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Market Power in the Russian Banking Industry

Following the major structural changes of banking industries around the globe, the impact of bank competition on economic growth has received an increasing interest in the literature in the recent years. Since banks play a key role in the financing of the economy, changes in bank competition are supposed to exert an impact on access to bank finance. In this paper we analyze bank competition in Russia by measuring the market power of Russian banks over the period 2001-2007 with the Lerner index. This measure of market power has been increasingly used in the banking literature since it infers banks' conduct directly and then informs on the actual behavior of the bank. First, we measure the level and the evolution of the market power of Russian banks and compare it with other countries. We show that bank competition in Russia has only slightly improved between 2001 and 2007. Nevertheless, the level of bank competition is very similar to the one observed in the developed countries. Russian banking industry does not seem to suffer from excessive market power of banks. Second, we investigate whether market power depends on ownership. No category of banks among domestic private banks, state-controlled banks, and foreign-owned banks, has been persistently more or less competitive than the others. We observe enhanced market power for foreign-owned banks and reduced market power for state-controlled banks over the period, leading to the fact that the most competitive banks were foreign-owned banks at the beginning of the period, and state-owned banks at the end of the period. Third, we analyze the determinants of market power for Russian banks. This investigation is conducted to provide relevant insights for economic policy, by identifying the factors which can be influenced in order to enhance bank competition. Furthermore, this analysis allows us to examine to what extent these determinants are similar to those observed in developed countries. Our investigation of the determinants for market power identifies the role of concentration and risk, the absence of impact of ownership, and the nonlinear influence of size.