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Unlocking Desire: Exploring the Impact of Seductive Forces of Political Risk, Financial Inclusion, and Competition on Bank Stability in Emerging Markets

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This research inquiry overlaps financial services inclusion and a national government's risk of political instability, competition, and banking system stability. It is the analysis of 22 emerging market countries from 2016 to 2021. The research is based on GMM-System dynamic data panel estimate method and the aimed to illuminate the interplay of these factors and to detect their impact on the banking industry sustainability. The point estimates derived from the GMM-System estimation reveal that several of the main conclusions have been reached. The main point to note is that, in general, the more inclusive financial system, the more stable banking sector there will be in the world. What this finding stress is the necessity of an inclusive financial system to strengthen banks by being a part of the ever-growing body of evidence on how financial inclusion can foster economic growth and stability. Not only does the evidence support the assumption that political unrest and financial markets have a strong relationship, but also the numbers show that this relationship is highly likely. In the case of a country where political instability is reduced, the financial sector turns out to be more viable, the study reveals. Political risk is of a great significance for financial markets and banking systems, and therefore call for political stability as a fundamental for the reliable banking system. Taken together, the finding of the study will be very useful for not only government officials but also the banking sector. The output reaffirms the fact that financial inclusion, competition and political risks are the key components for the sector stability increase. Such factors have a very important influence on the policy, regulation, and strategic decision of banking. These findings show the imperativeness of political and corporate leaders to make progress in increasing financial accessibility, allowing fair competition, and safeguarding political stability so that banking sectors may be reinforced and thus, the world's banking systems may become more resilient.

1. Introduction

The financial systems of developed as well as developing nations have undergone substantial changes due to the growth of digital technology (Wysokińska, 2021). According to Kooli et al. (2022), traditional financial institutions are becoming less exclusive, which is fueling a rise in financial inclusion. According to Allen et al. (2016), financial inclusion is identified as a critical driver of the 2030 Sustainable Development Goals (SDGs), which makes this trend especially important for reaching those goals. As a result, debates both domestically and internationally have centered on digital financial inclusion (Ofeoda et al., 2024; Chinoda et al., 2023). The 2017 World Findex report from the World Bank emphasizes the glaring regional differences in bank account ownership. The lowest percentage of individuals worldwide, 33%, have an account with an official financial institution in Sub-Saharan Africa (SSA) (Demirgüç-Kunt et al., 2018). Much of the populace is still shut out of official financial institutions, even in the poorest developing nations. Just 20% of individuals in these countries use official institutions for saving, while a startling 65% of adults do not have a formal bank account (Pazarbasioglu et al., 2020). Financial inclusion has gained global attention from governments including central banks since the early 2000s. Many people acknowledge its potential to support financial and economic growth (Hussain et al., 2024; Demirgüç-Kunt et al., 2018). It is thought that expanding formal financial services accessibility for families and enterprises in both developed and developing nations can reduce poverty and improve economic status (Allen et al., 2016). Nonetheless, the global financial crisis that lasted from 2007 to 2009 brought attention to how crucial financial stability.

Researchers and policymakers worldwide have emphasized the need to mitigate systemic financial risks to ensure sustainable development (Ozili & Iorember, 2023; International Monetary Fund, 2009). This has led to a crucial question: how do financial inclusion and financial stability interact? Do they reinforce each other, or could widespread financial inclusion potentially endanger stability (Ellli, 2024; Beck et al., 2007). Banks are crucial for successful financial inclusion initiatives and poverty reduction efforts (Ouechtati, 2020). However, their ability to fulfill these roles hinges on their own financial stability. The 2008 financial crisis served as a wake-up call for policymakers, highlighting the need for measures that enhance bank resilience (Anarfo & Abor, 2020). These measures include stricter capital adequacy requirements to promote better asset quality and prudent risk management practices that prevent the accumulation of risks that could precipitate financial crises (International Monetary Fund [IMF], 2009). Financial regulations, such as capital adequacy requirements, serve as policy tools to ensure bank stability and protect depositor funds (Gupta & Kashiramka, 2020). The total cost to the economy of bank failures is clearly higher (Damjanovic et al., 2020). Bank failures continue to occur as a result of the worldwide focus on minimum capital requirements. For this reason, the World Bank and the International Monetary Fund have called for a more sophisticated strategy, in which nations modify their regulatory regimes to suit their own financial systems (Anarfo & Abor, 2020).

Capital adequacy regulations, particularly those mandating minimum capital levels, can have unintended consequences for the banking sector's competitiveness (Anarfo & Abor, 2020). These

requirements may force undercapitalized small banks to either merge with larger institutions or face closure (Beck et al., 2012). Additionally, stringent capital requirements could potentially act as a barrier to entry, hindering the introduction of new banks into the market (Demirgüç-Kunt et al., 2018). This raises concerns about the potential negative impact of capital adequacy regulations on competition. Studies suggest that increasing capital requirements can lead to a more concentrated banking sector, with a smaller number of larger players (Oduor et al., 2017). This concentration could stifle competition and potentially lead to inefficiencies within the financial system. Critics argue that large banks might advocate for stricter capital requirements as a means to restrict new entrants and maintain their dominant market positions (Jungo, 2022). Competition within the banking sector is often lauded for fostering efficiency and innovation (Liu & Zhao, 2024; Fiordelisi & Mare, 2014). However, concerns exist that unbridled competition can introduce instability into the financial system (Mouatassim et al., 2024; Organisation for Economic Co-operation and Development [OECD], 2010). This tension between competition and stability has become a central topic of debate among policymakers, academics, and industry stakeholders, particularly following the 2008 financial crisis, where competition was identified as a potential contributing factor (Benchimol & Bozou, 2024; Acharya et al., 2017). The impact of competition on banking stability remains a subject of ongoing research, with existing studies yielding mixed results. Some theoretical and empirical models suggest a negative correlation, where increased competition leads to decreased bank stability and a more fragile financial system overall (Shala et al., 2024; Carletti, 2008). Conversely, alternative theoretical models propose a positive relationship, arguing that competition incentivizes banks to adopt sounder risk management practices, ultimately enhancing stability (Clark et al., 2018).

This research explores the multifaceted influences of financial inclusion, political risk, and competition on banking stability across a global sample. We leverage a panel dataset encompassing diverse countries to dissect the intricate relationships between these factors and their variations within different economic and political environments. Our ultimate objective is to contribute to the development of strategies that foster a robust and inclusive global banking system characterized by stability and widespread financial access. In the context of today's interconnected financial world, it is imperative to comprehend the drivers behind banking stability. Through this analysis spanning various countries, our aim is to unravel the intricate ways in which economic and political landscapes may shape these associations. The significance of this research lies in the fact that a secure banking framework is pivotal for fostering economic progress and advancement. The insights gleaned from this study can provide valuable guidance to policymakers and regulators in crafting strategies aimed at bolstering financial inclusion, mitigating political risk, and nurturing healthy competition within the banking sector. Ultimately, these efforts can pave the way for a more resilient and inclusive global financial system, benefiting economies worldwide.

2. Literature Review

Because of its resilience, there is a lower chance that the processes involved in financial intermediation would be disrupted, which might seriously harm the financial structure. According to Ahmad (2018), a financial system that is stable improves monetary resilience by effectively

allocating resources, controlling systemic financial risks, and reducing unfavourable price swings in either real or financial assets. In addition, an adequate financial system takes care of any endogenous or unanticipated financial imbalances (Xiao et al., 2024). The system uses self-corrective processes to absorb shocks and prevent negative effects on other financial systems and the actual economy. Since that the financial system facilitates a large amount of economic activity, it is imperative to acknowledge financial stability as a critical policy element for promoting sustainable economic growth (Oyedokun et al., 2024)

Financial inclusion comprises a range of definitions that differ in their aims and criteria for measurement. According to Hannig and Jansen (2010) and García (2016), the primary objective of financial inclusion is to provide people who do not have access to banking services with the opportunity to join the official financial system. This will allow them to use a range of financial services, including credit, savings, payments, and insurance. There are a number of ways to quantify financial inclusion, including accessibility, quality, usage, and effect. To have access means to be able to seek out and make use of formal institutions' financial services. The degree to which the offered financial services satisfy the needs, wants, and comprehension of the target audience is a measure of their quality. The level of usage assesses the scope and complexity of financial system services. According to World Bank (2014) and Park & Mercado (2018), impact is a way to quantify how effectively financial services improve customers' overall well-being. Khan (2011) delineates many significant ways that financial inclusion has a favorable influence on stability. Firstly, it promotes increased savings allocation and stimulates changes in the structure of the financial system by creating more chances for financial companies to participate in new or enlarged markets. The process of diversifying and involving a wider range of economic players helps to enhance the potential for economic resilience (Chavas, 2024). Furthermore, financial inclusion enhances the basis of retail financing for financial institutions, specifically banks (Chaurasiya, & Sugandha, 2024). Retail deposits act as safeguards against loaned funds, bolstering the stability of the sector, since persons with lesser incomes tend to consistently exhibit responsible financial habits in depositing money and repaying loans, regardless of economic fluctuations. Therefore, in times of financial difficulty, these deposits act as a dependable means of obtaining funds when other sources of credit have been depleted.

Furthermore, the inclusion of financial services helps to alleviate the difficulties caused by a substantial informal sector, which might impede the efficient transmission of monetary policy. Financial inclusion guarantees that financially marginalized entities, such as households and small enterprises, are encouraged to actively participate in formal financial systems (de Sant'Anna, & Figueiredo, 2024). This enables them to make well-informed and autonomous financial decisions, separate from the influence of regulated monetary authorities. Contrary to the favorable connections, there is actual proof indicating a detrimental effect of financial inclusion upon stability. In their study, Sahay et al. (2015) utilized panel regression to analyze the impact of financial development, including depth, access, and efficiency, on economic growth as well as financial stability across 200 data from different countries. Their research uncovered a notable adverse correlation with financial stability, especially in nations with less stringent bank regulation and adherence to the Basel Principles of Efficient Banking Supervision. In these situations, the

availability of credit was linked to a decrease in bank reserves, particularly noticeable in areas where financial regulations weakened owing to inadequate oversight. Nevertheless, the negative impacts on the stability of the financial system were not detected in terms of the capacity to obtain and use financial services other than credit, since the implications of these elements are still uncertain.

When it comes to the relationship between political risk and bank risk, there is no consensus in the existing research. The majority of earlier studies primarily looked at how political risk affected the efficiency and steadiness of the banking industry (Liu et al., 2022; Barth et al., 2004). Nevertheless, the effect of political instability on banks' risk exposure was not specifically addressed in this research. There is a robust relationship between the level of lending market competition and the risk or instability of banks, according to recent research. Two primary hypotheses have arisen in relation to this matter. The first argument, referred to as the "competition-fragility" perspective, suggests that as banks compete for deposits, it might increase their vulnerability to instability. The reason for this is because fierce competition reduces the market strength of banks and motivates them to assume more risks in order to achieve greater margins of profit and chartered value (Allen and Gale, 2004). Recent empirical research on the competition-fragility theory have shown inconsistent results (Mohapatra, 2023). Bank fragility is unaffected by rivalry among banks, according to the alternative theory. According to Schaeck and Cihák (2014), it really enhances the financial condition of individual institutions while reducing the desire of banks to take risks. It implies that in markets without less competition, banks might take on more risks since they feel they would be saved by government agencies during crises owing to their size, which effectively works as a type of financial assistance from the government. Because of this, banks may be able to exert more influence over the market and raise interest rates on loans; this raises the risk of default and the amount of risk that bankers are prepared to assume (Berger et al., 2009). In addition to competition, empirical research has broadened its scope to encompass a variety of other factors that may impact bank stability.

These elements consist of laws, oversight, political stability, civil rights, monetary and fiscal policies, and political institutions. According to a number of research, regulatory framework modifications improve bank stability by generally lowering competition. For example, Mohsni and Otchere (2017) discover that strong supervisory control reduces high levels of risk in Canadian banks more successfully than in those in the United States. In nations with excellent institutional quality, political stability enhances the beneficial effects of capital rules and activity limits on bank stability, as shown by Bermpei et al. (2018). Strong regulatory oversight and expanded legal rights for both creditors and borrowers support bank stability in developing markets, according to Clark et al. (2018). Danisman and Demirel (2019) warn against raising bank risk, citing increased supervisory authority and activity constraints as potential causes. Another set of empirical investigations has shown considerable evidence that corruption and political connections affect the stability-competition relationship. In their study of 1200 banks across 35 developing countries, the researchers Chen et al. (2015) found that banks with greater degrees of corruption exhibited more risk-taking behavior, which was linked to inadequate corporate governance practices. According to research by Cheng and colleagues (2019), banks with stronger political ties are more inclined

to take on more risk exposure due to moral hazard concerns, whereas banks with fewer ties would rather take it easy. In addition, they suggest that politically affiliated banks, in contrast to their non-connected counterparts, lend more money with less loan-loss provisions when policy uncertainty is high, demonstrating how political dynamics impact risk-taking. To this day, we still don't know how exactly corruption and political ties affect the link between political risk and financial risk-taking.

Several studies in the MENA region have used the political risk index developed by the "International Country Risk Guide: Political Risks Group" (ICRG) to examine the correlation between political risk and banks' willingness to take risks. Examining a sample of 49 institutions in the MENA area, Ghenimi et al. (2017) found that political risk exacerbates bank instability. Political risk, according to Pastor and Veronesi (2012), lowers the protective value that governments offer, leading to higher risk premiums for firms, particularly during economic downturns. Political risk, say Herrala and Turk-Ariss (2016), may compromise the stability of a firm and limit financing choices, making MENA enterprises more susceptible to risk. Increasing political risk in the Arab Emerging Countries (AUC) has led banks in the MENA region to take more risks, according to Ghosh (2016). But the study did point out that when it comes to political risk in the same place, Islamic and conventional banks are just as stable. According to Grira et al. (2019), who looked at the effects on capital pricing, political risk influences the price of capital, which impacts the volatility of firms' equity. Providing data in support of this approach, Belkhir et al. (2017) demonstrate that enterprises working in the MENA area are encouraged to take more risks due to the higher price of capital caused by political risk. The precise effect of political turmoil on the risk-taking practices of MENA area banks cannot be determined at this time due to a lack of appropriate empirical data.

Many empirical research papers have been carried out to study the relationship between bank stability and competitiveness and these have led to a range of conclusions. Uncertainty surrounds this link as the first set of findings supports the fragility-competition approach while the others support the competition-stability approach. The theory about competition and stability of banking has been proved by many studies done in the financial literature (Alam et al., 2019). This group of academics takes a position that the stability of financial institutions needs to be kept through the competition. Likewise, Leroy & Lucotte (2017) used the European banking data to analyze competitiveness, which could affect the financial sector. They showed that the idea that competition and stability are always inversely related is not correct because by means of the Z-score, systemic risk dimensions, plus the Lerner index they confirmed that a higher level of competition leads to systemic stability. As well, the authors Schaeck and Cihák (2014) have adopted a sample of European banks and used the Boone Indicator as a competitiveness measure, which allowed them to examine the impact of banking rivalry on banking stability. Their results showed that competition fosters stability and the stable banks, to the detriment of the unhealthy ones, have a more favorable impact. The topic of Shijaku (2017) study was to use data from Albania from 2008 to 2015 to explore the link between competitiveness and bank stability. The choice of indicators of competition (Herfindahl-Hirschman index, Boone index, and Lerner index)

and the use of the generalized (GMM) estimate technique always supported the objection-stability view.

In a similar vein, Turk-Ariss (2010) investigated the impact of banking competitiveness on stability in developing nations using a dynamic model using panels for estimation. The competition-fragility hypothesis, which their findings support, states that increased market dominance leads to more stability and higher profit margins. Between 1997 and 2010, Diallo (2015) conducted an analysis that encompassed 145 nations in order to explore the link between stability in banking and competitiveness. In order to measure banking competitiveness, the study employed logistic probability analysis using the following variables: Boone indication, Lerner index, modified Lerner index, and Z-score to stand in for stability. By proving that banking rivalry negatively affects stability, the results provided support for the traditional competition-fragility hypothesis. In the context of dual banking systems, Čihák and Hesse (2010) and other researchers have examined the connection between stable and competitive banks. Evidence from studies focusing on two-bank systems seems to back up the competition-fragility theory (Risfandy et al., 2018). The impacts of bank competition on stability have been the subject of contradictory conclusions in recent empirical studies. Using data from 8235 institutions in 23 industrialized nations, Berger et al. conducted study in 2009. Their results provided credence to the competition-fragility and competition-stability theories. Despite the fact that banks with greater market power would have riskier loan portfolios, they suggested that increased capital ratios or other risk-mitigation methods would help reduce this risk.

When examining the effect of financial inclusion with financial stability, prior research has typically focused on industrialized countries rather than emerging economies. Furthermore, there has been little investigation of the variability within this connection or its possible influencing processes in the existing body of research, which frequently does empirical assessments on the general link between the two components. Thus, with an emphasis on developing economies, we hope to present elements of financial inclusion as potential predictors of bank soundness. We will also carry out studies to reveal heterogeneity and investigate possible pathways of effect.

3. Methodology

Data and variables Description

The study covers the following countries of emerging world based on the availability of the data. A total of 6 years of data has been taken from 2016 to 2021. Brazil, Chile, China, Colombia, Egypt, Greece, the country of Hungary, Indonesia, India, Korea, the Gulf nation of Kuwait Malaysia, Peru, Mexico, the the Philippines Poland, the nation of Qatar, South Africa, Thailand, Turkey, and United Arab Emirates are the 24 emerging-market nation indexes that make up the MSCI Emerging Markets Index. The study uses the excel and STATA for the analysis to extract the results.

Table No 1: Definitions and Measurement of Variables

	Short Name	Definition / Measure
Dependent variable		
Bank Z-Score	BZ_S	"BS is ratio of capital-asset ratio plus return on asset to standard deviation of return on asset ratio aggregated at country level."
Independent and moderating variables		
Financial Inclusion	FI_AC	"The percentage of respondents who have an account (by themselves or together with someone else) at a bank or another type of financial institution or report personally using a mobile money service in the past year."
Political Risk	PR_ICRG	"This index measures the political stability of the countries based on twelve risk components that cover both political and social attributes. Political attributes are measured by the components related to external conflict and religious tension, while proxies for social attributes concern government stability. The index varies from 0 to 100, where a higher value indicates a lower degree of political risk or higher political stability and vice versa."
Competition	CP_LER	"A measure of market power in the banking market. It compares output pricing and marginal costs (that is, markup). An increase in the Lerner index indicates a deterioration of the competitive conduct of financial intermediaries."
Control variables		
Money Supply	MS	MSP is the ratio of broad money supply to GDP
GDP growth rate	GDP	GDP is the annual GDP growth rate annual percentage
Inflation rate	IFR	INF is the inflation measured by Consumer Price Index in annual percentage

4. Results and Discussions

4.1 Descriptive statistics

The findings of the variables' descriptive statistics are displayed in Table 1 below. The Bank Zscore (BZS) has a mean value of 15.012 and a deviation from the mean of 6.59. This indicates that bank stability varies moderately throughout the sample, with a minimum of 3 and a highest of 26.545. Second, the degree of political instability or uncertainty is reflected in Political Risk (PR). With a substantial standard deviation of 21.534, the mean PR value of 43.551 indicates a moderate level of political risk. The observations show great variety in political risk levels, with values ranging from a lowest of 10 to the highest of 78.958.

Table No 2: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
BZ_S	15.012	6.59	3	26.545
PR_ICRG	43.551	21.534	10	78.958
FI_AC	.61	.288	0	.957
CP_LER	59.408	17.282	32.552	98.185

The third element of FI (Financial Inclusion) studies the accessibility of financial services to individuals and enterprises. The mean FI value is 0.61, having the standard deviation 0.288 with it. This shows that the coverage of financial inclusion is more or less the same across all the data lines, from values of 0 to 0.957.

4.2 Correlation

Starting with BZ_S, which serves as the dependent variable, it's evident that it has a weak negative correlation with both Political Risk (PR) and Financial Inclusion (FI). The correlation coefficients of -0.091 and -0.108 respectively suggest that as political risk and financial inclusion increase, there is a slight tendency for bank stability to decrease, though these relationships are not particularly strong. Conversely, the correlation between BZ_S and Competition (CP) is weakly positive, with a correlation coefficient of 0.090. This indicates that as competition increases, there is a minor tendency for bank stability to increase, although, like the other correlations, this relationship is not notably robust.

Table No 3: Correlation/VIF Results

Variables	1/VIF	(1)	(2)	(3)	(4)
(1) BZ_S		1.000			
(2) PR_ICRG	.993	-0.091	1.000		
(3) FI_AC	.986	-0.108	-0.044	1.000	
(4) CP_LER	.983	0.090	0.074	-0.111	1.000

The Variance Inflation Factor (VIF) values, as shown in the table, provide insights into the presence of multicollinearity among the independent variables: Competition (CP), Financial Inclusion (FI), and Political Risk (PR). For Competition (CP), the VIF value of 1.017 suggests minimal multicollinearity, as it is slightly above 1. This indicates that about 98.3% of the variance in CP is not explained by the other independent variables. Similarly, both Financial Inclusion (FI) and Political Risk (PR) exhibit VIF values close to 1, indicating little multicollinearity, with approximately 98.6% and 99.3% of their variances respectively not explained by the other variables. The mean VIF across all variables is 1.013, further confirming the absence of significant multicollinearity concerns. With VIF values below the commonly accepted threshold of 10, it suggests that the independent variables can be included in regression models without the risk of inflating standard errors or causing misleading interpretations due to multicollinearity. These findings indicate that each independent variable (CP, FI, PR) can be reliably utilized in regression analyses to understand their individual impacts on the dependent variable, without the interference of multicollinearity issues.

4.3 Unit Root Test

Bank Zscore is probably stationary since there is substantial evidence against the occurrence of a unit root, as shown by the ADF statistics of 265.9 (*) as the CIPS statistics of -3.1 (). In a similar vein, Financial Inclusion (FI) is probably stationary as ADF (116.77 ***) & CIPS (-2.6 **) provide strong evidence for the existence of a unit root. Political Risk's CIPS statistic of -2.8 (*) offers high evidence against non-stationarity, while the ADF statistics of 56.28 provides moderate evidence for a unit root.

Table No 4: Unit root test

Variables	ADF	CIPS
Bank Zscore	265.9***	-3.1**
FI	116.77***	-2.6**
Political Risk	56.28**	-2.8***
Competition	95.33***	-0.9*

The ADF or CIPS examinations may have different starting points, which would explain the disparity. There is significant support for stationarity in the ADF statistic of 95.33 (**) for Competition, but there is lesser evidence against non-stationarity in the CIPS statistic of -0.9 (). Given the incongruity between the two tests, it's possible that we need to dig more into the question of whether the Competition variable is stationary.

4.4 Fixed effect

The coefficient for political risk (PR) is -0.006, and the standard error is 0.007. At a p-value of 0.09, the coefficient remains negative, suggesting that more political risk is linked to worse bank stability, but it is not significant at the traditional significance threshold of 0.05. Bank stability and financial inclusion (FI) are significantly correlated negatively. The positive coefficient of 0.096 indicates a correlation between better bank stability and greater degrees of financial inclusion. With a standard error of 0.476, this impact is significant at the 0.01 degree of significance (p = 0.007). With a coefficient of -0.022, competition (CP) and bank stability have a negative connection that is not significant above the 0.05 level (p = 0.08). This implies that there may be a weaker correlation between increased competition and somewhat worse bank stability.

Table No 5: Fixed Effect Results

BZ_S	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PR_ICRG	-.006	.007	-0.83	.09	-.02	.008	*
FI_AC	.096	.476	-.78	.007	.023	1.17	***
CP_LER	-.022	.037	0.60	.08	-.051	.095	*
Constant	21.223	2.697	7.87	0	15.875	26.57	***

Mean dependent var	15.012	SD dependent var	6.590
R-squared	0.237	Number of obs	132
F-test	5.377	Prob > F	0.000
Akaike crit. (AIC)	422.859	Bayesian crit. (BIC)	443.039

The model's constant term, 21.223, represents the predicted value of the stability of banks in the case where there are no independent factors. With a p-value of 0, this constant is highly significant, indicating that there is an initial state of bank stability even in the absence of PR, FI, and CP. Overall, the F-test shows that the model is significant at the level of 0.01 (p = 0.000),

indicating that the independent variables together have a substantial influence on bank stability. The regression model also explains 23.7% of the variance in bank stability (R-squared = 0.237).

4.5 Random Effect

With a p-value of 0.09, Political Risk (PR) does not exhibit statistical significance at the standard 0.05 significance level, but it does have a negative correlation with bank stability with a coefficient of -0.005. The lack of significance suggests that this association may not be strong, even though the negative coefficient suggests that increased political risk is linked to weaker bank stability.

Table No 6: Random Effect Results

BZ_S	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
PR_ICRG	-.005	.007	-0.69	.09	-.019	.009	*
FI_AC	.393	1.453	2.34	.02	6.241	.545	**
CP_LER	.022	.035	0.64	.02	.046	.09	**
Constant	19.719	2.941	6.71	0	13.955	25.483	***

Mean dependent var	15.012	SD dependent var	6.590
Overall r-squared	0.047	Number of obs	132
Chi-square	22.306	Prob > chi2	0.001
R-squared within	0.235	R-squared between	0.062

The relationship between the financial inclusion (FI) and the stability of banks is favorable, with a correlation coefficient of 0.393. The effect is statistically significant at the 0.05 level, using a threshold for statistical significance of 0.02. The wide confidence interval (6.241 to 0.545) suggests some uncertainty about the precise impact of being financially included on bank stability. At the 0.05 level of significance, there is a highly significant positive association between competition (CP) and bank stability (p = 0.02, r = 0.022). The projected impact of CP upon bank stability may vary, as seen by the trust interval (0.046-0.09), similar to FI. The term for the constant in the model is 19.719, which is the anticipated value of the bank's stability when every one of the uncorrelated variables are zero. This constant, which is statistically significant with a p-value of 0, indicates the baseline for bank stability when PR, FI, and CP are not present. With a total R-squared value of only 0.047, the model provides only a partial explanation for the variation in bank stability. Nevertheless, the chi-square test reveals a significantly different model prediction at the 0.01 level (p-value > 0.001), suggesting that the factors collectively have a substantial effect on bank stability.

4.6 Hausman Test

Table No 7: Hausman Test

	Coef.
Chi-square test value	3
P-value	***

One of the main goals of this was to understand the results of the Hausman test. The p-value of *** suggests that the null hypothesis is rejected with the level of confidence since it is very small. Hence, it means that the estimates from the fixed effects model is not the same as the random effects model in case of the Hausman test. In practical terms, a large p-value suggests that

the model with random effects is inappropriate, and on the contrary, the model with fixed effects is the more acceptable option. By contrast, the failure to achieve a statistical significance for the p-value indicates that the random effects' hypothesis could be a suitable one for estimation and is consistent.

4.8 GMM

The lag indicator (L) is not statistically different from the control group (0.04) at the 0.05 level, despite having a likelihood score of 0.09. This means that the dependent variable's late value has little effect on the present bank stability. This evidence that PR has a negative relationship with bank stability, reflecting in a coefficient of 0.027, reveals that. The hypothesis that political instability is related to bank stability (GMM framework) is not supported by sufficient evidence from the statistics (p = 0.06) since it is statistically significant beyond the 0.05 limit. Nevertheless, the correlation of 0.489 between the Financial Inclusion (FI) and the bank stability was revealed to be 0.489. This is the highest and positive correlation. Such an impact is extraordinarily prominent at the 0.01 level, but its p-value is 0, and so we can deduce that the level of financial inclusion is related to the stability of banks. Next, CP has a positive effect on bank stability with a coefficient of 0.062, just like. The impact of the policy is considered to be statistically significant at the 0.05 level and is estimated to have a value of 0.01. The confidence interval (-0.129 - 0.254) represents the possibility that the real effect of CP on the stability of banks could fluctuate somewhat around the average.

Table No 8: GMM Results

BZ_S	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L	.04	.152	0.26	.09	.258	.338	*
PR_ICRG	-.027	.067	0.40	.06	-.104	.158	*
FI_AC	.489	4.361	0.11	0	8.058	9.035	***
CP_LER	.062	.098	0.64	.01	-.129	.254	*
Mean dependent var		15.082	SD dependent var			6.722	
Number of obs		88	Chi-square			.	

**** p<.01, ** p<.05, * p<.1*

5. Conclusion and Recommendations

This research examined the relationships between competitiveness, bank stability, political risk, and financial inclusion. Emerging nations were thoroughly examined as part of the study's methodology. New insights into the intricate dynamics of bank stability and its components have been provided by studies employing GMM. The study examined a number of variables and found that, when analyzed using the GMM framework, neither the political risk nor the lag variable had statistically significant effects on bank stability. This implies that, at least in the setting examined in this study, alterations to bank stability may not be immediately caused by past bank performance or the current political environment. Nonetheless, the outcomes highlighted how important it is for competition and financial inclusion to shape bank stability. The significant positive coefficient connected to financial inclusion suggests a substantial correlation between increased bank stability and better access to financial services and products. This is consistent with the idea that inclusive

financial systems provide resilience and stability in the banking industry, which in turn promotes economic development. Furthermore, the fact that competition has a beneficial effect on bank stability even if it is not as strong as financial inclusion suggests that an environment of competition might also support bank stability. In the banking sector, competition encourages innovation, efficiency, and risk management techniques—all of which are essential for preserving stability in the face of shifting market conditions and obstacles. All things considered, these results underscore the complexity of the relationship between different elements and the multifaceted character of bank stability. Policymakers should give priority to efforts that aim to improve access to financial services and products, as there is a considerable positive association between financial inclusion and bank stability. This could entail putting policies into place that support the creation of inclusive financial systems, such as developing innovative financial products that are suited to the needs of marginalized communities, supporting financial literacy initiatives, and building banking infrastructure in underserved areas. Although financial inclusion has a more significant impact on bank stability than competition, the former's positive effects highlight the significance of preserving a competitive environment in the banking industry. Regulators should create frameworks that support innovation, efficiency, and risk management techniques among banks by promoting healthy competition. In order to promote a stable & resilient banking system, policymakers, regulators, and business stakeholders must comprehend and manage these issues effectively. In-depth study of the precise mechanisms by which competition and financial inclusion affect bank stability could lead to targeted policy changes and regulatory frameworks that support the long-term sustainability and stability of the banking sector.

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