

Strategic Plan

2022-2025

BANCO DE LA REPÚBLICA (CENTRAL BANK OF COLOMBIA)

February 2022



Letter from the Governor

I am pleased to present to you the **2022 - 2025 Strategic Plan** approved by *Banco de la República's* (the Central Bank of Colombia) Board of Directors in November 2021, which defines the strategic objectives of the Bank for the coming years, embedded within mission of "Contributing to the well-being of Colombians by preserving the purchasing power of the currency, supporting sustained economic growth, and contributing to financial stability, the proper functioning of payment systems, the generation of knowledge, and the country's cultural activity."

Over the next four years, the Bank will focus on the following strategic themes that will guide the prioritization of the Bank's activities:



This Plan was the result of an exercise in which we worked jointly with the Board of Directors, the Deputy Technical Governor, the Deputy Executive Governor, and the Chief Officers and their work teams, who organized the initiatives of the different areas of the Bank. To define the objectives of each theme of the plan, economic, technological, social, and environmental trends

in central banking were analyzed including the challenges of climate change and their possible impact on the functions of *Banco de la República*. This exercise was particularly challenging given the uncertainty created by the effects of the pandemic, which accelerated the use of new technologies and innovation in ways of working and providing services.

The **2022 - 2025 Strategic Plan** will be closely monitored for implementation. I invite you to learn more about its contents.

Leonardo Villar
Governor

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Introduction

In 2023, *Banco de la República* will celebrate its 100th anniversary. The year 2021 marked 30 years since the Colombian Constitution of 1991 established its central banking functions, with the main objective of ensuring the maintenance of the purchasing power of the currency in coordination with the general economic policy¹.

Article 2 of Decree 1739 of 25 October 2017, by which the Bylaws of Banco de la República were amended, established the obligation on the part of its Board of Directors (BDBR) to approve a strategic plan and a medium-term expenditure framework, in the following terms:

"The Board of Directors shall annually approve a medium-term expenditure framework (operating and investment) that shall be effective for the next 5 years. Likewise, every 4 years, it shall approve a strategic plan for the following 4 years, which shall be reviewed annually.

Approval of the annual budget, the medium-term expenditure framework (operating and investment), and the strategic plan shall require the affirmative vote of 5 members of the Board of Directors."

For the preparation of the 2022-2025 Strategic Plan, the following issues were analyzed: global trends, the current Strategic Plan, the Bank's particularities, the impact caused by the Covid-19 health emergency, the strategic plans of a sample of benchmark central banks, as well as their effect on central banking, corporate management, and cultural activity. Several working sessions were held with the participation of the Bank's Board Members, the Governor, the Deputy Technical Governor, the Deputy Executive Governor, and Chief Officers. As a result, nine strategic themes were defined, each of which groups a set of objectives.

The purpose of this document is to present the Strategic Plan for the consideration of the BDBR for the next four years, 2022 - 2025. To this end, the following section presents the reviewed concepts of the mission, vision, values, functions, and services of Banco de la República; the third section presents the strategic themes defined in the Plan; the fourth section presents the monitoring scheme of this Plan.

¹ Political Constitution of Colombia of 1991, Title XI (Economic Regime and Public Finance), Chapter 6 (Central Banking).

Banco de la República's mission, vision, values, functions, and services.

As part of the preparation of the new Strategic Plan, the mission, vision, and values of *Banco de la República* were reviewed. The functions and services are also presented.

A. Mission

To contribute to the well-being of Colombians by preserving the purchasing power of the currency, supporting sustained economic growth, and contributing to financial stability, the proper functioning of payment systems, the generation of knowledge, and the country's cultural activity.

B. Vision

To be a central bank that generates trust, contributes to the well-being of Colombians, and operates with excellence, efficiency, transparency, and sustainability.

C. Values

Five values were defined that summarize the culture of *Banco de la República*:

1. Integrity: we act with independence, responsibility, honesty, coherence, transparency, and a sense of what is public.
2. Excellence: we are committed to quality results in a timely, dynamic, and efficient manner, both in services to the economy and in internal processes.
3. Sustainability: we contribute to generate positive economic, social, and environmental impacts with a long-term vision.
4. Inclusion: we value differences, welcome diversity, act fairly, and listen to different opinions and points of view.
5. Respect: we treat everyone with dignity and cordiality, recognizing and valuing all efforts, contributions, and achievements.

D. Functions and services

The functions and services were grouped into two categories: missionary and related. Both are embedded within the authorizations and mandates granted by Law 31 of 1992. The missionary functions correspond to the essential activities of central banking, while the related functions refer to those that support these functions or are related to cultural management (Graph 1).

Graph 1



It should be noted that *Banco de la República* periodically submits reports to Congress and complementary reports that include the management of its missionary and related functions.

1. Missionary functions and services

a. Monetary and foreign exchange policy

The main objective of monetary policy is to preserve the purchasing power of the currency, in coordination with general economic policy, which seeks to stabilize output and employment at sustainable long-term levels. To this end, *Banco de la República* seeks to keep inflation under control and support macroeconomic and financial stability, contributing to generate appropriate conditions for the economy to grow in a sustainable manner through the exercise of the following functions:

- i. Defining monetary and foreign exchange policies, which includes intervention criteria, parameters, and instruments.
- ii. Implementing monetary and foreign exchange policies, which includes:
 - Evaluating and deciding on monetary and foreign exchange intervention needs.
 - Issuing monetary and foreign exchange regulation in matters within its jurisdiction.

- Communicating and disseminating its policy decisions.
- iii. Contributing to financial stability through the development of the following activities:
- Monitoring the financial system and markets with a systemic approach.
 - Contributing to the development of payment systems and financial market infrastructure.
 - Regulating the large-value payment system.
 - Facilitating the liquidity of the payment system.
 - Being the lender of last resort for credit institutions.

b. Provision of currency and Payment systems

Banco de la República, as issuer of the legal currency, is responsible for ensuring the economy's payments. In this sense, it exercises the state function of issuing the legal currency in an exclusive and non-delegable manner. Consequently, it performs the production, issuance, provision, and destruction of monetary species. It also manages the large-value payment system, which facilitates the transfer of money for the settlement of financial market transactions. The Bank, as a provider of large-value payment services, manages the Sistema de Cuentas de Depósito (CUD in Spanish, large-value payment system (CUD), the backbone of Colombia's financial infrastructure. The Bank also promotes the development of retail-value payment systems, contributing to their efficiency and security.

The functions and services provided to meet these objectives are:

- i. Performing the production, issuance, provision, and disposal of banknotes in bad condition.
- ii. Managing the infrastructure of *Sistema de Cuentas de Depósito* (CUD in Spanish, large-value payment system (CUD).
- iii. Facilitating the connection and functionality for all clearing and settlement schemes that interact with the CUD.
- iv. Promoting the development of retail-value payment systems that complement the operation of the large-value payment system.

c. Banker for banks and fiscal agent for the Government

The Bank acts as fiscal agent for the Government and provides it with services and technical assistance in matters related to the nature and functions of the Bank.

The functions and services currently provided include, among others:

- i. Participating in the definition of the credit policy and defining its regulatory objectives in coordination with the Colombian Government.

- ii. Issuing credit regulations in matters within its jurisdiction.
- iii. Serving as the Government's agent in the issuance, placement, and administration of public debt securities.
- iv. Providing to the Colombian Government and other public entities determined by the BDBR the technical assistance required in matters related to the nature and functions of the Bank.
- v. Managing the following public funds that have been authorized by law:
 - Savings and Stabilization Fund (FAE in Spanish).
 - Mortgage Stabilization Fund (FRECH in Spanish).

d. Managing international reserves

Banco de la República manages international reserves with strict criteria of security, liquidity, and profitability. In the exercise of this function, the Bank seeks to manage international reserves in a manner that benefits the interest of the public and the economy in general.

2. Related functions and services

a. Financial infrastructure

The Bank contributes to the proper functioning of payment systems through mechanisms that promote the quick settlement of transactions, optimize the management of financial resources, and provide intraday liquidity.

The functions and services currently provided are:

- i. Managing the *Sistema Electrónico de Negociación* (SEN in Spanish, Electronic Trading System).
- ii. Managing the *Depósito Central de Valores* (DCV in Spanish, Central Securities Depository).
- iii. Managing the check clearing houses - *Compensación de Cheques* (CEDEC-CCSD in Spanish, Electronic Clearing System for checks and their payment instruments) and the Clearing House for checks by delegated branches.
- iv. Managing the *Compensación Electrónica Nacional Interbancaria* (CENIT in Spanish, national interbank electronic settlement system)) with the purpose of promoting the development of retail-value payment systems.

b. Knowledge and information generation

Banco de la República contributes to the generation of knowledge through economic and financial research, the production and dissemination of statistical series with international standards, and the promotion of economic education related to central banking functions. In addition, the Bank contributes to improving the level of education and specialized knowledge by sponsoring postgraduate studies.

The knowledge and information generation is developed through:

- i. Economic research.
- ii. Generation and dissemination of statistical information.
- iii. Organization of and participation in seminars, forums, academic events, and research networks.
- iv. Grants for graduate studies.
- v. Publications.
- vi. Economic education related to central banking functions.

c. Cultural activity

The Bank contributes to the proper management of the Nation's cultural heritage, represented in its bibliographic, archaeological, art, numismatic and philatelic collections; also, it carries out musical activities. This management includes the preservation, research, and public service of the collections through its networks of libraries, museums, and cultural centers with regional presence. The Bank's cultural work contributes to educating citizens, managing knowledge, and closing gaps in access to knowledge.

Strategic themes

The Strategic Plan 2022 - 2025 defined the following nine strategic themes (Graph 2):



The corresponding objectives for each strategic theme are presented below.

A. Monetary, foreign exchange, and credit policy and financial stability

1. To continue strengthening the monetary, foreign exchange, and credit policy analysis process, consolidate the evaluation process, and develop the necessary adjustments to the changing circumstances of the economy.
2. To assess and update the Bank's framework (models, analysis, and use of policy instruments) to contribute to financial stability.
3. To assess the inclusion of new assets in the international reserves' portfolio in line with the return-risk-liquidity relation.
4. To continue strengthening economic research and its dissemination at *Banco de la República*.

B. Provision of currency and Payment Systems

1. To encourage the recirculation of banknotes in good condition for the benefit of participants in the cash cycle, optimizing the Bank's intervention.

2. To assess alternatives that favor the durability of banknotes under a cost-efficiency analysis as an input for decision-making on the adoption of new technologies.
3. To deepen the participation of third parties in the cash distribution network to achieve greater efficiency and improve the quality and availability of cash.
4. To continue modernizing the Treasury's technological systems that support cash management and the securities movement system.
5. To define a strategy to improve the Bank's response capacity in the provision of cash services to the entire country in case of incidents that jeopardize the normal operation of the main Treasury node in Bogotá.
6. To work on the implementation of *Banco de la República's* Electronic Payments Public Policy established in 2020, with emphasis on the development of online payment systems, in order to generate synergies with the different agents and stimulate the development of the payments ecosystem.
7. To analyze and assess efficient and secure options to expand the supply of cross-border payments.
8. To analyze and assess the convenience and risks of issuing a central bank digital currency (CBDC).
9. To promote improvements in the regulatory discussion scenarios on payments and actively participate in them, seeking formal spaces for interaction.
10. To complete the plan to modernize the system for custody, clearing, and settlement of securities transactions and fiduciary administration (*Depósito Central de Valores* (DCV in Spanish, Central Securities Depository)), and the *Sistema de Información Cambiaria* (Statistical Foreign Exchange System)).
11. To modernize the *Sistema Electrónico de Negociación* (SEN in Spanish, Electronic Trading System).
12. To improve the Bank's ability to manage payment systems in contingency situations through new technologies and processes.

C. Cultural activity

To strengthen the presence of the Cultural Network in Colombia by promoting innovation in the physical and digital spheres to contribute to closing gaps in access to knowledge, collections, programming, and cultural services, allowing for continued progress in:

1. The digital maturity of the Cultural Network towards the consolidation of a platform that favors the production and exchange of knowledge, the appropriation of collections, and co-creation with diverse audiences.

2. The transformation of on-site and off-site services through new forms of participation in musical practices and activities in museums and libraries.
3. Knowledge of audiences and their changing needs in different contexts.

D. Climate change

1. To carry out a reflection exercise on the impact of climate change on the functions of *Banco de la República* and subsequently define a strategy to manage the identified risks.
2. To continue advancing towards the carbon neutral goal, which consists of reducing the carbon footprint through the optimization of production processes and compensation mechanisms, the use of alternative energies, sustainable facilities, real-time energy measurement, better use of natural resources and efficient equipment.
3. To contribute to the discussion on the identification of risks and best practices related to the challenges imposed by climate change on the economy, through a research agenda on public policies, with emphasis on financial stability matters, and through educational activities developed through cultural activities.

E. Human capital

1. To strengthen professional development and move towards improving the work environment.
2. To develop leadership, strategic competencies, and teamwork.
3. To encourage a culture that promotes diversity and inclusion.
4. To establish a policy on the different work models (flexible, remote, at home) to be implemented according to the needs of the areas.

F. Infrastructure

1. To define a strategy and a comprehensive work plan for the Bank's infrastructure that includes aspects of updating, optimization, and maintenance, and advance in its implementation.
2. To advance in seismic resistance diagnoses of the buildings based on their prioritization.
3. To advance in the identification of the physical areas required for the efficient operation of the Bank in each of its buildings nationwide and implement solutions, following the guidelines of the work model to be adopted, including the analysis for the disposal of assets not required for the Bank's operation.

G. Risks

To strengthen the integrated risk management model. To this end, we seek to:

1. Define the framework and risk appetite statement for the Bank.
2. Incorporate a reputational risk management component in the model.
3. Consolidate the Bank's second line of defense (Middle Office).
4. Improve risk measurement standards.

H. Innovation, IT Security, and Information Management

1. To design, build, and adopt an innovation management system.
2. To continue with the process of improvement and requirement in cybersecurity management and in the process of early detection of cyber-attacks.
3. To consolidate the data management model and deepen in the strategy of opening and use of data.
4. To define at the institutional level the procedural, regulatory, and normative infrastructure to access, store, and use internal and external information sources, with the agility required for economic analysis and other Bank functions.
5. To promote "business agility"² and the development of end-client oriented solutions.
6. To facilitate the adoption of flexible work schemes, in hybrid and secure environments supported by technology.
7. To continue to expand the use of the cloud and strengthen the critical operating infrastructure in both regular and contingency operations.

I. Communication

1. To contribute to the impact of the Bank's policies and its credibility through communications about its corporate governance, functions, decisions, and processes.
2. To improve the quality of the relationship with stakeholders.
3. To advance in the communication strategy towards public opinion, including knowledge of digital audiences.

² "...the ability of an organization to renew itself, adapt, change rapidly, and succeed in a changing environment..." (Aaron De Smet - McKinsey & Company).

Monitoring the Strategic Plan

To monitor the Strategic Plan, the Administrative Council will approve SMART indicators, baselines, and goals for the objectives included in each of the strategic themes. The progress of the plan and the results of these indicators will be presented to the Administrative Council every six months. The Board of Directors shall annually review the Strategic Plan and its development.