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Selected comments on the Research Report of the Legislative Council Secretariat and the Hong Kong Monetary Authority's Response, concerning the governance of the Hong Kong Monetary Authority

Introduction

Work on central bank governance at the BIS comprises the collection and analysis of comparative information on the functions of central banks and the design and operation of the central bank as an institution. The focus of the governance work is the institutional and organisational setting in which central banks and monetary authorities pursue monetary and financial policies, not these policies themselves.

The governance work is non-prescriptive. Its aim is to provide comparative information that demonstrates the various ways in which central banks around the world operate and are organised and governed. The information shows that there is often a range of alternative approaches that are taken successfully by central banks. It therefore would not do justice to the complexity of central banking to seek to identify a single overall set of specific best practices.

This note presents a summary of the comparative information we have available in three areas covered by the review of the governance of the Hong Kong Monetary Authority: staff numbers; the role and nature of financial autonomy of a central bank; and the ownership of the premises in which the central bank is housed.

Staff numbers

As is the case for other major public institutions, the detailed mandate of central banks differs very substantially across countries and currency areas. Clearly, a central bank that acts as the principal supervisory authority will need more staff than one that does not; a central bank serving a large population may be able to benefit from economies of scale that are not attainable in a smaller jurisdiction; and a central bank that operates in a very dynamic economy may need more resources to keep abreast of developments and to communicate its views than one that does not. It is therefore extremely difficult to compare staff numbers across central banks, and often seems preferable to assess the staff size of a central bank by qualitative means.

In undertaking such qualitative assessments it may be useful to review if the central bank has succeeded in creating a corps of professional central bankers for whom it is natural to strive for efficiency and advances in productivity. And one may look for indications whether there is a culture of flexibility and adaptation to changes in demands and in technology. Many central banks ask such questions on their own, and many benefit from being asked them in the course of being held accountable. This helps them to maintain momentum and to demonstrate their careful stewardship of public resources. In turn, this enhances their credibility, which is essential for the efficient conduct of monetary and financial stability policies.

Against this backdrop of caution, it can at times be useful to summarise staffing patterns at central banks in order to obtain very rough points of reference, which can serve as a starting point for a more detailed assessment. To meet demand from central banks for such points of reference we have computed average central bank staff numbers as a function of the size of the population the central bank serves, and of the range of functions it carries out. According to this rough empirical



relationship, an institution serving a population of about 7 million and carrying out an intermediate range of functions¹ would on average have a staff strength of about 715 persons.

Financial autonomy

It is a given that central banks are expected to steward the resources that have been given to them according to the highest possible standards. According to a survey conducted by the BIS, the way in which this is ensured most often is by holding the central bank accountable ex post, often in the form of an annual or semi-annual review of the central bank in the legislature. Central banks take such reports to the legislature very seriously (even though parliaments typically have no formal related sanctions²) because they are important in establishing and maintaining their credibility. More generally, it is very rare for a vote to be taken as part of such a review of the central bank.

By contrast, the large majority of central banks surveyed (almost four fifths) do not require the government's or the legislature's approval for their current expenditure budget. These include the central banks of Australia, Canada, Germany, Hungary, India, Israel, Malaysia, Mexico, New Zealand, Norway, Poland, Russia, Singapore, South Africa, Sweden, United Kingdom, the United States, and the European Central Bank.

Buildings

A recent informal review of arrangements at a substantial number of central banks and monetary authorities indicates that the vast majority of central banks own their principal seat of activity, and that central banks typically own the bulk of the buildings in which they operate.³ The only exception may be central banks that have just started up and rent or lease office space during a transition period, before constructing or buying their own building. A case in point is the European Central Bank, which is currently operating in rented quarters but has purchased the site for its own building, and is now in the middle of an architectural competition for its design.

On a related note, in a number of jurisdictions the central bank is authorised explicitly in the law to own real estate for its own use and operations. For example: the Bank of Finland "may own shares, other participations and real estate to the extent necessary for carrying out its tasks and organising its activities" (Section 5 of Bank of Finland Act); the Reserve Bank of India "may not become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants" (Chapter 2, Article 19 of RBI Act); and the Swedish Riksbank "may acquire properties and equipment intended for operations conducted by the Riksbank or in which it takes part" (Chapter 8, Article 4 of Riksbank Act).

¹ In a comparison of 27 central banks and monetary authorities the range of mandates and activities of the HKMA was classified as intermediate.

² Outside the normal constitutional process that is used to pass and amend laws.

³ This is the case for the central banks of, for example, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, New Zealand, Norway, Netherlands, Portugal, Russia, South Africa, Spain, Sweden, Switzerland, United Kingdom and the United States. In some cases, central banks have a surplus of buildings (often as a result of having closed regional offices) that they are in the process of selling, and in a number of cases the central bank rents or leases a limited amount of office/building space for certain specific functions (for example a branch office or off-site maintenance and backup facilities).