

Katarzyna Sum

The endogeneity of banking regulations- the case of the EU

A frequently made assumption in the economic literature is that banking regulations are exogenously designed. Not much attention has been devoted to the factors influencing the regulatory framework. Nevertheless, endogenizing banking regulations can lead to important conclusions about the functioning of the banking sector. The present study is aimed at investigating the potential endogeneity of banking regulations and determining the factors shaping the regulatory frameworks in the EU-countries. The paper's contribution consists in identifying the determinants of banking regulation by testing theories of regulatory choices (the private interest theory, the public interest theory and regulatory dialectics) by means of panel data analysis. The study explores not only the determinants of cross country differences but also the factors of over-time changes of these regulations. The results of the study give partial support to the private interest theory, especially the plurality of pressure groups hypothesis and electoral fractionalisation hypothesis. The results have implications for the banking regulatory reform in the EU.