Influence of COVID-19 on the Default risk of the banking sector: A Comparison between Conventional and Islamic Bank of Developing Countries

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ABSTRACT

Purpose: The main purpose of the following research is to examine the influence of Covid-19 on the default risk of the banking sector while comparing it between conventional and Islamic banks

Methodology: Secondary data collection approach has been used in which data is gathered from banks from 2016 to 2020. The total banks comprise of 20 banks where 10 banks represents Islamic banks while the other 10 are the conventional banks. Therefore, these 20 banks are from 10 different countries. The statistical analysis software used for this type of data is STATA where the statistical tests that is applied in the dataset includes descriptive statics, correlation analysis and GLS.

Results: The GLS regression technique is applied on the dataset due to issue of heteroscedasticity and autocorrelation. The findings has revealed that long term debt of the banks has directly influenced on the default risk of the banks at the period of Covid-19. Furthermore, the interest rate causes decline to the NPL of total loans for the Islamic banks whereas the liquidity causes incline to the NPL of total loans for the Islamic banks.

Keywords: *Covid-19; banking sector; Islamic banks, Conventional banks; NPL; Default risk ;Comparison; Coronavirus*