

# **Financial and Economic Development: impacts of de-branching on the rural population in the south of Brazil**

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## **Abstract**

Although nowadays most financial services can be done online, physical bank branches still play an important role in community development and financial inclusion for some specific agents – among them the rural population. This study examines the effects of de-branching on the rural population in the southern region of Brazil, considering the call for further research by the Board of Governors of the Federal Reserve System (BGFRS, 2019) to quantify the precise impact of branch closures. Using spatial data, I propose a definition of rural branch (separating it from urban branches). Furthermore, I employed econometric models combining data from various sources spanning from January 2002 to December 2020 at the municipal level. The preliminary findings indicate that while the number of urban branches does not significantly affect the level of credit, rural branches have a notable impact. This preliminary result is relevant as it corroborates the theory that de-branching might be harmful to the rural population. The findings suggest that the closure of rural bank branches may hinder access to credit and other financial services, exacerbating financial inequalities and widening the wealth gap. These areas, referred to as "banking deserts," often prompt individuals to turn to non-traditional and high-fee lending options, such as payday loans and check-cashing services. Consequently, addressing the challenges faced by rural communities due to de-branching is crucial for promoting financial inclusion and mitigating disparities in accessing financial services.

**Keywords:** finance, banking, spatial economics, de-branching effects, rural population