Comments on
At Your Service! Liquidity Provision and Risk Management in 19th Century France

by Maylis Avaro & Vincent Bignon

Eric Monnet

Paris School of Economics

- Goodhart (*Evolution of central banks*):

  *With the **Central Bank coming to represent the ultimate source of liquidity** and support to the individual commercial banks, this micro function brought with it naturally a degree of "insurance**." Such insurance, in turn, involves some risk of moral hazard**, i.e., that commercial banks, believing that they will be supported by Central Banks from the consequences of their own follies, adopt too risky and careless strategies*

  ➢how can central banks implement good practices of risk management to limit moral hazard?

➢Already the subject of an extensive literature:

➢On central banks in 19th (many) , including the Banque de France (Roulleau 1914, Ramon 1932, Nishimura, 1995; Plessis, 1967, 1999; Gonjo, 2003; Baubeau, 2004, Jobst 2010, Bazot 2014, Hautcoeur –Riva – White 2014 etc.)

➢Today (Bindseil 2014, Drechsler et. al. 2016; Acharya et al. 2017 etc.)

➢Conclusions from this lit.: important to define good collateral or guarantee (signatures), be more flexible during crises, need for informal or formal supervision, need for resolution mechanism involving not only the central bank

➢Overall central bank did well in terms of risk management of domestic portfolio: CB losses in history were mostly (if not only) due to FX losses. But sometimes too risk averse (see Great Depression)!

A new dataset with impressive detailed data on borrowers

- Following similar projects on other CBs (Anson et al. on BoE, Jobst & Rieder on OeNB) but with French specificity: no bank-by bank ceilings, data on discount loans have disappeared, no data on discounting by the headquarter.

- Use of annual reports on BdF branches > detailed individual information on about 1,700 counterparties in 1898. "For each counterparty, the supervisor reported the identity, address, occupation, as well as the amount discounted; he also recorded the value of the securities pledged and drawn as a guarantee to the overdraft facility (advances on securities)." + wealth and <u>qualitative assessment of risk</u>

- an annual time-series of all counterparties of the branch of Moulins between 1890 and 1905.

- Show that the BdF rewarded risk averse, well capitalized and known borrowers. But flexibility during crises

- <u>Main result</u>: more liquidity during crises but to "better" (more risk averse) agents

- A bit different from Jobst & Rieder where the Bank of Austria-Hungary relaxed criteria during the 1912 banking crisis

- Problems:
  - a single year. no major banking crisis
  - only 7% of the total volume discounted by the Bank of France in 1898.
  - does not include advances on securities (about ½ of operations)

    >> problem of the source. Even if you collect more years, the sample of loans will always be biased and small

Suggestions for improvment

- 1) recognize and explain more explicitly the limitations of the data

    - Explain better why not all loans appear in the sources. Why only 7% and not 50%?
    - 94 branches. Why not all? Do you miss « bureaux auxiliaires »?
    - Pb of substitution between discounts and advances. Typically, banks with bad commercial paper may rely (temporarily) on advances on securities (what we see in the 1920s-1930s). Advances on securities were also key for non-banks
    - The definition of banks from the Bottin (data from Hoffman-Rosenthal & Postel Vinay) is incomplete. In the interwar, Bonhoure et al. (2022) found that about 1/3 of banks are missing compared to another source (Favre).
    - Could you use bank balance sheet data starting 1901 from Baubeau et al. (2021) & Bonhoure et al. (2022)?

Bazot (EEH 2014)

Table 3
Number of branch.
Sources: BCI.

	BoF branches	Local bank branches	Deposit bank branches	Total bank branches
1860	46	1814	3	1817
1869	57	1933	17	1950
1881	88	2017	185	2202
1891	119	1964	257	2221
1898	157	1931	579	2510
1910	176	1914	851	2765

I am indebted to Jean Laurent Rosenthal for having shared with me its data for 1898. Observations withdraw the *département* of Seine. The number of deposit bank branches does not include temporary branches. The number of BoF branches includes both "succursales" and "bureaux auxiliaires".

Suggestions for improvment

- 2) rely more on your qualitative information to describe the business of the central bank
  - How did they categorize « risk appetite »? (same as in the « fiches d'escompte » centralized in Paris?)
  - How did they communicate with banks? How did they check « careless strategies » (Goodhart)?
  - Accommodation bills (see Nishimura 1995 EHR)?
  - Multiple rates? Rollover?
  - What made the BdF differ from a large national commercial bank with respect to risk management (see Société Générale & Crédit Lyonnais « inspection »)?
  - What kind of paper do the « national bank » present in local branches? (since they had access to headquarter). In the interwar, they no longer discount paper in BdF branches; only at headquarter (see Gonjo 1996). Is this high nb a bias due to the exclusion of « bureaux auxiliaires » ? (do you have similar data as Gonjo for the total nb of succursales?)
  - Were there really bank runs? Large? (Bank of Burgundy is not a major bank)

Ways for improvement

Table 5. *Discounting of accommodation bills by the Banque de France (Ff. m.)*

Year[a]	No. of branches[b]	Bills discounted (X)	Of which accommodation bills (Y)	(Y)/(X) × 100 (%)
1890	8	17.25	8.75	50.7
1895	12	29.77	13.25	44.5
1900	21	76.28	30.03	39.4
1901	17	43.48	17.18	39.5
1902	10	26.38	11.03	41.8
1903	7	25.14	11.60	46.1
1904	20	57.09	19.32	33.8
1905	19	35.08	17.94	51.1
1906	18	93.96	20.11	21.4
1907	27	159.20	55.11	34.6
1908	16	60.65	36.82	60.7
1909	9	68.98	25.84	37.5
1910	17	104.32	39.41	37.8
1911	18	169.28	88.56	52.3
1912	18	135.70	63.59	46.9
1913	26	144.53	76.16	52.7

Notes: [a] The exact dates of inspection differ from year to year, and from branch to branch.
[b] Number of branches of the Banque for which the inspectors disclosed the amounts of accommodation bills discounted.
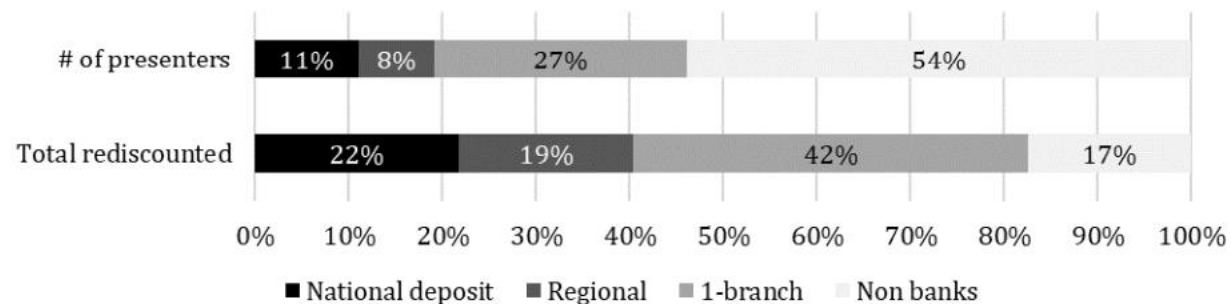
Source: Rapports

Figure 1-1: Distribution of counterparties per category and volume of bills discounted at the Bank of France in 1898.

PROPORTONS OF BILLS DISCOUNTED IN 1935 PER CATEGORY OF PRESENTERS	%
Headquarter in Paris («le Siège»):	
• National banks	7,8
• Regional banks	11,7
• Non banks	0,2
• Others	0,3
• **Sub-total**	**20,1**
Bureau de Paris et de la Seine	
• Regional banks	2,0
• Non banks	11,8
• Others	3,4
• **Sub-total**	**17,3**
Succursales:	
• Sociétes de crédit	1,7
• Banques locales et régionales	20,7
• Non banks	39,8
• **Sub-total**	**62,4**
• **Total**	**100**

Conclusion

- A very nice addition to history of CB risk managment in 19th, based on impressive data collection with great potential

- You end with a positive assessment of the BdF risk management but:
  - As long as loans to large institutions were concerned, we know that they sometimes took too much risk and lend without good collateral (White 2010, Hautcoeur, Riva, White 2014).
  - This system was not effective during large banking crises (see 1914 and 1930-1931)
  - At the end, why was supervision needed?