

In 175 years the Bank has evolved from a near dormant institution in the nineteenth century to a vibrant organization able to adapt to the ever-changing financial world in the twenty-first century

Speech Dr. E.D. Tromp on the occasion of the reception in honor of the Bank's 175th anniversary. February 2003

Ladies and gentlemen, good evening and a very warm welcome to all of you here at the Bank van de Nederlandse Antillen.

As you all know, we are celebrating the 175th anniversary of the Bank, which was founded by order of King William I in 1828. I think it is fitting to take this opportunity to take stock of where we stand not only as Bank but as a nation after 175 years with a Central Bank.

The Bank van de Nederlandse Antillen is by far the oldest still existent bank of circulation in the Western Hemisphere. Indeed, the Bank van de Nederlandse Antillen is the oldest central bank in this part of the world.

In the 1800s Curacao was reported to be "no more than a bare, unproductive rock". Despite this unappealing description, Adam Smith in his Wealth of Nations noted that "Curacao and Eustatius are free ports open to ships of all nations; and this freedom has been the great cause of the [relative] prosperity of those two barren islands". To realize his dream of making Curacao the focal point of all commercial exchanges between Europe and the America's, the King formally declared the Curacao port as a free port in 1826 and he ordered the installation of the Bank to stimulate trade and economic activity by extending credits and to regulate the currency in circulation. The Bank, which became known as the "Bank van Leening" was entrusted with the task to provide capital to merchants and agricultural developers in order to promote economic activity.

In the first 100 years of its existence, the Bank granted credits, extended mortgages, and discounted bills and issued banknotes to finance these loans. The banknotes were backed by Dutch gold and silver coins, which were sent by the King. However, the open economy of Curacao, coupled with the lack of natural resources led to balance of payment deficits, while the lack of economic activity caused the government to run budget deficits as well. – So ladies and gentlemen, the economic difficulties we encountered in the 1990s were also the case back then-. The result was that there was a continuing demand for coins to pay for the imports, which the Dutch were not always willing to provide. As a matter of fact, at one time they even proposed to order Japanese Yen to circulate in Curacao instead of Dutch coins. The continued shortage of especially small denomination payment instruments induced trading houses to develop short term credit facilities for their relations and they began issuing IOUs on their own behalf. At several points in this period, serious discussions arose about the continued existence of the Bank. Many argued that the Bank should be liquidated and were in favor of free competition in the private sector and many complained about the fact that the Bank seemed not to be in the position to do what it was supposed to do: stimulate trade and economic activity by extending credits and regulation of the circulation of money.

In an effort to put an end to this situation, the Bank charter was revised in 1907. In this Charter the Bank became the Curacaosche Bank and a formal monopoly on the issuance of banknotes was granted to the Bank. The monopoly to issue banknotes has been contested many times by many. But in the end the Curacaosche Bank maintained its monopoly which enabled it to earn a profit, of which half was transferred to the Government. The Government, which ran budget deficits between 1890 and 1924, was not willing to give up this source of income. Around the time of the Bank's first centenary, there were several proposals to integrate the Curacaosche Bank with De Nederlandsche Bank in Amsterdam or with the Surinaamsche Bank in Paramaribo, but the responsible Dutch Minister kept the Bank alive. In 1928, the Bank employed only 3 people: the Secretary and two clerks. The other positions were considered to be honorary functions.

In the following years, the economy of Curacao and Aruba underwent a major change with the establishment of the oil refineries of Shell and Lago. Everything connected with oil thrived: trade in the

port, construction and public utilities. The oil brought employment, income and purchasing power. The economy prospered as the Bank put it in its annual report of 1929, there was "great activity and all but unlimited luxury". For example, the number of cars per inhabitant was, at that time, twice the number of that in Holland. Another indication of the economic prosperity was the harbor activity. Measured by number of ships or by metric tons, the harbor of Curacao was the seventh largest harbor in the world. As a result of the economic prosperity and the abundance of funds, the position of the Bank as supplier of credit to the private sector was taken over by commercial banks, most of which had their origin in the old trading houses. Furthermore, its function as issuing bank became more important as in 1920 the Management of the Bank received greater autonomy in setting the number of banknotes in circulation. Up to that time, the number of banknotes in circulation was stipulated in instructions from Holland and any increase in the maximum number of banknotes needed the consent of the Crown. In 1937, the banknotes in circulation further gained in importance, as the notes were officially considered legal means of payment in transactions involving private parties whereas before it was only officially accepted as a means of payment by the government. This change in the functioning of the Bank has been a gradual process which, on the eve of the Second World War, resulted in the following functions for the Bank: it controlled the number of banknotes in circulation, it serviced the circulation of coins on behalf of the government, it managed the gold and silver reserves and strived to maintain exchange rates within margins acceptable for the commercial banks. In the space of three decades the Curacaosche Bank evolved from a general lender into a lender of last resort; from everybody's bank to a banker's bank.

Banknotes issued by the Curacaosche Bank were backed by Dutch metallic coins and followed the Gold Standard. When Holland departed the Gold Standard, the currency in Curacao devalued vis-a-vis the dollar by as much as 20%. This devaluation led to a sudden increase in the prices of imports, most of which originated from the United States of America, and a corresponding decline in the purchasing power of the local population. This reinforced the support for an already existing idea of an independent currency for Curacao, which could be decoupled from the Dutch Guilder. The Second World War made it practically impossible to convert the issued banknotes into Dutch coins and the Dutch Government in exile decided to fix the banknotes issued in Curacao to the British Pound Sterling as of September 3, 1943. Although decoupled from the Dutch Guilder, there was a lot of opposition to this decision, as the local people feared a devaluation of the European currencies as soon as the war was ended, which would drag down the value of their currency. In 1949 the desire of the local people was finally granted and the Dutch Government allowed the Curacaosche Guilder to follow the USD (at a rate of 1.88585 per USD) instead of the Pound Sterling or the Dutch Guilder which devalued by over 30% with respect to the dollar in September of that year.

In 1953, at the 125th anniversary of the Bank, the Bank employed a Secretary, a cashier a messenger and 4 administrative personnel. It was at that time that the Netherlands Antilles were formed and became an autonomous part within the Kingdom of the Netherlands. The changing institutional environment demanded for a revision of the functions and responsibilities of the Bank. This resulted in the Bank charter of 1961. This revision was used to strengthen the ties with the Government as the new Government was not willing to give up its recently acquired autonomy to an independent institution. The Bank charter of 1961 formalized the ties with the Finance department and also reestablished the credit extending role of the Bank. The Bank was thought to have an important role in the development of a new economic activity: tourism. As more international banks started doing business on the various islands, the need for credit extension by the Bank subsided and the lending portfolio gradually declined. In 1971, the Bank became responsible for safeguarding the value of the Antillean Guilder, while guaranteeing its convertibility at a rate of 1.79 per USD, the rate of which is still in effect today. In addition to its task for monetary supervision, the first law on banking supervision of 1972 gave the Bank the authority not only to grant licenses, but also to request information on solvency and liquidity from licensed banks. The legislation had become necessary as a result of the large increase in the number of banks operating in the Netherlands Antilles, especially Curacao, as it developed into an international financial center.

In the years from the early 1970s through the early 1980s the Bank transformed gradually from a government department to an independent institution. The independence was deemed necessary to safeguard the value of the Antillean Guilder and to guarantee its convertibility. In order to achieve this, outside expertise was used to educate the local staff and to set up the internal organization of the Bank.

The Status Aparte for Aruba was taken to create yet again a new Bank charter in 1985. As a result of this charter, the Bank's independent position was formalized; most notably by imposing a limit on the amount of credit the Bank could extend to the government. With its autonomous position, the bank was able to attract and maintain highly trained personnel. Or as Dr Duisenberg put it, the Bank became a center of excellence. Especially in the last 15 years, the Bank has been entrusted with numerous new tasks. Most of them have to do with supervision and were the result of international agreements the Netherlands Antilles needed to abide to in order to maintain its position as an international financial center. Others had to do with the role as an advisor to the government on structural measures to be taken to revive the economy. In this respect, the Bank became the principle sparring partner of international organizations such as the Worldbank, the IMF, and the Inter-American Development Bank. In the field of supervision, the supervision on local and international commercial banks was intensified; supervision on pension funds, insurance companies, insurance brokers, savings- and credit unions, and secondary financial institutions was laid down in laws. The Bank began issuing guidelines concerning among others corporate governance, anti-money laundering, and integrity. Furthermore, the Bank made considerable progress in redesigning its monetary policy towards more market oriented instruments, increasing the flexibility for commercial banks and liberalizing the capital markets. Just recently another function has been added to the Bank's palmares, as the supervision on mutual funds has been passed on to the Bank.

As a result of the expanding activities, the number of employees increased rapidly and a new building became inevitable. Currently, the Bank employs around 170 people to perform its wide array of tasks. I am proud to say that the Bank has become less dependent on technical assistance from Holland or other parts of the world as we have been able to train our own people. At this time, the Bank is a well respected member of the international community, while a number of its staff form part of international bodies.

In concluding, in 175 years the Bank has evolved from a near dormant institution in the nineteenth century to a vibrant organization able to adapt to the ever changing financial world in the twenty-first century. This has been the result of all its employees and directors in its 175 years of existence and I am proud to be part of the Bank's long history.