

Presentation of a Financial Model for the Stability of the Country's Banking System

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Abstract: Banks, as one of the most important financial institutions, play a central role in economic development, optimal resource allocation, and the facilitation of financial transactions. Therefore, the stability of the banking system is regarded as one of the main pillars of macroeconomic sustainability. The aim of the present study was to present a financial model for the stability of the country's banking system using a qualitative grounded theory research method. For this purpose, semi-structured interviews were conducted with fourteen university professors and senior managers in the banking industry who had more than 15 years of work experience and held a master's degree or higher. Data analysis led to the extraction of 12 main categories within a paradigmatic model and six conceptual dimensions. "Macroeconomic system stability," "effective banking policymaking and supervision," and "cybersecurity" were identified as causal conditions; "international sanctions" as an intervening condition; "accumulation of non-performing loans" and "state-owned banking system" as contextual conditions; "financial transparency," "risk reduction in the banking system," and "enhancement of public trust" as the interactional dimension; "banking system stability" as the core phenomenon; and "business financing" and "bank competitiveness" as outcomes. The resulting financial model shows that achieving banking system stability is the result of interaction among macroeconomic stability, intelligent policymaking and supervision, financial transparency, cybersecurity, and risk management. The findings also indicate that intervening and contextual conditions, particularly sanctions and the state-owned structure of banks, play a prominent role in the quality of institutional interactions and the level of public trust. Ultimately, banking system stability, as the core phenomenon, provides the basis for sustainable financing and the enhancement of bank competitiveness.

Keywords: financial stability, economic fluctuations, banking system.

1. Introduction

Banks constitute one of the central institutional pillars of modern economies because they mobilize deposits, allocate financial resources, facilitate payments, manage liquidity, support investment, and transmit monetary policy to the real sector. In this sense, the banking system is not merely a set of financial intermediaries but a strategic infrastructure through which economic stability, business continuity, public trust, and developmental capacity are reproduced. When banks operate under stable conditions, they can perform their core functions efficiently: transforming short-term deposits into long-term credit, supporting productive enterprises, managing payment flows, and reducing information asymmetry between savers and borrowers. Conversely, instability in the banking system can rapidly spread to other sectors through credit contraction, liquidity shortages, bank runs, loss of depositor confidence, disruption of business financing,

and intensified macroeconomic volatility. Therefore, banking stability has become a fundamental concern in financial management, public policy, regulatory governance, and macroeconomic planning, especially in economies exposed to inflationary pressures, exchange-rate volatility, institutional constraints, external shocks, and structural inefficiencies [1, 2].

Financial stability in the banking sector refers to the capacity of banks and the broader financial system to withstand internal and external shocks while continuing to perform core functions such as financial intermediation, liquidity provision, risk allocation, and payment settlement. This concept is multidimensional because it includes capital adequacy, asset quality, liquidity resilience, profitability, risk management, regulatory compliance, supervisory effectiveness, institutional trust, technological security, and the ability to maintain credit flows under uncertain conditions. In recent years, the concept of banking stability has moved beyond narrow accounting indicators and has increasingly been examined through integrated frameworks that combine financial, institutional, technological, macroeconomic, and managerial variables. Such an integrated perspective is necessary because banking instability rarely emerges from a single cause; rather, it is usually produced by the interaction of weak governance, poor credit allocation, liquidity mismatch, inadequate supervision, technological vulnerability, macroeconomic disequilibrium, and loss of public confidence [3, 4].

The importance of banking stability becomes even more evident when considering its relationship with sustainable development and long-term economic resilience. A stable banking system supports sustainable development by directing financial resources toward productive sectors, enabling small and medium-sized enterprises to access credit, reducing uncertainty for investors, and preserving the value of public savings. In unstable banking environments, financial institutions often become risk-averse, restrict lending, increase transaction costs, and prioritize short-term liquidity over developmental financing. Such conditions weaken entrepreneurship, reduce employment opportunities, and limit the capacity of firms to invest in innovation and production. Accordingly, financial stability should be considered not only a technical concern for banking regulators but also a developmental requirement that affects employment, welfare, industrial continuity, and economic competitiveness [1, 5].

One of the most important foundations of banking stability is macroeconomic stability. Inflation, exchange-rate volatility, fiscal deficit, excessive government borrowing, liquidity growth, and public debt accumulation directly influence bank balance sheets and risk exposure. Persistent inflation erodes the real value of deposits, changes customer behavior, increases uncertainty in credit contracts, and complicates interest-rate policymaking. Exchange-rate instability increases foreign currency risk, weakens firms with external obligations, and may increase non-performing loans when borrowers are unable to meet financial commitments. Fiscal instability can also transfer pressure to the banking system when governments rely excessively on banks for financing budget deficits or direct credit allocation toward non-commercial priorities. In such circumstances, banks may become instruments of fiscal adjustment rather than independent financial intermediaries. Therefore, the stability of the macroeconomic system is a causal condition for banking stability, because without a predictable macroeconomic environment, even well-managed banks may face systemic vulnerability [2, 6].

Banking stability is also strongly influenced by the quality of regulation, supervision, and policymaking. Effective banking supervision requires independent regulatory institutions, clear prudential standards, transparent enforcement mechanisms, accurate risk assessment systems, and timely intervention in troubled banks. Weak supervision can allow the accumulation of hidden risks, excessive lending to connected parties, inadequate collateral practices, poor asset-liability management, and manipulation of financial statements. Regulatory

authorities must therefore develop mechanisms for monitoring capital adequacy, liquidity ratios, credit concentration, non-performing loans, governance structures, and compliance with national and international standards. Moreover, supervision must be forward-looking and preventive rather than merely corrective, because banking crises often become visible only after underlying risks have already accumulated. The literature on banking regulation and stability emphasizes that sound regulation and compliance frameworks can moderate the effects of external uncertainty and strengthen the resilience of banks under volatile conditions [7, 8].

Competition in the banking industry represents another important but complex determinant of stability. On the one hand, competition can improve efficiency, reduce transaction costs, encourage innovation, and enhance service quality. On the other hand, excessive or poorly regulated competition may push banks toward riskier lending, aggressive deposit-rate policies, and short-term profitability strategies that undermine long-term stability. The relationship between competition and stability is therefore not linear; it depends on regulatory quality, market structure, governance mechanisms, and the capacity of banks to manage risk. Desirable competition is competition that improves efficiency and customer value without incentivizing excessive risk-taking. For banking systems with structural weaknesses, competition must be accompanied by effective supervision, transparency, and institutional accountability; otherwise, it may intensify fragility rather than strengthen resilience [9, 10].

The issue of bank stability has also become increasingly connected to income diversification and liquidity risk. Traditional banking models that rely heavily on interest income may become vulnerable during periods of credit contraction, interest-rate fluctuation, or rising default risk. Income diversification can help banks reduce dependence on a single revenue source and improve resilience, but diversification may also introduce new operational and market risks if it is not properly managed. Similarly, liquidity risk is one of the most direct threats to banking stability because banks must continuously balance short-term obligations with long-term assets. When liquidity pressures intensify, even solvent banks may face instability if they cannot meet depositor withdrawals or funding needs. Therefore, a comprehensive model of banking stability must incorporate liquidity management, income structure, risk control, and performance evaluation as interrelated components rather than isolated indicators [3].

In emerging and developing economies, institutional variables play a particularly significant role in banking stability. Institutional quality, regulatory independence, transparency, legal enforceability, anti-corruption mechanisms, and governance structures shape how banks allocate credit, manage risk, and respond to crises. Where institutional quality is weak, credit may be allocated based on political connections rather than economic merit, major debtors may avoid repayment, and banks may experience growing levels of non-performing loans. Institutional weaknesses also reduce public trust, because depositors and investors may perceive the banking system as vulnerable to corruption, political interference, and regulatory inconsistency. In the Iranian banking context, institutional variables have been identified as influential factors in financial stability, indicating that banking stability cannot be fully explained through financial ratios alone; it must also be analyzed in relation to governance, institutional arrangements, and regulatory capacity [4].

The accumulation of non-performing loans is among the most serious threats to banking stability. Non-performing loans weaken bank profitability, reduce lending capacity, damage capital adequacy, and create uncertainty about the true quality of bank assets. When unpaid facilities accumulate, banks may face liquidity pressure and become unable to finance productive activities. In addition, non-performing loans often reflect deeper structural problems, including weak credit assessment, inadequate collateral systems, connected lending, corruption, ineffective debt recovery mechanisms, and poor monitoring after loan disbursement. In banking

systems where large debtors can delay repayment or benefit from informal influence, the problem of non-performing loans becomes not only a financial issue but also a governance challenge. Therefore, reducing credit risk and improving loan recovery mechanisms are essential components of any financial model designed to strengthen banking stability [6, 8].

The ownership structure of banks is another important contextual factor. In banking systems where state ownership or government intervention is extensive, banks may be required to support government projects, finance public deficits, or allocate credit according to policy priorities rather than commercial risk assessment. Although state involvement may sometimes support developmental objectives or stabilize banks during crises, excessive political intervention can reduce operational efficiency, weaken managerial accountability, limit innovation, and create moral hazard. State-owned or government-dependent banks may also face constraints in interest-rate determination, credit policy, capital management, and strategic decision-making. These conditions can reduce competitiveness and make banking stability dependent on fiscal capacity rather than institutional efficiency. Thus, the structure of ownership and the degree of banking independence must be considered in explaining the stability or instability of a national banking system [4, 5].

In addition to traditional financial and institutional factors, digital transformation has become a major determinant of banking stability. Digital financial development can improve operational efficiency, enhance credit scoring, reduce transaction costs, expand financial inclusion, and strengthen data-driven risk management. At the same time, digitalization introduces new risks, particularly cybersecurity threats, data breaches, operational disruptions, digital fraud, and technological dependency. The stability of modern banks increasingly depends on integrated information systems, secure digital infrastructure, advanced authentication, artificial intelligence-based monitoring, and resilient cybersecurity architecture. Studies on digital finance and bank stability show that technological development can support stability when accompanied by appropriate governance, risk control, and regulatory adaptation [11, 12].

Financial technology and innovation culture have also changed the competitive environment of commercial banks. Fintech development, digital banking, neobanks, platform-based services, and artificial intelligence applications can improve customer experience, accelerate service delivery, and create new sources of revenue. However, the benefits of fintech depend on the ability of banks to integrate innovation with risk management and regulatory compliance. Innovation without adequate controls may expose banks to cybersecurity risks, operational failures, data misuse, and new forms of systemic vulnerability. Therefore, banking stability in the digital era requires a balance between innovation and prudential management. In this respect, innovation culture can become a stabilizing factor when it enhances adaptability, technological capability, and strategic responsiveness rather than encouraging uncontrolled experimentation [13, 14].

External uncertainty is another critical issue for banking stability, particularly in economies exposed to trade uncertainty, sanctions, and restrictions on international financial relations. Trade uncertainty can affect borrowers' revenues, import and export capacity, exchange-rate exposure, and repayment ability, thereby influencing banks' credit risk. International sanctions may intensify these pressures by limiting access to foreign reserves, increasing transaction costs, disrupting international payment channels, restricting access to financial technology, and weakening relationships with global financial institutions. In such environments, banks may be forced to rely on informal channels, face higher compliance risks, and experience reduced access to international liquidity. Therefore, external restrictions and geopolitical uncertainty must be treated as intervening conditions that can alter the relationship between domestic banking policies and actual stability outcomes [7, 12].

Cross-border banking further demonstrates the importance of external linkages in banking stability. International banking networks can support diversification, access to capital, knowledge transfer, and regional financial integration. However, they can also transmit shocks across borders when crises, regulatory failures, or liquidity shortages occur in connected markets. The impact of cross-border banking on stability depends on supervisory coordination, regulatory quality, institutional strength, and the ability of domestic banks to manage external exposures. For countries operating under international restrictions or partial disconnection from global financial institutions, the stabilizing benefits of cross-border banking may be limited, while the costs of isolation may become more pronounced. Hence, any national model of banking stability should consider the interaction between domestic financial structures and international banking relationships [15].

Public trust is one of the most decisive yet intangible dimensions of banking stability. Banks operate on confidence: depositors trust that their funds are safe, borrowers trust that credit will remain accessible, and investors trust that financial statements reflect real conditions. When trust weakens, even technically solvent banks may face liquidity crises due to withdrawals, capital flight, or reduced market confidence. Financial transparency, accurate reporting, disclosure of major risks, independent auditing, and accountability of bank managers are therefore central mechanisms for preserving confidence. Transparency reduces information asymmetry, limits corruption, strengthens supervisory credibility, and allows stakeholders to evaluate the real condition of banks. In this regard, the enhancement of public trust is not simply a consequence of banking stability; it is also an interactional process that helps produce and sustain stability [1, 9].

The Iranian banking system presents a particularly important context for developing an integrated model of banking stability because it faces a combination of macroeconomic volatility, institutional constraints, state ownership, non-performing facilities, sanctions, digital transformation pressures, and the need to support business financing. Previous Iranian studies have examined issues such as banking stability and efficiency, fintech effects on financial stability, institutional variables, and performance evaluation based on financial technology service innovation; however, these studies indicate the need for a more comprehensive model that integrates causal, contextual, intervening, interactional, and outcome dimensions into a unified theoretical framework [4, 5, 12, 14]. Such a model can help explain how macroeconomic stability, effective supervision, cybersecurity, sanctions, non-performing loans, state ownership, financial transparency, risk reduction, and public trust interact to shape banking stability and its outcomes for business financing and competitiveness.

Accordingly, the aim of the present study is to present a financial model for the stability of the country's banking system based on the identification and integration of causal conditions, contextual conditions, intervening conditions, interactional dimensions, the core phenomenon, and the consequences of banking stability.

2. Methodology

The present study is classified as qualitative and fundamental research. In terms of its qualitative strategy, the study employed grounded theory. From a paradigmatic perspective, the qualitative dimension of the research was based on constructivism and interpretivism. In addition, in terms of identifying influential characteristics, the present study was exploratory. Regarding the type of data, this work was qualitative research. The statistical population in the qualitative section consisted of university professors and financial managers in the banking industry who had more than 15 years of work experience and held a master's degree or higher, given the specialized nature of the subject. In studies conducted using qualitative methods and interviews, a sample size between 5 and 25 participants is usually recommended. Moreover, non-probability and purposive sampling methods, along with

the theoretical sampling process, were used in the qualitative section, and the interview process in the qualitative analysis continued until theoretical saturation was reached. Accordingly, 14 participants took part in the qualitative section. Interviews were used to collect the research data. Since semi-structured interviews are more appropriate for qualitative studies conducted with exploratory aims and model development purposes, semi-structured interviews were also conducted with experts in this study. In the qualitative section, the grounded theory method was used, and MAXQDA software was employed for the analysis.

3. Findings and Results

This study was conducted based on the perspectives of 14 experts in the field under investigation. In terms of gender, 8 participants were men and 6 were women. In terms of age, 1 participant was under 40 years old, 6 participants were between 41 and 45 years old, and 7 participants were over 45 years old. In terms of education, 6 experts held a master's degree and 8 held a doctoral degree. Finally, 3 participants had between 10 and 20 years of work experience, and 11 participants had more than 20 years of work experience.

Table 1. Demographic Characteristics of the Experts

Demographic Characteristics	Category	Frequency	Percentage
Gender	Male	8	57.1%
	Female	6	42.9%
Age	Under 40 years	1	7%
	41 to 45 years	6	43%
	45 years and above	7	50%
Education	Master's degree	6	42.9%
	Doctoral degree	8	57.1%
Work experience	10 to 20 years	3	21.5%
	More than 20 years	11	78.5%
Total		14	100%

To present the financial model for the stability of the country's banking system, specialized semi-structured interviews were conducted with experts. The purpose of these interviews was to collect expert perspectives on the influential factors and consequences of the model. At this stage, before the interviews began, nine open-ended questions were prepared, and during the interview process, it was anticipated that new questions might also be raised. In order for the researcher to become familiar with the depth and breadth of the data content, the data were reread repeatedly and read actively, with attention to meanings and patterns.

The results of the interviews were analyzed using the grounded theory method. For this purpose, the interview texts were studied and reviewed several times. To conduct the grounded theory research, the "systematic approach," known as the work of Strauss and Corbin (1998), was used.

Through interviews conducted using theoretical sampling, after the initial coding of the interview texts, concepts and categories were extracted. In the initial stage of open coding, a total of 1,209 codes were identified. After screening the initial codes, 146 concepts were obtained. In qualitative research, the criterion for stopping the interview and analysis process is achieving "theoretical sufficiency" or reaching saturation. In other words, prolonging the research no longer leads to changes in the concepts or categories that have emerged during the study. From the end of the thirteenth interview to the completion of the fourteenth interview, no change occurred in the concepts and categories formed during the research, including their creation or modification, which indicates

that the criterion of “theoretical sufficiency” was achieved. The open codes were grouped together, and then focused codes were developed. The concepts were classified into 12 main categories during focused coding.

The concepts, dimensions, and main categories of the model extracted from the interviews using the grounded theory method are presented in Table 2.

Table 2. Concepts and Main Categories of the Financial Model for the Stability of the Country’s Banking System

Concept	Category
Management of the government budget deficit; inflation control; exchange rate stability; prevention of economic shocks; control of government debts; stable monetary and fiscal policy; price stability; prevention of liquidity growth; liquidity management; public debt management; reduced government borrowing from banks; prevention of issuing unsupported banknotes; economic security; political stability and security; stability of the national currency value	Macroeconomic system stability
Effective supervision and regulation by the Central Bank; policymaking for banking privatization; policies for diversification and reduction of concentration in the banking system; supervision of the implementation of customer rating systems; independent supervision by the Central Bank over bank performance; requirements for managing non-current debts; policymaking for appropriate banking interest rates; prevention of unregulated lending facilities; policymaking for the implementation of international banking standards; supervision of reform processes; requirements for managing problematic assets and liabilities; policymaking for restructuring troubled banks; smart capital injection; implementation of control processes by the Central Bank; supervision of standards implementation; quality of banking supervision; intelligent and expert-based policymaking; establishment and supervision of legal mechanisms for claims recovery; internal instructions and regulations for supervising banking performance; macro-level debt policymaking; supervision of loan granting; policy for disclosing major debtors; improvement of the banking control system; reform of banking laws in accordance with international laws; reform of the claims recovery process; policymaking for professional training of human resources; independence of supervisory structures; establishment of an accurate credit assessment system	Effective banking policymaking and supervision
Integrated information system; digital transformation; reform of the security structure; integrated digital system; cybersecurity; use of security technologies; advanced authentication; investment in digital banking; Bank Sepah data becoming inaccessible during the Israel war; establishment and strengthening of a comprehensive information bank; advanced and intelligent control system; use of artificial intelligence	Cybersecurity
Increase in transaction costs; disconnection from the SWIFT system; economic instability caused by sanctions; severe increase in banking system risk due to sanctions; high risk of money transfer due to sanctions; high cost of international exchanges; limited access to foreign exchange reserves abroad; disconnection from international financial institutions; restrictions on the import of modern financial technologies; intensification of credit risk in Iranian banks; reliance on informal money transfer networks	International sanctions
Existence of large-scale banking debts; existence of major debtors; high-risk and unregulated lending to certain individuals; lending without guarantees; weakness in credit risk management; weakness in customer credit assessment; inefficiency of guarantee and collateral systems; corruption and collusion in granting facilities; delays in claims recovery; lack of an integrated system for tracking facilities; weakness in assessing loan risk before disbursement	Accumulation of non-performing loans
Composition of bank ownership; state ownership of most banks; government intervention; banks’ dependence on the government; development of private banks; strong dependence on government fiscal policies; reduced efficiency and innovation in banking services due to bureaucratic structures; existence of rent-seeking and political influence in bank managerial appointments; concentration of resources in government projects instead of optimal allocation to the private sector; limited independence of banks in determining interest rates and credit policies	State-owned banking system
Bank resilience; management of banking uncertainty; ability to manage financial and economic shocks; flexibility against international crises such as sanctions; capacity for rapid recovery after banking crises; existence of a bank deposit guarantee fund; ability to maintain stable liquidity flows; coordination with international institutions for financial sustainability	Banking system stability
Transparent reporting; reporting transparency; reduction of corruption; disclosure of financial statements based on International Financial Reporting Standards (IFRS); reduction of profit and loss manipulation by banks;	Financial transparency

public disclosure of information related to major debtors; enhancement of accountability among bank managers; reduction of tax evasion in the banking system; strengthening of independent supervisory institutions for banking audits	
Integrated risk management; reduction of systemic risk; risk control; reduction of loan default risk; design of credit risk prediction models using artificial intelligence; insurance coverage for loan default risk; diversification of banks' credit portfolios; hedging against exchange rate and interest rate fluctuations; increased investment in hedging instruments, including derivatives	Risk reduction in the banking system
Attraction of domestic and foreign capital; preservation of public savings; prevention of crisis contagion; trust in the country's financial system; prevention of bank runs and capital flight; increase in public savings; guaranteeing the security of small and large deposits; maintaining stability of deposit interest rates; provision of government guarantees for deposits during periods of instability; increased interaction with media and civil institutions for transparent information dissemination	Enhancement of public trust in the banking system
Job creation; public welfare; greater financing of small and large businesses; credit for small businesses; support for production and employment; reduction of unemployment; development of trade; prevention of industrial shutdowns; targeted allocation of credit	Business financing
Customer satisfaction; international promotion of Iranian banks; healthy competition; reduction of transaction costs; greater profitability of the banking system; increase in banks' foreign exchange income; improvement of customer experience through reliable digital services; innovation in digital services, including neobanks and fintechs; presence in regional and international markets; improvement of customer service quality and service delivery speed; development of non-traditional banking services, including investment, insurance, and green banking; reduction of operating costs through digital transformation; establishment of strategic cooperation with fintechs and startups; increased attractiveness to foreign investors	Bank competitiveness

Then, the axial codes, which included the main classifications of the extracted concepts, were organized together, and their relationships with one another were determined using the interpretive structural modeling method. At this stage, an attempt was made to determine the relationships among these concepts and the way they influence one another. For this purpose, the interpretive structural modeling (ISM) method was applied to develop the final structural self-interaction matrix. This matrix was the result of expert opinions and the analysis of relationships among the research categories, which was designed based on the axial process.

In grouping the categories, a formulation was developed regarding the contexts, processes, consequences, and relationships among the research categories. In this study, the contexts, processes, and consequences were identified as follows: the contextual foundations included the categories of macroeconomic system stability, effective banking policymaking and supervision, cybersecurity, international sanctions, accumulation of non-performing loans, and the state-owned banking system. Within the framework of grounded theory, the causal conditions were identified as macroeconomic system stability, effective banking policymaking and supervision, and cybersecurity.

International sanctions were identified as the intervening condition.

The accumulation of non-performing loans and the state-owned banking system were identified as contextual conditions.

Moreover, the process-related categories were identified as financial transparency, risk reduction in the banking system, and enhancement of public trust in the banking system.

The outcomes of the proposed model were identified as business financing and bank competitiveness.

After examining the categories from different perspectives and determining the relationships among them at different levels as well as conditional path mapping, the axial coding stage was completed so that, in the final step of analysis, selective coding and the creation of the theory and final model could be carried out. In selective coding, banking system stability was identified as the core category of the research.

The paradigmatic model derived from the qualitative findings of the study is also presented below:

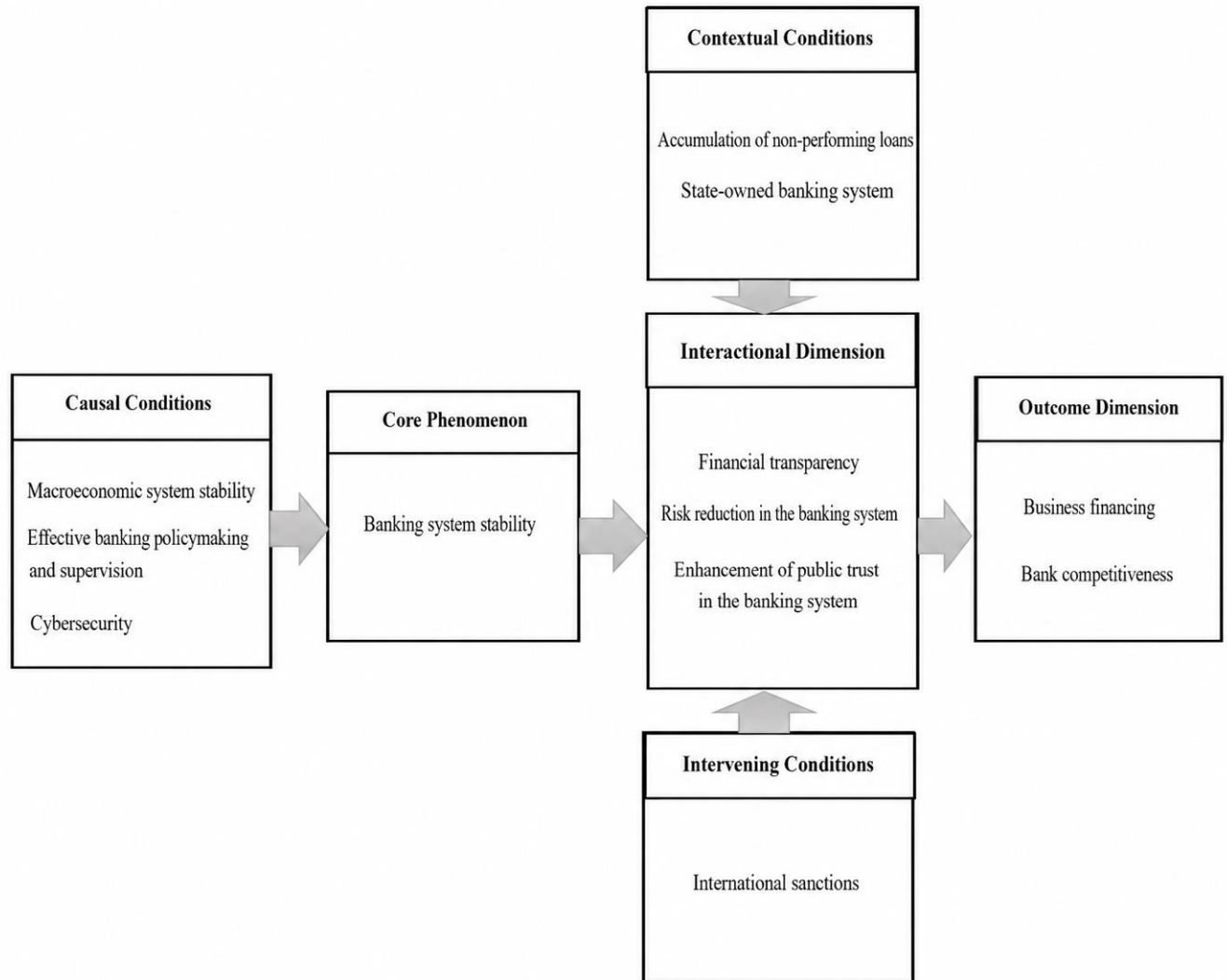


Figure 1. Paradigmatic Model

4. Discussion and Conclusion

The findings of the present study led to the development of a financial model for banking system stability based on 12 main categories organized within a paradigmatic structure. In this model, macroeconomic system stability, effective banking policymaking and supervision, and cybersecurity were identified as causal conditions; international sanctions were identified as an intervening condition; accumulation of non-performing loans and the state-owned banking system were identified as contextual conditions; financial transparency, risk reduction in the banking system, and enhancement of public trust were identified as interactional dimensions; banking system stability was identified as the core phenomenon; and business financing and bank competitiveness were identified as the main outcomes. Overall, the results indicate that banking stability is not a single-dimensional financial condition but a systemic and multidimensional phenomenon formed through the interaction of macroeconomic, institutional, technological, regulatory, and behavioral factors. This finding is consistent with the view that financial stability should be understood as a broad developmental and institutional condition that enables the banking system to continue its intermediary role under uncertainty and economic pressure [1, 4].

The identification of macroeconomic system stability as a causal condition shows that the stability of banks is strongly dependent on the broader economic environment. Participants emphasized factors such as inflation control, exchange-rate stability, liquidity management, fiscal discipline, public debt control, and prevention of economic shocks. This result is aligned with studies showing that macroeconomic volatility can weaken bank balance sheets, increase credit risk, reduce deposit stability, and disrupt the allocation of financial resources [2, 6]. In unstable macroeconomic environments, banks face difficulty in pricing loans, managing liquidity, assessing borrowers' repayment capacity, and maintaining public trust. Therefore, the present finding supports the argument that banking stability cannot be achieved solely through internal bank management; it also requires stable monetary and fiscal conditions. This is especially important in economies where inflation, exchange-rate fluctuations, and government borrowing impose direct pressure on banking institutions.

The second causal condition, effective banking policymaking and supervision, confirms the central role of regulatory governance in maintaining financial stability. The extracted concepts included Central Bank supervision, implementation of banking standards, control of lending processes, restructuring of troubled banks, disclosure of major debtors, improvement of credit assessment systems, and independence of supervisory structures. This finding is consistent with previous research emphasizing that regulation and compliance frameworks can moderate banking instability and improve resilience under uncertainty [7, 8]. Effective supervision prevents the accumulation of hidden risks and reduces the probability that weak governance, unregulated lending, and poor asset quality will lead to systemic instability. The result also supports studies on desirable banking competition, which argue that competition contributes to stability only when it operates within a sound supervisory and regulatory framework [9, 10].

Cybersecurity was also identified as a causal condition, reflecting the increasing dependence of banking stability on digital infrastructure. The results showed that integrated information systems, digital transformation, advanced authentication, artificial intelligence, intelligent control systems, and security technologies are fundamental to preserving stability in modern banking. This finding aligns with recent evidence that digital financial development can strengthen commercial bank stability by improving efficiency, risk monitoring, service delivery, and data-driven decision-making [11]. It is also supported by research on fintech and innovation culture, which shows that technological innovation can contribute to financial stability when it is accompanied by strong governance, security architecture, and organizational readiness [12, 13]. However, the finding also implies that digitalization without cybersecurity may produce new forms of operational and systemic risk. Therefore, cybersecurity should not be treated as a technical support function but as a strategic component of banking stability.

International sanctions emerged as the main intervening condition in the model. This finding indicates that external constraints can alter the relationship between domestic banking policies and stability outcomes. Sanctions increase transaction costs, restrict access to international financial institutions, disrupt SWIFT-based transactions, limit access to foreign reserves, increase money transfer risk, and reduce the ability of banks to import modern financial technologies. This result is consistent with studies showing that trade uncertainty and external restrictions can affect banking stability through credit risk, compliance pressure, financial isolation, and uncertainty in international transactions [7, 15]. The finding also complements studies on fintech and financial stability in Iran, where international limitations and technological restrictions are recognized as important barriers to banking modernization [12]. Thus, sanctions function as an intervening condition because they intensify risk and constrain the effectiveness of domestic reform efforts.

The accumulation of non-performing loans was identified as a contextual condition affecting banking stability. The results showed that large banking debts, major debtors, high-risk lending, weak credit assessment, insufficient collateral systems, corruption, collusion, and ineffective debt recovery mechanisms create a fragile context for the banking system. This finding is consistent with studies that identify asset quality, credit risk management, and non-performing loans as central determinants of banking stability [3, 8]. When non-performing loans accumulate, banks lose profitability, liquidity, lending capacity, and credibility. This condition also reduces their ability to finance productive sectors and increases the probability of systemic pressure. In this regard, the finding confirms that banking stability requires not only macro-level policy reform but also micro-level improvement in credit evaluation, collateral management, borrower monitoring, and claims recovery.

The state-owned banking system was another contextual condition in the proposed model. The results indicated that government ownership, state intervention, dependence on fiscal policies, bureaucratic structures, political influence in managerial appointments, and allocation of resources to government projects can weaken banking independence and efficiency. This finding is aligned with institutional approaches to financial stability, which emphasize that ownership structure, governance quality, and institutional variables influence the performance and stability of the banking system [4]. In systems where banks are highly dependent on the state, credit allocation may be shaped by political or fiscal priorities rather than risk-based financial logic. This can reduce competitiveness, limit innovation, and increase exposure to government debt. The finding also corresponds with studies of the Iranian banking system that emphasize the relationship between banking stability and efficiency [5].

Financial transparency, risk reduction, and enhancement of public trust were identified as the interactional dimensions of the model. This means that these categories mediate the connection between structural conditions and banking stability. Financial transparency emerged through concepts such as transparent reporting, IFRS-based disclosure, reduction of corruption, disclosure of major debtors, accountability of bank managers, and independent audit supervision. This finding is supported by studies emphasizing the role of institutional quality and governance in strengthening financial stability [1, 4]. Transparent reporting reduces information asymmetry and allows regulators, investors, depositors, and other stakeholders to evaluate the real condition of banks. Without transparency, banking risks remain hidden until they become systemic.

Risk reduction in the banking system was also identified as a central interactional dimension. The findings emphasized integrated risk management, reduction of systemic risk, control of default risk, artificial intelligence-based credit risk prediction, credit portfolio diversification, insurance mechanisms, and hedging against exchange-rate and interest-rate fluctuations. This result is consistent with previous studies showing that liquidity risk, income diversification, and risk management capacity are important components of bank stability [3]. It is also aligned with research on digital finance, which suggests that advanced technologies can enhance banks' risk assessment and predictive capabilities [11]. Therefore, risk reduction should be understood as both a financial and technological process. Banks need integrated systems that combine data analytics, credit assessment, liquidity monitoring, and stress-testing mechanisms.

Enhancement of public trust was another interactional dimension. The results showed that trust is built through preservation of public savings, prevention of bank runs, deposit security, stability of deposit interest rates, government guarantees in unstable conditions, prevention of capital flight, and transparent communication with society. This finding is consistent with the view that financial stability depends not only on technical indicators but also on confidence in financial institutions [1]. Banking is fundamentally based on trust, and even temporary doubts about solvency or liquidity can produce withdrawal pressure and instability. Therefore, public trust functions as

both a result and a producer of banking stability. A banking system that is transparent, well-regulated, technologically secure, and capable of managing risk is more likely to preserve confidence among depositors and investors.

The core category identified in the model was banking system stability. In this study, banking stability was conceptualized through resilience, uncertainty management, ability to manage financial and economic shocks, flexibility under international crises, rapid recovery after banking crises, deposit guarantee mechanisms, stable liquidity flows, and coordination with international institutions. This conceptualization is consistent with recent banking stability literature, which views stability as the capacity of banks to maintain their functions under stress rather than merely the absence of crisis [8, 9]. The findings also show that stability is produced through dynamic interaction among causal, contextual, intervening, and process-related factors. Accordingly, banking system stability is not a static outcome but an adaptive institutional capability.

The outcomes of the model were business financing and bank competitiveness. The identification of business financing as an outcome shows that a stable banking system is essential for employment, production, trade development, support for small and large businesses, and prevention of industrial shutdowns. This finding is aligned with the argument that financial stability supports sustainable development by maintaining credit flows to productive sectors [1]. It also supports Iranian evidence indicating that banking stability is related to the efficiency and functioning of the banking system in the national economy [5]. When banks are stable, they can allocate credit more effectively, reduce uncertainty for businesses, and support economic growth.

Bank competitiveness was also identified as an outcome of banking system stability. The findings emphasized customer satisfaction, international upgrading of Iranian banks, healthy competition, lower transaction costs, profitability, digital service innovation, neobanks, fintech cooperation, regional and international market presence, green banking, and attractiveness to foreign investors. This result is consistent with studies showing that competition, fintech innovation, and digital transformation can enhance banking performance and stability when governed properly [10, 13, 14]. It also aligns with research suggesting that desirable banking competition can strengthen stability if it is not accompanied by excessive risk-taking [9]. Therefore, competitiveness should not be interpreted only as market rivalry; rather, it reflects the ability of banks to provide reliable, innovative, efficient, and internationally compatible services.

Overall, the proposed model contributes to banking stability literature by integrating financial, macroeconomic, institutional, technological, and behavioral dimensions into a single paradigmatic framework. Previous studies have separately examined determinants such as fintech, institutional variables, competition, liquidity risk, income diversification, cross-border banking, and macroeconomic conditions [2-4, 9, 11, 15]. The present study extends these findings by showing how these elements interact within the specific context of the national banking system. In particular, the model highlights that banking stability requires simultaneous attention to macroeconomic discipline, regulatory independence, digital resilience, control of non-performing loans, institutional reform, transparency, risk management, and trust-building. This integrated approach is especially valuable for banking systems exposed to sanctions, state intervention, and structural credit problems.

The present study has several limitations. First, the research was conducted using a qualitative grounded theory approach based on interviews with 14 experts; therefore, although theoretical saturation was achieved, the findings are interpretive and context-dependent. Second, the model reflects expert perceptions and does not include quantitative testing of causal relationships among the identified categories. Third, the study focused on the national banking system and may not be fully generalizable to banking systems with different institutional, regulatory,

political, and economic structures. Fourth, some sensitive issues such as sanctions, major debtors, and state ownership may have influenced the depth or openness of expert responses.

Future studies are recommended to test the proposed model quantitatively using structural equation modeling, interpretive structural modeling, or mixed-method designs. Researchers can examine the relative weight and causal strength of each category, especially macroeconomic stability, cybersecurity, financial transparency, and non-performing loans. Comparative studies across public and private banks can also clarify how ownership structure affects stability mechanisms. In addition, future research may investigate the role of artificial intelligence, fintech partnerships, digital banking maturity, and cybersecurity investment in strengthening banking resilience. Longitudinal studies would also be useful for evaluating how banking stability changes under different macroeconomic and regulatory conditions.

From a practical perspective, policymakers and banking managers should treat banking stability as an integrated governance priority rather than a purely financial indicator. Central Bank supervision should be strengthened through independent monitoring, transparent disclosure requirements, accurate credit rating systems, and strict control of high-risk lending. Banks should improve credit risk assessment, reduce non-performing facilities, modernize debt recovery processes, and invest in cybersecurity and digital infrastructure. Public trust should be reinforced through transparent reporting, protection of deposits, clear communication, and accountability of bank managers. Finally, sustainable business financing and bank competitiveness require coordinated reforms in macroeconomic policy, institutional governance, banking regulation, and technological modernization.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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