

Sunil Mendis: Central bank governance and how such governance is related to strategic planning in central banks

Opening remarks by Mr Sunil Mendis, Governor of the Central Bank of Sri Lanka, at the 3rd SEACEN EXCO Seminar and Meeting, Colombo, 28-29 January 2005.

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Deputy Governors and Heads of Delegations of SEACEN member and observer countries, Mr Gavin Bingham, Head of International Liaison of BIS, Dr Subarjo Joyosumarto, Executive Director of the SEACEN Centre, distinguished invitees, ladies and gentlemen.

It gives me great pleasure to inaugurate the 3rd SEACEN EXCO Meeting and Special Seminar to mark the Meeting. As a founder member of SEACEN, the Central Bank of Sri Lanka is honoured and delighted to host these two events in Colombo, Sri Lanka. On behalf of the Central Bank of Sri Lanka, I extend a warm welcome to all the delegates from the SEACEN member and observer countries, our special guests, and of course, the officials of the SEACEN Centre. The gathering of several distinguished Central Bankers today demonstrates the emphasis and importance placed by them on the need for co-operating with each other to resolve issues of mutual interest.

We host these two events just a month after the deadly 'Tsunami' hit some of our countries causing unprecedented and unimaginable destructions to the life and property. We are still recovering from this severe blow. Tsunami, indeed, brought all of us even closer. Our thoughts and prayers are with those who lost their beloved ones, property and suffered injuries. As monetary authorities in these countries, we have greater challenges before us in rebuilding our nations. I hope we could effectively face these challenges with active cooperation of all central banks in the region.

We live in an era of rapid globalisation. Enriched by vast advances in information and communication technology, the process has facilitated the free flow of trade and investments across the borders. This has also posed burgeoning management challenges to central banks in the form of how to plan for the future in a scenario of multiples of objectives and targets entrusted to them. In order to overcome these challenges, the central banks world over, are called upon to review their objectives and restructure their activities. Such review processes encompass re-examining legal frameworks, accounting practices and policies, organisational structures including the change in the composition of Boards, supervisory and human resources standards, to mention but a few of the new tasks. Having realised this need, the Central Bank of Sri Lanka recast its objectives in December 2002 into two core objectives, namely, economic and price stability and financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka. The change has enabled the Central Bank to free itself from multiple objectives for pursuing its core objectives.

The theme of this seminar is Central Bank Governance and how such governance is related to strategic planning in central banks. These issues are not a novelty in a private sector organisation. This is because private organisations operating under competitive market conditions should review the existing strategies and adopt new ones for survival and success. Central banks being organisations created and powered by statutes did not consider it necessary to adopt such strategies in their medium to long term planning. However, changes in the world and especially, the changes in the complexities in financial systems, have forced central banks to be mindful of the need for moving into strategic planning as a major management device. In this sense, the theme of the seminar is topical, opportune and timely.

As we all central bankers know, the conduct of monetary policy and attaining financial system stability are the primary tasks of a central bank. Hence, the strategic plan of a central bank should be formulated in such a way that it strategically links its goals, objectives and action plans to these primary tasks. Like any other corporate entity, the central bank also has a mission of achieving a long term objective, that is, macro economic development through maintaining price stability and ensuring the financial system stability. In this context, strategic planning plays a very important role in assisting the central banks to effectively and efficiently utilise the limited resources at their disposal to achieve such objectives and accomplish the given tasks. However, the successful implementation of strategic plan will mainly depend on the legal framework governing a central bank, which provides for its

independence, accountability and transparency. Indeed, in recent times, especially in the aftermath of Asian crisis in late 1990s, we have seen several countries amending the laws governing their central banks. Such amendments have given them greater independence in the conduct of monetary policy. The current world trends have required the central banks to be transparent and accountable. This would be attained by ensuring a greater disclosure policy on their decisions.

I have no doubt that today's Seminar will lead to a healthy discussion and exchange of views on comparative policies among SEACEN member central banks and monetary authorities in selected areas of corporate governance. The first session will cover strategic planning process for central banks, for which a background paper has been prepared in consultation with the SEACEN Centre. I hope the paper will be a useful document to initiate fruitful discussion on the issue of strategic planning for central banks. In addition, Mr Gavin Bingham, Head of International Liaison, Bank for International Settlement, will present an overview of current issues and practices relating to this topic. I am confident that the participants would contribute with their country specific experiences on Central Bank Governance and specifically on their experiences with the formulation and implementation of Strategic Plans in the respective central banks.

The second session will cover selected Central Bank Governance issues and will serve as a follow-up to the SEACEN-BIS Seminar on Central Bank Governance conducted in Langkawi, Malaysia in February 2004. The discussion will specifically focus on aspects of central bank boards as well as lessons and conclusions drawn from the February Seminar.

Ladies and Gentlemen, I have no doubt that deliberations of this Seminar will be of great benefit to all of us. I also hope your journey to Sri Lanka will give you a chance to see a little of our country and meet our people. We have arranged for you to see some places of interest in Sri Lanka.

Let me conclude by wishing you a productive Seminar and pleasant stay in Sri Lanka.

Thank you.