

The crisis of 1931

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The BIS had barely begun its work when the world financial crisis of 1931 broke out. The collapse of the Austrian Creditanstalt in May 1931 triggered a run on Austrian and then German banks and a flight of capital from Central Europe. The BIS organised credits from central banks to the Austrian National Bank and the Reichsbank to help them defend their currencies. In June 1931, the BIS participated in a credit of one hundred million dollars to the Reichsbank, provided together with the Bank of England, the Banque de France and the Federal Reserve Bank of New York.¹

The credits were insufficient. As the German crisis deepened, the Darmstädter und Nationalbank failed in July 1931 and Germany introduced foreign exchange controls. In June 1931, the American President Herbert Hoover proposed a one-year moratorium on all intergovernmental debts, including reparations, which was adopted. In September 1931, Britain abandoned the gold standard. The crisis showed the limits of central bank cooperation when the problems were too large for the resources of the central banks and when governments did not agree on the political measures needed.

The standstill agreements on German short-term credits, which Chapter III described in connection with the Basel banks, were negotiated in part under the auspices of the BIS, which provided a neutral meeting place for the negotiations between the German debtors and the foreign creditor banks. The BIS thus played a role in the management of the crisis, although it could not prevent it.

In 1932, the Lausanne Conference effectively ended reparations by reducing Germany's remaining obligation to a final payment that was never made. The original purpose of the BIS had disappeared within two years of its foundation. The bank continued as a forum for central bank cooperation, as a bank for central banks that accepted their deposits,

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managed their reserves and conducted gold and foreign exchange operations for them, and as the trustee of the international loans issued under the Dawes and Young Plans.² The survival of the BIS after the loss of its original purpose is an example of an institution that found a new function when the circumstances of its creation changed.

1 Notes

1. On the central bank credits organised with the participation of the BIS in 1931 to the Austrian National Bank and the Reichsbank (including the credit of USD 100 million to the Reichsbank of June 1931), see Toniolo, 2005, chapter on the crisis of 1931. To be verified. ↩
2. On the Lausanne Conference of June/July 1932, which effectively ended reparations, and the subsequent reorientation of the BIS towards central bank cooperation, see Toniolo, 2005. To be verified. ↩

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