

The Transmission of Herding among the Islamic Banks in the GCC, Islamic Index and Oil Prices

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Abstract: There had been an increase in the global Islamic economy in recent decades, and relationship between Islamic and conventional products in the banking sector is increasing. This study examines the herding behavior towards Islamic banking sector in the Gulf Cooperation Council (GCC, hereafter) countries. This study focuses on the impact of the conventional banks, the effect of Islamic financial index and oil price fluctuations on the Islamic banking sector. By considering daily frequency data ranging from January 4, 2011, till December 23, 2023, and using BEKK and DCC-GARCH estimations, empirical results show the evidence of a statistically significant effect of conventional banking sector on herding in the Islamic banking sector of the GCC stock market. In addition, an in-depth analysis aimed at measuring herding patterns in bearish market conditions, the results confirm the evidence of non-linearity and asymmetry patterns in the herding behavior in Islamic GCC banks at both the extreme up and down-market conditions. Meanwhile, investors in Islamic banking sector seem to take irrational decisions and decide to follow the crowd, especially during bearish periods. Our findings support the hypothesis that investors who trade in stocks would be more sensitive to financial uncertainty when uncertainty is high, which is triggered during periods of crisis.

Keywords: Herding Behavior, Islamic GCC Banking Sector, Cross-Sectional Absolute Deviation, DCC-GARCH

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