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Staying on top: Political cycles in private bank lending

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ABSTRACT

The incentives for state-owned banks to boost lending before elections in order to improve the re-election odds of incumbent politicians are well recognized. We hypothesize that political influence on lending behavior in electoral autocracies extends to all banks, irrespective of ownership or political connections. Employing monthly data on individual banks, we consider the lending behavior of Russian banks in the four presidential elections held between 2004 and 2019. We find that both state-owned and private banks increased their lending before these presidential elections. Controlling for economic fluctuations, the pre-election lending surge is followed by a deterioration of loan quality the following year. We show that private banks are rewarded for boosting their lending before an election with government deposits after the election. Our findings support the view that the authorities in electoral autocracies such as Russia have the capacity and means to influence lending of private and state-owned banks in pursuit of favorable election outcomes.

1. Introduction

Electoral autocracies have received increased media coverage with the political evolutions of Russia, Turkey, Venezuela and other strongman states. As defined by the V-Dem Institute[1], these regimes marry democratic institutions, particularly regularly scheduled elections (their main mechanism for acquiring power), with vigorous wielding of ruling-party administrative advantages (especially instrumentalities associated with political authority, control and intimidation). These 21st century electoral autocracies are often described as personalist autocracies, where the legitimacy of the ruling party rests on the popularity of the incumbent strongman. Using the levers of power to shape election outcomes is the name of the game in such states.

In addition to the familiar channels available for achieving desired political outcomes in electoral autocracies such as media control (Stier, 2015) and electoral fraud (Moser and White, 2017), banks may also help incumbents influence election outcomes. Recent literature on the experiences of countries with election-related bank lending suggests that state-owned banks provide the instrumentality for influencing electoral outcomes (Dinc, 2005; Carvalho, 2014; Englmaier and Stowasser, 2017; Schoors and Weill, 2020; Bircan and Saka, 2021). This literature supports the view that political interference in the lending of state-owned banks tends to manifest around election time in all regimes that hold elections, regardless of whether they are democracies or electoral autocracies. This finding accords with the view that incumbents generally have an incentive to use all available resources to increase their chances

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[1] Please check https://www.v-dem.net/data/the-v-dem-dataset/ for further details.

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of re-election (Gandhi and Lust-Okar, 2009).

Our narrower question here is whether such political interference during election cycles extends to private banks in electoral autocracies. Does the pursuit of political goals lead to interference in private bank lending behavior? In his seminal paper on state-owned bank lending, Dinc (2005) describes a motivation for this behavior, noting specifically that politicians might go so far as to use their power to influence private bank lending.[2]

Electoral autocracies differ from democracies and traditional autocracies in their incentives and possibilities to influence state-owned and private banks. As their constitutions provide checks and balances, democracies offer few opportunities for influencing elections through private banks. Moreover, the free press can give politicians a hard time if they put too much pressure on private banks. By the same token, traditional autocracies have little motivation to pressure banks about elections. Voting in such regimes largely serves to provide window-dressing for autocrat legitimacy.

We hypothesize that the authorities in electoral autocracies are able to stimulate lending from both state-owned and private banks during the run-up to a major national election. We do not necessarily expect, however, the political influence is the same for state-owned and private of banks. While manipulation of state-owned banks is straightforward and apparent, political influence over private banks depends on their perceived susceptibility and the ability of politicians to provide appropriate carrots and sticks to achieve their desired outcomes. In a stable electoral autocracy, all agents – including private banks – have learned to behave in the manner desired by the authorities, even if no explicit incentives are applied.

To test our main hypothesis, we analyze the existence of electoral lending cycles in Russia. We examine whether Russian banks, both state-owned and private, increase their lending ahead of elections, and whether this behavior entails an economic cost. Russia provides an ideal setting for investigation of our research question. It is a good example of an electoral autocracy combining the organization of regular presidential elections with the privileged position of the incumbent leader.

While Russia also regularly holds parliamentary elections, we focus on presidential elections as they matter most to the electoral autocrat. As observed by Frye (2021), regular presidential elections demonstrate effort on the part of the leader to bolster legitimacy through the vote, e.g. Russia, Turkey, Venezuela, and Hungary. These personalist electoral autocracies are characterized by their leaders striving to build an aura of legitimacy with the population at large. Guriev and Treisman (2022) argue that over the past 30 years an increasing share of autocratic leaders globally have become spin dictators. As opposed to fear dictators, the spin dictators hold elections, allow some degree of opposition and avoid overt violence. For a spin dictator, elections and autocrat popularity are hugely important tools to manipulate information and remain in power. Following this definition, the authors classify Russian president Vladimir Putin as a prime example of spin dictator.

Frye (2021) further explains that Russia is a classic personalist autocracy in the sense that a single individual dominates policy and personnel decisions. Russia has been a personalist political regime during the Putin era (Geddes et al., 2014 and Baturo and Elkink, 2021). It has however become more personalist over the years (Baturo and Elkink, 2016). As summarized by Kendall-Taylor et al. (2017), the regime has become gradually more personalized from the neutralization of influential oligarchs during the first term 2000–2004 to the accumulation of power since 2012.

As Zavadskaya (2018) notes, presidential elections in electoral autocracies such as Russia are intertwined with personal power – a major difference from parliamentary elections in democracies. Corroborating the view that parliamentary elections matter less in a leader-driven political context, Lankina and Tertytchnaya (2019) note that Russian parliamentary elections have lower voter turnout and a lower probability of post-election protests than presidential elections.

Another salient feature of presidential elections in electoral autocracies is that they are essential to regime change. Indeed, Russia's regime is much more focused on the presidential election outcome than Duma elections. Parliamentary elections hold less importance in an electoral autocracy since the outcome does not provide a clear measure of the leader's political strength. Russia's Duma, for example, comprises a range of parties. The party of the president[3] (United Russia or Unity) explicitly supports the regime. Others, such as the Liberal Democrats, implicitly back the regime through their votes. Consequently, the outcome of the elections does little to bolster regime legitimacy.

For all of the above reasons, interference in bank lending before presidential elections holds much greater importance than before parliamentary elections. In three out of four elections in our observation period (2004, 2008, 2012), however, the Russian presidential elections were held about three months after the parliamentary elections. Thus, we also face a practical problem stemming from the fact that the pre-parliamentary election period partially overlaps with the pre-presidential election period, making it impossible to properly identify separate effects of parliamentary elections in such presidential election super-cycles.

To investigate whether banks increase their lending before Russian presidential elections, we utilize detailed monthly data on individual banks from the Central Bank of Russia to identify with high precision any changes in bank lending before elections. Our observation period runs from 2004 to 2019, a period that includes four presidential elections (2004, 2008, 2012 and 2018). As evidence of heightened lending prior to elections could result from a higher demand for loans rather than a supply-related factor like political pressure, we reduce the possibility that our results are driven by demand-related considerations such as a pre-election economic expansion by controlling for macroeconomic fluctuations in our estimations. In an attempt to understand the underlying mechanisms, we investigate the potential influence of political connections on private bank lending behavior during election times by analyzing the behavior of spetsbanks. These are privately held banks for the most part and considered to be politically connected (Berkowitz et al., 2014). We find evidence that all banks boosted their lending in the run-up to a presidential election, irrespective of

[2] Baum, Caglayan and Talavera (2010) later raise this conjecture for Turkey.

[3] Vladimir Putin is not a member of United Russia.

ownership, or political connections. These results reject the political connections channel, lending support to our hypothesis that all banks are subject to political influence in Russia's electoral autocracy.

In support of a political lending cycle, our results further reveal that loan quality deteriorates in the year after the election relative to years more remote from the presidential election cycle. Were pre-election lending solely driven by economic factors, we would not expect a significant post-election rise in bad loans. The deterioration of loan quality after Russian presidential elections, however, accords with the view that the pre-election lending surge is predominantly unrelated to economic factors. This finding bolsters our interpretation of politically motivated bank lending behavior.

Banks may also have their own self-interest in mind when boosting their lending before an election. We thus test to see whether private banks encouraged to increase lending before an election are rewarded with an increase in government deposits after the election. Indeed, we find evidence of a tit-for-tat reward mechanism that produces increased government deposits. Alternatively, we check to see whether banks with weak fundamentals voluntarily decide to increase their supply of loans to buy implicit protection (or even regulatory forbearance) when they risk imminent license withdrawal. We find no evidence that banks with weak fundamentals are likely to be more generous in their lending than other banks in the run-up to an election.

Our analysis contributes to the literature on the interplay between politics and banking in electoral autocracies. Earlier papers have usually considered democracies (for Brazil: Carvalho, 2014; for Germany: Englmaier and Stowasser, 2017) or cross-country samples (Dinc, 2005). We extend the literature by considering how bank lending can be used to affect election outcomes in an electoral autocracy. Furthermore, we investigate the channel of lending through private banks rather than restricting the analysis to state-owned banks. Both these contributions distinguish our analysis from Schoors and Weill (2020), who investigate the lending behavior of Sberbank, Russia's giant state-owned bank, during the 2000 presidential election cycle, i.e. at a time when Russia could still be considered a democracy.[4] Here, we consider the lending behavior of all banks, both state-owned and private in a firmly established electoral autocracy.

The rest of the article is structured as follows. Section 2 provides the background for our research question. Section 3 presents the data and methodology. Section 4 sets forth the results. Section 5 concludes.

2. Background

2.1. Presidential elections and the Russian banking sector

After the turbulent 1990s, Russia elected a new president, Vladimir Putin, in March 2000. The winning party succeeded in balancing the budget, re-monetizing the economy, and began to pursue liberally-minded structural reforms. Macroeconomic stabilization supported economic growth and prepared the ground for rapid development of the banking sector in the second half of the decade.

A new law on presidential elections was approved in 2003,[5] and presidential elections were held as scheduled in March 2004. Russia's constitution at that time stipulated that the president be directly elected by nationwide constituency for a term of four years. The presidential election law further stipulated that elections were to be held in the same month as the previous presidential election. The economic boom fostered rapid development of Russia's banking sector. By early 2006, Russia had 1244 banks. Most were tiny and privately held by a handful of wealthy individuals. Banking sector assets to GDP increased from just 40% in 2004 to 60% in late 2007. Despite the impacts of the global financial crisis and a looming recession, presidential elections were held as scheduled in March 2008.

At this time, president Putin respecting the constitutional rules decided not to be candidate for a third consecutive term and let Dmitry Medvedev become the president for the period 2008–2012. However, at the same time he became the one and only prime minister over the full period. Many commentators therefore consider that the 2008 power-switching operation between Putin and Medvedev was in fact a false change of leader. Indeed, during the campaign Medvedev made the promise to appoint Putin as the prime minister. Furthermore, according to the opinion polls conducted by the Levada Center in January 2009, only 11% of Russia's respondents believed it was Medvedev who had the real power in Russia. The president's term was increased to six years by a constitutional amendment in 2008. This new provision made its debut in the 2012 election.

We can consider the timing of presidential elections in Russia as exogenous in the sense that there is no strategic manipulation of the election date. Electoral law stipulates that the election should always take place on the second Sunday of the month in which the current president was elected six years ago. Furthermore, the only change of the duration of the presidential term during our sample period (an increase from four to six years) took place in 2008 and only affected the 2018 cycle as the 2012 presidential election took place according to the older law.

Although generous state support and temporary relaxation of regulatory measures helped Russia's banking sector weather the global financial crisis fairly unscathed, the sector remained fragmented. Even if the sector was dominated by a few state-controlled national banks, Russia had over a thousand legacy banks from the 1990s. The crisis not only increased the share of state-owned banks enjoying de facto state guarantees, but also made all banks more reliant on the state as a source of funds. Measures to support the banking sector included greater state guidance on lending priorities. Centralization of public finances granted more power to

[4] Schoors and Weill (2020) note that Russia's ruling party still faced a strong opposition at the time and had to deal with independent television channels that complicated media control efforts.

[5] For a thorough description of Russian election law and practices, see the OSCE election observation monitoring reports at https://www.osce.org/odihr/elections/russia.

federal authorities. The regime started to favor consolidation of state-owned companies in larger conglomerates and state corporations enjoying special administrative privileges. The role of foreign banks remained minor, with a combined market share remaining at around 10% of total lending.

Having consolidated under its roof all financial market supervisory functions, the CBR launched a deliberate process of cleaning up the banking sector in 2013. The new supervisory body enjoyed a clear mandate to weed out the weakest and most obscure financial institutions. With the annexation of Crimea and collapsing oil prices, a new crisis hit the banking sector in 2014–2015. Faced with a stubborn economic recession and Western economic sanctions, the monetary policy framework was overhauled dramatically in late 2014 as the central bank shifted to inflation-targeting. The ruble was allowed to float freely, leading to a sizable depreciation (and, as about 20% of lending was in foreign currencies, an increase in the ruble-denominated value of bank loan books). The 2014–2015 crisis intensified the clean-up of the banking sector. The number of operating credit institutions dropped from 955 at the end of 2012 – 442 at the end of 2019. Additionally, a number of faltering top-50 banks were taken over by the CBR in the latter half of 2017. Many more were assigned to the Deposit Insurance Agency for rehabilitation. Despite the decreasing number of credit institutions, bank lending continued to grow.

2.2. Hypothesis development

Electoral autocracies combine the organization of elections and an autocratic regime through the domination of a ruling party. The ability of the regime to arrange "competitive" elections bolsters the legitimacy of the autocrat. As noted by Egorov and Sonin (2021), the election outcome, combined with the leader's decision to allow opposition candidates to compete, signals the strength of the non-democratic leader and can be utilized to dissuade protest against the regime. Furthermore, Frye (2021, p.72) stresses that "creating the image of democracy via elections is important because autocrats like Putin, Chavez, Erdogan, Orban, and others claim to be governing in the name of the people rather than promoting an abstract ideology as did autocrats in the twentieth century." Thus, organizing elections matters in establishing the legitimacy of the leader.

Leaders wield a variety of tools for intervening in the electoral process to achieve the desired result. The obvious tools of propaganda and fraud have their limits, and must be used sparingly. For example, wide-scale ballot-box stuffing can be counterproductive for an autocrat who has been the main proponent for holding the election. Frye (2021, p. 68) observes: "Autocrats who believe that they are popular and can win elections have real incentives to cheat less in an election." Thus, heavy-handed fraud contradicts the autocrat's willingness to demonstrate strength through electoral success. Moreover, media control and the use of propaganda is decisively limited by the gullibility of the voting populace. Addressing Russia, Frye (2021, p. 151) comments that Putin "faces a well-educated public with a long history of exposure to bias in the state media." Again, given the savviness of Russian voters, excessive reliance on media manipulation is likely to be counterproductive. The leader must therefore turn to other levers of power to influence the electorate to attain the desired outcome. Subtler tools such as relaxed bank-lending to achieve political outcomes can be harder for the general population to recognize on its face as political manipulation.

The literature suggests that most governments have the capacity to encourage state-owned banks to enhance lending ahead of an election. Sapienza (2004) explains that a government can utilize state-owned banks in pursuit of its own interests, including preserving incumbents.

Political interference in state-owned bank lending has been observed in numerous economies. For example, Dinc (2005) finds that state-owned banks increase lending in election years relative to private banks in major emerging markets, a finding that implies state-owned bank lending can be used to influence political outcomes. Carvalho (2014) shows the impact of lending of state-owned banks on the decision-making of Brazilian firms aligns with electoral outcomes. He observes that state-owned bank lending is associated with employment growth for firms in politically attractive regions in the run-up to elections. Englmaier and Stowasser (2017) find that German savings banks, where local politicians are involved in their management, adjust their lending policies in response to local electoral cycles. Considering Turkey, Bircan and Saka (2021) find that state banks, unlike their private counterparts, engage in politically motivated lending ahead of local elections. Schoors and Weill (2020) find that the corporate lending of Russia's state-owned Sberbank was used to incentivize managers of private firms to mobilize employees to vote for Putin in his ascent to the presidency in March 2000.

The literature notes that political interference in state-owned bank lending in election times is not limited to authoritarian regimes. Gandhi and Lust-Okar (2009, p. 414) note that "electoral behavior in authoritarian regimes is similar in many ways to that in democracies," as incumbents in democracies are also motivated to use the levers of power to obtain a desired electoral outcome. Even so, electoral autocracies differ from democracies by having access to a wider selection of potential measures to influence private bank behavior. Gandhi and Lust-Okar (2009, p. 412) observe that in authoritarian regimes the "ruling elites exploit their control over state resources to stay in power."

Authoritarian regimes can potentially use both financial and administrative resources as carrots and sticks to influence the behavior of both state and private banks. Here, a carrot might be granting the private bank easier access to government deposits or shielding a bank from "unfair" competition, while a stick might be an increase in supervisory scrutiny or frequency of regulatory checks on private banks. In any case, compared to electoral autocracies, democracies offer relatively few opportunities for influencing elections though pressure on private banks. The existence of free media and institutional constraints reduces the possibilities for democratic incumbents to influence the lending behavior of private banks.

Political bank lending cycles in electoral autocracies are not necessarily obvious. For starters, autocrats may be reluctant to touch bank lending just to avoid the potential negative post-election consequences. Politically driven lending could, for example, generate a wave of non-performing loans after the election, leading to bank failures or bailouts. Private banks specifically are a potential source of

concern as their likelihood of failure is greater than that of state-owned banks. Such financial missteps entail substantial economic costs that could damage the autocrat's reputation as a strong, competent leader.

In other words, political interference with bank lending may be counterproductive in achieving future desired electoral outcomes if the short-term benefits from increased bank lending are obviated by the long-term reputational costs arising from a wave of non-performing loans and bank failures. In such case, authorities in electoral autocracies might refrain from influencing bank lending, particularly private bank lending, during an election cycle.

On the other hand, incumbents in electoral autocracies may be willing to take the risk that post-election bank failures and bailout costs will have disappeard down the memory hole long before the next election. Voters may be myopic, and the extensive media control of an electoral autocracy enables the authorities to limit critical public discussion of economic issues. Fungáčová et al. (2022) also point out that the timing of bank failures can be manipulated around elections in an electoral autocracy and show that the probability of a bank failure in Russia is lower in the twelve months leading up to an election.

We hypothesize that the authorities in electoral autocracies stimulate higher lending from both state-owned and private banks during the run-up to a presidential election. In a stable electoral autocracy, all agents – including private banks – will have learned how to behave in the way desired by the authorities, even in the absence of any explicit incentives. Our testable empirical prediction is that all banks, state-owned or private, increase their lending before elections in electoral autocracies, but not necessarily to the same extent.

Anecdotal evidence from Russia indicates political pressure on the Russian banking industry. The article "Ипотека пошла на взлет" (Mortgage rate soars) from Кредиты.Ру (Feb. 13, 2012) discusses the importance of the election date in determining the conditions for mortgage loans:

> *A number of banks have raised mortgage rates. Experts think that state-owned banks will "hold out" until March 4 and not break with pre-election traditions by disturbing consumers with increased loan prices. They will wait until after the election to raise rates.*

The article suggests that banks are reluctant to raise loan prices before elections to avoid a drop-off in borrowing demand. Also, in an article posted on banki.ru,[6] an employee of the press service of one of the large commercial banks reports:

> *In the year before the elections, the state is concerned that borrowers remain touched as the main consumers of loans constitute Putin's electorate.*

This comment supports the view that the authorities care about the volume of bank lending before elections.

3. Data and methodology

We employ the CBR's monthly bank-level financial statement data for Russian banks. The period covered starts in 2004 and ends in May 2019. The dataset contains detailed information on the various kinds of loans provided by banks. All Russian banks are included in the dataset, so there is no selection bias. We combine the data with the information on the bank ownership provided by Karas and Vernikov (2016), the CBR, and individual bank websites. The macroeconomic control variables are taken from Rosstat and the CEIC database.

To avoid extreme values, we winsorize the variables included in the analysis at the 1% and 99% levels. The ultimate sample used in our estimations constitutes an unbalanced panel of over 130,000 bank-month observations for 1209 banks. Table 1 describes the summary statistics.

We investigate the change in lending around elections by estimating the following panel regression:

$$loangrowth_{i,t} = \alpha + \beta * Elections_t + \eta * State-owned_{i,t} + \rho * Elections_t * State-owned_{i,t} + \gamma * X_{i,t-1} + \eta * Macro_{t-1} + \Omega * Macro_{t-2} + \omega_i + \tau_t + \varepsilon_{i,t} \quad (1)$$

The dependent variable is month-on-month growth in bank lending ($loangrowth_{i,t}$). Our main variable of interest, *Elections,* is the dummy variable concerning the election period. It is defined in several alternative ways. Under the first definition, it equals one in months when presidential elections took place, i.e. March 2004, March 2008, March 2012, and March 2018. In the alternative specifications, it is equal to one for the months before these elections. We consider the preceding months separately (February, January, December), as well as pre-election periods of three or six months. These alternative definitions of the pre-election period yield the eight specifications of our baseline model.

We also include a dummy variable for state ownership (*State-owned*) defined as a bank owned by the federal government, the central bank, or a company owned by the federal government[7] and an interaction variable between *Elections* and *State-owned*. The coefficient on the interaction term *Elections* × *State-owned* directly tests the hypothesis that the pre-election lending behavior of state-owned banks differs from the pre-election behavior of private banks.

We control for several bank-specific variables ($X_{i,t-1}$) that have been shown to influence loan growth. These include bank size defined by logarithm of total assets, capital ratio, the ratio of bad loans to loans, as well as a loans-to-assets ratio to account for the

[6] https://www.banki.ru/news/bankpress/?id=5252511 (July 30, 2013).

[7] We also test a narrow definition of state-owned bank (a bank owned by the federal government or the central bank) and our results remain unchanged.

Table 1
Descriptive statistics.

Panel A: All banks			
Variable	Observations	Mean	Standard deviation
Total loan growth	130 554	0.015	0.122
Size	130 554	14.998	1.931
Capital/assets	130 554	0.208	0.141
Bad loans/loans	130 554	0.569	0.075
Loans/assets	130 554	0.626	0.175
GDP proxy (output index)	130 554	0.717	8.989
State owner	130 554	0.052	0.221
Panel B: State-owned banks			
Variable	Observations	Mean	Standard deviation
Total loan growth	6 738	0.014	0.111
Size	6 738	17.195	2.550
Capital/assets	6 738	0.154	0.112
Bad loans/loans	6 738	0.066	0.089
Loans/assets	6 738	0.662	0.149

business model of the bank. All these control variables are lagged by one period. We also account for macroeconomic development (*Macro*). All estimations include two lags of the output index for key economic activities from Rosstat as GDP proxy to account for economic development. This helps us control for loan demand. Additional specifications account for *economic uncertainty* measured by Economic Policy Uncertainty Index for Russia,[8] *government expenditures* defined as consolidated government expenditures, the *CEIC Index* (the leading indicator for Russian GDP compiled by CEIC) and *lending rate* (average lending rate for corporate ruble loans of maturity below one year). Again, two lags of these macro variables are considered. Month and year fixed effects are included in the estimations. All specifications are estimated using a fixed effects model with standard errors clustered at bank level. In the additional estimations where we investigate whether loan quality deteriorates after elections, the dependent variable is year-on-year growth in bad loans. All control variables in these specifications are lagged by twelve months.

4. Results

This section presents our results on the linkage of elections and bank lending. We start with the main estimations to see if banks increase lending before elections and if the lending behavior of state-owned banks differs from that of private banks. We then test to see whether changes in bank lending before elections are driven by supply or demand, if lending of politically connected banks differs from that of other banks and if increase in lending is observed for certain types of loans. Further we test different bank incentives to increase lending. The discussion concludes with robustness checks.

4.1. Main estimations

The main estimations explaining changes in total lending are reported in Table 2. For robustness, we consider several definitions of the election period. Since elections take place in March, we consider each of the four months before elections separately (from December to March). We also test two three-month periods (December-February and January-March) and two pre-election periods of six months (September-February and October-March).

Parliamentary elections were held three months ahead of the presidential elections in three of our four presidential election periods. Specifically, they preceded the presidential elections of March 2004, March 2008, and March 2012 in December of the previous year. Thus, the period from September to December in the year preceding the presidential election captures the electoral lending cycle for both presidential and parliamentary elections. The analysis of the period from January to March gives information about the lending cycle of presidential elections only, while the analysis of the period from September to December captures the combined effects of presidential elections and parliamentary elections. Our interpretation of results takes these overlapping periods into account.[9]

The key finding is a positive and significant coefficient for the *Elections* variable in most specifications. With the exception of the January *Elections* dummy, we always find that lending increases ahead of elections regardless of the election period tested. Our conclusion that lending of Russian banks on average increases before elections aligns with our hypothesis that, largely irrespective of ownership, the authorities motivate banks to increase their lending during these periods.

In addition, the fact that the coefficient of the *Elections* dummy has the same economic value and the same statistical significance for the period January-March and the periods September-February and October-March provides evidence that presidential elections drive

[8] https://www.policyuncertainty.com

[9] We tested the effect of the separate parliamentary election of 2016 (presidential election in 2018) and found no results for this parliamentary election, again supporting the idea that parliamentary elections may only matter as part of a presidential election super-cycle, where the presidential election follows the parliamentary elections in quick succession.

Table 2
Main estimations.
This table shows the results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. *Size* is the logarithm of total assets. *Capital/assets* is the ratio of capital to total assets. *Bad loans/loans* is the ratio of bad loans to total loans. *Loans/assets* is the ratio of total loans to total assets. All control variables are lagged by one period. We include the first and second lag for *GDP proxy,* the output index for key economic activities from Rosstat. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

Election specification	(1) March	(2) February	(3) January	(4) December	(5) Jan–March	(6) Dec–Feb	(7) Oct–March	(8) Sept–Feb
Elections	0.008***	0.006**	−0.003	0.016***	0.005***	0.006***	0.005***	0.005***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
State-owned	−0.005	−0.005	−0.006	−0.005	−0.006	−0.006	−0.006	−0.006
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Elections × State-owned	0.002	−0.006	0.036***	−0.003	0.011**	0.009	0.006	0.006
	(0.008)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.004)	(0.005)
Size	−0.004**	−0.004**	−0.004**	−0.004**	−0.004**	−0.004**	−0.004**	−0.004**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Capital/assets	0.065***	0.065***	0.065***	0.065***	0.065***	0.065***	0.065***	0.065***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Bad loans/loans	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Loans/assets	−0.150***	−0.150***	−0.150***	−0.150***	−0.150***	−0.150***	−0.150***	−0.150***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
GDP proxy	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
L2.GDP proxy	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	130,554	130,554	130,554	130,554	130,554	130,554	130,554	130,554
R^2	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030
Number of banks	1209	1209	1209	1209	1209	1209	1209	1209

this election effect. Indeed, we do not observe that the *Elections* dummy becomes smaller once the parliamentary elections have taken place in December.

We next investigate whether the increase in lending before elections is more pronounced for state-owned banks than private banks. While our hypothesis does not imply that the electoral lending cycle should be equally strong for private and state-owned banks, we would like to see if there are differences in the lending behavior of private and state-owned banks during election cycles. Do the authorities, which have a direct influence on state-owned banks, push them to lend more than private banks, or are state-owned banks and private banks in electoral autocracies such as Russia similarly influenced through carrots and sticks offered by the authorities?

We observe that the interaction term *Elections* × *State-owned* is insignificant for six specifications (September-February, October-March, December, February, March, December-February), and significantly positive for two specifications (January-March, January). The results thus reject the hypothesis that state-owned banks increase their lending more than other banks in the run-up to presidential elections in six of our eight specifications. At best, we find only faint, inconsistent evidence that state-owned banks increase their lending more than private banks ahead of elections.

Columns (3) and (5) in Table 2 show the difference between state-owned banks and private banks for January. While the *Elections* variable is insignificant, the interaction term *Elections* × *State-owned* is significantly positive for January. The size of the effect for January for state-owned banks is particularly high. We observe an increase of lending for all banks in the months preceding the presidential elections, with the exception of January, when state banks alone exhibit a spike in lending. A possible interpretation of the January results may be found in the different reaction of state-owned and private banks in the month after the December parliamentary elections. Indeed, if state-owned banks boost lending in January, the first month of their new budget year with plenty of liquidity, while private banks take a pause in lending between the parliamentary and presidential elections, we would get precisely this January effect. To corroborate this interpretation, we perform estimations on a subsample that only considers the presidential elections in March 2018. As explained earlier, this presidential election episode is the only one that is not preceded by parliamentary elections three months earlier. Thus, private banks would not be expected to require a lending pause relative to state-owned banks in this particular election. The results reveal no significant coefficient for the *Elections* variable or for the interaction term *Elections* × *State-owned* in January. In other words, lending in January does not differ from other months preceding the presidential election when no Duma election is held three months before.

We also want to draw specific attention to the results in columns (7) and (8) of Table 2. They show the results of the six-month periods before presidential elections, including the period of the preceding parliamentary elections in an electoral super-cycle. The estimated coefficients for these half-year periods before the election are essentially identical to the coefficients of the pre-electoral quarters in columns (5) and (6), confirming the existence of a single electoral cycle that encompasses parliamentary and

presidential elections.

To gather further evidence about this interpretation, we estimate separate regressions in a time window of two years (four half-years) before and after the presidential elections, where we redefine the election dummy consecutively as all the half-year periods in the estimation window. The black line in Fig. 1 plots the estimated coefficients of these half-year periods in this iterative exercise. It displays how banks behave during the full electoral lending cycle. We observe a clear build-up of lending in the two half-years before the presidential elections, culminating in a pronounced lending spike in the half-year before the elections that then smoothly fades out after the elections. To reiterate, we find no evidence of an electoral cycle in bank lending in the one parliamentary election unrelated to presidential elections. Together these findings lend clear support to the idea that we should think of the parliamentary and presidential elections as a joint election cycle with its primary focus on the presidential election.

The estimated coefficients of the control variables are all significant and have the expected sign. *Capital/assets* is positively related to loan growth, which is consistent with the view that higher capitalization supports lending. The coefficient for *Bad loans/loans* is negative as lower quality of the loan portfolio reduces loan growth. *Size* and *Loans/assets* reduce lending growth in line with the findings of Bertay et al. (2015). The ability to increase loans in relative terms is apparently lower for large banks and banks with a high share of loans on their balance sheets. Finally, the coefficients for the first and second lags of the variable *GDP proxy* are positive, a finding that accords with the view that economic growth is related to loan growth.

We conclude that the main estimations confirm our hypothesis about the existence of a general bank lending surge prior to presidential elections and show that this cycle is present for both state-owned banks and private banks in Russia's electoral autocracy. To rule out alternative hypotheses that might also comport with our empirical results, we further test whether the pre-election lending surge may have been driven by other supply or demand factors.

4.2. *Is the lending surge driven by an increase in loan demand?*

A surge in lending before elections could be the consequence of exogenous events influencing the entire economy. For instance, the government could push for specific economic policies that fuel supply, demand, or both, prior to elections (possibly for political reasons). Such measures increase lending by raising credit demand. If so, our interpretation that the government influences lending of all banks before elections is incorrect as increased bank lending is not a direct consequence of the government's behavior but rather a market response to greater economic activity. To account for this, we include the variable *GDP proxy* together with month and year dummy variables in all the estimated specifications in Table 2. We also include different macroeconomic variables to the main specification (one at the time). To account for fiscal policy, we add monthly general government budget expenditures, while we take monetary policy into account by including the monthly average corporate lending rate (denominated in rubles, up to 1 year). We also

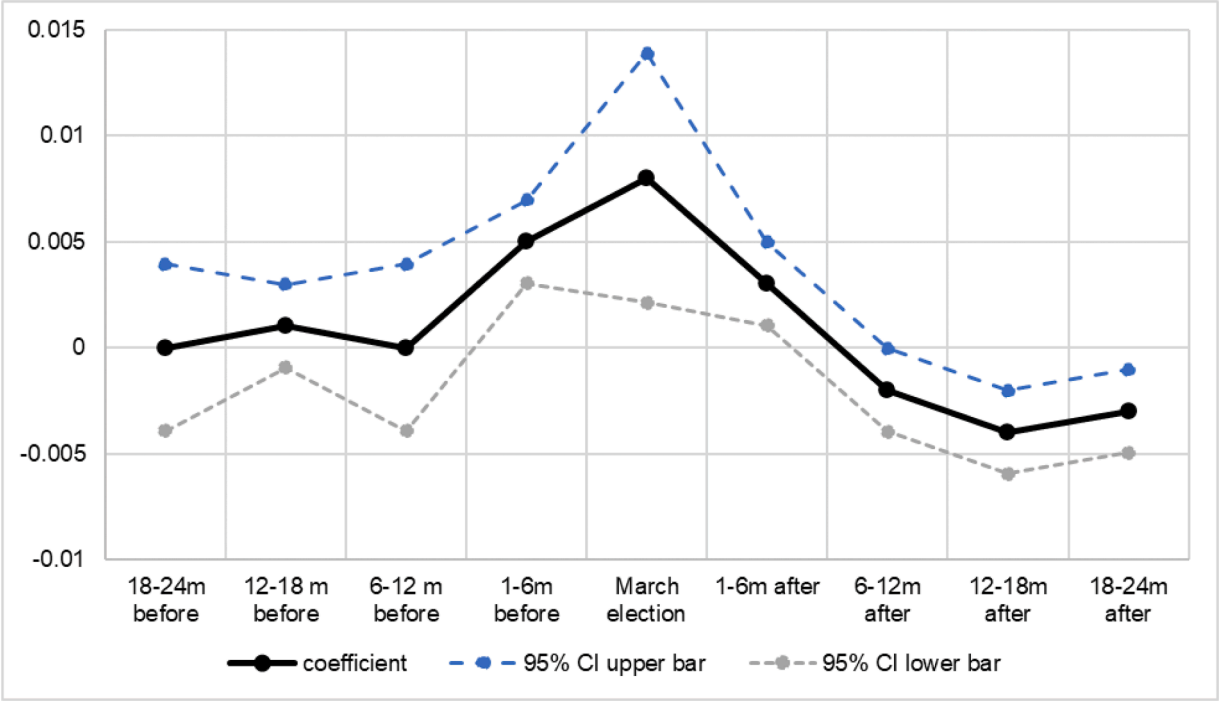

Fig. 1. Loan growth over the full election cycle (half-a-year period).
The black line plots the estimated coefficients for the *Elections* variable from the main regression explaining loan growth. The *Elections* dummy is defined by a window encompassing the six months before and after an election. The figure reports the *Elections* coefficients for separate regressions accounting for 1–4 half-years before and after the election. The dashed lines indicate 95% confidence interval.

include the Economic Policy Uncertainty Index for Russia and the CEIC Index (a leading indicator for Russian GDP). The estimation results are reported in Table 3. They are in line with the main estimations and confirm that banks in Russia tend to lend more in the run-up to presidential elections.[10]

To test the relevance of our interpretation, we perform an additional set of estimations in which we investigate whether loan quality deteriorates after elections. Our reasoning behind this test is straightforward and in line with Englmaier and Stowasser (2017). If a pre-election surge in lending is driven by economic factors such as increased demand, there is no obvious reason for a sharp rise in bad loans after elections. Banks would grant more loans before elections in accordance with prudent financial criteria to prevent deterioration of the average quality of their loan portfolios. The observation of substantial increases in bad loans after elections, however, aligns with the view that the pre-election lending surge was caused by non-economic factors such as politically desired behavior. That would explain why these loans, for which the decision to grant was not based on financial criteria, are riskier and thus lead to a deterioration of loan quality and concomitant higher growth in bad loans.

Specifically, we substitute the dependent variable of loan growth with the year-on-year growth of bad loans in our main equation. As our aim is to analyze whether bad loans increase after presidential elections and recognize that bad loans do not come to light immediately, we consider a one-year period. This should be long enough for a deterioration in loan quality to manifest, but not so long as to decouple causation from the presidential election. In the following set of results, *Elections* is a dummy variable equal to one if the period corresponds to the year following presidential elections. In line with the main estimations, we also check whether the results differ for state-owned banks and private banks by including *State-owned* dummy and its interaction with *Elections* in the estimations. We consider several specifications in which we include different macroeconomic variables to control for macroeconomic conditions. We only include *GDP proxy* to take into account business cycles in the baseline estimation in column 1 of Table 4. In columns 2 – 5 of Table 4, we add one of the following macroeconomic variables to *GDP proxy* each at a time to avoid collinearity, i.e. changes in *economic uncertainty, government expenditures*, the *CEIC index*, and monetary policy by including the *lending rate*.

We find that the coefficient for *Elections* is significantly positive in all specifications, indicating that bad loans grow faster in post-election periods. The interaction term *Elections* × *State-owned* is not significant, supporting the view that state-owned banks do not exhibit a different post-election increase of bad loans in comparison to other banks. These results provide support for our interpretation that the lending surge prior to elections is not mainly driven by economic factors.

The results should however be taken with due care. We acknowledge that the growth of bad loans could be driven by other unobserved demand-driven increases in pre-election lending. Our approach however reduces the relevance of alternative explanations related to increased loan demand for our main results and corroborates the view that the pre-election surge in loans relates to political influence. The fact that bad loans growth increases substantially in the year following a presidential election suggests the existence of considerable welfare costs associated with this form of electoral lending cycle.[11]

Fig. 2 shows the dynamics of bad loans growth between 12 and 24 months after the election. It plots the estimated coefficient for the *Elections* variable from separate regressions that take into account different time periods after the election. The figure uncovers significant growth of bad loans.

4.3. Investigating politically connected banks

Our main findings so far confirm the existence of a general lending surge before presidential elections in Russia. Such evidence of political influence in bank lending raises questions on the precise mechanisms behind this political influence. The recent literature provides evidence of the influence of direct political connections on the behavior of firms and banks (e.g. Khwaja and Mian, 2005; Hung et al., 2017).

As bank political connections might explain our key finding of electoral lending cycles for both state-owned and private banks, we investigate the role of political connections directly using a specific characteristic of the Russian banking system, the spetsbank. These banks constitute a special subgroup of banks that may be considered politically connected for historical reasons.

As explained by Berkowitz et al. (2014), in the final years of the Soviet Union (1987–1991), several reforms of the state-owned Soviet bank system (Gosbank) were proposed. In 1987, Gosbank was restructured into a central bank and five types of commercial banks. Two of these new commercial banks – the Soviet foreign trade bank (renamed Vneshtorgbank) and the Soviet savings bank (renamed Sberbank) – remained relatively unscathed and stayed under the control of Gosbank, which eventually became the Central Bank of Russia. The remaining parts of Gosbank became specialized banks (spetsbanks) and operated under the control of three supra-spetsbanks (Vneshtorgbank, Agroprombank, and Promstroybank). To preserve its independence from the collapsing Soviet Union, the CBR facilitated the transfer of assets and liabilities from these three supra-spetsbanks to their local branches. This gave bank managers in local branches the power to form a small new bank or join with other branches in a larger bank, thus creating hundreds of spetsbanks in a process of secessionist and spontaneous privatization. The shareholders of these new spetsbanks were mostly state ministries or other state institutions, as well as local state firms (Schoors, 2003).

The creation of the spetsbanks represented only a marginal loosening of the historic relationship between Gosbank and existing banks and bank branches. Physically, these spetsbanks were descendants of former Gosbank branches. They largely preserved their

[10] While inclusion of macroeconomic control variables helps solve the omitted variables bias, it may lead to the problem of the inclusion of bad controls. For this reason, we also perform estimations without the macroeconomic variables and obtain the same findings.

[11] We observe a small deterioration in bank profitability that arises about 20 months after the elections that is related to the post-election surge in bad loans.

Table 3
Main estimations with macro variables.
This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. *Uncertainty* is measured by Economic Policy Uncertainty Index for Russia. *Government expenditures* stands for consolidated government expenditures. *CEIC Index* is the leading indicator for Russian GDP compiled by CEIC. *Lending rate* is the average lending rate for corporate ruble loans with a maturity of less than one year. Bank-level control variables, as well as *GDP proxy*, are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Election specification	March	February	January	December	Jan–March	Dec–-Feb	Oct–March	Sept–Feb
Panel A: Lending rate								
Elections	0.004	0.006*	−0.003	0.025***	0.002	0.009***	0.008***	0.010***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	0.003	−0.005	0.037***	−0.004	0.012**	0.010	0.006	0.006
	(0.009)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.005)	(0.005)
L1.Lending rate	0.025***	0.026***	0.025***	0.028***	0.026***	0.029***	0.026***	0.025***
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
L2.Lending rate	−0.034***	−0.035***	−0.035***	−0.041***	−0.034***	−0.037***	−0.036***	−0.037***
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Panel B: Government expenditures								
Elections	0.006**	0.006**	−0.004	0.022***	0.003*	0.008***	0.008***	0.010***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	0.003	−0.005	0.037***	−0.004	0.012**	0.010	0.006	0.006
	(0.009)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.005)	(0.005)
L1.Government expenditures	0.000	0.000	0.000	−0.000	0.000	0.000	0.000	0.001
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
L2.Government expenditures	0.001***	0.002***	0.001***	0.001***	0.001***	0.001***	0.002***	0.002***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Panel C: Uncertainty								
Elections	0.006**	0.004	−0.003	0.023***	0.002	0.008***	0.008***	0.009***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	0.003	−0.005	0.037***	−0.004	0.012**	0.010	0.006	0.006
	(0.009)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.005)	(0.005)
L1.Uncertainty	−0.002***	−0.002***	−0.002***	−0.002***	−0.002***	−0.002***	−0.002***	−0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
L2.Uncertainty	−0.001***	−0.001**	−0.001***	−0.002***	−0.001**	−0.001***	−0.001**	−0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Panel D: CEIC index								
Elections	0.008**	0.005*	−0.004	0.014***	0.004**	0.006***	0.005***	0.005***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	0.001	−0.006	0.037***	−0.004	0.011**	0.009	0.006	0.006
	(0.009)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.005)	(0.005)
L1.CEIC	0.060***	0.060***	0.062***	0.058***	0.059***	0.057***	0.058***	0.059***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
L2.CEIC	−0.004	−0.001	−0.001	−0.005	−0.004	−0.005	−0.003	−0.001
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Bank level controls	YES	YES	YES	YES	YES	YES	YES	YES
Month, year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES

Soviet managers, who often maintained the strong historical connections to various branches of state organizations. As late as 1995, about 90% of spetsbank general directors still originated from the Soviet banking system (Berkowitz et al., 2014). Most spetsbanks became privately held when their main shareholders were privatized in the early 1990s. While they acquired new names that disguised their origins, they retained a special affinity with the state in their personal connections and organizational culture. Many still had privatized state firms as their shareholders.

We perform estimations to check whether the pre-election lending behavior of spetsbanks, which serve as our proxy for politically connected banks, differs from other banks. We construct a dummy variable *Spetsbank* equal to one if the bank is a spetsbank, then include *Spetsbank* and its interaction with *Elections* in the estimations. The estimations are reported in Table 5.

We find again that the coefficient of *Elections* is significantly positive in most specifications, with only one exception. We also observe that the interaction term *Elections* × *Spetsbank* is not significant in any specifications. This supports the view that there is no significant difference in the pre-election lending behavior between spetsbanks and other banks. Thus, our estimations reject the hypothesis that our results are driven by the behavior of an important subset of politically connected banks in the sample. It also lends support to our main result that Russian banks increase lending before presidential elections across the board, irrespective of ownership or political connections.

We also investigate whether post-election bad loans growth differs for spetsbanks, in line with the more subtle hypothesis that the

Table 4
Growth in bad loans after elections.
This table shows results of fixed effects panel regressions. The dependent variable is year-on-year growth in bad loans. *Elections* is a dummy variable equal to 1 at the time of presidential elections in March 2004, 2008, 2012, 2018. *State-owned* is a dummy variable indicating bank's state ownership. *Size* is the logarithm of total assets. *Capital/assets* is the ratio of capital to total assets. *Loans/assets* is the ratio of total loans to total assets. All these control variables are lagged by 12 months. Macro-level variables are defined as year-on-year changes. We include *GDP proxy* as the output index for key economic activities from Rosstat. *Uncertainty* is measured by Economic Policy Uncertainty Index for Russia. *Government expenditures* stands for consolidated government expenditures. *CEIC Index* is the leading indicator for Russian GDP compiled by CEIC. *Lending rate* is average lending rate for corporate ruble loans with maturities of less than one year. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month fixed effects are included. R^2 *is* R^2*-within.*

	Baseline	Uncertainty	Gov. expenditures	CEIC index	Lending rate
State-owned	−0.287	−0.287	−0.284	−0.310	−0.306
	(0.379)	(0.379)	(0.379)	(0.377)	(0.378)
Elections	0.190**	0.188**	0.189**	0.225***	0.186**
	(0.080)	(0.080)	(0.080)	(0.079)	(0.080)
Elections × State-owned	−0.122	−0.123	−0.123	−0.122	−0.118
	(0.202)	(0.202)	(0.202)	(0.202)	(0.202)
Size	−0.086**	−0.087**	−0.084**	−0.104***	−0.095**
	(0.037)	(0.037)	(0.037)	(0.037)	(0.037)
Capital/assets	−1.475***	−1.477***	−1.467***	−1.552***	−1.550***
	(0.362)	(0.362)	(0.362)	(0.364)	(0.366)
Loans/assets	1.969***	1.969***	1.969***	1.957***	1.984***
	(0.229)	(0.229)	(0.228)	(0.229)	(0.230)
GDP proxy	−0.082***	−0.082***	−0.082***	−0.096***	−0.089***
	(0.006)	(0.006)	(0.006)	(0.008)	(0.007)
Macro control		0.009	0.018	0.486**	−0.254***
in column heading		(0.011)	(0.011)	(0.195)	(0.092)
Month fixed effects	YES	YES	YES	YES	YES
Observations	119,171	119,171	119,171	119,171	119,171
R^2	0.023	0.023	0.023	0.023	0.024
Number banks	1165	1165	1165	1165	1165

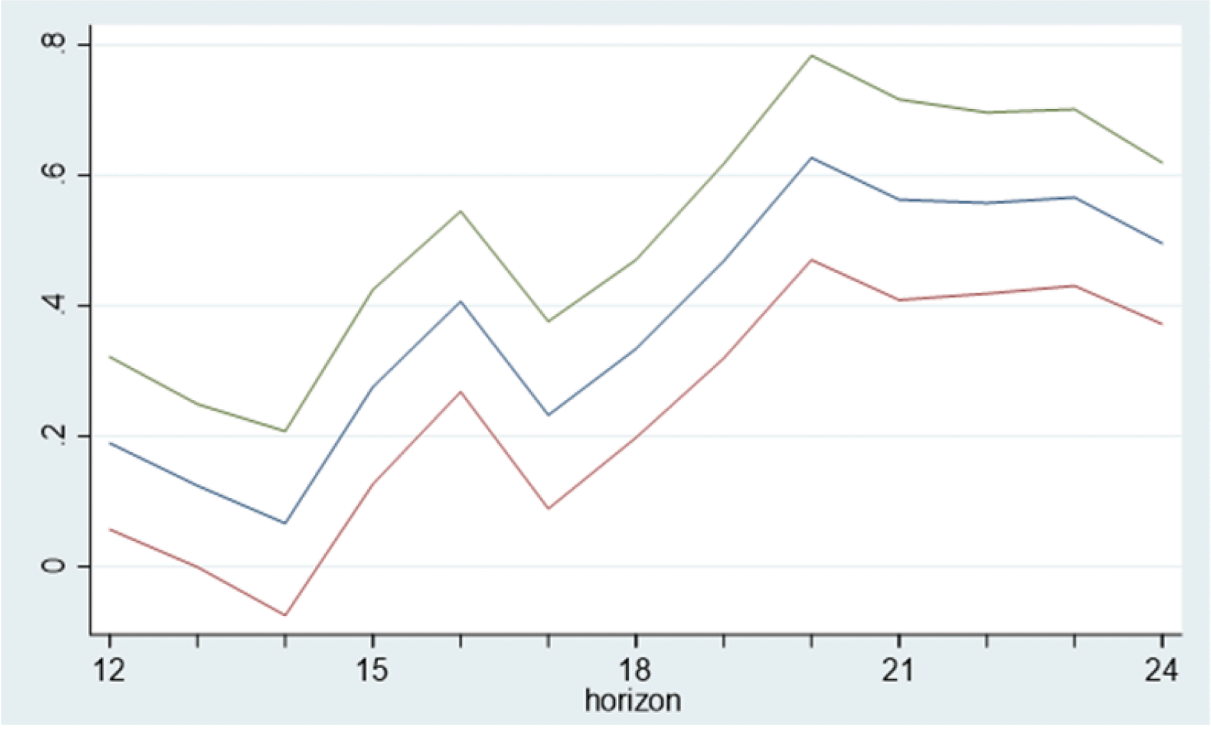

Fig. 2. Dynamics of bad loans growth after elections.
The blue line plots the estimated coefficients for *Elections* variable from the regressions explaining bad loans growth as reported in Table 4 of the paper for 12 months. The figure further reports these coefficients for separate regressions accounting for 13–24 months as indicated on the horizontal axis. The red and green lines correspond to 95% confidence intervals.

Table 5
Main estimations with spetsbanks.
This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *Spetsbank* is a dummy variable for spetsbank. *Size* is the logarithm of total assets. *Capital/assets* is the ratio of capital to total assets. *Bad loans/loans* is the ratio of bad loans to total loans. *Loans/assets* is the ratio of total loans to total assets. All control variables are lagged by one period. *GDP proxy* is included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

Election specification	(1) March	(2) February	(3) January	(4) December	(5) Jan–March	(6) Dec–Feb	(7) Oct–March	(8) Sept–Feb
Elections	0.009***	0.005*	−0.000	0.018***	0.006***	0.008***	0.008***	0.007***
	(0.003)	(0.003)	(0.003)	(0.004)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × Spetsbank	−0.002	0.004	0.000	−0.008	0.000	−0.001	−0.004	−0.003
	(0.005)	(0.006)	(0.006)	(0.008)	(0.003)	(0.003)	(0.003)	(0.003)
Size	−0.002	−0.002	−0.002	−0.002	−0.002	−0.002	−0.002	−0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Capital/assets	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Bad loans/loans	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***	−0.117***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Loans/assets	−0.148***	−0.148***	−0.148***	−0.148***	−0.148***	−0.148***	−0.148***	−0.148***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	130,747	130,747	130,747	130,747	130,747	130,747	130,747	130,747
R^2	0.028	0.028	0.028	0.028	0.028	0.028	0.028	0.028
Number of banks	1209	1209	1209	1209	1209	1209	1209	1209

increased lending in the run-up to elections would be driven by non-economic factors especially for the subsample of spetsbanks. To this end, we redo the estimations explaining bad loans growth by including *Elections* and *Elections* × *Spetsbank* in the equation. The results are reported in Table 6. We point out that *Elections* is significantly positive while *Elections* × *Spetsbank* is significantly negative in

Table 6
Bad loans growth after elections for spetsbanks.
This table shows results of fixed effects panel regressions. The dependent variable is year-on-year growth in bad loans. *Elections* is a dummy variable equal to 1 at the time of presidential elections in March 2004, 2008, 2012, 2018. *Spetsbank* is a dummy variable for spetsbanks. *Size* is the logarithm of total assets. *Capital/assets* is the ratio of capital to total assets. *Loans/assets* is the ratio of total loans to total assets. All control variables are lagged by one period. All these control variables are lagged by 12 months. Macro-level variables are defined as year-on-year changes. We include *GDP proxy* is the output index for key economic activities from Rosstat. *Uncertainty* is measured by economic policy uncertainty index. *Government expenditures* stands for consolidated government expenditures. *CEIC Index* is the leading indicator for Russian GDP compiled by CEIC. *Lending rate* is average lending rate for corporate ruble loans of maturity below one year. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month fixed effects are included. *R^2 is R^2-within.*

	Baseline	Uncertainty	Gov. expenditures	CEIC index	Lending rate
Elections	0.225***	0.224***	0.224***	0.261***	0.222***
	(0.085)	(0.085)	(0.085)	(0.084)	(0.085)
Elections × Spetsbank	−0.306*	−0.306*	−0.305*	−0.306*	−0.308*
	(0.160)	(0.160)	(0.160)	(0.160)	(0.160)
Size	−0.089**	−0.089**	−0.087**	−0.106***	−0.097***
	(0.036)	(0.036)	(0.036)	(0.037)	(0.037)
Capital/assets	−1.481***	−1.482***	−1.472***	−1.557***	−1.556***
	(0.361)	(0.361)	(0.361)	(0.363)	(0.365)
Bad loans/loans	1.971***	1.971***	1.970***	1.959***	1.985***
	(0.228)	(0.229)	(0.228)	(0.229)	(0.230)
Uncertainty		0.009			
		(0.011)			
Government expenditures			0.018*		
			(0.011)		
CEIC				0.479**	
				(0.195)	
Lending rate					−0.251***
					(0.092)
Month fixed effects	YES	YES	YES	YES	YES
Observations	119,171	119,171	119,171	119,171	119,171
R^2	0.023	0.023	0.023	0.023	0.023
Number of banks	1165	1165	1165	1165	1165

all specifications.

These results do not indicate that spetsbanks have contributed to increasing bad loans after elections. In fact, bad loans increase after elections for all Russian banks but to a lower degree for spetsbanks. In fact, the coefficients for *Elections* and for *Elections* × *Spetsbank* indicate that the overall post-election effect is close to zero for spetsbanks. Therefore, even if elections are followed by an increase of bad loans for Russian banks in general, they do not influence growth of bad loans for spetsbanks. This finding accords with the idea that spetsbanks are involved in political lending all the time, implying no sudden change in the quality of the loan applicant population in election times and no additional post-election deterioration of loan quality for spetsbanks.

All in all, the analysis of politically connected banks reveals that political influence on lending in pre-election times is not driven by political connections. Instead, it affects the banking system as a whole rather homogenously. This is in line with the interpretation that in electoral autocracies economic agents understand what is expected from them and behave accordingly, even though there may be a cost involved in terms of subsequent deterioration of loan quality.

4.4. Does the pre-election increase in bank lending focus on a specific type of lending?

Even if a lending surge is politically motivated, it remains an open question as to whether it is politically optimal to do this for all types of loans or to focus on those types of loans where the effect on election outcomes should be greatest.

For example, authorities might have an underlying motive to increase lending before elections to enhance economic activity over the short run as a way to boost employment, wages or job satisfaction, and thereby improve the odds that incumbents will win reelection. Both loans to households (through increased consumption) and loans to corporations could yield this type of effect.

Loans to households have the additional effect of immediate consumer satisfaction. The marginal utility of increased consumption could be quite useful to incumbents in swaying voter opinions. In Russia's case, corporate lending could also have effects beyond directly boosting economic activity. Frye et al. (2014) note that Russian employers, particularly managers of private firms, influence the voting behavior of their employees and that such workplace voter mobilization is common in Russia. A surge in corporate lending prior to elections may be instrumental in incentivizing managers to use this mechanism of voter workplace mobilization. Schoors and Weill (2020) show how Sberbank corporate loans were used for this purpose in the presidential election of March 2000. The workplace voter mobilization effect of additional corporate loans may therefore be limited to lending activity by a single bank and thereby evade detection in our framework covering all banks.

There are thus good reasons to believe that lending surges in both corporate and household lending would occur and that the surge in corporate lending would not necessarily be more pronounced than in household lending. To analyze whether our pre-election

Table 7

Different types of loans: household loans and firm loans.

This table shows results of fixed effects panel regressions as indicated in Eq. (1) for household and firm loans. The dependent variable is month-on-month growth in household/firm bank lending. There are eight different specifications based on the definition of *Elections* dummy variable which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections etc.). *State-owned* is a dummy variable indicating banks' state ownership. Bank-level control variables, as well as *GDP proxy*, are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

Panel A: Household loans								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Election specification	March	February	January	December	Jan-March	Dec-Feb	Oct-March	Sept-Feb
Elections	0.006*	0.010***	0.003	−0.001	0.008***	0.004*	0.002	0.002
	(0.004)	(0.003)	(0.003)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)
State-owned	−0.006	−0.006	−0.005	−0.005	−0.006	−0.005	−0.005	−0.005
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Elections × State-owned	0.008	0.001	−0.003	−0.013	0.003	−0.005	−0.003	−0.005
	(0.011)	(0.008)	(0.012)	(0.015)	(0.007)	(0.009)	(0.008)	(0.008)
Observations	127,808	127,808	127,808	127,808	127,808	127,808	127,808	127,808
R^2	0.027	0.027	0.027	0.027	0.027	0.027	0.027	0.027
Number of banks	1170	1170	1170	1170	1170	1170	1170	1170
Panel B: Firm loans								
Elections	0.011***	0.006**	−0.000	−0.004	0.007***	0.000	0.002	−0.000
	(0.003)	(0.003)	(0.003)	(0.004)	(0.002)	(0.002)	(0.001)	(0.001)
State-owned	−0.002	−0.001	−0.001	−0.001	−0.001	−0.001	−0.002	−0.002
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Elections × State-owned	0.013	−0.010	0.007	0.009	0.004	0.002	0.008*	0.006
	(0.008)	(0.008)	(0.007)	(0.016)	(0.005)	(0.006)	(0.004)	(0.004)
Observations	129,066	129,066	129,066	129,066	129,066	129,066	129,066	129,066
R^2	0.019	0.019	0.019	0.019	0.019	0.019	0.019	0.019
Number of banks	1194	1194	1194	1194	1194	1194	1194	1194
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Bank-level controls	YES	YES	YES	YES	YES	YES	YES	YES
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES

political influence effect is more pronounced for firm or household loans, we run the main estimations separately for firm loan growth and household loan growth. Table 7 reports the estimations for household loans and firm loans, respectively.

As hypothesized, we find that lending increases before elections for both firm and household loans. The results are rather similar for corporate and household loans. *Elections* is significantly positive in three estimations for firm loans and four estimations for household loans, including January-March, February and March for both types of loans. We observe no difference between state-owned banks and other banks as the interaction *Elections* × *State-owned* is not significant. These results support the view that political interference in pre-election bank lending occurs in a similar manner for both corporate and household loans.

4.5. Bank incentives to increase lending

Our finding of a general lending surge prior to presidential elections in Russia begs the question of how banks can be encouraged to engage in these political lending cycles.

For state-owned banks the ownership channel provides more than enough mechanisms to achieve the desired behavior. It remains a puzzle, however, as to which mechanisms the government uses to incentivize private banks to engage in the type of electoral lending cycles documented in this paper. As explained earlier, authorities can use such actions as government deposits or the intensity of bank supervision as carrots and sticks to influence the behavior of private banks. We test both channels.

A straightforward mechanism would be one in which private banks expect to be rewarded for their pre-election increases in lending before the elections with post-election increases in government deposits. Using government deposits as a reward for political behavior is not unheard of in emerging market economies. Disli et al. (2013), for example, document that banks that hired a politically connected CEO saw subsequent steep rises in their government deposits. The government, of course, may choose to redistribute deposits strategically after the elections to incentivize banks. This ex-post mechanism is weak in a one-period game as banks must fear opportunistic ex-post renegotiation by the government once the election is over. However, it could become rational behavior in a strategic game if this government deposit reward mechanism is used consistently over multiple consecutive presidential elections.

To test the relevance of this straightforward reward hypothesis, we perform an additional set of estimations to investigate whether increased government deposits after the elections are explained by increased lending prior to presidential elections. If the pre-election surge in lending is motivated by expectations of a subsequent reward in terms of an increase in government deposits, we should observe a positive correlation between the lending surge and the subsequent government deposit surge only around elections and in no other period. This effect is expected to be present only for private banks. We empirically estimate a regression with the growth of government deposits after the election as the dependent variable. The main explanatory variables are loan growth, the election period, and their interaction when other bank-level and macroeconomic controls are included. A positive and significant interaction term should indicate that higher loan growth before the election induces higher growth in government deposits immediately after the election. Since government deposits are lumpy and should arrive in a period of a few months after the election to be a credible reward mechanism, we use moving growth rates over 2 or 3 months for both the growth in government deposits and lending growth. Table 8 reports the results of these regressions.

When considering all banks, we observe that the interaction between *Elections* and *Loan growth* is positive and significant with 2 months growth but not significant with 3 months growh. In specifications (3) and (4), the reward mechanism is observed only for private banks with a positive and significant interaction term with 2 months and 3 months growth. At the same time, specifications (5) and (6) reveal that this mechanism plays no role whatsoever for state-owned banks. These results are in line with the interpretation of a reward channel through increased government deposits for private banks. In unreported results (available on request), we document

Table 8

Post-election growth in government deposits.

This table shows results of fixed effects panel regressions with the dependent variable growth in government deposits. There are two different specifications based on the definition of the *Elections* dummy variable, which equals one, two, or three months after elections. The estimations are provided for all banks and separately for the subgroup of private and state-owned banks. *Loan growth* is growth of total loans. Bank-level control variables, as well as GDP proxy, are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

	All banks		Private banks		State-owned banks	
Specification	(1)	(2)	(3)	(4)	(5)	(6)
Time window of bank loan growth	2 months growth	3 months growth	2 months growth	3 months growth	2 months growth	3 months growth
Elections	−0.074	−0.060	−0.038	−0.103	−0.193	−0.377***
	(0.105)	(0.160)	(0.066)	(0.068)	(0.134)	(0.130)
Loan growth	−0.090	−0.228	0.180	0.122	−0.420**	−0.248
	(0.183)	(0.157)	(0.110)	(0.092)	(0.166)	(0.175)
Elections × Loan growth	0.920**	1.210	0.790**	2.048***	1.593	−0.484
	(0.408)	(0.957)	(0.356)	(0.684)	(1.029)	(0.741)
GDP proxy	YES	YES	YES	YES	YES	YES
Bank-level controls	YES	YES	YES	YES	YES	YES
Observations	7088	6978	5296	5161	1638	1600
R-squared	0.043	0.048	0.066	0.074	0.147	0.160
Number of banks	164	163	143	141	31	31

that this reward channel is important for corporate loans and largely absent for loans to households.

The number of banks that report any government deposits on their balance sheet is unstable over our observation period. At the beginning of our sample in 2004, there were over 300 banks reporting non-zero government deposits. In 2020, there were about 60 such banks. Even if these banks account for the majority of banking sector assets, this analysis suggests that government deposits serve as only one of several enticements to get private banks to engage in political lending during election cycles.

In addition to government incentives, banks themselves could have incentives to increase their lending before elections. We thus ask whether banks with weak fundamentals are more likely to increase their supply of loans before elections. Managers of such banks might try to increase lending on the expectation of improving their chances of retaining their banking license. They might buy implicit protection and raise the bank's license value.

To investigate this hypothesis, we consider two definitions of weak bank fundamentals based on two criteria: capital ratio (*Capital/assets*) and loan quality (*Bad loans/loans*). Banks with low capital ratios and poor loan quality are most vulnerable to bank license withdrawal and can be assumed to be more prone to behave in a way that is politically desirable. We include alternatively the interaction term of *Elections* with *Capital/assets* and *Bad loans/loans* to check whether banks with weak fundamentals exhibit a different lending behavior prior to elections. If the hypothesis that weak fundamentals influence the behavior of banks prior to elections is valid, we should observe that the interaction term *Elections* × *Capital/assets* is negative and that the interaction term *Elections* × *Bad loans/loans* is positive, indicating that banks with poorer capitalization and loan quality show larger increases in their lending prior to elections.

Tables 9 and 10 display the results. We find that the interaction term is insignificant in most specifications. It is only once positively and once negatively significant for loan quality in the eight specifications. We thus find no support for the view that banks with weak fundamentals have higher loan growth prior to elections to improve their chances of holding on to their banking license.

To summarize, the lending surge observed prior to presidential elections cannot be explained by alternative economic factors. We see an across-the-board pattern for corporate loans, household loans, and banks with both weak and strong fundamentals. Private banks that behave as politically desired are rewarded by an influx of government deposits after elections. These findings support our hypothesis of a general political influence on bank lending prior to elections. While the notion that all types of banks, not just state-owned banks, increase their lending in election periods sounds odd in the context of democratic regimes with arms-length relations between business and politics, it should hardly come as a surprise for a heavily managed electoral autocracy such as Russia's. Where weak rule of law prevails, the party in power possesses almost unrestricted means for influencing any business by a multitude of unobserved administrative means (e.g. changing regulations or modifying their implementation). Private business may well see it in their self-interest to promote good causes brought forward by the party of power and self-select into what is perceived as politically desirable lending behavior.

4.6. Robustness checks

We perform several robustness checks to check the sensitivity of our analysis.

First, our analysis is based on Russia's four presidential election cycles between 2004 and 2018. To investigate whether our results are driven by any of these four electoral episodes, we redo our main estimations by dropping one election cycle (12 months before and

Table 9

Estimations accounting for weak fundamentals: Interaction with the capital-to-assets ratio.

This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of the *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. *Capital/assets* is the ratio of capital to total assets. Other bank-level control variables, as well as GDP proxy, are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Election specification	March	February	January	December	Jan-March	Dec-Feb	Oct-March	Sept-Feb
Elections	0.011**	0.006	−0.009*	0.016***	0.004	0.004*	0.003*	0.002
	(0.005)	(0.005)	(0.005)	(0.005)	(0.003)	(0.003)	(0.002)	(0.002)
State-owned	−0.005	−0.005	−0.006	−0.005	−0.006	−0.006	−0.006	−0.006
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Capital/assets	0.065***	0.065***	0.065***	0.065***	0.065***	0.065***	0.064***	0.064***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Elections × State-owned	0.001	−0.006	0.038***	−0.003	0.011**	0.010	0.007	0.007
	(0.008)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.004)	(0.005)
Elections × Capital/assets	−0.012	0.000	0.028	−0.002	0.005	0.010	0.011	0.017*
	(0.022)	(0.023)	(0.023)	(0.025)	(0.013)	(0.013)	(0.009)	(0.009)
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Bank-level controls	YES	YES	YES	YES	YES	YES	YES	YES
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	130,554	130,554	130,554	130,554	130,554	130,554	130,554	130,554
R^2	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030
Number of banks	1209	1209	1209	1209	1209	1209	1209	1209

Table 10
Estimations accounting for weak fundamentals: Interaction with bad loans ratio.
This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of the *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. *Bad loans/loans* is the ratio of bad loans to total loans. Other bank-level control variables, as well as GDP proxy, are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Election specification	March	February	January	December	Jan–March	Dec–Feb	Oct–March	Sept–Feb
Elections	0.010***	0.008**	−0.009**	0.020***	0.004*	0.006***	0.006***	0.005***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)
State-owned	−0.005	−0.005	−0.006	−0.005	−0.006	−0.006	−0.006	−0.006
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Bad loans/loans	−0.116***	−0.116***	−0.119***	−0.115***	−0.118***	−0.117***	−0.116***	−0.118***
	(0.011)	(0.011)	(0.012)	(0.011)	(0.012)	(0.011)	(0.011)	(0.012)
Elections × State-owned	0.002	−0.005	0.035***	−0.002	0.011**	0.009	0.006	0.006
	(0.008)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.004)	(0.005)
Elections × Bad loans/loans	−0.045	−0.033	0.112***	−0.082*	0.009	0.001	−0.006	0.007
	(0.043)	(0.035)	(0.039)	(0.047)	(0.025)	(0.023)	(0.018)	(0.017)
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Bank-level controls	YES	YES	YES	YES	YES	YES	YES	YES
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	130,554	130,554	130,554	130,554	130,554	130,554	130,554	130,554
R^2	0.030	0.030	0.030	0.031	0.030	0.030	0.030	0.030
Number of banks	1209	1209	1209	1209	1209	1209	1209	1209

12 months after the election) at a time. This way, we perform four estimations in which there are only three election cycles and we can investigate if the results stand.

The results of these estimations are reported in Table 11. We observe the results for excluding each election year at a time are overall similar to the results obtained for all four presidential elections. In the main estimations including all election years, we had a significantly positive coefficient for *Elections* in all eight specifications with the exception of January. The *Elections* variable is significantly positive in all specifications when the 2012 elections are excluded and in seven specifications when 2004 and 2018 elections are excluded. There is one specification with positive *Elections* variable when 2008 elections are excluded. Therefore, we conclude that our main finding of a pre-election lending surge holds even when we exclude certain election episodes, indicating our

Table 11
Excluding an election cycle (12 months before and 12 months after the election).
This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of the *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is when elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. Bank-level control variables, as well as *GDP proxy,* are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Election specification	March	February	January	December	Jan–March	Dec–Feb	Oct–March	Sept–Feb
Panel A: Excluding 2004								
Elections	0.008***	0.006*	−0.003	0.015***	0.004**	0.006***	0.005***	0.005***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	0.002	−0.006	0.036***	−0.003	0.011**	0.010	0.006	0.006
	(0.009)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.005)	(0.005)
Panel B: Excluding 2008								
Elections	0.005	0.000	−0.012***	0.020***	−0.002	0.003	0.001	0.001
	(0.003)	(0.004)	(0.004)	(0.004)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	0.008	−0.002	0.030**	−0.003	0.012*	0.009	0.008	0.007
	(0.010)	(0.012)	(0.012)	(0.018)	(0.007)	(0.007)	(0.005)	(0.006)
Panel C: Excluding 2012								
Elections	0.010***	0.010***	0.007*	0.013***	0.012***	0.011***	0.010***	0.009***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.002)	(0.002)	(0.002)	(0.001)
Elections × State-owned	0.002	0.005	0.039**	0.004	0.014**	0.017*	0.011*	0.009
	(0.011)	(0.012)	(0.018)	(0.016)	(0.007)	(0.009)	(0.007)	(0.007)
Panel D: Excluding 2018								
Elections	0.009***	0.009**	−0.006*	0.016***	0.005***	0.006***	0.006***	0.005***
	(0.003)	(0.003)	(0.003)	(0.004)	(0.002)	(0.002)	(0.001)	(0.001)
Elections × State-owned	−0.003	−0.019*	0.040***	−0.012	0.005	0.003	−0.001	0.001
	(0.010)	(0.011)	(0.014)	(0.016)	(0.005)	(0.007)	(0.005)	(0.005)

findings are robust to the choice of the election period.

Second, we conduct a placebo test. To this end, we falsify the year of the elections, while preserving the monthly pattern of the *Elections* variable. We assume that the presidential elections occurred in April 2006, 2010, and 2014, rather than 2004, 2008, and 2012, and redefine the *Elections* variable accordingly. If our results were driven by other unobserved events related to the time period in the year, rather than by the election itself, we should still observe that the coefficient for *Election* is significantly positive.

Table 12 reports the estimations. We reject in all specifications the placebo hypothesis that the estimated coefficient of *Elections* is significantly positive. Thus, the placebo test confirms our main finding that banks increase lending in the pre-election period only in election years.

Third, we check to see whether the results differ between domestic private banks and foreign banks. While a key message of this paper is that political interference extends to lending of all banks before elections, foreign banks could still differ in their lending behavior. In the main estimations, we consider state-owned banks and private banks without separating this latter category into domestic private banks and foreign banks as the vast majority of private banks have domestic owners. Therefore the main question of the paper matters more for domestic private banks than for foreign banks in the context of Russia. It is nonetheless of importance to check if foreign bank lending is affected before the elections.

To investigate this question, we redo the estimations by considering separately the impact of elections on the lending behavior of foreign banks. We create the dummy variable *Foreign*. It is equal to one if the bank is 50% or more foreign owned, and zero otherwise. We include both *Foreign* and *State-owned* dummy variables and their interaction terms with *Elections* in the regressions. This means that the estimated coefficient for *Elections* informs about the lending behavior ahead of elections of domestic private banks, while *Elections* $\times$ *Foreign* and *Elections* $\times$ *State-owned* respectively uncover the existence of significant differences in the pre-election behavior of foreign banks and state-owned banks in comparison to domestic private banks. Table 13 reports the results.

We find that *Elections* is significantly positive in most specifications (six out of eight) while the interaction *Elections* $\times$ *State-owned* is mostly not significant. These findings show, as before, that domestic private banks increase their lending before elections, while state-owned banks do not differ from domestic private banks in their pre-election lending behavior. The coefficient for *Elections* $\times$ *Foreign* is not significant in the majority of specifications (5 out of 8), while it is twice significantly positive and once significantly negative. Relative to domestic private banks, that is, foreign banks do not exhibit a consistently different lending behavior in the run-up to presidential elections.

Overall, we do not observe significant differences in the pre-election lending behavior of foreign banks and domestic private banks. This finding reflects the fact that foreign banks tend to be well established in Russia, i.e. they have been operating in the country for a while. As a consequence, they are subject to the same incentives in terms of carrots and sticks as domestic private banks.

5. Conclusion

In this paper, we examined the existence of political interference in bank lending prior to elections in an electoral autocracy. While the previous literature generally notes that state-owned banks can be used to influence political outcomes, we test a more specific hypothesis that a government in an electoral autocracy may turn to both state-owned and private banks in an effort to influence election outcomes. Such regimes exploit incentives and mechanisms that allow the authorities to exert political influence on the lending activities of state-owned and private banks alike. We investigate this question in the context of Russia, an electoral autocracy with both state-owned banks and private banks in the banking system, and whose leader has incentives to enhance his legitimacy through voter support in presidential elections.

Our key finding is that Russian banks tend to boost their lending in the run-up to presidential elections. All types of banks tend to engage in this politically desirable behavior, irrespective of ownership (state banks are not much different from private banks), or political connections (spetsbanks are not different from other banks in this respect). We further consider whether this lending surge is driven by demand or supply. We find that our results stand when controlling for the level of aggregate economic activity and that a lending surge results in deterioration of loan quality in the year following the election. This suggests the pre-election lending surge is not related to exogenous economic events such as an economic expansion, leaving political motivations as the potential driver. Thus, no banks are immune to political influence in Russia's electoral autocracy.

We find some evidence that the government rewards private banks that increase their lending before an election with increased deposits after the election. There is, however, no evidence that banks with weak fundamentals provide more loans than other banks before election. In equilibrium, it thus appears that banks behave as expected politically, without the government having to make much deliberate effort through the application of various carrots and sticks.

Politicians in a democracy naturally aspire to influencing voters and see it as a cornerstone of the electoral process. Egorov and Sonin (2021) contrast this benign aspiration with the rationale of non-democratic leader – political lending during election cycles is a means by which the autocrat signals strength. Indeed, even with the means to dictate elections outcome, it is extremely important for the party in power in an electoral autocracy to win elections. This is a particularly apt description for Russia at the moment. Our results on political lending cycles in Russia can therefore be viewed as contributing to our understanding of the interplay between politics and banking in non-democratic regimes. We show that the interplay between politics and banking in these regimes includes influencing private banks. Further research, possibly concerning similar regimes such as Turkey or Malaysia, is well-warranted if we wish to broaden our understanding of the mechanisms and economic structures that shape political lending cycles in non-democracies.

Table 12
Placebo elections defined for March 2006, 2010 and 2014.
This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We define the *Elections* dummy with placebo election dates in March 2006, 2010 and 2014. We eight specifications based on the definition of the *Elections* dummy variable which equals one for the month indicated at the top of each column (i.e. March is when our placebo elections took place in 2006, 2010, and 2014; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. Bank-level control variables and *GDP proxy* are included but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

Election specification	(1) March	(2) February	(3) January	(4) December	(5) Jan–March	(6) Dec–Feb	(7) Oct–March	(8) Sept–Feb
Elections	−0.006**	−0.008***	−0.003	−0.007**	−0.007***	−0.006***	−0.002**	−0.002*
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
State-owned	−0.005	−0.005	−0.005	−0.005	−0.005	−0.005	−0.005	−0.005
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Elections × State-owned	0.001	0.010	−0.002	0.001	0.003	0.003	0.003	0.003
	(0.009)	(0.008)	(0.012)	(0.011)	(0.006)	(0.005)	(0.005)	(0.004)
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Bank-level controls	YES	YES	YES	YES	YES	YES	YES	YES
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	130,554	130,554	130,554	130,554	130,554	130,554	130,554	130,554
R^2	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030
Number of banks	1209	1209	1209	1209	1209	1209	1209	1209

Table 13
Estimations accounting for foreign banks.
This table shows results of fixed effects panel regressions as indicated in Eq. (1). The dependent variable is month-on-month growth in bank lending. We use eight specifications based on the definition of the *Elections* dummy variable, which equals one for the month indicated at the top of each column (i.e. March is the month elections took place in 2004, 2008, 2012, 2018; February stands for one month before elections, etc.). *State-owned* is a dummy variable indicating bank's state ownership. *Foreign* is dummy variable indicating foreign ownership of 50% or more. Bank-level control variables, as well as *GDP proxy*, are included, but not reported. Standard errors clustered at bank level appear in brackets below estimated coefficients. *, **, *** denote an estimate significantly different from 0 at the 10%, 5%, and 1% level, respectively. Month and year fixed effects are included. R^2 is R^2-within.

Election specification	(1) March	(2) February	(3) January	(4) December	(5) Jan–March	(6) Dec–Feb	(7) Oct–March	(8) Sept–Feb
Elections	0.009***	0.004	−0.002	0.015***	0.005***	0.006***	0.005***	0.004***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Foreign	0.025***	0.024***	0.025***	0.024***	0.025***	0.024***	0.024***	0.023***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Elections × Foreign	−0.011	0.033**	−0.021*	0.012	−0.000	0.008	0.008	0.013***
	(0.010)	(0.014)	(0.012)	(0.014)	(0.006)	(0.007)	(0.005)	(0.004)
State-owned	−0.002	−0.002	−0.003	−0.002	−0.003	−0.003	−0.003	−0.003
	(0.007)	(0.007)	(0.007)	(0.007)	(0.008)	(0.008)	(0.008)	(0.008)
Elections × State-owned	0.001	−0.004	0.035***	−0.003	0.011**	0.010	0.007	0.007
	(0.008)	(0.010)	(0.012)	(0.013)	(0.005)	(0.006)	(0.004)	(0.005)
GDP proxy	YES	YES	YES	YES	YES	YES	YES	YES
Bank-level controls	YES	YES	YES	YES	YES	YES	YES	YES
Month and year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Observations	130,554	130,554	130,554	130,554	130,554	130,554	130,554	130,554
R^2	0.031	0.031	0.031	0.031	0.031	0.031	0.031	0.031
Number of banks	1209	1209	1209	1209	1209	1209	1209	1209

Declaration of Competing Interest

None.

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