



STRATEGIC GUIDELINES

2011 - 2013



Banco de Portugal

EUROSYSTEM

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MESSAGE BY THE GOVERNOR

Over the last decade, Banco de Portugal has faced important challenges arising chiefly from its participation in the developments of Stage Three of Economic and Monetary Union and in the consolidation of the functioning of the Eurosystem. Steps taken towards the creation of the Monetary Union have represented for Banco de Portugal an in-depth change in the context underlying its objectives and business strategy, with a bearing on how all the Bank's staff think and act.

Intervention by Banco de Portugal in this new context of activity has been successful. This Institution has made a decisive contribution, on the one hand, to the purpose of Portugal integrating the group of euro founder members and, on the other hand, to the successful implementation of the single monetary policy, with all the resulting advantages for domestic economic agents.

The performance of euro area central banks in the last decade focused chiefly on the pursuit of the Eurosystem's central mission: price stability, an important objective to confirm a culture of economic stability and to promote European integration. However, the international financial crisis, which started in August 2007 and turned out to be the most serious crisis over the past 75 years, has substantially changed the traditional paradigm of central bank performance. In effect, this crisis has shown that a successful policy of price stability, the primary objective of central banks, while

being crucial to create sustainable conditions of economic growth, may not ensure financial stability, per se. It has also shown that a situation of financial instability may lead to serious macroeconomic imbalances, wherefore financial stability must also be a central bank objective.

In view of this new paradigm, central banks must increasingly promote the necessary conditions to trigger a sustainable development process, simultaneously based on price stability and financial stability. Nevertheless, these conditions are necessary but not sufficient, given that their impact on this development process depends on other economic policies, specifically the fiscal and structural policies, and their consistent articulation with monetary and financial stability policies.

After an in-depth analysis of the causes behind the financial crisis and the most problematic situations observed in Portugal, the key priority shall be, in tandem with international trends, to implement the measures required for a more effective performance of Banco de Portugal in the field of financial supervision, in line with the best practices and known experiences, properly articulating micro and macroprudential supervision, with the ultimate goal of ensuring the stability of the national financial system.

In this vein, in the years ahead, the Bank shall enhance its powers and improve the effectiveness of its organisation and available instruments within the scope of regulation and supervision of the financial system, assuming a more hands on and

assertive action strategy as regards each institution integrating the national system. The ongoing supervision of financial institutions shall be stepped up, by extending this process to the major institutions in the national system, with the purpose of obtaining more direct and in-depth knowledge of the supervised institution and the respective risk profile. This ongoing close supervision will examine the nature of the different business lines and the risk of the financial products, as well as processes of identification, evaluation and management of the different types of risk (in particular, credit, market, liquidity, interest rate, foreign exchange and operational risks) and the actual model of organisation and governance of supervised institutions.

Also important is the increase in analytical capacity and economic research in the financial stability area, in the domestic and European context, allowing for a more sharp identification and early prevention of the systemic risks that may affect the resilience of the financial system as a whole.

In addition to ensuring the stability of the financial system, Banco de Portugal also guarantees the effectiveness of the payment systems. This an important component of the transition costs borne by the economic agents, particularly relevant in an open economy like the Portuguese economy. In effect, a modern economy cannot function without electronic payment systems. This is a domain where Portugal is recognised to be at the forefront. Today, Banco de Portugal and the institutions participating in the different Portuguese payment systems are faced with several challenges that deserve special attention, with stress on the need to implement the SEPA - Single Euro

Payments Area at national level. This is expected to occur effectively and smoothly, maintaining high service quality for payment systems users.

In the context of its participation in the Eurosystem and the European System of Central Banks (ESCB), Banco de Portugal will continue to enhance its contribution to the primary objective of Economic and Monetary Union: the maintenance of price stability in the euro area. This objective will be achieved through steady improvement of the analysis and economic advice within a particularly complex context, qualified participation of the Bank in the monetary policy decision-making process of the Governing Council of the European Central Bank (ECB), and competent and committed performance of the decentralised tasks entrusted to it in fields such as: implementation of monetary policy, management of the official foreign reserves and gold, payment systems, currency issuance and compilation of statistics.

Recent years have also shown that central banks themselves are not excluded from intense public scrutiny, in the exercise of their tasks. The society, in general, and certain specific groups in particular, are especially alert to Banco de Portugal's performance, mainly the exercise of its powers, decisions taken and the life of the institution in general. For these reasons, it is important at this time to reflect on how best to communicate with the public (both in anticipation and in response) and on the relationship established by the Bank, on all fronts, with its stakeholders, continuing to strengthen its credibility and image, following the trend observed in equivalent institutions and, in general, in large and modern organisations.

Internally, the key priorities of the Bank are the promotion of an efficient and rational management of the Bank's resources, and the professional improvement and motivation of its staff. The Bank will further develop a participative management model, based on the good corporate practices specific of a central bank, fostering the involvement and active participation of all staff. Coordination should be incremented among the different Departments of the Bank, based on an interlinking among competencies, promoting the quality, efficiency and speed of internal decision processes, against a background of maximum satisfaction of domestic customers and cost savings.

The Bank shall also pursue and further develop the works undertaken in terms of operational and compliance risk management, defining global policies and ensuring their implementation at department level, with the necessary general monitoring through an appropriate entity.

As regards human resource management, the Bank shall develop policies promoting the performance of its staff in the different fields of activity, especially within the Eurosystem, also creating opportunities for their internal valuation and ongoing qualification. Special attention must be paid to measures increasing investment in staff qualification geared to meeting the Bank's specific needs, encouraging internal mobility policies and career planning, generating favourable conditions for increasing know-how and developing skills, simultaneously stimulating the capacity to act, efficiency and institutional cohesion.

Another aspect to be closely monitored is related to estimate-based staff management, as a result of the significant number of employees that may leave the Bank in forthcoming years. This situation, in addition to creating greater pressure in terms of staff renovation, requires the need to ensure timely and suitable replacement of staff holding management and key positions, by establishing appropriate succession and career plans.

Also important is the definition and implementation of an internal pro-active communication strategy, promoting know-how and information sharing on the achievements and internal experiences in the Bank, thereby strengthening the culture, values and sentiment of belonging to the Institution. Another area under focus is related to the development of sustainability and social responsibility policies, involving the whole staff, confirming the contribution and image of the Bank as entity that shows concerns and develops work in this field, in line with its accountability level and relevance in society.

The benchmark for the implementation of the Strategic Guidelines in forthcoming years (2011 to 2013) laid down in the present document will be the Broad Strategic Guidelines listed below.

These Broad Strategic Guidelines reflect the reality and the specific objectives to be pursued by Banco de Portugal in the next three-year period, and are closely linked to compliance with **the Mission statement, Strategic intents and Organisational**

principles of the Eurosystem¹, which reflect the strategy and the overall scope of action of member national central banks as a whole.

A handwritten signature in black ink, appearing to read 'Carlos Silva Costa', with a stylized, cursive script.

Carlos Silva Costa

January 2011

¹ http://www.ecb.int/ecb/orga/escb/html/mission_eurosys.en.html



Guilherme Camarinha tapestry alluding to the creation of the Banco de Portugal, 1971.



MISSION AND INTENTS OF BANCO DE PORTUGAL

The mission and intents of the Bank represent its identity and should be known to all its partners (internal and external).

MISSION

The primary mission of Banco de Portugal, in its capacity as central bank of the Portuguese Republic and an integral part of the Eurosystem and the ESCB, shall be:

- i) To contribute to price stability, through the decentralised implementation of monetary policy, defined by the Governing Council of the ECB; and
- ii) To ensure the stability of the financial system, in cooperation with the domestic and international structures assuming responsibilities in this field.

In the performance of its mission, Banco de Portugal shall act in strict compliance with the **principle of independence** enshrined in the Treaty on the functioning of the European Union, the Statutes of the SEBC and of the ECB and its Organic Law.



General Assembly Room

It shall be particularly incumbent on Banco de Portugal:

- To implement the single monetary policy according to the decisions made by the Governing Council of the ECB.
- To carry out supervisory functions, with a view to ensuring the stability of the financial system, in tandem with other financial supervisors, in particular through the prudential supervision of credit institutions, financial companies and payment institutions, supervision of the behaviour of institutions in their relationships with the customers and promotion of the financial literacy of the users of financial products and services.
- To contribute actively to promoting stability and financial integration at domestic and European level, in close cooperation with the established institutions.
- To ensure the operation and oversight of payment systems, guaranteeing their effectiveness and efficiency, at the domestic and European level.
- To issue and circulate the euro banknotes and coins required for the operation of the national economy.
- To manage the reserve assets under its responsibility.
- To produce independent research and analyses on the Portuguese economy and on its international framework, at the micro and macroeconomic levels, providing economic advice in that context.
- To collect and prepare monetary, financial, foreign exchange and balance of payments statistics.
- To prepare research and analyses in the financial and banking fields.
- To provide information services to the public, as required by its commitments, as well as other services deemed decisive for the effectiveness and efficiency of its mission.

The Bank shall have as permanent objective to preserve and strengthen its **financial independence**, ensuring the permanent adequacy of its own funds. The management of its financial assets and gold shall therefore be geared towards an increase in profitability, to be reached in the context of appropriate and prudent risks, safeguarding the financial soundness and reputation of Banco de Portugal.

In the exercise of its mission, the Bank shall develop an active policy of **international cooperation**, ensuring consistent representation and participation in the bodies of which it is a member or participating institution. Particularly in the framework of the relationship with Eurosystem/ESCB central banks, this policy should be guided by the objective of fostering know-how and experience sharing and bringing management systems and models more into line with the prevailing best practices. As regards the central banks of Portuguese-speaking countries, the Bank shall share experiences, develop common initiatives and exchange know-how at different levels.



INTENTS

The intents of Banco de Portugal express the Bank's position in the context of its integration, broadly describing how the Bank, as organisation, will be referred to and valued at both the internal and external levels.

Considering its history and responsibilities in the national and international context, the intents of Banco de Portugal shall be:

- To be an active and committed member within the operational framework of the Eurosystem and ESCB.
- To be an independent institution of reference that provides relevant services to the public and the country, conveying a high degree of confidence to the citizens and to the entities with which the Bank interacts.
- To be a recognised and competent institution that observes the best practices, with highly qualified staff, who adhere to high ethical and professional standards in the performance of their tasks.
- To be an organisation with high quality and state-of-the-art processes and technologies that uses its resources in a rational and efficient manner, with a sense of social responsibility and commitment to environmental sustainability.



BROAD STRATEGIC GUIDELINES FOR 2011-2013

Within the overall action and responsibilities entrusted to it, Banco de Portugal shall have the following **Broad Strategic Guidelines** during the next three-year period (2011 to 2013):

1. FINANCIAL STABILITY WITHIN THE EUROPEAN CONTEXT

The role played by central banks in financial stability was evidenced and reinforced by the international financial crisis. This responsibility is particularly important for central banks which, as Banco de Portugal, supervise credit institutions both at the micro and macroprudential level. An in-depth review of the causes behind the international financial crisis and problematic areas in Portugal shows that the Bank's structure and strategy should be adjusted to enhance its efficiency and enable a better interaction between macro and micro-supervision.

Considering the tasks entrusted to Banco de Portugal to ensure the stability of the national

financial system as well as the demands and challenges faced by regulatory and supervisory authorities, Banco de Portugal should enhance its expertise and the effectiveness of its internal

organisation, as well as of the instruments used for the regulation and supervision of the financial system. The Bank should act in these areas with full independence, accountability and appropriate transparency.



As for the macroprudential supervisory framework, Banco de Portugal should focus on the need to ensure the stable provision of financial services to the economy as a whole, including credit, reliable savings products and payment services, and security against financial risks. In order to do so, the Bank should increase the analytical capacity to identify and prevent systemic risks. This is closely related to macroeconomic analysis and to the assessment of economic agents' indebtedness and inherent risks to the financial system as a whole. The participation of Banco de Portugal in the relevant EU fora where the European macroprudential supervisory strategy will be defined is crucial.

As regards microprudential supervision, the Bank shall continue to intensify its on-site inspections. This is internationally recognised as a way to overcome the vulnerabilities of off-site inspections as regards the assessment of the adequacy and effectiveness of the risk control and management systems and the early detection of problems. Banco de Portugal shall further consolidate the decision taken in 2009 to have inspectors permanently on-site in main banking groups, as part of its strategic goal of focusing direct supervision on on-site inspections in the future. An integrated risk assessment system shall also continue to be implemented in order to obtain a comprehensive knowledge of all the risks related to financial activity, as well as of the quality and soundness of corporate governance, internal control mechanisms and adequacy of the solvency and liquidity of financial institutions. This will call for new methodologies and tools (some of which already developed in cooperation with MAR – Portuguese

acronym for Risk Assessment Model) and the rationalisation of resource management and decision-making processes through greater focus on the acquisition and maintenance of technical expertise, greater recourse to IT, as well as greater and clearer accountability of the players.

Banco de Portugal shall also continue to ensure the maintenance of high standards in interbank clearing and settlement systems, and to ensure their strength, resilience and security. The smooth functioning of payment system infrastructures, in particular real-time transaction systems, is crucial to the stability of the financial system, especially in crisis situations and/or systemic failures.

As to legal enforcement, the Bank shall further strengthen its intervention, implementing a credible deterrence strategy through the use of penalties to prevent and deter misconduct by the supervised entities. Legal enforcement

has been made independent from supervision *stricto sensu* in both organisation and tasks. The Bank reorganised its supervisory model through a new Legal Enforcement Department, which will increase the Bank's capacity within the banking system, as well as support the Bank's credibility and reputation as the guarantor of the observance of the legal and regulatory frameworks applicable to the supervised entities.

Overall, Banco de Portugal shall also strengthen the analysis and discussion of the new macro and microprudential supervisory rules and models to enhance its voice in the European fora, such as the **European Systemic Risk Board** and the **European Banking Authority**. These, together with the national financial supervisory authorities (NSAs) and the new European supervisory authorities in the areas of securities and markets and insurance and occupational pensions (EIOPS), will be part of the new system

of financial supervision in place as of early 2011.

With regard to banking conduct supervision in the retail banking markets, Banco de Portugal shall take tougher action, tightening transparency and conduct rules in the different market segments and reinforcing the monitoring of compliance with the legal and regulatory rules applicable. In parallel, another major focus will be on financial literacy.

2.

EFFECTIVE AND FULLY- FLEDGED CONTRIBUTION TO THE BANK'S FUNCTIONS AS MONETARY AUTHORITY WITHIN THE FRAMEWORK OF THE EUROSISTEM



The Bank shall continue to be an active and committed member within the operational framework of the Eurosystem/ESCB. The Bank shall thus maintain and possibly raise its prestige and performance of its shared tasks within the Eurosystem/ESCB, namely regarding research and economic advice, implementation of monetary policy, financial stability and integration, management of the official foreign reserves and gold, promotion of the smooth operation of payment systems, currency issuance, statistics and reporting.

The independent participation of the Governor of Banco de Portugal in the decision-making process of the Governing Council of the ECB is particularly important. The Bank's staff participating in the groups, committees and substructures of the ECB shall make a high quality contribution to support its decision-making bodies. Overall, the Bank shall also contribute to the different stages of the internal process of preparing and implementing decisions.

Regarding research and economic advice, Banco de Portugal shall continue to produce an independent and high quality micro and macro analysis of the Portuguese economy and its international environment.

As for the management of its own investment assets, the Bank shall strive to steadily improve proceedings to periodically readjust its asset and instrument portfolio. This aims to ensure an adequate medium-term balance of different types of risk (interest rate, exchange rate and credit risk) in the Bank's balance sheet. With regard to monetary policy implementation, the Bank's advice shall achieve a high-level of quality on issues related to its participation in Eurosystem bodies, including risk control. The Bank's infrastructures will also be aligned with the infrastructures currently being developed by the Eurosystem both in terms of monetary policy implementation and asset management.

Banco de Portugal shall continue to produce and publish quality statistics, ensuring an efficient interaction with information providers and the full satisfaction of users, strictly in line with its commitments to the ECB and other national and international bodies

and in compliance with the strictest international standards.

In the coming years, Banco de Portugal shall be actively and effectively engaged in the implementation of the Single Euro Payments Area (SEPA), seeking to ensure a high service level, both efficient and secure for the users of electronic payment systems.

As regards currency issuance, the Bank shall continue to promote an efficient and secure use of banknotes and coins as means of payment by the general public, and to provide quality and efficient services for the banking system and other professional cash-handlers.

3. ORGANISATION AND EFFICIENT MANAGEMENT OF ITS RESOURCES



The Bank shall have state-of-the-art processes and technologies and promote an efficient management of its resources. It must continue to improve the management, structure and processes related to the activities developed by the Bank, with a view to eliminating inefficiencies and redundancies, and fuelling the consolidation of cross-sectional processes and the rationalisation of the available resources. In this vein, the Departments' activity plans shall be adequately reflected in their budgets, so that the result of the respective management may be monitored and assessed.

The development of a range of relevant indicators shall be permanently monitored, particularly in terms of human resources, operating costs and achievements. The internal monitoring of all activities and processes developed by the Bank shall make it possible to identify the best practices and incorporate them in labour procedures, thereby raising the organisational effectiveness and efficiency.

In particular, the Bank will promote the permanent qualification of its staff, ensuring motivation and professional fulfilment. To this end, it will adopt career management and internal mobility policies, favouring talent, merit and the pursuit of professional and academic qualification of staff, stimulating both expertise and performance.

With a view to enhancing credibility, security and robustness of its processes, the Bank shall pursue and further improve analysis and development at global and departmental level in the Operational Risk Management

and Compliance areas, as well as the adequate maintenance of the Business Continuity Plan and other plans ensuring the smooth operation of the Bank in the event of a disruption.



4.

COMMUNICATION AND SUPPLY OF SERVICES TO THE COMMUNITY

The perception by the public of the Bank's performance depends, naturally and in the first instance, on proficiency in the exercise of its competences in the different segments of its mission. It also increasingly depends on the ability to communicate, in an effective and timely manner, the fundamentals and results of its performance.

The communication strategy of the Bank will promote public understanding of the Bank's mission and functions, especially in the field of monetary and financial stability, through a transparent information policy that enhances the right balance between accountability and the independence enshrined in its Organic Law, and as part of the ESCB/Eurosystem.



In this vein, the Bank will consolidate a consistent model for communication and the provision of services to the community, leading to the development of a closer relationship, increased transparency, recognition and prestige. This model will enhance the public understanding of the Bank's role, responsibility, decisions and opinions, in order to increase the identification of the citizens with the institution.

To this end, and taking into account that the multiple and contrasting communication fronts of the Bank are addressed at different target groups, the communication strategy to be developed must cover all fields of activity and consider the specificities of the different addressees, but ensuring a complementary and institutionally coherent rationale that projects the image of the Bank, while reaffirming the achievements and the results of special functions and/or services of the institution.

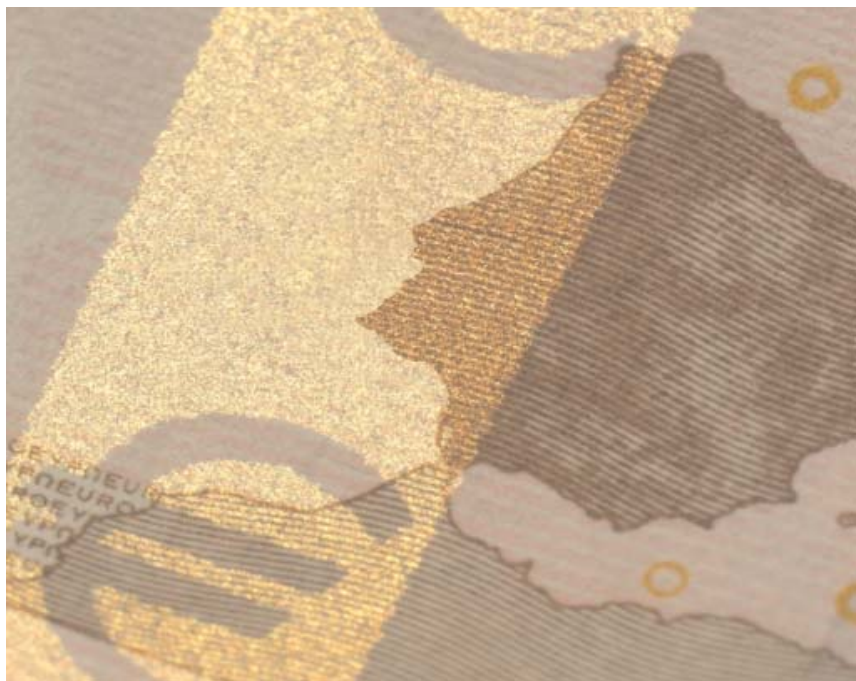
The Bank shall communicate proactively with the citizens and the media in all areas of intervention, resorting to a wide range of available channels and communication contexts, from public intervention by the Members of the Board of Directors to regular publications, press releases, addresses, seminars and training initiatives promoted by the Bank or in which it participates, or from information made available on its website or complementary special-purpose portals for target audiences to information provided to the public in information desks.

Improving the quality of the services rendered to the community will also continue to be one of the priorities of Banco de Portugal, in particular the production of economic and statistical information for economic agents, the promotion of economic and financial literacy, the provision of specialised information related to the central balance-sheet database, the central

credit register and the list of cheque defaulters, among others.

At the internal level, a structured communication model should be defined, broken down by subject and addressee, promoting greater knowledge, information sharing and

understanding of the overall reality of the Bank. Particularly relevant in this respect is the need to structure an internal communication policy in terms of human resources, in order to meet the needs identified by the Bank in this field.



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