




BANQUE CENTRALE DU LUXEMBOURG  
EUROSYSTEM





MISSION  
STATEMENT  
OF THE BCL

The *Banque centrale du Luxembourg* (BCL) is a public institution created by Luxembourg law. The BCL's independence is based on its organic law, the Treaty on the European Union and the Treaty on the Functioning of the European Union. The BCL is a member of the European System of Central Banks (ESCB) composed of the National Central Banks of all 28 EU Member States and the European Central Bank (ECB).

## **THE MISSION**

The Bank is a member of the Eurosystem that consists of the European Central Bank and the National Central Banks of the Member States that have adopted the euro. It takes part in the Single Supervisory Mechanism (SSM). It is in charge of managing the monetary and financial responsibilities granted to it as one of the National Central Banks of the ESCB.

At the national level, the central bank has to carry out the tasks conferred on it by the national laws and conventions.

It is developing the following fields of competence:

- Research and studies and their communication thereof, which aim to prepare, on the one hand, monetary policy decisions and, on the other hand, the development of wider knowledge concerning monetary, financial and economic issues;
- Collection and analysis of statistics in the monetary, financial and balance of payments fields;
- Implementation of monetary policy;
- Organisation and supervision of payment and securities settlement systems;
- Issuance and circulation of banknotes and coins;
- Financial asset management, both on own account and for third parties;
- Participation in the prudential supervision of the financial system and the exercise of the oversight of payment and securities settlement systems, in order to ensure the stability of the financial system in Luxembourg;
- Advisory services to legislative and regulatory authorities in financial and monetary areas.

## **THE VISION**

The BCL intends to become a centre of competence, excellence even, whose performance will generate public confidence in the Central Bank.

Among Luxembourg institutions, the BCL ensures that it is capable of fulfilling all its national, European and international obligations.

In view of the wide variety of its duties and activities, both in the public sector and in a competitive environment, the BCL must generate an income guaranteeing its institutional, functional and financial independence.

## **CORPORATE VALUES**

Consequently, the values associated with its action are:

- Professionalism, guaranteed by highly specialised employees, high-performance tools and a high-level infrastructure;
- Quality in all its services;
- Stability provided by its long term vision of all its activities;
- Objectivity resulting from the establishment of precise rules that are equally applied;
- Integrity, guaranteed by the transparency of its internal operations and with respect to professional ethics;
- A good governance, within and through the governing bodies concerned with the use of the highest standards in governance.

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# THE GOVERNOR'S MESSAGE



The year 2016 has seen a continued economic recovery in the euro area, which has gained gradual momentum during the second half of the year. The monetary policy measures taken by the Governing Council of the European Central Bank, which aimed to prevent deflationary risks from materialising, have been effective.

In March 2016, the Governing Council took several measures to ease financing conditions and stimulate the provision of credit to the real economy. The objective of these measures was to support the economic recovery and, hence, accelerate the return of inflation toward an annual rate of below, but close to, 2 percent over the medium term for the euro area as a whole.

First, the Governing Council decided to lower the interest rate on the main refinancing operations from 0.05% to 0%, a historic low. It also lowered the interest rate on the deposit facility by 10 basis points, to -0.4%, and the interest rate on the marginal lending facility by five basis points, to 0.25%.

In addition to the key interest rates, the Governing Council decided to make two changes to the asset purchase programme, which was announced in January 2015 and implemented from March 2015 onwards. First, it decided to

increase the monthly asset purchases under the programme from 60 billion euro to 80 billion euro until March 2017, or beyond if necessary. Second, it decided to broaden the programme by including investment grade securities issued by non-financial corporations established in the euro area. The purchases under the programme's new component, the corporate sector purchase programme, started in June 2016.

Finally, the Governing Council decided to launch a new series of four targeted longer-term refinancing operations. These operations, with a maturity of four years and including different modalities from the ones applied to the first series launched in June 2014, aim to incentivise credit institutions to funnel more credit to the real economy.

During its 8 December 2016 meeting, the Governing Council decided to continue the purchases under the asset purchase programme at a pace of 80 billion euro a month until March 2017 and to reduce the pace to 60 billion euro a month from April 2017 to December 2017, unless specific circumstances would lead it to make new adjustments to the programme. This decision was motivated by, on the one hand, a strengthening of the economic recovery and, on the other hand, inflationary pressures that remained subdued.

In order to underscore the accommodative stance of monetary policy and to support the anchoring of inflation expectations over the medium term, the Governing Council also maintained its forward guidance. Thus, it indicated that the key interest rates of the Eurosystem would stay at their current or lower levels over a prolonged period of time, well beyond the horizon set for the asset purchases.

The Single Supervisory Mechanism, established in November 2014, constitutes together with the Single Resolution Mechanism and the European Deposit Insurance Scheme the Banking Union. The Single Supervisory Mechanism has continued to function well in 2016 and has, inter alia, contributed to a greater stability of the banking sector and a greater harmonisation in the application of prudential rules within the euro area. The Mechanism has delved into challenges such as the weak profitability of credit institutions, the burden of non-performing loans in bank portfolios, and options and national discretions that remain barriers to a common banking regulation.

The Single Resolution Mechanism has completed its second year of operation. The Single Resolution Fund, the financial arm of the Resolution Mechanism funded by contributions by the banking sector, has become operational. An intergovernmental agreement pertaining to the transfer of the contributions to the Fund has become effective on 1 January 2016. The gradual transfer of the national resolution funds to this single fund will take place over a period of eight years. The targeted amount corresponds to at least 1 percent of the covered deposits of all banks in the euro area by 31 December 2023. Bilateral credit lines guaranteeing national compartments have been established in all participating Member States. It remains essential to set up a common backstop to further strengthen the Single Resolution Fund.

As for the proposal to establish a European Deposit Insurance Scheme, little progress has been made. This proposal, made by the European Commission in November 2015, is still under discussion; it is important to reach an early agreement on its implementation.

On 4 May 2016, the ECB announced that the Governing Council had decided to stop permanently the production of the €500 banknote and to stop its issuance by the end of 2018, thus responding to concerns that the denomination could facilitate illicit activities. The Governing Council clarified that the €500 note continued to be legal tender and that it would retain its value. Once its issue will have ceased, the €500 note will also continue to be exchangeable with the national central banks of the Eurosystem.

On 5 July 2016, the ECB presented the new €50 banknote and announced that it would be put into circulation on 4 April 2017. Following the decision of the Governing Council on the €500 denomination, only €100 and €200 banknotes remain to be issued under the new "Europe" series.

At the national level, the BCL has continued to play a pivotal role in the Systemic Risk Committee, established by the Law of 1 April 2015. The Committee decided to set up two working groups to better comprehend and quantify the risks associated with the shadow banking intermediation activities. The first group, called "Parallel Banking - Other Financial Institutions" and chaired by the BCL, aims to improve the collection of data on these players in order to specify their contours and risks. The second group, called "Parallel Banking - Interconnections between the investment fund sector and the financial sector" and chaired by the *Commission de surveillance du secteur financier* (CSSF), analyses the risks of contagion between investment funds and credit institutions. The BCL is also providing its expertise to this second working group.

In the year 2016, the BCL was also heavily involved in the International Monetary Fund's (IMF) Financial Sector Assessment Program, a large-scale exercise that takes place in principle every five years. One of the findings of the IMF has been that the lead role of the BCL in the Systemic Risk Committee should be strengthened further.

The BCL has continued to develop its educational activities. It participated in the second edition of "The Week of Money" (D'Woch vun de Suen) in March 2016, organised again the Generation Euro competition and enhanced its cooperation with economics teachers. The BCL will continue its efforts to contribute to financial education in Luxembourg in areas that are an integral part of its missions. The BCL has also developed its communication activities towards the public at large. It released a film in four languages on its European and domestic missions and continued to welcome groups of visitors. It also participated in the Open Door event for public institutions, held in September 2016. This event, in which the BCL opened two of its buildings to the public, was a genuine success with more than 600 visits.

In terms of internal governance, the composition of the Executive Board and the Council of the BCL has changed. After having assumed the role of Director since 1 January 1999, Mr Serge Kolb decided not to seek another term. Consequently, his mandate expired on 31 December 2016. On behalf of the Bank's Executive Board and staff, I would like to congratulate him for his remarkable career and thank him for the good and loyal services he has rendered to the institution.

As per a Grand-Ducal Decree of 12 December 2016, Mr Roland Weyland, formerly Senior Advisor in the BCL, was appointed Director of the BCL for a period of 6 years from 1 January 2017.

On behalf of the decision-making bodies and the staff of the BCL, I would also like to pay a final tribute to Mr Luc Coene, formerly Governor of the National Bank of Belgium and former member of the ECB Supervisory Board, who passed away in early 2017. We regret the loss of his friendship and expertise.

As usual, I would like to conclude by thanking, together with the other members of the Executive Board, the staff for their commitment and the quality of their work. The BCL continues to be a fast-growing institution driven by the evolution of its often highly complex missions. This growth inevitably poses organisational challenges and leads to increased needs in terms of human and financial resources.



Gaston Reinesch