



1+2+3 *Bridge Forum Dialogue Conference under the chairmanship of the Governor of the BCL on "Globalisation: can Europe manage it?". Speakers were Mr. Lucas Papademos, Vice-President of the ECB (1), Mr. Kenneth Rogoff, professor of Economics at Harvard University (2) and Mr. Lars Heikensten, Member of the European Court of Auditors (3).*

4 *April 2008: Visit of Mr. Slawomir Skrzypek, Governor of the National Bank of Poland, at the BCL*

5 *May 2008: Visit of Mr. Mohammed Laksaci, Governor of the Bank of Algeria, at the BCL*

6 *Mai 2008: Visit of Mr. Phouphet Khamphounvong, Governor of the National Bank of Laos, at the BCL*

## 3. EXTERNAL ACTIVITIES

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

The BCL handles Luxembourg's financial transactions with the 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 of 31 December 2008, Luxembourg's quota, recorded in full on the BCL's balance sheet, amounted to SRD 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 12.93% of Luxembourg's quota.

On 28 April 2008, the IMF Board of Governors adopted Resolution 63-2 by an overwhelming margin. This resolution, proposed by the Executive Board, plans a large-scale reform of the institution's governance, including a modification of quotas and of voting rights in order to enhance both participation and representation of emerging and developing countries. At the same time, the reform proposes to realign members' relative quotas on their respective role and weight in the world's economy.

However, the quota increases will only be effective once the amendments to the IMF Statutes come into force, as proposed in Resolution 63-2, and once countries benefiting by this increase take appropriate additional measures. In particular, the amendment to the IMF Statutes proposed in this Resolution will have to be accepted by at least three fifths of the members of the institution, representing 85% of attributed voting rights. To this end, most member states will need to obtain an approval from the national legislator to accept the amendment bill.

According to Resolution 63-2, Luxembourg's quota would increase from DTS 279.1 million to DTS 418.7 million.

The 19 December 2008 Law approved the amendment to the IMF Statutes and allows the Luxembourg

government to take all necessary measures in view of the quota increase.

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 2008, the BCL granted credits amounting to €24.8 million and was reimbursed to the tune of €11.8 million.

At the end of 2008, Luxembourg held 79.1% of its DTS allocation (75.2% in 2007) following the accumulation of net interest received on the SDR account and on the reserve position. As at 31 December 2008, the amount recorded on the SDR account was SDR 13.4 million.

One BCL 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 of 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).

The BCL President attended the BIS Annual General Meeting.

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.

### 3.2 Activity at the European level

#### 3.2.1 Activity at the level of the ECB

During 2008, the Governor of the BCL participated in all 28 meetings of the Governing Council and in all five meetings of the General Council.

The Governing Council meetings are held twice a month at the ECB's headquarters in Frankfurt. While the first meeting is exclusively devoted to the analysis of economic and monetary evolutions and to monetary policy decisions, the second meeting deals with issues related to the other missions of the Eurosystem. Besides these meetings, the Governing Council also takes decisions via written procedures. In 2008, some 400 Executive Board's proposals were adopted by the Governing Council following this procedure ; among these proposals, many were opinions related to draft laws at the European or national level, according to article 105 paragraph 4 of the Treaty.

The General Council meetings, that gather the ECB President, the ECB Vice-President, and the ESCB Governors together, are also held in Frankfurt. The General Council fulfils the missions that the ECB has taken over from the EMI (European Monetary Institute).

Committees assist the decision-making bodies of the ECB in the fulfillment of their tasks. The Governing Council or the Executive Board can ask Committees to carry out analyses on precise topics. The Committees report to the Governing Council through the ECB Executive Board.

Committees were created by the enforcement of article 9.1 of the ECB's rules of procedure. There are currently 16 committees, which are essentially composed of members of the Eurosystem but can also include, for some issues, ESCB members. Each member is appointed by the Governor of his/her national central bank or, in special cases, by the ECB's Executive Board. Under the aegis of Committees, working groups or task forces are established, with specific objectives, but in conformity with their Committee's mandate. The Governing Council also created High Level Groups to help solve particular issues.

The BCL contributes to the Eurosystem's and the ESBC's work at this level through the participation in the meetings of committees, working groups and task forces of around 60 members of its staff.

#### 3.2.2 The enlargement of the euro area

On January, 1, 2009, exactly two years after Slovenia and one year after Cyprus and Malta, Slovakia introduced the euro, bringing the number of member states having adopted the single currency to 16. On that date the national bank of Slovakia became fully integrated to the Eurosystem, with the same rights and duties as the fifteen national central banks of the other member states having adopted the euro.

#### 3.2.3 The Economic and Financial Committee (EFC)

A BCL representative participates in meetings of the Economic and Financial Committee (EFC). The EFC 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."

In 2008, the EFC analysed the evolution of financial stability in the EU, the risks weighing on this stability and possible answers to those risks. In this context, the EFC prepared the conclusion of the new MoU on financial stability<sup>1</sup>, on 16 June 2008. The MoU deals with issues such as financial supervision in the EU, deposit guarantee schemes and rules on state aid and procedures in the context of the current crisis.

The EFC also works on economic policy issues discussed at informal ECOFIN meetings, which are attended by the BCL's President and which were strongly marked, in 2008, by the financial crisis and its impact on the real economy, and by the possible remedies brought by governments. In this context, the Committee also dealt with the analysis and the management of the liquidity risk as well as with the capital requirements directive.

<sup>1</sup> Memorandum of Understanding on Co-operation between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU on Cross-Border Financial Stability<sup>2</sup> CON/2008/17.

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### 3.2.4 The Committee on Monetary, Financial and Balance of Payments Statistics

In the context of the mission of the Statistical Office of the European Communities (Eurostat), the Committee of Monetary, Finance and Balance of Payments Statistics (CMFB) works on the development and coordination of statistical categories that are required under the policy implemented by the Council, the Commission and various committees assisting them. Central Banks, National Statistics Institutes as well as the Commission and the ECB are represented in the CMFB. Under the leadership of this Committee, different "task forces" operate with specific duties assigned to them.

The BCL has contributed actively in 2008 to this framework. Progress has been made particularly in terms of financial accounts, balance of payments, financial services and public finance statistics as well as national accounts.

### 3.3 National activities

#### 3.3.1 Legal developments

##### 3.3.1.1 The Law of 24 October 2008 improving the legislative framework for Luxembourg as a financial centre and amending the Law of 23 December 1998 on the monetary status and on the Central Bank of Luxembourg

#### 1 Introduction

The law of 24 October 2008 improving the legislative framework for Luxembourg as a financial centre (the Law of 24 October 2008) modifies many aspects of the Law of 23 December concerning the monetary status and the Central Bank of Luxembourg (the BCL's Organic Law).

The draft law<sup>2</sup> preceding the Law of 24 October 2008 was subject to two opinions of the European Central Bank (the ECB): The opinion of 15 April 2008, at the request of the Luxembourg Minister for the Treasury and the Budget, on a draft law improving the legislative

framework for Luxembourg as a financial centre and on a draft law relating to social insurance contributions, led to governmental amendments<sup>3</sup>. As a result of these amendments the ECB rendered its second opinion<sup>4</sup>.

The Law of 24 October 2008 marks a decisive step in the history of the BCL as it finally recognises, through the attribution of new core competences, the fundamental role of the BCL in the field of financial stability.

The new Law thus takes into account the provisions of the Treaty establishing the European Community (the EC Treaty) and of the Statute of the European System of Central Banks and of the European Central Bank (the ESCB Statute), which require central banks to be involved in maintaining financial stability<sup>5</sup>. The new Law also reflects the stance taken by the ECB in the aforementioned opinions.

The attribution to the BCL of a regulatory power, as well as the strengthening of its financial situation, are the result of the legislator's intention to confer upon the BCL the necessary legal and financial means to accomplish its new role.

The BCL and the other authorities in charge of maintaining financial stability can only satisfy their objectives through a clearly determined legal framework accompanied by the necessary executive powers.

The Law of 24 October 2008 contains two kinds of provisions: first, the institutional provisions determining the BCL's functioning and second the new missions conferring upon the BCL a key role in maintaining financial stability.

<sup>2</sup> Draft law number 5842 improving the legislative framework for Luxembourg as a financial centre; submitted to the Parliament on 28 February 2008.

<sup>3</sup> CON/2008/17.

<sup>4</sup> ECB opinion of 10 September 2008 at the request of the Banque centrale du Luxembourg on amendments to the draft law improving the legislative framework for Luxembourg as a financial centre and amending the Law of 23 December 1998 on monetary status and on the Banque centrale du Luxembourg, (CON/2008/42).

<sup>5</sup> See Article 105 (5) of the EC Treaty and 3.3 of the ESCB Statute.

### 2 The provisions determining the BCL's functioning

The following provisions are inserted into the BCL's Organic Law:

- 1) the BCL's capital increase through the incorporation of reserves on the basis of a grand-ducal regulation (Article 4 paragraph 1);
- 2) the pension scheme of the BCL's agents (Article 14 paragraph 4 letter b);
- 3) the mandatory character of minimum reserves (Article 23);
- 4) taking participations in public institutions, undertakings, or public or private associations (Article 26-1);
- 5) the BCL's regulatory power (Article 34 paragraph 1)

The underlined passages below highlight the main modifications.

#### 2.1 The BCL's capital increase through the incorporation of reserves

Paragraph 1 of Article 4 of the BCL's Organic Law is amended as follows: "The State is the sole shareholder of the Central Bank, whose capital is fixed at twenty-five million euro. A grand-ducal regulation may increase this capital through the incorporation of reserves, on a proposal from the Central Bank".

As a consequence the BCL's capital may be increased periodically through the incorporation of reserves without having recourse to the legislator, who will however maintain his role in the event of an increase in capital through new funds.

In 1998, during the preparation of the BCL's Organic Law, the Central Bank had proposed increasing its capital to EUR 150 million and providing for the creation of a general reserve fund, to which the net profits of its activities would be transferred, up to a limit equal to 100% of the capital (as such is the case under Article 33(1) (a) of the ESCB Statute). The BCL's proposal was partly followed. Article 31 of the Law on the BCL provides for the creation of a general reserve fund and the BCL's duty to transfer into it its profits, as long as the total of the capital and the reserve fund falls short of

the total of its assets which do not yield freely-available income, after deducting liabilities which form the direct counterpart to such assets. In this perspective, the possibility offered to the BCL of increasing its capital by incorporating reserves will indirectly contribute to reinforcing its financial position<sup>6</sup>.

In its opinion of 15 April 2008, the ECB emphasised that "The ECB would, nevertheless, recommend that it should be verified whether the BCL's capital, as increased by incorporating such reserves, would be sufficient to effectively perform all its tasks and cover properly its administrative and operational expenses, as they have evolved since its establishment"<sup>7</sup>.

#### 2.2 The pension scheme of the BCL's agents

According to Article 14 paragraph 4 letter b of the BCL's Organic Law "The Central Bank may have recourse to the decision-making bodies and services of the pension agencies according to the pension regime of the agent in question".

As the BCL operates its own pension fund it must be in a position to determine for instance the level of infirmity required to give access to an invalidity pension and to avail itself of the opinions required by law. Taking into account the limited number of cases, it is not appropriate to create a separate agency in charge of attributing acquired rights to the BCL's agents. Thus the new provision extends the competence of the existing pension agencies to the BCL's agents' pensions.

<sup>6</sup> See, ECB opinion of 15 April 2008 at the request of the Luxembourg Minister for the Treasury and the Budget on a draft law improving the legislative framework for Luxembourg as a financial centre and on a draft law relating to social insurance contributions, (CON/2008/17), paragraphs 2.2 and 2.3, p. 2-3.

<sup>7</sup> See, ECB opinion of 15 April 2008 at the request of the Luxembourg Minister for the Treasury and the Budget on a draft law improving the legislative framework for Luxembourg as a financial centre and on a draft law relating to social insurance contributions, (CON/2008/17), paragraph 2.3, p. 3.

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### 2.3 The mandatory character of minimum reserves

Article 23 of the BCL's Organic Law provides that "The Central Bank is the depository for amounts that credit institutions are obliged to maintain by monetary control measures based on Article 19 of the Statute of the European System of Central Banks and of the European Central Bank".

In its initial version the draft law did not provide for the mandatory character of minimum reserves. Subsequent to the ECB opinion of 15 April 2008, the formula "may" has been replaced by "obliged", transforming thus a possibility into an obligation. The explanatory memorandum highlights that "the terms that are to be replaced at this stage were appropriate in 1998 but this wording has become obsolete since the mandatory minimum reserves became a frequently used instrument of the ECB's monetary policy framework"<sup>8</sup>.

The Law of 24 October 2008 thus transposes into national law a fundamental requirement of the Eurosystem.

### 2.4 Taking participations in public institutions, undertakings, or public or private associations

Article 26-1 of the BCL's Organic Law states that "Within its powers and tasks, the Central Bank may take and dispose of participations in public institutions, undertakings or public or private associations".

This Article provides the legal basis for the BCL's participation in various types of external organisations. Similar provisions are contained in the statutes of other central banks of the Eurosystem. The Article envisages a twofold objective: On the one hand it takes into account the existing situation and on the other hand it is necessary to guarantee the BCL's participation in future activities of the Eurosystem and other activities which could be of special interest for the BCL. The BCL has indeed succeeded the *Institut monétaire luxembourgeois* (IML) as a member of two economic interest groups (*Groupe d'intérêt économique G.I.E.*), SYPAL and RTGS-L (both under liquidation). The BCL currently participates in the Society for Worldwide

Interbank Financial Telecommunication (SWIFT) and the Financial Technology Transfer Agency (ATTF). Such participations may be useful for various reasons. SWIFT for instance, allows the BCL to use its services for the execution of the BCL's missions. ATTF permits the BCL to contribute to the cooperation with third countries through technical assistance opportunities offered *inter alia* to other central banks.

Within the Eurosystem, it is envisaged to use the legal status of commercial companies as a framework for central bank cooperation in the field of various projects. For the time being the Eurosystem regulates common facilities (TARGET 2) *via* ECB regulations. For TARGET 2 Securities it is considered that national central banks should create new legal entities and in this respect, the new provision would enable the BCL to participate in such entities.

### 2.5 The BCL's regulatory power

Article 34 paragraph 1 of the BCL's Organic Law provides that "Within the limits imposed on its powers and tasks, the Central Bank may adopt regulations. The Central Bank's regulations shall be published in the Mémorial"<sup>9</sup>.

A similar provision foreseen under the Law of 24 October 2008 confers upon the *Commission de surveillance du secteur financier* (CSSF) the power to adopt regulations. These modifications derive from Article 108bis of Luxembourg's Constitution according to which "The Law may create public institutions, vested with civil personality, and with a clearly defined organisation and purpose. Within the limits of their missions the Law may confer upon them the power to adopt regulations..."<sup>10</sup>.

<sup>8</sup> See draft law n°5842 « portant amélioration du cadre législatif de la place financière de Luxembourg », Commentaires des articles, 28 Februray 2008, paragraph 3, p. 18, [http://www.chd.lu/wps/PA\\_1\\_084AIVIMRA06I432DO10000000/FTSShowAttachment?mime=application%2fpdf&id=972453&fn=972453.pdf](http://www.chd.lu/wps/PA_1_084AIVIMRA06I432DO10000000/FTSShowAttachment?mime=application%2fpdf&id=972453&fn=972453.pdf); also see, Commentaires des amendements, 5 June 2008, paragraph 1, p. 3, [http://www.chd.lu/wps/PA\\_1\\_084AIVIMRA06I432DO10000000/MergeServlet?lot=J-2007-O-0694](http://www.chd.lu/wps/PA_1_084AIVIMRA06I432DO10000000/MergeServlet?lot=J-2007-O-0694).

<sup>9</sup> The Official Journal of the Grand Duchy of Luxembourg.

<sup>10</sup> Unofficial translation.

Article 34 paragraph 1 is a fundamental provision as it offers the BCL the possibility to fulfill its missions through the adoption of legally binding means. The BCL exercises its regulatory power in addition to its mandate to execute, as a member of the ESCB, ECB decisions.

By using this new legal basis, the BCL recently adopted a regulation concerning certain aspects of the implementation of the monetary policy in the Eurozone<sup>11</sup>.

The regulatory power is also destined to be used on other levels. For instance, in its opinion of 15 April 2008, the ECB stresses that "The BCL's regulatory power, potentially combined with a sanctioning power, is especially welcome in the collection, compilation and reporting of statistical data"<sup>12</sup>.

Moreover, the regulatory power enables the BCL to replace its general terms and conditions for monetary policy operations by a regulation<sup>13</sup>.

In the field of financial stability, the Law of 24 October 2008 confers upon the BCL the competence to supervise the general liquidity situation on the markets as well as evaluate market operators for that purpose. This regulatory power enables the BCL to determine the conditions relating to liquidity management and to the supervision of such management.

<sup>11</sup> See, règlement de la Banque centrale du Luxembourg 2008/N° 1 du 28 novembre 2008 contenant des modifications temporaires aux règles applicables à l'éligibilité des garanties ; [http://www.bcl.lu/fr/publications/R\\_glements\\_de\\_la\\_Banque\\_centrale\\_du\\_Luxembourg/2008-1.pdf](http://www.bcl.lu/fr/publications/R_glements_de_la_Banque_centrale_du_Luxembourg/2008-1.pdf).

<sup>12</sup> See, ECB opinion of 15 April 2008 at the request of the Luxembourg Minister for the Treasury and the Budget on a draft law improving the legislative framework for Luxembourg as a financial centre and on a draft law relating to social insurance contributions, (CON/2008/17), paragraph 4.3, p. 4.

<sup>13</sup> ECB opinion of 15 April 2008 at the request of the Luxembourg Minister for the Treasury and the Budget on a draft law improving the legislative framework for Luxembourg as a financial centre and on a draft law relating to social insurance contributions, (CON/2008/17), paragraph 4.5, p.6.

## 3 The BCL's new missions

The Law of 24 October 2008 confers upon the BCL three core tasks in the field of financial stability:

- 1) supervising the general liquidity situation on the markets as well as evaluating market operators for this purpose (Article 2 paragraph 4);
- 2) cooperating with the competent authorities in the field of prudential supervision and the stability of the financial system (Article 2 paragraph 5);
- 3) emergency liquidity assistance (Article 27-2).

The underlined passages below highlight the main modifications.

### 3.1 The supervision of liquidity

Article 2 entitled "Tasks and legal status of the Central Bank of Luxembourg" of the BCL's Organic Law is completed by a new paragraph 4 providing that "The Central Bank shall be responsible for supervising the general liquidity situation on the markets as well as evaluating market operators for this purpose. The coordination and cooperation procedure for performing this task shall be subject to agreements between the Central Bank and the Commission de surveillance du secteur financier as well as the Commissariat aux assurances in accordance with the parties' legal powers".

The first sentence of this Article defines the supervisory role played by the BCL with respect to the market operator's liquidity risk management and with special focus on banks. The supervision embraces the general liquidity situation on the markets as well as the individual liquidity situation of market operators. The BCL's new supervisory role grounds on its competence to provide liquidity in both normal times (monetary policy operations, Article 22 of the BCL's Organic Law) and in times of financial distress (emergency liquidity assistance, Article 27-2, of the BCL's Organic Law, discussed below).

From a financial stability point of view the supervision of liquidity is of particular interest for a central bank, as it may together with solvency requirements and the

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provision of emergency liquidity assistance, prevent the markets from a negative chain reaction and hence protect the economy from systemic risk.

Indeed a bank's liquidity management must be subject to stronger regulations for, *inter alia* following reasons:

- the financial turmoil has shown the need for liquidity regulation of banks together with solvency requirements (Basel II);
- real time gross settlement systems (RTGS) settle large volumes of liquidity. A failure of one participant in such a system might impair the functioning of the financial system as a whole;
- a sound management of banks' exposures to derivative products must be guaranteed as such products are opaque and might require, as the recent turmoil has proved, considerable volumes of liquidity.

The permanent supervision of liquidity should allow the BCL to verify through on-site inspections liquidity management and the availability of adequate collateral.

The second aspect of paragraph 4 relates to the cooperation and coordination between prudential supervisory authorities in the field of liquidity management. This cooperation will be based on agreements concluded with the CSSF and the *Commissariat aux Assurances*.

Supervisory authorities should avoid, through cooperation, to impose an unnecessary reporting burden on market operators.

#### 3.2 Cooperation between authorities in charge of maintaining financial stability

The Law of 24 October 2008 completes Article 2 of the BCL's Organic Law with a new paragraph 5 stating that "In view of its tasks relating to monetary policy and to the promotion of the smooth functioning of payment systems, as well as contributing to the good management of policies implemented by the competent authorities concerning prudential supervision of credit institutions and the financial system's stability, while respecting its independence and the parties'

legal powers, the Central Bank shall cooperate with the Government and with prudential supervision authorities at national level, as well as with the other central banks at Community and international level, to contribute to ensuring financial stability, notably within committees set up for this purpose".

This paragraph allows on the one hand the implementation of Article 105 (5) of the EC Treaty, according to which "The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system". On the other hand the new provision transposes into national law the Memorandum of Understanding on cooperation between the financial supervisory authorities, central banks and finance ministries of the European Union on cross-border financial stability<sup>14</sup> which is of special interest in the event of a financial crisis.

#### 3.3 The lender of last resort role

The Law of 24 October 2008 inserts a new Article 27-2 into the BCL's Organic Law stating that "The Central Bank may, in exceptional circumstances, grant short-term loans to its counterparts while respecting its independence and the provisions prohibiting monetary financing. It shall grant loans on the basis of adequate collateral which may consist of a State guarantee under the conditions previously agreed between the State and the Central Bank. The Central Bank's privilege in Article 27-1(1) shall apply to these loans".

The lender of last resort lends in exceptional circumstances, above all to solvent banks that face a temporary liquidity shortfall. Such loans are backed by adequate collateral and take into account systemic risk.

Until then the BCL's lender of last resort role was grounded on Article 22 of its Organic Law according to which "To enable it to achieve its objectives and fulfill its tasks, the Central Bank may: operate in the financial markets by buying and selling outright (spot and forward) or under repurchase agreement and by

<sup>14</sup> Signed on 1st June 2008, Brussels, ECFIN/CEFCPE (2008) REP/53106 REV REV.

lending or borrowing claims and marketable instruments denominated in all monetary units as well as precious metals; conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral". The use of this Article for that purpose seemed inappropriate since Article 22 applies to monetary policy operations foreseen under the EC Treaty and the Statute of the ESCB. On the contrary the lender of last resort role is considered as being a national competence.

It was thus important, especially in the context of the financial turmoil, to modify the Organic Law by conferring upon the BCL a mission that, since the 19th century, has been considered as being a core central bank competence in the field of financial stability.

In its opinion of 10 September 2008, the ECB welcomed the new provision enabling the BCL to provide emergency liquidity assistance: "...the ECB strongly welcomes the draft law, which establishes the legal basis for the possible extension of emergency liquidity assistance by the BCL in the form of short-term loans extended to its counterparts, while at the same time providing for appropriate legal safeguards of central bank independence and compliance with the monetary financing prohibition under Article 101 of the Treaty..."<sup>15</sup>. The prohibition foreseen under Article 101 applies in the event that a central bank supports an insolvent financial institution whereas this competence should lie with the State and be subject to the competition rules of the European Community with respect to State aid.

#### 3.3.1.2 Law of 3 July 2008 approving the Treaty of Lisbon and amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007

<sup>15</sup> ECB opinion of 10 September 2008 at the request of the Banque centrale du Luxembourg on amendments to the draft law improving the legislative framework for Luxembourg as a financial centre and amending the Law of 23 December 1998 on monetary status and on the Banque centrale du Luxembourg, (CON/2008/42), paragraph 4.11, p. 6.

The law of 3 July 2008 (published in the Mémorial 99 of 11 July 2008, page 1302) has approved the Treaty of Lisbon. In this Treaty, price stability and the Economic and Monetary Union (EMU), with the euro as currency, have been expressly recognized as an objective of the European Union. The ECB becomes an Institution of the Union. The independence of the ECB, the ESCB and the NCBs, as well as the legal personality, regulatory powers and financial independence of the ECB are confirmed.

The ECB issued an opinion on 5 July 2007.

The Treaty of Lisbon shall enter into force on the first day of the month following its ratification by the last Member State. By the end of 2008, the Czech Republic, Ireland, Germany and Poland did not formally ratify yet the Treaty of Lisbon.

#### 3.3.1.3 Legislation relating to the crisis of the financial sector

By a grand ducal regulation of 10 October 2008, the Government has been authorized to issue a financial guarantee for the benefit of the Dexia Banking Group. The Government is authorized to guarantee, under certain conditions, for the State, the entirety of the financing collected by the Dexia Banking Group from credit institutions and institutional depositors as well as bonds and debt instruments issued by the Dexia Banking Group for institutional investors. This guarantee is provided by the Grand Duchy of Luxembourg jointly but not in solidum with the Kingdom of Belgium and the French Republic.

The Eurosystem has adopted in October 2008 Recommendations on government guarantees on bank debt, in accordance with Section (8) of the "Declaration on a concerted European Action Plan of the euro area countries" of 12 October 2008 and with Section (4) of the conclusions of the Presidency of the European Council of 15 and 16 October 2008. The Eurosystem opposes, *inter alia*, to guarantees on interbank deposits as they could entail a substantial distortion in the various national segments of the euro area money market.

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In addition, the Eurosystem has adopted in November 2008 Recommendations concerning the pricing of recapitalizations, which are without prejudice to the guidance and assessment of recapitalization measures by the European Commission in accordance with Article 87 EC.

In its capacity as member of the Eurosystem, BCL ensures compliance with these rules within the limits of its competences as conferred upon it by law. Given its competence regarding the supervision of the general liquidity situation on the markets as well as the evaluation of market operators for this purpose, BCL may be required to evaluate, as the case may be, the need for special measures of prudence in relation to its monetary policy counterparties.

Furthermore, the aforementioned law of 24 October 2008 has introduced a specific article VII providing for the authorization of the State to issue medium and long term loans. In order to ensure the stability of the financial system, the Minister in charge of the Treasury is authorized to issue loans, if needed, in one or several tranches, up to an overall amount of three billion euro. The proceeds will be used to reinforce the financial situation of financial establishments, notably by participating in their share capital, acquiring securities issued by these establishments, by entering into lending or borrowing operations for their benefit as well as by making placements with these establishments.

The State has also contributed to restore the situation of another credit institution by providing a loan which was converted into share capital in second stage.

Based on the proposal for a directive deposited by the Commission on 15 October 2008 and because many Member States of the European Union have already increased the guaranteed amount for deposits to 100.000 euro, the Government intends to apply this amount as from 1 January 2009 with the entry into force of the budgetary law for the year 2009 (article 44, paragraph 2 of the law of 19 December 2008, Mémorial A, no 200 of 23 December 2008). Relevant amendments have been introduced to the 2nd and 3rd paragraph of article 62-2 of the law of 5 April 1993 relating to the financial sector (as amended).

However, the budgetary law does not amend the present system; it is for the national Deposit Guarantee Association to take the adequate implementation measures. These measures have not been taken so far. The increase of the guaranteed amount must be considered as a first stage - an urgent measure - in anticipation of a more fundamental revision of the deposit guarantee system presently applied in Luxembourg. It is envisaged notably to apply a pre-financing system in the future.

#### 3.3.1.4 Legal rate of interest

The rate was fixed at 5.75 per cent for the year 2008 by a grand-ducal regulation of 13 December 2007 (published in the Mémorial A no. 226 of 19 December 2007). For 2009, this rate has been fixed at 4.25 per cent. It is observed that these rates, being determined by regulatory means, do not correspond to specific rates of reference of the money or capital markets.

#### 3.3.1.5 Developments in the eligible collateral framework

Article 18.1 of the Statute of the ESCB sets forth that all lending operations conducted by the Eurosystem shall be based on adequate collateral. The assets to be collateralised must meet precise criteria to constitute eligible collateral for such operations. The single list of eligible collateral comprises two categories of assets, marketable and non-marketable assets.

In 2008, the Governing Council of the European Central Bank took a number of important measures concerning eligible collateral. Certain such measures are permanent, while others are just temporary.

##### 3.3.1.5.1 Permanent amendments decided in 2008

Every two years, the Eurosystem conducts a review of the risk control measures applied to assets that are eligible as collateral for the purpose of credit operations of the Eurosystem.

This biennial review resulted in the adoption of the ECB Guideline of 23 October 2008 amending Guideline ECB/2000/7 on monetary policy instruments and procedures of the Eurosystem (ECB/2008/13). The contemplated amendments had been disclosed to the public by a press release of 4 September 2008.

Within the framework of its biennial review, the Eurosystem introduced a number of technical improvements to its risk control measures, which can be summarized as follows:

1. Concerning risk control measures applied to marketable assets, a new liquidity category was introduced. This new category is composed of debt certificates issued by credit institutions (other than issued Jumbo and traditional covered bank bonds) that were previously part of category III. The old category IV, which included asset-backed securities, has become the new category V. Assets in the new category V shall be subject to a haircut of 12% regardless of their residual maturity and coupon structure. Furthermore, assets in this liquidity category that are given a theoretical value shall be subject to an additional valuation haircut.
2. The definition of "close links" was extended to include situations in which a counterparty submits an asset-backed security as collateral when it (or any third party that has close links to it) provides support to that asset-backed security by entering into a currency hedge with the issuer or guarantor of the asset-backed security or by providing liquidity support of more than 20% of the nominal value of the asset-backed security.
3. With regard to the ECAI (External Credit Assessment Institutions), for an asset to be eligible as collateral, the related credit assessment must be based on a public rating. In the case of asset-backed securities, ratings must be explained in a publicly available credit-rating report (either a detailed pre-sale report or a new issue report). This report must include a comprehensive analysis of the structural and legal aspects, a detailed collateral pool analysis, an analysis of the transaction participants and any other relevant particularities of the transaction. Moreover, ECAIs must publish regular rating reviews for asset-

backed securities at least on a quarterly basis. These reviews must at least contain an update of the key transaction data (e.g. composition of the collateral pool, transaction participants and capital structure) and performance data.

Finally, it is noted that the Eurosystem has the possibility to limit or exclude the use of certain assets as collateral for its credit operations, also at the level of individual counterparties, if required, to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank.

All the above-mentioned changes adopted on 23 October 2008 shall enter into force on 1 February 2009.

##### 3.3.1.5.2 Temporary amendments decided in 2008 and applying until 31 December 2009

On 21 November 2008, the European Central Bank adopted a Guideline on temporary changes to the rules relating to eligibility of collateral (ECB/2008/18) following the ECB Regulation of 23 October 2008 having the same title. The latter regulation had been detailed by the Decision ECB/2008/15 of 14 November 2008. The purpose of this intervention was to widen the range of assets that Eurosystem counterparties could use as eligible collateral.

The BCL implemented the ECB Guideline of 21 November 2008 by way of a BCL Regulation 2008/N°1 of 28 November 2008.

The objective of these various legal acts is to add the following instruments to the list of eligible assets:

- Marketable debt instruments denominated in other currencies than the euro, namely US dollars, British pounds and Japanese yen. An additional haircut of 8% shall apply to these instruments.
- Syndicated loans denominated in euros and governed by the laws of England and Wales became

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eligible according to the above-mentioned ECB Regulation of 23 October 2008. However, further to the assessment of the costs and benefits associated with accepting such assets, the ECB withdrew them from the eligible assets list by the ECB Guideline of 21 November 2008.

- Debt instruments issued by credit institutions, which are traded on certain non-regulated markets as specified by the ECB. This measure implies that certificates of deposit (CDs) are also eligible when traded on a non-regulated market accepted by the ECB. An additional haircut of 5 % shall be imposed on all such debt instruments.
- Subordinated debt instruments are eligible when protected by an unconditional and irrevocable guarantee payable on first demand, issued by a guarantor whose financial soundness raises no reserve. These instruments will be subject to a haircut add-on of 10%, with a further 5% valuation markdown in case of theoretical valuation.

Furthermore, the Eurosystem decided to lower the credit threshold for eligible assets from A- to BBB-, with the exception of asset-backed securities (ABS), and impose a haircut add-on on all eligible assets rated less than A-.

Moreover, fixed term deposits held with the Eurosystem by counterparties are eligible collateral for all Eurosystem refinancing operations.

The BCL regulation implementing these various measures entered into force on 1 December 2008 and will be applicable until 31 December 2009.

### 3.3.1.6 Miscellaneous

Grand-Ducal Regulation of 8 February 2008 concerning the issuance of commemorative coins on the occasion of the 10th anniversary of the BCL [developments already included under the title "numismatics issuance" in previous reports, section 2.4.3 (B 3.1)].

The current reforms:

#### a) *Implementation of Directive 2007/64/EC of 13 November 2007 on payment services in the internal market*

The BCL contributed to the work on the implementation in Luxembourg of the Directive 2007/64/EC of 13 November 2007 on payment services in the internal market within a working group established by the Ministry of Finance.

The BCL's Organic Law shall be amended in the near future in order to add a mission of oversight of payment systems, securities settlement systems and payment instruments. Currently, the BCL's competence is limited to the systems in which it participates. The draft law implementing the Directive shall extend this competence to all payment systems, securities settlement systems and payment instruments.

On the basis of Article 105 (2) of the EC Treaty and Article 3 (1) of the Statute of the European system of central banks (ESCB), the promotion of the smooth operation of payment systems is one of the fundamental tasks of the Eurosystem central banks. Moreover, on the basis of Article 22 of the ESCB Statute, the ECB and the national central banks may provide facilities and the ECB may make regulations to ensure efficient and sound clearing and payment systems within the Community and with other countries. Article 25 of the BCL's Organic Law mirrors on the national level Article 22 of the ESCB Statute.

These articles provide a legal basis for the oversight activities by national central banks exercised in accordance with the common oversight policy framework defined for the Eurosystem by the ECB Governing Council. It is also crucial for the Eurosystem to collect information as regards the evolution in the field of payments and in general as regards market infrastructures. The ECB considers that the scope of the oversight competence also covers systems such as e-money schemes and payment instruments.

Furthermore, the draft law provides that the coordination and cooperation modalities for the performance of this new task shall be agreed between the BCL and

the CSSF while respecting the legal competences of each party.

#### b) *The draft law organising the National institute for statistics and economic research*<sup>16</sup>

This draft law confers upon the BCL and the National institute for statistics and economic research (STATEC) the mission to jointly establish the balance of payments and the financial accounts. The methods of cooperation are laid down in an agreement to be concluded between the STATEC and the BCL.

The ECB rendered an opinion on this draft law in which it insists in particular on the financial and institutional aspects of the BCL's independence<sup>17</sup>.

### 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. 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.

<sup>16</sup> Draft law number 5972, submitted to the Parliament on 10 December 2008.

<sup>17</sup> ECB opinion of 27 January 2009 at the request of the Banque centrale du Luxembourg on the legal framework for the compilation of statistics and the role of the Banque centrale du Luxembourg in the fields of balance of payments and quarterly financial accounts statistics, (CON/2009/7).

#### 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 (CPIC), 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. The BCL presents its inflation projections for Luxembourg to the CPIC and provides explanations related to BCL work in the area of consumer prices.

#### 3.3.2.3 Committee "Comptabilité bancaire"

The committee "Comptabilité Bancaire" set up by the Commission de surveillance du secteur financier (CSSF), aims at ensuring an exchange of views between the supervisory authority, the BCL and players of the Luxembourg financial centre. The committee is consulted during the preparation CSSF circulars concerning bank accounting issues.

The committee members met several times in 2007 to discuss the implementation of the accounting standards IAS / IFRS, the new regulatory capital adequacy, financial reporting (FINREP) and the common reporting (COREP) defined by the Committee of European Banking Supervisors.

#### 3.3.2.4 Higher Council for Statistics of Luxembourg

The Higher Council for Statistics carries out advisory functions on behalf of the national statistical institute of Luxembourg (STATEC) and is mandated to provide appraisal on the STATEC's annual programme.

The BCL contributes in two ways to the work of the Higher Council for Statistics: on the one hand, it provides its opinion on the documents elaborated during meetings and submitted to it and, secondly, it provides

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the STATEC with data collected on the financial centre to enable the latter to achieve its work Programme.

### 3.3.2.5 XBRL Luxembourg asbl

XBRL (eXtensible Business Reporting Language) is a financial reporting standard based on XML, which main objective it is to improve the correct character, transparency and efficiency of internal and external reporting. The non-profit association XBRL Luxembourg asbl includes some twenty organisations using XBRL and / or providing services related to XBRL technology. The role of the association is to promote the XBRL standard within Luxembourg's economy.

The BCL, as a founding member of XBRL Luxembourg, will analyse the potential to adopt the XBRL standard in the context of the statistical reporting it collects from companies of the Luxembourg financial sector.

### 3.3.3 BCL Committees

#### 3.3.3.1 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 this data.

During 2008, the committee's advice has been sought for the definition of a security by security reporting for credit institutions and undertakings for collective investment (UCIs) as well as for the new data collection for investment funds.

#### 3.3.3.2 The Monetary and banking statistics consultative commission

The Monetary and banking 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 banking statistics. During 2008, the Commission has been informed and consulted on various conceptual issues in relation with the revision of statistical data

collection for credit institutions, the security by security reporting for credit institutions as well as the revision of the statistical data collection on interest rates applied by credit institutions.

#### 3.3.3.3 The Balance of payments statistics consultative commission

The Balance of payments statistics consultative commission acts as an advisory group and assists the BCL in its mission to collect data in the areas of balance of payments and international investment position. The Commission ensures an efficient organisation of data collection in order to avoid redundancies and to limit the collection charge for the entities requested to submit statistical data.

#### 3.3.3.4 The Economic and financial statistics consultative commission

The Economic and financial statistics consultative commission has been set up by the BCL in order to ensure an efficient organisation of the data collection in the area of economic and financial statistics as well as to enhance the dialogue between financial intermediaries and the central bank.

Since the Economic and financial statistics consultative commission has been set up at the end of the year, it did not yet meet during 2008.

#### 3.3.4 BCL research activities

In 2008, the BCL established a research programme fixing the main axes for research activities. These were grouped into five themes:

- Business cycles and long-term trends
- Competitiveness and productivity
- Labour markets
- Monetary analysis, credit and financial markets
- Other subjects

These main themes were confirmed in 2009 and provide a structure for research activities at the BCL, as well as helping to raise their visibility. Research output is regularly disseminated through BCL publications but

some were also published in peer-reviewed scientific journals (Scottish Journal of Political Economy, Regional Science and Urban Economics). BCL researchers also presented their work in many seminars and workshops organised by the Eurosystem Research Networks (Wage Dynamics Network, Household Finance and Consumption Network) as well as those organised by more academic associations such as the Euro Area Business Cycle Network (EABCN), the Centre for Economic Policy Research (CEPR) and the European Economic Association (EEA). Furthermore, during November 2008, the BCL held a conference in Luxembourg on the productivity of financial services, jointly organised with the Société Universitaire Européenne de Recherches Financières (SUERF). Lastly, the BCL has developed several collaborations with external researchers in order to benefit its research projects and to share its competences. In particular, the Perfilux project, grouping the BCL with the Luxembourg School of Finance (University of Luxembourg) as well as STATEC, and partially financed by the Fonds National de la Recherche, aims to study the performance of the financial services industry in Luxembourg. This has made possible the recruitment of two post-doctoral researchers specialised in this domain.

#### 3.3.5 Training at the BCL

The BCL furthered its cooperation with the young University of Luxembourg, where a staff member gave lectures on institutional aspects of the Eurosystem. Other staff members taught economics at the Université catholique de Louvain and at the Dolibois European Campus of the Miami University (MUDEC) in Luxembourg.

The BCL is shareholder of the Agence de Transfert de Technologie Financière (ATTF). This agency, established in 1999 at the initiative of the Luxembourg government, shares with mostly emerging countries Luxembourg's know-how in financial matters. In July 2008, in the context of a study visit, the BCL held a lecture for twenty members of the Banking and Finance academy of Uzbekistan.

The BCL organises presentations on the Eurosystem and the BCL for high school students (usually in the course

of their last two years) following economics classes. Classes are greeted, along with their economics teachers, at the auditorium of the Monterey building, for an educational and interactive presentation on the organisation and on the missions of the BCL and of the Eurosystem. Immediately after the presentation, students are invited to test their knowledge with an interactive quiz. Other topics can also be tackled according to teachers' requests and students' questions.

The course and the content of those visits were adapted following the feedback given in winter 2007-2008 by teachers and students from the Lycée technique de Bonnevoie, Lycée Technique Michel Lucius and the Ecole de Commerce et de Gestion. In September 2008, the Minister for Education and professional training thanked the BCL for its involvement and informed economics and social sciences teachers about the possibility to visit the BCL with their classes. Both teachers and students have expressed their interest for this type of programme.

#### 3.3.6 External events

##### 3.3.6.1 Conferences and international meetings

The Governor of the BCL attended the IMF and the World Bank's spring meetings that were held in Washington in April.

The Governor of the BCL also attended the half-yearly informal ECOFIN Council of Ministers.

In May 2008, the BCL hosted the 15th annual meeting of Governors of French-speaking central banks. Around thirty delegations from Africa, North America, Asia, the Caribbean, Europe, the Middle-East and the Pacific participated in the meeting, which took place in Echternach. Working sessions were devoted to the topic of governance. Governors and other delegates had a hearing with H.R.H. Grand-Duke Henri.

The « open day » at the BCL, organised on 1 June 2008 in the Monterey building, attracted around 500 people. A particular emphasis was put on numismatic



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activities, with the issuance of new products (gold collector coin 2008 « The BCL - 10th anniversary » and casket containing all gold and silver coins from the series « European institutions ») and the exhibition of the finest samples of banknotes from Luxembourg; and didactic activities, with a series of presentations that were given at the auditorium, and which explained the functioning of the Eurosystem and the BCL. A counter installed by the Post and Telecommunications office also offered philatelists a special postmark for the stamp « 10th anniversary of the Eurosystem » issued on 18 March 2008.

The BCL was represented by its President and a delegation of staff members for the tenth anniversary of the ECB, on 2 June 2008, in Frankfurt.

In order to celebrate this anniversary, the ECB's cultural days, from 14 May to 2 June 2008, had included contributions from the central banks of the EU's 27 member states. The BCL was represented, along with the central banks of Malta, Slovakia and the Czech Republic, by the concert « Family of Europe » given by the European Soloists, Luxembourg, on 30 May 2008. Among the musical pieces played was the Family of Man, composed by the Czech Milan Slavicky and commissioned by the BCL for the celebration of its own tenth anniversary.

The official festivities for the celebration of the BCL's tenth anniversary were held in November 2008 in Luxembourg. A series of conferences jointly organised by the BCL and the SUERF (Société Universitaire Européenne de Recherches Financières) were given on 11 and 12 November 2008. The Governor of the BCL, on this occasion, greeted the members of the SUERF. The official celebration, on 12 November, included a panel discussion on the topic « Growth and productivity in the financial sector: challenges for monetary policy ». This discussion, held in the framework of the traditional Pierre Werner Lecture, gathered Mr. Jürgen Stark, member of the ECB's Executive Board, Mr. Donald L. Kohn, Vice-President of the Board of Governors of the Federal Reserve System, and Mr. Akinari Horii, Deputy Governor of the Bank of Japan, together. The Governor of the BCL then opened the official ceremony in the presence of Mr. Jean-Claude Juncker, Prime Minister of Luxembourg, and Mr. Jean-Claude Trichet, President of the European Central Bank. In the context of its tenth

anniversary, the BCL also published a commemorative book entitled « Emergence of a central bank in Luxembourg, 1998-2008 ».

The Governor of the BCL was represented by Mr. Jacques F. Poos, member of the BCL Council, on the occasion of the 50th anniversary of the Central bank of Tunisia, in November 2008.

Within the Bridge Forum Dialogue ([www.forum-dialogue.lu](http://www.forum-dialogue.lu)), an association chaired by the BCL's Governor and composed of representatives from European institutions and bodies and the nation's resources, two conferences were organised. The first was held in January, under the chairmanship of the BCL's Governor, and was entitled: « Globalisation : can Europe manage it ? » Speakers included Mr. Kenneth S. Rogoff, Professor of Economics at Harvard University, Mr. Lucas Papademos, Vice-President of the ECB, and Mr. Lars Heikensten, Member of the European Court of Auditors. The second conference, in October, dealt with the topic: « Incidence of globalisation on the European economic regulation ». It gathered Mr Vassilios Skouris, President of the Court of Justice of the European Communities and Vice-President of the Bridge Forum Dialogue, and Mr Paolo Mengozzi, Advocate General at the Court of Justice of the European Communities, together. Besides, the Board of the Forum took place in July 2008 at the BCL's headquarters.

In March 2008, the Governor of the BCL participated in the annual conference of the ALFI (Association for Investment funds in Luxembourg). His speech focused on the recent subprimes turmoil and its consequences for Luxembourg.

The Governor of the BCL also took part of the symposium organised by the Federal Reserve of Kansas City in Jackson Hole, in August. This event has taken place on a yearly basis since 1978. Discussions dealt with the topic « Maintaining stability in a changing world ».

In November 2008, the Governor of the BCL participated in a high-level Eurosystem seminar, jointly organised by the European Central Bank and by the Bank of Egypt, in Alexandria. Several sessions, chaired by the governors of the central banks of Mediterranean countries,

focused on the region's prospects on an economic, financial and monetary point of view.

On the cultural scene, the BCL inaugurated in March 2008 the philatelic exhibition « Finance and philately in Luxembourg », in the context of the issuance of a stamp commemorating the tenth anniversary of the BCL, the ECB and the Eurosystem. In December 2008, the BCL also inaugurated the numismatic exhibition « A walk through the history of the Maltese currency », which was jointly organised by the BCL and the Central Bank of Malta.

#### 3.3.6.2 Bilateral relations

On 17 January 2008, the Governor of the BCL took part in a conference organised by the Bank of Greece in Athens, dealing with « The ageing of Europe's population: consequences and reforms. » On this occasion, he made a speech on the topic « The Luxembourg experience, resistance to reform and main avenues for change in Europe ».

On 18 January 2008 the Governor of the BCL went to Cyprus to take part in the official festivities organised by the Republic of Cyprus to celebrate the introduction of the euro.

On 28 and 29 March 2008, the Governor of the BCL received Mr. Axel Weber, Governor of the Bundesbank, and Mr. Ewald Nowotny, Governor of the Oesterreichische Nationalbank as from 1 September 2009.

On 16 and 17 April 2008, the Governor of the BCL had a working visit from Mr. Slawomir Skrzypek, Governor of the Bank of Poland.

From 26 April to 28 April 2008, the Governor of the BCL received Mr. John Hurley, Governor of the Central Bank & Financial Services Authority of Ireland, for a working visit at the BCL. Mr. Hurley, on this occasion, made a speech on the topic: « Arrangements for Managing Financial Stability: The Irish Case », in the framework of the presentation of the Financial stability review.

In the context of bilateral cooperation, a delegation of the Bank of the Lao PDR, led by its Governor, Mr. Phouphet Khamphounvong, visited the BCL for a working session on 28 May 2008. On this occasion, the two Governors signed a Memorandum of Understanding on technical assistance and training.

Outside the 15th meeting of French-speaking central banks, a cooperation agreement was signed between the Bank of Algeria, represented by its Governor Mr. Mohammed Laksaci, and the BCL, represented by Mr. Yves Mersch, on 30 May 2008. This agreement formalises the cooperation between the two central banks in the field of financial relations, technical assistance and training.

On 16 June 2008, the Governor of the BCL received Ms Gertrude Tumpel-Gugerell, member of the Executive Board of the European Central Bank, for a working visit allowing to discuss Eurosystem current issues.

In the context of the official visit of Luxembourg Prime Minister Jean-Claude Juncker in the Republic of Kazakhstan, from 26 to 28 June 2008, the Governor of the BCL met the Governor of the National Bank of the Republic of Kazakhstan, Mr. Saidenov Anvar Galimulaevich.

The annual meeting between the BCL and the BNB took place on 18 July in Brussels, at the invitation of Governor Mr. Guy Quaden. These annual meetings at the level of Governors and other members of the decision-making bodies, aim at fostering a sound cooperation between the two central banks ; they also aim at taking stock of current issues in the Eurosystem and in international relations.

At the invitation of Mr. Durmus Yilmaz, Governor of the Central Bank of the Republic of Turkey, the Governor of the BCL went to Ankara on 21 October 2008, and made a speech entitled : « Financial stability : Quo vadis ? » for members of the Central Bank of Turkey.

On 8 December 2008, the Governor of the BCL received Mr. Michael Bonello, Governor of the Central Bank of Malta, for a work session, and on the occasion of the inauguration at the BCL of the numismatic

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exhibition « A walk through the history of the Maltese currency ».

### 3.3.6.3 Relations with the Luxembourg Parliament

On 14 November 2008, the Governor of the BCL presented the opinion of the Bank on the state budget motion to the Financial and Budget Commission of the Luxembourg Parliament.

## 3.4 Communication activities

### 3.4.1 Annual reports

As required by its statutes, the BCL publishes each year a report on its activities. This annual report is published in French and in 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:*

- Indice de vulnérabilité financière des banques luxembourgeoises
- Mesures de la production et de la productivité du secteur bancaire luxembourgeois : réactualisation
- L'extraction des anticipations des acteurs du marché à partir des prix des options
- Mesure de l'attitude des investisseurs face aux risques : analyse du marché des actions de la zone euro

#### *Bulletin No 2008/1*

- Compétitivité et exportations
- Revenu des investissements dans la balance des paiements du Luxembourg

- Résumé non technique du cahier d'études « Communication de l'Eurosystème et anticipations des marchés financiers »
- Résumé non technique du cahier d'études « Recherche et appariement dans le marché des biens et modèles de cycles réels standards »
- Résumé non technique du cahier d'études « Négociation séquentielle dans un modèle néo-keynésien avec chômage frictionnel et salaires rigides »

#### *Bulletin No 2008/2*

- L'impact des turbulences financières sur les crédits
- La position extérieure globale du Luxembourg
- Résumé non technique du cahier d'études « (In) stabilité financière, supervision et injection de liquidités : une approche d'équilibre général dynamique »

Articles are published in their original language.

### 3.4.3 Working papers

In its working papers the BCL publishes the results of research conducted by its staff. Each working paper contains a non-technical summary.

In 2008, seven working papers were published :

- N°29 : Les taux d'intérêt des banques luxembourgeoises : une étude sur bases agrégée et individuelle, by Yann Wicky, February 2008 ;
- N°30 : Eurosystem communication and financial market expectations, by Patrick Lünemann and Dirk Mevis, March 2008 ;
- N°31: A monthly indicator of economic activity for Luxembourg, by Muriel Nguiffo-Boyom, March 2008 ;
- N°32: Search in the product market and the real business cycle, by Thomas Y. Mathä and Olivier Pierrard, July 2008;
- N°33: Sequential bargaining in a new-Keynesian model with frictional unemployment and staggered wage negotiation, by Gregory de Walque, Olivier Pierrard, Henri Sneessens and Raf Wouters, July 2008;

- N°34: Regional MC parity: do common pricing points reduce deviations from the law of one price?, by Thomas Y. Mathä, September 2008;
- N°35: Financial (in)stability, supervision and liquidity injections: a dynamic general equilibrium approach, by Gregory de Walque, Olivier Pierrard, Abdelaziz Rouabah, October 2008.

### 3.4.4 The BCL's website

The BCL's website, [www.bcl.lu](http://www.bcl.lu), provides information about the Bank's activities and services, its internal organisation, as well as statistics about Luxembourg and the Eurosystem. It also contains links to the ECB's website and to other central banks of the ESCB.

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

All BCL publications can be viewed and downloaded from the Publications and the media section. Hard copies are available from the BCL on request, as long as stocks last.

The website exists in English and French. Publications are displayed in their original language (English, French and German).

Overall, 137 337 people visited the website in 2008 (118 000 in 2007), with 14 978 129 hits. The numismatic programme witnessed more than 15 000 downloads (11 500 in 2007).

The numismatic products electronic shop ([eshop.bcl.lu](http://eshop.bcl.lu)), directly accessible through the BCL website, has attracted more than 21 000 visitors since its launch in October 2007.

### 3.4.5 The library

The library, opened in 2005, uses the ALEPH library management systems as do a number of other central banks. The system is electronically linked with the other public libraries in Luxembourg.

The library is open to the public upon request, either by fax (+352 4774 4910) or by email ([bibliotheque@bcl.lu](mailto:bibliotheque@bcl.lu)). The library is open on Monday, Wednesday and Friday from 9am to 12pm and from 3pm to 5pm.

### 3.4.6 Press relations

The Governor of the BCL gave 24 interviews to the international and national press. Five press conferences were held, on the occasion of the presentation of the BCL's financial accounts, of the Annual Report and of the BCL's Bulletins. Two seminars for representatives of the press, during which the authors of the Bulletin's analyses presented their contribution, were organised. In total, 101 press releases were published.