



2. OTHER BCL FINANCIAL ACTIVITIES

2.1 Monetary policy operations

In Luxembourg, the BCL is in charge of the execution of monetary policy as formulated by the ECB for the whole euro area. The open market operations performed by the BCL consist in providing liquidity against collateral assets to BCL counterparties i.e. the Luxembourg credit institutions.

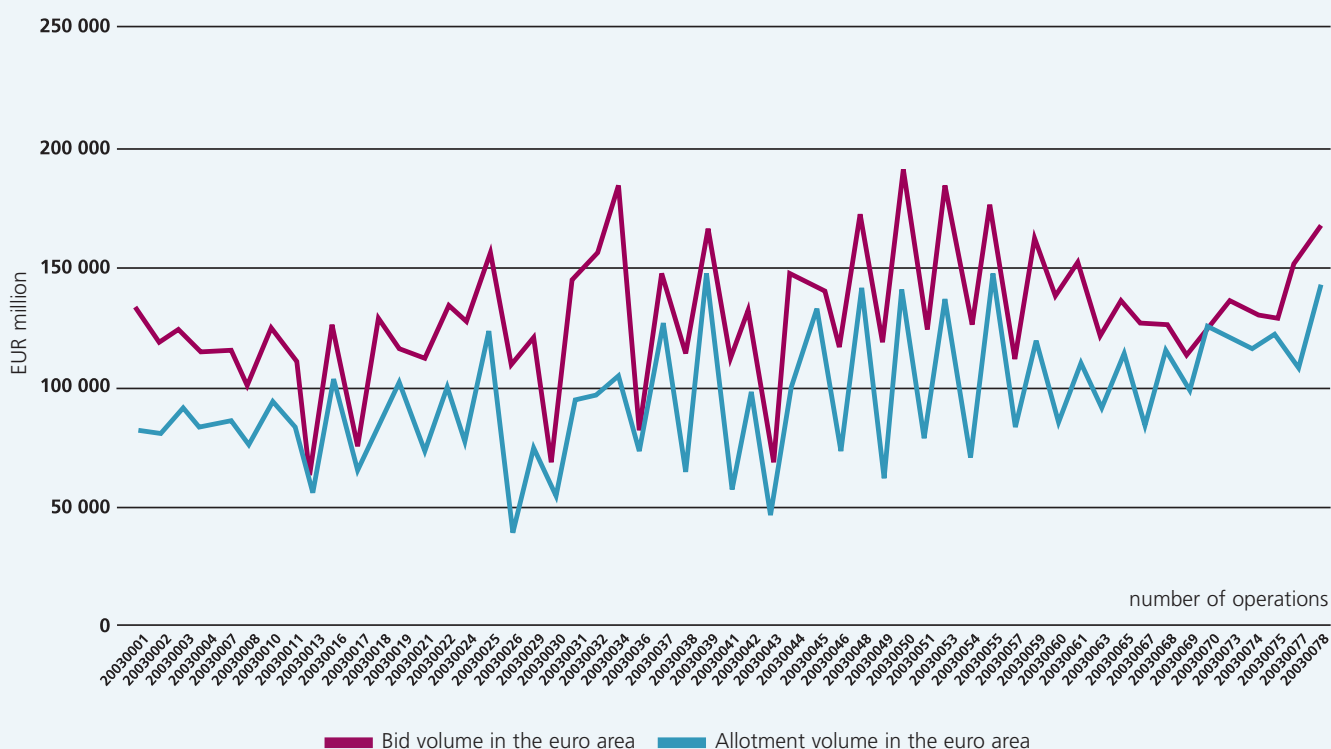
Open market operations are divided into:

- main refinancing operations -MRO- which are conducted regularly through weekly standard tenders,
- longer-term refinancing operations -LTRO- which are executed regularly through monthly standard tenders with a maturity of three months.

- The main refinancing operations (MRO)

Main refinancing operations of the Eurosystem are conducted as variable rate tenders, using the multiple rate auction technique.

GRAPH 1: MRO IN 2003 - BID AND ALLOTMENT VOLUME IN THE EURO AREA

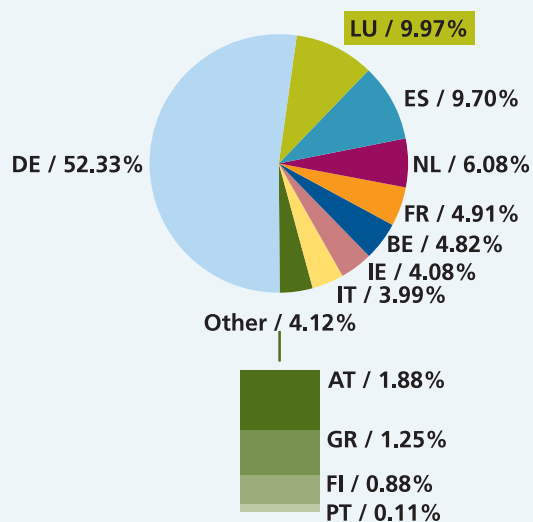


2. OTHER BCL FINANCIAL ACTIVITIES

With regards to the allotment volume in the whole euro area, Luxembourg ranked, on average, on the second place behind Germany in 2003, as it did in 2002.

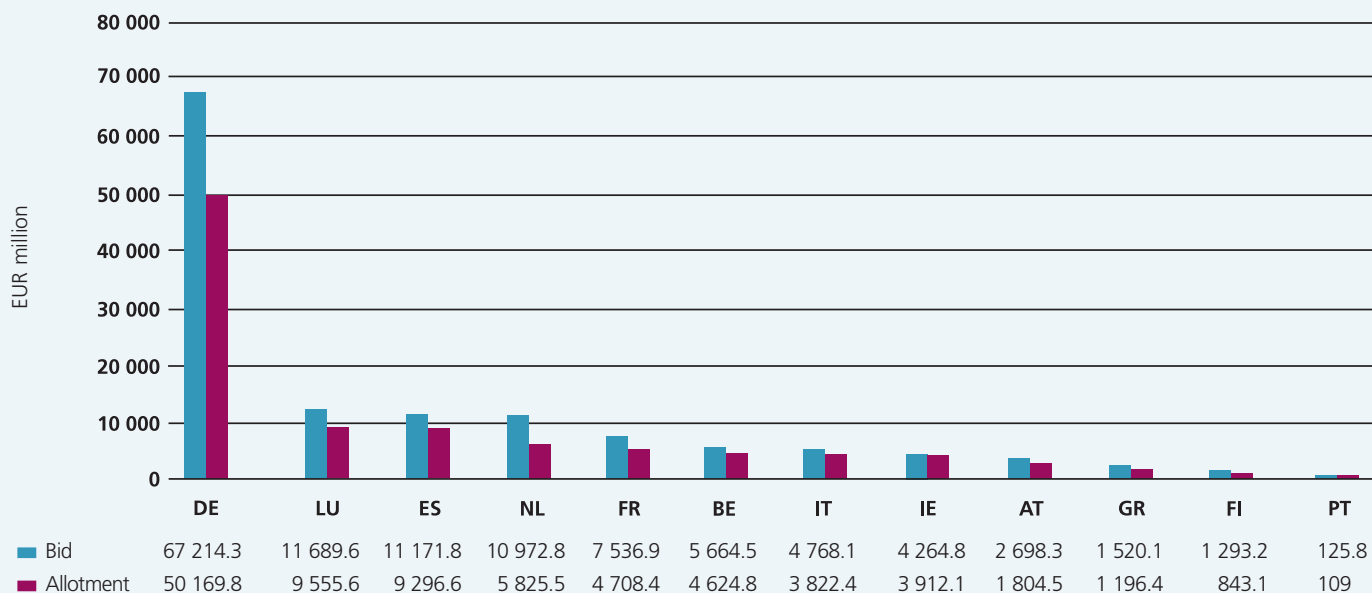
Compared to 2002, the average percentage allotted to Luxembourg in 2003 decreased from 12.04% to 9.97%.

GRAPH 2: MRO IN 2003 - AVERAGE ALLOTMENT VOLUME IN THE EURO AREA



The average number of participating counterparties in MRO remained stable with an average of 18.7 counterparties in comparison with 18.2 in 2002.

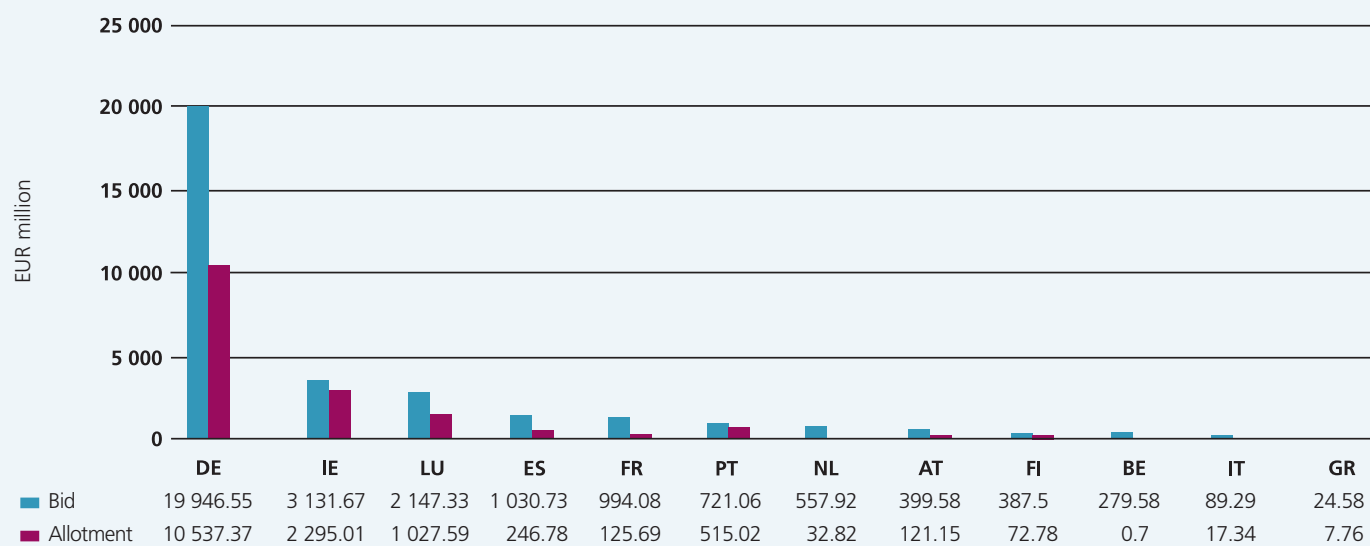
GRAPH 3: MRO IN 2003 - AVERAGE BID AND ALLOTMENT VOLUME IN THE EURO AREA



- The longer-term refinancing operations (LTRO)

With regard to the allotment volume in the whole euro area, Luxembourg ranked, on average, on the third place in 2003. The average number of counterparties decreased from 10.8 in 2002 to 7 in 2003. This trend is also observed in the whole euro area (185.6 counterparties in 2002 in comparison to 132.5 in 2003).

GRAPH 4: LTRO IN 2003 - AVERAGE BID AND ALLOTMENT VOLUME IN THE EURO AREA



In January 2004, the Governing Council decided to increase the amount to allot for each LTRO from 15 to 25 billion euros.

- Fine-tuning operations

On May 2003, the ECB launched a fine-tuning operation (liquidity absorbing) in order to re-establish normal conditions on the liquidity market.

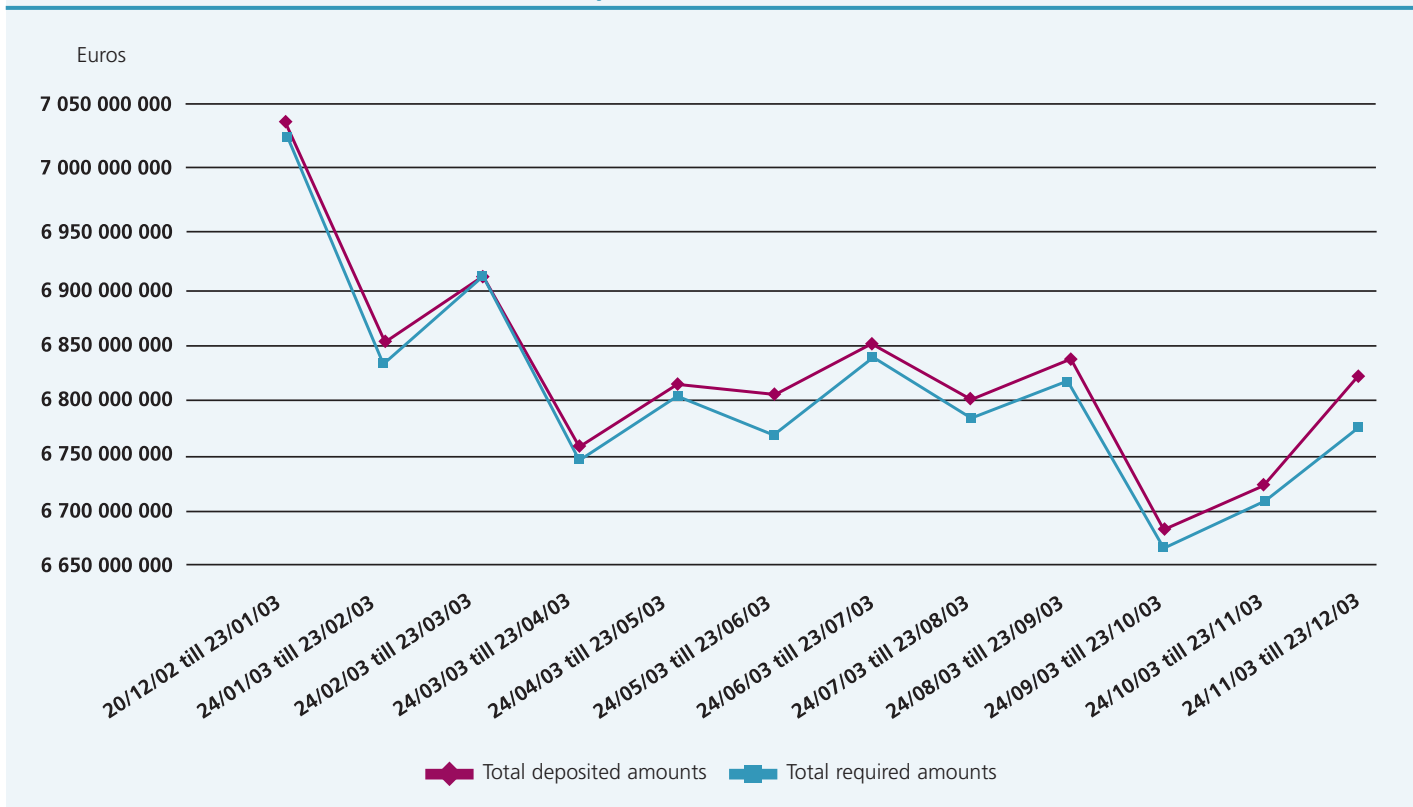
2. OTHER BCL FINANCIAL ACTIVITIES

The minimum reserves system

In 2003, the average amount of minimum reserves held by credit institutions in Luxembourg was estimated at 6.8 billion euros.

The deposited amounts are remunerated at the average MRO rate of the ECB during the maintenance period.

GRAPH 5: DEVELOPMENT OF THE AVERAGE REQUIRED AND DEPOSITED MINIMUM RESERVES



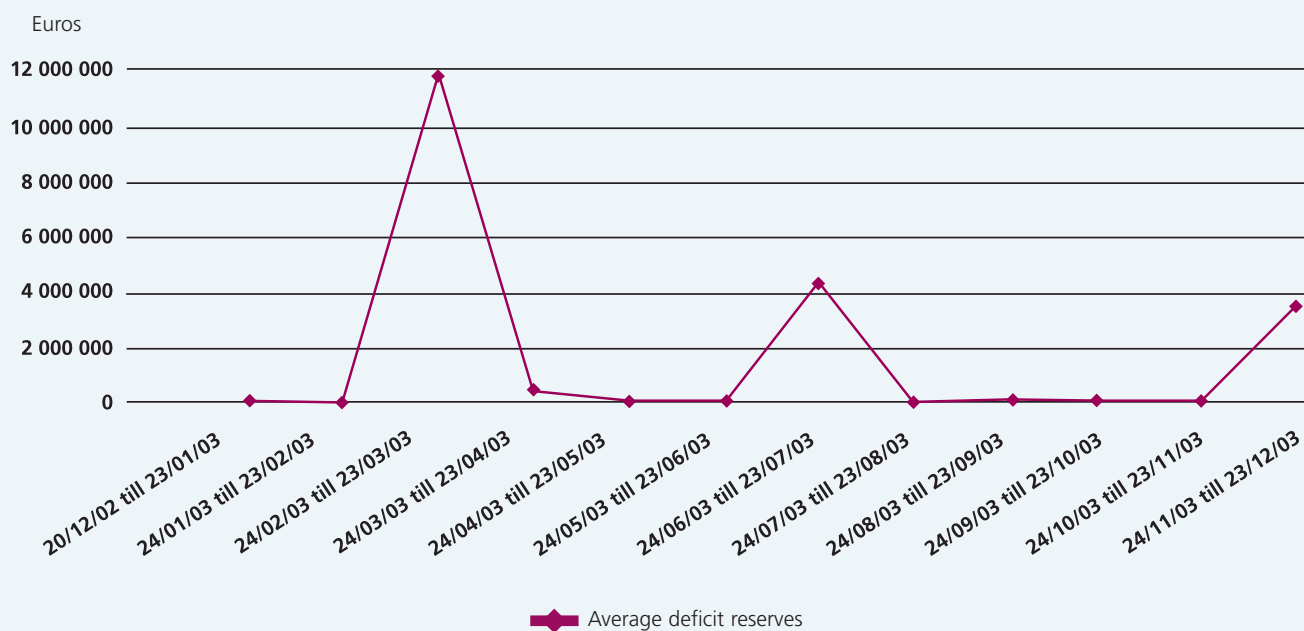
Evolution of the remuneration rate in 2003

In 2003, the rates at which minimum reserves were remunerated passed from 2.87% to 2.00%.

It is noteworthy that 6 sanctions for not respecting minimum reserves requirements have been paid in 2003 in comparison to 17 in 2002.

Period	1	2	3	4	5	6	7	8	9	10	11	12
Rate (%)	2.87	2.78	2.67	2.53	2.54	2.34	2.09	2.06	2.07	2.05	2.03	2.00

GRAPH 6: DEVELOPMENT OF AVERAGE DEFICIT RESERVES



2. OTHER BCL FINANCIAL ACTIVITIES

GRAPH 7: DEVELOPMENT OF AVERAGE EXCESS RESERVES



Excess of minimum reserves -that are not remunerated- remained at a high level during the whole year.

Changes to the Eurosystem's operational framework for monetary policy

During the first quarter of 2004, two major changes to the Eurosystem's operational framework came into effect:

- 1) The timing of the reserve maintenance period has been changed in order to always start on the settlement day of the MRO following the Governing Council meeting at which the monthly assessment of the monetary policy stance is scheduled. Furthermore, the implementation of changes to the standing facility rates will, as a rule, be aligned with the start of the new reserve maintenance period.

- 2) The maturity of the MROs has been shortened from two weeks to one week.

Finally, the LTRO will no longer be allotted on the first Wednesday of the reserve maintenance period but normally on the last Wednesday before the end of the calendar month. These two measures will tend to suppress anticipations of interest rates changes during a maintenance period, since ECB reference interest rates modifications apply generally in the next maintenance period and applying liquidity conditions during a period does no longer refer to the next period. Also, as a consequence of the new definition, reserve maintenance periods will always start on a TARGET operating day and will rarely end on a non-TARGET day.

2.2 Foreign exchange reserves management by the BCL

According to the Statute of the European System of Central Banks (ESCB), the BCL had to contribute to the ECB's capital. As a result, the BCL transferred an amount of 74.6 million euros in foreign exchange assets to the ECB. This corresponds to the BCL's capital key, equivalent to 0.1492% of the ECB's capital. The ECB's foreign exchange reserves are managed in a decentralised way by NCBs including the BCL (since September 1999). As of 31 December 2003, the total market value (including accrued interests) owned by the BCL corresponded to 69.2 million euros. On 1 January 2004, the BCL's capital key was raised to 0.1708% and an additional amount of 10.8 million euros was transferred to the ECB.

One goal of the foreign exchange reserves management of the ECB is to make sure that if required, the ECB has sufficient liquidity available to intervene in the foreign exchange markets. Security and liquidity are therefore basic requirements for the management of these reserves.

The "tactical benchmark" is established with regard to the "strategic benchmark" for each currency. It reflects the ECB's medium term preference as regards revenue and risk with reference to market conditions. A modification of the "tactical benchmark" may affect different risk categories (e.g. modified duration or liquidity risk). The modified maturity of the "tactical benchmark" may differ from the modified maturity of the "strategic benchmark" in the context of fluctuation margins announced in advance by the ECB.

In the management of this portfolio, the first task of the BCL is to invest the foreign exchange reserves on behalf of the ECB within the foreseen fluctuation margins and fixed risk limits with an aim of revenue maximisation. The amount of assets in gold that are managed actively is fixed by the ECB by taking into account strategic considerations as well as market conditions.

2.3 The management of the BCL's assets

The management of the BCL's own assets is done in accordance with the ECB principles. The investment policy underlying the management of the assets is based on the following criteria:

- cautious investment approach;
- fundamental macroeconomic analysis;
- organisation of the portfolio scheme;
- choice of the investment decisions;
- thorough control and well calculated risk-taking.

The BCL's investment policy is trying to achieve the following goals: generate regular high yields and provide, in the long term, a lasting return on investment by allowing for capital security, stability of the securities and liquidity. For that reason and with respect to the principle of equal risk distribution, the BCL implements a coordinated, pro-active and progressive investment policy based on modern portfolio theory.

The bulk of the BCL's own assets is invested in fixed income securities denominated in euros. Yet, the BCL's strategic orientation allows a diversification to other categories of assets.

The ALCO -Asset and Liability Committee- is in charge of the investment policy of the BCL's financial resources. Taking into account goals and constraints on an annual basis, the ALCO steers for a strategic orientation in the management of the portfolios by defining an appropriate framework for the investment policy and the determination of the "strategic benchmark" oriented to revenue collection and performance calculation.

The management committee is in charge of the tactical allocation and defines the main thrust of investment on a monthly basis. The "tactical benchmark" is set up according to the "strategic benchmark", taking into account fluctuation margins. It focuses on the short term tactical investment strategy.

Investment decisions are made by taking into account:

- the interest rate risks (average portfolio duration, yield curve position);
- the risk degree of markets (chosen sectors, portfolio asset selection according to the risk degree of a given security and, to a lesser extent, to the geographic distribution by country).

2. OTHER BCL FINANCIAL ACTIVITIES

Investment decisions are taken on the basis of technical and fundamental analyses, as well as quantitative assessments. The management committee's role is to define reference factors that guide the management of the bank's assets, to monitor the investments, to review the strategy and the achieved performance. External standard benchmarks allow a regular comparison of the performance.

The cautious investment approach takes into account:

- the analysis of various economies and of the international financial markets;
- the allocation decision of the assets under management by appraising the investment returns on the different international markets;
- the definition of a clear strategy;
- the preservation of the capital value of the assets under management by a policy of risk diversification and the maintenance of a particular quality requirement of investment;
- the applying of strict risk control measures.

"Investment Portfolio" (Portfolio 1)

The investment portfolio is composed of assets which are akin to own funds (in terms of their relevancy to exploitation, the obligations to the Eurosystem, longer term investments etc...). The main goal of this investment portfolio is to maximise yield by taking into account particular requirements in terms of risk, revenue and liquidity. As of 31 December 2003, the total market value (including accrued interests) represented 550.1 million euros plus 70.8 million euros of assets in foreign currencies.

In 2003, a significant part of the BCL's own funds has been invested in long-term bonds, given that market conditions for that kind of investment were very favourable. However, around the end of the year, the underlying duration of the portfolio has been reduced.

It is worth noting that the securities included in this portfolio are largely diversified according to the geographic location and activity of the issuer. Counterparties and credit risk limits are regularly set up and checked by the risk management team.

"Liquidity Portfolio" (Portfolio 2)

This portfolio represents the other assets in compensation of TARGET accounts and other liabilities. This operational portfolio's aim is to offer liquidity to face up to cash-flow fluctuations. The instruments used are mainly short term interbank deposits, CDs, commercial papers, operations of transfer and retrocession and the purchase of variable rate bonds. As of 31 December 2003 the total market value (including accrued interests) amounted to 1 244.4 million euros.

"Pension Fund Portfolio"

The management of this fund is described further in section 4.2.4 of this report.

"Institutional portfolios"

The BCL provides discretionary management services to public institutions and other central banks.

TABLE 1: ASSETS ALLOCATION AS OF 31 DECEMBER 2003

Maturity	Portfolio 1	Portfolio 2
0-1 year	47%	70%
1-3 years	11%	30%
3-5 years	3%	0%
5-10 years	9%	0%

2.4 Banknotes and circulation of fiduciary money

The BCL has assumed its responsibilities for the organisation of the production and the management of the quality of euro banknotes. As during the previous years, the total needs of banknotes of the participating NCBs have been aggregated by the ECB and subsequently the production of one denomination is assigned to at most two NCBs. In 2003, the BCL was thus responsible for the production of 1.9 million 200-euro banknotes, for its own needs. The production of these banknotes has been entrusted to the specialised printing works "Bundesdruckerei" established in Berlin, Germany.

As of 1 May 2003, according to a new agreement between the Luxembourg Government and the BCL, the BCL has been entrusted with the production of the Luxembourg euro coins. In accordance with its organic law of 23 December 1998, the BCL already assumed the task of putting euro coins into circulation. During 2003, the BCL entrusted the Royal Dutch Mint with the production of the Luxembourg euro coins.

2.4.1 Evolution of the circulation of currency

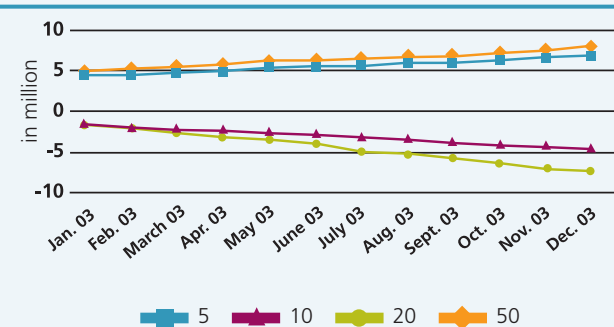
2.4.1.1 Euro coins and banknotes

The volume of euro coins and banknotes put into circulation by the BCL does not necessarily correspond to the volume effectively in circulation in Luxembourg, i.e. those used in the Luxembourg payment systems, as a result of the migration of euro banknotes and coins inside the euro area.

The total net volume of euro banknotes put into circulation by the BCL during 2003 amounts to 27.80 million banknotes, compared to 23.78 million banknotes in 2002, an increase of 16.9%. The volume of the 10-euro and 20-euro banknotes put into circulation by the BCL continued to be negative, which is rather exceptional for a central bank. Credit institutions, which are BCL clients, deposited more banknotes than they have withdrawn from the BCL. This phenomenon can be explained by the fact that tourists and cross border workers massively brought in this denomination for their everyday transactions in Luxembourg.

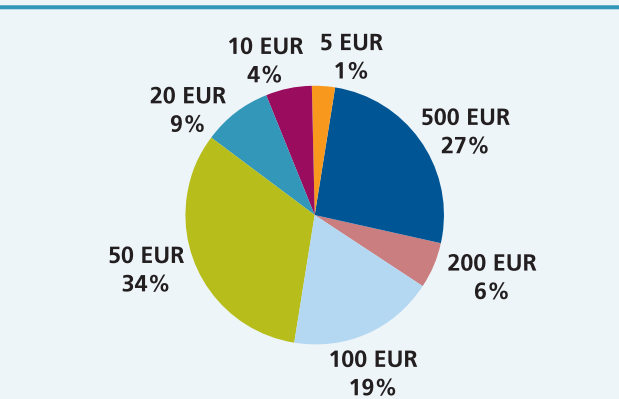
The graph below illustrates the divergent evolution in the volume of the denominations mainly used in everyday transactions:

GRAPH 8: EVOLUTION OF THE NUMBER OF CERTAIN EURO BANKNOTE DENOMINATIONS PUT INTO CIRCULATION BY THE BCL



In comparison with the whole euro area, the BCL has increased its contribution to the total volume of banknotes put into circulation by the Eurosystem, passing from 0.47% at the end 2002 to 0.74% in December 2003. In Luxembourg and in the euro area, the year 2003 has been characterised by a steady demand of higher denominations used mainly for hoarding purposes. This development can be seen as a sign of increased trust in the new currency. The total value of euro banknotes put into circulation by the Eurosystem increased by 21.64%, thus amounting to 436.13 billion euro at the end of 2003 and showing the following total value breakdown per denomination:

GRAPH 9: BREAKDOWN OF THE VALUE OF EURO BANKNOTES PUT INTO CIRCULATION BY THE EUROSISTEM PER DENOMINATION

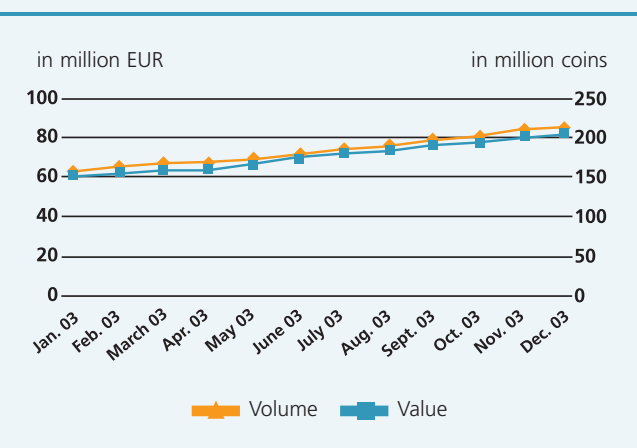


2. OTHER BCL FINANCIAL ACTIVITIES

The Luxembourg euro coins have also been subject to an important demand by the Luxembourg and foreign public. The total value of Luxembourg euro coins in circulation increased by 41% in 2003, passing from 57.65 million euros to 81.30 million euros. The volume of Luxembourg euro coins in circulation increased by 62.44 million coins, growing by 39.8% and amounted to 219.51 million coins at the end of 2003. This volume represents a weight of 1 071 tons of coins, which statistically represents 490 coins per inhabitant or a weight of 2.39 kg coins per inhabitant. As in 2002, the Luxembourg euro coins were in great demand from collectors.

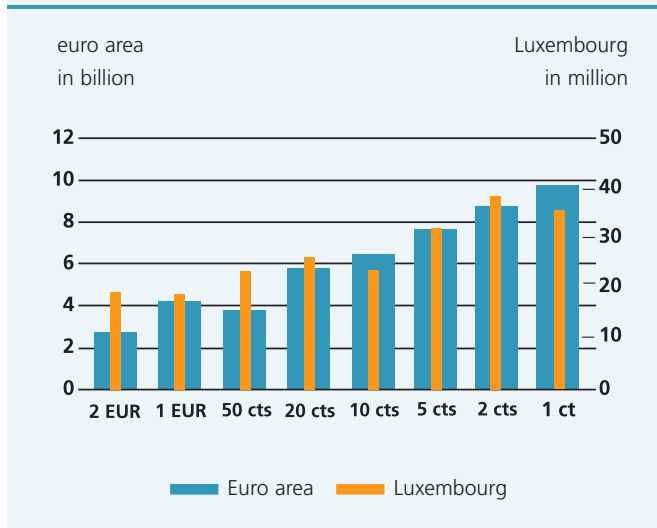
The average monthly volume of coins in circulation amounts to 186.78 million. The following graph shows the evolution of the volume and the value of Luxembourg euro coins in circulation in 2003. The demand for Luxembourg coins has kept increasing, notably as of May 2003, when the BCL took over the production of Luxembourg euro coins.

GRAPH 10: TOTAL VOLUME AND VALUE OF THE LUXEMBOURG EURO COINS IN CIRCULATION



In comparison with the euro area, Luxembourg contributes to 0.45% of the total number of coins put into circulation by the participating Member States, whilst Luxembourg contributes to 0.58% of the total value issued by all the issuing authorities of the euro area. The average value of Luxembourg euro coins in circulation amounts to 37.0 cent in comparison to an average of 28.7 cent for the euro area coins. The following graph compares the volume of the different coin denominations put into circulation by Luxembourg to the corresponding volume in the euro area.

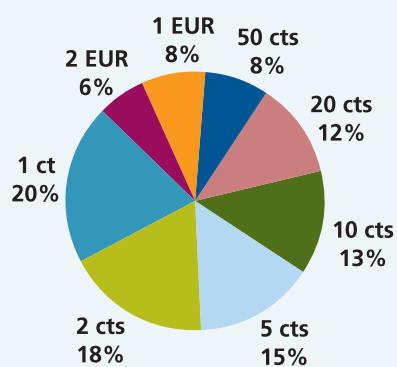
GRAPH 11: COMPARISON OF THE CIRCULATION VOLUME OF THE DIFFERENT EURO COIN DENOMINATIONS IN LUXEMBOURG TO THAT OF THE EURO AREA



Concerning the Luxembourg coins, the 2-cent denomination remains the most widespread in 2003. However, compared to 2002, the classification according to the volume has slightly been modified in 2003, confirming a certain preference of the public for the denominations with a face value starting with 2. The classification in descending order is as follows: 2 cent, 1 cent, 5 cent, 20 cent, 10 cent, 50 cent, 2 euro, 1 euro. The same classification for the euro area gives the following result: 1 cent, 2 cent, 5 cent, 10 cent, 20 cent, 1 euro, 50 cent, 2 euro.

The total value of euro coins put into circulation by the Eurosystem has grown from 12.43 billion euro at the end of 2002 to 14.07 billion euro at the end 2003, whereas the total volume of coins reaches 49.01 billion. The following graph shows the breakdown per denomination of this volume of the euro area:

GRAPH 12: BREAKDOWN PER DENOMINATION OF THE VOLUME OF COINS OF THE EURO AREA IN CIRCULATION



2.4.1.2 Luxembourg franc coins and banknotes

In 2003, the total value of Luxembourg currency¹ still in circulation and not yet exchanged declined from 505.77 million to 470.02 million Luxembourg francs, i.e. a decrease by 7.07%. The average monthly value for last year amounts to 479.17 million Luxembourg francs, against 702.03 million in 2002. The circulation of the 5 000-Luxembourg-franc-banknote decreased most strongly, that is to say by 14.0% and that of the 1 000-franc-banknote by 5.6% while the denomination of 100 Luxembourg franc only decreased by 2.1%. These figures show that collectors prefer the lower denominations. The following table shows the evolution of the outstanding Luxembourg franc banknotes for the five last years:

TABLE 2:

End of period	in LUF				
	5 000 LUF	1 000 LUF	100 LUF	Withdrawn LUF banknotes abroad	Total
1999	3 190 680 000	853 482 000	168 913 800	-159 980 000	4 053 095 800
variation*	-0.1%	-21.7%	-9.1%		-9.4%
2000	3 054 750 000	676 114 000	153 731 500	-168 910 000	3 715 685 500
variation*	-4.3%	-20.8%	-9%		-8.3%
2001	2 398 720 000	435 327 000	141 357 900	-198 966 000	2 776 438 900
variation*	-21.5%	-35.6%	-8.1%		-25.3%
2002	93 855 000	83 749 000	83 781 100	0	261 385 100
variation*	-96.1%	-80.8%	-40.7%		-90.6%
2003	80 720 000	79 038 000	82 003 000	0	241 761 000
variation*	-14.0%	-5.6%	-2.1%		-7.5%

* In comparison to the precedent year

¹ Coins and banknotes altogether, numismatic and commemorative coins included.

2. OTHER BCL FINANCIAL ACTIVITIES

It can be noted that the global circulation volume of Luxembourg notes has decreased by 94.0% between the end of 1999 and the end of 2003. The flow back of the notes in 2003 takes the form of a nearly linear curve. As to the value of coins in circulation, there has been a decrease of not yet exchanged coins of 7.6% in 2003 reaching the amount of 194.02 million Luxembourg francs at the end of 2003.

At the end of 2003, a total volume of 915 212 Luxembourg notes and 64 176 374 coins was still not presented for exchange, representing a global value of 435.78 million Luxembourg francs. This figure excludes numismatic productions as well as collector coins.

2.4.2 Management of fiduciary money

The number of Luxembourg franc notes returned to the BCL by the financial institutions came close to 5 200, whereas the return of Belgian franc notes slightly exceeded the volume of 95 000 notes. As to the euro notes returned by the financial institutions to the BCL, their number reached 47.67 million. Globally, these returned notes required more than 1 730 different operations managed and registered by the cash department. Furthermore, the number of withdrawals of euro notes by the financial institutions has nearly reached 5 000 operations for the same department.

The public also took advantage of the services offered by the BCL through its public counter for the exchange of notes and coins. More than 14 000 operations were handled at the public counter during 2003, averaging some 55.7 operations per workday.

The number of processed euro notes by sorting machines increased by more than 25%, from 39 million processed notes in 2002 to 49.34 million in 2003. The sorting machines do not only operate authenticity tests, but also soiling tests. Considering denominations altogether, nearly 14.2 million notes were destroyed for unfitness for circulation. The reject/destruction rate sharply progressed, rising from 3% in 2002 to 29% of the total number of euro notes sorted. Moreover, this rate showed a huge variation depending from the different denominations treated, varying from 11% for the highest denomination to 58% for the lowest denomination.

In the field of counterfeit monitoring, the BCL has closely cooperated with the ECB and the national competent authorities in the analysis of the discovered counterfeits.

2.4.3 Numismatic issues

The introduction of the single currency has generated a continued interest for new euro-denominated numismatic issues. In Luxembourg, the following numismatic products have been put into circulation by the BCL in 2003:

- The "2003 yearly BU-set" displayed the Luxembourg euro coins in "Brilliant Uncirculated" quality with the year date 2003.
- The gold coin "BCL-ESCB", issued in June 2003, was the first Luxembourg collector coin in euro commemorating the 5th anniversary of the Banque centrale du Luxembourg and of the European System of Central Banks. This coin has a face value of 5 euro and is minted in gold fineness of Au 999. Its diameter is 20 mm and its weight 6.22 g. It is legal tender only in Luxembourg.



2.5 Developments in the area of statistics

2.5.1 Monetary and financial statistics

The introduction of ECB regulations no. 2001/13 and 2001/18 in January 2003 allowed for a considerable improvement of the statistical framework in the monetary and financial sector.

Since January 2003, the BCL collects MFI balance sheet data established according to the modified classification introduced by regulation BCE/2001/13 on the consolidated balance sheet of the MFI sector. Detailed monthly information on loans and deposits as well as revaluation adjustments of balance sheet positions are collected via enlarged reporting forms. Monthly information is now broken down by type of instrument for agreed loans to private household and non-profit organisations (NPISH) and also by economic sector of the counterparty. Furthermore, revaluation adjustments allow for a considerable improvement in the statistical quality of derived flows calculated by the Eurosystem at a monthly frequency.

In line with the improved statistical reporting on consolidated MFI balance sheet data, the BCL has started collecting data on interest rates applied by credit institutions on loans and deposits for households and non-financial corporations in Luxembourg and the euro area.

Through its website and its periodical bulletin, the BCL regularly publishes statistics relating to the MFI aggregated balance sheet data, as well as interest rates applied by credit institutions on loans and deposits. In addition, press releases report regularly on balance sheet totals, employment in the financial sector and minimum reserve requirements.

2.5.2 Balance of payments and international investment position

Through its website and periodical publications, the BCL publishes quarterly statistics on the balance of payments and the international investment position. The BCL and the STATEC communicate the most recent balance of payments data for Luxembourg via press releases.

During 2003, the BCL published Luxembourg's international investment position for the first time. This statistic, which summarises the outstanding amounts of assets and liabilities for a given moment in time and differentiates between direct investment, portfolio investment, reserve assets and other investment components, had so far only been established for the Belgian-Luxembourg Economic Union.

The BCL plans to produce the international investment position on a quarterly basis in 2004. The production process for the portfolio investment component will be based mainly on quarterly off-balance sheet tables provided by the banking sector. Finally, the production of balance of payments data will have to be adapted to new statistical requirements².

2.5.3 The IMF special dissemination standard

In 1996, the IMF introduced the Special Dissemination Standard (SDDS), which is aimed at improving the production and the publication of a large set of macroeconomic statistics. The objective is to improve economic analysis by enriching the scope and quality of published statistics at the disposal of policy-makers and financial markets.

In 2003, the Luxembourg institutions have continued their progress to adapt their statistical framework to fit this standard. During the first quarter of 2004, the BCL completed the preparation of statistics on the analytical accounts of the BCL, the MFI sector, balance of payments (jointly with STATEC), the international investment position and reserve assets.

² As put forward in the guideline ECB/2003/7 of 2 May 2003.

2. OTHER BCL FINANCIAL ACTIVITIES

2.6 Payment and securities settlement systems

2.6.1 LIPS-Gross

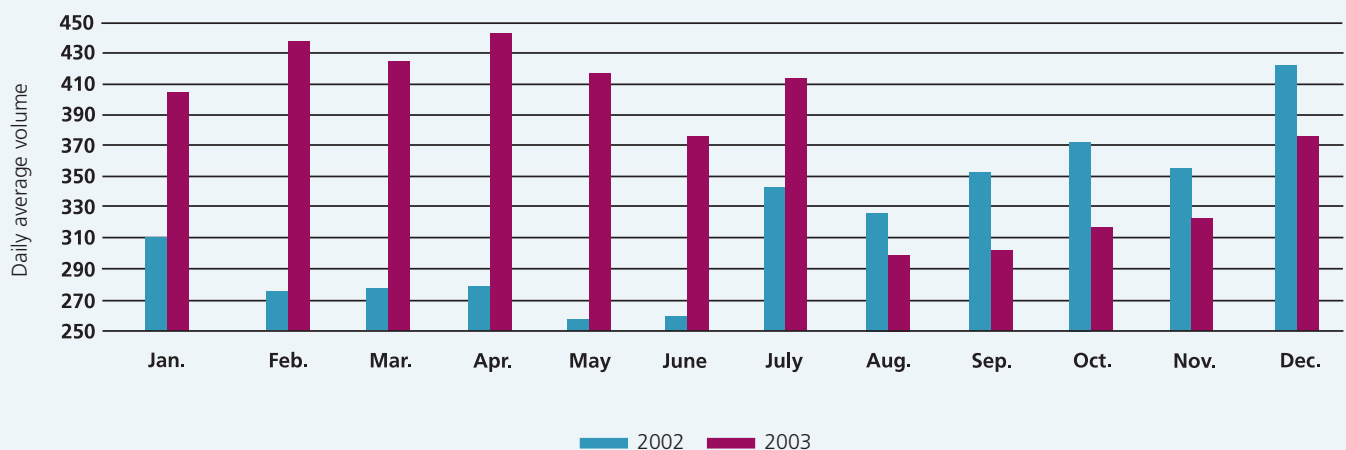
The number of participants in LIPS-Gross, Luxembourg's interbank gross payment system, remained stable in 2003 at 31. Details on transactions handled in 2003 are presented below.

After an important increase during the first semester, volumes then dropped to lower levels than in 2002. Nevertheless, the global trend remains upward. Values exchanged in 2003 were higher than in 2002.

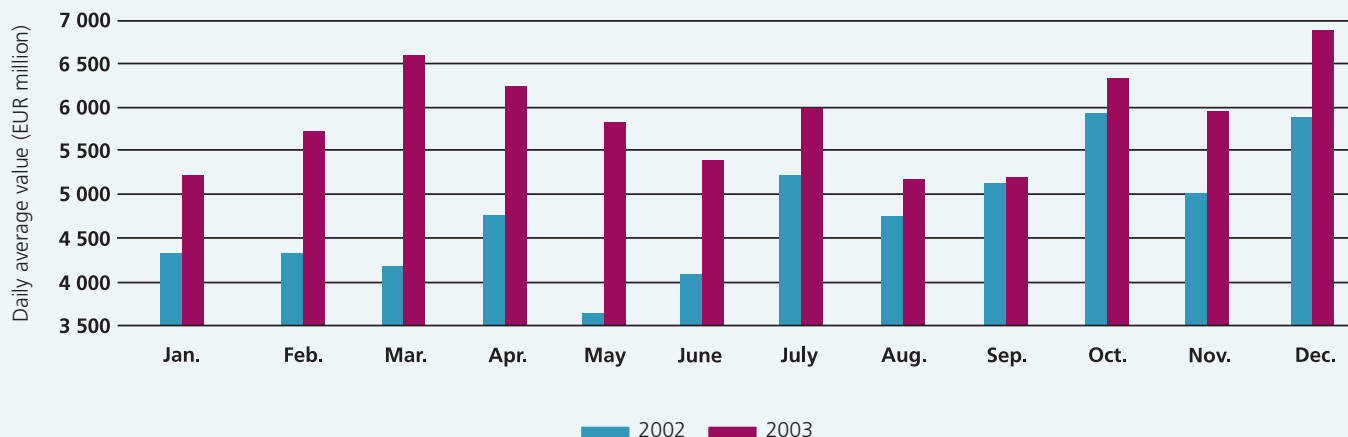
Domestic payments

In 2003, LIPS-Gross participants sent a total of 96 525 payments (81 749 in 2002) for a total value of 1 513 billion euros (1 231 billion in 2002). In comparison with 2002, the volume increased by 18% and the value exchanged by 23%. The average value per payment was 15.7 million euros. A daily average of 379 payments for a value of 5.93 billion euros went through LIPS-Gross. The following graph shows the evolution of the average daily volume per month.

GRAPH 13: DOMESTIC PAYMENTS: EVOLUTION OF THE DAILY AVERAGE VOLUME



GRAPH 14: DOMESTIC PAYMENTS: EVOLUTION OF THE DAILY AVERAGE VALUE (EUR MILLION)

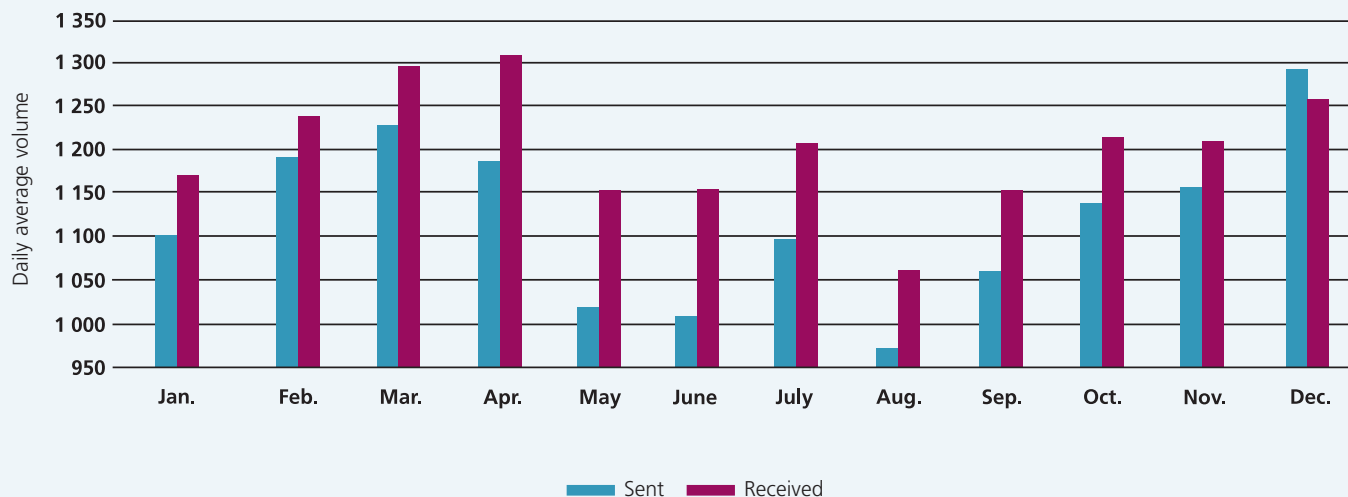


Cross-border payments

In 2003, LIPS-Gross participants sent 286 798 payments to other RTGS systems linked to TARGET (265 757 in 2002) for a global value of 3 242 billion euros (3 197 billion euros in 2002). They received 307 246 cross-border payments (297 862 payments in 2002) for a global value of 3 254 billion euros (3 199 billion euros in 2002). The volume of cross-border payments continued to increase in 2003, respectively by 7.9% for sent payments and by 3.2% for received payments. The value of payments exchanged remained rather stable.

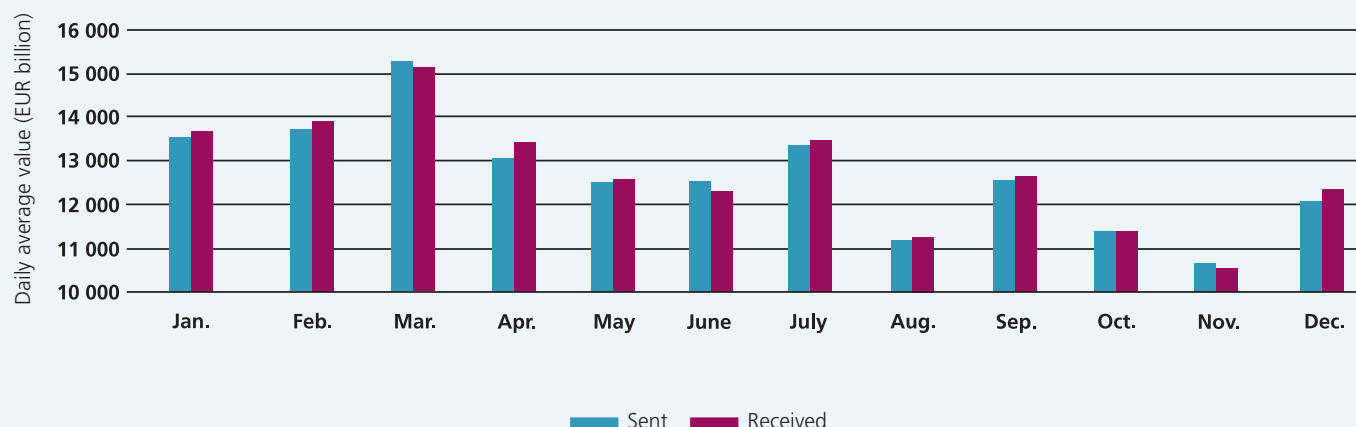
Due to a stronger increase of domestic payments, the share of cross-border payments (in and out) in the overall number of payments treated by LIPS-Gross declined respectively to 86% (87.3% in 2002) in volume and to 81.1% (83.9% in 2002) in value. The following graphs show the evolution of the daily average volume and value of cross-border payments per month. They confirm the traditional trend of RTGS-L members receiving more payments than sending.

GRAPH 15: CROSS-BORDER PAYMENTS: EVOLUTION OF THE DAILY AVERAGE VOLUME



2. OTHER BCL FINANCIAL ACTIVITIES

GRAPH 16: CROSS-BORDER PAYMENTS: EVOLUTION OF THE DAILY AVERAGE VALUE (EUR BILLION)



As in 2002, the majority of cross-border payments (in value) is exchanged with Germany (43.6% against 47.5% in 2002), Belgium (14% against 12.3% in 2002) and France (11.5% against 10.5% in 2002). The total share of the value exchanged with the neighbouring countries is however on the decrease: 69.1% in 2003 against 70.3% in 2002. Payments exchanged with the United Kingdom represented 11.2% of the total value and those with Italy 4.8%.

In 2003, the Luxembourg banks achieved a positive balance of 11.6 billion euros (1.3 billion euros in 2002) with foreign banks. Due to its role as clearing bank for CLS and EURO1(EBA), the ECB is an important supplier of liquidities for Luxembourg. The highest variations in terms of volumes exchanged are observed with Germany and Italy.

Aggregated figures of domestic and cross-border payments

The following table provides a global overview of daily average volumes and values exchanged per year. Volumes continue to increase whereas values exchanged have remained stable for the last three years.

TABLE 3: VOLUME OF PAYMENTS (DAILY AVERAGE)

	Domestic	Cross-border sent	Cross-border received	Total
1999	206	624	702	1 532
2000	240	809	973	2 022
2001	246	915	1 056	2 217
2002	320	1 053	1 159	2 532
2003	379	1 125	1 205	2 709

TABLE 4: VALUE (EUR MILLIONS) OF PAYMENTS (DAILY AVERAGE)

	Domestic	Cross-border sent	Cross-border received	Total
1999	2 805	8 675	8 657	20 137
2000	3 937	11 069	11 044	26 050
2001	4 750	12 717	12 726	30 193
2002	4 830	12 539	12 569	29 938
2003	5 932	12 715	12 760	31 407

LIPS-Gross compared to other systems connected to TARGET

In 2003, national RTGS systems in the EU altogether processed a total of 51.4 billion domestic payments (50.8 billion in 2002) for a value of 283 870 billion euros (271 916 billion in 2002). With 96 525 domestic payments for a total amount of 1 513 billion euros, Luxembourg represents 0.19% of the total volume and 0.53% of the total value.

In addition, TARGET treated 15.3 billion payments (13.7 billion payments in 2002) for a total value of 136 878 billion euros (123 722 billion euros in 2002). Luxembourg contributed 1.95% to this volume and 2.37% to the value exchanged.

Availability of TARGET

The global availability of TARGET reached 99.79% in 2003 (99.77% in 2002). TARGET's average availability figure covering its 5 years of existence is 99.63%.

The availability of LIPS-Gross averaged 99.74% in 2003 (99.92% in 2002). The availability of LIPS-Gross was 100% eight months out of twelve in 2003 and in 2002. LIPS-Gross' average availability figure covering its 5 years of existence is 99.57%.

2.6.2 Evolution of the Interbank netting system LIPS-Net

The year 2003 can be qualified as a special year for LIPS-Net as Regulation no. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euros, which requires the harmonisation of domestic and cross-border fees for credit transfers, came into effect on 1 July 2003. As a result, modifications to the pricing for payments services have led to a decrease in interbank credit transfers volumes since 1 July 2003. Nevertheless the volume remained globally stable for the year as a whole. The number of participants in LIPS-Net remained stable and amounted to 13 on 31 December 2003.

At a European level, 2003 was the year of the launch of the pan-European clearing system STEP2. LIPS-Net participants are considering the evolution of the national clearing system in the framework of the "Single European Payments Area (SEPA)". Regarding the LIPS-Net activity, the main information is quoted below.

Concerning the volumes exchanged in 2003, the total number of transactions decreased by 1.9% to achieve a total of 13.13 billion. On the other hand, values exchanged in LIPS-Net showed an increase of 12.24% in comparison with 2002, the total value exchanged for 2003 being 54.06 billion euros. The daily average number of transactions exchanged amounts to 53 376. The highest volume was recorded on 2 December with 119 360 operations.

TABLE 5:

	2002	2003	Variation
Number of credit transfers	13 292 580	13 131 658	-1.21%
Value of credit transfers (EUR millions)	40 026	45 079	12.63%
Average value per credit transfer (EUR)	3 011	3 433	14.01%
Number of cheques	379 373	275 563	-27.36%
Value of cheques (EUR millions)	3 334	3 182	-4.57%
Average value per cheque (EUR)	8 788	11 545	31.38%
Number of transactions related to the settlement of balances of debit and credit cards	17 938	21 841	21.76%
Value of transactions related to the settlement of balances of debit and credit cards (EUR millions)	4 803	5 800	20.74%
Average value per transaction related to the settlement of balances of debit and credit cards (EUR)	194 893	267 775	37.40%
Total number of operations	13 689 891	13 429 062	-1.91%
Total value of operations (EUR millions)	48 163	54 060	12.24%
Average value per operation	3 518	4 026	14.42%

2. OTHER BCL FINANCIAL ACTIVITIES

Credit transfers

A slight decrease in the number of credit transfers exchanged in LIPS-Net succeeded the growth registered in the previous years. The year 2003 is to be split in two: the first half of the year showed a 2.8% increase in the number credit transfers exchanged in comparison with the first half of 2002, whereas during the second half of 2003 this number decreased by 5.1% in comparison with the same period in 2002. This change of trend can be explained by the European Regulation on the pricing of credit transfers which came into effect as of 1 July 2003. In terms of value, the credit transfers exchanged increased by 12.6% in 2003.

Cheques

With regard to cheques, the significant decrease in volume since the withdrawal of the Eurocheque guarantee at the end of 2001 continued (-27.36% in comparison with 2002). The value of cheques diminished as well but to a lesser extent (-4.57%). The average value of cheques exchanged in LIPS-Net increased from 8 788 euros in 2002 to 11 545 euros in 2003.

Debit and credit card operations

In May 2003, the clearing of credit cards balances has been integrated in LIPS-Net, which already processed debit cards. As a result, settlement operations of balances between card issuers have considerably increased in 2003.

Unlike clients' payment transactions (credit transfers and cheques), this type of interbank settlement transactions is limited in volume (1% of the volume), but represents a quite considerable share of the values exchanged in LIPS-Net (11%).

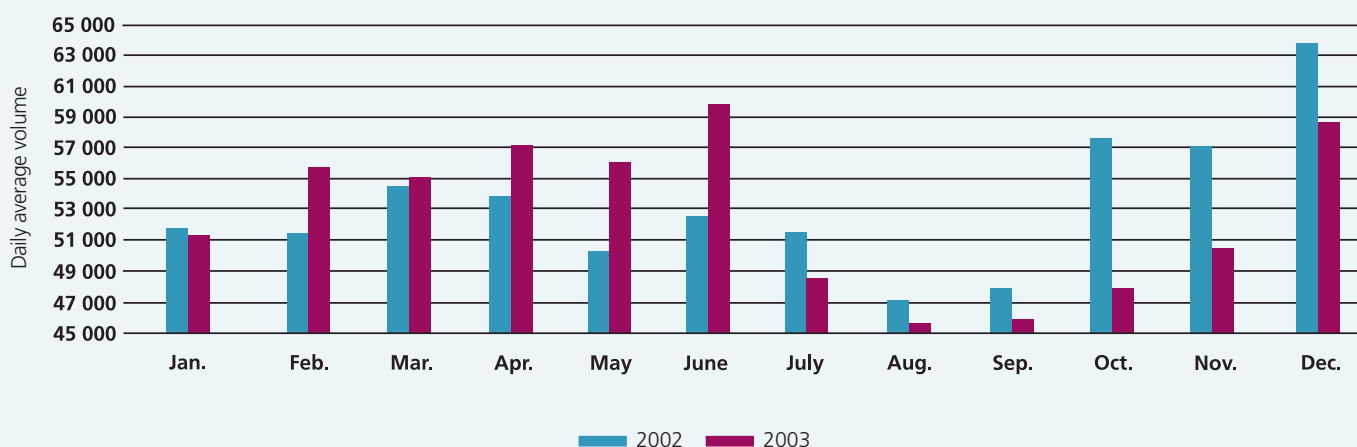
2.6.3 The general framework of eligible collateral in the Eurosystem credit operations

2.6.3.1 The list of eligible assets

All credit operations of the ECB and the national central banks are performed "on the basis of adequate collateral"³. Consequently, each counterparty guarantees the credit received from a Eurosystem central bank by providing securities as collateral. These securities have to fulfil specific eligibility criteria defined by the Eurosystem.

The Eurosystem has established a distinction between two categories of assets eligible for credit operations. Tier 1 consists of debt instruments fulfilling uniform euro area wide eligibility criteria specified by the Eurosystem. Tier 2 consists of additional assets that are of particular importance to national financial markets and banking systems.

GRAPH 17: CREDIT TRANSFERS: EVOLUTION OF THE DAILY AVERAGE VOLUME



³ Article 18 of the Statute of the ESCB and the ECB, article 22 of the founding law of the BCL.

In order to further improve its collateral framework, the Eurosystem is preparing the gradual implementation of a single list of collateral eligible throughout the euro area. In a public consultation launched by the Eurosystem a majority of banks has expressed overall support for this project. This was also the position of Luxembourg counterparties. A first measure taken in the context of the single list has been the exclusion of "out collateral" from the list of securities eligible for intraday credit operations in TARGET. The term "out collateral" refers to eligible securities deposited in a EU Member State, but issued in a country not being part of the euro area.

Decisions concerning the composition of the single list will be taken by the Eurosystem only after thorough analysis of various criteria, such as the legal framework, the risks related to each category of assets, the counterparties' needs, or the procedures to be implemented for an efficient handling of each category of collateral.

2.6.3.2 The Eurosystem as a user of securities settlement systems

Selection of depositories⁴ at the domestic level

In order to meet the requirement of "adequate collateral"⁵ the Eurosystem also assesses against specific safety criteria depositories that are safekeeping securities used in the framework of central bank credit operations.

Cross-border use of collateral

Besides using eligible domestic securities settled via the national depository (Clearstream Banking Luxembourg - CBL - for Luxembourg counterparties), all Eurosystem counterparties may receive credit from their local NCB by using collateral issued in a depository located in another Member State of the European Union. The ESCB foresees two ways for such cross-border use of collateral. Counterparties may use

- the CCBM⁶; and
- links established between securities settlement systems.

In a given securities settlement system located in a country of the EU these links make available securities issued in a system of another EU country, thanks to bilateral accounts that the two systems maintain at each other. In order to be used in the framework of Eurosystem credit operations these links have to be approved by the Governing Council of the ECB. Therefore, the links, just as national depositories, are assessed against safety standards elaborated by the Eurosystem. On the basis of these links, a Luxembourg counterparty can pledge to the BCL on its account at CBL eligible securities issued into Clearstream Banking Frankfurt A.G., Euroclear, the National Bank of Belgium, Monte Titoli (Italy), VP (Denmark), OeKB (Austria), and Euroclear Netherlands.

2.6.4 **The Correspondent Central Banking Model (CCBM)**

In the framework of the CCBM each NCB acts on behalf of the other central banks as a custodian for securities held at the national depository. This procedure involves on the one side a central bank called correspondent central bank (CCB) that is different from the central bank granting the credit to the counterparty. The CCB holds the account at the depository in which the securities deposited are registered. On the other side, the home central bank (HCB) grants the credit to its counterparty on the basis of confirmations received from the CCB.

At the beginning the CCBM was conceived as an interim solution to respond to the segmentation of European capital markets. As the model has been successful with the counterparties and as it remains the main channel for the cross-border mobilisation of collateral, the Governing Council has decided to continue the CCBM until 2007. Moreover, the efficiency of the model should be further increased by the decision to limit the maximum processing time to one hour for each operation (this decision will take effect as of 2004).

Across the euro area the usage of the CCBM has remained very disparate. The most active correspondent central banks have been those from Italy (23%), Luxembourg (20%), Belgium (16%) and Germany (13%).

⁴ A depository is an institution that operates a securities settlement system.

⁵ Article 18 of the Statute of the ESCB and the ECB, article 22 of the founding law of the BCL

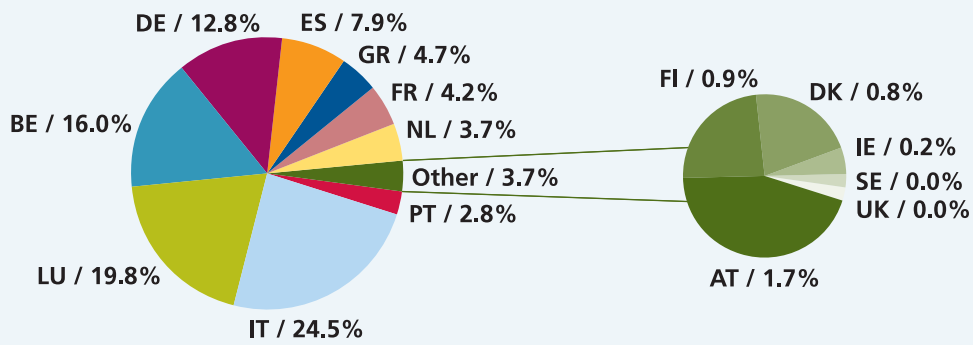
⁶ Correspondent Central Banking Model, see section 2.6.2 hereafter.

2. OTHER BCL FINANCIAL ACTIVITIES

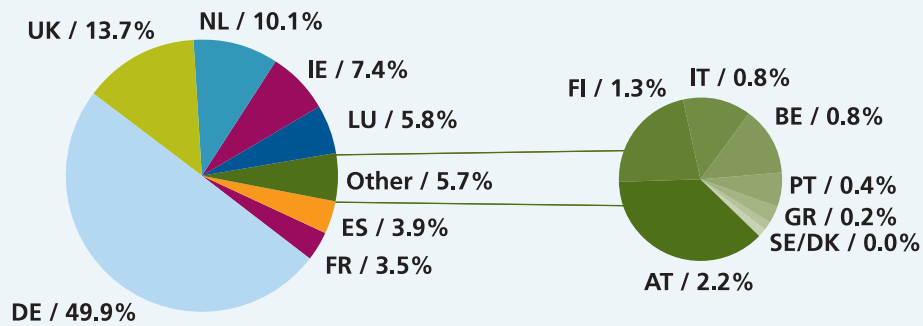
The most active home central banks have been those from Germany (51%), United Kingdom (14%), the Netherlands (10%), Ireland (7%), and from Luxembourg (6%).

As in previous years the cross-border use of tier 2 assets has remained marginal.

GRAPH 18: CORRESPONDENT CENTRAL BANK



GRAPH 19: HOME CENTRAL BANK



2.6.5 Night Time Link with Clearstream Banking Luxembourg

The procedure Night Time Link (NTL) is a complementary service introduced by the BCL and CBL in 2002. This procedure enables Luxembourg banks to improve the use of their cash and securities deposited with BCL, while at the same time increasing financial safety of the night time securities settlement operated by CBL.

The NTL procedure is subdivided in 2 parts:

1. A customer of CBL can use its cash and collateral available at BCL to guarantee credit granted by CBL for the clearing process taking place at night. The guarantee is issued by BCL in favour of CBL on behalf of the customer.
2. At the end of the night time processing, reimbursement of credit granted by CBL is automatically effected by BCL on behalf of the customer.

BCL considers that NTL, by offering new collateralisation possibilities to the banking community, contributes to improving safety of securities transactions. This procedure also enables banks to manage in a more centralised way their liquidity.

