



IX

ANNUAL REPORT 2002



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9.1 List of BCL circular letters

BCL circular letter 98/151 of 24 September 1998 regarding accounting aspects of the euro changeover

BCL circular letter 98/152 of 6 November 1998 regarding the introduction of a minimum reserve system

BCL circular letter 98/155 of 9 December 1998 regarding the reminder with regard to minimum reserve requirements

BCL circular letter 98/156 of 21 December 1998 regarding the breakdown of value corrections built up by credit institutions as of 31 December 1998

BCL circular letter 99/157 of 17 December 1999 regarding the revision of the percentage of the regular deduction from the reserve base

BCL circular letter 2000/158 of 25 February 2000 regarding the modification of statistical tables S 1.1 "*Bilan statistique mensuel*" and S 1.2 "*Bilan statistique mensuel simplifié*"

BCL circular letter 2000/159 of 11 August 2000 regarding the enforcement of security pricing quotas applicable to eligible securities "*Eligibilité des créances privées néerlandaises*"

BCL circular letter 2000/160 of 13 November 2000 to all monetary UCIs regarding the accession of Greece to the EMU

BCL circular letter 2000/161 of 13 November 2000 regarding the delivery date of monthly statistical reports to the BCL

BCL circular letter 2000/162 of 13 November 2000 to all credit institutions regarding the accession of Greece to the EMU

BCL circular letter 2001/163 of 23 February 2001 regarding the surveillance by the Central bank of the payment and settlement systems in Luxembourg

BCL circular letter 2001/164 of 28 March 2001 regarding the registering of the global exchange and derivatives market

BCL circular letter 2001/165 of 5 May 2001 – to all credit institutions and to the financial services of the Postal and Telecommunications Services Company – Takeover of the activities of the Belgian Luxembourg Exchange Institute by the BCL and the STATEC

BCL circular letter 2001/166 of 5 July 2001 – to all credit institutions and to the financial services of the Postal and Telecommunications Services Company (giro accounts service) – Instructions regarding modification of the data collection with regard to the balance of payments

BCL circular letter 2001/167 of 19 November 2001 – to all credit institutions – regarding the delivery date of monthly statistical reports to the BCL

BCL circular letter 2001/168 of 5 December 2001 – Policy and procedures with regard to surveillance payment and settlement systems in Luxembourg.

BCL circular letter 2002/169 of 30 May 2002 – Studies on investment abroad – to all credit institutions and to the financial services of the Postal and Telecommunications Services Company

BCL circular letter 2002/170 of 5 June 2002 - to all credit institutions - Modification of statistical tables S 1.1 "*Bilan statistique mensuel*" and S 2.5 "*Bilan statistique trimestriel*" and abolition of statistical tables S 1.2 "*Bilan statistique mensuel simplifié*" and S 2.6 "*Détail des créances sur la clientèle*"

BCL circular letter 2002/171 of 5 June 2002 – to all Luxembourg UCITS - Modification of statistical tables S 1.3 "*Bilan statistique mensuel des OPC*", S 2.10 "*Ventilation par pays*", S 2.11 "*Ventilation par devises*" and S 2.12 "*Détail sur les titres détenus par les OPC*"

BCL circular letter 2002/172 of 28 June 2002 - Protection of payment and settlement systems against crime and terrorism – to technical operators and agents of payment and settlement systems

BCL circular letter 2002/173 of 3 July 2002 - Modification of the General Conditions of the BCL - to all credit institutions

BCL circular letter 2002/174 of 17 July 2002 - Modification of the statistical data collection with regard to interest rates - to all credit institutions

BCL circular letter 2002/175 of 17 July 2002 - New statistical data collection with regard to the EMU - to all credit institutions - Modification of statistical table S 1. 4 "*Ajustements liés aux effets de valorisation*"

BCL circular letter 2002/176 of 20 December 2002 – Delivery date of monthly statistical reports to the BCL – to all credit institutions

BCL circular letter 2002/177 of 20 December 2002 – List of country codes for the statistical reporting of the balance of payments record and of the quarterly statistical reporting S 2.5 – to all credit institutions

BCL circular letter 2002/178 of 20 December 2002 – Delivery dates of monthly statistical reports to the BCL – to all Luxembourg UCITS

9.2 Publications of the BCL

Paper copies of publications may be obtained at the BCL public counters within the limit of available stocks and according to its specified conditions. These publications may also be read and downloaded from the website www.bcl.lu.

Bulletins of the BCL

- [BCL Bulletin 1999/1, November 1999](#)
 - *Les statistiques de politique monétaire*
 - *Les évolutions monétaires et financières dans la zone euro et au Luxembourg*

- [BCL Bulletin 1999/2, January 2000](#)
 - *Les billets et les pièces : le rôle de la BCL*
 - *La balance des paiements et la position extérieure globale au Luxembourg*
 - *Les effets technologiques sur les systèmes bancaires de l'Union européenne*

- [BCL Bulletin 2000/1, June 2000](#)
 - *L'accélération de l'inflation au Luxembourg*
 - *La présentation de l'évolution de la masse monétaire au Luxembourg*
 - Consolidation in the European securities settlement systems environment

- [BCL Bulletin 2000/2, September 2000](#)
 - *Evolution du marché interbancaire à Luxembourg*
 - *L'inflation des prix des actifs immobiliers : une application au cas Luxembourg*
 - *Le virement en droit luxembourgeois*

- [BCL Bulletin 2000/3, December 2000](#)
 - *Description générique de l'environnement informatique à la BCL*
 - *L'architecture de la BCL pour l'échange électronique des données*
 - The role of the Eurosystem with regard to the payment and securities settlement systems

I

- [BCL Bulletin 2001/1, June 2001](#)
 - *Les effets du développement de la monnaie électronique*
 - "The European contribution to international financial stability", by Richard Portes
 - "The European Central Bank, the Eurosystem and the European System of Central Banks", by Dr. Willem F. Duisenberg

II

- [BCL Bulletin 2001/2, September 2001](#)
 - *L'évaluation d'actions de la nouvelle et de l'ancienne économie*
 - *La protection des systèmes de paiement et de règlement-titres. Analyse de la directive 98/26/CE et de sa transposition en droit luxembourgeois*

III

- [BCL Bulletin 2001/3, December 2001](#)
 - The euro cash changeover: a note on the effects of bounded rationality and rules of thumb
 - *Recensement triennal sur l'activité des marchés des changes et des profits dérivés*
 - *Transmission monétaire : Analyse de données des entreprises non financières luxembourgeoises*

IV

- [BCL Bulletin 2002/1, June 2002](#)
 - *Les soldes budgétaires apurés des mouvements conjoncturels*
 - *La production potentielle et l'écart de production au Luxembourg : une revue des méthodes alternatives*
 - *Efficacité productive des banques luxembourgeoises : une analyse comparative*

V

- [BCL Bulletin 2002/2 – Special edition re: financial stability, September 2002](#)

- [BCL Bulletin 2002/3, September 2002](#)
 - *Die Eurobargeldeinführung, regionale Preisentwicklung und die wahrgenommene Inflation der Verbraucher*
 - A descriptive analysis of the Luxembourg financial structure: 1998-2001

VI

- [BCL Bulletin 2002/4, December 2002](#)
 - *Der Euro und Regionale Preiskonvergenz?*
 - *La soutenabilité à long terme du régime général de pensions au Luxembourg*
 - *Indicateurs macroprudentiels : résultats en 2002 jusqu'au troisième trimestre*

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BCL Annual reports

- Annual Report 1998, April 1999
- Annual Report 1999, April 2000
- Annual Report 2000, April 2001
- Annual Report 2001, April 2002
- Annual Report 2002, April 2003

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BCL Working papers

- [Working paper no. 1, April 2001](#)
"An assessment of the national labour market – On employment, unemployment and their link to the price level in Luxembourg", by Erik Walch
- [Working paper no. 2, November 2001](#)
"Stock market valuation of old and new economy firms", by Patrick Lünemann
- [Working paper no. 3, March 2002](#)
"*Economies d'échelle, économies de diversification et efficacité productive des banques luxembourgeoises : une analyse comparative des frontières stochastiques sur données en panel*", by Abdelaziz Rouabah
- [Working paper no. 4, June 2002](#)
"Potential output and the output gap in Luxembourg: some alternative methods", by Paolo Guarda
- [Working paper no. 5, October 2002](#)
"Monetary transmission: empirical evidence from Luxembourg firm-level data", by Patrick Lünemann and Thomas Mathä
- [Working paper no. 6, January 2003](#)
"The sustainability of the private sector pension system from a long-term perspective: the case of Luxembourg", by Muriel Bouchet
- [Working paper no. 7, February 2003](#)
"The analysis of risk and risk mitigation techniques in payment and securities settlement systems and the impact on central bank's oversight", by Simona Amati

BCL brochures

- *Euro Pratique – Vade-mecum sur l'introduction de l'euro*
(in French, German and Portuguese), May 1998
- Introducing euro notes and coins in the Grand-Duchy of Luxembourg (in French, German, English and Portuguese), October 2000
- *Les emplois à la Banque centrale of Luxembourg, November 2001*

"The Banque centrale of Luxembourg in the European System of Central Banks", by Michael Palmer, May 2001

In Memoriam – Pierre Werner – A tribute, by Michael Palmer, August 2002

BCL euro documentation**General Conditions for BCL operations**

I

9.3 Economic and financial statistics of the BCL

Statistical tables listed hereunder are available on the BCL Internet site www.bcl.lu ("Statistics") and are regularly updated. You may also sign in on the BCL mailing list, which allows the BCL to inform you of major changes affecting statistics and other important documents. These tables are also published in the quarterly BCL Bulletin.

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9.4 Documents published by the European Central Bank

For a complete list of the documents published by the ECB and for the versions in all official languages of the EU, please visit the ECB's web site www.ecb.int.

9.5 List of abbreviations

| | |
|----------|---|
| ABBL | <i>Association des Banques et Banquiers, Luxembourg</i> |
| AGDL | <i>Association pour la garantie des dépôts, Luxembourg</i> |
| BCL | <i>Banque centrale du Luxembourg</i> |
| BIS | Bank for International Settlements |
| BLEU | Belgian Luxembourg Economic Union |
| BNB | <i>Banque Nationale de Belgique</i> |
| CCBM | Correspondent central banking model |
| CEPR | Centre for Economic Policy Research |
| CESR | Committee of European Securities Regulators |
| CETREL | <i>Centre de transferts électroniques Luxembourg</i> |
| CPI | Consumer Price Index |
| CMFB | Committee on monetary, financial and balance of payments statistics |
| CSSF | <i>Commission de surveillance du secteur financier</i> |
| EBRD | European Bank for Reconstruction and Development |
| ECB | European Central Bank |
| ECG | Enlarged Contact Group on the Supervision of Investment Funds |
| EFC | Economic and Financial Committee |
| EIB | European Investment Bank |
| EMI | European Monetary Institute (1994-1998) |
| EMS | European Monetary System |
| EMU | Economic and Monetary Union |
| ESCB | European System of Central Banks |
| EU | European Union |
| EUR | euro |
| EUROSTAT | Statistical office of the European Communities |
| FATF | Financial Action Task Force against money laundering |
| FSAP | Financial Sector Assessment Program |
| GDP | Gross domestic product |



| | | |
|-----|---------------|--|
| I | HICP | Harmonised Index of Consumer Prices |
| | IADB | Inter American Development Bank |
| | IMF | International Monetary Fund |
| | IML | <i>Institut Monétaire Luxembourgeois (1983-1998)</i> |
| | IOSCO | International Organisation of Securities Commissions |
| II | LIPS-Gross | Luxembourg Interbank Payment System Real-Time Gross Settlement System |
| | LIPS-Net | Luxembourg Interbank Payment System Real-Time Net Settlement System |
| | MFI | Monetary Financial Institution |
| | MRO | Main refinancing operation |
| | NAIRU | Non-accelerating inflation rate of unemployment |
| | NAV | Net Asset Value |
| III | NCB | National central bank |
| | OECD | Organisation for Economic Cooperation and Development |
| | OFI | Other Financial Intermediaries |
| | OLAF | European Anti-Fraud Office |
| | OPEC | Organisation for Petroleum Exporting Countries |
| IV | LTRO | Longer term refinancing operation |
| | PBO | Projected Benefit Obligation |
| | PCSS | Payment and Settlement Systems Committee |
| | PSPWG | Payments Systems Policy Working Group |
| | ROA | Return on Assets |
| | ROE | Return on Equity |
| | RTGS system | Real-Time Gross Settlement system |
| | RTGS-GIE | Economic interest grouping for real-time gross settlement of payments in Luxembourg |
| | SDDS | Special Data Dissemination Standard |
| | SDR | Special Drawing Rights |
| | SEC | European System of National Accounts |
| | SGP | Stability and Growth Pact |
| | SWIFT | Society for Worldwide Interbank Financial Telecommunication s.c. |
| | SYPAL-GIE | Economic interest grouping for the promotion and management of payment systems in Luxembourg |
| VII | STATEC | Central service for statistics and studies |
| | TARGET system | Trans-European Automated Real-time Gross settlement Express Transfer system |
| | UCI | Undertaking for Collective Investments |
| | UCITS | Undertaking for Collective Investments in Transferable Securities |

9.6 Glossary

Acquis communautaire: term commonly used to refer to all Community law including EU treaties, regulations and directives. Countries joining the EU must have implemented the existing *acquis communautaire* by the time of accession.

Attractive price: Attractive prices means psychological prices, *i.e.* prices which end with the figures 9, 95, 98, fractional prices which end with the figures 0 and 5 and rounded prices which are multiples of 100.

Base effect: When analysing business cycles, the evolution of annual variation rates of a variable are often explained by "base effects". There is a base effect when the evolution of a variable's annual rate from month *t* to month *t*+1 varies because of the evolution of the variable's level 12 months before and not because of the variation of the variable's level between month *t* and month *t*+1.

Central securities depository (CSD): an entity which holds and administers securities or other financial assets and enables securities transactions to be processed by book entry. Assets may exist either physically (but immobilised within the CSD) or in a dematerialised form (*i.e.* only as electronic records).

Collateral: assets pledged (e.g. by credit institutions with central banks) as a guarantee for the repayment of loans, as well as assets sold (e.g. to central banks by credit institutions) as part of repurchase agreements.

Consolidated MFI balance sheet: this is obtained by netting out inter-MFI positions (e.g. inter-MFI loans and deposits) on the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities *vis-à-vis* non-MFI euro area residents (*i.e.* general government and other euro area residents) and on its external assets and liabilities (*i.e.* balances *vis-à-vis* non-euro area residents). This consolidated balance sheet is the main statistical source for the calculation of monetary aggregates and it provides the basis for the regular analysis of the counterparts of M3.

Correspondent central banking model (CCBM): a mechanism established by the European System of Central Banks with the aim of enabling counterparties to obtain credit from the central bank of the country in which they are based using collateral held in another country. In the CCBM, an NCB acts as custodian for the other NCBs with regard to the securities held in its domestic securities settlement system (SSS).

Counterparty: the opposite party in a financial transaction (e.g. any party transacting with a central bank).

Credit institution: an institution covered by the definition in Article 1 of Directive 2000/12/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions. Thus, a credit institution is: (i) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account.

Currency in circulation: comprises banknotes and coins in circulation that are commonly used to make payments. Throughout 2002, currency in circulation included banknotes issued by the Eurosystem and by other monetary financial institutions (MFIs) (in Ireland and Luxembourg) as well as coins issued by the euro area central governments denominated in both euro and the legacy currencies, even though the euro has been the sole legal tender in all euro area countries since 1 March 2002. From 1 January 2003 onwards, however, only euro banknotes and coins are taken into account. Currency in circulation as included in M3 is a net concept, meaning that it refers only to banknotes and coins in circulation held outside the MFI sector (*i.e.* currency held by MFIs or "vault cash" has been subtracted). Furthermore, it includes neither central banks' stocks of own banknotes (as they have not been put into circulation), nor commemorative coins (that are not commonly used to make payments).

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits at a national central bank and which are remunerated at a pre-specified interest rate (see key ECB interest rates).

Economic and Financial Committee: a consultative Community body set up at the start of Stage Three of Economic and Monetary Union (EMU), when the Monetary Committee was dissolved. The Member States, the European Commission and the European Central Bank (ECB) each appoint no more than two members of the Committee. One of the two members appointed by each of the Member States is selected from among senior officials from the respective national administration and the other from among senior officials from the respective national central bank. Article 114 (2) of the Treaty contains a list of the tasks of the Economic and Financial Committee, which include reviewing the economic and financial situation of the Member States and of the Community.

Economic and Monetary Union (EMU): the Treaty describes the process of achieving EMU in the European Union (EU) in three stages. Stage One of EMU started in July 1990 and ended on 31 December 1993; it was mainly characterised by the dismantling of all internal barriers to the free movement of



capital within the EU. Stage Two of EMU began on 1 January 1994. It provided for, *inter alia*, the establishment of the **European Monetary Institute (EMI)**, the prohibition of financing of the public sector by the central banks, the prohibition of privileged access to financial institutions by the public sector and the avoidance of excessive government deficits. Stage Three started on 1 January 1999 with the transfer of monetary competence to the **European Central Bank (ECB)** and the introduction of the **euro**. The cash changeover on 1 January 2002 completed the set-up of EMU.

Effective (nominal/real) exchange rates (EERs): nominal EERs consist of a geometric weighted average of various bilateral exchange rates. Real EERs are nominal EERs deflated by a weighted average of foreign, relative to domestic, prices or costs. They are thus measures of price and cost competitiveness. The **European Central Bank (ECB)** calculates nominal EER indices for the **euro** against the currencies of a narrow and a broad group of trading partners of the **euro area**. Since January 2001, the narrow group has consisted of 12 industrial and newly industrialised partner countries, while the broad group has been made up of 38 trading partners including emerging market and transition economies. The real EER indices for the euro are calculated using alternative measures of prices and costs.

Electronic money (e-money): an electronic store of monetary value on a technical device that may be widely used as a prepaid bearer instrument for making payments to undertakings other than the issuer, without necessarily involving bank accounts in the transactions.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in **euro** to another prime bank. The EURIBOR is computed daily for interbank deposits with a maturity of one to three weeks and one to 12 months as the average of the daily offer rates of a representative panel of prime banks, rounded to three decimal places.

Euro: the name of the European single currency adopted by the European Council at its meeting in Madrid on 15 and 16 December 1995 and used instead of the term **ECU** originally employed in the **Treaty**.

Euro area: the area encompassing those Member States in which the **euro** has been adopted as the single currency in accordance with the **Treaty** and in which a single monetary policy is conducted under the responsibility of the **Governing Council** of the **European Central Bank (ECB)**. The euro area currently comprises Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.

European Central Bank (ECB): the ECB lies at the centre of the **European System of Central Banks (ESCB)** and the **Eurosystem** and has legal personality under Community law. It ensures that the tasks conferred upon the Eurosystem and the ESCB are implemented either through its own activities or the national central banks, pursuant to the Statute of the European System of Central Banks and of the European Central Bank. The ECB is governed by the **Governing Council** and the **Executive Board**, and, as a third decision-making body, by the **General Council**.

European Monetary Institute (EMI): a temporary institution established at the start of Stage Two of **Economic and Monetary Union** on 1 January 1994. The two main tasks of the EMI were to strengthen central bank co-operation and monetary policy co-ordination and to make the preparations required for the establishment of the **European System of Central Banks**, for the conduct of the single monetary policy and for the creation of a single currency in Stage Three. It went into liquidation upon the establishment of the **European Central Bank** on 1 June 1998.

European System of Central Banks (ESCB): composed of the **European Central Bank (ECB)** and the national central banks of all 15 Member States, *i.e.* it includes, in addition to the members of the **Eurosystem**, the national central banks of the Member States which have not yet adopted the **euro**. The ESCB is governed by the **Governing Council** and the **Executive Board** of the ECB, and, as a third decision-making body of the ECB, by the **General Council**.

Eurosystem: comprises the **European Central Bank (ECB)** and the national central banks (NCBs) of the Member States which have adopted the **euro** in Stage Three of **Economic and Monetary Union** (see also **euro area**). There are currently 12 NCBs in the Eurosystem. The Eurosystem is governed by the **Governing Council** and the **Executive Board** of the ECB.

Eurosystem's international reserves: these comprise the reserve assets of the **European Central Bank (ECB)** and the reserve assets held by the national central banks (NCBs) of the participating

Member States. Reserve assets must be under the effective control of the relevant monetary authority, whether the ECB or the NCB of one of the participating Member States, and comprise highly liquid, marketable and creditworthy foreign (*i.e.* non-euro) currency-denominated claims on non-euro area residents, plus gold, special drawing rights and the reserve positions in the International Monetary Fund of the participating NCBs.

Executive Board: second decision-making body of the **European Central Bank (ECB)**. It comprises the President and the Vice-President of the ECB and four other members appointed by common accord by the Heads of State or Government of the Member States that have adopted the **euro**.

Fine-tuning operation: a non-regular **open market operation** executed by the **Eurosystem** mainly in order to deal with unexpected liquidity fluctuations in the market.

Foreign exchange swap: simultaneous spot and forward transactions exchanging one currency against another. The **Eurosystem** can execute **open market operations** in the form of foreign exchange swaps, where the national central banks (or the **European Central Bank**) buy or sell **euro** spot against a foreign currency and, at the same time, sell or buy them back in a forward transaction.

General Council: one of the decision-making bodies of the **European Central Bank (ECB)**. It comprises the President and the Vice-President of the ECB and the governors of all 15 EU national central banks.

Governing Council: the supreme decision-making body of the **European Central Bank (ECB)**. It comprises all the members of the **Executive Board** of the ECB and the governors of the national central banks of the Member States that have adopted the **euro**.

Harmonised Index of Consumer Prices (HICP): the measure of prices used by the **Governing Council** for the purpose of assessing **price stability**. The HICP was developed by the European Commission (Eurostat) in close liaison with the national statistical institutes and the **European Monetary Institute**, and later the **European Central Bank**, in order to fulfil the **Treaty** requirement for a consumer price index constructed on a comparable basis, taking into account differences in national definitions.

Longer-term refinancing operation: a regular **open market operation** executed by the **Eurosystem** in the form of a **reverse transaction**. Longer-term refinancing operations are carried out through monthly **standard tenders** and have a maturity of three months.

Lump-sum allowance: a fixed amount which a **credit institution** deducts in the calculation of its **reserve requirement** within the minimum reserve framework of the **Eurosystem**.

M1, M2, M3: see **monetary aggregates**.

Main refinancing operation: a regular **open market operation** executed by the **Eurosystem** in the form of a **reverse transaction**. Main refinancing operations are conducted through weekly **standard tenders** and normally have a maturity of two weeks.

Marginal lending facility: a **standing facility** of the **Eurosystem** which **counterparties** may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets.

Monetary aggregates: **currency in circulation**, plus outstanding amounts of certain liabilities of **monetary financial institutions** and central governments that have a relatively high degree of liquidity and are held by non-MFI **euro area** residents outside the central government sector. The narrow monetary aggregate **M1** has been defined as currency in circulation plus overnight deposits. The “intermediate” monetary aggregate **M2** comprises M1 plus deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months. The broad monetary aggregate **M3** includes M2 plus **repurchase agreements**, money market fund shares and units, money market paper and debt securities with a maturity of up to two years. In October 1998 the **Governing Council** announced a reference value for the growth of M3, which it has since reconfirmed (see also **reference value for monetary growth**).

Monetary financial institutions (MFIs): financial institutions which form the money-issuing sector of the **euro area**. These include the **Eurosystem**, resident **credit institutions** (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic



terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds. At the end of 2002, there were 8,545 MFIs in the euro area (13 central banks, 6,907 credit institutions, 1,620 money market funds and five other financial institutions).

Open market operation: an operation executed on the initiative of the central bank in the financial markets involving one of the following transactions: (i) buying or selling assets outright (spot or forward); (ii) buying or selling assets under a **repurchase agreement**; (iii) lending or borrowing against underlying assets as **collateral**; (iv) issuing central bank debt certificates; (v) accepting fixed-term deposits; or (vi) conducting **foreign exchange swaps** between domestic and foreign currencies.

Outright transaction: a transaction whereby assets are bought or sold up to their maturity (spot or forward).

Price stability: the maintenance of price stability is the primary objective of the **European Central Bank**. In October 1998, the **Governing Council** published a quantitative definition of price stability in order to give clear guidance to expectations of future price developments and to be accountable. The Governing Council defined price stability as a year-on-year increase in the **Harmonised Index of Consumer Prices (HICP)** for the **euro area** of below 2%. The Governing Council announced that price stability according to this definition is to be maintained over the medium term. The definition delineates an upper boundary for the rate of measured inflation; at the same time, the use of the word "increase" signals that deflation, *i.e.* prolonged declines in the level of the HICP, would not be deemed consistent with price stability.

Quick tender: the tender procedure used by the **Eurosystem** for **fine-tuning operations**. Quick tenders are executed within a time frame of one hour and are restricted to a limited set of **counterparties**.

Reference value for monetary growth: the **Governing Council** assigns money a prominent role in the conduct of the single monetary policy, implying that **monetary aggregates** and their counterparts are thoroughly analysed regarding their information content for future price developments. This is signalled by the announcement of a reference value for the growth rate of the monetary aggregate **M3**. The reference value is derived in a manner which is consistent with and serves the achievement of the **Governing Council's** definition of **price stability** on the basis of medium-term assumptions regarding trend real GDP growth and the trend in the velocity of circulation of M3. Substantial or prolonged deviations of M3 growth from the reference value would, under normal circumstances, signal risks to price stability over the medium term. However, the concept of the reference value does not entail a commitment on the part of the Governing Council to correct mechanistically deviations of M3 growth from the reference value.

Reserve base: the sum of the balance sheet items (in particular liabilities) which constitute the basis for calculating the **reserve requirement** of a **credit institution**.

Reserve ratio: a ratio defined by the central bank for each category of balance sheet items included in the reserve base. The ratios are used to calculate reserve requirements.

Reserve requirement: the requirement for **credit institutions** to hold minimum reserves with the central bank. In the minimum reserve framework of the **Eurosystem**, the reserve requirement of a credit institution is calculated by multiplying the **reserve ratio** for each category of items within the **reserve base** by the amount of those items on the institution's balance sheet. In addition, institutions are allowed to deduct a **lump-sum allowance** from their reserve requirement.

Reverse transaction: an operation whereby the central bank buys or sells assets under a **repurchase agreement** or conducts credit operations against **collateral**.

RTGS (real-time gross settlement) system: a settlement system in which processing and settlement take place on an order-by-order basis (without netting) in real time (continuously). See also **TARGET**.

SEC 95: The European System of National Accounts is an accounting framework applicable on an international level and allowing to describe in a systematic and detailed way what is called a "total economy" (*i.e.* a region, a country, a group of countries), its components and its relations with other total economies.

Securities settlement system (SSS): a system which permits the holding and transfer of securities or other financial assets, either free of payment or against payment (delivery versus payment).

Standard tender: a tender procedure used by the Eurosystem in its regular open market operations. Standard tenders are carried out within 24 hours. All counterparties fulfilling the general eligibility criteria are entitled to submit bids.

Standing facility: a central bank facility available to counterparties on their own initiative. The Eurosystem offers two overnight standing facilities: the marginal lending facility and the deposit facility.

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system): the real-time gross settlement (RTGS) system for the euro. It is a decentralised system consisting of 15 national RTGS systems and the European Central Bank payment mechanism. These are interconnected by common procedures (Interlinking mechanism) to allow cross-border transfers throughout the EU to move from one system to another.

Treaty: refers to the Treaty establishing the European Community (TEC). The Treaty was signed in Rome on 25 March 1957 and entered into force on 1 January 1958. It established the European Economic Community, which is now the European Community, and is often referred to as the "Treaty of Rome". The Treaty on European Union (which is often referred to as the "Maastricht Treaty") was signed on 7 February 1992 and entered into force on 1 November 1993. The Treaty on European Union amended the TEC and established the European Union. The "Treaty of Amsterdam", which was signed in Amsterdam on 2 October 1997 and entered into force on 1 May 1999, and most recently the "Treaty of Nice", which was signed on 26 February 2001 and entered into force on 1 February 2003, amended both the TEC and the Treaty on European Union.