Fact sheet

Willemstad, 2020

The CBCS and its gold reserves

For most of human history, gold has had a functional role as a form of currency because of its universal acceptance as a store of value and its natural qualities. Because of these features, gold has traditionally been a part of a country's official reserves, including the monetary union of Curaçao and Sint Maarten. In the past, it was for many countries the major, or even sole, asset in their reserves.

Origins

Gold reserves held by central banks are largely a legacy of the Bretton Woods system of gold-based, fixed exchange rates. Gold played a central role in the international monetary system after the Second World War when member countries of the then newly created International Monetary Fund (IMF) agreed to keep their exchange rates pegged to the US dollar and the United States, in turn, pegged the value of the US dollar to the value of gold. The system broke down, however, in the early 1970s after US President Richard Nixon unilaterally cancelled the direct international convertibility of the US dollar to gold in 1971. The global economy then moved towards a system of flexible exchange rates to better reflect a currency's value.

History of our gold reserves

The Bank van de Nederlandse Antillen (BNA) inherited its gold reserves in 1961 from the transfer of the assets and liabilities of its predecessor, the Curaçaosche Bank, which was established in 1828. As part of the gold standard, the Curaçaosche Bank had to maintain sufficient gold reserves to cover its liabilities. However, when Aruba left the Netherlands Antilles in 1986, the BNA's gold was put into a fund with the aim of liquidating it. The gold coins out of the gold reserves were either sold or melted into bars, which were then distributed between the central banks of the Netherlands Antilles and Aruba. With the dissolution of the Netherlands Antilles in 2010, the BNA ceased to be and became the Centrale Bank van Curaçao en Sint Maarten (CBCS) of the monetary union between Curaçao and Sint Maarten along with the gold reserves of the former BNA.

Purpose of our gold reserves

The management of the monetary union's official reserves is the responsibility of the CBCS. These reserves consist of gold and foreign exchange. On December 31, 2019, the official reserves amounted to NAf 3.4 billion, of which NAf 1.1 billion in gold (33%) and NAf 2.3 billion in foreign exchange (67%). The foreign exchange is held in demand deposits with, for example, the Federal

Reserve, in debt paper of governments, institutions with a government guarantee and supranational institutions, and in time deposits with large international banks. The foreign exchange part of the official reserves is intended to meet the fluctuations in inflows and outflows stemming from the transactions between residents of Curaçao and Sint Maarten and the rest of the world. To guarantee an unhampered flow of international transactions, the CBCS strives at a level of foreign exchange reserves that covers approximately 3 months of imports.

The gold part of the official reserves fulfils an important buffer function when large and prolonged shocks cause a rapid decline in foreign exchange reserves. This buys the governments of Curaçao and Sint Maarten some time to take corrective measures. The gold buffer thereby contributes to maintaining confidence in upholding the fixed peg of the Netherlands Antillean guilder to the US dollar.

Summary

Because the CBCS maintains a fixed exchange rate regime, an adequate level of foreign reserves is important for the stability of the economy. These reserves also include a significant proportion of gold, which offers a hedge against currency volatility. The minimal return on gold can be viewed as the price for its security: contrary to most other assets, gold prices go up when things go wrong.

The rationale for holding gold, then, is essentially threefold: security, liquidity, and diversification. It is secure because of the intrinsic quality of gold. It is liquid, especially so in highly volatile times. And it diversifies a central bank's reserves, acting as a hedge against the US dollar or other major currencies, in the long run.

Countries in the region that operate similar fixed exchange rate regimes such as ours without gold reserves are exposed to a greater degree of financial risk than we are. The CBCS gold reserves, therefore, are a vital component in its risk management strategy. Indeed, it is not for nothing that gold still serves a significant role in the foreign reserves of several of the world's central banks.