



# **An institutional comparison of private shareholding in the central banks of South Africa and Turkey**

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# An institutional comparison of private shareholding in the central banks of South Africa and Turkey

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## Abstract

This paper considers institutional aspects of private shareholding in the central banks of South Africa and Turkey. It is shown that only a small number of central banks other than the SA Reserve Bank (SARB) in South Africa and Türkiye Cumhuriyet Merkez Bankası (TCMB) in Turkey have any form of private shareholding. The comparison highlights considerable institutional differences between the shareholding governance structures of the SARB and the TCMB. These differences include aspects such as classes of shareholding in the case of the TCMB, the rights and powers of shareholders and majority shareholder control in the case of the TCMB. However, in both instances shareholders do not have any powers or rights pertaining to monetary policy matters.

**JEL codes:** E42, E50, E58, E59

**Key words:** central banks, private shareholders, SA Reserve Bank, Türkiye Cumhuriyet Merkez Bankası

## 1 Introduction<sup>1</sup>

This paper identifies a small number of central banks with private shareholders in one or another form and compares institutional aspects of such

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shareholding in the SA Reserve Bank (SARB) in South Africa and Türkiye Cumhuriyet Merkez Bankası (TCMB) in Turkey. Little has been published on institutional aspects of central banks with shareholders and this paper contributes to the available literature on this topic.

An Internet search reveals websites that refute the premise of the research in this paper. Certain websites claim that most central banks, including the SARB and the TCMB, are owned by the Rothschild family (see for instance Fourwinds10.com [S.a.]). This is a pure conspiracy theory that can be rejected out of hand, but from the point of view of the followers of these websites, the institutional analysis in this paper has to be factually incorrect, as it is argued that at least two central banks listed by these websites (the SARB and the TCMB) are not owned by the Rothschilds.

The rest of this paper proceeds as follows: Section 2 provides a review of literature on central banks with shareholding. Section 3 considers the role of shareholding in central banks. Section 4 compares salient features of the SARB and the TCMB. Section 5 considers policy aspects of the SARB and TCMB and Section 6 concludes.

## 2 Literature review<sup>2</sup>

Literature on the topic of central banks with shareholders is limited, with the topic attracting very little attention in recent years. Likewise, little research has been published on the matter of institutional structures of central banks, irrespective of their ownership structure. Historically central bank shareholding was covered in literature on institutional aspects of central banks. For instance, various editions of one of the first comprehensive text books<sup>3</sup> (*Central Banking*) on the topic of central banking focused considerable attention on this matter (see for instance De Kock 1939; De Kock 1956; or De Kock 1974). More recent literature on institutional aspects of central banks with private shareholding is research by Archer & Moser-Boehm (2013), Bartels et al. (2016), Lybek & Morris (2004), Rossouw, (2016), Rossouw & Breytenbach (2011a and 2011b) and Rossouw & Rossouw (2017). Two articles appeared in Italian on the topic of central banks with shareholders (Abate 2014 and Abate 2015), while Goodhart (1988) covers the institutional development of central banking.

A review of the literature shows that the shareholding in central banks with such structures differs considerably between these institutions. De Kock

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<sup>2</sup>This section draws on Rossouw & Breytenbach (2011a) and Rossouw (2016).

<sup>3</sup>This is evident, *inter alia*, from the fact that the book was translated into Spanish, Portuguese, Japanese, Hindi and Gujarati.

(1939: 298) developed a useful classification for central banks with private shareholding:

- i. All shares held by private shareholders (juristic persons and the general public)
- ii. All shares held by banks
- iii. Shares held by the government and private shareholders
- iv. Shares held by the government and banks
- v. Shares held by the government, banks and private shareholders
- vi. All shares held by banks and private shareholders

In instances where banks in a country are not specifically identified as shareholders by De Kock (1939) (i.e., ii, iv, v and vi above), exclusion does not imply a prohibition on such shareholding. It is merely an indication that banks in the relevant country are not under any obligation to hold any shares in the central bank, as opposed to the other cases where banks are identified as shareholders and are obliged to hold such shares as a prerequisite of their licencing conditions.

It is clear that central banks with private shareholding were the norm at the time of the first publication of *Central Banking* (De Kock 1939: 298). Of the central banks in existence in 1935, only those in Australia, Bulgaria, China, Costa Rica, Finland, Latvia, Russia, Sweden and Uruguay were wholly-owned by their respective governments (De Kock 1939: 298). Central banks in existence in other countries and jurisdictions at that time all had some form of private shareholding.

Bordo & Schwartz (2002: 10) explain that Goodhart held the view that central bank independence and shareholding started changing after the Great War (later known as World War I). Bordo & Schwartz (2002: 10) disagree with Goodhart and hold the view that the Great Depression triggered institutional changes in the independence and shareholding of central banks. This paper supports the view of Bordon & Schwartz (2002), as it is shown that changes to ownership structures of central banks with shareholders commenced in 1935, i.e. after the Great Depression, with the nationalisation of the Reserve Bank of New Zealand.

De Kock (1939: 324) supports the later view held by Bordo and Schwartz (2002), describing institutional change in central banking as " . . . a definite trend in the direction of greater state intervention in the ownership and administration of central banks . . . to be observed in recent changes in central

bank statutes ...". He adds that "[t]his trend towards increased State intervention ... commenced ... under the stress of the world-wide depression ... and was accentuated by the suspension of the gold standard ..." (De Kock, 1939: 325). He adds that "[i]n many cases central banks were virtually obliged to provide the financial facilities demanded by the State ..." (De Kock 1939: 325).

Rossouw & Breytenbach (2011a: S125 and 2011b: 85) identify the Reserve Bank of New Zealand as the first to be nationalised in 1935 (see also Reserve Bank of New Zealand 2009), which commenced with a newly-elected government assuming increased responsibility for a wide range of functions in the economy (Reserve Bank of New Zealand, 2009) in the aftermath of the Great Depression.

De Kock (1956) differs with the identification of the Reserve Bank of New Zealand as the first to be nationalised and states that Denmark was the first country to nationalise its central bank, namely in 1936. In this instance the aim of nationalisation was to give the Danish parliament and government greater insight into the activities and policies and activities of the central bank (De Kock 1956). These objectives could naturally have been achieved by different means by the Danish parliament and government at that time.

A debate whether nationalisation of central banks commenced in New Zealand or in Denmark is today hardly of any academic or historic importance, other than for the fact that these actions were the commencement of a new institutional trend in the history of central banking. Nationalisation in New Zealand and Denmark was subsequently followed by similar action in many other countries, as is shown by Capie et al (1994: 23). However, Capie et al (1994) does not address the matter of the first central bank to be nationalised in the aftermath of the Great Depression.

Capie et al (1994: 23) identify the nationalisation of nine central banks in the period 1935 to 1949 and show that the third central bank to be nationalised was the Bank of Canada. As was the case in New Zealand, nationalisation of the Bank of Canada was also ushered in by a new government with a quest for larger control over the economy. In this instance nationalisation was a two-phased approach, with the Canadian government taking a 51 per cent ownership in 1936 through the issuance of additional shares, with full nationalisation following in 1938 (Capie et al, 1994: 207).

Capie et al (1994: 23) also identifies the part nationalisation of the Belgium central bank. However, this is a somewhat extraordinary case in as much as the Belgium government took a 51 per cent ownership of the central bank, as was the case in Canada in 1936, but the balance is still held privately. As the central bank still has some private shareholders, it is included as such in the analysis in this paper.

At the time of publication of their research by Capie et al in 1994, there was one example of a country establishing a central bank with shareholders after the Second World War, namely Pakistan in 1949. However, as is explained below, the central bank of Pakistan was subsequently nationalised. After the publication of Capie et al in 1994, the Central Bank of the Republic of San Marino was established in 2005. In this instance 70 per cent of the shares is held by the government of San Marino, while the balance of 30 per cent is held by five commercial banks registered in San Marino. This central bank was erroneously excluded from earlier literature on the topic of central banks with shareholders by authors such as Archer & Moser-Boehm (2013), Rossouw & Breytenbach (2011a and 2011b) and Rossouw (2016).

By 1974 the number of central banks with private shareholding (meeting one of the structures alluded to above) was reduced to 27 (including the 12 Federal Reserve Banks in the United States) (De Kock, 1974: 305). At that time De Kock (1974: 306 and 306) mentioned the planned nationalisation of the central bank of Colombia, but the central banks of Chile, Ecuador, Portugal, Mexico, Pakistan and Venezuela were also nationalised in 1974 and 1975. No information in English on the nationalisation of seven central banks in 1974 and 1975, including the nationalisation of the central bank of Pakistan, could be obtained. This is an area of further research.

After the nationalisation of central banks in 1974 and 1975, further nationalisation was seen only in 2010, with the nationalisation of the National Bank of Austria. At the time of this nationalisation, the Austrian Government held 70,27 per cent of the share capital of the central bank, while Austrian banks held the balance of the issued share capital. This nationalisation therefore implied that the Austrian government bought the 29,73 per cent shareholding in the central bank. The objectives of the nationalisation were to (i) improve government supervision over the central bank and (ii) avoid possible conflict of interests, as banks supervised by the Austrian National Bank were also its shareholders and participated in the appointment of its governing board (Oesterreichische Nationalbank 2009).

Following the nationalisation of the National Bank of Austria, central banks with shareholders are to be found in Belgium, Greece, Italy, Japan, San Marino, South Africa, Switzerland and Turkey, while the 12 Federal Reserve Banks in United States also have a form of private shareholding (see for instance Archer and Moser-Boehm 2013).

The shareholder structure of the 12 Federal Reserve Banks warrants further analysis. These banks form part of the Federal Reserve System. The Federal Reserve Act (1913) provides for the Board of Governors of the Federal Reserve System as a federal government agency with, among others, oversight responsibility for the operations and activities of the 12 Federal

Reserve Banks.

The Federal Reserve Act stipulates in Section 5.1 that "[t]he capital stock of each Federal Reserve Bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal Reserve Banks owned by member banks shall not be transferred or hypothecated" (United States of America, 1913).

This legal provision for "shareholding" gives the impression of a reserve requirement placed on member banks of the relevant Federal Reserve Bank, rather than institutional shareholding in the sense of the word it is understood today. However, to the degree that it can be argued that this should be viewed as actual shareholding, the 12 Federal Reserve Banks' are grouped in the second classification (all shares held by banks) of De Kock (1939).

Current central banks with shareholders can be classified as follows in terms of the classification by De Kock (1939: 298) highlighted above (see also Rossouw, 2016 on this matter):

- All shares held by private shareholders (juristic persons and the general public, which can include banks, but with no obligation on banks to hold such shares): Greece and South Africa;
- All shares held by banks: Italy and the 12 Federal Reserve Banks;
- Shares held by the government and private shareholders (which can include banks, but with no obligation on banks to hold such shares): Belgium and Japan;
- Shares held by the government and banks: San Marino;
- Shares held by the government, banks and private shareholders: Turkey and Switzerland (cantonal governments, rather than central government); and
- All shares held by banks and private shareholders: no examples.

This literature review shows that little has been published on the eclectic group of central banks with shareholders, or the shareholder structure of such banks. However, this observation also holds true in the broader sense: the governance, administrative and institutional structures of central banks receive little attention in the literature and are hardly ever compared. To

the contrary, extensive literature is available on the policy aspects and policy decisions of central banks. This paper contributes to literature on the institutional structure of central banks, particularly those with shareholding.

### 3 The role of central bank shareholders

Archer and Moser-Boehm (2013: 7) point out that shareholders in central banks play no role in the formulation and implementation of monetary policy. Bartels et al. (2016: 2) state that "[t]he influence of private shareholders plausibly depends on institutional arrangements governing central bank decision making". They add that "[i]n some cases, private shareholders have a say in board nominations, while in others they have the right to approve the bank's financial accounts" (Bartels et al., 2016: 2). They find that "[c]entral banks with private shareholders are not more profitable, nor are they more financially cautious in the sense of holding larger reserves against losses" (Bartels et al. (2016: 3).

If shareholders in central banks play no role in monetary policy decision-making and their presence does not influence financial management of such central banks, questions have to be raised about their role in the central bank. This matter can be addressed from two perspectives: The benefits derived from shareholding by central banks and by shareholders, respectively.

The benefits for central banks receive little to no attention in the literature. Some elucidation of this matter came recently from the SARB, when it stated that (Case 88570/2014 2014) "[t]he provision of shareholding in the Reserve Bank is based on the concept of shared community representation and participation in the Bank. It is intended to enhance the independence, transparency and accountability of the Bank, in the ultimate interests of the general public of the Republic of South Africa". The SARB added that "[t]he private shareholding in the Bank is also derived from the premise that the more representative the board of the central bank is of the wider community, the more likely it is of gaining the support and acceptance of the general public" (Case 88570/2014 2014).

This matter was also elucidated in 2013 when the Bank of Italy voiced the opinion that its "... private-owned, shareholder-based governance model should be preserved ... (as this) ... ownership and governance structure has guaranteed for decades the full independence of the Bank, shielding it from political influence" (Banca D'Italia, 2013: 1). However, this remark about shareholding is somewhat qualified in as much as the Bank of Italy states that "... it is necessary to avoid possible wrong perceptions that it could be influenced by its largest shareholders (Banca D'Italia, 2013: 1)". In ad-

dition, the Bank of Italy states that it is necessary " ...to clarify that the shareholders have no economic rights over the portion of the Bank's reserves stemming from seigniorage ... " (Banca D'Italia, 2013: 2), which is derived from a public function, namely the issuance of banknotes.

These observations show that private shareholding in central banks improve governance and enhances the autonomy, transparency and accountability of the central bank, thus improving its institutional structure. Shareholding also ensures wider community involvement in the activities of the central bank. From these perspectives, central bank shareholding brings benefits to central banks.

The benefit of shareholding for the shareholders are mainly financial, namely a dividend derived from such a holding in the central bank. In this regard Bartels (2016: 7) state that " [s]ome statutes allow private shareholders to receive whatever share of profits is voted by the Board, while others limit dividends to a specified proportion of share capital".

In certain instances shareholders have additional rights, for instance the power to elect a number of board members of the central bank, or the power to appoint external auditors and determine their remuneration (Rossouw, 2016).

## **4 Comparison of the SARB and the TCMB**

### **4.1 SARB**

#### **4.1.1 Overview**

Proposals for the establishment of a central bank in South Africa dates back to 1879, when the Afrikaner Bond, a political party in the then Cape Colony (which later became part of a unified South Africa) advocated for the establishment of such an institution (D'Assonville, 1999: 203; De Kock, 1954: 3; SA Reserve Bank, 1971: 9). However, it was only in the financial turmoil in the aftermath of World War I that concrete steps were taken to ensure the establishment of a central bank in the Union of South Africa (as it was initially known after unification). A particular problem that enhanced the establishment was the need to bring order to the issuance of banknotes in South Africa.

Before the central bank was established, commercial banks in South Africa printed and issued their own banknotes (SA Reserve Bank, 1971). These notes were issued on the basis of a gold standard, i.e. banknotes could be exchanged for gold. After the war the British pound sterling depreciated against the US dollar and gold (Gelb, 1989: 54) and gold obtained in South

Africa through the conversion of banknotes at commercial banks could be sold at a premium in London (SA Reserve Bank, 1971: 10). This situation soon became untenable and commercial banks called on the South African government to intervene. Action by the South African government eventually culminated in a decision to establish a central bank, the SARB, which opened its doors for business on 30 June 1921.

By 1921 the majority of central banks had private shareholders (or stockholders as they were occasionally called), and a similar structure was introduced for the SARB. It was established with an issued share capital of R2 million<sup>4</sup>, represented by 2 million shares (called stock of the SARB until 1989, while shareholders were also called stockholders until 1989) (Union of South Africa, 1920). Although the South African Government holds no shares in the bank, it can buy shares within the legal prescriptions, which currently caps shareholding at a maximum of 10 000 shares per shareholder, should it chose to do so. Companies and private individuals may buy and hold shares in the SARB, subject to the same maximum shareholding cap per shareholder group of associates, namely 10 000 shares. There is no ownership limitation on non-residents, but a voting limitation on such shareholders is in place.

At the time of the initial offering of the shares of the SARB to the public, there was little interest to invest in the central bank. One of the reasons was that people were relatively poor after World War I and capital was scarce (De Kock, 1954: 48). To ensure the full subscription of the share capital of the SARB, the South African government decided to extend the period for capital subscription by the public. Whereas the initial intention was that the full capital of the SARB should be raised by 18 June 1921, the share capital of the SARB was only fully subscribed by 6 March 1922.

The matter of maximum shareholding per shareholder in the SARB has been the subject of periodic review. South Africa has a long history of limiting the voting power of the shareholders of the SARB. At the time of its inception, any individual shareholder in the SARB could hold and vote 20 000 shares (at a rate of 1 vote for every 50 shares) at an ordinary general meeting (OGM) of shareholders of the SARB. However, voting was (and still is) subject to the conditions that the shares had to be owned for at least six months prior to the OGM and shareholders have to be ordinarily resident inside of South Africa.

In 1944 the voting of shareholders was further curtailed with the promulgation of the SA Reserve Bank Act of 1944 (Union of South Africa 1944). The

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<sup>4</sup>Initially this was £1 million, but converted to R2 million at the time of decimalisation in 1961.

shareholding limit of 20 000 shares was reduced to 10 000 shares (again at a rate of 1 vote for every 50 shares). In this instance the arrangements came into place automatically after promulgation of the legislation. The voting rights of shareholders, however, were capped at the lower limit but they were allowed to keep their shares held in excess of 10 000 shares per shareholder in applicable circumstances. This arrangement remained in place until the amendment of the SA Reserve Bank Act in 2010 (RSA 2010), which introduced "associates" rather than individuals or juristic persons, as the basis for the limit on shareholding, as is explained below.

The shares of the SARB trade on an over-the-counter market and the price was R10,00 per share (albeit on very small volume) at the beginning of 2017. The SARB pays a maximum annual dividend, prescribed by legislation, equal to 10 per cent of the nominal value of the shares, amounting to R0,10 per share per annum. South African dividend payments are subject to dividend withholding tax of 20 per cent, implying a net dividend of 8 cents per annum. At the share price prevailing at the beginning of 2017, the annual dividend yield amounts to 0,8 per cent.

It is interesting to note that the SARB initially had a system of a first and second dividends, as is the case at the TCMB, explained below. Section 11(1) of the Currency and Banking Act of 1920 stated " ... after payment ... of a cumulative dividend at the rate of six per cent. (sic) per annum on the paid-up capital the surplus shall be allocated to reserve fund until such reserve fund is equal to twenty-five per cent. (sic) of the paid-up capital of the Bank. Thereafter until the reserve fund is equal to the paid-up capital of the Bank one half of the surplus shall be allocated to the reserve fund, one quarter to the Government and the remaining quarter, not exceeding four per cent. (sic) of the paid-up capital, to stockholders ...". The system of a first and second dividend was replaced by a unitary dividend in 1930.

#### **4.1.2 Powers and rights of shareholders**

Shareholders have the right to receive dividends as explained above, subject to the profitability and reserve levels of the SARB. However, the maximum dividend amount is prescribed by law and not subject to revision by shareholders.

In addition, shareholders have the right to attend the OGM and ask questions on matters pertaining to the activities of the SARB. On occasion of the OGM, shareholders have to approve the minutes of the previous OGM and of any special meetings of shareholders that might have been called in the preceding year. They also appoint the external auditors of the SARB and approve the remuneration of the external auditors.

The real power of shareholders of the SARB is vested in the fact that they elect five of the eleven non-executive directors of the SARB, for periods of three years at a time. However, the directors have no power over monetary policy decisions or implementation (see Section 4A of RSA, 2010), thus limiting the power of the directors to the governance of the central bank. The other six non-executive directors of the SARB and the four executive directors (the Governor and the three deputy governors) are appointed by the President of the Republic of South Africa after consultation with the Minister of Finance and the Board of the SARB.

The shareholders therefore have very limited powers and cannot influence to policy decisions or operations of the central bank.

### **4.1.3 Shareholder activism and the future of shareholding**

Shareholding activism has a long but interrupted history in the SARB. The first such occurrence was in 1932, when South Africa stayed on the gold standard after the United Kingdom stepped off it in 1931 (SA Reserve Bank 1971). There was considerable unhappiness about the continuation of the gold standard, also among shareholders of the SARB, at that time. There was a view prevailing that the maintenance of the gold standard caused undue financial hardship in South Africa.

When the three-year term of office of a sitting SARB Board member (Mr Baxter) expired in 1932, shareholders nominated Mr Parker, who advocated the abolition of the gold standard, to oppose him. Mr Parker was elected to the Board, replacing Mr Baxter who was not re-elected (Meiring 1994).

After this incident there was no shareholder activism at the central bank until around the turn of the century. Initial shareholder activism centred on pressure to increase the dividend rate of the central bank. The shareholders took a vote at an OGM to increase the dividend, but the vote had no impact as (i) dividends are prescribed by law and (ii) shareholders cannot change legislation. The objections of shareholders are akin to objections raised at the TCMB, discussed below.

This introduced a period of altercations between shareholders and the executive management of the SARB at OGMs. These arguments included further representations on the dividend policy of the SARB and debates about the fair value of SARB shares (see, e.g., Bloomberg 2008; *Mail & Guardian* 2008; SARB 2012). In the opinion of the management of the SARB at that time, the situation got somewhat out of hand and necessitated the imposition of a further curtailment on shareholding in the SARB.

During this period of altercations, certain families accumulated SARB shares. At the time the legislation was quite clear, namely that no individual

and no companies within the same holding structure could own more than 10 000 shares, except if such shares had been acquired before 1944. However, this legislation did not preclude the purchasing of shares by families who had the aim of gaining undue influence on the activities of the SARB, for instance shares bought in the names of partners and their parents, siblings and brothers and sisters. To address this undue accumulation of shares, an amendment to the legislation was introduced (RSA, 2010). This legislation introduced the principle of associates and introduced limitations on the holding and voting rights of such associates. Associates are defined as (RSA 2010):

- shareholders in the SARB who are family members (e.g. spouses, partners, brothers, sisters, parents, parents-in-law, children and siblings); and
- subsidiary companies, close corporations and trusts controlling one another or under the control of SARB shareholder(s).

In terms of this legislative amendment, associates had an opportunity to declare such association to the central bank (as opposed to the "automatic" authority to continue to hold shares in excess of 10 000 granted in 1944). On the basis of a declaration, groups of associates were granted permission to retain their shares, but with their voting rights limited to a maximum number of 10 000 shares per group of associates (again at a rate of 1 vote for every 50 shares). In instances where shareholders did not make the necessary declarations, the SARB instituted legal action against such groups of shareholders deemed associates. It is still too early to ascertain whether this legislation and subsequent legal action sufficiently addresses the problems experienced at OGMs of the SARB. However, this action shows clearly that there are limits to the action shareholders can take and that continued overstepping of such limits will result in the further curtailment of the rights of shareholders, albeit then not outright nationalisation.

Recently the principle of private shareholding in the SARB was publicly questioned. In 2016 the Congress of SA Trade Unions (Cosatu), one of South Africa's largest trade union federations, announced that it wanted to see the SARB nationalised (Fin24, 2016). One of the political parties in opposition in South Africa, the Economic Freedom Fighters (EFF) also wants the SARB to be nationalised, given its strategic role in the economy (Fin24, 2016). Cosatu and the EFF express the unsubstantiated view that private ownership of the central bank is not in the best interest of the country.

Cosatu repeated its demand for the nationalisation of the SARB early in 2017 (IOL, 2017). Given a long history of the nationalisation of central banks, it is not outrageous to consider the possibility of such a change to the institutional structure of the SARB by a future South African government. In such a case the real debate will be about a fair value for the shares of shareholders held in the central bank. The legislation of the SARB makes no provision for its nationalisation.

## 5 TCMB

### 5.1 Overview

The TCMB was established as a public company with shareholders by legislation promulgated on 11 June 1930. This aligned the TCMB to the current practice at the majority of central banks at the time, namely to establish such institutions with shareholders. The TCMB opened its doors for business on 1 January 1932. One of the objectives of the establishment of the TCMB was to ensure the stability of the Turkish currency, as was the case with the establishment of the SARB.

At the time of its establishment, Mustafa Kemal Atatürk (the founding father of modern Turkey) called on Turkish people to invest in the shares of TCMB owing to a scarcity of capital in the country at that time and a reluctance to subscribe for shares in the TCMB (Bloomberg 2016a). Turkish people heeded this call and invested in the central bank. This reminds of the difficulty to find initial investors to subscribe for the capital of the SARB.

The TCMB has an issued share capital of TL25 000. This share capital comprises 250 000 shares, each with a nominal value of TL0,10. Shareholding is limited to the Turkish government, Turkish banks, and Turkish commercial institutions, companies and private individuals. At the OGM (known as the General Assembly) of the TCMB, shareholders have one vote for every 10 shares held (see for instance Hatipoglu, 2015 in this regard).

The TCMB has four classes of shares in issue. Class A shares are held by the Turkish Treasury on behalf of the Turkish government and must represent at least 51 per cent of the share capital of the TCMB. The implication is clear: The Turkish government controls the majority shareholding in the TCMB.

Class B shares are reserved for national banks operating in Turkey, but a maximum of 15 000 Class C shares can be held by banks other than national banks, which hold Class B shares.

Class D shares can be held by Turkish commercial institutions and com-

panies, while private individuals of Turkish nationality can also hold this class of shares. Shareholding is therefore limited to Turkish citizens and entities.

The *Annual Report* of TCMB states that "[a]s of end-2015, the shares that belong to (A), (B), (C) and (D) classes were 55,12 percent, 25,74 percent, 0,02 percent and 19,12 percent, respectively" (TCMB, 2015: 11).

The TCMB has a dual dividend payment structure. It pays annually a first dividend of 6 per cent of the nominal value of its share capital to shareholders. Shareholders can also be eligible for a second dividend, not exceeding 6 per cent per annum of the nominal value of the share capital, subject to approval by the shareholders at the OGM. The maximum annual dividend to shareholders is therefore limited to 12 per cent of the nominal value of share capital. This amounts to TL0,12 per share per annum.

The shares in the Turkish central bank cannot be transferred freely between shareholders. A dividend yield for the share can therefore not be calculated. When held by individuals, TCMB shares are passed over between generations, as these shares do not trade.

## **5.2 Powers and rights of shareholders**

Shareholders have the right to dividends, as is explained above, subject to the profitability and reserve levels of the TCMB. The dividends are prescribed in legislation and comprise two components, namely a first dividend of 6 per cent of nominal value of shares and a second dividend not exceeding a maximum of a further 6 per cent of the nominal value of shares, subject to annual approval by the General Assembly (general meeting of shareholders) of the TCMB.

In addition, shareholders have the right to attend the General Assembly and ask questions on matters pertaining to the activities of the TCMB. On occasion of the General Assembly, shareholders approve the balance sheet and the income statements of the TCMB. Shareholders also have the power to release from duty any member of the Board and of the Auditing Committee. Shareholders can also increase the capital of the TCMB, amend the Articles of Association of the Bank and consider the possible liquidation of the TCMB.

However, in a comparison of the powers and rights of the shareholders at the General Assembly of the TCMB with the powers and rights of the shareholders of the SARB at an OGM, it is important to keep in mind that the government is the majority shareholder in the TCMB. No decision that does not carry the blessing of the Turkish government will therefore carry at the General Assembly of the TCMB.

### 5.3 Shareholder activism

In 2015/16 TCMB was the most-profitable public company in Turkey, with a profit of about TL17 billion (some US\$5,6 billion). However, owing to the legislation governing dividend payments, total dividends to the 6 000 private individuals who hold some 14 per cent of the share capital of the TCMB amounted to only some TL420 (about US\$140). At the General Assembly held in 2016, these shareholders expressed their anger over the low level of dividend pay-out. This is akin to the anger expressed by shareholders in the SARB when then voted for a dividend increase; a step that had no consequence.

Bloomberg (2016a) states that the descendants of the initial investors consider their dividend pay-outs inappropriately low and " . . . an insult to the families who heeded Ataturk's call for sacrifice during the depths of the Great Depression. They're demanding the state lift its dividend cap on grounds both moral and economic. The issue is so emotional that while several other central banks have private owners, Turkey's may be alone in making them weep". At the heart of the problem is the fact that the real value of the shares decreased since the initial investment and the concomitant decline in the value of real dividends.

There is also some division among shareholders on the matter of the value of the shares and the dividend received. While some see shareholding as an opportunity to participate in the oversight of the management of the central bank, others see low pay-outs as an injustice owing to the decline in the real value of the shares and of dividends (Bloomberg 2016a).

Millman (2016) is of the opinion that "[t]he battle for the recovery of the full value of these shares in the Turkish central bank will likely end up in the courts, as patriotic moral arguments . . . are unlikely to sway disaffected citizens". However, it is not quite clear what a court can rule in this instance, as the matter of the dividend rate is determined in law. As is the case with the SARB, the dividend yield of the shares of the TCMB can only be changed through a legislative amendment.

### 5.4 Summary comparison of shareholding of the SARB and the TCMB

Table 1 summarises the features of shareholding in the SARB and the TCMB. It highlights considerable differences between the shareholding of these two institutions; alluding to the fact that central banks with shareholders should not be viewed as a homogenous group of institutions.

## 6 Policy aspects of the SARB and the TCMB

An assessment of the performance of the SARB and the TCMB shows that both these central banks have price stability as their policy objective. The SARB states this objective on its website (Website of the SA Reserve Bank) as "[t]he primary purpose of the Bank is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa", while the TCMB (Website of the Türkiye Cumhuriyet Merkez Bankasi) describes it on its website as "the primary objective of the Bank is to achieve and maintain price stability".

Both countries use an inflation target as the main anchor for monetary policy. South Africa announced this policy approach in 2000 for first achievement in 2002, while Turkey follows this policy framework since 2006, although an informal target was adopted in 2002. In both instances monetary policy decisions are entrusted to the respective Monetary Policy Committees and shareholders have no role to play in this body.

In the case of South Africa, the central bank's policy objective is described in Section 224 of the country's constitution (Constitution of the Republic of South Africa, 1996) as "(t)he primary object of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic", which is embodied in an inflation target. The inflation target is set by the South African government for achievement by the SA Reserve Bank. This implies that the central bank has operational independence, but not goal independence. The South African inflation target is 3 to 6 per cent per annum, at which level it was fixed in 2002.

In the case of Turkey, the TCBM has sole authority for determining monetary and exchange rate policies. The inflation target is set jointly by the Turkish government and the TCBM. As is the case with the SARB, the central bank has operational independence, but not goal independence. The Turkish inflation target has been adjusted on a number of occasions since 2006. The target in 2006 was initially set at 5 per cent and was lowered to 4 per cent for 2007 and 2008. For 2009, 2010 and 2011, the target was respectively 7,5 per cent, 6,5 per cent and 5,5 per cent. A target of 5 per cent was adopted in 2012 and is still in place.

Since the application of the inflation target in South Africa, the average rate of inflation was 5,1 per cent, compared to an inflation target range of 3 to 6 per cent. On this basis, the SARB was therefore successful in achieving its target. Since 2006, the "average" inflation target for Turkey was 5,2 per cent, while actual inflation averaged at 8,2 per cent, thus above the inflation target. On this basis the SARB achieved greater success than the TCMB,

although the legal framework of operational independence applied in both instances.

## 7 Conclusions

This paper highlights institutional aspects of an eclectic group of central banks with private shareholders on which very little has been published. This paper also draws attention to the fact that little is published by means of comparison on the administrative, institutional and control structures of central banks. To the contrary, extensive literature has been published on the policy aspects and related decision-making of central banks. This paper contributes to the literature on central banks with shareholders.

The analysis highlights large differences in the shareholding structure of the SARB and the TCMB. It is therefore clear that general conclusions about institutional aspects pertaining to shareholding in central banks with such structures can only be drawn after a detailed analysis and comparison of each of these institutions. The differences between the SARB and the TCMB show that no general conclusions are possible.

The shareholders of the SARB and the TCMB play no role in the formulation and implementation of monetary policy, but contribute to improved governance structures. This role of the shareholders was re-emphasised recently in legal action brought by the SARB against some of its shareholders.

The experience with the nationalisation of central banks since 1935, with the most-recent nationalisation in 2010, raises the question whether more such action can follow. It is shown that there is some political pressure for the nationalisation of the SARB, although nationalisation is not supported by the current South African government.

The fairly recent nationalisation of the National Bank of Austria (the first example of central bank nationalisation in 35 years) has received scant attention in the literature. This is an area for further research. The nationalisation of a number of central banks within a relatively short period in 1974 and 1975 has also not been covered extensively in the literature and is also a topic for further research.

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<b>Table 1 Summary of salient features of the SARB and the TCMB</b>		
	<b>South Africa</b>	<b>Turkey</b>
Different classes of shares	No	Yes: Class A: Turkish government Class B: Turkish national banks Class C: Other Turkish banks Class D: Turkish commercial institutions, companies and private individuals
Official government shareholding	No	Yes
Official shareholding by banks	No	Yes
General shareholding	Yes	Yes
General ownership limitations	Shareholding limited to 10 000 shares	Shareholding limited to Turkish entities and individuals
Annual meeting of shareholders	Yes	Yes
Voting limitations	Yes	Yes
Rights and powers of shareholding	Receive dividends Attend OGM Ask questions at OGM Approve minutes of previous OGM and special shareholder meeting(s) Appoint external auditors Approve remuneration of external auditors Elect five non-executive directors	Receive dividends Attend General Assembly Ask questions at General Assembly Approve the balance sheet and the income statements of the TCMB Consider release from duty any member of the Board and of the Auditing Committee Consider increasing the capital of the TCMB Consider amending the Articles of Association of the TCMB Consider the possible liquidation of the TCMB.
Dividend payment	10% of issue value of shares	<ul style="list-style-type: none"> <li>• 6% of nominal value of shares as the first dividend</li> <li>• A second dividend of a maximum of 6% of nominal value of shares approved annually by the General Assembly of the TCMB</li> </ul>

Sources: Rossouw & Breytenbach, 2011a and 2011b; Rossouw, 2016, own research