

The Credit-Anstalt Crisis of 1931

Fabian Greimel

February 22, 2017

Credit-Anstalt: A big bank in a small country

- ▶ “Biggest bank west of Germany”
- ▶ first continental European bank listed at NYSE (1927)
- ▶ excellent reputation (president Louis Rothschild)

“From the moment of its birth the Credit-Anstalt of Vienna stood in the forefront of international finance.”

The Economist, June 27, 1931¹

Europe in 1920



A big bank in a small country ... that used to be bigger

Europe in 1914

■ Austro-Hungarian Empire



53 million

Europe in 1920

■ Austria



6.5 million

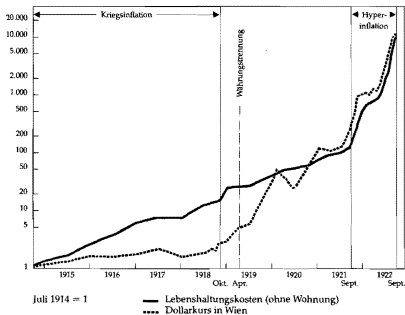
Population

Credit-Anstalt's business

- ▶ stakes in 40 businesses and eleven banks in successor states
- ▶ bigger than all other Austrian banks combined
- ▶ “Hausbank” of 69 % of Austrian limited liability companies (*Ges.m.b.H*)

War, Hyperinflation, Depression, War

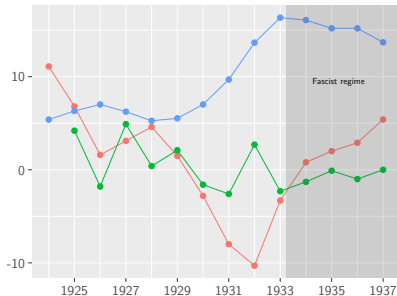
Inflation und Währungsentwertung in Österreich 1914–1922
(Semilogarithmischer Maßstab)



- Cost of living increased hundred-fold within 13 months

Sources: Left: Kernbauer (1991), Right: Austrian Institute for Economic Research (1965)

— GNP growth — inflation — unemployment



- unemployment rate tripled
- deep recession 1930–33

The failure of the Austrian banking sector

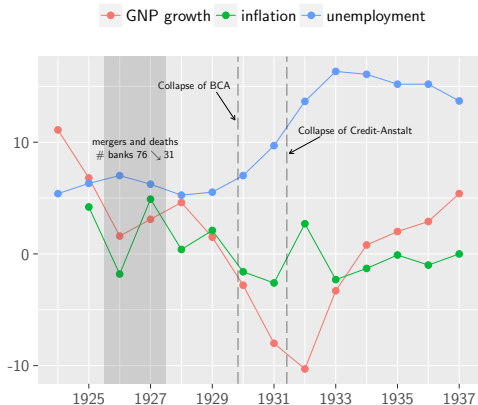
- ▶ bad management
 - ▶ high wages
 - ▶ high dividends
- ▶ bad policies
 - ▶ concentration, consolidation
- ▶ bad economics
 - ▶ collapse of exports
 - ▶ high unemployment

year	$\frac{\text{wages}}{\text{assets}}$	assets
1913	0.75 %	
1924	6.7 %	-70 %

Table: Austrian banks

The failure of the Austrian banking sector

- ▶ bad management
 - ▶ high wages
 - ▶ high dividends
- ▶ bad policies
 - ▶ concentration, consolidation
- ▶ bad economics
 - ▶ collapse of exports
 - ▶ high unemployment



The failure of the Austrian banking sector

- ▶ bad management
 - ▶ high wages
 - ▶ high dividends
- ▶ bad policies
 - ▶ concentration, consolidation
- ▶ bad economics
 - ▶ collapse of exports
 - ▶ high unemployment

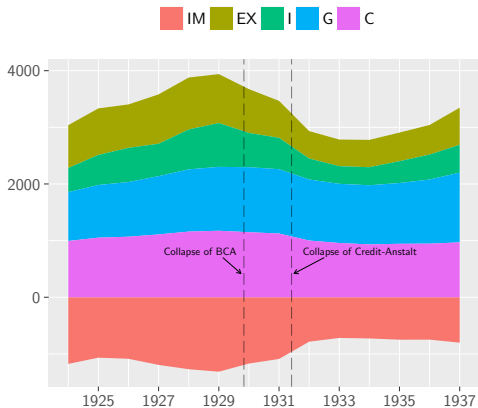
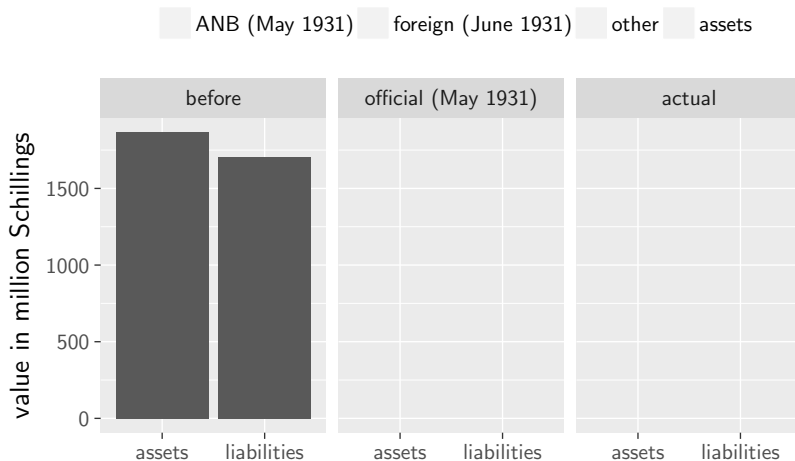


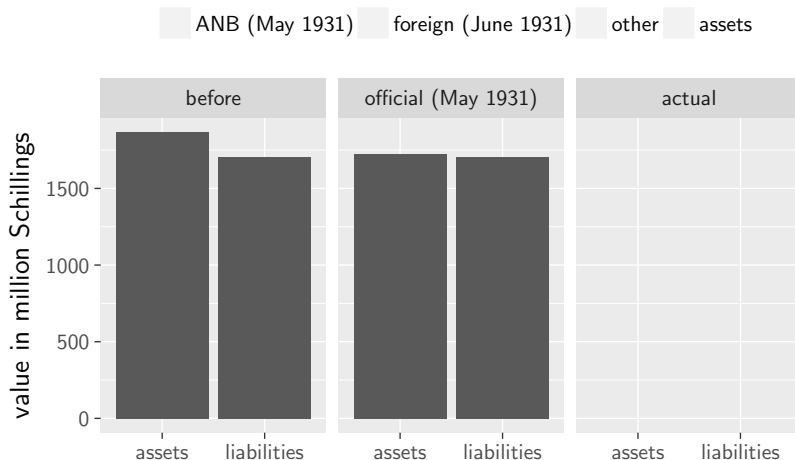
Figure: Decomposition of Austrian GNP

Credit-Anstalt's balance sheet of May 1931



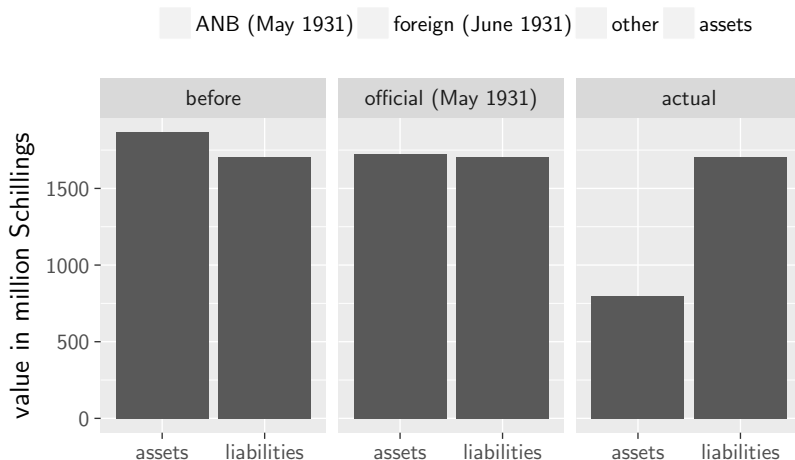
Sources: Kernbauer (1991, pp. 291, 298, 300), Schubert (1991, p. 7)

Credit-Anstalt's balance sheet of May 1931



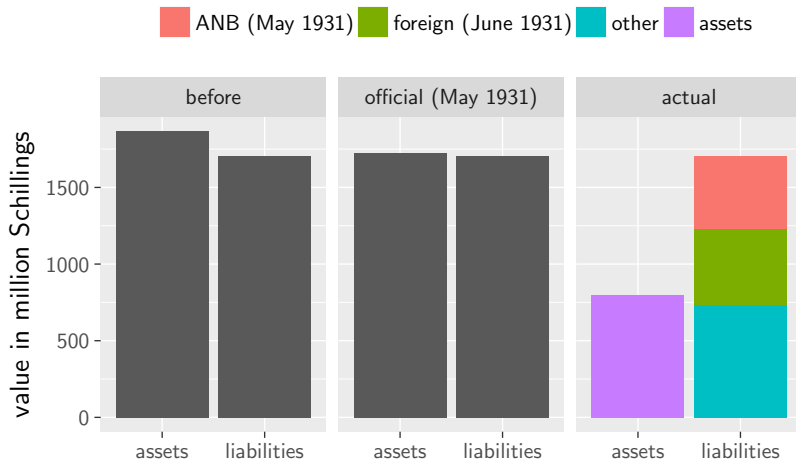
Sources: Kernbauer (1991, pp. 291, 298, 300), Schubert (1991, p. 7)

Credit-Anstalt's balance sheet of May 1931



Sources: Kernbauer (1991, pp. 291, 298, 300), Schubert (1991, p. 7)

Credit-Anstalt's balance sheet of May 1931



Sources: Kernbauer (1991, pp. 291, 298, 300), Schubert (1991, p. 7)

The collapse of Credit-Anstalt

- ▶ injections by state, national bank, Rothschilds
- ▶ stock holders lose 25 % (too little?)
- ▶ 4-day run on Credit-Anstalt, lose 24 % of deposits within a month
- ▶ government assumed liabilities worth ATS 1.2 billion, (federal budget was 2 billion)
- ▶ resolution took another year (political reasons)
- ▶ Credit-Anstalt is part of Uni-Credit today

Bank runs everywhere

- ▶ runs in Germany, Hungary, Czechoslovakia, Romania, Poland