

IDENTIFYING CENTRAL BANKS WITH SHAREHOLDING: A REVIEW OF AVAILABLE LITERATURE¹

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ABSTRACT

This paper reviews literature on private shareholding in central banks. The literature shows that only a very small number of central banks have private shareholders and the conditions of such shareholding differ considerably between these institutions. Owing these differences, private shareholding in central banks is an area for further research.

Keywords: central banks, shareholders

JEL classification: E42, E58, N27

1. INTRODUCTION

This paper reviews literature on central banks with shareholding. This is somewhat challenging, as very little has been published on this select group of central banks. There is no published “standard” or generally accepted list of these central banks, or published comparisons.

Our review of the literature shows considerable divergence between these institutions, for instance in respect of government shareholding, persons and entities eligible for shareholding and in the dividends paid by central banks.

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Certain matters still require clarification, as confidentiality and language barriers make it difficult to obtain information for purposes of comparison. Available information shows that the structures and practices of these central banks vary considerably. It is also necessary to consider possible shareholder activism at these banks given the experience of the South African Reserve Bank in this regard.

The use of the words *central banks with shareholding* in the title of this paper might come as a surprise, as it is not generally known that a small number of central banks have shareholders. As a first comparison of central banks with shareholding, this review sets the scene for similar comparisons in future. The review also draws attention to a related issue, namely that central bankers have surprisingly little insight into or knowledge of the institutional structures of other central banks. By contrast, they have detailed insight into the various ways in which central banks conduct monetary policy. Monetary policies are usually compared without any focus on institutional structures that might influence policy implementation.

Section 2 of this review considers literature on central banks with shareholding. Section 3 examines salient features of these institutions and summarises in a comparative table some aspects of the shareholding of these central banks. It also draws attention to experiences of shareholder activism. The conclusions follow in Section 4.

2. LITERATURE REVIEW

Very little has been published on shareholding in central banks, as is evidenced by the fact that no generally accepted “list” confirming the particulars of these central banks is to be found. It is therefore necessary to compile such a list from various literature sources touching on this subject.

De Kock (1956, 319) points out that before 1936 only a small number of central banks were entirely state-owned institutions. Examples of these early state-owned institutions that are still in existence are the central banks of Bulgaria (established in 1879), Finland (1811) and Sweden (1668). Three of the central banks in existence by 1936 no longer exist. The Slovenes Bank, established in 1883 with shareholders, seemingly merged into the central bank of Yugoslavia after the Second World War. The Yugoslavian central bank as an institution no longer exists, as the independent states that were created after the demise of Yugoslavia established their own new central banks. The Russian central bank was established in 1921 as a central bank without shareholders for the USSR. The current Russian central bank was established as the Bank of Greatest Russia on 13 July 1990. The Commonwealth Bank of Australia was established in 1924 without shareholders. Its central banking functions were taken over in 1950 by the Reserve Bank of Australia.

Other than these institutions, by 1936 central banks with shareholders were to be found in Austria (established in 1816), Belgium (1850), Bolivia (1928), Canada (1934), Chile (1925), Colombia (1923), Denmark (1818), Ecuador (1927), El Salvador (1933), Estonia (1919), France (1800), Germany (at the time the Reichbank, established in 1876),⁴ Greece (1927), Haiti (at the time the Banque Nationale de la Republique d’Haiti, established in 1911),⁵ Hungary (1924), India (1935), Indonesia (at the time De Javasche Bank, established in 1828), Italy (1893), Japan (1882), Latvia (1922), Mexico (1925), Mongolia (1924), Netherlands (1814), Netherlands Antilles (at the time Curacao Bank, established in 1828), Norway (1816), Panama (1904), Peru (1922), Portugal (1846), Romania (1880), Spain (1829), Switzerland (1907), Turkey (1931), United Kingdom (Bank of England, established in 1694), and United States (Federal Reserve System, established in 1914).

De Kock (1956, 319) states that ownership structures of central banks started changing from 1936, when the Danish central bank was nationalised. The objective of nationalisation was to give the Danish government and Parliament greater insight into the affairs of the central bank. The commencement of the drive to nationalise central banks can, however, be a point of debate, as the Reserve Bank of New Zealand was nationalised in 1935 (Reserve Bank of New Zealand, 2009). Nationalisation was part of an approach of “big government” in New Zealand, when the state accepted responsibility for a wide range of functions in the economy. This nationalisation preceding the nationalisation of the Danish central bank is not covered by De Kock (1956).

Nationalisation of central banks gained momentum after the Second World War (De Kock, 1956, 319); almost all the central banks established after the War have had no shareholders since their inception (De Kock 1956, 319). De Kock (1974, 305) identified 14 central banks with some form of private shareholding in existence around 1974. Of these 14 institutions, the central banks of Greece, Italy, South Africa, Switzerland and United States had no shareholding by their respective governments. In four instances (Chile, Colombia, Ecuador and Portugal) the respective governments held a minority shareholding (De Kock 1974, 305). In five instances the respective governments held at least 50% of the share capital (Belgium, Japan, Mexico, Pakistan and Venezuela).

Although De Kock (1974, 306 and 306) alluded to the imminent nationalisation of the central bank of Colombia, the central banks of Chile, Ecuador, Portugal, Mexico and Venezuela were also nationalised around that period.

4 The Reichsbank was replaced by the Bundesbank.

5 The Banque Nationale de la Republique d’Haiti split its operations into two institutions (central banking and commercial banking) in 1979. The current name is Banque de la Republique d’Haiti.

Rossouw (2004) stated incorrectly that “[t]oday [i.e. by 2004] the Reserve Bank... [in South Africa]... the Belgium National Bank and the Swiss National Bank are the only central banks left with the public as shareholders”. That this was inaccurate transpired when Lybek and Morris (2004, 7) identified the central banks of Austria, Belgium, Greece, Italy, Japan, Pakistan, South Africa, Switzerland and the United States as institutions with shareholders.

From further enquiries it transpired that the Turkish central bank also has shareholders. The Turkish central bank must therefore be added to the list compiled by Lybek and Morris (2004).

On closer inspection it transpired that the central bank of Pakistan was nationalised as far back as 1 January 1974.⁶ This was around the same time as the nationalisation of the six central banks referred to above. No information in English could be obtained on this nationalisation.

The Austrian central bank was nationalised in June 2010 by transferring all shares not yet held by the Republic of Austria to the Government. At the time this nationalisation received very little public attention. Before nationalisation only the Austrian government, Austrian citizens or legal persons or partnerships under commercial law with their head offices in Austria and which were neither directly nor indirectly majority-owned by foreigners, were permitted to hold shares in the bank. Despite this provision, shares were held before nationalisation only by the Austrian Government (with 70.27% of the share capital) and Austrian institutions. At the time of its nationalisation the Bank had no private individuals as shareholders.

The Austrian finance minister (Mr Josef Pröll) announced the planned nationalisation of the central bank on 12 January 2010. By means of nationalisation he wanted to improve supervision over the institution. At the same time he was of the opinion that nationalisation would avoid possible conflict of interests, as the very banks supervised by the central bank also held shares in the institution and appointed its governing board (EN Publishing).

Nationalisation was approved at the annual meeting of shareholders of the Austrian central bank held on 27 May 2010. Shareholders approved the transfer of shares held by other shareholders to the Republic of Austria. Minority shareholders were paid €48.5 million for their 29.73% shareholding in the bank. This placed a value of €163.13 million on the bank’s share capital, which was substantially higher than the nominal value of €12 million (Oesterreichische Nationalbank 2009). The premium over nominal value was based on aspects such as the:

6 The authors wish to thank Mr Malherbe Rossouw for bringing this nationalisation to their attention.

- last trade in central bank shares some one or two decades ago, when one institution bought the central bank shares held by another institution at a price about ten times higher than the nominal value;
- the fact that the shareholders had to be compensated for giving up their authority to appoint members of the governing board of the central bank; and
- the very low yield currently prevailing on financial assets in Austria. The yield on government bonds were around 2.5% per annum at the time of nationalisation, whereas the bank paid a dividend of 10% per annum on the nominal value of its shares. On this valuation basis the shares would have traded at a premium to face value if traded on a secondary market.

At the time of nationalisation the reserves of the bank amounted to €4.1 billion (Oesterreichische Nationalbank 2009). This is substantially higher than the value of the shares at nationalisation and was therefore not the basis on which the payment to minority shareholders was calculated.

The only remaining central banks with shareholders are therefore those in Belgium, Greece, Italy, Japan, South Africa, Switzerland, Turkey and the United States. Salient features of these institutions are summarised in the next Section.

3. SALIENT FEATURES OF CENTRAL BANKS WITH SHAREHOLDING

Table 1 summarises salient features of central banks with shareholding.⁷ The table shows some “missing information”. Obtaining this information is problematic owing to confidentiality and language barriers. Table 1 also shows considerable differences in shareholding between central banks, despite the fact that there are only eight institutions in this group. Central bank shareholding therefore has different meanings in different jurisdictions.

Table 1 does not cover shareholder activism at any of these central banks. Other than in 1932, when a Committee of Stockholders in Cape Town managed to unseat a Board member (Meiring 1994, 10), the South African Reserve Bank had experienced very little shareholder activism before 2002. An Extraordinary General Meeting of shareholders was held in 2002 to consider the delisting of the Bank from the local securities exchange, as the Bank could no longer comply with the listings requirements.

Since delisting the shares of the Bank trade on an over-the-counter share trading facility (OTCSTF), which implies that shareholders can sell their shares, and shares are available for prospective shareholders to buy. In the decade since delisting,

7 This Table draws on various copies of the *Annual Reports* of the relevant central banks.

Table 1: Salient features of central banks with shareholders

	Belgium	Greece	Italy	Japan	South Africa	Switzerland	Turkey	United States
Trading in shares	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Official government shareholding	Yes	No	No	Yes	No	No	Yes	No
Official shareholding by banks	?	?	Yes	No	No	Yes	Yes	Yes
General shareholding	Yes	Yes	No	Yes	Yes	Yes	Yes	No
General ownership limitations (e.g. citizens)*	No	Yes	Yes	No	No	No	Yes	Yes
Annual meeting of shareholders	Yes	Yes	Yes	No	Yes	Yes	Yes	No
Voting limitations	Yes	Yes	Yes	N/A	Yes	Yes	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 four per cent 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

* Some central banks (e.g., the SA Reserve Bank) limit the number of shares that shareholders may own.

shareholder activism at the Bank increased considerably. An explanation could be that shareholder activism generally increased at all companies with the general public as shareholders. The Bank was no exception to this trend. However, another possible explanation could be that shareholder activism increased at all central banks with shareholding, implying that these institutions can draw on one-another's experiences in dealing with this challenge. This is an area for further research.

4. CONCLUSIONS

This overview identifies a number of interesting aspects related to the matter under consideration. Firstly, the Austrian National Bank was nationalised during 2010. Although this was the first nationalisation of a central bank since 1974, it has received surprisingly little public attention.

Secondly, of the small number of central banks with shareholders, an even smaller number (Belgium, Greece, Japan, South Africa, Switzerland and Turkey) allows members of the public to hold shares. Even in these instances shareholding is limited by aspects such as government shareholding, the number of shares an individual can hold, and/or limitations on voting rights.

Thirdly, these central banks have large differences in their approaches to the payment of dividends. This ranges from a fixed dividend prescribed by law to a large degree of discretion in dividend payments in the case of the Belgium central bank.

Despite the fact that shareholding in central banks means different things in different countries, surprisingly little has been published on these institutions. This is a topic for future research, which should cover aspects such as (1) “classes” of shareholding (e.g. institutions and/or individuals) in the central bank; (2) trading in the shares of the central bank; (3) limitations on shareholding; (4) reasons for the differences in dividends paid by these central banks; (5) the occurrence of shareholder activism at all central banks with shareholding and the possible lessons from the experiences of these institutions in dealing with this challenge; and (6) the identification of different “classes” of central banks with shareholders, based on the criteria above.

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