

Strategy of the Research Department

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Unofficial translation

1 Strategic objectives of the Research Department

1.1 Developing the Research Department into an academic group known in Europe

The objective of the Research Department is to become an academic group known at European level by means of publications in prestigious international academic journals. Academic publications represent a transparent, clear and internationally comparable measure of standard of the professional work carried out at the Research, both for domestic and foreign professional circles. They also make the MNB visible for a wider international professional audience. By means of its domestic and international prestige achieved and further developed through publications, the Research Department strengthens the independent and professional institution image of the Bank both in Hungary and abroad, and indicates the presence of a high-quality research group, representing the highest professional standard. In this way, the Research Department contributes to the development of central bank credibility.

With the contribution of the Research Department, the MNB gains credibility through high-standard professional work. This will enable the MNB to participate in the shaping of European economic developments even after joining the euro area. The ultimate measure of the professional success of a central bank that conducts independent monetary policy is the low level of inflation it has achieved. Following the entry into the euro area this natural measure of professional standard will cease to exist. However, the findings of research have to pass strong, independent professional control before being published in prestigious international academic journals. Therefore, following accession to the euro area, international scientific publications will play an important role in the assessment of the quality of the professional work performed at the Bank. For a small country, it is only professional prestige that can enable it to practically influence monetary policy debates and decisions at European level. In this way, the Research Department enables the MNB to strongly contribute to the performance of euro area central bank functions.

1.2 Co-operation in the strengthening of the economic policy decision-making process at the MNB: representing the academic aspect

The Research Department efficiently co-operates with other departments in the fields of applied research and model developments conducted at the Bank; and it is an active participant in conceptual debates on strategic decisions and strategic issues. Undisturbed by the daily needs of the Bank, the long-term research work conducted at the Research Department results in the accumulation of knowledge that can be used efficiently in the conceptual framework for monetary policy and financial stability issues, the

creation or development of models that support decisions and the implementation of applied research projects that serve as a basis for them. Monetary and financial stability policies have to be implemented in a constantly changing macroeconomic environment. In the course of the research of subjects not adjusted to the daily needs of but potentially relevant for the Bank, new methods and models are being developed, and new aspects arise that considerably contribute to the development of new patterns of thinking and applied models that better suit the changed conditions. At the same time, participation in the debates of issues that are relevant for decision-making also facilitates the selection of research subjects. Through the efficient support of applied research and model development, the Research Department contributes to the success of the inflation targeting system and to the improvement of the efficiency of the monetary and financial stability decision support system.

1.3 Development of a training centre for central banks

The Research Department runs the Budapest School for Central Bank Studies (hereinafter: the School), whose basic objective is to develop the analytical skills and knowledge of the Bank. The training offered by the School continuously increases the skill level of the MNB's analysts in an organised way; analysts may learn about the latest developments of economics and quantitative methods from leading experts of the world. By running the School, the Research Department contributes to the development of the success of the inflation targeting system and the efficiency of the monetary policy and financial stability decision support system. The training programme of the School raises the standard of the professional work performed at the Bank in a transparent manner, thereby contributing to the strengthening of central bank credibility.

In line with international practice and European expectations, the School is open for the employees of other central banks as well. A well-working School enables the MNB to contribute to the performance of central bank functions within the euro area, as an educational and training centre. This is an internationally visible activity, entailing significant prestige and making the MNB an important meeting point for European central bankers. In this way, the School contributes to the achievement of the MNB strategic objective, according to which the MNB should provide a fundamental professional base in one field, in the field of training, in the European System of Central Banks.

2 Means of implementing the objectives

2.1 Publication in high-prestige international academic journals

Due to the independent, strict and anonymous peer review system, publication in prestigious international academic journals is the most important measure of the scientific performance of researchers and research groups. This is the basis of international recognition and reputation. Therefore, the Research Department can become a European-level academic group only if its members regularly publish in international academic journals. On the one hand, the staff of the Research Department has to be granted the possibility of focusing on scientific work, a critical group size necessary for efficient work,

and adequate feedbacks on their activities. On the other hand, proper measures and control of performance, and appropriate incentives are also necessary. It is important to distinguish the various journals by their prestige. A minimum expected level has been set, and then the relevant journals are classified into four groups. The first three categories represent the main target, but inclusion in the first two categories is a priority. The classification of the journals is made public on the Intranet site of the Research Department, and is updated regularly (annually or biennially).

One of the fundamental conditions of efficient academic, fundamental research is to have a sufficiently long uninterrupted period of time for thorough research. Another condition is the critical mass of researchers or the possibility of its coming into existence. At present, these conditions exist in terms of organisation, work organisation and number of personnel as well.

- In early 2008 the research group became an independent department. The organisational separation makes it clear that the main task of members of the Research Department is to conduct academic research, and it ensures that daily short-term tasks do not interrupt thorough research work.
- Participation in applied research and model development as well as in strategic discussions is one of the basic tasks of the Research.
- The Research Department has 10 research positions, from which there are two-three vacancies at present. Ten people reach the critical number required for forming a well-functioning research group. It corresponds to the number of researchers at the Swedish central bank. As in the previous years, the Department searches for people with a PhD for the vacant positions, irrespective of their nationality, although special attention is paid to Hungarians studying or working abroad.
- The researchers are given the opportunity of short professional visits to collaborate with their co-authors working abroad, or they can go on short professional visits to highly respected research institutions for the purpose of consultation.

Publication performance is the most important measure of the success of the Research Department. In addition to creating the conditions necessary for high-standard research work, adequate objectives, performance measurement and incentives are required for the publications to be compiled.

- Publication performance has a considerable weight in the annual evaluation of each member of the Research Department.
- The expected performance of senior researchers is two publications in every three years on average, which may be satisfied by one high-prestige or highly influential publication. Junior researchers have to get their first publication within three years from the date of their PhD. Only articles published in international, peer reviewed journals, included in the social science citation index and above the separately specified minimum level are considered to be publications.
- The process of publication is lengthy in economics. Therefore, interim objectives are needed. In order to meet long-term publication objectives it is expedient that at all times at least two studies of a Research staff member be in the review process of a journal and that the Research staff member work on three other studies. Of the latter, at least one study should be the output

of a new project started within one year. Junior researchers have to attain this within three years from the date of their PhD.

- For the sake of adequate motivation of the staff members of the Research, the range of subjects to be researched does not have to be limited. At the same time, by means of information flow and involvement within the bank, the selection of topics relevant from both domestic and international economic policy aspects may be enhanced. However, in hiring staff members, attention must be paid to employing researchers whose research topics are interesting for the Bank.
- The activity of the Research Department is evaluated by two external evaluators every 5 years. The objective of the evaluation is that the management of the Bank and the researchers themselves receive direct feedback regarding the quality of the activity of the Research Department.

2.2 International senior research advisory programme

The objective of the senior research advisory programme is that an academic expert of a field where staff members of the Research or some fellow department conduct research should spend a short period of time at the Bank. These types of visiting programmes and advisory systems are a frequent practice at many central banks.

- The presence of a visiting researcher provides an opportunity for intensive consultation for the members of the Research or fellow departments in the subject on which they are currently working. Consultations of this type improve the standard of both academic and applied research conducted at the Bank.
- In the early phase of development of the Research Department, when the number of senior members within the group is low, the possibility of consultation offered by the senior research advisory programme significantly contributes to the professional development of young researchers, thereby improving their publication chances.
- The senior research advisory programme adds to the reputation of the Bank in leading international professional circles.

The senior research advisory programme means a total of three visitor weeks per year: typically three visitors for one week each. It is expedient to strive for long-term commitment that entails regular visits and also the maintenance of relations between the visits. At the same time this would also result in the evolution of a senior professional mentoring system, where the researchers would have continuous contact with the research advisors.

2.3 Development of international academic and central bank researchers' relations

The development of international academic and central bank research relations strengthens the international presence of the Research Department and facilitates the strengthening of the research

group feature of the Research. It enables both the members of the Research and fellow departments to learn about the most important scientific achievements in the fields that are relevant for the Bank.

- The Bank organises its Macroeconomic Policy Research Workshop once a year. Since 2008 the event is organized jointly with the Centre for Economic Policy Research (CEPR); as a result, the workshop invitation reaches a wider audience, and the professional standard is also excellent. The cooperation with the CEPR is to be continued in the future, and the subject of the workshop should be chosen with the involvement of other departments.
- Within the framework of the BESS Seminar Series, which relies on Hungarian and foreign participants, we invite speakers from the world of academia and central banks to cover various subjects that are of interest for the Bank. In addition to presentations of special subjects relevant for a limited audience, the 'prestige speakers' programme invites leading international experts who hold interesting lectures of a reviewing nature for many of the Bank's employees, and consult with experts and senior managers.
- The joint visiting researcher programme of the analytical departments is also co-ordinated by the Research Department, with primary focus on PhD students and junior researchers. The main target groups are the researchers of domestic institutions working on relevant subjects, Hungarian researchers studying or working abroad and foreign researchers working on relevant subjects.

In addition to the development of international relations, the Research Department undertakes an active role in the academic life in Hungary as well. It strives to co-operate as closely as possible with the major Hungarian professional institutions (for example, CEU, IE-HAS, ministries), universities and professional organisations (for example the Hungarian Society of Economics).

2.4 Developing and operating the framework of co-operation with other departments

The Research Department efficiently co-operates with other organisational units in the fields of applied research and model development, and is an active participant in the conceptual debates on decisions and issues of strategic importance. The purpose of co-operation is summarised by the term 'trusted advisor' (as in the case of ECB DG Research). The framework of daily co-operation between the Research and other departments is set up jointly by those concerned, taking account of the following principles:

- The members of the Research Department spend 40-60% (around 50% as the department average) of their time on the co-operation with the other professional fields with as little interruption of the time intended for research as possible.
- One of the main, informal pillars of co-operation is the 'research partners' system. Within that, informal meetings and discussions are held, the research partner is allowed an insight into the work and projects of the partner field, is present at the birth of project ideas, and would be able to participate in the thinking in a quick, informal and proactive manner.
- Another, formal pillar of co-operation is the Research Forum. This is a consultative forum convened several times a year. Its objectives are the harmonisation of the main strategic and methodological developments and research of various departments, their representation to the senior management, the identification of linkages, the discussion of subjects and findings as well

as keeping a record of the projects. The projects that require advisory (mentoring) support of the Research Department are identified here; they are allocated by the head of the Research to the members of the Research Department, taking account of the capacity limits.

- In both cases, joint projects, which are especially efficient forms of co-operation and the unification of separately existing special knowledge, are of key importance.
- The Research co-operates with other departments in a number of further ways as well:
 - Leading the MNB WP and OP Editorial Board, providing publication and research methodology assistance.
 - ‘Fast-reaction capacities’: the Research also strives to be able to participate in occasional projects that require urgent but temporary resource.
 - Operating the secretariat of the Scientific Committee.

2.5 Establishment and successful operation of the Budapest School for Central Bank Studies

In order to improve its own analytical skills, the MNB set up the Budapest School for Central Bank Studies (hereinafter: the School). In line with international practice and European expectations, the School is open for the employees of other central banks as well. The School is operated by the Research Department. The School is able to contribute to the achievement of the strategic objectives of the Bank if it succeeds in attracting the planned number of foreign participants and participants from the MNB and if leading instructors can be convinced to work for the School. In order to ensure the success of the School, the following steps are taken.

- The School provides a well-structured training programme that is in line with the needs of central banks; its elements build on one another and match the knowledge level and nature of central bank analysts. There is demand for training programmes of this type, but nobody offers them at the moment.
- As the head of the School, the head of the Research Department invited Professor Fabio Canova to lead the training programme. Professor Canova is one of the leading economists of the world both in the fields of macroeconomics and quantitative methods, and he has wide experience in central bank training. The task of the head of the training programme includes the compilation and maintenance of the training programme as well as the selection and quality control of instructors.