowest in 2018.

Table 2. Descriptive Data from Each Variable

| | Z-score | CAR | NPF | FDR | ROA | GDP | PR | RQ | TA |
|---|---|---|---|---|---|---|---|---|---|
| Mean | 20.0134 | 2.2119 | 85.9219 | 0.69059 | 1.96491 | -0.16172 | 0.37567 | 5.945077 | 20.0134 |
| Max | 58.3 | 7.65 | 185.6 | 12.4 | 7.484 | 1.3 | 1.07 | 12.64926 | 58.3 |
| Min | -20.6 | 0.02 | 39.59 | -10.8 | -10.978 | -1.1 | -0.04 | 0.01292 | -20.6 |
| Std. Dev | 5.703369 | 11.74672 | 1.765962 | 20.6033 | 2.760371 | 4.023945 | 0.491702 | 0.290246 | 3.207284 |

Table 3 presents the correlations between the research variables. The Z-score has a positive and significant correlation with ROA. Furthermore, Regulatory Quality significantly correlates with NPF, GDP and Political Risk. A strong and significant positive correlation between political risk and regulatory quality is observed. This means that an increase usually follows an increase in political risk and the quality of regulation. NPF and GDP are negatively correlated with Regulatory Quality. This result shows that an increase in problematic financing tends to be related to a decrease in the quality of regulation. Other negative correlations are found between FDR variables and political risk. These two variables are negatively correlated and significant, suggesting that an increase in the ratio of financing to deposits is associated with increased political risk. Furthermore, total assets are significantly correlated with GDP and political risk. Banks with better total assets tend to have higher political risks.

Table 3. Correlation Analysis

| Pearson Correlation Probability | ZSCORE | CAR | NPF | FDR | ROA | GDP | PR | RQ | TA |
|---|---|---|---|---|---|---|---|---|---|
| ZSCORE | 1 | | | | | | | | |
| CAR | -0.008 | 1 | | | | | | | |
| | 0.94 | | | | | | | | |
| NPF | -0.159 | -0.071 | 1 | | | | | | |
| | 0.146 | 0.518 | | | | | | | |
| FDR | 0.118 | 0.041 | 0.147 | 1 | | | | | |
| | 0.283 | 0.707 | 0.181 | | | | | | |

| Pearson Correlation Probability | ZSCORE | CAR | NPF | FDR | ROA | GDP | PR | RQ | TA |
|---|---|---|---|---|---|---|---|---|---|
| ROA | .587** | 0.036 | -0.144 | 0.013 | 1 | | | | |
| | 0 | 0.742 | 0.187 | 0.902 | | | | | |
| GDP | 0.093 | 0.08 | -0.028 | -0.064 | 0.081 | 1 | | | |
| | 0.395 | 0.466 | 0.797 | 0.559 | 0.463 | | | | |
| PR | -0.021 | 0.177 | -0.065 | -.245* | 0.159 | -0.129 | 1 | | |
| | 0.846 | 0.104 | 0.556 | 0.024 | 0.147 | 0.238 | | | |
| RQ | -0.013 | 0.149 | -.247* | -0.053 | 0.087 | -0.187 | .875** | 1 | |
| | 0.906 | 0.173 | 0.022 | 0.633 | 0.426 | 0.086 | 0 | | |
| TA | 0.019 | 0.15 | -0.055 | 0.057 | -0.037 | -0.204 | .219* | 0.059 | 1 |
| | 0.86 | 0.17 | 0.616 | 0.604 | 0.734 | 0.061 | 0.044 | 0.594 | |

Three estimation models are used for panel data analysis: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The CEM assumes that each individual or unit in a study has the same response to an independent variable. Meanwhile, FEM assumes that there is a fixed effect unique to each individual or unit of the study, which is reflected in the various values of the constant coefficients. The FEM makes it possible to consider heterogeneity between individuals and research units (Lee et al., 2019). The last estimation model is the REM, which assumes that the effects between individuals or research units are random and do not correlate with independent variables (Lee & Oh, 2014; Ng & Cook, 2000).

The best model was selected using statistical tests, such as the Chow test to compare CEM and FEM, the Lagrange Multiplier (LM) test to choose between CEM and REM, and the Hausman test to determine whether FEM or REM is more suitable (Chipperfield & Steel, 2012; Ng & Cook, 2000). Table 4 shows the selection of the best models. The results of the model selection showed a probability value of 0.000; therefore, the FEM model was chosen as the best model in this study. The FEM provides significant explanations for variations in data more closely than other models, such as the CEM and REM. The decision to choose FEM as the best model is based on probability values that show that FEM has a high enough significance to explain the relationship between variables.

Table 4. Model Selection

| Test | P-value | Testing | Choose Model |
|---|---|---|---|
| Chow | 0.000 | FEM vs CEM | FEM |
| Housman | 0.000 | FEM vs CEM | FEM |
| Langerage Multiplier | | CEM vs REM | - |

After the best model was selected, normality assumption and hypothesis testing were carried out using the F and T-tests (Table 5) to evaluate the significance of the model coefficient and calculate the determination coefficient to measure the model's fit with the data. Table 5 shows the results of the t-test using FEM, where the variables CAR, NPF, FDR, ROA, and GDP do not significantly affect the Z-score. The PR, RQ, and TA variables significantly affected the Z-score. The number -12.0281 was obtained from the PR coefficient

with a probability of 0.0335. This score shows that political risk has a significant negative impact on the Z-score.

Table 5. T Test Fixed Effect Model

| Variable | Coefficient | Std. Error | t-Statistic | Prob |
|---|---|---|---|---|
| C | -9.18499 | 3.650795 | -2.515887 | 0.0146** |
| CAR | 1.46E-05 | 0.000100 | 0.145153 | 0.8851 |
| NPF | 0.688854 | 0.494097 | 1.394169 | 0.1684 |
| FDR | -0.04171 | 0.028097 | -1.484611 | 0.1429 |
| ROA | 0.034383 | 0.208912 | 0.164581 | 0.86998 |
| GDP | 0.178666 | 0.104292 | 1.713134 | 0.0919* |
| PR | -12.0281 | 5.527.930 | -2.175882 | 0.0335** |
| RQ | 15.01129 | 5.077.772 | 2.956275 | 0.0044*** |
| TA | 0.550661 | 0,164142 | 3.354777 | 0.0014*** |

* ** , * *, and * indicate significance at the 10%, 5%, and 1% levels, respectively

Furthermore, the F test (Table 6) assesses the significant relationship between dependent and independent variables. The F-test ensures that the selected model is valid for further analysis. The probability number was 0.000; a very small P-value indicated that the regression model as a whole was significant. Thus, at least one independent variable significantly affected the dependent variable. The R2 value of 0.793833 means that the model used can explain approximately 79.39% of the variation in the dependent variable. A high R2 value explains the variability in the data, and the model has a good fit.

Table 6. F Test Fixed Effect Model

| | |
|---|---|
| **Prob (F-statistic)** | 0.000000 |
| **$R^2$** | 0.793833 |

## Discussion

Bank stability refers to the bank's ability of financial system to cope with imbalances in global economic conditions that often occur unexpectedly (Belkhir et al., 2017; Venâncio de Vasconcelos, 2020; Yahya et al., 2017). Global economic stability is crucial for ensuring the health and sustainability of the banking industry. Previous studies (Bitar et al., 2017; Iqbal et al., 2024; Oktaviana & Miranti, 2024) have shown that Sharia banks have high stability. However, they face risks that threaten their sustainability. Proactive internal risk management practices, such as strong governance, risk appetite frameworks, and ongoing monitoring, help banks detect, measure, and mitigate vulnerabilities, whereas external macroeconomic conditions, regulatory shifts, and political risks dynamically shape their exposure and overall stability.

This study indicates that political risk significantly impacts the stability of Sharia banks in Southeast Asia. The negative impact of political risk means that as political risk increases, the stability of Sharia banking declines. Political instability accompanied by social conflicts, such as riots and demonstrations, can disrupt a country's economic activities (Rashid & Jabeen, 2016; Tarkhani, 2021). Countries with a high level of political instability

cause foreign investors to be reluctant to glance at and invest their funds due to unpredictable changes in government policy (Afshan et al., 2023; Alshubiri, 2022; Coudert et al., 2015). Investors do not want to take high risks by investing in politically unstable countries (Baele et al., 2014; Jiang & Market, 2024). This condition can further weaken a country's economy.

The weakening of a country's economy due to political instability can result in poor asset quality and financing in Sharia banks (Iqbal et al., 2024; Parmankulova et al., 2022). Many businesses experience financial difficulties that can increase the risk of default, resulting in increased NPFs (Baele et al., 2014). Hence, political risks harm Sharia banking stability, especially in Southeast Asia. Research conducted by Al-Shboul et al. (2020) found similar results for Middle East and North Africa (MENA) countries. It shows a significant negative relationship between political risk and bank stability. This result indicates that an increase in political instability, marked by a decrease in the political stability index, can reduce the financial strength of the banking sector in the MENA region (Atichasari et al., 2023). Thus, increased political instability can significantly threaten stability, potentially eroding investor confidence, disrupting business operations, and increasing non-performing loans (Arhinful et al., 2025; Saliba et al., 2025). Therefore, regulators and governments in Southeast Asian countries must prioritise risk management and appropriate regulations to follow up on possible risks that will occur.

This study also reveals the significant impact of the quality of regulation and stability on Sharia bank stability in Southeast Asia. This means that improving the quality of regulations contributes positively to the stability of Sharia banking in each region (Alam et al., 2022; Iqbal et al., 2024; Mehmood et al., 2023). It can be concluded that well-organised and implemented regulations can increase the stability of Islamic banks in Southeast Asia. Good and orderly regulatory quality can create a more secure and predictable operational environment for Sharia banks in each region (Fard et al., 2020). Strong regulation can help reduce the risk of failure while increasing transparency in banking processes or practices so that Sharia banking can operate in a protected environment (Belkhir et al., 2017). This indicates that regulators have a crucial role in improving Sharia banking regulations in Southeast Asia so that banks can maintain their stability amidst the geopolitical conflicts that are shaking the global economy.

A significant positive impact is also found in the variable of total assets on the stability of Islamic banks. The significant effect of total assets on banking stability indicates that Sharia banks in Southeast Asia with more significant total assets tend to have higher stability. Several reasons support this statement, one of which is that Sharia banks with large total assets usually have more financial resources that can be used to face the challenges of uncertainty in the business environment (Fatoni & Sidiq, 2019; Johari et al., 2022; Syadali et al., 2023). This is also in line with Al-Shboul et al. (2020), that banks with high total assets have a lower risk of failure, even though the MENA Country region is exposed to political tension that never subsides. In other words, Sharia banks with significant total assets tend to have higher stability because they have a more extensive power source than smaller banks. Therefore, Islamic bank management must plan and highlight sustainable growth and increased efficiency to maximise the benefits of economies of scale (Alhammadi, 2024; Tlemsani et al., 2025; Tok & Yesuf, 2022). The growth of this asset must be carefully monitored to avoid associated risks.

In this study, the stability of Sharia banks in Southeast Asia is not affected by CAR. The stability of Sharia banks in Southeast Asia may be impacted by other factors, such as solid regulations or government support embodied in their policies. Sharia banks also have a reasonably practical risk management system that does not depend on CAR alone to reduce the risk of failure if the capital adequacy ratio changes significantly. Research conducted by Iqbal et al. (2024) and Oktaviana and Miranti (2022) have similar findings. The insignificance of CAR to the stability of Sharia banks in Southeast Asia may be impacted by other risk factors, thus making CAR not a leading indicator of bank stability. Credit and liquidity risk do not significantly impact the stability of Sharia banks in Southeast Asia. This can be achieved by appropriately handling financing and liquidity risks. Meanwhile, ROA does not significantly impact the stability of Sharia banks in Southeast Asia. Broader macroeconomic conditions in Southeast Asia also affect bank stability; therefore, ROA is not the leading indicator for measuring bank stability in Southeast Asia.

The results also indicate that GDP significantly impacts the stability of Sharia banks in Southeast Asia. This indicates that an increase in GDP reflects better overall economic conditions. Foreign capital flows affect bank stability. When foreign capital flows into a country's banking system, it can increase liquidity and provide additional funding for banks to lend (Alzarooni et al., 2025; Eguren-Martin et al., 2024). Additionally, foreign capital inflows may influence exchange rates, interest rates, and asset prices, which can further affect bank stability. Therefore, monitoring and managing foreign capital flows is crucial for maintaining the stability of banks in a country (Creel et al., 2015; Stewart et al., 2021). The results also suggest that banks could experience instability during phases of economic expansion as their credit standards lower their interest rates owing to the loosening of monitoring standards. This trend may lead to bank failures, the bursting of asset bubbles, and financial crises (Berger et al., 2019; Gupta & Kashiramka, 2024). Therefore, policyholders on GDP growth must implement policies that promote sustainable, inclusive growth to support economic growth well. GDP growth is in line with the stability of Sharia banking amidst threats from external and internal factors in Southeast Asia.

The results measured several factors that can affect the stability of Sharia banks. The stability of Sharia banks is crucial to pay attention to because it can build an inclusive economy (Gupta & Kashiramka, 2024; Le et al., 2023; Vuong et al., 2024). This study highlights the importance of effective regulation and political stability in supporting Sharia banks'stability in Southeast Asia. This study expands the literature on factors that influence the stability of Islamic banks by identifying and testing the roles of political risk, regulatory quality, total assets, and GDP. In practical terms, these findings provide valuable insights for policymakers, regulators, and Islamic bank management in managing risks and increasing the stability of Islamic banks amidst the uncertainty of the current geopolitical situation. Stakeholders, such as regulators, governments, and financial institutions, can make the best decisions to support the stability of Sharia banks. By understanding the factors that affect stability, stakeholders can design more careful and targeted interventions to mitigate risks that can occur at any time.

## Conclusion

Bank stability plays a crucial role in maintaining the smooth functioning of the global economy. Stable banks that can meet their financial obligations help mitigate unexpected

financial imbalances and prevent broader negative impacts. This study highlights the significant impact of the variables studied. The findings imply that non-financial institutional factors, particularly political risk and regulatory quality, play a crucial role in shaping the financial stability of Sharia banks in Southeast Asia, underscoring the need for policymakers to prioritize governance and institutional strength alongside traditional financial indicators to ensure long-term stability.

However, this research has limitations, especially in terms of the limited scope of political risk analysis as the primary variable influencing Islamic banks'stability. Additionally, this study only covers a specific period, which may not fully represent the broader dynamics of the Islamic banking sector in Southeast Asia. Therefore, future research should extend the observation period and consider other variables that have the potential to influence the stability of Islamic banks, such as other macroeconomic factors, technological innovation, and the impact of globalization. Future researchers are advised to expand the scope of research by examining the influence of various other risks, such as financial risk, operational risk, or global uncertainty, to gain a more comprehensive understanding of the factors that influence the stability of Islamic banks in Southeast Asia.

## Authors' Declaration

The authors made substantial contributions to the conception and design of this study. The authors take responsibility for the data analysis, interpretation, and discussion of the results. The authors have read and approved the final manuscript.

## ORCID

Zulfa Muasaroh Binti Rahmawati https://orcid.org/0009-0003-9321-6723
Titis Miranti https://orcid.org/0000-0002-8720-3809
Ulfi Kartika Oktaviana https://orcid.org/0000-0002-5222-4423
Yenny Kornitasari https://orcid.org/0000-0001-8842-8113

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