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WORKING PAPER

Sophisticated Discipline in a Nascent Deposit Market: Evidence from Post-Communist Russia

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Using a database from post-communist, pre-deposit-insurance Russia, we demonstrate the presence of quantity-based sanctioning of weaker banks by both firms and households. Evidence for the standard form of price discipline, however, is weak. This combination of findings is unusual within the context of the literature on market discipline. But it is consistent with depositors interpreting the deposit rate as a complementary proxy of otherwise unobserved bank-level risk. Testing this hypothesis, we estimate the deposit supply function and show that, particularly for poorly capitalized banks, interest rate increases exhibit diminishing, and eventually negative, returns in terms of deposit attraction.

JEL Classifications: G21, O16, P2

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