

Comments:
**Central bank retail deposits and bank
runs from city –level panel data in Spain,
1922- 1934**

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Main purpose

- The main objective of this research paper is to offer evidence regarding the **dynamics of central bank retail deposits** during periods of **financial turmoil**, using the **Spanish case in 1931**
- **Spain** is an interesting case study for several reasons:
 - In the midst of the **1931 financial crisis**, Spain witnessed **bank runs**, with a **shift from bank deposits towards central bank retail deposits** (which were non remunerated)
 - The period of **bank runs** and the financial turmoil coincided with an **unexpected political regime change**, marking the end of the Monarchy and the proclamation of the Second republic.

The main hypothesis to be tested are:

- In a context of financial instability and bank runs: Were non remunerated central bank deposits used as **safety net**?
- The shift from **bank deposits towards central bank retail deposits**:
 - Was a **temporary** or a **permanent** shift?
 - Was it consistent across all **regions/cities** or was concentrated in some specific regions/cities?
- Did **central bank deposits** increase the **likelihood of banks runs** or was it a mechanism that **alleviated the impact of the crisis**?
- Was the **public's propensity to shift from commercial banks to the central bank** influenced by the change in the **political regime**?

Main contributions:

- Creation of a **new database** (1923-1934):
 - Banco de España balance sheets at the **branch level** (retail deposits), annual frequency.
 - Data extracted from non-issuing bank balance sheets, **quarterly data**
 - Weekly Banco de España balance sheet data, 1900-1936 (Martinez Mendez 2005)
 - Analysis of the financial crisis at a **regional level**. This is an innovative or new approach since the empirical evidence uses data at the national level
 - As annual data may not be the most suitable when studying bank runs, the availability of **quarterly data** is undoubtedly of great importance.
 - Sample: $N=35$, $T=12$. By 1931, there were 71 branches in operation, and this research utilizes data from 35 branches, representing approximately 84% of the total retail deposits at the Bank of Spain.
- The study of how **central bank retail deposits** behaved during a period of **severe financial distress**, exemplified by the events of 1931 in Spain, can offer valuable insights that are directly relevant to **present-day policy deliberations**, in particular over the implementation of central bank deposits in emerging economies with lack of a deposit insurance scheme

Main results:

- **1931 was a unique episode** (the only year in which retail deposits at the Bank of Spain increased)
- the shift from bank to central bank deposits was **short lived**
- this shift was **stronger** in those cities with **larger deposit withdrawals**
- this shift was **short lived in cities** where the **banking crisis did not cause large banking failures**
- the channeling of funds from banks to the Bank of Spain depended on the type of deposit. It mainly affected **call deposits**

Comments on Jorge-Sotelo's paper

- To clarify the **last part of the introduction**. Your empirical strategy is clear and well defined in the paper but not easy to follow in the introduction without reading the paper
- p.. 2: “the outbreak of the IWW (and the Spanish neutrality) caused a strong economic boom in the country that was accompanied by a strong expansion of non-issuing banks.... One of the main consequences of this expansion was that by the end of the war, in the early 1920s, BdE held no longer the lion's share or retail deposits of the Spanish economy and this share kept declining over time”
 - But when we consider the **main assets accounts**, we observe that between 1920 and 1934 the transactions conducted by the BdE with the private sector, increased significantly. What would explain this different behaviour of assets and liabilities?

Comments on Jorge-Sotelo's paper

- It is possible to obtain information about whether the transfer of deposits from banks to the Bank of Spain was made by **depositors who already had an account with the Bank of Spain before 1931** or if they were only **new accounts**?
- **To highlight the author's effort in providing quarterly data.** Figure 6 shows the annual variation of total bank deposits and Bank of Spain deposits to confirm the expected negative correlation between these two variables. Can you obtain the same correlation between both variables at a **quarterly frequency**?
 - Bank deposits: quarterly data
 - Martinez Mendez offers weekly data for the Bank of Spain

As you mention, in the 1930s crisis, all the banks failed in 1931, but they did not all do so at the same time; instead, the failures were concentrated between April and June. Given that you have data, you can use quarterly instead of annual data.

Comments on Jorge-Sotelo's paper

- **Section 5: negative correlation between bank deposits and central bank retail deposits hold at the branch level** (using annual data).
 - You include different groups of control variables such as city bank level characteristics or political unrest
 - To include some characteristics of the region (sectoral characteristics, for example, agricultural versus industrial regions, exporting versus non exporting regions...) as control variables
- In the **instrumental analysis** you introduce a proxy that you call “**electoral surprise**”. To introduce exogenous variation in bank deposits that is not created with an ex ante predisposition of certain cities to arbitrage between banks deposits and central bank you instrument the interaction term ($\Delta \text{Bank dep} * 1931$) with the “electoral surprise”. You obtain that in regions that the Republicans obtained more than 2/3 of the seats (considering the participation) there were larger withdrawals.
 - Have you checked what happen when you use another **cutoff level**?
 - Does the electoral surprise only work when the Republicans win **in your region** or **elsewhere**?

Comments on Jorge-Sotelo's paper

- Subsection (5.4): discussion about the **occupational profiles** of the new Bank of Spain retail depositors in the city of Madrid.

I am not entirely certain about the purpose of this sub-section :

- To study whether there was a **change in the profile** (occupation and socio-economic background) before and after 1931
- In the even that you observe a change in the profile of the current account holders: What are the **implications**? Please, provide further clarification on this matter.

Thanks!