Lingnan University 嶺南大學 香港 Hong Kong | Faculty of Business 嶺南大學商學院 | Department of Finance, Hong Kong Institute of Business Studies

Bank Geographic Diversification and Funding Stability

Abstract

Over the past decades, U.S. banks have dramatically expanded the geographic footprint of their branch networks. This paper shows that geographic diversification of banks' deposit base affects their funding stability and liability structure. Using an instrumental variable, I establish that better diversified banks benefit from lower demand deposit volatility. Less volatile demand deposits, in turn, allow banks to substitute them for more expensive time deposits, thereby lowering funding costs. Consistent with enhancing banks' funding stability and lowering funding costs, deposit diversification also spurs liquidity creation and small business lending, with positive effects for economic activity. The funding stability channel of geographic diversification is distinct from previous findings on asset diversification and highlights the benefits of branch networks for credit supply that go beyond local information acquisition.

Biography

Sebastian Doerr is a senior economist at the Bank for International Settlements and a CEPR Research Affiliate. His research centres on financial intermediation, with a focus on the implications of financial innovation and the rise of non-bank financial institutions for financial stability and the real economy. For the BIS, Sebastian regularly authors policy pieces for the BIS Annual Economic Report, the BIS Quarterly Review, and the BIS Bulletin series. His work has been published in leading academic journals such as the *Journal of Finance* and the *Journal of Financial Economics* and widely cited in the media, including by the *New York Times*, *Financial Times*, *Wall Street Journal*, *Bloomberg*, *Forbes*, and *The Economist*. He currently ranks among the 50 most-cited young economists worldwide on RePEc and was awarded the European Economic Association's *Young Economist Award*. He holds a PhD in economics from the University of Zurich.

Dr Sebastian Doerr
Senior Economist
Bank for International Settlements

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For enquiries, please contact 2616-8373 or by email (hkibs@ln.edu.hk).
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