

Information Note for the LegCo Panel on Financial Affairs

Staff Remuneration of Central Banks

Introduction

At the meeting of the LegCo Panel on Financial Affairs on 2 May 2000, Members requested information on the remuneration packages of overseas central banks. This note summarises the information on this subject which is available in the public domain. It also explains why direct comparisons of these packages across countries may not be appropriate. As an alternative measure of the value for money provided by the Hong Kong Monetary Authority (HKMA), it compares the expenditure levels of different central banks against other indicators and compares the staff costs of the HKMA with those of the financial sector.

Information on overseas central banks

2 Based on the information available in the public domain of the major central banks, only four of them - the US, UK, Australia and New Zealand - disclose the remuneration of their Governors. Extracts of the relevant documents are at Annex. The Federal Reserve Banks disclose the salaries of all its regional Presidents, whereas the central banks of UK, Australia and New Zealand all disclose the overall packages of their Governors, which include certain benefits.

3 Having provided these figures, we should stress that it is very difficult and indeed inappropriate to compare remuneration across different countries. Firstly, we are talking about different markets with no mobility between them that could justify any argument of convergence between the prices across those markets. Secondly, there is a lack of information – we can only find four other central banks which disclose such information. Thirdly, the basis of the disclosed information is quite different – some cover only salaries and others include benefits. For example, US central bank staff enjoy

post-retirement benefits, including medical and life insurance coverage, which are not included in the disclosed salaries.

4 Furthermore, the characteristics of job markets in different countries vary considerably, reflecting the demand and supply of executives in the financial sector and the particular circumstances of individual markets. The cost of living also varies substantially, and it may not be too meaningful to compare only the nominal amounts. Even comparisons within a geographically diverse country are difficult for the very same reasons. For example, under the Federal Reserve System in the US, the published salaries of the Presidents of different regional Federal Reserve Banks vary and are all considerably higher than that of the Chairman of the Federal Reserve Board as reported in the press. This reinforces the point that remuneration packages reflect the particular circumstances of the market and the job, and that it is very difficult to compare across jobs in different markets, not to mention those in different countries.

5 In light of the difficulties and inappropriateness of using overseas comparators, the pay-setting mechanism of the HKMA is very much based on market trends and levels of the local financial sector. The pay packages of HKMA staff are determined by the Exchange Fund Advisory Committee (EFAC) with regard to those offered in Hong Kong's financial markets, with which the HKMA has to compete for talent. In each year's pay assessment exercise, annual pay level and pay trend surveys of the local financial sector are conducted in its deliberations on annual pay adjustments (if any). EFAC takes into account both the outcome of these surveys and the performance of the HKMA.

Alternative means of comparing expenditure level of central banks

6 In view of Members' interest in comparing the HKMA with other central banks, we have compiled other indicators which may provide a better assessment of the expenditure level of central banks across different jurisdictions. These include:

- (a) staff cost as a percentage of total operating expenses, reflecting the staff remuneration component of the overall budget;

- (b) operating expenses as a percentage of the size of the financial market as measured by the amount of total bank assets, reflecting supervisory efficiency; and
- (c) operating expenses as a percentage of the size of reserves as measured by the size of the central bank's balance sheet, reflecting asset management efficiency.

7 Drawing from information made available by other central banks, Table 1 below sets out the comparisons between the HKMA and the ranges among 16 major central banks (including the HKMA) using these indicators. It shows that the expenditure level of the HKMA, in terms of the above indicators, is at the lower end of the spectrum.

<u>Table 1 : Alternative Means of Comparing Expenditure Levels of Central Banks: the HKMA's performance compared against a range of 16 major central banks.</u>		
	<u>HKMA</u>	<u>Range among 16 central banks (including the HKMA)</u>
(A) <u>Staff Costs</u> as a Percentage of <u>Operating Expenses</u>	61.3%	46% – 81.4%
(B) <u>Operating Expenses</u> as a Percentage of <u>Total Bank Assets</u>	0.010%	0.006% – 0.085%
(C) <u>Operating Expenses</u> as a Percentage of <u>Total Assets</u> of the Balance Sheet of the Central Bank	0.07%	0.07% – 1.69%

8 There is however an important caveat in interpreting these indicators. Functions of different central banks vary considerably: for example, some regulate more sectors than others; some do not manage reserves; and the supervisory approach differ from one central bank to another. These numbers should therefore be read with extreme care, and should at best be used only as a rough proxy comparator of the expenditure levels of different central banks rather than as any definitive ranking of efficiency.

Comparisons with the local financial sector

9 An alternative way of assessing whether the staff cost of the HKMA is reasonable is to compare its efficiency with financial institutions performing similar functions. One good example is the management of reserves. The market rate currently charged by fund managers varies from 15 – 25 basis points of the amount of assets under management for large fixed income portfolios to 30 – 50 basis points for large equities portfolios. In our role as the fund manager for Hong Kong's reserves, our total staff cost comprises only 7 basis points of the portion of the reserves internally managed by the HKMA. This is substantially lower than the market rate charged by fund managers. It does not, of course, take into account the fact that the HKMA performs, within that total staff cost level, a wide variety of other functions – such as banking regulation and monetary management – that are not carried out by typical fund managers.

Hong Kong Monetary Authority
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