

The changing geography of banking in CESEE: Branch closures outpace openings

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October 1st 2025

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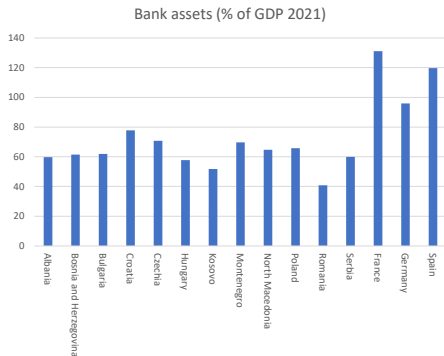
The paper in a slide

What are drivers of bank branch closure dynamics in Central, Eastern, and Southeastern European (CESEE) countries?

- To address this:
 - Huge and thorough data collection
 - Two snapshots of branch locations in 12 countries:
(Albania, Bosnia and Herzegovina, North Macedonia, Bulgaria, Croatia, Poland, Romania, Serbia, Czechia, Hungary, Montenegro, and Kosovo)
 - Two years: 2021 and 2013
- Findings
 - Descriptive statistics on branch location and dynamics
 - Substantial branch reduction and large cross-country heterogeneity
 - OLS regression (w/ different fixed effects) to examine significant factors associated with branch closure dynamics between 2021 and 2013
 - Closures more pronounced in urban areas
 - M&A = strongest predictor of branch closures
 - Larger, more profitable banks were more likely to close branches
 - Inverted U-shape of branch closure wrt competitor density
 - Digitalization indicators not significantly correlated with closures

Comments

- Very nice paper
 - Sheds (new) light on bank branching decisions
 - Most empirical insights in literature from U.S.
 - Information regarding market evolution in a transformation economy (!)
 - Cross-country heterogeneity interesting, might spawn many further papers
 - Policy relevance
 - Branches = Access to finance for firms and households
 - Banking assets (as % of GDP) relatively small



IO of banking: Why do banks branch?

- **Informational asymmetries** in banking are large, either
 - ① when collecting deposits
 - Access to stable household deposits
(to fund lending in other areas; to expand into other areas, etc.)
 - Informational gathering
(to learn more about specific market/borrower; to enable cross selling)
 - Competitive dynamics
(to extract rents from households/firms, etc.)
 - Reduce risk
(diversify funding sources, increase charter value, etc.)
 - ② Or when lending to firms
 - Market size
(because competition is low; economies of scale, etc.)
 - Exploit existing informational advantage about borrower
(due to existing lending specialization; economies of scope)
 - Follow existing client
(as existing borrowers expand/withdraw into/from new areas)
- Maybe interesting to link dynamics to other theories?
- Role of lending in bank branching decision?

(Macro)economic structure and shocks

Cross-country heterogeneity very interesting

- Is it possible to isolate country-specific shocks (to competition)?
For instance, focus on differences in...
 - ... Pace of EU Integration and Financial Market Development
 - ... Banking sector consolidation post GFC/Eurozone debt crisis
 - ... Digital transformation acceleration
 - ... Monetary policy changes (and exchange rate regimes)
 - ... Foreign bank dominance
- What about other cross-country differences?
(e.g. language, religion, trade integration, etc.)

Some other thoughts

- Could also focus/study foreign bank entry
 - Common focus: ownership of subsidiary bank, but here new angle/data: branch ownership!
 - Are there differences? Why/how?
 - What about country pairs, i.e. parent banks located in a specific country and branches in another?
 - Do some banks change their structure (subsidiary vs. branch) over time?
 - Regulatory competition? EU integration?
- How similar are these branches? (E.g. representative offices, depository office, etc.)
- Paper focuses on branch closures, but what about openings?
 - Do banks simply shift their attention? How does that evolve within a bank?
 - Or is there an overall reduction in branch presence

Summary

- Very interesting paper
 - Branch dynamics in CESEE quite heterogeneous
 - Informs work on modeling and examining bank branching decision and foreign bank presence
 - CESEE: banking sector relatively small
 - financial development (and access to finance) quite different
- Good luck with the paper