Deposit and Credit Reallocation in a Banking Panic The Role of State-Owned Banks

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We study a bank run in India in which private bank branches experience sudden and considerable loss of deposits that seek safety in state-owned public sector banks (PSBs). We trace the consequences of this reallocation using granular data on bank-firm relationships and branch balance sheets. The flight to safety is not a flight to quality. Lending shrinks and credit quality improves at the run banks but worsens at the recipient PSBs. The effects are pronounced in weaker PSBs, the ones more likely to exploit the shelter of state ownership. The resource reallocation is inefficient in the aggregate.

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