03 ANNEXES

3 ANNEXES

1 LIST OF BCL REGULATIONS PUBLISHED IN 2011

2011/n°10 of 14 July 2011

BCL Regulation 2011/n°10 of 14 July 2011 modifying regulation 2010/n°6 of 8 September 2010 concerning the oversight of payment systems, securities settlement systems and payment instruments in Luxembourg.

Area: Statistics

2011/n°9 of 4 July 2011

BCL Regulation 2011/n°9 on payment instruments and operations

Area: Statistics

2011/n°8 of April 2011

BCL Regulation 2011/n°8 of 29 April 2011 concerning the collection of statistics from companies which grant loans or issue debt securities or derivative instruments to affiliates

Area: Balance of payments and International investment position

2011/n°7 of 4 Avril 2011

BCL Regulation 2011/n°7 of 4 April 2011 concerning the collection of statistics from credit institutions and the financial services of the Entreprise des Postes et Telecommunications

Area: Balance of payments and International investment position

For a complete list of regulations published by the Banque centrale du Luxembourg, please visit the BCL's website (www.bcl.lu).

2 LIST OF BCL CIRCULARS PUBLISHED IN 2011

For a complete list of circulars published by the Banque centrale du Luxembourg, please visit the BCL's website (www.bcl.lu).

3 LIST OF BCL PUBLICATIONS PUBLISHED IN 2011

3.1 BCL bulletins

- Bulletin BCL 2011/1, March 2011
- Financial Stability Review, April 2011
- Bulletin BCL, September 2011
- Bulletin BCL, December 2011

For a complete list of bulletins published by the BCL, please visit the BCL's website (www.bcl.lu).

3.2 BCL annual report

- Rapport Annuel 2010, June 2011
- Annual Report 2010, August 2011

For a complete list of Annual Reports published by the BCL, please visit the BCL's website (www.bcl.lu)

3.3 BCL working papers

- Working paper n°70, October 2011
  How do firms adjust in a crisis? Evidence from a survey among Luxembourg firms,
  by Patrick Lünnemann and Thomas Y. Mathä

- Working paper n°69, October 2011
  Demography, capital flows and unemployment,
  by Luca Marchiori, Olivier Pierrard and Henri R. Sneessens

- Working paper n°68, October 2011
  Is foreign-bank efficiency in financial centers driven by home-country characteristics?,
  by Claudia Curi, Paolo Guarda, Ana Lozano-Vivas and Valentin Zelenyuk

- Working paper n°67, October 2011
  Changes in bank specialisation: comparing foreign subsidiairies and branches in Luxembourg,
  by Claudia Curi, Paolo Guarda and Valentin Zelenyuk

- Working paper n°66, October 2011
  The leverage cycle in Luxembourg's banking sector,
  by Gaston Giordana and Ingmar Schumacher

- Working paper n°65, October 2011
  Market and book-based models of probability of default for developing macroprudential policy tools,
  by Xisong Jin and Francisco Nadal de Simone

- Working paper n°64, October 2011
  On the job search and cyclical unemployment: crowding out vs. vacancy effets,
  by Daniel Martin and Olivier Pierrard

- Working paper n°63, October 2011
  An MVAR Framework to Capture Extreme Events in Macro-Prudential Stress Tests,
  by Paolo Guarda, Abdelaziz Rouabah and John Theal

- Working paper n°62, July 2011
  Aging and Pensions in General Equilibrium: Labor Market Imperfections Matter,
  by David de la Croix, Olivier Pierrard and Henri R. Sneessens

- Working paper n°61, July 2011
  The Impact of the Basel III Liquidity Regulations on the Bank Lending Channel: a Luxembourg Case Study,
  by Gaston Giordana and Ingmar Schumacher

Papers Resulting from the BCL/ECB joint Conference on Household Finance and Consumption, Luxembourg 25/26 October 2010

- Working paper n°60, February 2011
  Subprime Consumer Credit Demand: Evidence from a Lender's Pricing Experiment,
  by Sule Alan, Ruxandra Dumitrescu and Gyongyi Loranth

- Working paper n°59, February 2011
  Behavioural Characteristics and Financial Distress,
  by Yvonne McCarthy

- Working paper n°58, February 2011
  Household Sector Borrowing in the Euro Area: A Micro Data Perspective,
  by Ramon Gomez-Salvador, Adriana Lojschova and Thomas Westermann

- Working paper n°57, February 2011
  The Immigrant/Native Wealth Gap in Germany, Italy and Luxembourg,
  by Thomas Y. Mathä, Alessandro Porpiglia and Eva Sierminska

- Working paper n°56, February 2011
  Wealth Mobility and Dynamics Over Entire Individual Working Life Cycles,
  by Stefan Hochguertel and Henry Ohlsson

- Working paper n°55, February 2011
  Inheritances and the Distribution of Wealth or Whatever Happened to the Great Inheritance Boom?,
  by Edward N. Wolff and Maury Gittleman

- Working paper n°54, February 2011
  Who Lost the Most? Financial Literacy, Cognitive Abilities, and the Financial Crisis,
  by Tabea Bucher-Koenen and Michael Ziegelmeyer

- Working paper n°53, February 2011
  Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How It Is Delivered?,
  by Claudia R. Sahm, Matthew D. Shapiro and Joel Slemrod

- Working paper n°52, February 2011
  Consumption and Initial Mortgage Conditions: Evidence from Survey Data,
  by Giacomo Masier and Ernesto Villanueva

- Working paper n°51, February 2011
  Financial Advice and Stock Market Participation,
  by Dimitris Georgarakos and Roman Inderst

- Working paper n°50, February 2011
  Which Households Use Banks? Evidence from the Transition Economies,
  by Thorsten Beck and Martin Brown

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3.4 BCL brochures

- La Banque centrale du Luxembourg – 2011
- The Banque centrale du Luxembourg – 2011
- Luxembourg numismatic products 2012

For a complete list of brochures published by the BCL, please visit the BCL's website (www.bcl.lu).

3.5 Information material about the security features of Euro banknotes and coins

For a complete list of information material about the security features of euro banknotes and coins published by the BCL, please visit the BCL's website (www.bcl.lu).

3.6 Publications and external presentations of BCL Staff

3.6.1 BCL publications

- D. Igan, N. Tamirisa, A. Kabundi, F. Nadal de Simone, M. Pinheiro (2011): Housing, Credit, and Real Activity Cycles: Characteristics and Comovements. *Journal of Housing Economics* 20(3): 210-231.

- A. Kabundi and F. Nadal De Simone (2011): France in the global economy: a structural approximate dynamic factor model analysis. *Empirical Economics* 41(2): 311-342.

- P. Lünnemann and L. Wintr (2011): Price Stickiness in the US and Europe Revisited: Evidence from Internet Prices. *Oxford Bulletin of Economics and Statistics* 73(5):593-621.

- T. Mathä and O. Pierrard. (2011): Search in the Product Market and the Real Business Cycle. *Journal of Economic Dynamics and Control* 35: 1172-1191.

- Ph. Du Caju, C. Fuss and L. Wintr (2012): Downward wage rigidity for different workers and firms. *Brussels Economic Review* 55(1): forthcoming.

- Ph. Du Caju, C. Fuss and L. Wintr (2012): Sectoral differences in downward real wage rigidity: workforce composition, institutions, technology and competition. *Journal for Labour Market Research*, forthcoming.

3.6.2 External presentations

- Banking, Productivity and Growth, Perfilux Conference, Luxembourg, March 2011
- EUI-NOMICS, Florence, April 2011
- Spring Meeting of Young Economists, Groningen, April 2011
- Workshop on "Basic Income and Income Redistribution", Université du Luxembourg, April 2011
- Working Group on Econometric Modelling, Amsterdam, May 2011
- Financial Intermediation, Competition and Risk, Rome, June 2011
- XII European Workshop on Efficiency and Productivity Analysis, Verona (IT), June 2011
- Annual conference German Economic Association (Verein für Socialpolitik), Frankfurt, September 2011
- Netspar (Network for Studies on Pensions, Aging and Retirement) workshop on "Pensions, Savings & Retirement Decisions", Utrecht, October 2011
- CEPR/Euro Area Business Cycle Network Conference on Macro-Financial Linkages, Florence, October 2011.

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4 EUROPEAN CENTRAL BANK (ECB) PUBLICATIONS

For a complete list of the documents published by the European Central Bank and for the versions in all official languages of the European Union, please visit the ECB's website **www.ecb.int**

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D-60066 Frankfurt am Main
www.ecb.int

5 MONETARY, ECONOMIC AND FINANCIAL STATISTICS

1 Monetary policy statistics

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

2 Monetary and financial developments in the euro area and Luxembourg

- 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

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 Money market interest rates
- 3.4 Government bond yields
- 3.5 Stock market indices
- 3.6 Exchange rates

4 Developments of prices and costs in Luxembourg

- 4.1 Developments in the Harmonised Index of Consumer Prices (HICP) and the National Index of Consumer Prices (NICP)
- 4.2 Industrial goods and commodity prices
- 4.3 Costs indicators and terms of trade

5 Luxembourg real economy indicators

- 5.1 GDP at market prices and its components (ESA95 version)
- 5.2 Selected other real economy indicators
- 5.3 Labour market indicators – Employment and unemployment
- 5.4 Labour market indicators – Employment breakdown
- 5.5 Consumer confidence survey
- 5.6 Non-financial accounts by institutional sector - time series

5.7 Non-financial accounts by institutional sector - cross section presentation
5.8 Financial accounts by institutional sector - stocks - time series
5.9 Financial accounts by institutional sector - transactions - time series
5.10 Financial accounts by institutional sector - stocks - cross section presentation
5.11 Financial accounts by institutional sector - transactions - cross section presentation

6 Luxembourg public finances

6.1 General government budgetary outcome in Luxembourg

7 Luxembourg balance of payments

7.1 Luxembourg balance of payments: summary
7.2 Luxembourg balance of payments: current account
7.3 Luxembourg balance of payments: direct investment
7.4 Luxembourg balance of payments: direct investment by Luxembourg abroad - by sector
7.5 Luxembourg balance of payments: foreign direct investment in Luxembourg - by sector
7.6 Luxembourg balance of payments: portfolio investment - by type of instrument
7.7 Luxembourg balance of payments: other investment - by sector

8 Luxembourg trade balance

8.1 External trade of Luxembourg

9 International investment position of Luxembourg

9.1 International investment position of Luxembourg: summary
9.2 International investment position of Luxembourg: direct investment
9.3 International investment position of Luxembourg: portfolio investment - by type of instrument
9.4 International investment position of Luxembourg: other investment - by sector
9.5 International investment position of Luxembourg: Gross External Debt
9.6 International investment position of Luxembourg: geographic breakdown of portfolio investment assets held by Luxembourg residents

10 Reserve assets

10.1 Reserves and related assets of the Banque centrale du Luxembourg
10.2 Reserve assets held by the BCL and Central Administration: extended data model of the Internal Monetary Fund

11 Credit institutions

11.1 Number and geographic origin of credit institutions established in Luxembourg
11.2 Employment in the credit institutions
11.3 Interim aggregated profit and loss account of credit institutions
11.4 Aggregated profit and loss account of credit institutions as at year-end
11.5 Aggregated balance sheet of credit institutions
11.6 Credits granted by credit institutions by counterpart and original maturity
11.7 Credits granted by credit institutions to euro area households and NPISH by type and original maturity
11.8 Credits granted by credit institutions by currency
11.9 Credits granted by credit institutions for real estate located in Luxembourg
11.10 Holdings of securities other than shares of credit institutions by counterpart and maturity
11.11 Holdings of securities other than shares of credit institutions by currency
11.12 Deposits received by credit institutions by counterpart
11.13 Deposits received by credit institutions by type and counterpart
11.14 Holdings of securities other than shares of credit institutions by counterpart and country

12 **International banking activity**
- 12.1 International banking activity: geographic breakdown
- 12.2 International banking activity: currency breakdown
- 12.3 International banking activity: share of Luxembourg

13 **Undertakings for collective investment**
- 13.1 Number of undertakings for collective investment
- 13.2 Global situation of undertakings for collective investment
- 13.3 Aggregated balance sheet of money market funds
- 13.4 Holdings of securities other than shares of money market funds by counterpart and initial maturity
- 13.5 Holdings of securities other than shares of money market funds by currency
- 13.6 Non monetary funds balance sheet by investment policy
- 13.7 Security holdings of equity funds
- 13.8 Security holdings of bond funds
- 13.9 Security holdings of mixed funds
- 13.10 Security holdings of real estate funds
- 13.11 Security holdings of hedge funds
- 13.12 Security holdings of other funds
- 13.13 Holdings of securities other than shares of money market funds by counterpart and country
- 13.14 Holdings of securities other than shares of non monetary funds by counterpart and country

14 **Professionals of the financial sector**
- 14.1 Number and geographic origin of the professionals of the financial sector
- 14.2 Employment in the professionals of the financial sector
- 14.3 Aggregated balance sheet and results of the professionals of the financial sector

15 **Management companies**
- 15.1 Employment in the management companies

16 **Insurance corporations and pension funds**
- 16.1 Assets and liabilities of insurance companies and pension funds

6 LIST OF ABBREVIATIONS

ABBL	Association des Banques et Banquiers, Luxembourg
EBA	European Banking Authority
BCL	Banque centrale du Luxembourg
BIS	Bank for International Settlements
CBPP	Covered Bond Purchase Programme
CCBM	Correspondent central banking model
CETREL	Centre de transferts électroniques Luxembourg
CPI	Consumer Price Index
CSSF	Commission de surveillance du secteur financier
ECB	European Central Bank
ECG	Enlarged Contact Group on the Supervision of Investment Funds
EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMI	European Monetary Institute (1994-1998)

EMS	European Monetary System
EMU	Economic and Monetary Union
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
EUROSTAT	Statistical office of the European communities
FSB	Financial Stability Board
GDP	Gross domestic product
HICP	Harmonised Index of Consumer Prices
IADB	Inter American Development Bank
ICP	Index of Consumer Prices
IGF	Inspection générale des finances
IPP	Index of Production Prices
IMF	International Monetary Fund
IML	Institut Monétaire Luxembourgeois (1983-1998)
IOSCO	International Organisation of Securities Commissions
LIPS	Gross Luxembourg Interbank Payment System – Gross Settlement System
LIPS	Net Luxembourg Interbank Payment System – Net Settlement System
LTRO	Longer-term Refinancing Operations
LU	Luxembourg
MFI	Monetary Financial Institution
MRA	Maximum Risk Allowance
MRO	Main refinancing operation
NCB	National central bank
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary least squares
RTGS	Real-Time Gross Settlement system
SDR	Special Drawing Rights
SGP	Stability and Growth Pact
SMP	Securities Markets programme
STATEC	Institut National de la Statistique et des Etudes Economiques
SWIFT	Society for Worldwide Interbank Financial Telecommunication s.c.
TARGET system	Trans-European Automated Real-time Gross settlement Express Transfer system
TFEU	Treaty on the functioning of the European Union
UCI	Undertaking for Collective Investments
UCITS	Undertaking for Collective Investments in Transferable Securities
USD	US dollar

7 GLOSSARY

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+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 n and month n+1.

Balance of payments (b.o.p.): a statistical statement that summarises, for a specific period of time, the economic transactions of an economy with the rest of the world. The transactions considered are those involving goods, services and income; those involving financial claims on, and liabilities to, the rest of the world; and those (such as debt forgiveness) that are classified as transfers.

Central counterparty: an entity that interposes itself between the counterparties to the contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

Central government: the government as defined in the European System of Accounts 1995, but excluding regional and local governments (see also general government).

Central securities depository (CSD): an entity that i) enables securities transactions to be processed and settled by book entry, and ii) plays an active role in ensuring the integrity of securities issues. Securities can be held in physical (but immobilised) or dematerialised form (i.e. so that they exist only as electronic records).

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

Consolidated balance sheet of the MFI sector: a balance sheet obtained by netting out inter-MFI positions (e.g. inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. the general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

Correspondent central banking model (CCBM): a mechanism established by the European System of Central Banks with the aim of enabling counterparties to use eligible collateral on a cross-border basis. In the CCBM, NCBs act as custodians for one another. Each NCB has a securities account in its securities administration for each of the other NCBs (and for the European Central Bank).

Council of the European Union (EU Council): the institution of the EU made up of representatives of the governments of the EU Member States, normally the ministers responsible for the matters under consideration, and the relevant European Commissioner (see also ECOFIN Council).

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

Covered bond purchase programme (CBPP): euro-denominated covered bonds issued in the euro area, in support of a specific financial market segment that is important for the funding of banks and was particularly affected by the financial crisis. The purchases under the programme were for a nominal value of € 60 billion, and they were fully implemented by 30 June 2010. On 6 October 2011 the Governing Council decided to launch a second covered bond purchase programme, CBPP2. This programme allows the Eurosystem to purchase euro-denominated covered bonds issued in the euro area for an intended nominal value of € 40 billion. The purchases are conducted in both the primary and secondary markets.

Credit institution: 1) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or 2) an undertaking or any other legal person, other than those under (1), which issues means of payment in the form of electronic money. The most common types of credit institutions are banks and savings banks. See also electronic money (e-money).

Credit risk: the risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. Credit risk includes replacement cost risk and principal risk. It also includes the risk of the failure of the settlement bank.

Debt (general government): the total gross debt (currency, deposits, loans and debt securities) at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

Debt security: a promise on the part of the issuer (i.e. the borrower) to make one or more payment(s) to the holder (the lender) on a specified future date or dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity.

Debt-to-GDP ratio (general government): the ratio of debt to gross domestic product at current market prices. It is the subject of one of the fiscal criteria laid down in Article 126(2) of the Treaty to define the existence of an excessive deficit.

Deficit (general government): the general government's net borrowing, i.e. the difference between total government revenue and total government expenditure.

Deficit-debt adjustment (general government): the difference between the general government budget balance (deficit or surplus) and the change in debt.

Deficit ratio (general government): the ratio of the deficit to gross domestic product at current market prices. It is the subject of one of the fiscal criteria laid down in Article 126(2) of the Treaty to define the existence of an excessive deficit (see also excessive deficit procedure). It is also referred to as the budget deficit ratio or the fiscal deficit ratio.

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits, remunerated at a pre-specified interest rate, at an NCB (see also key ECB interest rates).

Direct investment: cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, for ownership of at least 10% of the ordinary shares or voting power). Included are equity capital, reinvested earnings and other capital associated with intercompany operations.

ECOFIN Council: the EU Council meeting in the composition of the ministers of economy and finance.

Economic analysis: one pillar of the European Central Bank's framework for conducting a comprehensive analysis of the risks to price stability, which forms the basis for the Governing Council's monetary policy decisions. The economic analysis focuses mainly on the assessment of current economic and financial developments and the implied short to medium-term risks to price stability from the perspective of the interplay between supply and demand in goods, services and factor markets at those horizons. Due attention is paid to the need to identify the nature of shocks affecting the economy, their effects on cost and pricing behaviour, and the short to medium-term prospects for their propagation in the economy (see also monetary analysis).

Economic and Financial Committee (EFC): a consultative Community body which contributes to the preparation of the work of the ECOFIN Council and the European Commission. Its tasks include reviewing the economic and financial situation of the Member States and of the Community, and budgetary surveillance.

Economic and Monetary Union (EMU): the process that led to the single currency, the euro, and the single monetary policy in the euro area, as well as to the coordination of the economic policies of the EU Member States. This process, as laid down in the Treaty, took place in three stages. Stage Three, the final stage, started on 1 January 1999 with the transfer of monetary competence to the European Central Bank and the introduction of the euro. The cash changeover on 1 January 2002 completed the process of setting up EMU.

Effective exchange rate (EER) of the euro (nominal/real): a weighted average of bilateral euro exchange rates against the currencies of the euro area's main trading partners. The European Central Bank publishes nominal EER indices for the euro against two groups of trading partners: the EER-21 (comprising the 11 noneuro area EU Member States and 10 main trading partners outside the EU) and the EER-41 (composed of the EER-21 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 prepaid bearer instrument for making payments to undertakings other than the issuer, without necessarily involving bank accounts in the transactions.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

Equities: securities representing ownership of a stake in a corporation. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other forms of equity. Equities usually produce income in the form of dividends.

ERM II (exchange rate mechanism II): the exchange rate mechanism which provides the framework for exchange rate policy cooperation between the euro area countries and the non-euro area EU Member States. ERM II is a multilateral arrangement with fixed, but adjustable, central rates and a standard fluctuation band of ±15%. Decisions concerning central rates and, possibly, narrower fluctuation bands are taken by mutual agreement between the EU Member State concerned, the euro area countries, the European Central Bank (ECB) and the other EU Member States participating in the mechanism. All participants in ERM II, including the ECB, have the right to initiate a confidential procedure aimed at changing the central rates (realignment).

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, as reported by a panel of contributing banks, computed daily for interbank deposits with different maturities of up to 12 months.

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

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

Eurogroup: an informal gathering of the ministers of economy and finance of the EU Member States whose currency is the euro.

European Central Bank (ECB): the ECB lies at the centre of the Eurosystem and the European System of Central Banks (ESCB) and has its own legal personality in accordance with the Treaty (Article 282(3)). It ensures that the tasks conferred upon the Eurosystem and the ESCB are implemented either through its own activities or through those of the NCBs, pursuant to the Statute of the ESCB. The ECB is governed by the Governing Council and the Executive Board, and, as a third decision-making body, by the General Council.

Europe 2020 strategy: the EU's strategy for employment and smart, sustainable and inclusive growth. It was adopted by the European Council in June 2010. Building on the earlier Lisbon strategy, it is intended to provide a coherent framework for EU Member States to implement structural reforms aimed at raising potential growth and for mobilising EU policies and instruments.

European Council: the institution of the EU consisting of the Heads of State or Government of the EU Member States and, as non-voting members, the President of the European Commission and the European Council's own President. It provides the EU with the necessary impetus for its development and defines the general political directions and priorities thereof. It does not have a legislative function.

European Financial Stabilisation Mechanism (EFSM): an EU facility, based on Article 122(2) of the Treaty, that allows the European Commission to raise up to € 60 billion on behalf of the EU for lending to EU Member States experiencing, or being threatened with, exceptional circumstances beyond their control. EFSM lending is subject to strong conditionality in the context of joint EU-IMF programmes.

European Financial Stability Facility (EFSF): a limited liability company established by the euro area countries, on an intergovernmental basis, for the purpose of providing loans to euro area countries in financial difficulties. Such financial assistance is subject to strong conditionality in the context of joint EU-IMF programmes. The EFSF has an effective lending capacity of € 440 billion, and its loans are financed through the issuance of debt securities, guaranteed by euro area countries on a pro rata basis.

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 cooperation and monetary policy coordination and to make the preparations required for 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 Stability Mechanism (ESM): an intergovernmental organisation established by the euro area countries on the basis of the Treaty establishing the European Stability Mechanism. It offers a permanent crisis management mechanism which will provide financial support to euro area countries if it is established that it is indispensable to safeguard financial stability in the euro area as a whole. It is foreseen that the ESM will enter into force on 1 July 2012. It will replace both the European Financial Stability Facility and the European Financial Stabilisation Mechanism, and will have an initial effective lending capacity of € 500 billion. ESM lending will be subject to strict conditionality.

European System of Accounts 1995 (ESA 95): a comprehensive and integrated system of macroeconomic accounts based on a set of internationally agreed statistical concepts, definitions, classifications and accounting rules aimed at achieving a harmonised quantitative description of the economies of the EU 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 NCBs of all 27 EU Member States, i.e. it includes, in addition to the members of the Eurosystem, the NCBs of those Member States whose currency is not the euro. The ESCB is governed by the Governing Council and the Executive Board of the ECB, and, as a third decision-making body of the ECB, by the General Council.

European System of Financial Supervision (ESFS): the group of institutions in charge of ensuring the supervision of the EU's financial system. It comprises the European Systemic Risk Board, the three European Supervisory Authorities, the Joint Committee of the European Supervisory Authorities, and the national supervisory authorities of the EU Member States.

European Systemic Risk Board (ESRB): an independent EU body responsible for the macro-prudential oversight of the financial system within the EU. It contributes to the prevention or mitigation of systemic risks to financial stability that arise from developments within the financial system, taking into account macroeconomic developments, so as to avoid periods of widespread financial distress.

Eurosystem: the central banking system of the euro area. It comprises the European Central Bank and the NCBs of the Member States that have adopted the euro.

Excessive deficit procedure: the provision set out in Article 126 of the Treaty and specified in Protocol (n°12) on the excessive deficit procedure requires EU Member States to maintain budgetary discipline, defines the criteria for a budgetary position to be considered an excessive deficit and regulates steps to be taken following the observation that the requirements for the budgetary balance or government debt have not been fulfilled. Article 126 is supplemented by Council Regulation (EC) n°1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, which is one element of the Stability and Growth Pact.

Eurosystem's international reserves: These comprise the reserve assets of the European Central Bank (ECB) and the reserve assets held by the national central banks (NCBs) of the participating Member States. Reserve assets must 1) be under the effective control of the relevant monetary authority, whether the ECB or the NCB of one of the participating Member States, and 2) comprise highly liquid, marketable and creditworthy foreign (i.e. non-euro) currency-denominated claims on non-euro area residents, plus gold, special drawing rights and the reserve positions in the International Monetary Fund of the participating NCBs.

Executive Board: one of the decision-making bodies of the European Central Bank (ECB). It comprises the President and the Vice-President of the ECB and four other members appointed, since the entry into force of the Treaty of Lisbon, by the European Council, acting by a qualified majority, on a recommendation from the EU Council.

Fiduciary money: banknotes and coins having the status of legal tender.

Financial stability: condition in which the financial system – comprising financial intermediaries, markets and market infrastructures – is capable of withstanding shocks and the unraveling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities.

Fine-tuning operation: an open market operation executed by the Eurosystem in order to deal with unexpected liquidity fluctuations in the market. The frequency and maturity of fine-tuning operations are not standardised.

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

GDP deflator: gross domestic product (GDP) expressed in current prices (nominal GDP) divided by the volume of GDP (real GDP). It is also known as the implicit price deflator of GDP.

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 the NCBs of the European System of Central Banks.

General government: a sector defined in the European System of Accounts 1995 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Included are central, regional and local government authorities, as well as social security funds. Excluded are government-owned entities that conduct commercial operations, such as public enterprises.

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

Gross domestic product (GDP): a measure of economic activity, namely the value of an economy's total output of goods and services, less intermediate consumption, plus net taxes on products and imports, in a specified period. GDP can be broken down by output, expenditure or income components. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services (including intra-euro area trade).

Harmonised index of the consumer prices (HICP): a measure of the development of consumer prices that is compiled by Eurostat and harmonised for all EU Member states.

Implied volatility: the expected volatility (i.e. standard deviation) in the rates of change of the price of an asset (e.g. a share or a bond). It can be derived from the asset's price, its maturity date and the exercise price of its options, as well as from a riskless rate of return, using an option pricing model such as the Black-Scholes model.

Key ECB interest rates: the interest rates, set by the Governing Council, which reflect the monetary policy stance of the European Central Bank. They are the rates on the main refinancing operations, the marginal lending facility and the deposit facility.

Longer-term refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months. During the financial market turmoil that started in August 2007, supplementary operations with maturities ranging from one maintenance period to one year were conducted, the frequency of which varied.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Maintenance period: the period over which credit institutions' compliance with reserve requirements is calculated. The maintenance period begins on the settlement day of the first main refinancing operation following the meeting of the Governing Council at which the monthly assessment of the monetary policy stance is pre-scheduled. The ECB publishes a calendar of the reserve maintenance periods at least three months before the start of the year.

Marginal lending facility: a standing facility of the Eurosystem which counterparties may use to receive overnight credit from an NCB at a pre-specified interest rate against eligible assets (see also key ECB interest rates).

Market liquidity risk: the risk that transactions on the financial market cannot be concluded or can only be concluded at worse than expected conditions owing to inadequate market depth or market disruption.

Market risk: the risk of losses (in both on and off-balance-sheet positions) arising from movements in market prices.

MFIs (monetary financial institutions): financial institutions which together 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.

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 funds 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 analysis: one pillar of the European Central Bank's framework for conducting a comprehensive analysis of the risks to price stability, which forms the basis for the Governing Council's monetary policy decisions. The monetary analysis helps to assess medium to long-term trends in inflation, in view of the close relationship between money and prices over extended horizons. The monetary analysis takes into account developments in a wide range of monetary indicators including M3, its components and counterparts, notably credit, and various measures of excess liquidity (see also economic analysis).

Monetary income: income accruing to the NCBs in the performance of the Eurosystem's monetary policy function, derived from assets earmarked in accordance with guidelines established by the Governing Council and held against banknotes in circulation and deposit liabilities to credit institutions.

Money market: the market in which short-term funds are raised, invested and traded, using instruments which generally have an original maturity of up to and including one year.

Non-standard measures: temporary measures taken by the ECB to support the effectiveness of interest rate decisions and their transmission to the wider euro area economy in the context of a dysfunctional situation in some financial market segments and the financial system more broadly.

OFIs (other financial intermediaries): corporations or quasi-corporations (other than insurance corporations or pension funds) that are engaged mainly in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional entities other than MFIs. OFIs include in particular corporations engaged primarily in long-term financing (such as financial leasing), securitised asset holdings, other financial holdings, securities and derivatives dealing (on their own account), venture capital and development capital.

Open market operation: an operation executed on the initiative of the central bank in the financial market. 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).

Over-the-counter (OTC) trading: a method of trading that does not involve a regulated market. In over-the-counter markets, such as those for OTC derivatives, participants trade directly with each other, typically through telephone or computer links.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices for the euro area of below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

Projections: the results of exercises conducted four times a year to project possible future macroeconomic developments in the euro area. Eurosystem staff projections are published in June and December, whereas ECB staff projections are published in March and September. They form part of the economic analysis pillar of the monetary policy strategy of the ECB and are thus one of several inputs into the Governing Council's assessment of the risks to price stability.

Real-time gross settlement (RTGS) 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).

Reference value for M3 growth: the annual growth rate of M3 over the medium term that is consistent with the maintenanc of price stability. At present, the reference value for annual M3 growth is 4.5%.

Repurchase agreement: the process of borrowing money by combining the sale of an asset (usually a fixed income security) with the subsequent repurchase of that same asset on a specified date for a slightly higher specified price (which reflects the borrowing rate).

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

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

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem over a predefined maintenance period. Compliance with the requirement is determined on the basis of the average of the daily balances in the reserve accounts over the maintenance period.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem over a predefined maintenance period. Compliance with the requirement is determined on the basis of the average of the daily balances in the reserve accounts over the maintenance period.

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

Securitisation: the pooling of financial assets, such as residential mortgage loans, and their subsequent sale to a special-purpose vehicle, which then issues fixed income securities for sale to investors. The principal interest of these securities depend on the cash flows produced by the pool of underlying financial assets.

Securities Markets Programme (SMP): a programme for conducting interventions in the euro area public and private debt securities markets to ensure depth and liquidity in dysfunctional market segments with a view to restoring an appropriate monetary policy transmission mechanism.

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).

Settlement risk: the risk that settlement in a transfer system will not take place as expected, usually owing to a party defaulting on one or more settlement obligations. This risk comprises, in particular, operational risk, credit risk and liquidity risk.

Stability and Growth Pact: the Stability and Growth Pact is intended to serve as a means of safeguarding sound government finances in Stage Three of Economic and Monetary Union in order to strengthen the conditions for price stability and for strong, sustainable growth conducive to employment creation. To this end, the Pact prescribes that Member States specify medium-term budgetary objectives. It also contains concrete specifications on the excessive deficit procedure. The Pact consists of the Resolution of the Amsterdam European Council of 17 June 1997 on the Stability and Growth Pact and two Council Regulations, namely i) Regulation (EC) n°1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation (EC) n°1055/2005 of 27 June 2005, and ii) Regulation (EC) n°1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation (EC) n°1056/2005 of 27 June 2005. The Stability and Growth Pact is complemented by the ECOFIN Council's report entitled "Improving the implementation of the Stability and Growth Pact", which was endorsed by the Brussels European Council of 22 and 23 March 2005. It is also complemented by the new Code of Conduct entitled "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of stability and convergence programs", which was endorsed by the ECOFIN Council on 11 October 2005.

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.

Straight-through processing (STP): the automated end-to-end processing of trades/payment transfers – including, where relevant, the automated completion of confirmation, matching and generation of orders, clearing and settlement.

Systemic risk: the risk that the inability of one participant to meet its obligations in a system will cause other participants to be unable to meet their obligations when due, with possible spillover effects such as significant liquidity or credit problems that may threaten the stability of the financial system. Such inability may be caused by operational or financial problems.

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system): the real-time gross settlement (RTGS) system for the euro. The first-generation TARGET system was replaced by TARGET2 in May 2008.

TARGET2: a new generation of the TARGET system which replaces the former decentralised technical structure with a single shared platform offering a harmonised service with a uniform pricing scheme.

TARGET2-Securities (T2S): the Eurosystem's single technical platform enabling central securities depositories and NCBs to provide core, borderless and neutral securities settlement services in central bank money in Europe.

Treaties: unless stated otherwise, all references in this report to the "Treaties" refer to both the Treaty on the Functioning of the European Union and the Treaty on European Union.

Treaty: unless stated otherwise, all references in this report to the "Treaty" refer to the Treaty on the Functioning of the European Union, and the references to article numbers reflect the numbering in effect since 1 December 2009.

Treaty of Lisbon (Lisbon Treaty): amends the EU's two core treaties: the Treaty on European Union and the Treaty establishing the European Community. The latter has been renamed the Treaty on the functioning of the European Union. The Treaty of Lisbon was signed in Lisbon on 13 December 2007 and entered into force on 1 December 2009.