

**DOES TOURISM AND FOREIGN DIRECT
INVESTMENT MATTER FOR THE
PROFITABILITY OF ISLAMIC BANKS:
EMPIRICAL EVIDENCE FROM TÜRKIYE**

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Abstract

This study uses panel technique analysis to investigate tourism and foreign direct investment (FDI) on the profitability of Islamic banks in Türkiye. The findings suggest that while both external funding sources matter for the profitability of Islamic banks, the impact of tourism is negative, and foreign direct investment positively contributes to Islamic banks' profitability. According to the research findings, external sources of funding matter for the profitability of Islamic banks, but in the case of tourism, the impact is negative. At the same time, foreign direct investment positively contributes to the profitability of Islamic banks. The findings suggest that the Turkish government should create an enabling environment for foreign investors by instituting incentives, tax holidays, and reliefs which would augment foreign direct investment and bolster the funds available to Islamic banks. To mitigate the adverse effects of tourism and secure the long-term profitability of Islamic banks, it is imperative for the banks to devise an effective market penetration strategy, identify suitable customer segments, and attract conventional businesses to their offerings. Based on these findings, this study advocates for a strategic approach to developing the Islamic banking sector in Türkiye, one that recognises the importance of external funding sources and promotes their optimal utilization for sustainable growth.

Keywords: *FDI, Tourism, Islamic banks profitability, GMM.*

1. Introduction

Background Information on Islamic Banking in Türkiye

Considering the importance of the efficient conversion of savings into investments for growth, Banks are crucial to economic growth in general and financial sector development in particular. As a secure conduit between savers and borrowers, banks are essential. The banking industry must link savers and borrowers and manage every facet of the safe and successful movement of money¹. Islamic banks play a very important role in Türkiye where the banking sector is highly important, as seen by their rapid expansion in recent years. To ascertain if there is an effect on the economy of these sectors, this study relies on the fact that Islamic banks are present in the country's economy. Foreign direct investment and tourism substantially impact the economy of a country like Türkiye.

Islamic banking first began 60 years ago. Interest-free banking was first used in Egypt in 1963 when Dr. Ahmad El-Najjar, an economist, created the Mit Ghamr savings program. Founded by Dr. El-Najjar and community volunteers, this interest-free bank was the first of its type. When the bank was first created, it was based on the rural banking model of a German cooperative savings bank. On the other side of the world, the Tabung Haji institution was established in 1963 at the same time as the Mit Ghamr experiment in Egypt. This institution intended to manage its funds over time in a *Shari'ah* - compliant manner to pay for the expenditures of the Hajj pilgrims. The foundation laid by the Tabung Haji institution allowed Malaysia to become a global leader in Islamic banking and finance. The first full-fledged commercial Islamic bank in Malaysia called Bank Islam Malaysia² was not established until 1983.

Islamic financial companies conduct their business by Quranic principles. Because of this, they stand out from traditional institutions, which are uninterested in religious issues. Islamic banks provide financial services to their clients in conformity with Islamic law. Interest is not charged to clients of Islamic financial organizations (the Arabic term for which is *ribā*). The payment or receipt of interest in any transaction is banned. Since it bans this behaviour, the Islamic financial system differs from the traditional banking system³.

In Türkiye, where they originally established in the early 1980s, they were formerly called "Private Financial Institutions". Under Banking Law No. 5411, "Participation Banks", the new term for "Special Financial Institutions", has been in practice since the beginning of 2006. Islam strictly forbids interest; thus, Participation Banks work to meet their members' financial and social requirements by allowing them to share in the institution's gains and losses.

According to a Decree-Law (KHK) approved by Ministers in 1983, “private finance institution” was the concept that introduced profit-and-loss participation-based banking into the Turkish financial system.

The phrase “Special Finance House”, which represents profit-loss participation within interest-free principles, is explained due to worries about the need to do so and to allay addressees’ concerns about working with a “bank participation”. It describes the industry and field of endeavour in which they are engaged and addresses any concerns regarding the need to do so. They began referring to themselves as “participation banks” in compliance with the Banking Law Numbered 5411⁴.

Six Islamic financial institutions, three private and three government-owned, are included in the above mentioned category in Türkiye. Participating private Islamic banks include Türkiye Finans Participation Bank, Kuveyt Participation Bank, and Albaraka Participation Bank. Emlak and Ziraat, as well as the Vakif and Ziraat Participation Banks are Turkish government-owned banks⁵.

Moreover, based on the idea that Islamic banks function similarly to other banks by accepting deposits and sharing any profits or losses, banks get a margin in addition to their revenues from this financing. Due to Türkiye’s reliance on foreign investment and tourism, if these two industries partially financed deposits and transactions at Islamic banks. As a result of these deposits, there will be a profit margin. The case study seeks to determine if FDI and tourism affect the profitability of these institutions. Türkiye’s tourism earnings increased by 103% in 2021 compared to the previous year. In 2021, Türkiye’s tourism industry generated 24,482,332,000 dollars in income, with 29,357,463 travelers leaving the country⁶. The money they make, both directly and indirectly, enables this growth.

Overview of the Research Problem

The country’s economy can thrive and improve by increasing government income from investment and tourism receipts. A country’s economy will see more demand for various goods and services, improved business attitudes, and upbeat public expectations due to increased FDI and tourist arrivals⁶. New governmental and private investments in production capacity are stimulated by rising FDI and tourism revenues to meet the expanding demand in the economy.

Theoretically, growth in foreign direct investment (FDI) and tourism indicates a rise in the financial system’s liquidity and, therefore, a high capacity for financing and profit. These studies thus get their inspiration from various topics. This could include questions such as whether direct foreign investment impact the profitability of

Islamic banks? Does tourism have an impact on the profitability of the same banks? Is there a direct link between Turkish Islamic banks' profits and foreign direct investment and tourism?

The literature on FDI and tourism has several significant new contributions thanks to this study. First and foremost, this is the first study of its kind to examine how FDI and tourism affect the overall profitability of Islamic banks. This may be the first time that Islamic banks in Türkiye have been examined in-depth. Moreover, it looks at the two primary sources of liquidity in the Turkish financial system and illustrates how they impact the earnings of Islamic banks so that they may modify their strategies appropriately. This study, as opposed to earlier research, concentrates on Islamic and conventional banks.

Objectives of the Study

The main objective of this research is to determine the significance of tourism and foreign direct investment (FDI) on the profitability of Islamic banks in Türkiye. To achieve this, the study examines how tourism and FDI impact the profitability of Islamic banks in Türkiye. The research will analyze tourism's impact on Islamic banks' profitability in Türkiye and investigate how FDI affects their profitability. Additionally, it will compare and contrast the effects of these two external funding sources on their profitability.

By addressing these objectives, this study aims to provide valuable insights into how external funding sources can impact the profitability of Islamic banks in Türkiye. The findings will be useful for policymakers and practitioners in developing strategies for sustainable growth in this sector.

Significance of the Study

This study is significant for several reasons. First, it will contribute to the knowledge of Islamic banking in Türkiye by providing empirical evidence on how external funding sources affect bank profitability. Second, it will help policymakers and practitioners understand how to optimize external funding sources for sustainable growth in Islamic banking. Finally, it will provide insights into how other countries with similar economic conditions can develop their Islamic banking sectors.

Hypothesis

The hypothesis for this study includes both a null hypothesis and an alternative hypothesis. The null hypothesis is that "Foreign direct investment (FDI) and tourism have no significant impact on the profitability of Islamic banks in Türkiye." The alternative hypothesis is that "Foreign direct investment (FDI) and tourism have a significant impact on the profitability of Islamic banks in Türkiye."

Based on previous studies, it is expected that FDI will positively impact the profitability of Islamic banks in Türkiye, while tourism will have a negative impact. However, this study aims to test these hypotheses using empirical evidence to determine whether they hold for Islamic banks operating in Türkiye.

Research Questions

To achieve the objectives of this study and test the hypothesis, several research questions will be addressed. The first research question aims to determine Türkiye's current state of Islamic banking.

The second research question focuses on how tourism affects the profitability of Islamic banks in Türkiye. This will involve analyzing the impact of tourism on the net income of selected data sets and determining whether there is a significant negative impact.

The third research question aims to investigate how FDI affects the profitability of Islamic banks in Türkiye. This will involve analyzing the impact of FDI on net income and determining whether there is a significant positive impact.

Finally, the fourth research question seeks to compare and contrast the impact of tourism and FDI on the profitability of Islamic banks in Türkiye, which will involve analyzing both external funding sources' effects on net income and determining which has a more significant impact on profitability.

By addressing these research questions, this study aims to provide empirical evidence on how external funding sources affect bank profitability in Türkiye's Islamic banking sector.

2. Literature Review

This literature review aims to investigate how tourism and foreign direct investment (FDI) impact the profitability of Islamic banks in Türkiye. It does so by examining existing research on the factors influencing bank profitability. This examination includes studies focusing on Islamic banks. Furthermore, the review explores the connection between FDI, tourism, and bank profitability.

Islamic Banking in Türkiye: Islamic banking has been growing rapidly in Türkiye over the past decade, with several new institutions entering the market. The growth can be attributed to several factors, including increasing demand for *Shari'ah* -compliant financial products and services. More people have become aware of Islamic finance and its principles, and there has been a corresponding increase in demand for Islamic banking products. The trend will continue as more people seek ethical and socially responsible investment options.

Another factor driving the growth of Islamic banking in Türkiye is government support for Islamic finance. The Turkish government has taken several steps to promote the development of Islamic finance, including passing legislation that allows for establishment of Islamic banks and other financial institutions. In addition, the government has provided tax incentives and other forms of support to encourage investment in Islamic finance.

According to data from the Participation Banks Association of Türkiye, 16 Islamic banks were operating in Türkiye as of 2020, with total assets reaching TL 200 billion (approximately USD 24 billion), which represents a significant increase from just a few years ago when there were only a handful of Islamic banks operating in the country⁷. These institutions' growth has helped expand access to *Shari'ah*-compliant financial products and services for individuals and businesses across Türkiye. Therefore, the growth of Islamic banking in Türkiye is expected to continue as more people become aware of its benefits and demand for *Shari'ah*-compliant financial products increases. With continued government support and investment, we will likely see even more growth in this sector in the coming years.

Factors Affecting Bank Profitability: A large body of literature examines the factors that contribute to a bank's profitability. The factors can be broadly categorized into internal and external factors. Internal factors refer to a firm's characteristics and management practices, which include capital adequacy, asset quality, management efficiency, and liquidity. Capital adequacy refers to the amount of capital a bank holds relative to its risk-weighted assets⁷. Banks with higher capital levels are generally considered more stable and less likely to experience financial distress. Asset quality describes the quality of a bank's loan portfolio, with higher-quality loans being less likely to have defaulted or become non-performing loans (NPLs). Management efficiency refers to how effectively a bank is managed, including its ability to control costs and generate revenue. At the same time, liquidity is the ability of a bank to meet its short-term obligations.

On the other hand, external factors refer to broader economic conditions that can impact a firm's profitability, these include macroeconomic conditions such as GDP growth, inflation rates, exchange rates; interest rates; and competition from other firms in the market. In addition to these internal and external factors, several studies have also examined the impact of ownership structure on bank profitability⁸. Some studies have found that banks with more concentrated ownership structures are more profitable than those with more dispersed ownership structures⁹. Other studies have found that state-owned banks may be less profitable than privately owned ones

due to political interference or other factors¹⁰. By identifying these factors and their relative importance in different contexts, researchers can help form strategies for improving bank performance and promoting financial stability.

Islamic Bank Profitability: Islamic banking has grown rapidly in many countries, including Egypt and the United Arab Emirates (UAE). As a result, there has been a growing interest in understanding the factors contributing to Islamic banks' profitability. Several studies have focused specifically on this topic with varying results. Al-Tamimi and Al-Mazrooei¹⁰ examined the determinants of Islamic bank profitability in the UAE, and the study found that asset quality, management efficiency, and liquidity were significant determinants of Islamic bank profitability. The research found that higher asset quality and management efficiency were associated with higher profitability, while lower liquidity had the opposite effect. The findings suggest that effective management practices and maintaining adequate levels of liquidity are important factors for ensuring the profitability of Islamic banks in the UAE. While there may be some variation across countries and regions, maintaining adequate levels of capital, managing credit risk effectively, maintaining high asset quality and management efficiency, and ensuring adequate levels of liquidity are all important factors for ensuring Islamic banks' long-term sustainability and profitability.

Impact of FDI on Bank Profitability: Foreign direct investment (FDI) has been identified as an important economic growth and development driver. Several studies have examined the impact of FDI on banks' profitability, with mixed results. Some studies have found a positive relationship between FDI and bank profitability, while others have concluded that there is no significant or negative relationship. In the context of Türkiye, several studies have examined the impact of FDI on banks' profitability. ERDAL¹¹ found that FDI positively impacted the profitability of Turkish banks, particularly in terms of increasing their net interest margins.

Impact of Tourism on Bank Profitability: Tourism is an important sector contributing to economic growth and development. However, its impact on banks' profitability needs to be clarified. Some studies have found a positive relationship between tourism and bank profitability, while others have found no significant or negative relationship. In the context of Türkiye, several studies have examined the impact of tourism on banks' profitability. Although many studies indicate that tourism has a positive impact on the Turkish economy, Saif Al-Yousifi¹² indicated that tourism has a negative impact on the profits of banks in various countries, including Türkiye. In conclusion, the relationship between tourism and banks' profitability is complex and context-dependent, with studies in Türkiye showing

mixed results, highlighting the need for further research and analysis.

Impact of FDI and Tourism on Islamic Bank Profitability in Türkiye. Despite the growing importance of Islamic banking in Türkiye, limited research examines the impact of FDI and tourism specifically on Islamic bank profitability. This gap in the literature is important, as FDI and tourism are both important sources of external funding for banks and can significantly impact their profitability. The present study aims to fill this gap by investigating how FDI and tourism affect the profitability of Islamic banks in Türkiye. The study will use a sample of Islamic banks operating in Türkiye and examine their financial performance over several years. This study will also account for other factors affecting bank profitability, such as capital adequacy, asset quality, management efficiency, and liquidity. This study is expected to provide valuable insights into the factors contributing to Islamic banks' profitability in Türkiye. Specifically, it will help to shed light on how external funding sources, such as FDI and tourism, can impact bank profitability. This information can be useful for policymakers, investors, and other stakeholders interested in promoting the growth and development of Islamic banking in Türkiye.

It is worth noting that some challenges are associated with studying the impact of FDI and tourism on bank profitability. For example, it may be difficult to disentangle the effects of these external funding sources from other factors affecting bank performance. Additionally, there may be differences in how FDI and tourism affect conventional versus Islamic banks. Despite these challenges, the present study represents an important step forward in understanding how external funding sources impact the profitability of Islamic banks in Türkiye. Providing valuable insights into this topic can help inform strategies for promoting sustainable growth and development within this important sector.

3. Methodology

This chapter outlines the methodology for achieving the research objectives and answers of the research questions. The methodology covers the research design, data collection, diagnostic tests, definition of variables, and data analysis. The research design for this study is quantitative research. This design is appropriate because it allows the collection of numerical data that can be analyzed statistically to test the hypotheses and answer the research questions. The study will use secondary data collected from financial statements of Islamic banks operating in Türkiye. The data will be collected from the financial statements of Islamic banks operating in Türkiye. The sample size will be determined using the purposive sampling technique, which involves selecting a sample based on specific

criteria such as size or location. The sample size will consist of 17 Islamic banks operating in Türkiye. Before conducting any statistical analysis, diagnostic tests will be conducted to ensure that the data meets the assumptions required for statistical analysis. These tests include normality, multicollinearity, and heteroscedasticity tests. The dependent variable is profitability, measured by net income (NIL). The independent variables are tourism measured by number of tourists (NOT) and foreign direct investment (FDI). The data collected will be analyzed using multiple regression analysis to determine the relationship between tourism, FDI, and profitability of Islamic banks in Türkiye. The regression model will be estimated using Ordinary Least Squares (OLS) method.

The study will use panel techniques, i.e., fixed effect, random effect, and GMM models.

$$BP_{it} = \beta_0 + \beta_1 BP_{it-1} + \beta_2 T_{it} + \beta_3 FDI_{it} + \beta_4 Controls_{it} + \epsilon_{it} \quad (1)$$

In this equation, BP represents Bank Profitability, and BP_{t-1} shows the lag-dependent variable of Bank Profitability. T signifies tourism, FDI denotes Foreign Direct Investment, and Controls represent control variables. Similarly, i and t denote banks and periods, respectively. ϵ denotes error term¹³.

4. Data Analysis and Results

Chapter 4 of the paper aims to measure the impact of foreign direct investment (FDI) and tourism on the profitability of Islamic banks in Türkiye by testing the null hypothesis that FDI and tourism have no significant impact on bank profitability and providing empirical evidence to support or reject this assumption. To achieve this goal, the chapter begins by stating the null hypothesis (H_0), which assumes that FDI and tourism have no significant impact on the profitability of Islamic banks in Türkiye. The alternative hypothesis (H_1) is that FDI and tourism significantly impact the profitability of Islamic banks in Türkiye. By testing these hypotheses using multiple regression analysis, the study aims to provide empirical evidence to support or reject these assumptions. The results of this analysis will help determine whether FDI and tourism are important factors that affect the profitability of Islamic banks in Türkiye. Generally, this chapter plays a crucial role in achieving the study's main objective, which is to determine the significance of tourism and foreign direct investment (FDI) on the profitability of Islamic banks in Türkiye. By measuring their impact on bank profitability, this chapter provides valuable insights into how these factors affect bank performance, which can be useful for policymakers, investors, and other stakeholders interested in this field.

Hypotheses for FDI (Both)

Null hypothesis (H0): Foreign direct investment (FDI) and tourism have no significant impact on the profitability of Islamic banks in Türkiye.

Hypothesis (H1): Foreign direct investment (FDI) and tourism have a significant impact on the profitability of Islamic banks in Türkiye

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Si g
FDI	0.454	0.558	0.81	0.419	-0.666	1.574	
NOT	-0.279	0.156	-1.79	0.08	-0.591	0.034	*
GP	58.791	71.881	0.82	0.417	-85.585	203.167	
INF	465708.91	1044099	0.45	0.657	-1631426.2	2562844	
PET	651.612	972.217	0.67	0.506	-1301.143	2604.367	
LR	-26650.549	201782.6	-0.13	0.895	-431942.83	378641.74	
UNE	2191559.4	2248060	0.97	0.334	-2323801.8	6706920.5	
GDP	1206002.9	5596025	0.22	0.83	-10033944	12445949	
BC	-489848.03	1015987	-0.48	0.632	-2530518	1550821.9	
ROE	1192384.9	350731.2	3.4	0.001	487920.46	1896849.3	** *
Constant	-198752.98	116646.2	-1.7	0.095	-433043.71	35537.751	*
Mean dependent	179184.333		SD dependent		264564.031		
Overall r-squared	0.097		Number of obs		66		

F-test	3.561	Prob > F	0
Akaike crit. (AIC)	1643.132	Bayesian crit. (BIC)	1667.219
*** $p < .01$, ** $p < .05$, * $p < .1$			

4.1. Random effects output

The random effects output in the analysis shows that the random effect model has successfully identified and estimated shrunken residuals and demonstrated effectiveness in identifying the relationship between randomly selected variables. The hypothesis and variables used in the random effect model are similar to those used in the fixed effect model section of the analysis. The command "xtreg NIL FDI NOT UNE INF GP GDP LR ROE PET, re" has been used to identify the random relation between FDI and Net income of the selected data set. This command has allowed for the identification of the random effect of FDI on the net income of the dataset, which may have been previously unnoticed or unaccounted for. Using the random effect model has provided a more accurate and complete analysis of the data set, as it accounts for unobserved heterogeneity in the data. The random effect model has allowed for the estimation of the variance of the random effects, which can be used to assess the significance of the random effect of FDI on net income. This information can be valuable for policymakers and investors interested in understanding the relationship between FDI and net income in the selected dataset. Therefore, the random effect model has provided valuable insights into the relationship between FDI and net income in the selected dataset and has allowed for a more comprehensive and accurate data analysis. The analysis results can be used to inform policy decisions and investment strategies. They can contribute to a better understanding of the factors that influence net income in the selected dataset.

NIL	Coef.	St.Err.	t-value	p-value	95% Conf	Interval	Sig
FDI	777	447	1.74	.083	.1	1.654	
NOT	336	14	-2.39	.017	.611	-.061	*
GP	15.28 8	1.516	1.87	.061	5.281	235.857	*
INF	60113 2.5	03692. 47	3.18	.001	13913 .4	258835 1.6	***
PET	309.5 29	76.756	-0.40	.69	1831. 942	1212.88 5	
LR	10729	67760.	-0.64	.522	43610	221504.	

	9.91	29			4.03	21	
UNE	75918 3.2	65389 1.2	2.27	.023	17616 .12	700075 0.3	**
GDP	46655 3.8	09851 7.7	2.09	.037	93570 .6	125395 37	**
BC	17572 04.5	02029 1.8	-1.72	.085	37569 39.6	242530. 61	*
ROE	14570 6.7	79704. 66	3.02	.003	01499 .18	188991 4.1	**
Constant	96029 7.07	95767. 53	-1.61	.107	21279 80	207385. 84	
Mean dependent var	791 84. 333		SD dependent var			264564.031	
Overall r-squared	r-	.21 4	Number of obs			72	
Chi-square	9.9 17		Prob > chi2			0.000	
R-squared within	.54 2		R-squared between			0.003	
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 2: Random effects results

The H1 is accepted, and the H0 is rejected based on the Fixed Effect test results, which show significant results with a 0.083 p-value and 0.777 coefficients regarding the favorable impact of foreign investment on banks. Related to tourism, a 0.017 p-value and a -0.336 coefficient indicates that it has a strong, significant negative influence on bank profits, meaning that H1 is accepted and H0 is rejected. Here “**H1 hypothesis**” has been rejected, and the “**H0 hypothesis**” has been satisfied as there exists a "positive relationship" between the variables.

4.2. GMM output

The autocorrelation of the selected constant or “dependent variable” with the “other independent variable” has been identified by the effective conduction of the “GMM model test”¹⁴. GMM model has generalized the effective "methods of moments" of time series data.

NIL	Coef.	St.Err.	t-value	p-value	95% Conf	Interval	Sig
L	1.1	.085	2.99	0	.934	1.267	***

FDI	.441	.264	1.67	.095	.959	.077	*
ROE	542093 .25	31987 2.69	1.69	.09	- 84845. 705	11690 32.2	*
INF	- 12741 2.38	10966 3.6	- 1.16	.245	- 342349 .09	87524. 339	
UNE	- 77843 4.11	78954 7.34	- 0.99	.324	- 232591 8.5	76905 0.24	
LR	90249. 813	42225 .121	2.14	.033	7490.0 97	17300 9.53	**
BC	- 20069 17.6	99449 4.53	- 2.02	.044	- 395609 1.1	- 57744. 154	**
GDP	- 31967 51.4	16269 50.4	- 1.96	.049	- 638551 5.6	- 7987.2 82	**
Constant	515055 .1	32501 8.76	1.58	.113	- 121969 .96	11520 80.2	
Mean dependent var	1 89219.530		SD dependent var		273483.930		
Number of obs	6 6		Chi-square		142772084 147.511		
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 3: FDI GMM test output

The H1 is accepted, and the H0 is rejected because the GMM test findings show significant positive impact of foreign investment on banks with a 0.095 p-value and 0.441 coefficients.

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval	Si g
L	1.107	.079	13.99	0.	.952	1.262	** *
NOT	-0.221	.11	-2.00	.045	-.437	-.005	**
INF	382486.03	250604.83	1.53	.127	-108690.41	873662.46	
UNE	76801.912	656475.62	0.12	.907	-1209866.7	1363470.5	
BC	-	496345.	-	.011	-	-	**

	125604 2.7	78	2.53		222886 2.6	283222. 85	
ROE	694203. 18	305351. 96	2.27	.023	95724.3 23	129268 2	**
LR	87772.1 5	44939.0 26	1.95	.051	- 306.722	175851. 02	*
PET	251.513	218.357	1.15	.249	- 176.459	679.486	
Constant	3197.51 9	110944. 56	0.03	.977	- 214249. 83	220644. 86	
Mean dependent var	189219.530		SD dependent var		273483.930		
Number of obs	66		Chi-square		147.950		
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 4: Tourism GMM test output

With a 0.045 p-value and -0.221 coefficients, tourism appears to have a very significant negative impact on bank profits; therefore, H1 is accepted, and H0 is rejected.

4.3. Impact of FDI and tourism on Islamic bank profitability

Tourism and FDI are both the most important influences on the Turkish economy, and the banking sector, including Islamic banks, is a powerful component in the economy, so understanding the nature of the relationship between FDI, tourism, and Islamic bank profits is critical, as shown by the results of the tests in the following tables.

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf Interva]	Sig
FDI	.972	.95	1.02	.319	-1.01 2.954	
NOT	-.005	.002	-1.95	.065	-.01 0	*
GP	35.288	105.776	0.33	.742	-185.357 255.933	
INF	14850	16795	0.8	.387	- 49884	

	41.6	02.3	8		20183 38.8	22	
PET	721.10 5	1529.3 63	0.4 7	.642	- 2469.0 9	3911.2 99	
BC	- 38781 02.9	17874 14.9	- 2.1 7	.042	- 76065 85	- 14962 0.86	**
UNE	57694 33	37200 61.8	1.5 5	.137	- 19904 79.9	13529 346	
ROA	36450 716	97806 35.2	3.7 3	.001	16048 668	56852 763	***
ROE	101.92 3	76.953	1.3 2	.2	- 58.599	262.44 5	
GDP	52748 48.4	93236 40.9	0.5 7	.578	- 14173 926	24723 622	
Constant	- 70482 1.01	20434 2.39	- 3.4 5	.003	- 11310 71.8	- 27857 0.24	***
Mean dependent var	353479.30 6		SD dependent var	281939.756			
Overall squared	r-	0.609	Number of obs	33			
F-test	5.567		Prob > F	0.000			
Akaike (AIC)	crit.	830.378	Bayesian (BIC)	crit.	846.840		
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 5. Fixed effect

The coefficients of the independent variable NOT “Number of tourism arrived” is significant with a p-value less than 0.065. This demonstrates that a rise in visiting tourists negatively affects bank revenues, particularly Islamic banks, which means H0 is accepted and H1 is rejected. About FDI, it appears that it has a Non-significant impact on Islamic banks' profits because a 0.319 p-value is bigger than 0.10, which means H1 is rejected, and H0 is accepted.

NIL	Coef.	St.Err.	t- val ue	p- valu e	[95% Conf	Interv al]	Sig
FDI	1.97	.888	2.2	.027	.23	3.71	**

			2				
NOT	-0.006	.003	-2.36	.018	-.011	-.001	**
GP	128.356	97.322	1.32	.187	-62.392	319.104	
INF	3638649.7	984825.07	3.69	0	1708428	5568871.4	***
PET	-725.124	1259.309	-0.58	.565	-3193.323	1743.075	
BC	-5132887.4	1864274.8	-2.75	.006	-8786798.9	-1478975.9	***
UNE	9835807.6	3427382.3	2.87	.004	3118261.8	16553353	***
ROA	40196567	11140724	3.61	0	18361150	62031985	***
ROE	160.969	83.094	1.94	.053	-1.891	323.83	*
GDP	16905179	6494693.3	2.60	.009	4175814.2	29634544	***
Constant	-2691267.5	1202863.7	-2.24	.025	-5048837	-333698.04	**
Mean dependent var		353479.306		SD dependent var		281939.756	
Overall r-squared		0.703		Number of obs		36	
Chi-square		64.186		Prob > chi2		0.000	
R-squared within		0.804		R-squared between		0.877	
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 6. Random effects output

With a p-value of 0.018 and coefficients of -0.006, the independent variable NOT "Number of tourists arrived" has significant coefficients. This shows that an increase in visitors visiting a country has a detrimental impact on bank profits, especially those of Islamic banks, showing that H0 is accepted and H1 is denied. Due to a 0.027 p-value and 1.97, which indicates that H1 is rejected and H0 is accepted, it implies that FDI has a positive substantial influence

on the earnings of Islamic banks.

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Intervall]	Sig
L	.943	.033	28.16	.001	.877	1.008	***
FDI	.466	.187	2.50	.012	.832	.1	**
NOT	-.001	.001	-1.97	.049	-.003	0	**
PET	-200.478	559.959	-0.36	.72	-1297.979	897.022	
GP	-3.515	52.485	-0.07	.947	-106.384	99.354	
BC	-3949886.3	716038.15	-5.52	0	-5353295.2	-2546477.3	***
LR	-603383.79	255414.2	-2.36	.018	-1103986.4	-102781.16	**
UNE	-221173.21	1604605.9	-0.14	.89	-3366143	2923796.5	
ROA	20720139	3160119.9	6.56	0	14526417	26913860	***
GDP	-2566494.7	715991.28	-3.58	0	-3969811.8	-1163177.6	***
Constant	969047.91	314226.64	3.08	.002	353175.02	1584920.8	***
Mean dependent var		373377.424	SD dependent var		286306.859		
Number of obs		33	Chi-square		66.524		
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 7. GMM results from Tourism

4.4. GMM Output

The independent variable NOT "Number of tourists arriving" exhibits significant coefficients with a p-value of 0.049 and

coefficients of -0.001. This demonstrates that a rise in tourists has a negative effect on bank profits, particularly those of Islamic banks, demonstrating that H0 is accepted and H1 is rejected. Given that H1 is rejected and a 0.012 p-value and 0.466 coefficients accept H0, it is implied that FDI positively and significantly affects the profits of Islamic banks.

The GMM output provides important insights into the relationship between the independent variables and bank profitability. The significant coefficient for the variable NOT, which represents the number of tourists arriving, suggests a negative relationship exists between tourism and bank profits, particularly for Islamic banks. This finding is consistent with previous studies showing a negative relationship between tourism and bank profitability. The negative coefficient indicates that increased tourism is associated with decreased bank profits, which can be attributed to increased competition and higher operational costs. On the other hand, the significant and positive coefficient for the variable FDI suggests a positive relationship between foreign direct investment and bank profitability for Islamic banks. This finding indicates that FDI can significantly impact the profitability of Islamic banks in Türkiye. The positive coefficient suggests that an increase in FDI is associated with increased bank profits, which can be attributed to the injection of capital and the potential for growth and expansion. By adopting such measures, policymakers can create an enabling environment for Islamic banks to thrive and contribute to Türkiye's economic growth and development.

5. Summary and Conclusion

The value of this research was demonstrated by reviewing a significant number of previous studies, in that many studies touched on the impact of foreign direct investment and the impact of tourists on the profits of banks in general. However, in this study, a sample of Islamic banks operating in Türkiye was entered into tests. The results of this research offered some insight on how to make the most of these two types of funding. The primary purpose of this research is to investigate how tourism and foreign direct investment impact the profitability of Islamic banks in Türkiye. For 2009-2020, the data of three out of six Islamic banks active in the Turkish banking market are analyzed utilizing static and dynamic panel generalized methods of moments (GMM) estimation methodologies.

The paper aimed to investigate the impact of foreign direct investment (FDI) and tourism on the profitability of Islamic banks in Türkiye. The study used multiple regression analysis to test the null hypothesis that FDI and tourism have no significant impact on bank

profitability and provided empirical evidence to support or reject this assumption. The results showed that FDI has a positive impact on profitability, while tourism has a negative impact on the profitability of Islamic banks in Türkiye. This finding is consistent with previous studies showing a positive relationship between FDI and bank profitability and a negative impact between tourism and bank profitability.

The implications of these findings are significant for policymakers, investors, and other stakeholders interested in this field. For policymakers, the results suggest that promoting FDI will positively impact Islamic bank profitability, and promoting tourism can negatively impact the profitability of Islamic banks in Türkiye. The findings suggest for the relevant government agencies, particularly the Banking Supervision Department and the Association of Participating Banks, how to overcome the challenges that banks and tourists face by directly involving them in the banking sector and changing the impact from negative to positive. It also makes recommendations on how to develop the Islamic banking sector so that it can offer services to the tourism industry. Increasing interest in the foreign direct investment industry, which has a definite favorable effect on the profitability of Islamic banks, is another way to expand the Turkish Islamic banking market. To support recruiting tourists to the banking system and take advantage of the cash flow offered by this sector, the research suggests constructing a banking system with sophisticated services and a location in airports, such as the so-called tourist bank. This banking system makes it quick and simple for tourists to open accounts because it offers a special exchange rate for foreign currencies and a mobile app that lets them use their money in Turkish lira while inside Türkiye, in addition to offering shopping cards and money withdrawal options. This is a development that might have a favourable effect on how tourism affects the financial system. In general, the study provides valuable insights into how FDI and tourism affect the profitability of Islamic banks in Türkiye.

Moreover, the findings suggest that these factors play an important role in determining bank performance, which has economic growth and development implications. Policymakers should create an enabling environment for businesses in the country to thrive, which can lead to job creation and increased economic activity.

Moreover, Chapter 4 of the paper provides empirical evidence to support the positive impact of FDI on Islamic bank profitability and the negative impact of tourism on the profitability of Islamic banks in Türkiye. This finding is consistent with previous studies showing the increasing popularity of Islamic finance worldwide. The implications of these findings are significant for policymakers, investors, and other stakeholders interested in this

field. Promoting FDI can be achieved by creating an enabling environment for foreign investors and tourists by providing tax incentives, improving infrastructure, and enhancing security measures.

Therefore, the results suggest that these factors play an important role in determining bank performance, which has economic growth and development implications. By promoting FDI and tourism, policymakers can create an enabling environment for businesses to thrive, leading to job creation and increased economic activity. The findings of this analysis are similar to those of the Saif-Alyousfi¹² study, which found that tourism has a detrimental effect on bank profitability. A study by (ACARAVCI and ŞENTÜRK¹⁵, Mensi et al.¹⁶, and Musah et al.¹⁷) found that foreign direct investment has a positive impact on bank profitability is related to the current study as well as the effect of foreign direct investment on profitability.

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