Corporate Runs and Credit Reallocation

By Elena Carletti, Filippo De Marco, Vasso Ioannidou, and Enrico Sette

Discussion by José Gabo Carreño
Financial Markets, Shocks, and Macro Policy
Central Bank of Chile
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Summary

- **Question:** How do firms respond to bank distress, and what are the consequences for banks?
- **Approach:** Exploit the slow collapse of two Italian regional banks using granular credit and deposit data.
- **Main Findings:**
  - **Liability side:** Firms withdraw deposits $\rightarrow$ corporate run
  - **Asset side:** Firms switch to other banks $\rightarrow$ asset-side run
- **This Discussion:**
  - Emphasizes the paper's novel approach and excellent data usage.
  - Challenges the framing: is this a story about firm behavior during bank distress, or about risk-amplifying dynamics for banks?
  - Calls for a stronger focus on banks.

Three core contributions

1. Corporate clients can drive bank runs from both the liability and asset sides.
2. Unique micro evidence to study this asset-side run dynamic.
3. Timely given 2023 US corporate deposit runs.

1. The Corporate Run

- Putting the run in perspective
  1. Distressed banks lost about 40% of their corporate deposits over two years.
     - Around 4% of total assets (corporate + households = 8%).
     - Iyer, Puri, and Ryan (2016): around 7-8% of total assets in two weeks.
  2. Banks also had plenty of time to react.
- **Suggestion:** Provide a fuller picture of banks' overall funding conditions to better understand the severity of the run.

2. Where Do the Runners Go?

- Firms run first and with greater intensity towards better capitalized banks.
- I was expecting a regression focusing on firms initially exposed to distressed banks
  - Do they shift within their existing bank portfolio?
  - Do they establish new relationships?
- The authors take the bank's perspective instead:
  - They study deposit inflows to non-distressed banks.
  - Uses a bank-province-month DiD framework.
- **Suggestion:** Use firm-level evidence on how firms reallocate credit.

3. The Asset-Side Run Mechanism

- Firms respond to banks' funding concerns:
  - Safer borrowers leave first, increasing adverse selection and credit risk for the distressed bank.
- But the paper pays little attention to the consequences of these dynamics.
- The only number provided: the overall lost business to outside banks was 10% larger for distressed banks.
  - Lost business to outside banks (event window): $40\% \times 25\% \times 10\% \approx 1\%$.
  - Banks in distress lost about 1% of total assets compared to non-distressed banks.
- **Raises the question:** Do these effects matter for banks?

3. The Asset-Side Run Mechanism

- Even if the numbers were larger:
  - What did the banks actually do in response?
- Policy implications - with caution:
  - Authors: Regulatory oversight should monitor not just deposit flows, but also **credit withdrawal requests**.
  - However, policy takeaways are unclear without further evidence.
- **Suggestion:** Quantify results from the bank's perspective.

Conclusion

- This is a rich, careful, and policy-relevant paper.
- Shows that corporate clients can set in motion both sides of a bank run, liability and asset.
- Suggests fruitful directions:
    - Increase focus on banks
    - Quantify results on banks
- A great contribution to the growing literature on bank fragility.