

## Box 6

# Banco de la República's Framework for Medium-term Expenditures (operations and investment), 2018-2022

Decree 1739/October 25, 2017, by means of which the by-laws of *Banco de la República* were amended, established the Board of Directors' (BDBR) obligation to adopt a strategy plan and a framework for medium-term expenditure in the following terms:

The Board of Directors shall adopt a medium-term expenditure framework (operations and investment) annually that will be in effect for the next five (5) years. Moreover, every four (4) years the Board shall adopt a strategy plan to be in effect for the next four (4) years and this shall be reviewed on an annual basis.

The annual budget, the medium-term expenditure framework (operations and investment), and the strategy plan require the pro votes of at least five (5) members of the Board of Directors in order to be adopted.

In accordance with the above, the five-year budget for 2018-2022 was established in accordance with the plans outlined in the *Strategy Plan* approved by the BDBR. In Table B6.1 an estimate for the total operational costs is presented. These include the corporate expenses and costs of the production and distribution of monetary species put into circulation. These expenses are estimated at COP4,488.243 billion (b) for the 2018-2022 period.

As can be seen in Graph B6.1, the item with the largest share corresponds to personnel (64%). This is followed by "other corporate expenses," which include outlays for depreciation, debt repayment, deterioration, and loan-loss provisions (22%), etc. Finally, overhead costs (14%) include, along with other things, maintenance and improvements of the Bank's assets and the Bank's normal operating expenses (utilities, surveillance, janitorial services, etc.).

As was mentioned in section 4.4: "Income and Expense Budget for 2018," the corporate expenditures will probably present a real annual growth of 9.8% in 2018 (Graph B6.2), which may decline in 2019 and hold steady at 2.4% starting in 2020.

By component:

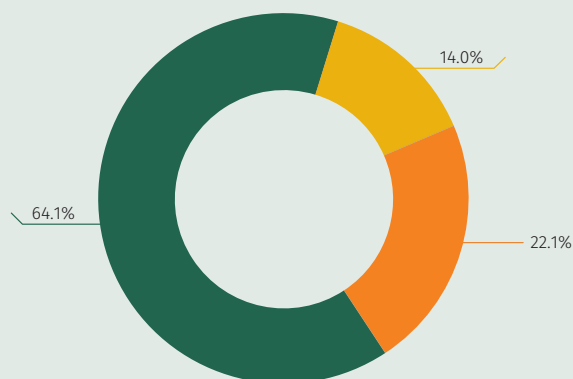
- A real annual growth of 4.1% in personnel expenses is projected for 2018 which includes the agreed upon wage increases in the collective agreement in effect and the start of the programs contained in the *Strategy Plan* approved by the Board of Directors. It is notable that towards the end of the 2018-2022 five-year period, the growth of personnel expenditures is not likely to exceed a real annual 3%.
- With respect to overhead costs, a real annual growth of 2.1% is projected in 2018 and of 1.1%, on average, for the 2018-2022 period. The growth forecast for 2018

Table B6.1  
Operating Budget of *Banco de la República*: 2018 - 2022  
(millions of pesos at 2018 prices)

	2018 - 2022	2018	2019	2020	2021	2022	Average annual real growth (percentage)
Corporate expenditures	3,268,052	661,228	628,655	643,755	659,361	675,054	2.4
Personnel	2,093,062	393,566	406,495	418,455	430,868	443,678	3.2
Overhead	451,329	89,017	88,641	90,222	91,286	92,163	1.1
Others	723,661	178,645	133,519	135,078	137,206	139,213	2.0
Banknotes and coins <sup>a/</sup>	1,220,191	226,708	236,583	243,956	252,229	260,715	3.7
Total	4,488,243	887,936	865,238	887,711	911,590	935,769	2.7

a/ Production and distribution costs of monetary species put into circulation.  
Source: *Banco de la República*.

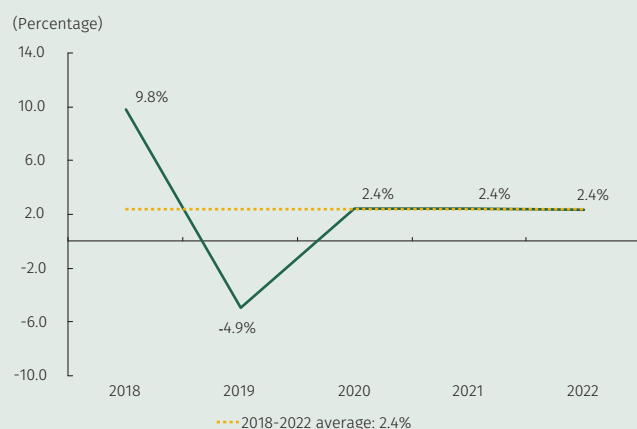
Graph B6.1  
Share of Corporate Expense Components 2018-2022<sup>a/</sup>



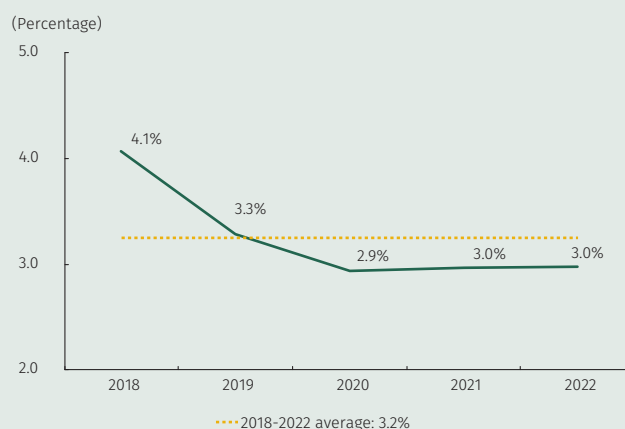
a/ Calculated as the annual average between 2018 and 2022  
Source: Banco de la República.

Graph B6.2  
Expenditure forecast, 2018-2022

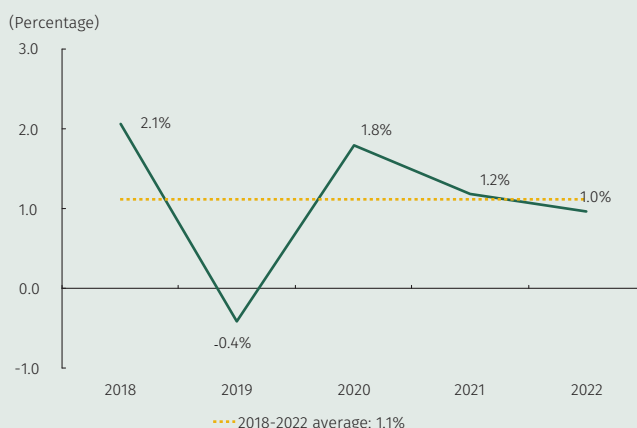
A. Total corporate expenditures  
(real annual percentage change)<sup>a/</sup>



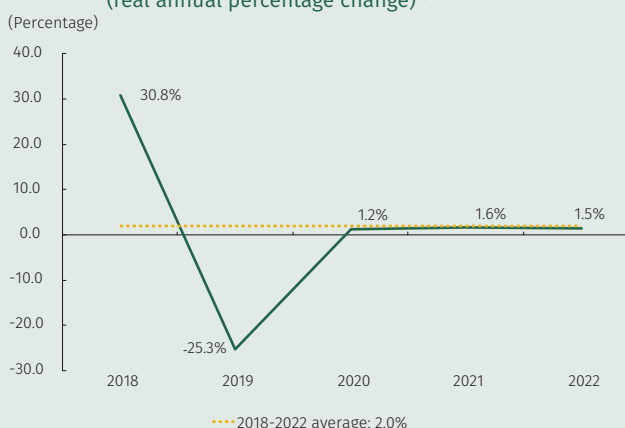
B. Total personnel costs  
(real annual percentage change)<sup>a/</sup>



C. Total overhead  
(real annual percentage change)<sup>a/</sup>



D. Total other corporate expenses  
(real annual percentage change)<sup>a/</sup>



a/ Growth for 2018 is calculated on the basis of the budget approved for 2017.  
Source: Banco de la República.

incorporates, along with other things, the effect of the increase in the VAT and the higher expenditures on maintenance of the Bank's equipment for which the warranties have expired due to the length of time they have been used.

- c. A real, annual growth of 30.8% is projected for 2018 in the case of the "other corporate expenses" item. As was mentioned in section 4.4, this growth was mainly due to items related to legal proceedings and judgments. Specifically, provisions were estimated for a process that dated from the financial crisis at the end of the 90s related to temporary liquidity support (Bank Selfin S.A.) and the expenses for the process to be carried out for two insurance companies with respect to safeguards for the global banking policy were budgeted for as a result of the mortgage crisis also at the end of the 90s.<sup>1</sup> These extraordinary expenses

1 If these extraordinary expenditures were excluded, the nominal growth of the other corporate expenses would be zero.

are not likely to be repeated starting in 2019 and that explains the sharp drop in this item projected for that year (-25.3%). Starting in 2020, a real annual growth that will be below 2.0% is estimated.

Furthermore, the outlays for the costs of the production and distribution of the banknotes and coins put into circulation, both as to level and real annual change, are shown in Graph B6.3. A real, annual growth of 4.2% is projected for 2018, and starting in 2019, the change in expenditures is consistent with the projected economic growth (between 3.2% and 3.6% annually), which constitutes a major determinant of the demand for money.

It should be noted that this forecast does not consider the costs associated with the “New Peso” bill law.

During the five-year period, in turn, a real growth of 7.8% is projected for the investment.<sup>2</sup> Table B6.2 presents the average real annual growth by items.

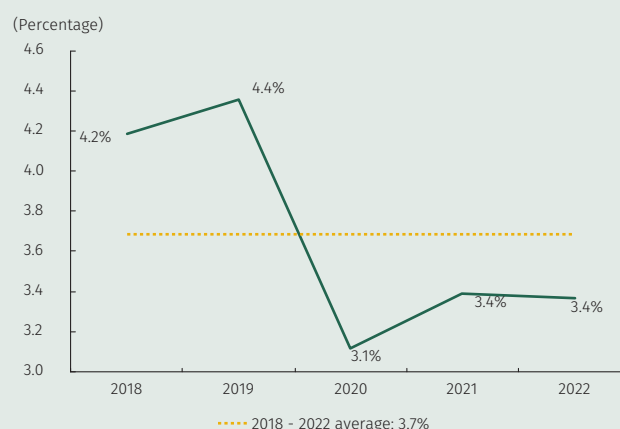
This growth is the result of the projects included for the technology and industrial areas, which follow the guidelines approved in the Bank's *Strategic Plan* for the 2017-2021 period. The above includes whatever is related to “efficiency” as one of its pillars. This means including investment projects to renovate the equipment and *software* which will guarantee the availability of services in areas such as the System of Foreign Exchange Statistics, the Central Securities Depository, and everything related to machinery and equipment for the Banknote Printing Office and the Mint, etc. In addition, investment projects required for the maintenance of the Bank's buildings were included.

**Graph B6.3**  
Outlays for Issuance and Circulation of Monetary Species, 2018-2022

A. Billions of 2018 Pesos



B. Real annual percentage variation <sup>a/</sup>



a/ Growth for 2018 is calculated on the basis of the budget approved for 2017.  
Source: Banco de la República.

**Table B6.2**  
Annual Average Real Growth of the Investment of Banco de la República, 2018-2022

Total	7.8
Infrastructure	5.8
Technology	5.7
Industrial	35.7
Cultural	0.9
Others	37.9

Source: Banco de la República.

<sup>2</sup> This growth was calculated based on the data on investments made during 2017 and not on the approved budget. The above was due to the low implementation of investment in 2017, which required the inclusion of projects for 2018 and beyond in order to keep the Bank's buildings in good operating condition and to enable the replacement of equipment in the industrial area. This included in addition, the replacement of armored vehicles for transportation of monetary species that must be done. The investment in these is presented under “other.”