The restructuring of the Bank and its Board of Directors

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- ***Independence***

The Constitution and the Law grant autonomy to the Banco de la República as Colombia’s central bank. This means that the Bank does not form part of the branches of Public Power (Executive, Legislative and Judicial), of the regulatory and auditing agencies nor of electoral power, but is a State entity of a unique nature, responsible for its own organisation in accordance with the functions it must perform. In technical terms, the Bank’s autonomy consists of its ability to analyse freely monetary phenomena, to design and apply policy without being subject to other State pressures.

Legally, the constitutional hierarchy of the Bank enables institutional stability and nourishes a healthy permanence of traditions and criteria, being detached from external political developments and influences.

Nevertheless, it is important to note that autonomy does not mean isolation. It is clear that monetary, credit and exchange policies must be harmonious with the Government’s general economic policy. In order to facilitate this co-ordination, the Minister of Finance is the presiding member of the Bank’s Board of Directors. In addition, the Board must consult the Government’s macroeconomic plan for policy design in those areas under its responsibility. Notwithstanding, the Board must take care not to compromise the achievement of its primary assigned goal of preserving price stability during consultations and co-ordination of efforts with the Government. In the case of conflict of interests, the Bank may refuse to comply with eventual demands formulated by the Government to cover fiscal shortcomings.

The independence of the monetary authority is a factor of significant importance in instilling and maintaining credibility in the measures adopted; thereby leading to an increase in effectiveness.

- ***Members of the Board of Directors: Prescribed Requisites and Nature of Appointments***

Law 31 ratified the constitutional rule that granted the Bank’s Board of Directors sole authority regarding monetary, exchange and credit matters. Law 31 also confirmed the composition of the Board of Directors as consisting of seven members who must comply with certain qualities and requirements, including abstention from a series of prohibitions both before assuming and after occupying their posts. This was designed with the aim of ensuring a high level of professional and ethical aptitude amongst the members coherent with their responsibility of representing the Nation’s general interest.

As mentioned previously, Law 31 provided for the periodic renewal of the Board. The Chief Executive Officer is elected by the remaining members of the Board for a period of four years and can be re-elected for up to two additional terms.

- ***The Stability of the National Currency: the Primary Responsibility of the Bank***

According to constitutional and legal mandate, the essential responsibility of the Banco de la República is to safeguard the purchasing power of the national currency, therefore implying that inflation control is the primary objective of monetary policy. Accordingly, price stability is recognised as being necessary for economic progress and, therefore, the Bank must make adjustments to the overall growth of currency and credit with the achievement in mind. Moreover, Law 31 requires that, at the beginning of each year, the Bank’s Board of Directors establish the inflation goal, thereby determining the economic policy that must be planned and executed.