

## Analytical Study of the Effect of Interest Rates on Bank Profitability (Comparison of Islamic and Conventional Banking)

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### Abstract:

Due to the special and sensitive role of banks in the country's economic system, the occurrence of any disruption or inefficiency in the banking system and the reduction of their performance, directly affects the financial activities of society. Accordingly, in the present study, the effect of interest rates on the banking profitability of Iran and the United States during the period 1990 to 2019 has been investigated by regression method and GMM time series. The results showed that interest rates had significant effects on bank profitability in the Islamic sector and the conventional sector, with the difference that this effect was positive in the Islamic sector and negative in the conventional sector. The reason for the different effect can be the difference in the nature of interest rates in the Islamic and conventional sectors, because in conventional banking; Interest rates are based on usury, which due to the separation of the banking sector from the real sector of the economy, can be detrimental to the profitability of the banking sector in the long run, but in the Islamic sector, interest rates are based on risk sharing and banking performance to the real sector. It Depends. Therefore, it is recommended that countries with usury-based banking systems put on the agenda the reforms needed to Islamize the banking system.

**Keywords:** Islamic banking; conventional banking; Interest rates; profit; GMM; Method.

**JEL Classification:** E43, E52, G24.

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