

“Central bank losses and lending of last resort” (Mitchener and Monnet, 2022)

Enrique Jorge-Sotelo

Universitat de Barcelona

Banco de España Economic History Seminar
20 October 2022

Summary of the paper

Background:

- Banque de France is a private central bank.
- Potential conflict between financial stability and profits.
- Problematic during 1930/31 banking crises.

Argument:

- Myopic behaviour: restrictive LOLR today leads to failures tomorrow.

Methodology:

- High-frequency discount window borrowing
- Bank characteristics

Results:

- Connected banks get more liquidity, do not fail. Several not-connected banks fail.
- Exposure to BAL → losses → window dressing + secret Government bailout.

Things I liked about the paper

- Timely paper
- Very interesting data and methodology
- Joins growing literature, bank-level analysis of LOLR interventions
- Central bank history / central *banking* history
- Many interesting findings → Extensions

Bagehot and “Continental” money markets

Bagehot Rule/Doctrine difficult to interpret outside London (“lend freely” is a function of “on good collateral”).

Can you have more on:

- Number of signatures? (no third-party screening of collateral)
- Commercial (self-liquidating) or financial (accommodating) bills?
 - ▶ Real bills doctrine (Charles Rist, etc.)
- Domestic vs. foreign bills?
- Credit limits on rediscount accounts?
- Daily/weekly quantitative constraints on rediscounting?

Specific suggestion:

- Number of bills per operation?
- Diversification of risk / Cost of processing information

Interest rates, losses and Government debt

Why did Banque de France not raise interest rates?

- Widespread bank run → low elasticity of demand from banks
- Can you calculate profit scenarios for different rediscount rate changes?
- Role of Government / Banque de France agreement on this?
 - ▶ Debt sustainability? (cf. debt interest / tax revenues = 60%)
 - ▶ Political pressure?
 - ▶ How large was BAL/BdF bailout as % of Government debt?

Other questions

Restriction of LOLR:

- Evidence on Banque de France actively rejecting bills?
- Did not-connected banks not complain to the Government?
- Firms being denied bank loans?

Connected banks:

- When and why do they become shareholders?
- Were they members of the BdF board earlier?