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Private Shareholding and Public Interest: An Analysis of an Eclectic Group of Central Banks[1]

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Although the title seems to be a contradictio in terminis, this paper identifies a small eclectic number of central banks with private shareholders on which little has been published. It is shown that only the central banks of Belgium, Greece, Japan, South Africa, Switzerland and Turkey allow shareholding by the general public, while the Bank of Italy and the 12 Federal Reserve Banks in the United States allow shareholding by commercial banks only.

Other than differences in shareholding, these central banks also have differences in dividend policies and governance structures, as shareholders do not enjoy the same rights in all these institutions. This is summarised in Table 1.

The research shows that central bank shareholding still has a role to play in the structures of this eclectic group of central banks, despite the trend of nationalising central banks that commenced in 1935 with the Reserve Bank of New Zealand. The research highlights a number of conclusions. Nationalisation was part of an approach of "big government" in the aftermath of the Great Depression in New Zealand, when the state accepted responsibility for a wide range of functions in the economy. The nationalisation of the National Bank of Austria in 2010 was the most-recent example of central bank nationalisation.

The Bank of Italy is an interesting example where shareholding by commercial banks provided an opportunity to assist commercial banks in financial distress. The capital of the bank was revalued in 2014 to €7,5 billion. This revaluation resulted in an improvement of the capital position of Italian banks holding shares in the central bank.

The financial beneficiaries of the revaluation were the two banks with the largest shareholding in the central bank, namely Intesa Sanpaolo and UniCredit CRD.MI, although the main beneficiaries were Banca Monte dei Paschi Siena and Banca Carige, two banks with shareholding in the central bank experiencing financial difficulties. As a result of the revaluation these latter two banks could show an increase in their asset holdings and therefore an improvement in their solvability ratios.

This research reaches a number of conclusions. First, from an investment return perspective, only the central banks of Belgium and Greece (albeit only for residents in the latter instance) can be considered a growth investment by investors.

Secondly, in the case of Italy, the shareholding in the central bank has been used as an instrument to recapitalise ailing commercial banks. This is the only such example of emergency liquidity assistance to ailing banks, but this approach can be replicated (if needed) by the 12 Federal Reserve Banks in the United States of America, as these institutions only have banks as shareholders, as is the case in Italy.

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Thirdly, a central theme that emerges from the analysis of these central banks is that their shareholders play no role in the formulation and implementation of monetary policy. Naturally this is of no consequence at the 12 Federal Reserve Banks, as monetary policy formulation is entrusted to the Board of Governors of the Federal Reserve System, rather than the Federal Reserve Banks. In the case of the other central banks with private shareholders, the implication is that shareholders are excluded from the core function of these institutions.

Lastly, the shareholding structure of these banks contributes to improved governance in the case of the central banks of Belgium, Greece, Italy, South Africa, Switzerland and Turkey. The analysis in this paper shows that shareholding in central banks delivers a various benefits and options of benefits, depending on the shareholding structure and profit policy of each institution.

Table 1 Summary of salient features of central banks with shareholders

	Belgium	Greece	Italy	Japan	South Africa	Switzerland	Turkey
Official government shareholding	Yes	No	No	Yes	No	Yes*	Yes
Official shareholding by banks	No	No	Yes	No	No	Yes	Yes
General shareholding	Yes	Yes	No	Yes	Yes	Yes	Yes
General ownership limitations (e.g., citizens)**	No	Yes	Yes	No	No	No	Yes
Annual meeting of shareholders	Yes	Yes	Yes	No	Yes	Yes	Yes
Voting limitations	Yes	Yes	Yes	N/A	Yes	Yes	Yes
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

* Cantonal governments, rather than central government

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

Sources: Rossouw, J and Breytenbach, A (2011a) Identifying central banks with shareholders: A review of available literature. Economic History of Developing Regions. Vol 26: Suppl 1; Rossouw, J and Breytenbach, A (2011b) When private shares meet public interest. Central Banking. Vol XXII:2; own research.