

# *Death of a Reserve Currency?*

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# Insights

- Bank collapse (prolonged)
- ‘quasi-fiscal’ activities
- Measuring net worth (vs solvency)
- Bank currency was a ‘reserve currency’ that ‘fell from grace’
- Reconstructed Balance sheets
- Recapitalisation inadequate: too little too late
- Central banks may need balance sheet support (Hall and Reis, 2013; Del Negro and Sims 2015)

# Bank of Amsterdam

- 'Narrow Bank' 100% reserves (coins=receipts = wholesale fiat money)
- 'Lending Bank': liquid assets = 54% of liquid liabilities
- Owners borrowed more than their equity
- Major customer is East India Company ( risky, relatively short term lending)

# Prolonged Run 1781-95

- Lack of transparency protects bank?
- War prompts run on coins => end of 'narrow bank' and expansion of 'lending bank'
- Coins/Receipts fee business replaced by:
  - Loans to EICo (quickly NPL)
  - Unrestricted liabilities
- More of a State Owned Investment Bank?

# Central Bank

- What was a 'central bank' in 18<sup>th</sup> Century?
- Comparison with Bank of England (reserves)
- Role is to stabilise the value of fiat money
- But
  - Little direct government debt
  - State owns the equity
  - State uses it as a cash cow (expropriates profit)
  - Integrated commercial business

# Reserve Currency Status

- Liquidity of financial markets
- Share of world trade and payments
- Stable value
- Return (portfolio)
- Network effects
  
- Certainly rationale disappears with loss of commercial empire and military collapse
- Surprise is that the bank (and its Florin) lasted so long?

# Is Bank Florin a Reserve Currency?

- Means of exchange, store of value, unit of account
- Bills drawn on Amsterdam are used as store of value, unit of account and means of exchange (BoA FI?)
- BUT – 19<sup>th</sup> and 20<sup>th</sup> Century international reserves are used by states for currency backing, insurance against sudden stops and are held in the form of government debt (Tbills, Bonds)
- International currency vs reserve currency