

Elasticities at the crossroads: Measuring competition in Armenia's banking sector

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Abstract

This paper estimates structural demand for business loans and household deposits in a small, highly dollarized banking system. Using quarterly bank-level data from Armenia over 2012–2024, we estimate discrete-choice demand models, with a focus on the Random Coefficient Logit specification, to recover product-level own- and cross-price elasticities. These elasticities provide behavioral measures of competition, capturing how borrowers and depositors substitute across banks, currencies, and maturities over time. The results reveal substantial heterogeneity and directional asymmetry in substitution patterns, with systematically stronger price responsiveness in AMD-denominated products: while substitution from AMD to USD lending declines steadily, substitution toward AMD remains comparatively more responsive, particularly during periods of macro-financial stress. Regulatory-driven consolidation in 2015–2016 is associated with a marked reduction in price sensitivity across both loan and deposit markets. Deposit markets are less price-elastic overall, but competitive conditions vary systematically by currency and demographic characteristics, with older and male depositors exhibiting stronger preferences for USD-denominated savings.

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