

Strategic Plan

2014 to the first semester of 2019



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Introduction

This document presents the guidelines of the Strategic Plan for CEMLA's activities over the next five and a half years. The main purpose of the Plan is the pursuit of an efficient way in which the Center may participate in disseminating and developing knowledge of central banks and other members in a period characterized by the search for renewed principles for conducting monetary policy. Being this a period characterized by exploration, the Plan should correspondingly have an open and flexible, participative and non-dogmatic approach. However, it should also have a solid point of reference, such as the new challenges currently faced by central banks of the region.

The above certainly poses conceptual and technical responsibilities and demands on the Center's staff, as well as the need to create a favorable environment for responding to them. With some well-defined objectives and a clear mission and vision, the guidelines set out in the Plan should allow CEMLA to make a significant contribution to the challenges faced by its membership.

1. CEMLA's Objectives

The objectives that will guide CEMLA's activities in the following years are established in the Center's Statutes (Article 4) approved at the time by its Assembly. According to said Statutes, one of the Center's objectives is to promote a **better understanding of central banking matters in Latin America and the Caribbean**, giving priority to the following areas:

- a. Monetary stability and related aspects, such as exchange rate regimes, monetary policy and liquidity management.
- b. Financial stability and related aspects, such as deposit guarantees, the role of lender of last resort, the design and operation of payment systems, and banking regulation.
- c. Regional and international co-ordination in the above areas and aspects, and in other areas such as the international financial system, debt and international reserves management, and the harmonization of banking practices and statistics.

In line with its Statutes, the Center will follow the aims set out in Article 5 to carry out the activities included in the Strategic Plan 2014-2018¹.

2. CEMLA's Mission and its Context

2.1 Mission

As underlined in the Strategic Plan 2010-2013, CEMLA's **mission**, which remains effective as it is the reason for the Center's existence, is to **support central banks in the fulfillment of their objectives**.

Achieving the mission should be, by its very nature, a dynamic project as the conditions under which central banks operate change over time. These conditions have undergone profound changes in recent years, meaning CEMLA has to reorientate its activities from those prevailing until recent years in order to fulfill its statutory objectives more in tune with the times.

¹ Article 5 of CEMLA's Statutes states:

In order to fulfill the aims referred to in article 4 above, the Center shall: (a) Coordinate the discussion and debate of topics and problems common to its Associate members. In this regard, the Center may engage in strategic studies and prepare position papers, combining in-house and external resources so as to centralize and disseminate relevant information. (b) Gather such experience as is related to its objectives and systematize the derived learning for purposes of dissemination. In this context, its tasks with regard to technical assistance and the promotion of the sharing of experiences shall be restricted to substantive issues in central banking, with care given to complementing the efforts of other international organizations. (c) Seek, within the means at its disposal, the further training of central bank officials and technical staff, as well as those of other institutions in its field of competence. The courses offered by the Center shall be focused on central banking core activities, and designed to provide specialized preparation in their partial or integrated aspects. (d) Promote, within its means, the knowledge and dissemination of those matters of interest to its Associates and Collaborating members. (e) Establish a regional information Center in monetary and financial affairs, with access restricted to Associate members, which shall include the compilation of central banking laws and regulations, and a homogeneous and standardized statistical data base. The Center may coordinate, subject to the approval of Associate members, the undertaking of research programmers which access said information. (f) Maintain relationships with national and international organizations that promote knowledge in the subject areas of interest to the Center, with a view to complementing its work and avoiding the unnecessary duplication of tasks. The Center may agree to regional training and dissemination programs with these organizations in substantive central banking topics. (g) Organize and participate in national and international meetings of a technical nature dealing with such topics as those mentioned in article 4 above. (h) In general, carry out to the extent of its capabilities, all activity leading to a better understanding of monetary, banking and fiscal issues, both domestic and external, in Latin American and Caribbean countries.

2.2 Context

The international financial crisis significantly changed several aspects of monetary policy and the context under which central banks perform their duties. This is partly due to the great amount of evidence that currently exists on the effects some countries' monetary policy decisions have on others, both when they take into account strictly domestic factors, as well as when they are to defend against externalities generated by the former. However, the nature and form of the crisis have also led many countries to review monetary policy strategies due to the large number of factors that can now define their scope and as a result of new dilemmas posed by the international and national context.

All the above could affect the objectives of monetary policy, its instruments, analytical frameworks, the information required for making decisions, its transmission mechanisms and the institutional framework under which it operates. Something similar can also occur with a large number of central bank functions, such as the smooth functioning of payment systems; timely liquidity provision and the parameters for the role of lender of last resort; international reserves management, and the relationship of these aspects with financial markets, agents and infrastructures and their regulation and supervision; the importance and functions of communicating policy decisions, etc.

In sum, the recent international financial crisis means monetary policy and central banks must now:

- i. Make their analysis and decisions more thoughtful to two types of factors:
 - a. The **international context** of monetary policy. Prior to the crisis a closed economic model tended to be implicit in monetary policy strategy, in spite of the traditional importance that the exchange rate has had in the region and had acquired recently due to the capital flows dynamic and by the effects of some countries' monetary policy decisions. From now on a country's monetary policy will probably respond more openly and clearly to such factors. More importantly, topics such as the behavior of global liquidity, the possibilities and scope of international cooperation or co-ordination of economic authorities, the interconnectivity of payment systems among countries, etc., will start to play an important role in central bank practices.
 - b. The **relationship between monetary policy and financial stability**. This relationship has been reassessed recently, motivating a strong academic effort to find the best approach for a policy strategy that includes, either directly or indirectly, implicitly or explicitly, the mutual conditionality existing

between them, which could eventually result in a reformulation of central bank mandates. In any case, variables such as the credit granting and allocation in the economies, the role of banks and other financial agents, asset prices, etc., will surely become more important in future policymaking.

- ii. Pursue **greater participation and/or coordination on supervision** issues and, most importantly, **financial regulation**, regardless of whether there is a specific mandate on matters of financial stability.

This new environment provides the working framework upon which the Center will develop its Strategic Plan 2014-2018 based on two guiding principles. On the one hand, the relevance and opportunity the Center's statutory objectives acquire, particularly that referred to in Article 4. On the other, the urgency and capacity to adjust its overall mission to the needs of the times, an aspect that is already mentioned in the referred Statutes (Article 5).

3. Antecedents: Plan 2010-2013

Thanks to the Strategic Plan 2010-2013, CEMLA recently underwent structural change that strengthened it internally, in order to carry out new tasks and move strongly and confidently towards new horizons. Analysis of said Plan and evaluation of its progress and achievements made up until 2013, lead to the conclusion that its design and adoption were positive and appropriate for the Center's operation and fulfillment of its Statutes. Some of the benefits of the strategy followed from 2010 to 2013 included: efforts to identify and implement necessary changes in each unit; overcome budgetary constraints and deficiencies, implement a management and internal control model; improve communications, IT systems and technological infrastructure, and in management as a whole; as well as the creation and setting up of a research unit. Such aspects will positively contribute to the Center's future challenges and commitments, which in fact are presented in this document as new ventures, activities and tasks to be developed in the Plan 2014-2018.

A group of projects from the 2010-2013 Plan will be maintained as part of CEMLA's activities in the coming years, given their importance for the Center's objectives. Some of these projects are:

- Post-graduate program in central banking

- Pluri-annual projects on debt sustainability (PDP and DMF). Given the role that public debt plays in financial stability considerations, it is one of CEMLA's intentions in the mid-term to incorporate debt-related issues in its research and other activities
- Digital library
- Permanent improvement of technological infrastructure

4. Vision of the Strategic Plan 2014-2018

The Strategic Plan 2014-2018 will strengthen the Center's guiding principles, objectives and functions, maintaining the current structure and alliances and moving forward from there. The appropriate fulfillment of CEMLA's statutory objectives demands the beginning of adjustments to the new conditions mentioned above, as well as to new technical, conceptual and data requirements, etc., that derive from such conditions for central banks. Besides evaluating and adapting the traditional activities of training, technical assistance, technical committees etc. to these requirements, it will be also necessary to identify products and events that did not previously exist or were not justifiable before, and that will bolster the Center's capabilities to build a more qualified and richer relationship with its membership.

In addition to maintaining the capacity to respond to the needs of central banks and other members, the activities should focus on proposing and coordinating topics for discussion and debate, proposing analytical alternatives, contributing to knowledge on the functioning of economies in the region, fostering opportunities and channels for central bank collaboration and communication, to better reflect the diversity of the membership, etc., while continuing to strengthen the traditional activities of the Center with the largest impact on said factors. For this reason, an intense research work within the strategic guidelines, together with the use of new information and communication technologies, and the development of mechanisms for knowledge sharing, will be essential.

In the same way, and as international debate on new paradigms of economic policy develop, it will be necessary to strengthen and reformulate CEMLA's relationship with its technical partners and collaborators, many of whom actively participate in such debates, in order to leverage their knowledge, assimilate it, enrich it and, as far as possible, ensure the Center also actively participates in such debates, consolidating its role as the association of the region's central banks.

All the above constitutes a more ambitious vision for the Center over the following years. This vision can be summarized as the aim to make the Center a **hub of knowledge on**

central bank and monetary policy topics, seeking to be an **Institution generating, disseminating and exchanging knowledge, information and best practices on such matters**.

The vision will be developed,

- In the context of new economic conditions posed by the international financial crisis and whose main implications were highlighted in the previous section.
- With the support of technology, key for both obtaining data structures and methodologies towards the knowledge generation, and improving communications for better and greater collaboration among the membership.
- Pursuing more efficient human resources management, including an adequate working environment for encouraging personal and professional development for Center's staff.

5. The Plan's Strategic Guidelines

Once CEMLA's mission and vision are clear, the design of the required actions demands a considerable joint effort and interesting research work within the Center that will be led by the following strategic guidelines:

5.1 Linking Research to CEMLA's Activities

Establishing a more qualified relationship between the Center and its members requires that the knowledge generated by research work permeates, above all, the different activities carried out, be they training, technical assistance and cooperation, meetings and committees on central banking topics, dissemination etc., supporting and enriching the experience and knowledge acquired.

On the outside, CEMLA's economic research work should lead to new channels and links with the membership, presence at academic events, publications, dissemination, joint projects with central bank researchers, coordinating discussion, etc.

Finally, research on current and strategic issues will reinforce the aim of adjusting CEMLA to the new monetary policy conditions, assigning a significant amount of resources to prepare studies on priority topics related to monetary policy, its relationship with financial stability in the context of international capital flows, the better understanding of transmission mechanisms, the channels between the financial and "real" sectors, the

credit dynamics, the functioning of financial markets and agents, policy simulation models, etc.

Along these lines, the Center will emphasize the following medium-term research priorities:

- a. Consequences of financial instability for monetary policy and economic performance. The impact of financial instability on resource allocation and price stability will be given particular attention as a key element motivating the introduction of financial stability considerations in the formulation of monetary policy.
- b. Conditions that explain or give rise to financial instability. This requires paying particular attention to the role of monetary policy, the behavior of financial intermediaries and the dynamics of credit. The way monetary policy may affect financial stability through its effects on asset prices, risk-taking behavior and lending decisions of intermediaries will play a central role in the analysis. The study of credit dynamics will be centered on balance sheets of commercial banks, their lending and funding strategies. This will contribute to a better understanding of credit pro-cyclicality, leverage cycles and the emergence of systemic risk.
- c. Optimal monetary policy design under financial instability considerations. The feasibility of policy rules that incorporate such considerations will be explored, as well as the role of macroprudential policies aimed at stemming systemic risk and their interaction with monetary policy. In addition to this, particular attention will be paid to the extent to which the credit cycle and prudential regulation condition the effectiveness of monetary policy. Lastly, the institutional design of monetary and financial stability policies will be analyzed, together with the indicators and tools that should accompany a financial stability mandate.
- d. International scenario for monetary and prudential regulation policies in a context of restrictions for international financial cooperation. One of CEMLA's main research objectives will be to understand and quantify the mechanisms through which cross-country financial links affect financial variables in a given country. Along these lines, the effect of international flows of capital on global liquidity and the credit cycle will be given due consideration. The same will apply to the transmission mechanisms of monetary and prudential policies and to the role of international banks in spreading risk across countries. With this in the background, the room for international financial regulation will be studied, exploring the eventual

guidelines for such a regulatory framework in the region. Finally, the work will also cover the analysis of the benefits of coordinated monetary and macroprudential policies at the regional level, the advantages of designing a centralized mechanism to follow and evaluate the financial vulnerabilities of the region, and the definition of those variables and indicators that could lend support to a regional policy response.

5.2 New Topics for CEMLA's Activities

It is essential that the Center identifies the new analytical and information requirements for monetary policy more in line with the new environment. This creates new training areas, as well as other activities that the Center can promote, as well as new arrangements for disseminating best practices and the exchange of experiences among central banks and other members (e.g. by setting up working committees, mini-networks, technical groups, etc.) on topics that are now essential for conducting monetary policy. The latter could include: developing asset prices indexes, identifying and measuring financial cycles, using forecast and expectation models, early warning indicators, identifying and monitoring financial imbalances and vulnerabilities, systemic risk and macroprudential instruments, general equilibrium models for policy analysis, etc.

It is also advantageous to promote tailor made technical assistance and cooperation programs for central banks, leveraging the experience and knowledge of the Center, as well as that of central banks themselves and multilateral bodies on new specifically central banking topics.

5.3 New Institutional Relations with CEMLA's Membership

In addition to identifying new topics for training, seminars, research, and technical assistance and meetings, CEMLA must build a more solid institutional image vis a vis its membership. This requires revising, renewing and strengthening both linkages and communication channels, so as to being able both to contribute more efficiently to the objectives of central banks as well as to better respond to their expectations.

With this purpose in mind, it is here proposed to conduct an assessment evaluation of CEMLA's activities, undertaken with the active involvement of participants in those activities, collaborating members and the Center's employees, and in particular with those at decision levels in central banks in a better position to have a clear notion of the benefit that can be derived from CEMLA's actions. This evaluation will be complemented with the overhaul of the Center's international relations office.

5.4 Applying Information and Communications Technology to Knowledge Dissemination

The adoption and use of modern information and communication technologies in CEMLA's activities is aimed at bringing about a significant change in the Center's relationship with its members in both training activities (online education or e-learning) and the dissemination of events, promoting exchange on specific topics, communication with the general public, etc.

Incorporating and developing training activities, working committees, networks and other exchange and dissemination knowledge arrangements should be one of the Center's most important projects over the next few years.

It is important to point out that progress in this type of activities requires a long and careful process of preparation, learning and testing that requires adaptability in the officials' themselves and the way they work, as well as the way the Center steers its activities to cover the needs of its membership.

5.5 Strengthening and Modernization of Information Services

CEMLA should be in a position to provide to its member central banks the means that modern technology offers to disseminate their works and documents in topics related to monetary policy, financial stability and central banking in general, in the various stages of their process. Furthermore, these same means must enable the timely publication of such works and documents, complying with international standards. This is a condition for the Center to contribute to the generation and exchange of knowledge and, thus, advance in the direction of becoming a knowledge hub in the above mentioned topics.

5.6 Management and Organizational Structure

The vision proposed for CEMLA over the following years includes improved leverage of the Center's human resources to achieve, among others aspects, new types of horizontal relationships for developing and conducting joint projects involving responsibilities from more than one administrative unit as well as closer contact with the membership. This implies designing incentives for performance and professional development, the skillful and efficient management of resources and ensuring, in a timely manner and with quality, the overall minimum conditions necessary for its proper functioning, avoiding duplicity, centralizing when necessary routine administrative tasks, refining control mechanisms, fostering an appropriate environment for fair and creative work, etc.

6. Guide for the Strategic Plan 2014-2018: Generating and Disseminating Knowledge

The direction and coordination of activities aimed at bringing to reality the vision proposed by CEMLA in the next few years is based on the idea that the Center, besides its great convening power, has a significant advantage due to the fact that its members are, given the nature of their functions and activities, a source of diverse knowledge, experiences, criteria, approaches and practices in central banking topics that can be enriched through sharing and joint work with other central banks from within and outside the region.

The best way CEMLA can currently carry out its mission of supporting its members in the fulfillment of their objectives at a time when precisely central bank theory and practice are in a process of reflection and creation, is by promoting, contributing and participating in the exchange of the widely defined knowledge, which is dispersed among the central banks.

By its very nature, CEMLA is also a hub where diversified knowledge co-exist, which must be enriched and used efficiently in order to maximize the impact of its activities on its membership.

CEMLA's vision does not assume an established world in which the Center reaches for a better position, but, on the contrary, it aims to participate in the conformation of a new context and framework for central banks and monetary policy. Therefore, the Strategic Plan is not the expression of a pre-conceived idea that can be translated from the start into measurable goals with deadlines.

Thus, the most important actions of the Plan 2014-2018 will be developed as part of an ongoing implementation process, relying on the instrumentation of projects designed, prepared and developed by teams of CEMLA officials, mostly in direct communication with the membership, according to the guidelines already defined for the Plan.

These projects, distributed according to the strategic guidelines described above, are presented in Chart 1, providing details of their nature, contribution to the Plan's objectives, the unit in charge, and their relation with central banks and other institutions. Although the list of projects does not show any direct connection between them and CEMLA's **Training and Technical Central Bank Meetings** areas, these areas have an important role within the Strategic Plan. They will both contribute, and might well be the starting point for, new products, topics, projects, technical assistance programs, etc., while their activity will show the results of most of the projects they take part in. Thus, the identification and creation

of new products, training activities and technical meetings will fully reflect the development of the Strategic Plan.

Graph 1 illustrates the central role of the **projects** in the Strategic Plan by linking:

- CEMLA's traditional and **new activities**
- According to its development by different **areas** (that can arbitrarily be classified as "technical" or "support"),
- On **topics** (widened) closely related to monetary policy, its relationship with financial stability and central banking and
- Combining the Center's human, financial and technological **resources**.

7. Following-Up of the Various Projects Comprising the Strategic Plan

To complement the Plan and, at the same time, ensuring its completion, CEMLA has elaborated a methodology to follow-up the different projects and which is presented in a separate document. Such methodology, which will be applied to each individual project, includes a brief and precise definition of its justification, objectives, phases, assumptions, deliveries, measuring indicators and participants. It will also make it possible to regularly inform the Board of Governors on the advance in the execution of the Strategic Plan.

8. The Strategic Plan and CEMLA's Resources

Some of the projects making up the Strategic Plan 2014-2018, aforementioned, imply new activities for the Center, while others change the current functioning of the organization. Part of the work to be carried out during the initial phases of the Plan's implementation consists of carefully evaluating the consistency between, on the one hand, CEMLA's human, technical and financial resources and the way it organizes itself to make use of them and, on the other, its forecasted budget for the following years.

The above is reasonable because the Center will most likely require new resources as well as an adjustment in its organizational structure and a review of its priority activities, aspects that are also included in various projects in the Strategic Plan. Above all, this Plan must have the scope and extent to guarantee it is fully and successfully developed. This can only be defined once the projects have started.

However, the results of this analysis will take time to be clearly reflected in reasonable budgetary expenditures. In the meantime, CEMLA will require sufficient budgetary

flexibility to allow the available resources can be allocated to the priorities and requirements of the Plan. Such flexibility, together with additional resources that may eventually become available, will determine the speed at which the Plan will be put into practice.

APPROVED BY THE BOARD OF GOVERNORS
IN SAO PAULO, BRAZIL ON APRIL 28, 2014