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Dynamic Branching and Interest Rate Competition of Commercial Banks: Evidence from Hungary

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Abstract

I supplement previous models of bank competition by incorporating the endogenous branching choices of commercial banks. I apply a dynamic structural model of banks' branching and interest rate choices to a unique bank-level dataset on Hungarian commercial banks during 2004-2007. I find that banks charge a premium in interest rates for relative branch network dominance, and banks with relatively smaller networks are less likely to close branches. I present significant and robust estimates of branch setup costs and scrap values, and discuss the potential use of branching restrictions as regulatory tools to alter lending rates and consumer surplus.

Keywords: Dynamic analysis, Endogenous branching, Spatial competition, Interest rate choices, Structural estimation

JEL: C3, G2, L1

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