

Market discipline in the Bolivian banking system

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Abstract

Financial crises have opened a wide discussion about the implementation of appropriate regulation on banks. To improve performance and processes taking risks, safety nets have two mechanisms: market discipline and banking regulation and supervision. Depositors can exert market discipline withdrawing their funds or demanding higher interest rates for riskier banks. Moreover regulation can directly restrict the operations of the banks or take corrective action if the bank's solvency is compromised.

The study examines the factors considered depositors to maintain or withdraw their savings in a particular bank. The results suggest evidence for the existence of market discipline and that systemic factors and macroeconomic variables also influence the decisions of depositors.

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