

The background of the page is a grayscale photograph of various banknotes and coins. In the upper portion, several banknotes are rolled up. One clearly visible note is a 2 Euro note, with the number '2' and the word 'EURO' embossed on its end. Another note features the text 'Mariage Grand-Duc' and 'héritier Guillaume' followed by the year '2012'. Below these, a 50 Euro note is partially visible, showing the number '50' and the word 'EURO'. The lower portion of the image shows a close-up of several coins, including a 2 Euro coin with the number '2' and the word 'EURO' visible. The overall composition is a collage of currency, suggesting wealth and finance.

# 03

## ANNEXES

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# 3 ANNEXES

## 1 LIST OF BCL REGULATIONS PUBLISHED IN 2012

### **2012/N°13 of 9 November 2012**

Regulation 2012/N°13 of 9 November 2012 implementing the Guideline of the European Central Bank of 10 October 2012 amending Guideline ECB/2012/18 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2012/23).

Domain: Monetary policy

### **2012/N°12 of 12 September 2012**

Regulation 2012/N°12 of 12 September 2012 implementing the Guideline of the European Central Bank of 2 August 2012 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (ECB/2012/18).

Domain: Monetary policy

### **2012/N°11 of 10 July 2012**

Regulation 2012/N°11 of 10 July 2012 relating to the surveillance of central counterparties and of trade repositories in Luxembourg, amending the modified BCL regulation 2012/N°6 of 8 September 2010 relating to the surveillance of the payment system, securities settlement system as well as the instruments of payment in Luxembourg.

Domain: Oversight

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

## **2 LIST OF BCL CIRCULARS PUBLISHED IN 2012**

### **Circular n°230 of 29 June 2012**

Lending in foreign currencies - to all credit institutions, investment firms and professionals carrying on lending operations.

### **Circular n°229 of 29 June 2012**

US dollar denominated funding of credit institutions - to all credit institutions.

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

## **3 LIST OF BCL PUBLICATIONS PUBLISHED IN 2012**

### **3.1 BCL bulletins**

- BCL Bulletin 2012/4, December 2012
- BCL Bulletin 2012/3, September 2012
- BCL Bulletin 2012/2, June 2012
- Financial Stability Review, April 2012
- BCL Bulletin 2012/1, March 2012

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

### **3.2 BCL annual report**

- Rapport annuel 2011, April 2012
- Annual Report 2011, July 2012

For a complete list of annual reports published by the BCL, please visit the BCL's website ([www.bcl.lu](http://www.bcl.lu)).

### **3.3 BCL working papers**

- Working paper n°80, October 2012  
The Determinants of Short Term Funding in Luxembourgish Banks, by Dirk Mevis
- Working paper n°79, October 2012  
An empirical study on the impact of Basel III standards on banks' default risk: the case of Luxembourg, by Gaston Giordana and Ingmar Schumacher
- Working paper n°78, October 2012  
Income, wealth and consumption of cross-border commuters to Luxembourg, by Thomas Mathä, Alessandro Poriglia and Michael Ziegelmeyer
- Working paper n°77, October 2012  
Macroeconomic Conditions and Leverage in Monetary Financial Institutions: Comparing European countries and Luxembourg, by Gaston Giordana and Ingmar Schumacher
- Working paper n°76, July 2012  
LOLA 2.0: Luxembourg OverLapping generation model for policy Analysis, by Luca Marchiori and Olivier Pierrard
- Working paper n°75, June 2012  
An Early-warning and Dynamic Forecasting Framework of Default Probabilities, by Xisong Jin and Francisco Nadal De Simone

- Working Paper n°74, July 2012  
Backing out of private pension provision - Lessons from Germany, by Michael Ziegelmeyer and Julius Nick
- Working Paper n°73, May 2012  
The Luxembourg household finance and consumption survey (LU-HFCS): Introduction and results, by Thomas Y. Mathä, Alessandro Porpiglia and Michael Ziegelmeyer
- Working Paper n°72, March 2012  
A financial accounting matrix (SAM) for Luxembourg, by Amela Hubic
- Working Paper n°71, March 2012  
Macro-financial linkages: Evidence from country-specific VARs, by Paolo Guarda and Philippe Jeanfils

For a complete list of Working Papers published by the BCL, please visit the BCL's website ([www.bcl.lu](http://www.bcl.lu)).

### **3.4 BCL brochures**

Brochure of the BCL's numismatic products, edition 2012.

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

For a complete list of the information material concerning the security features of banknotes and coins, please visit the BCL's website ([www.bcl.lu](http://www.bcl.lu)).

### **3.6 Publications and external presentations of the BCL Staff**

#### **3.6.1 External publications of the BCL's staff members**

- D. De la Croix, O. Pierrard and H. Sneessens (2012): Ageing and Pensions in General Equilibrium: Labour Market Imperfections Matter. Forthcoming in *Journal of Economic Dynamics and Control*
- 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*, 45(1):7-22.
- Ph. Du Caju, C. Fuss and L. Wintr (2012): Downward wage rigidity for different workers and firms. *Brussels Economic Review* 55 (1):
- 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
- A. Kabundi And F. Nadal De Simone (2012): Recent French relative export performance: Is there a competitiveness problem? *Economic Modeling* 29: 1408-1435
- L. Marchiori, I-L. Shen and F. Docquier (2012): Brain Drain in Globalization: A General Equilibrium Analysis from the Sending Countries' Perspective, *Economic Inquiry*, forthcoming.
- L. Marchiori (2011): Demographic Trends and International Capital Flows in an Integrated World, *Economic Modeling*, 28(5): 2100-2120
- P. Lünemann 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
- Ziegelmeier, M. (2012): Nursing home residents makes a difference- The overestimation of saving rates at older ages, *Economics Letters* 117(3). 569-572
- Ziegelmeier, M. (2012): Illuminate the unknown: Evaluation of imputation procedures based on the SAVE Survey, *Advances in Statistical Analysis* DOI: 10.1007/s10182-012-0197-2

### 3.6.2 External presentations

- Seminar on 'Best Practices in Forecasting Public Revenues' (Ministry of Finance and Statec), Luxembourg, January 2012
- Lunchtime Seminar, University of Luxembourg, February 2012
- Technical Seminar of the OECD, concerning inequality and social mobility (Ministry of economy and external trade), April 2012
- EUI-nomics, European University Institute, Florence, Italy, April 2012
- Annual meeting of the Austrian Economic Association, Vienna, Austria, May 2012
- Workshop on 'Taxing Cross-Border Commuters: Öresund and Beyond', Uppsala, Sweden, May 2012
- Annual conference of the Swedish Network for European Studies in Economics and Business (SNEE), Mölle, Sweden, May 2012
- Macro-prudential Research Network (MaRs), conference of workstream 1, Frankfurt, May 2012
- RETEL Conference (Network Research on the Labour Market and Employment), Mondorf, May 2012
- ESCB Seminar to prepare the surveillance reports of the ECB, Frankfurt, European Central Bank, June 2012
- Conference on 'Demographic Trends, Saving and Retirement Security: Stylized Facts and Behavioral Responses', Munich, June 2012
- 7<sup>th</sup> European Workshop on Labour Markets and Demographic Change, St.Gall University, Switzerland, August 2012
- Presentation to the working group on econometric modeling, European Central Bank. September 2012
- Central Bank Macroeconomic Modeling Workshop on 'Modeling Imbalances', Warsaw, September 2012
- Presentation to the working group on forecasting, European Central Bank, Frankfurt, September 2012
- Short and medium term impacts of the structural reforms and their implications on macroeconomic projections, workshop of the working group on forecasting, European Central Bank, Frankfurt, October 2012
- Conference of CEPR/Euro Area Business Cycle Network conference on 'Disaggregating the Business Cycle' Luxembourg, October 2012

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Paper copies of publications can be obtained at the BCL's counters as long as stocks last and according to the BCL's conditions. The BCL's publications may be downloaded from the website [www.bcl.lu](http://www.bcl.lu)

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## **4 EUROPEAN CENTRAL BANK PUBLICATIONS**

For a complete list of documents published by the European Central Bank, as well as for the translated versions in all official languages of the European Union, please visit the ECB's website [www.ecb.int](http://www.ecb.int)

**Order:** Postfach 160319  
D-60066 Frankfurt am Main  
<http://www.ecb.int>

## **5 MONETARY, ECONOMIC AND FINANCIAL STATISTICS PUBLISHED ON THE WEBSITE OF THE BCL (WWW.BCL.LU)**

### **1 Monetary policy statistics**

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- 1.2 Luxembourg minimum reserve statistics

### **2 Monetary and financial developments in the euro area and Luxembourg**

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**6 LIST OF ABBREVIATIONS**

ABBL	Association des Banques et Banquiers, Luxembourg
EBA	European Banking Authority
ATTF	Agence de transfert de technologie financière ( <i>Luxembourg Agency for the Transfer of Financial Technology</i> )
ECB	European Central Bank
BCL	Banque centrale du Luxembourg
BIS	Bank for International Settlement
CCBM	Correspondent Central Banking Model
CETREL	Centre des transferts électroniques Luxembourg ( <i>Center for Electronic Transfers Luxembourg</i> )
CSSF	Commission de surveillance du secteur financier
EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMU	Economic and Monetary Union
ESA 95	European System of Accounts
ESCB	European System of Central Banks
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
EUROSTAT	Statistical office of the European communities
FSB	Financial Stability Board

GDP	Gross Domestic Product
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
LFF	Luxembourg for Finance
LSF	Luxembourg School of Finance
LU	Luxembourg
NCB	National Central Banks
OECD	Organisation for Economic Cooperation and Development
SDR	Special Drawing Rights
SSM	Single Supervisory Mechanism
SSS	Securities settlement system
STATEC	Institut national de la statistique et des études économiques <i>(National Institute for Statistics and Economic Studies)</i>
Target System	Trans-European Automated Real-time Gross settlement EXPRESS Transfer system
TFUE	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

**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 incomes; 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 securities depository (CSD):** an entity that (i) enables securities transactions to be processed and settled by book entry, and (ii) provides custodial services (e.g. the administration of corporate actions and redemptions), and (iii) plays an active role in ensuring the integrity of securities issues. Securities can be held in physical (but immobilised) form or in a dematerialised form (whereby 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:** the institution of the EU made up of representatives of the governments of the EU Member States, normally 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):** an ECB programme, based on the decision of the Governing Council of 7 May 2009 to purchase 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 euro, 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, the CBPP2. This programme allowed the Eurosystem to purchase euro-denominated covered bonds issued in the euro area for an intended nominal value of 40 billion euro. The purchases were conducted in both the primary and secondary markets from November 2011 until the end of October 2012, with the purchases totaling a nominal amount of 16.418 billion euro.

**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 saving banks. See also electronic money (e-money).

**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 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.

**ECOFIN Council:** Council of the European Union reuniting/meeting at the level of the ministers of economics and finance.

**Economic and Financial Committee (EFC):** a committee 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 both Member States and the EU, and contributing to budgetary surveillance.

**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.

**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.

**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 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).

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

**Euro area:** the area encompassing 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.

**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 €69 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 counterparties, on an intergovernmental basis, for the purpose of providing loans to the 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 is a permanent crisis management mechanism for the euro area which issues debt instruments in order to finance loans and other forms of financial assistance to euro area countries. The ESM entered into force on 8 October 2012. It has an effective lending capacity of €500 billion and will replace both the European Financial Stability Facility and the European Financial Stabilisation Mechanism. ESM lending is subject to strict conditionality.

**European System of Central Banks (ESCB):** composed of the European Central Bank (ECB) and the NCBs of all 28 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 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.

**Eurosystème:** 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.

**Eurosystème'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 credit-worthy 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 ECB. It comprises the President and the Vice-President of the ECB and four other members appointed by the European Council, acting by a qualified majority, on a recommendation from the EU Council, after it has consulted the European Parliament and the ECB.

**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 with standing 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 Eurosystème 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 Eurosystème can execute open market operations in the form of foreign exchange swaps, where the national central banks (or the European central bank) buy or sell Euro spot against a foreign currency and, at the same time, sell or buy them back in forward transaction.

**General council:** one of the decision-making bodies of the European Central Bank (ECB). It comprises the President and the Vice-President of the ECB and the governors of all the NCBs of the European System of Central Banks.

**Governing Council:** 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.

**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.

**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 Eurosystème 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 Eurosystème in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

**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.

**M1, M2, M3:** cf. monetary aggregates

**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 reformed (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).

**Open market operation:** an operation executed on the initiative of the central banking 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 operation. 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 Monetary Transactions (OMTs):** transactions that aim to safeguard an appropriate monetary policy transmission and the singleness of the monetary policy in the euro area through purchases of euro area government bonds in the secondary market based on strict and effective conditionality.

**Outright transaction:** A transaction whereby assets are bought or sold up to their maturity (spot or forward).

**Price Stability:** the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices for the euro area 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.

**Real-time gross settlement (RTGS) system:** a settlement system in which processing and settlement take place on a transaction-by-transaction basis in real time (see also TARGET).

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

**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.

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

**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. The SMP was terminated when the technical features of the Outright Monetary Transactions were announced on 6 September 2012.

**Securities settlement system (SSS):** a system which allows the transfer of securities, either free of payment or against payment (delivery versus payment).

**Stability and Growth Pact:** intended to serve as 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.

**Systemic Risk:** the risk that the inability of one participant to meet its obligations in a system will abuse 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.

**TARGET2:** the second-generation TARGET system. It settles payments in euro in central bank money and functions on the basis of a single shared IT platform, to which all payment orders are submitted for processing.

**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.

**Treaty on the Functioning of the European Union (TFEU):** Following entry into force of the Treaty of Lisbon on 1 December 2009, the Treaty establishing the European Community was renamed the Treaty on the Functioning of the European Union (TFEU). This Treaty - referred to as the Treaty of Rome (signed in Rome on 25 March 1957) - entered into force on 1 January 1958 to establish the European Economic Community (EEC). The Treaty establishing the European Community was subsequently amended by the Treaty on European Union (often referred to as the Maastricht Treaty) which was signed on 7 February 1992 and entered into force on 1 November 1993, thereby establishing the EU. Thereafter, both the Treaty establishing the European Community and the Treaty on the European Union were amended by the Treaty of Amsterdam, signed on 1 October 1997 and in force as of 1 May 1999, the Treaty of Nice, signed on 28 February 2001 and in force as of 1 February 2003, and then by the Treaty of Lisbon.

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