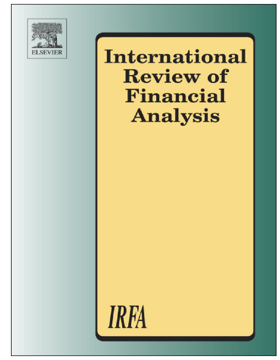

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Has the uniformity of banking regulation within the European Union restricted rather than encouraged sectoral development?

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ABSTRACT

The recent international financial crisis exposed many of the frailties that exist within the European banking sector. One major decision taken by the European Commission was to transition the powers of the Committee of European Banking Supervisors to that of the European Banking Authority (EBA). Our analysis focuses primarily on the differing behaviour by each European country's banking sector to major shocks, namely that in the form of bank closures. It is then necessary to investigate and further understand the role that the European Banking Authority now possesses with regards to releasing sensitive announcements based on the underlying currents of the European Banking system as measured by domestic banking sector stock returns. Finally, we investigate the cultural characteristics that can be uncovered by analysing the responses of domestic banking sectors to uniform regulation. We present three key findings. First, European countries with more local banking networks in the form of credit unions, public banks or savings banks, generate greater levels of volatility when compared to that of their commercial counterparts, particularly in countries with more monopolistic sectors. Secondly, the announcements of the European Banking Authority generate significant volatility effects for the European banking sector at large, with particular emphasis on stress testing results, but also announcements based on recapitalisation, regulation and transparency. Finally, cultural distance effects are identified, indicating that peripheral states are experiencing more substantial volatility effects to European Banking Authority decisions. These results indicate that uniformity of regulation may in fact be hindering and restricting the growth of some domestic and more peripheral and locally designed banking sectors in the form of rules designed for commercial banking operations.

Keywords: Banking; regulation; financial markets; cultural distance; European Union.

JEL Classification: C58, G18, G21, G28.

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