Chapter 9: Selected aspects of management and organisational structures[138]

The Main Issues

In arriving at management and organisational practices that match public expectations about efficiency and effectiveness, central banks face a number of challenging issues:

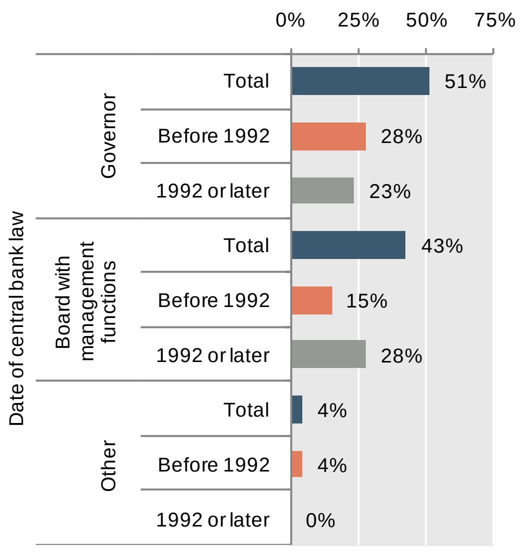
- What are the staff skills and head count necessary to handle both normal and crisis situations?
- Can management structures simultaneously match specialised functions, take advantage of appropriate information and knowledge synergies and protect against information spillover where conflicts of interest exist?
- How can the remuneration system reflect the central bank's public sector status while helping it compete with the private financial sector for staff?
- Can key performance indicators be developed that allow for quantitative management practices in an environment in which contributions to policy "bottom lines" are frequently not measurable, even with the passage of time?
- Can broad-based social representation and legitimacy be preserved while scaling back expenses related to branches or regional offices?

1. Management and organisational structures

Figure 48

Responsibility for managing the central bank, by date of central bank law

Per cent of 47 central banks



Source: BIS (2008b).

Generally the central bank is most prominent as a policy making institution, and good public policy is popularly seen as more an outcome of the wise judgment of independent individuals than of effective organisational management. Yet, like any organisation, a central bank's effectiveness depends critically on how well it is managed. The management task at a central bank is complicated by the relative absence of objective indicators of performance such as profit and return to shareholders. Yet even with their special character, central banks have gained from advances in the theory and practice of organisational management over the years. Those improvements in how central banks are organised and managed gains have usually come as part of the major reforms in central bank policy and governance undertaken over the past couple of decades.

[138] This chapter was prepared mainly by Bruce White.

Some of the organisational and management change at central banks has been driven by external factors, such as demands for greater accountability to go with greater independence. As discussed in Chapter 4, greater independence has tended to involve a move towards group-based decision-making with respect to monetary policy. As Figure 48 shows, there has also been a small shift towards group-based management. This would be consistent, given that alongside increased autonomy for making policy decisions, central banks have been given greater autonomy to manage their resources.

Figure 49

Drivers of change

Per cent of 40 central banks

Note: "Change in the role of government in the economy" was included in the questionnaire but not considered a driver of change by any of the respondents.

Source: BIS (2008b).

Another external factor has been the influence of broad-based programmes to reform public sector management against the backdrop of fiscal consolidation efforts. But much of the change in management and organisation seen in central banks during the past decade or two has been generated from within (Figure 49). Some of the change can be attributed to overall developments in management theory and practice (building effective teams, promoting better internal communication and motivating staff), while other aspects have been more tied to the particular nature of central banks as knowledge intensive policy organisations that also have significant operational functions (provision of banking services and the distribution of currency).

1.1 Some high-level patterns

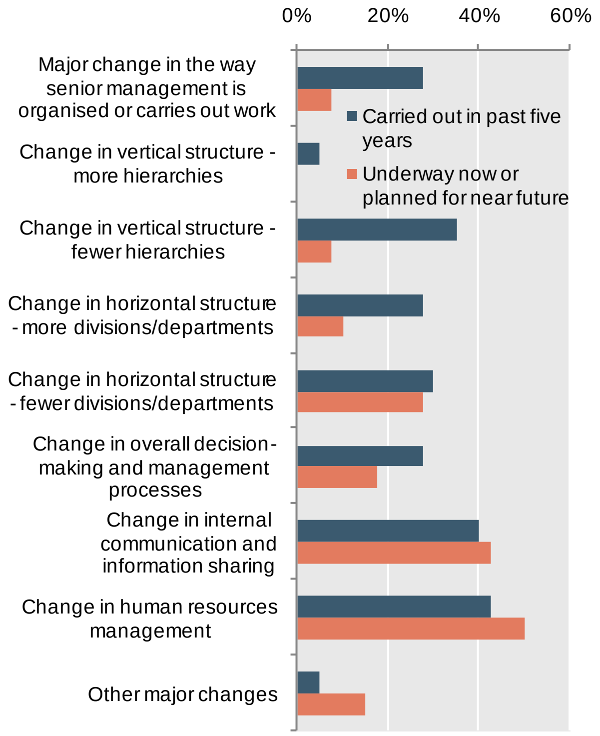
The considerable diversity among central banks in their functions, number of staff and cultural and management traditions, creates a corresponding diversity in the way they organise themselves. They exhibit some broadly common trends in the focus of their efforts at organisational change (Figure 50).

A notable development has been a trend toward "flatter" management structures, which has involved the removal of one or more layers of middle management. Central banks traditionally have tended to be highly hierarchical organisations, perhaps stemming from the need to maintain particularly high levels of quality assurance (through layered review and checking procedures). A number of influences have been at work, including the introduction of technology that has permitted the automation of manual processes (hence lessening the potential for error and the need for review and checking) and the growing emphasis on the achievement of efficiency that comes with increased accountability. The shift to flatter management structures may have helped in empowering staff and boosting their motivation by allowing them to interact more directly with senior members of policymaking committees.

Figure 50

Areas of major organisational change in central banks

Per cent of 40 central banks



Source: BIS (2008b).

Another dimension of organisational change has been towards a more horizontal management of activities. Most central banks are today organised along functional lines, typically with separate divisions for monetary and financial system policies. Such a structure tends also to reflect the different professional groupings, with the former comprising mainly macro-economists, and the latter drawing relatively more on accounting, finance, legal and microeconomic skills.[139]

But the emphasis on horizontal differentiation varies among central banks. The Bank of England, for example, organises its policy activities into two "wings", each with its own mix of staff skills and each relating to a separate policymaking committee. The monetary policy wing encompasses monetary policy and markets functions and prepares analysis and advice for the MPC. The financial stability wing encompasses the Bank's responsibilities for financial stability and banking services and prepares analysis and advice for the Financial Stability Board (to be replaced by a Financial Stability Committee under new legislation). A rationale for the functional organisation of multidisciplinary teams is that staff are better motivated when they can identify their work with a clear, relatively undistracted, functional purpose.

The Federal Reserve System provides some elements of contrast to the arrangement at the Bank of England. Although the Board of Governors also has separate divisions overseen by staff directors, there are, at least at the highest level, functional crossovers. The Federal Reserve System as a whole has perhaps more of an "activity" structure than a "functional" structure; it does not have, for instance, a separate financial stability function, division, or committee but rather weaves financial stability considerations into the work of system-wide committees (including the Federal Open Market Committee and the Payments System Policy Advisory Committee) and the

[139] Most central banks' organisational charts additionally show the various internal support functions (eg IT, human resources management, finance, premises) in another "cluster".

standing committees of Governors that manage the activities of the Federal Reserve Board.

1.2 Organisation of two non-line functions: the research and international relations functions

As noted above, many central banks are organised around monetary policy and financial stability, their two main areas of policy responsibility. However, two sub-areas of substantive activity, research and international relations, do not fit neatly within this organisational form because they span both functions. Central banks therefore face a choice of establishing separate research and international departments to serve the central bank as a whole or of duplicating the services within each area of policy responsibility.

1.2.1 Central bank research

Many central banks have a research tradition. The nature and scope of their research varies considerably, with smaller central banks and those in emerging market economies generally confined to more applied work that is needed to support policy development in the near term. To some extent the research at the smaller banks may leverage research and policy development undertaken at larger and more established central banks or at international financial organisations. At the other end of the spectrum, central banks in some of the large, advanced, economies, make a substantial contribution to macroeconomic research. The Federal Reserve System stands out in this regard, with the Board of Governors and some of the regional Reserve Banks (for example, in San Francisco, St Louis and Chicago) having especially strong research centres.

The greater attention given to efficiency and effectiveness in central banking has spread to the research function: what research is needed? And how should it be carried out – in-house, collaboratively with other organisations, commissioned from other organisations, or in agencies sponsored by the central bank? These questions are being asked against a backdrop of a wide range of research being undertaken by central banks.

Some central banks may face pressures to, in effect, play the role of a national economic research institute in countries that do not already have one (as may have been the case in Israel and South Africa). Playing that role may permit the central bank to attract the best economic talent in the country, which may enhance its reputation. However, if the central bank carries out such functions, it may lose some of its autonomy to the fiscal authorities, which have a legitimate interest in seeing how well the wider research role is performed. For those or other reasons, the research role of most central banks is not so broad, although it is not unusual for a central bank to provide analysis and commentary on wider issues affecting the performance of the economy.

For central banks that undertake significant research, a number of questions bear on the decision of where to locate the function within the organisational structure. In particular, should the research capability be kept separate from policy work, or co-located with it, including through economists being permitted, or expected, to perform a combination of policy and research work.

Each approach has advantages and disadvantages and different central banks adopt different approaches. For example, the Reserve Bank of Australia, the National Bank of Belgium, the Bank of Israel and the Netherlands Bank have within their economics division a research unit that is separate from the unit responsible for economic monitoring and policy analysis, whereas a more integrated approach is evident at the

Monetary Authority of Singapore and in the Federal Reserve System. The Bank of Mexico uses a slightly different approach in that, in addition to maintaining a Research Department, it promotes research in other departments to analyse issues such as financial stability and market functioning.

Maintaining a separate research capability helps insulate the research staff from policy work and from any broader requirement that research must have near-term policy relevance. Thus, the research unit should be separate if it is intended to conduct “blue sky” and “pure” research. Conversely, if research is intended have a reasonable prospect of near-term policy payoff, then co-location in the policy areas might be preferable. The latter option also better supports the promotion of research findings among the central bank’s policymakers and better avoids silo tendencies; it may also be the best option in small central banks, where maintaining separate policy and research units may result in neither having a critical mass of appropriately specialised staff.

Another way to facilitate the interplay between theory and practice is to bring academics into policy roles at central banks. In recent years a number of prominent academics specialising in macroeconomics have served on the MPC of the Bank of England, on the Board of Governors of the Federal Reserve System, and as Governors or Executive Board members of the central banks of Cyprus, Germany, Israel and Sweden. Indeed, academics seem to appear in senior roles in central banking perhaps more than in other areas of public policy. A possible reason is that independent central banks are shielded from the day-to-day conflicts and power struggles that characterise other areas of policy, thus making it easier to delegate the decision-making power to “technocratic experts in macroeconomic and monetary matters” (Weber (2007)).

1.2.2 International relations

With the advance of globalisation, central banks have become increasingly connected through international relationships. A 2005 BIS survey (BIS (2005c)) indicated that central banks have on average 14 international relationships, with primary responsibility within the public sector for about half of those. Many of these relationships are bilateral, but others operate through multilateral institutions, such as the BIS, and regional groupings.[140]

Organising the management of a central bank’s international relations raises some issues similar to those for the research function. Most facets of a central bank’s business involve elements of international relations, and those can be managed either centrally, by an international department, or devolved to the various business and policy units. Most central banks, including those of some comparatively closed but large economies (China, Japan, the United States), have a single international department. The need for appropriate language skills for conducting international relations may be a factor in some countries (China), while other central banks, particularly in emerging market countries, have close involvement, along with the government, in raising international capital from official, multilateral and capital market sources. Only about 20% of central banks have completely devolved their international relationships, and these predominantly are in advanced economies (for example, the Netherlands, New Zealand and the United Kingdom).

The complete devolution of international relations to individual policy and business units can create problems of coordination, such as unwanted duplication of interactions

[140] For example, CEMLA (Centro de Estudios Monetarios Latinoamericanos) and EMEAP (Executives' Meeting of East Asia-Pacific Central Banks).

with international counterparts. In central banks with such devolution, the governor's office or secretary's department typically supplies the needed coordination. The solution is a natural one, given that international relationships usually are a significant element of governors' roles.

1.3 Regional services and representation

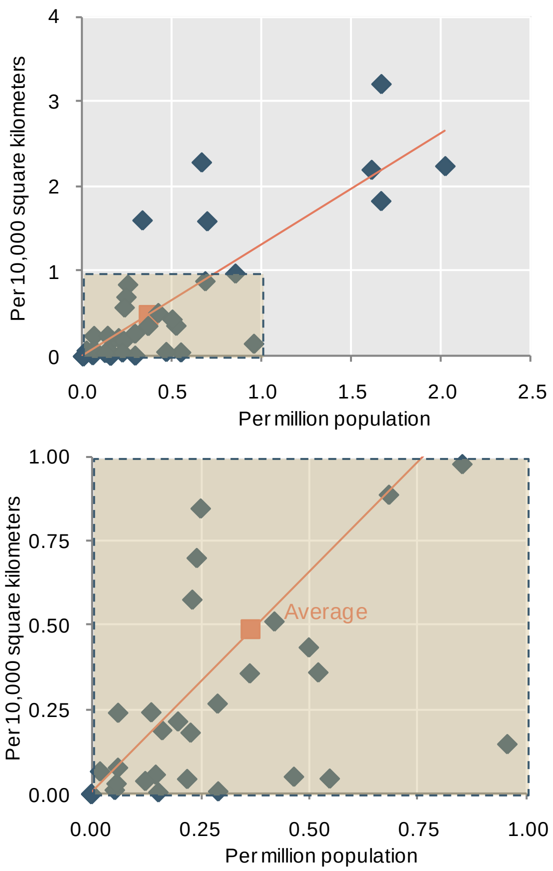
Traditionally, central banks have maintained regional offices to perform a range of administrative and operational functions and to help secure broad-based representation and legitimacy in the wider community. However, during the past decade or two, central banks with such branch networks have tended to scale back their operational aspects while still seeking to maintain or strengthen a regional presence. This section looks at the branch network trends, efforts to increase regional engagement, and the particular cases of areas with strong federal traditions, notably the euro area and the United States.

1.3.1 Branch networks

Figure 51

Number of central bank branches relative to population and surface area, 2007

Bottom chart is an excerpt of top chart



Source: BIS (2008b).

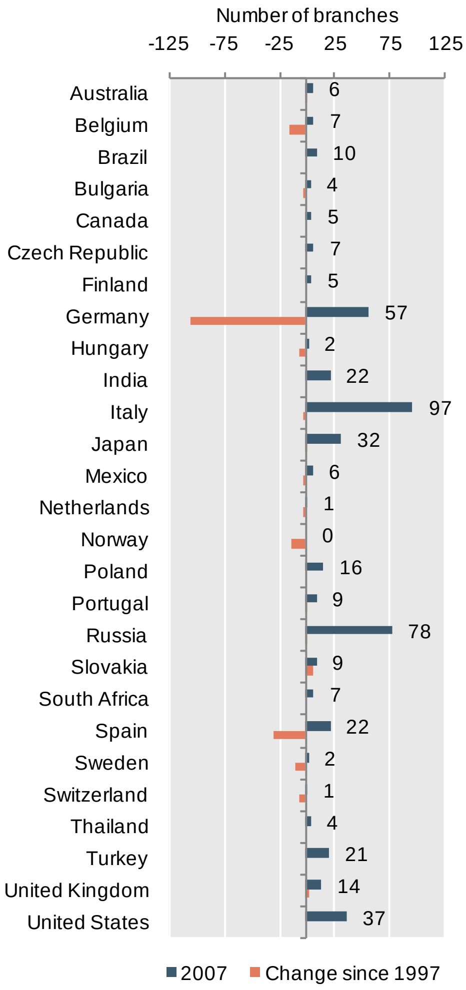
Historically, central banks have maintained regional offices as well as headquarters located in either the political or financial capital. Typically the roles of the regional offices have been to provide a local point for the issuance of currency as well as for services provided by the central bank to the government, to financial and business sectors and to the wider public. Such services may include the administration of certain regulations, eg exchange controls, provision of banking services, and administration of retail government debt issuance programmes (including for regional authorities in some countries). A number of central banks use branches to obtain localised information on economic conditions.

Branches also strengthen popular awareness of the central bank in regions distant from its headquarters office. Not surprisingly, the regional footprint of the central bank has tended to be larger in economies with large geographical areas or large populations (Figure 51).

During the last decade or so, a number of central banks have scaled back their branch networks, particularly in some of the industrialised countries (Figure 52).

Figure 52

Number of branches in 2007, and change since 1997



Note: Orange bars show difference between number of branches in 2007 and 1997 (negative number means a reduction)

Source: BIS (2008b).

A number of factors have been at work in the reduction of branch networks. Reductions in the costs of communication and travel have made meeting regional needs from centralised offices more economic at a time of increased focus on efficiency. The largest gains in efficiency in central banking have tended to be in industrial-type and administrative operations (eg processing banknotes and maintaining debt registries) rather than in policy analysis and research. With regional office functions weighted towards the former kind of activity, it follows that there has been more downsizing of regional offices than at headquarters (Figure 53).

Another factor in some countries has been a change in the system for distributing currency and taking back unfit bills, wherein commercial banks or the security firms serving them have taken a larger role. Changes of these kinds have been implemented in Canada, Mexico and Sweden, among other countries. Similarly, the Reserve Bank of Australia has replaced separate note processing units that had been located at each state branch with a central facility at its note printing facility.

1.3.2 Stepped up alternative means of regional engagement

The scaling back of regional branch facilities has not generally led to a diminution of community engagement. Many central banks have taken steps to strengthen their local presence.

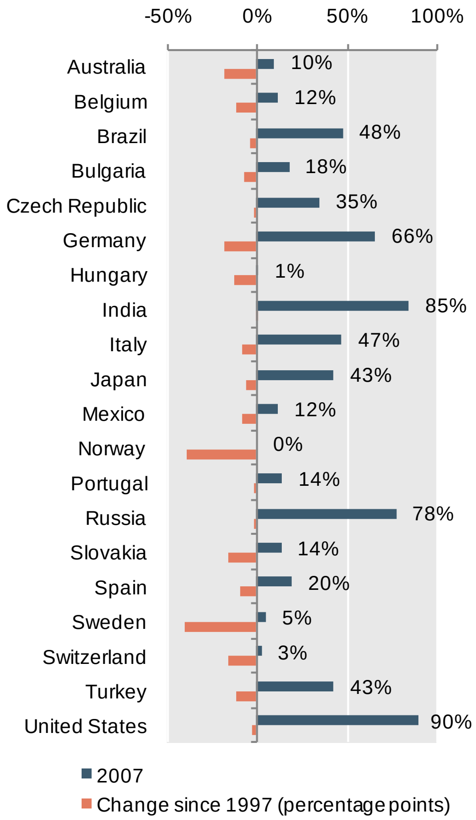
As part of their programmes to become more transparent, a number of central banks have substantially expanded their public communications programmes, with governors providing presentations and addresses, and taking questions, across a wider range of topics and audiences. This trend has been noticeable at the Bank of Canada, the Reserve Bank of New Zealand, the Sveriges Riksbank and the Bank of England.

Also, the economic intelligence gathering role that traditionally has been undertaken by regional offices has not diminished; this is evident in expanded and formalised processes for obtaining localised anecdotal information in a number of countries. For example, staff from the Reserve Bank of New Zealand visit a sample of about 40 to 60 businesses across the country during the course of the preparation of each quarterly Monetary Policy Statement (and lists the firms visited in each Statement). Similarly, the Reserve Bank of Australia had dedicated staff at the head office as well as in four small offices in state capitals to visit firms to obtain on-the-ground economic intelligence. However, with today's ease of travel and communication, it is becoming more efficient to conduct these activities from headquarters, with the possible added benefit that doing so may facilitate the integration of on-the-ground economic intelligence into the policymaking process at headquarters. The role of the Bank of England's regional agents in recent years has, if anything, been elevated, with agents providing regular reports to the MPC, as a regular and formal component of the suite of information considered at each MPC meeting.

Figure 53

Share of staff employed at branches in 2007, and change since 1997

Per cent of staff who work at branches



Source: BIS (2008b).

A third means of regional engagement for some central banks is set regional venues for some meetings of its board or some of its appearances before parliamentary committees. Additionally, as a matter of practice or law, some countries employ some degree of regional balance in the appointment of the members of their policy or governing boards (as in Germany and the United States). Although the motivation is not the representation of regional interests – board members should act in the interests of the central bank and the nation as a whole – the balancing can help ensure that relevant information from the regions is fed into the policymaking process as well as foster a perception of the broad based legitimacy of the central bank within the wider community.

1.3.3 Federal systems

In federal systems – countries where sub-national units play a strong role in the overall system of government – it is natural for the central bank to have a large regional footprint.

The United States and its central bank provide a good example of a federal system of government and a regionalised monetary authority. Each Reserve Bank is a separate institution, with its own balance sheet and board of directors, but operates under the ultimate governance authority of the Board of Governors, which, in conjunction with the Reserve Banks, formulates the policies of the System.[141]

In response to the opportunities provided by lower communication and travel costs, the Federal Reserve System has strengthened coordination across the individual Reserve Banks more than it has shifted activities to the centre. Although some "back bone" services, such as the computer and communications network, and the accounting function, have tended to become more centralised at the Board of Governors, the Reserve Banks have become specialised centres for the system as a whole. For example, automation has become an expertise of the Federal Reserve Bank of

[141] The Board of Governors appoints three members of the board of directors of each Reserve Bank, including the chair. The remaining six directors are appointed by the Reserve Bank's commercial bank shareholders.

Richmond, and policymaking on cheque clearing has been located at the Federal Reserve Bank of Atlanta. Open market operations have always been conducted by the Federal Reserve Bank of New York. Supervision is vested in the Board of Governors, and committees comprising representatives from a number of Reserve Banks oversee the activities.

In this structure, the individual regional Reserve Banks have been likened to nodes on a network, and the enhancement of backup facilities and redundancy after the terrorist attacks of 11 September 2001 further strengthened the network characteristics of the Reserve Bank system. The development of variously specialised nodes that serve the overall system reflects both the pursuit of efficiency and a commitment to the federal nature of central banking in the United States.

In a number of respects the Eurosystem can also be regarded as operating in a federal system of government, albeit with a number of important differences from the United States. One of the most important differences is that the regional structure of the Federal Reserve System does not map into political constituencies (the Districts cover multiple states), whereas that of the Eurosystem does since it consists of the supranational ECB and the central banks of sovereign nations. For this reason, some elements of the European system are more decentralised than in the case of the United States.

In the euro area, monetary policy is devised at the centre, by the Governing Council of the ECB, but is implemented by all central banks in their respective national financial systems; and banking supervision remains a national responsibility (with the ECB's role limited to an advisory and coordination role in the area of prudential supervision policy). The production and distribution of euro banknotes is also implemented by national central banks. This decentralisation, which is consistent with the subsidiarity principle embedded in the EU Treaty, means that certain tasks are carried out in parallel by all national central banks. That said, there is some movement in the direction of consolidation, notably in the production of banknotes, with certain denominations now being produced only at certain national printing facilities. Whether such a pooling of functions will be extended to other areas or evolve towards a trend to greater centralisation will only become apparent with time.

However, the pattern regarding federal systems is not entirely uniform. Australia and Canada, both geographically large, have federal government systems but their central banking arrangements are closer to those in countries with a unitary system of government, eg the United Kingdom.

2. Maintaining a corps of professional central bankers

The staffs of central banks traditionally have included a cadre of highly trained policy professionals. Especially during the last decade or two, the environment within which central banks operate has changed significantly, with major impacts on their staffing needs. The change of environment has had at least three elements. First, the focus has tightened on the performance of public institutions, including central banks. Second, a greater emphasis is now placed on market-based relative to administrative instruments, particularly in monetary policy, but also for the supervision of commercial banks. Third, the revolution in information and communication technologies has had a major effect on organisation and staffing.

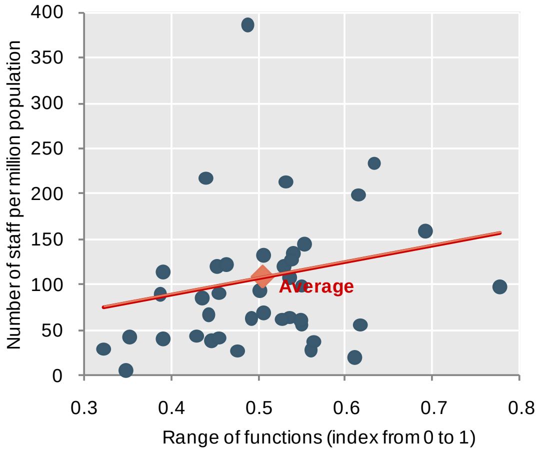
This section reviews how these developments have impacted the staffing needs of central banks and on how central banks have responded in their human resource management practices.

2.1 Staffing trends

Figure 54

Staff per million population in relation to range of functions

Per cent of 41 central banks



Source: BIS (2008b).

The numbers of staff employed ranges considerably, generally from the tens of thousands to a few hundred.[142] Thus, the size and complexity of the human resources management task varies considerably. (Figure 54 and 55, and Table 22 provide an overview of patterns of staffing of central banks across a range of countries.)

The trend in staffing levels has been downward at many, but not all, central banks. The reductions have mostly been in staff performing industrial (eg check processing) and clerical tasks. These are areas where new technologies, along with reforms to business practices, have enabled significant reductions in staff requirements.

As a result of technology related downsizing, a larger proportion of the staff of many central banks is now categorised as being professionally trained – about 60% in a 2003 BIS survey of "mid-sized" central banks (BIS (2003c)). If anything, the proportion of staff counted as professionally trained is likely to have increased in the years since.

2.2 Staff remuneration policies and practices

Achieving the right level and structure of remuneration has a major bearing on any organisation's ability to recruit, retain and motivate its staff.

Central banks generally have a large measure of autonomy in determining staff remuneration but within certain implicit or explicit constraints (Table 23). That autonomy derives from both their financial autonomy and, in most cases, from being outside of the administrative arrangements that apply to government ministries. In most central banks, staff remuneration is determined by the central bank's management (governor, executive board, or management committee) under the oversight of a supervisory board, if such a board exists. For certain categories of staff, wages and salaries are set in the context of negotiation with a staff union or association.

Constraints on remuneration take a number of forms. In some cases they are legal, but in many cases they are more subtle. Of the central banks that participated in the 2007 BIS survey (BIS (2007b)) (Table 24), those facing significant practical restrictions to determine staff remuneration most often report the following factors:

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[142] The range is wider still if one includes the outliers: the People's Bank of China, with about 110,000 employees, and the central banks of small Pacific Island states, some with well under 100 employees.

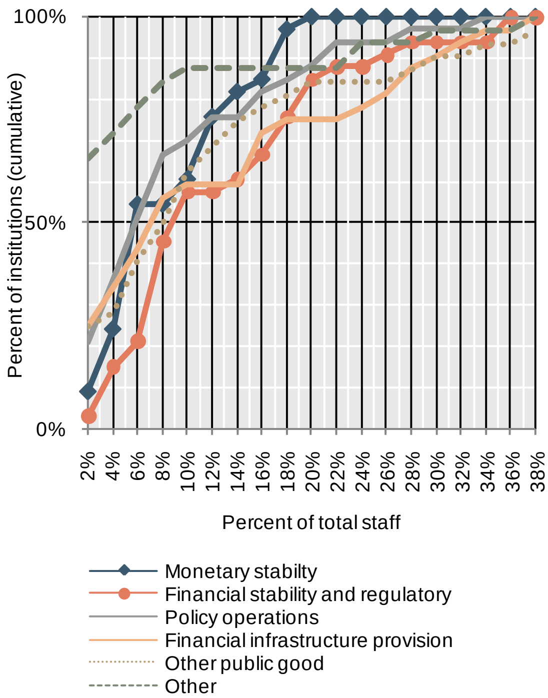
Figure 55

Breakdown of central bank staff by type of goods and services provided

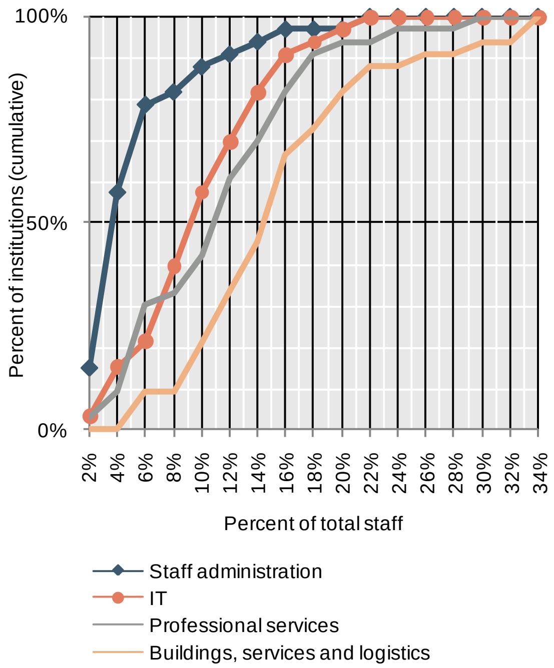
Data from 33 central banks

Share of staff providing final goods and services

Breakdown by type of final goods and services



Breakdown by type of internal services



To illustrate how these charts should be read, consider the point x = 57%, y = 50% (ie where the blue line crosses the horizontal 50%-line) in the top chart. This means that in half of the central banks in the sample, the share of staff providing final goods and services is 57% (of total staff) or less, and in the other half it is more than 57%. The blue line reaches its maximum (100%) at a value of 78% of staff, indicating that no central bank devotes more than 78% of its total staff to the delivery of final goods and services.

Source: BIS (2008b).

Table 22

Central bank staff numbers

Country or currency area	Staff numbers (headcount except where F (full-time equivalents) is indicated)				Staff per million population			
	2007	2005	2000	1995	2007	2005	2000	1995
Argentina	2,474	2,358	2,144	1,700	62.9	61.1	58.3	48.9
Australia	896	860	807	1,532	42.9	42.2	42.1	84.6
Belgium	2,262	2,344	2,672	2,918	212.6	223.0	260.4	287.7
Brazil	5,072	4,604	4,640	6,160	26.8	25.0	27.1	38.8
Bulgaria	910	932	1,291	796	119.2	120.3	161.3	95.9
Canada	1,238	1,166	1,715	2,000	37.6	36.1	56.0	68.3
Chile	603	562	590	677	36.4	34.7	38.8	47.6
Croatia	593	561	586	479	133.5	126.3	133.8	107.6
Czech Republic	1,474	1,433	1,465	1,660	143.5	140.1	143.3	160.7
Denmark	507F	516F	550	592	97.1	99.5	103.2	113.5
Euro area	47,308	50,164	51,400	53,094	149.4	161.1	175.6	–
of which ECB	1,348F	1,370F	830F	–	4.4	4.6	3.0	–
Finland	490	544	725	796	93.2	103.7	140.1	155.8
France	12,828F	13,972F	15,265	15,220	217.0	238.9	258.5	263.1
Germany	10,391F	11,502F	14,407	16,373	131.9	145.5	175.1	200.1
Hong Kong SAR	622	604	607	469	89.3	88.3	90.4	74.8
Hungary	690	809	1,316	2,318	68.6	80.1	128.7	224.2
Iceland	115F	116	105F	133F	387.0	386.7	387.0	517.7
India	21,669	22,366	31,295	33,213	19.2	20.4	30.8	36.5
Indonesia	6,108		5,955	7,685	27.2		29.0	39.4
Ireland	991	964	694	574	230.4	233.2	183.1	159.4
Israel	745	794	900	907	106.6	118.6	147.9	168.8
Italy	7,405	7,961	8,651	9,427	126.7	137.1	151.7	165.8
Japan	4,912F	5,052	5,620	6,045	40.1	39.5	44.3	48.2
Korea	2,174	2,204	2,083	3,600	44.9	45.8	44.3	79.8
Mexico	2,801	2,774	3,155	3,364	26.6	26.9	32.2	36.9
Netherlands	1,565F	1,685F	1,785F	1,485F	98.2	107.8	116.9	100.4
New Zealand	221F	218F	237F	293F	55.0	55.4	64.0	83.1
Norway	528	547	1,200	1,226	113.2	118.8	267.0	281.0
Poland	4,424F	4,627F	6,319F		121.2	126.5	171.4	
Portugal	1,687	1,702	1,832	1,771	158.8	161.1	179.4	177.6
Russian Federation	71,918	78,834			505.7	549.4		
Saudi Arabia	2,588	2,606	2,661		106.6	112.7	130.0	
Singapore	1,049		821		233.4		204.3	
Slovakia	1,075	1,169	1,304	1,187	198.7	216.2	242.0	222.0
Spain	2,720	2,705	3,092	3,281	60.5	62.3	76.3	83.6
Sweden	372F	429F	448F	755F	42.3	49.5	52.6	89.1
Switzerland	656	671	575	606	89.9	92.2	80.0	85.8
Thailand	3,881F	4,289F	4,617F	3,846F	60.9	68.7	77.2	67.5
Turkey	4,536	4,642F	5,550	6,999	61.6	64.8	83.9	115.4
United Kingdom	1,744	1,767	1,907	3,991	28.7	29.3	32.4	68.8
United States	19,930	22,056	23,056	25,465	65.9	74.3	81.7	95.6
of which Board of Governors	1,900	1,797	1,635	1,689	6.3	6.1	5.8	6.3

Source: Central bank websites and annual reports; Dexia (2009); BIS (2008b).

- *The governor's remuneration often sets a ceiling.* Given that the governor's remuneration tends to be determined externally (see below), the internal remuneration structure can – indirectly – also be determined externally. In only a few institutions are some staff members paid more than the governor (eg at the Central Bank of Brazil, the Bank of Israel and the Board of Governors of the Federal Reserve System), but this is the exception rather than the rule.
- *Public scrutiny of bank remuneration levels or changes, or concern about public reactions, are important.* In a little more than half of these cases, this factor was deemed more important in periods when monetary policy was tight.
- Tradition dictates that central bank remuneration will remain within a certain distance from remuneration at other public sector agencies.

Table 23

Determination of salaries

Per cent of 37 central banks

Salaries are …	Professional staff	Other staff
… decided by		
the executive board of the central bank	51	46
the governor	23	23
the supervisory board of the central bank	14	9
… affected by legal provisions concerning …		
the level of salaries	9	9
a ceiling for salaries	14	11
a floor for salaries	26	29
… set in labour union contract(s)		
that apply to but are not negotiated specifically with the central bank	6	6
that are negotiated between the central bank and one or more labour union(s)	37	43

Source: BIS (2007b).

Although the survey indicates that central bank autonomy extends to setting pay scales, many central banks also still report that they face major challenges in competing with the private sector for key talent. This may indicate that central banks are quite good at walking the tightrope by offering just enough to retain professionals (after the non-pecuniary benefits of working at an influential institution are taken into account – see below) while not offering too much ground for public resentment. Alternatively, there may be an element of self-restraint that prevents central banks from pushing beyond the unseen boundaries of public and political acceptability. In the end, the talent pool achieved may be sufficient for the task, even if short of the ideal. That characterisation would be consistent with the ongoing expression of concerns about competitiveness and yet limited use of the reported autonomy to pay more.

Table 24

Extent to which formal independence to set remuneration is constrained in practice

Per cent of 35 central banking entities

		Formal independence to set remuneration		
		Low	**Medium**	**High**
Usability of formal indepen-dence	Low	BR, DE, HK, EM (4, 11%)		
	Medium		CA, IT, US(NY), EM (4, 12%)	CL, IS, NO, PT, UK, MX, US(BG), EM, IC, IC (10, 29%)
	High		BE, CH (2, 6%)	AT, AU, BG, CZ, EU, FI, HU, NZ, PH, RU, SK, TR, ZA, EM, EM (15, 43%)

Note: Exceptionally, this table shows two separate entries for the United States – one for the Board of Governors (US(BG)) and one for the Federal Reserve Bank of New York (US(NY)).

Source: BIS (2007b).

2.3 Compensation for the governor and board members

The methods used to set compensation for the governor and board members typically are very different from those used to set staff salaries. The key reason is that principles of good governance dictate that individuals should not set their own salaries. Although the central bank often has considerable power in setting staff salaries, an outside body or reference point is used in most cases to set salaries at the board level. In close to half of central banks, the outside body is an oversight board, sometimes operating with government approval or consultation (Table 25). In about one fifth of cases, the government, a government appointed committee, or relevant ministers play a role in the determination of board remuneration. In a few countries, board remuneration is determined by legal provisions. However, in only one institution, the Board of Governors of the Federal Reserve System, is remuneration at such senior levels determined by relevant public sector pay scales (which in turn are set by the Congress).

In the case of part-time non-executive board members, the minister of finance or the government are involved in the determination of remuneration somewhat more often than is the case for the governor and other full-time executive board members. One central bank specifies that the remuneration for non-executive board members will amount to a certain percentage of the governor's salary. It is also worth noting that some central banks do not offer any remuneration beyond travel expenses for non-executive board members.

2.4 Remuneration criteria and determinants

The three most important considerations in determining staff salaries are competitiveness, the evolution of private sector salary levels, and the integrity of the internal salary structure. To these ends, a number of central banks have adopted rigorous and professional methods for determining appropriate remuneration comparators. That approach limits inconsistency and bias and, equally important, allows any interested party to see that the pay scales are justified by market conditions. Also, some central banks, such as the Reserve Bank of Australia, have widened their pay ranges and adopted more flexible approaches to employment, including a greater use of term employment. These changes were associated with, and in some respects made possible by, a significant increase in the overall pay scale to better align it with comparators. For staff in some of the central banks in emerging market economies, remuneration is along lines similar to those just described. For staff in others, for example, in Hong Kong SAR and Singapore, remuneration for central bank (and other public policy) professionals is designed to be competitive with salaries paid in the private sector (and for high performing professionals in Singapore, competitive with the upper ranges of the public and private sectors).

Table 25

Approaches to setting remuneration for the governor and board members

Number of central banks

33 central banks

Determinant of remuneration	Governor, other full-time executives	Part-time, non-executive
Oversight board	11	4
Oversight board with government approval or consultation	6	–
Government or government-appointed salary committee	4	3
Head of State	3	2
Ministers	2	3
General law	1	–
Parliament	2	–
Central bank law or by-laws	–	2
Internally by central bank	1	2
Public sector pay scale for senior officials	1	–
Other	2	2
Total	33	18

Source: BIS (2007b).

Central banks commonly review staff pay by taking account of individual performance, often in conjunction with a performance evaluation process. Almost 80% of surveyed central banks base periodic salary adjustments for individual staff members at least in part on performance, and those performance based pay systems are generally used across the bank and for all types of regular staff. At the relatively few central banks where adjustments in pay are made primarily according to length of service (about one fourth of cases), legal restrictions on using performance related pay, labour union contracts or the nature of public sector pay schemes applying to the central bank are probably a factor. In addition to performance based pay, the majority of central banks also use one-time bonus systems. At about two fifths of the institutions surveyed, the variable pay component generally does not exceed 10% of basic salary, but at another third it exceeds 10%.

On the whole, central banks have been able to attract and retain a high-quality professional staff. But the constraints on their ability to do so through their salary scales appear to have resulted in greater use of non-salary benefits. Such benefits can take the form of non-salary financial benefits (eg contributions to retirement saving programmes, health care benefits, subsidised housing loans) and non-financial benefits (eg the ability to pursue research interests and the opportunity to contribute directly to an aspect of public policy with a high public profile).

However, some central banks have also sought to reduce their reliance on non-salary benefits, especially subsidised housing finance, which provides less advantage to staff with low mortgage debt (which tends to be senior staff) and thereby distorts overall remuneration structures. Thus, in a 2001 BIS survey (BIS 2001)), subsidised loan finance was the most prevalent form of non-salary benefit provided by central banks, whereas the most recent survey (BIS (2007b)) revealed that subsidised access to training, sabbaticals and other career development initiatives had become the leading form of non-salary benefit.

Another facet of remuneration structures in some central banks has been the creation of special pay streams for selected categories of specialist staff, to enable the central bank to be competitive in those areas without unduly expanding total remuneration costs. Central banking offices in major financial centres can face particular challenges in retaining specialist staff. At the Federal Reserve's New York Reserve Bank, so-called retention contracts are being introduced for key personnel; otherwise known as "golden handcuffs", the contracts provide extra pay if the employee stays for the duration of the contract.

2.5 Recruitment, training and professional development

Traditionally central banks have recruited professional staff from those who have just received an advanced degree. While many, if not most, of these staff at some stage pursue careers outside of the central bank, it has been typical for a proportion to remain with the central bank for their entire career. Central banks have contributed to the process through provision of specialist central bank training (including through programmes offered by, for example, by the Swiss National Bank, the Bank of England, the Federal Reserve, and the SEACEN group of central banks). Another tradition in some central banks (eg the Bank of Japan) has been rotation of staff through a range of central bank functions with a view to building and maintaining a core group of senior staff with a wide breadth of experience.

However, diversification of the traditional career path has become increasingly evident. Elements of that diversity include increased use of term employment contracts (Australia and Canada); international recruitment (New Zealand, United Kingdom, United States); and staff movements between academia and the central bank. The number of senior central bankers with an academic background, as opposed to a background in the financial sector, has increased in the past couple of decades (see Section 2.1).

2.5.1 Term employment contracts

Central banks are staffed very predominantly by permanent career employees (meaning that their appointments are open ended, not that staff necessarily spend their whole career with the central bank). But some central banks have sought greater staffing flexibility by employing a significant proportion of professional staff on fixed-term contracts, the renewal of which depends on the central bank's needs, the employee's performance and the employee's preference. Notably, staff on fixed-term contracts represent 35% of staff at the Reserve Bank of Australia and 18% at the Bank of Canada. The approach tends to be adopted mainly for management and specialist professional positions. In the case of the Reserve Bank of Australia, the loss of tenure occasioned by the introduction of the practice was compensated with higher remuneration.

The demands for specialisation may continue to increase with advances in knowledge technologies – especially mathematical technologies such as model-based forecasting to support monetary policymaking and the modelling embedded in methodologies for determining banks' capital requirements. With increased specialisation, the demand for the career central banker, with general skills acquired through experience across a range of central banking functions, may decline. Greater specialisation may also result in cultural differences between different functions as well as between career central bankers and those who are more dedicated to their career or profession than to the central bank. Some central banks have observed, for example, that the culture found in banking supervision divisions is quite different from that in macroeconomic divisions, and that rotating staff across these two areas is not always successful.

2.5.2 International recruitment

Consistent with globalisation trends generally, central banks increasingly recruit professionals from the international marketplace, at all levels, including at senior levels. Some emerging market central banks, in particular, have filled senior positions, including executive board and deputy governor level positions, by recruiting experienced central bankers – perhaps approaching retirement age – from advanced economies.[143] However, some central banks continue to restrict high-level positions mainly to nationals.

2.6 Restrictions and codes of conducts

Central bank officials and staff are typically subject to restrictions on their behaviour to prevent actual or perceived conflicts of interest. Most central banks have some set of rules – based upon statutory provisions, bank issued codes of conduct or a combination of the two – to establish expected standards of behaviour and eliminate personal conflicts of interest (Figure 56). What constitutes a conflict of interest depends upon a mix of national customs, trends in other countries and evolving views about best practices. Devising a code of conduct entails balancing the benefits of such rules against their costs, in that too high a level of restriction may make the central bank an unattractive place of employment for desirable candidates.

The vast majority of central bank laws contain fairly detailed restrictions on the type of outside activities that *senior* central bank officials can engage in while they are working for the central bank. Results from a 2006 BIS survey (BIS (2006a)) showed that outside employment is generally prohibited for the governor and other full-time, internal members of the central bank's board, although an exception is sometimes made for teaching or similar academic engagements, which are permitted in about one third of central banks. Membership in political parties or participation in political activities is

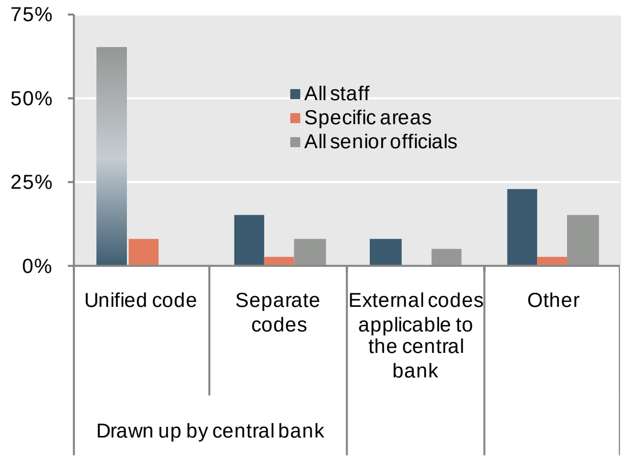
[143] Examples include the Central Bank of Bosnia and Herzegovina, the Bank of Canada, the Bank of Jamaica, the Reserve Bank of New Zealand, the South African Reserve Bank, and the Bank of England.

expressly prohibited in about one third of central bank laws. External members of policy boards face fewer restrictions on activities outside the central bank, and external members of supervisory boards (non-executive directors) face fewer still.

Figure 56

Codes of conduct for senior central bank officials and staff

Per cent of 40 central banks



Source: BIS (2008b).

Aspects of behaviour generally covered by codes on conflicts of interest include general principles of ethical behaviour, rules on the acceptance of gifts (including travel and hospitality), and restrictions on personal financial investments. About one half of central banks surveyed on the matter (BIS (2006b)) provided a specific maximum limit for gifts. Examples of such limits are CHF 500 at the Swiss National Bank for gifts received in the context of a speaking engagement, or €100 for members of the Executive Board of the ECB. Some central banks impose qualitative limits, such as permitting gifts of only "a customary or negligible amount" (Bank of Portugal). Gifts of a higher value may sometimes be retained if the recipient makes an offsetting payment to the central bank. Otherwise, gifts of a high value that cannot be declined will be retained by the central bank or passed on to charity. Regarding official travel, the typical presumption is that the central bank will pay for it, although some codes of conduct permit the organisers of events to pay for travel or accommodation subject to conditions or qualitative limits on the amounts involved.

Most central banks have rules that restrict the range or nature of the personal investments that some or all of the staff can make. These rules appear to vary considerably in terms of the persons covered, the relevant types of transactions or instruments, the periods in which they apply, and the way in which compliance is monitored. At the Bank of Spain, the members of the Governing Council and some senior officials must place in a registered blind trust all tradable securities owned by them or by their non-separated spouses and dependent children. At the Swiss National Bank, senior officials who participate in monetary policy decisions are required either to use a professional investment manager or to manage their investments passively. Furthermore, some central banks (the Reserve Bank of Australia, the Bank of Mexico and the Federal Reserve, for example) prohibit transactions around the time of monetary policy meetings. Some central banks (for instance, the Bank of Japan and the Swiss National Bank) publicly disclose the personal assets of policy officials or require copies of their tax returns.

In addition, the vast majority of central banks have policies limiting the activity of the governor and other senior officials during a period that extends from some point before to some point after their departures from the institution. Central banks with a significant or full role in banking supervision are more likely to impose post-termination restrictions than central banks with little or no supervisory responsibilities. The length of the restricted period preceding departure generally varies from one to three months, whereas the post-termination restrictions apply for one to two years. In addition, many central banks prohibit for an indefinite period the disclosure of various types of information received before departing from the central bank.

The approach taken by individual central banks for handling senior staff departures varies widely. For instance, the Swiss National Bank requires three months' notice, after which the official no longer participates in decision-making and no longer has access to sensitive information; however, once the notice period is completed and the official has left the central bank, there are no restrictions placed on future employment. In contrast, the Governor and Deputy Governor of the Bank of Spain may not engage in any professional activity linked to credit institutions or securities markets for two years after leaving the central bank. They are eligible to continue receiving from the central bank 80% of their former salary during this period, although if they choose to take up paid employment in another area, the compensation is not paid. In addition, Governors of the national central banks in the Eurosystem are bound by the code of conduct of the Governing Council of the ECB for 12 months after leaving office. This code requires that they avoid potential conflicts of interest that could arise in private or professional activities and inform the Governing Council in writing before they engage in such activities.