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BCL Collection

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5.1 List of BCL circulars published in 2006

- BCL Circular No 2006/193 of 21 March 2006 - amendments to the BCL's general terms and conditions - sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- BCL Circular No 2006/194 of 18 April 2006 - amendments to the BCL's general terms and conditions - sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- BCL Circular No 2006/195 of 2 May 2006 - surveys on foreign direct investment - sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- BCL Circular No 2006/196 of 14 July 2006 - collection of balance of payments data: taxation of savings income resulting from interest payments. Special treatment of the balance of payments - sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- BCL Circular No 2006/197 of 7 August 2006 - Slovenia's adoption of the Euro, as from 1st January 2007: Impact over the statistical statements referring to the balance of payments - sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- BCL Circular No 2006/198 of 7 August 2006 - adoption of the Euro by Slovenia - sent to all credit institutions.
- BCL Circular No 2006/199 of 7 August 2006 - adoption of the Euro by Slovenia - sent to all Undertakings for Collective Investment in Transferable Securities (UCITS).
- BCL Circular No 2006/200 of 25 October 2006 - dates of submission of statistical reports to the BCL, and determination of the periods of holding minimum reserves in 2007 - sent to all credit institutions.
- BCL Circular No 2006/201 of 25 October 2006 - dates of submission of statistical reports to the BCL in 2007 - sent to all Luxembourg-based Undertakings for Collective Investment in Transferable Securities (UCITS).
- BCL Circular No 2006/202 of 19 December 2006 - collection balance of payments - set up date of the collection component for portfolio investments. - Amendments to the BCL Circular No 2006/196.

5.2 BCL Publications

BCL Working Papers

- Working Paper No 18, January 2006
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.
- Working Paper No 19, May 2006
New survey evidence on the pricing behavior of Luxembourg firms, by Patrick Lünemann and Thomas Y. Mathä.
- Working Paper No 20, May 2006
Peut-on parler de bulle sur le marché immobilier au Luxembourg?, by Christophe Blot.
- Working Paper No 21, May 2006
La sensibilité de l'activité bancaire aux chocs macroéconomiques : une analyse en panel sur des données de banques luxembourgeoises, by Abdelaziz Rouabah.
- Working Paper No 22, June 2006
Are Internet prices sticky?, by Patrick Lünemann and Ladislav Wintr.
- Working Paper No 23, July 2006
The transition from payg to funding: Application to the Luxembourg privat sector pension system, by Muriel Bouchet.

External Publications of BCL Staff

- Etienne de Lhoneux, "The Eurosystem", in Legal Aspects of the European System of Central Banks, European Central Bank, 2005, pages 167-178.
- Patrick Lünemann, "Price Changes in the Euro Area and the United States: Some Facts from Individual Consumer Price Data", with E. Dhyne, L. Álvarez, H. Le Bihan, G. Veronese, D. Dias, J. Hoffmann, N. Jonker, F. Rumler and J. Vilmunen, in Journal of Economic Perspectives, Vol. 20, No. 2, 2006, pages 171-192.
- Patrick Lünemann, "Sticky Prices in the Euro Area: A Summary of NewMicro-Evidence", with L. Álvarez, E. Dhyne, M. Hoeberichts, C. Kwapil, H. Le Bihan, F. Martins, R. Sabbatini, H. Stahl, P. Vermeulen and J. Vilmunen, in Journal of the European Economic Association, Vol. 4, No. 2-3, 2006, pages 575-584.
- Thomas Mathä, "What Firms' Surveys Tell us About Price-Setting Behaviour in the Euro Area", with S. Fabiani, M. Druant, I. Hernando, C. Kwapil, B. Landau, C. Loupias, F. Martins, R. Sabbatini, H. Stahl, A. Stokman, in International Journal of Central Banking, Vol. 2, No. 3, 2006, pages 3-47.

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- Thomas Mathä, "Sectoral and Aggregate Inflation Dynamics in the Euro Area", with F. Altissimo, L. Bilke, A. Levin and B. Mojon, in Journal of the European Economic Association, Vol. 4, No. 2-3, 2006, pages 585-593.
- Thomas Mathä, "The Euro and Price Differences of Individual Products in an Integrated Cross-Border Area", in Journal of Common Market Studies, Vol. 44, No. 3, 2006, pages 563-580.
- Thomas Mathä, "Comment on the Price-Setting Behavior of Austrian Firms: Some Survey Evidence", by C. Kwapil, J. Baumgartner and J. Scharler, ECB WP 464, March 2005, in OENB Workshop Volume, No. 8, 2006, pages 138-145.
- Muriel Nguiffo-Boyom, "Un indicateur de retournement conjoncturel pour la France: une application du modèle à facteur avec changements de régimes", in Economie et Prévision, No. 172, 2006-1, pages 101-114.
- Pierrard Olivier, "Nominal wage rigidities in a new Keynesian model with frictional unemployment", with V. Bodart, G. de Walque, H. Sneessens and R. Wouters, NBB Working paper research No. 97.

BCL Brochures

- "From the Werner report to the euro", Prof. Dr. Hans Tietmeyer, Pierre Werner Lecture 1, 2003.
- "Central Banks and Financial Stability", Baron Alexandre Lamfalussy, Pierre Werner Lecture 2, 2004.
- "Fiscal Policy in the Monetary Union", Pierre Werner Lecture 3, 2005.
- Brochure des produits numismatiques de la Banque centrale du Luxembourg, édition annuelle dont éditions 2005, 2006 et 2007.
- "The Banque centrale du Luxembourg in the European System of Central Banks", by Michael Palmer, May 2001.
- "In Memoriam Pierre Werner, 1913 - 2002. Un hommage", by Michael Palmer, August 2002.
- "Chronique de l'immeuble Monterey", by René Link, January 2007.
- "Exposition Monnaies grecques - Monnaies celtes", January 2007.
- BCL information material on the euro
- General conditions for the BCL's operations

Paper copies of publications may be obtained at the BCL's counters as long as stocks last and according to the BCL's conditions. The BCL's publications may be downloaded from the website www.bcl.lu.

5.3 Statistics series of the BCL

Statistical tables listed here under are available on the BCL's website www.bcl.lu ("Statistics") and are regularly updated. These tables are also published in the BCL's bulletin in French.

1 Monetary policy statistics

- 1.1 Financial statement of the Banque centrale du Luxembourg
- 1.2 Luxembourg minimum reserve statistics

2 Monetary and financial developments

- 2.1 Aggregated balance sheet of the Luxembourg MFIs (excluding the Banque centrale du Luxembourg)
- 2.2 Liabilities of the Luxembourg MFIs included in the euro area monetary aggregates
- 2.3 Liabilities of the Luxembourg banks included in the euro area monetary aggregates (1973 - 1990)
- 2.4 Liabilities of the Luxembourg banks included in the euro area monetary aggregates (1991 - 1998)

3 Capital markets and interest rates

- 3.1 Luxembourg bank interest rates on euro-denominated deposits and loans by euro area residents - new business
- 3.2 Luxembourg bank interest rates on euro-denominated deposits and loans by euro area residents - outstanding amounts
- 3.3 Luxembourg bank interest rates on LUF-BEF denominated deposits and loans - amounts outstanding (1980 - 1997)
- 3.4 Luxembourg bank interest rates on LUF-BEF denominated deposits and loans - amounts outstanding (1998 - 2002)
- 3.5 Money market interest rates
- 3.6 Government bond yields
- 3.7 Stock market indices
- 3.8 Exchange rates

4 General data on the Luxembourg financial system

- 4.1 Employment in the Luxembourg credit institutions and financial sector professionals
- 4.2 Employment in the Luxembourg credit institutions
- 4.3 Employment in the Luxembourg credit institutions (1972 - 1991)
- 4.4 Geographic origin of credit institutions established in Luxembourg
- 4.5 Geographic origin of credit institutions established in Luxembourg (1970 - 2002)
- 4.6 Interim aggregated profit and loss account of Luxembourg banks
- 4.7 Aggregated profit and loss account of the Luxembourg banks as at year-end
- 4.8 Long term aggregated profit and loss account of the Luxembourg banks as at year-end
- 4.9 Aggregated balance sheet of the Luxembourg banks
- 4.10 Aggregated balance sheet of the Luxembourg banks (1970 - 1985)
- 4.11 Aggregated balance sheet of the Luxembourg banks (1986 - 1992)
- 4.12 Aggregated balance sheet of the Luxembourg banks (1993 - 1998)
- 4.13 Luxembourg banks loans by counterpart and original maturity
- 4.14 Luxembourg banks loans to euro area households and NPISH by type and original maturity
- 4.15 Luxembourg banks loans by currency of transaction
- 4.16 Lending for purchase of houses located in Luxembourg
- 4.17 Banks holdings of securities other than shares by counterpart and maturity
- 4.18 Banks holdings of securities other than shares by currency
- 4.19 Number of undertakings for collective investment
- 4.20 Global situation of undertakings for collective investment
- 4.21 Aggregated balance sheet of Luxembourg Money market funds
- 4.22 MMF holdings of securities other than shares by counterpart and initial maturity
- 4.23 MMF holdings of securities other than shares by currency
- 4.24 Employment situation in the professionals of the Luxembourg financial sector
- 4.25 Number of the professionals of the Luxembourg financial sector
- 4.26 Aggregated net result of the professionals of the Luxembourg financial sector
- 4.27 Aggregated balance sheet of the professionals of the Luxembourg financial sector
- 4.28 Employment in the Luxembourg management companies

5 International banking activity

- 5.1 International banking activity: geographic breakdown
- 5.2 International banking activity: currency breakdown
- 5.3 International banking activity: share of Luxembourg

6 Inflation in Luxembourg

- 6.1 Developments in the Harmonised Index of Consumer Prices (HICP) and the National Index of Consumer Prices (NICP)
- 6.2 Industrial goods and commodity prices
- 6.3 Costs indicators and terms of trade

7 Luxembourg real economy indicators

- 7.1 GDP at market prices and its components (ESA95 version)
- 7.2 Selected other real economy indicators
- 7.3 Labour market indicators - Employment and unemployment
- 7.4 Labour market indicators - Employment component
- 7.5 Consumer confidence survey

8 Luxembourg public finances

- 8.1 General government budgetary outcome in Luxembourg

9 Luxembourg trade balance

- 9.1 External trade of Luxembourg

10 Luxembourg balance of payments

- 10.1 Luxembourg balance of payments: summary
- 10.2 Luxembourg balance of payments: current account
- 10.3 Luxembourg balance of payments: direct investment
- 10.4 Luxembourg balance of payments: direct investment by Luxembourg abroad - by sector
- 10.5 Luxembourg balance of payments: foreign direct investment in Luxembourg - by sector
- 10.6 Luxembourg balance of payments: portfolio investment - by type of instrument
- 10.7 Luxembourg balance of payments: other investment - by sector
- 10.8 Reserves and related assets of the Banque centrale du Luxembourg
- 10.9 Reserve assets held by the BCL and Central Administration: extended data model of the Internal Monetary Fund

11 International investment position of Luxembourg

- 11.1 International investment position of Luxembourg: summary
- 11.2 International investment position of Luxembourg: direct investment
- 11.3 International investment position of Luxembourg: portfolio investment - by type of instrument
- 11.4 International investment position of Luxembourg: other investment - by sector
- 11.5 International investment position of Luxembourg: Gross External Debt
- 11.6 International investment position of Luxembourg: geographic breakdown of portfolio investment assets held by Luxembourg residents

5.4 List of abbreviations

ABBBL	<i>Association des Banques et Banquiers, Luxembourg</i>
AGDL	<i>Association pour la garantie des dépôts, Luxembourg</i>
ALCO	Asset and Liability Management Committee
BCL	<i>Banque centrale du Luxembourg</i>
BIS	Bank for International Settlements
BLEU	Belgian Luxembourg Economic Union
BNB	<i>Banque Nationale de Belgique</i>
CBL	Clearstream Banking Luxembourg
CCBM	Correspondent central banking model
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
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
ESP	European Service Providers
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

HICP	Harmonised Index of Consumer Prices
IADB	Inter American Development Bank
IGC	Intergovernmental conference
IMF	International Monetary Fund
IML	<i>Institut Monétaire Luxembourgeois</i> (1983-1998)
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
MRA	maximum risk allowance
MRO	main refinancing operation
NAV	net asset value
NCB	national central bank
OECD	Organisation for Economic Cooperation and Development
OFI	Other Financial Intermediaries
OPEC	Organisation of Petroleum Exporting Countries
LTRO	Longer term refinancing operation
PBO	Projected Benefit Obligation
ROA	Return on Assets
ROE	Return on Equity
RTGS system	Real-Time Gross Settlement system
RTGS-L 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
SWIFT	Society for Worldwide Interbank Financial Telecommunication s.c.
SYPAL-GIE	Economic interest grouping for the promotion and management of payment systems in Luxembourg
STATEC	Central service for statistics and economic 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
VaR	Value at Risk

5.5 Glossary

Aquis 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 that 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". A base effect occurs 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**.

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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; or (ii) an undertaking or any other legal person, other than those under (i), which issues means of payment in the form of electronic money.

Currency in circulation: Comprises banknotes and coins which are legal tender. **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 Monetary Union (EMU): The **Treaty** describes the process of achieving EMU in the European Union (EU) in three stages. 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): Weighted averages of bilateral euro exchange rates against the currencies of the **euro area's** important trading partners. The **European Central Bank** publishes nominal EER indices for the euro against two groups of trading partners: the EER-24 (comprising the 14 non-euro area EU Member States and 10 main trading partners outside the EU) and the EER-44 (composed of the EER-24 and 20 additional countries). The weights used reflect the share of each partner country in euro area trade and account for competition in third markets. 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.

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.

ESA 95: See **European System of Accounts 1995**

ERM II (exchange rate mechanism II): The exchange rate arrangement which provides the framework for exchange rate policy cooperation between the **euro area** and EU Member States not participating in the euro area from the start of Stage Three of **Economic and Monetary Union**. Membership of the mechanism is voluntary. Nevertheless, Member States with derogation are expected to join the mechanism. Foreign exchange intervention and financing at the margins of the standard or narrower fluctuation bands are, in principle, automatic and unlimited, with very short-term financing available. The **European Central Bank** and the participating non-euro area national central banks could, however, suspend automatic intervention if this were to conflict with their primary objective of maintaining **price stability**.

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 the EU Member States which have adopted the **euro** as their 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**. The euro area currently comprises of Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Slovenia 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 Accounts 1995 (ESA 95): A system of uniform statistical definitions and classifications aimed at achieving a harmonised quantitative description of the economies of the Member States. The ESA 95 is the Community's version of the world System of National Accounts 1993 (SNA 93).

European System of Central Banks (ESCB): Composed of the **European Central Bank (ECB)** and the national central banks of all EU Member States. The ESCB includes, in addition to the members of the **Eurosystème**, the national central banks of the Member States which have not yet adopted the **euro** and are thus not involved in the conduct of the monetary policy of the Eurosystème.

Eurosystème: Comprises of 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**). The Eurosystème is governed by the **Governing Council** and the **Executive Board** of the ECB.

Eurosystème's international reserves: These comprise of 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 of 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 **Eurosystème** 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 **Eurosystème** 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 EU national central banks.

Governing Council: The supreme decision-making body of the **European Central Bank (ECB)**. It comprises of 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 **Eurosystème** 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 **Eurosystème**.

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 as of 10 March 2004 they normally have a maturity of one week.

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 of 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.

Open market operation: An operation executed on the initiative of the central bank in the financial markets. With regard to their aims, regularity and procedures, **Eurosystem** open market operations can be divided into four categories: **main refinancing operations; longer-term refinancing operations; fine-tuning operations; and structural operations**. As for the instruments used, **reverse transactions** are the main open market instrument of the Eurosystem and can be employed in all four categories of operations. In addition, the issuance of debt certificates and outright transactions are available for structural operations, while outright transactions, **foreign exchange swaps** and the collection of fixed-term deposits are available for the conduct of fine-tuning operations.

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%. In May 2003, the Governing Council announced clarified that, in its pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

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 annual growth rate of **M3** over the medium term that is consistent with the maintenance of **price stability**. At present, the reference value for annual M3 growth is 4½%.

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 minimum amount of reserves a **credit institution** is required to hold 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**.

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 17 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: The Treaty establishing the European Community. The initial Treaty of Rome was amended on several occasions, notably by the Treaty on European Union (Maastricht Treaty) which constitutes the basis for **Economic and Monetary Union** and defines the statutes of the **ESCB**.