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BANQUE CENTRALE DU LUXEMBOURG
EUROSYSTÈME



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



In 2018, the euro area economy continued to grow, albeit at a lower rate than the previous year. The convergence of inflation towards the objective of price stability, defined as a year-on-year increase in prices within the euro area below, but close to 2% over the medium term, continued.

During the period under review, the Governing Council of the European Central Bank (ECB) made several important decisions.

In June 2018, it decided to continue net purchases under the asset purchase programme at a monthly pace of 30 billion until the end of September 2018, while anticipating to reduce them subsequently to 15 billion euros until the end of December 2018, and then end them. In addition, the Governing Council announced that the reinvestment of the principal payments from maturing securities acquired under the programme would continue for an extended period after the end of the net asset purchases. Finally, the Governing Council left key interest rates unchanged, anticipating that they would remain at

their then current levels at least through the summer of 2019, or as long as necessary to allow sustainable convergence of inflation towards the objective of price stability.

In December, the Governing Council notably confirmed that the monthly net purchases under the asset purchase programme would cease at the end of the year. It also pointed out that reinvestments of principal payments from maturing securities purchased under this programme would be made during an extended period beyond the date on which key interest rates would be raised.

In March 2019, the Governing Council announced that key interest rates would remain unchanged at least until the end of 2019 and, in any case, as long as necessary in view of the objective of price stability. It also decided that the Eurosystem would conduct a third round of targeted longer-term refinancing operations. These operations will be carried out at a quarterly pace between September 2019 and March 2021, each transaction having a two-year maturity.

At its 6 June 2019 meeting, the Governing Council announced that it expected key interest rates to remain unchanged at least through the first half of 2020, or for as long as necessary to ensure the convergence of inflation towards the main objective of the Eurosystem. At the same meeting, it confirmed the March decision on the reinvestment of principal payments from maturing securities purchased under the asset purchase programme and specified the modalities about the new series of targeted longer-term refinancing operations.

The Eurosystem's key interest rates remained unchanged during the period under review. Hence, the interest rate on the main refinancing operations remained at zero, while the interest rates on the deposit facility and the marginal lending facility remained at respectively -0.4% and 0.25%.

Concerning the deepening of the Economic and Monetary Union, significant progress has been made.

In December, the European Parliament and the Council of the European Union found a political agreement on the "banking package" aimed at reducing risks within the European Union's banking sector and strengthening the resilience of banks. During the same month, on the basis of a report from the Eurogroup, the Euro Summit approved the terms of reference of the Single Resolution Fund, the backstop of which will be provided by the European Stability Mechanism. The modalities for the reform of the latter have also been agreed on.

Finally, a political agreement was reached to cover the risks related to future loans issued by banks in order to prevent the accumulation of non-performing loans. In March 2018, the Governing Council had set out prudential expectations regarding the provisioning of new non-performing loans. This clarification, published as an addendum, followed the non-binding guidelines addressed to banks by the Governing Council in March 2017.

Progress has also been made towards the establishment of the Capital Markets Union. Among the thirteen legislative proposals of the European Commission relating to the elements constitutive of such a union, a large majority has been adopted or political agreements have been reached.

With regard to the number of credit institutions directly supervised by the ECB in the area euro, it was 119 at 31 December 2018, unchanged from the previous year. In Luxembourg, this number rose to six, i.e. two additional banks compared to the previous year.

In September 2018, the new 100 and 200 euro banknotes of the “Europe” series were presented. The date of entry into circulation of these two denominations was set at 28 May 2019. On 26 January 2019, the issuance of the 500 euro banknote was terminated. However, the 500 euro banknote shall retain its status as legal tender and can therefore continue to be used as a means of payment and store of value. It can also be exchanged with the national central banks of the Eurosystem for an unlimited period of time.

The year 2018 marked the 20th anniversary of the BCL, which was created on 1 June 1998. On this occasion, the BCL made donations to three charities to support people in a precarious situation and children. The BCL also organized a competition that attracted 2 000 participants. Many BCL numismatic prizes were won, including the gold coin that was minted for the occasion of our 20th anniversary. The competition started as part of the Open House of domestic institutions, to which the BCL independently associated itself. During the Open House, the numerous visitors had the opportunity to learn about how the Bank’s activities developed over the past two decades.

The BCL also expressed its support for sustainable finance. By becoming a member, in September 2018, of the Network of Central Banks and Supervisors for Greening the Financial System, the BCL has enriched and widened its thinking and work on the link between climate change and financial stability, as well as the role that a central bank may have to play in order to promote green finance. At the national level, the BCL contributed to the development of the roadmap aiming to render the national financial system more sustainable.

In the macroprudential field, the draft law on macroprudential measures on residential mortgage loans was tabled in the Chamber of Deputies by the government on 11 December 2017. As a member of the Systemic Risk Board, the BCL strongly regrets that this important bill has not been passed yet.

The BCL also continued to closely monitor developments related to the “Brexit” process. A disorderly exit of the United Kingdom could amplify investor concerns and, as a consequence, market volatility.

At the national level, it should also be noted that the Resolution Board has continued its collaboration with the Single Resolution Board on the establishment of resolution plans for significant Luxembourg banks and banking groups in the Banking Union with Luxembourg subsidiaries. The Resolution Board also made progress in the preparation of resolution plans for smaller banks falling under its direct responsibility.

As for the Depositors and Investors Protection Council, it has, among other things, continued to finalize its operational framework and carried out quality controls on information to be transmitted by the member institutions of the Luxembourg Deposit Guarantee Fund.

On 6 July 2018, the Government Council decided to renew the mandate of the Governor of the BCL for a period of six years, with effect from 1 January 2019. In the name of the Executive Board, I would like to thank the staff for their exemplary work and continuous commitment. It is largely thanks to them that this reappointment has been possible.

To conclude, on behalf of the governing bodies and staff of the BCL, I would like to pay a final tribute to Mr Jean-Nicolas Schaus, who passed away in March 2019. Mr Schaus was a Director at the BCL from June to December 1998, before becoming Direction General of the *Commission de Surveillance du Secteur Financier* (CSSF) until 30 April 2009.

A handwritten signature in black ink, consisting of a vertical line on the left, a horizontal line extending to the right, and a small dot above the horizontal line.

Gaston Reinesch