When private shares meet public interest

Jannie Rossouw and Adèle Breytenbach look at a unique group of central banks: the eight that are privately owned.

The South African Reserve Bank (Sarb) celebrated its 90th anniversary on June 30, 2011, making it the oldest central bank in the southern hemisphere. This milestone in the history of the central bank was marked in several ways, including research on central banks with private shareholders, as the South African Reserve Bank is one of a small group of such institutions.

The research reveals that few people are aware of this group. Literature pays no specific attention to them, and virtually nothing has been published on this matter in the recent past. It is also remarkable that there is no generally accepted list of central banks with private shareholders, or published comparisons on this topic. The primary aim of this note is, therefore, to raise public awareness of this unique group of institutions and to encourage research interest into this area of central banking that has been overlooked for many years. The dynamics of the relationships between central banks and their shareholders are beyond the scope of this article, but warrant further research.

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Historically the vast majority of central banks, or banks of (banknote) issue as they were also referred to at the time, were institutions with private shareholders. This changed in 1935, when the Reserve Bank of New Zealand was nationalised. Nationalisation and government control of central banks subsequently gained momentum and all central banks (with the exception of the State Bank of Pakistan) established after World War II were established without private shareholders.

Central banks with private shareholding were reviewed extensively in literature, most recently in 1974.[1] At the time, 15 central banks had private shareholders, but the central banks of Chile, Ecuador, Pakistan, Portugal, Mexico and Venezuela were nationalised in 1975.

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The last nationalisation was the National Bank of Austria in 2010. Before nationalisation the Austrian government held 70.27% of the shares and Austrian institutions held the balance. The bank had no private individuals as shareholders at the time of its nationalisation.

Following this nationalisation, only the central banks of Belgium, Greece, Italy, Japan, South Africa, Switzerland, Turkey and the US (Federal Reserve Banks) are institutions with some form or another of private shareholders.

There is considerable divergence in terms of government shareholding, persons and entities eligible for shareholding and their dividend policies. In Greece, Italy, South Africa, Switzerland, Turkey and the US, respective governments hold no shares in these institutions. The Belgium and Japanese governments hold, by law, at least 50% of the shares in their respective central banks.

Of particular importance is the fact that private individuals cannot buy shares in all these institutions. A case in point is the Federal Reserve Banks in the US, where only member banks can buy shares. Salient features of these institutions are summarised in the table opposite.

Differences in dividends

The table shows that these central banks have large differences in their approaches to the payment of dividends. The payment of dividends is fixed by law in the case of Japan, South Africa, Switzerland and the US. In the case of Italy and Turkey legislation allows for some degree of flexibility, albeit within strict guidelines with a clear cap on the maximum dividend that can be paid. In Belgium and Greece considerable discretion in the determination of dividends is entrusted to the boards of these institutions. The financial benefits of shareholding in central banks, therefore, differ considerably between these institutions.

Central bankers have surprisingly little knowledge of the institutional structures of other central banks, as is evidenced by this review. By contrast, they have detailed insight into the ways in which central banks conduct monetary policy, as an extensive body of literature reviews and compares monetary policy conduct.

This analysis raises questions about the scope of any authority or powers of the private shareholders of central banks. Such shareholders play no role in the conduct of monetary policy, as monetary policy decisions cannot be subjected to the vested interests of this small group of stakeholders in the central bank. Central banks have to serve the best interests of all stakeholders that they serve.

The main advantage of private shareholders seems to be that they add an another layer of governance and transparency to the conduct of central banks, particularly in the six instances where the banks have annual shareholder meetings.

This paper draws on Rossouw J and Breytenbach A (2011) "Identifying Central Banks with Shareholders: A Review of Available Literature," Economic History of Developing Regions. Vol 26: Suppl 1. The views and opinions expressed in this paper do not necessarily reflect the views and opinions of the Sarb or any of the universities the authors are affiliated to. ❑

Notes

1. See De Kock, M H (1974) *Central Banking*, 4th ed. London: Staples Press. Dr Mike de Kock served as governor of the Sarb from 1945 to 1962. *Central Banking*, first published in 1939, was regarded as one of the first comprehensive text books on this topic and was translated into Spanish, Portuguese, Japanese, Hindi and Gujarati.

Central banks with private shareholdings: a comparison

	Belgium	Greece	Italy	Japan	South Africa	Switzerland	Turkey	US
Trading in shares	Yes	Yes	NA	Yes	Yes	Yes	NA	No
Official government shareholding	Yes	No	No	Yes	No	No	Yes	No
Official shareholding by banks	NA	NA	NA	No	No	NA	Yes	Yes
Shareholding by the general public	Yes	Yes	No	Yes	Yes	Yes	Yes	No
Annual meeting of shareholders	Yes	Yes	Yes	No	Yes	Yes	Yes	No
Voting limitations	No	Yes	Yes	N/A	Yes	No	Yes	N/A
Dividend payment	6% of nominal value of shares as the first dividend. A second dividend, calculated as 50% of the net proceeds after tax from the portfolio of assets which the bank holds as counterpart to its total reserves	12% of nominal value of shares as a first dividend. A supplementary second dividend is annually determined by the General Council (Board) of the bank	6% of nominal value of shares as a first dividend. 4% of nominal value of shares as a second dividend. A third "supplementary" dividend not exceeding 4% of the amount of the reserves	5% of paid-up capital	10% of issue value of shares	6% of the share capital	6% of nominal value of shares as the first dividend. A second dividend of a maximum of 6% of nominal value of shares approved annually by the General Assembly (general meeting) of the bank	6% on stock holding

Source: author research.