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THE INTEGRATION OF BANKING SYSTEMS IN THE EC

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The 1993 Second Coordinating Banking Directive outlined the plan for integrating banking systems in the European Community (EC). Banks are free to branch wherever they want in the EC, and must abide by the rules of their home country. The purpose of this paper is to predict which countries' banks will be most profitable after integration; specifically, those countries whose banks have previous experience operating in an atmosphere of minimal regulation should be most profitable after integration. Bank profits of EC countries are tested to determine their relationship to various regulation variables, using data from 1985 to 1989. The paper concludes that those countries' banks which were less heavily regulated were most profitable, confirming the hypothesis.