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Artist: Kimmo Pyykkö
Title: Witch doctor
Material: wood
Format : height 210 cm
BCL Collection

3. EXTERNAL ACTIVITIES

3.1 Activities with the International Monetary Fund (IMF) and other international organisations

The BCL President, being also Alternate Governor of the IMF, attended the Annual Meeting of the IMF and the meetings of the International Monetary and Financial Committee.

The BCL handles Luxembourg's financial transactions with the International Monetary Fund (IMF). For this purpose, it manages Luxembourg's assets and liabilities vis-à-vis the IMF in both the general account and the special drawing rights (SDR) account. As at 31 December 2006, Luxembourg's quota, recorded in full on the BCL's balance sheet, amounted to SDR 279.1 million, whereas the reserve position (the difference between Luxembourg's total quota at the IMF and the euro-denominated assets held by the IMF at the BCL) represented 10.4% of Luxembourg's quota.

The IMF's operational budget defines the currencies to be made available to its members on a quarterly basis and the distribution of reimbursements among its members. During 2006, the BCL was instrumental in granting credits of € 13.6 million related to IMF operations and was reimbursed to the tune of € 27.8 million.

At the end of 2006, Luxembourg held 72.1% of its SDR allocation (67.4% in 2005) following the accumulation of net interest received on the SDR account and on the reserve position. As at 31 December 2006, the amount recorded on the SDR account was SDR 12.2 million.

One BCL staff member is on secondment to the IMF.

The BCL also attended the meetings of several working groups at the Organisation for Economic Cooperation and Development (OECD) and at the Bank for International Settlements (BIS), contributing, in particular, to the work of the OECD's Financial Markets Committee (FMC) and that of the BIS' Committee on the Global Financial System (CGFS).

3.2 Activity at the European level

3.2.1 The enlargement of the EU

The accession Treaty between the EU and the future Member States Bulgaria and Romania was signed in Luxembourg on April 25, 2005 and became effective on January 1, 2007. The same day the Bulgarian and Romanian central banks joined the ESCB and their respective governors became members of the General Council of the ECB.

3.2.2 The Economic and Financial Committee

A BCL representative participates in meetings of the Economic and Financial Committee (EFC). The Committee is composed of representatives from the finance ministries and central banks of EU Member States, the European Commission and the ECB. According to the Treaty, one of the tasks of the EFC is to "review the economic and financial situation of the Member States and of the Community and to report regularly thereon to the Council and to the Commission".

The EFC contributes to multilateral surveillance in order to monitor the compliance of Member States' economic policies with the broad economic policy guidelines and with the Stability and Growth Pact. Thus, the EFC examines the stability programmes of the euro zone Member States and the convergence programmes of the Member States that have not yet adopted the euro. The EFC also drafted a report on Information Requirements in EMU. It furthermore, carried out work on interpretation and application of the price stability criterion in relation to enlargement of the euro area. It was confirmed that the reference value for inflation is calculated as the average of the three best-performing member states plus 1.5 percentage points. The EFC also works on economic policy issues discussed at informal ECOFIN meetings, which are attended by the BCL's Governor.

The EFC meets six times a year in plenary session, but also meets in restricted composition. It is worth noting that the ECB participates in the Eurogroup Working Group, where it represents the Eurosystem.

3. EXTERNAL ACTIVITIES

3.2.3 The Committee on monetary, financial and balance of payments statistics

In the area of the missions of the Statistics Office of the European Community (EUROSTAT), the Committee on monetary, financial and balance of payments statistics provides the European Commission with opinions on the development and the coordination of the various statistical areas. Central banks are represented in this committee together with National Statistical Institutes. The BCL contributed actively to the various working groups and Task Forces with specific objectives.

3.2.4 Consultative Committees

3.2.4.1 The Statistics Committee

The Statistics Committee has been set up by the BCL to ensure a constant dialogue between the actors of the financial centre that are subject to statistical reporting requirements and the main users of these data.

3.2.4.2 The Monetary and Financial Statistics Consultative Commission

The Monetary and Financial Statistics Consultative Commission has been set up by the BCL to enhance the dialogue between reporting agents and the central bank. The commission also ensures the efficiency of the reporting procedures in the area of monetary and financial statistics.

During 2006, the Commission has been informed and consulted on the definition of the new reporting framework for financial intermediaries other than MFIs.

3.2.4.3 The Balance of Payments Consultative Commission

The Balance of Payments Consultative Commission, established in 2001, assists the BCL in its task of collecting statistical data for the compilation of balance of payments and international investment position data. It looks after the efficiency of the organization of the collection procedures taking into account the burden lying on the reporting agents.

In 2006 the Commission has been consulted extensively on the necessary measures for the development of a new collection system for portfolio investments and contributed to the development of the new reporting framework as set out by BCL circular 2006/196.

3.3 National Activities

3.3.1 Legal developments

The Luxembourg Government deposited on 26 October 2006 a draft law, no 5627, on markets in financial instruments. The main purpose of the draft law is to implement into national law Directive 2004/39 of the European Parliament and of the Council of 21 April 2004; it also contains an article 172 amending the organic law of the Banque centrale du Luxembourg of 23 December 1998.

That article amends three points of the organic law.

The first point of article 172 relates to the creation of a register of pledges on claims held with the BCL. This new article 22-1 of the organic law aims at ensuring the efficient implementation of the rules of the Eurosystem accepting credit claims as security for loans granted by the national central banks as from 1 January 2007. The text foresees that pledges of claims in favour of the BCL, not necessarily requesting a specific notification in the future, will be recorded in a register held with the BCL. The entry in the register of a pledge on a claim in favour of a central bank of the Eurosystem renders the pledge effective against third parties. The law of 5 August 2005 on financial collateral arrangements remains applicable for any aspects not specifically dealt with by the new article 22-1.

Several Eurosystem central banks use a register but the operational conditions still differ at this stage. Article 22-1 is directly inspired by a provision adopted in Belgium; its aim is to ensure the practical effectiveness of pledges provided to the BCL. Contrary to the Belgian legislation and in line with the opinion of the ECB, the Luxembourg draft law applies not only to domestic claims but also to claims used in a cross-border Eurosystem context.

Pending the entry into force of the new law, the BCL has adapted its general terms and conditions as from 1 January 2007. These changes have been communicated to the Bank's counterparties - the banks of the financial centre - and published on its website. Pledges of claims are subject to the notification to the debtor requirement.

The second point of the reform concerns provisions relating to immunity. The new provisions follow a recommendation addressed by the ECB in 2004 to the governments of the Member States of the Euro area. They will also avoid the type

of incidents that have underlined the need to protect the assets held with the Bank against measures that could affect the continuity of its services of public interest.

Finally, the third point relates to the enlargement of the exchange of information between the BCL on the one hand and specialised national public sector authorities on the other hand, namely the Commission for Supervision of the Financial Sector (CSSF), the Insurance Commission (Commissariat aux assurances) and the Central Services for Statistics and Economic Studies (Statec).

The ECB, consulted by the Government on 26 October 2006, issued an opinion on 11 December 2006. In general, the ECB welcomed the draft but suggested some amendments that have been taken into account by the Government since 13 December 2006. Its proposals for amendments relate: (i) to the extension of the scope of application of the law to the situations where the BCL acts as the agent for other Eurosystem central banks for the cross-border collateralisation of credit claims in the framework of Eurosystem credit operations (paragraph 2.4 of the ECB opinion); (ii) the extension of the immunity from seizure for accounts held with the BCL containing assets of foreign central banks or foreign States (paragraph 3.3 of the ECB opinion); and, (iii) the reinsertion of provisions relating to professional secrecy applicable to the ESCB (paragraph 4.2 of the ECB opinion).

It can be said that article 172 only concerns certain aspects of a necessary reform of the organic law of the BCL, notably in the area of statistics, financial stability, oversight of payment and securities settlement systems, or in the area of means of payment. The draft law, thus, contains only some provisions of a preliminary draft law submitted by the Bank to the Government in February 2006.

The BCL considers that it is important that the present reform takes place in view of a more general reform of its organic law and has transmitted its observations on the draft law to the Government in January 2007.

3.3.2 External Committees

3.3.2.1 The Economic Committee (Comité de conjoncture)

The Economic Committee acts on the basis of the legislation which authorises the government to take measures to stabilise employment and growth. Thus, the Committee

provides a framework for examining business cycle fluctuations in the country's economy and for monitoring economic policy issues as they arise.

The BCL belongs to the Economic Committee for two reasons: it collects information on Luxembourg's cyclical position and it contributes to the Committee's work by monitoring and commenting on the latest developments in the monetary domain and in the financial sector.

3.3.2.2 The Consumer Price Index Commission (Commission de l'indice des prix à la consommation)

The BCL has observer status at the meetings of the Consumer Price Index Commission, which is in charge of advising and assisting STATEC in the preparation of consumer price indices. This Commission also issues technical opinions on the design of the monthly consumer price index and supervises the compliance of this index with national and European regulations.

3.3.3 BCL committees

The BCL has a number of committees on whose expertise it relies, namely:

[The Information Technology Committee](#)

[The Legal Committee](#)

[The Fiduciary Money Committee](#)

[The Market Operations Committee](#)

[The Statistics Committee](#)

[The Settlement and Clearing Systems Committee](#)

[The Balance of Payments Consultative Commission](#)

[The Monetary and Financial Statistics Consultative Commission](#)

The work of these committees is described in the corresponding sections of this annual report.

3. EXTERNAL ACTIVITIES

3.3.4 Training at the BCL

The BCL organises internal training courses, essentially, on the areas within its activities, such as monetary policy and strategy, payment and clearing systems, instruments to and strategy of maintaining financial stability, as well as on aspects of the European institutions. The respective courses are also held outside the BCL, if the availability of the instructors so requires.

The BCL, being a shareholder of the Agence de Transfer de Technologie Financière (ATTF), established in 1999, also intends to share Luxembourg's financial expertise with developing countries, thus, the BCL held a seminar for branch managers of the *People's Bank of China*, in June 2006.

In September 2006, the BCL gave a new presentation for Indian top managers, on the occasion of a visit organised by the *Administrative Staff College of India* and the *Maastricht School of Management*.

Furthermore, the BCL has intensified its cooperation with the new University of Luxembourg.

3.3.5 External events

3.3.5.1 Conferences and international meetings

The Governor of the Banque centrale du Luxembourg attended the General Assembly of the IMF and the World Bank in Singapore from September 16 to 18.

He further took part in the semi-annual meetings of the ECOFIN Council of Ministers.

In May 2006, the Governor of the BCL attended the 14th annual meeting of central bank governors from French-speaking countries, organised by the central bank of Bulgaria in Sofia. End of June, he participated in the annual general assembly of the Bank for International Settlement in Basle.

Otmar Issing, former member of the Governing Council of the ECB, was the speaker at the fourth *Pierre Werner lecture*, organised in the premises of the BCL, in October. The topic of the conference was "*Politics and behaviour of politicians: About the difficulties of a long-term orientation of politics*". In this context, Mr. Issing emphasised the necessity of the independence of modern central banks. Professor Issing was awarded the honorary distinction of "*Grand Officier de l'Ordre de Mérite*" by Prime Minister Jean-Claude Juncker.

In the context of the "*Bridge-Forum Dialogue*"- platform, the President of which is the Governor of the BCL, and which represents a platform for interdisciplinary debate, composed by executives of the European institutions and leaders of the Luxembourg business community, two conferences were held with the active participation of the BCL. First, the President of the Czech Republic, Mr. Vaclav Klaus, held a conference on the issue of "*Some doubts about the EU's Ever-Closer Future*" in March, and Mr. Jacques Berrot, Vice-President of the European Commission, and Mr. Robert Goebbels, former minister for the Economy in Luxembourg, now deputy to the European Parliament, dealt with the issue of "*The Transport Policy of the EU*", in October 2006.

On the invitation of the G7 Group, the Governor of the BCL took part in the debate on the state of world and European economies, on the monetary policy of the euro-zone and on financial stability, in November 2006.

In January 2006, the BCL was represented at the 3rd reunion of the Euro-Mediterranean seminars in Nafplion, jointly organised by the ECB and the Bank of Greece, where the central banks of the Eurosystem meet with countries from the Mediterranean which are not members of the euro-zone. The BCL has further taken part in the 3rd high-level seminar between Eurosystem and the central bank of Russia, held in Dresden in October 2006, as well as in the third joint seminar of EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) and Eurosystem in Sydney in November 2006. Simultaneously to the latter seminar, the Governor of the BCL participated in the meetings of the Committee on the Global Financial System. The debates in said committee dealt with the emerging economies and global inflation, global imbalances and financial stability, regional financial cooperation and financial intermediation. In December 2006, the Governor of the BCL attended the 3rd high-level seminar between Eurosystem and the central banks of Latin America, held in Madrid and jointly organised by *Banco de España* and the ECB. That seminar dealt with the topics of Monetary and Financial Consequences of Globalisation, of Monetary Policies and of the Accumulation of International Reserves.

The Governor of the BCL, finally, attended a seminar organised jointly by Banco de España and the IMF on the issue of: "*Central Bank Modernisation and Banking Reforms*".

3.3.5.2 Bilateral events

In September 2006, the Governor, Mr. Yves Mersch accompanied the Prime Minister, Mr. Jean-Claude Juncker, on his official visit to the Democratic Republic of Laos and to the Kingdom of Cambodia.

In October 2006, the BCL was visited by the President of the Republic of Benin, Mr. Yayi, accompanied by an official delegation.

In March 2006, a delegation from the Federal Republic of Nigeria, headed by the Foreign Minister and a director of the central bank, paid a visit to the BCL.

A delegation from French Polynesia, as well as from the "Indonesian Institute for Banking Development" were further guests received at the BCL in 2006.

On December 5, 2006, finally, the State Duma of the Federal Assembly of the Russian Federation sent a delegation of its Credits and Financial Markets Committee to Luxembourg to be received by the BCL.

Other events helped to strengthen the cooperation with certain central banks.

In February 2006, a delegation from the central bank of Cap Verde, headed by Governor Augusto de Burgo, effected a working visit with BCL and other public institutions in Luxembourg.

The Governor of the BCL, on the other hand, paid a working visit to the central bank of Romania, on the invitation by its Governor, Mr. Isarescu. He gave, on that occasion, a speech for the Romanian banking community on the subject of "Inflation targeting and macroeconomic adjustment". A working relationship has been established with the Romanian Banking Institute of which the *Banque Nationale de Roumanie* is the main shareholder. The Institute has asked for a cooperation with the BCL on a colloquium in Bucharest on financial integration.

In August 2006, the Banque centrale de Malte visited the BCL, with a view to gathering information on the functionalities of the cash service system of the BCL.

BCL was present at the 60th anniversary of the central bank of Macedonia, in October 2006.

Further visitors included the central bank of Finland, for a working visit in Luxembourg on December 1 and 2, and Mr. Ilmars Rimsevics, Governor of the central bank of Latvia.

3.3.5.3 Relationship with the Luxembourg Parliament

The Governor of the BCL presented the opinion of the bank on the state budget motion in the Chamber of the Deputies.

In May 2006, the BCL organised presentations with regard to the activities of Eurosystem and of the BCL for the members of the Conseil d'Etat du Luxembourg, as well as for the deputies of the Finance and Budget Commission of the Luxembourg Parliament. On the occasion of a visit to the ECB, the deputies concerned were given the opportunity to exchange ideas with Mr. Trichet, president of the ECB, and other members of the Governing Council.

3. EXTERNAL ACTIVITIES

3.4 Communication Activities

3.4.1 Annual Reports

The BCL, according to its statutes, publishes each year a report on its activities. The report is available in French and English.

3.4.2 Periodical Bulletins

Beside its presentations on the economic and financial situation in Luxembourg, and bulletins issued on current topics, the following papers and analyses have been published:

Financial Stability Review

- *What crisis management might be all about.*
- *Report on Market Disaster Recovery in Case of Large Scale Disruption.*
- *Résumé non-technique du cahier d'études : "Peut-on parler de bulle sur le marché immobilier au Luxembourg ?".*
- *Résumé non-technique du cahier d'études : "la sensibilité de l'activité bancaire aux chocs macroéconomiques : une analyse en panel sur des données de banques luxembourgeoises".*

Bulletin No 2006/1

- *L'évolution récente des prix immobiliers au Luxembourg est-elle exceptionnelle ?*
- *Grenzübergreifende Pendlerströme in der Grossregion : ein Erklärungsversuch.*
- *La fiabilité des estimations de l'écart de production*
- *Résumé non-technique du cahier d'études : "La rigidité des prix : une comparaison internationale sur base des prix internet".*
- *Résumé non-technique du cahier d'études : "La transition de la répartition à la capitalisation : application au régime général de pension luxembourgeois".*

Bulletin No 2006/2

- *La position extérieure globale du Luxembourg en fin décembre 2005.*
- *Elasticité de l'impôt sur les traitements et salaires : une estimation basée sur l'examen de cas types.*
- *Analyse long terme du compte de profits et pertes des établissements de crédit luxembourgeois.*

- *Résumé non-technique du cahier d'études : "Mesures de la production réelle et de la productivité du secteur bancaire luxembourgeois : une analyse en panel sur des données trimestrielles".*

The articles are published in their respective original language.

3.4.3 Working Papers

In its working papers, the BCL published the results of research conducted by its staff.

In 2006, six such papers were published:

N° 18 : *L'identité de Fisher et l'interaction entre l'inflation et la rentabilité des actions : l'importance des régimes sous-jacents aux marchés boursiers*, by Abdelaziz Rouabah, January 2006;

N° 19 : *New survey evidence on the pricing behavior of Luxembourg firms*, by Patrick Lünemann et Thomas Y. Mathä, May 2006;

N° 20 : *Peut-on parler de bulle sur le marché immobilier au Luxembourg?* by Christophe Blot, May 2006;

N° 21 : *La sensibilité de l'activité bancaire aux chocs macroéconomiques : une analyse en panel sur des données de banques luxembourgeoises*, by Abdelaziz Rouabah, May 2006;

N° 22 : *Are internet prices sticky?*, by Patrick Lünemann et Ladislav Wintr, June 2006;

N° 23 : *The transition from payg to funding: Application to the Luxembourg private sector pension system*, by Muriel Bouchet, July 2006.

3.4.4 The website

The website of the BCL www.bcl.lu providing information of general interest as well as about the organisation of the Bank and its services, offers also links to the ECB and other central banks of the ESBC.

Based on its search engine and its configurable mailing list, the site offers to each visitor a clearly structured information package, suitable for professional as well as private individuals.

The site provides for the diffusion of the BCL publications which can be viewed and downloaded under the sites "Publications" and "Medias et actualités". Such publications can also be obtained as hard copies, as long as stocks are available.

3.4.5 The library

The library, opened in 2005, uses the ALEPH library management system, as do a number of other central banks. The public has access to the library by previous request by e-mail to bibliotheque@bcl.lu or by fax to +352 4774 4910.

3.4.6 Press relations

In the course of 2006, six press conferences were held, in all, on the occasion of the presentation of the financial results of the BCL and of the numismatic program of the bank.

In total, 93 press releases were issued.

In October 2006, the BCL organised a seminar for representatives of the Luxembourg press on issues of monetary policies, payment systems, on the institutional aspects of the Eurosystem, and on financial stability.

All publications of the BCL can be viewed and downloaded on its website www.bcl.lu or obtained as hard copies, as long as stocks are available.

