

Banking History – Amsterdam & Stockholm 17C

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Amsterdam Exchange Bank (Wisselbank)

The Wisselbank was set up in 1609 to resolve the practical problems created for merchants by the circulation of multiple currencies in the United Provinces where there were 14 different mints and many quantities of foreign coins.

This Exchange Bank allowed merchants to set up accounts denominated in a standardised currency. It pioneered the system of cheques, direct debits and credit transfers that nowadays are taken for granted, leading to more and more transactions taking place without the need for the sums involved to materialise in actual coins. A merchant could therefore make a payment to another merchant simply by arranging for his account at the Bank to be debited and the other party's account to be credited by the agreed amount.

The limitation of this system was that the Exchange Bank maintained something close to a 100% ratio between its deposits and its reserves of coins and precious metals. As late as 1760 deposits were just under 19 million florins and the metallic reserve was more than 16 million florins, thus a run on the bank was virtually impossible – it had sufficient cash on hand to satisfy nearly all its depositors even if they all closed their accounts at once. Whilst this made the Bank secure it prevented it performing a credit creation, something modern banks can do.

However, during the last decade of the Republic of United Provinces in 1790 the premium on the Bank's money disappeared and by the end of that year it declared itself insolvent. The City of Amsterdam assumed control of the Bank in 1791 and the Nederlandsche Bank was established in 1814 and assumed money issue duties for the new kingdom of Netherlands while the Wisselbank entered liquidation in 1820.

Stockholm Banco

This was also known as the Bank of Palmstruck in Sweden and was the first European bank to print banknotes. It was founded in 1657 by Johan Palmstruck and began printing notes in 1661. The first notes were all signed individually by Palmstruck himself, or by his clerks. These notes were in denominations of 5, 25, 100, 1000 Copper Daler (Riksdaler). A 2nd issue in 1666 had denominations of 10, 25, 50 and 100 Silver Daler.

These banknotes were very popular because they were much easier & lighter to carry. Hitherto, a high value transaction might involve transporting the payment in coins by horse and cart!

Also, when the amount of copper in coins was reduced and old coins taken out of circulation faster than new coins were being minted, this resulted in a shortage of money, which could be solved by printing notes.

Johan Palmstruck had tried twice in 1650 to set up a bank, but succeeded in 1656 (opening in 1657) when the King, Charles X Gustav, signed 2 charters, once Palmstruck promised to pay the Crown half the Bank's profits!

The Bank took deposits for a fee (paying no interest) and the account holder was subsequently able to withdraw money as cash or write cheques the Bank would honour. It also provided loans financed by the Bank's owners which were secured against their property. It was operating in a similar way to the Amsterdam Exchange Bank.

Palmstruck introduced an innovation when he combined the two parts of the Bank's operations by

using the money deposited by account holders to finance the Bank's loans, rather than requiring capital to be provided by himself or other owners. However, problems arose because Deposits were usually short-term whilst Loans were long-term and therefore deposited money was not always available to be withdrawn by account holders. Also, when the copper content of coins was reduced the account holders demanded the return of the Copper Daler they had deposited because they were by then worth more as metal than as coins!

The invention of Banknotes eventually caused more problems than it solved. The Bank seemed able to print banknotes without limit as lending rose rapidly in 1663. Bank loans ceased to be dependent on the deposits of other account holders and towards the end of 1663 the value of Banknotes began to fall.

When people returned to the Bank to have credit notes honoured the Bank did not have enough metal to pay these requests and operations ceased completely in 1664. The Swedish Government and Parliament (Riksdag) were forced to take over. Liquidation of the Bank was completed in 1667 and Palmstruck was imprisoned, being blamed for the Bank's losses.

On Sept 17th, 1668 the Bank became the Riksens Standers Bank, operated by Parliament. It was not allowed to issue banknotes until the 18th Century. Renamed the Sveriges Riksbank, it remains the central bank of Sweden to this day.