



In Mai 2008, the BCL organised the 15th annual meeting of the governors of the French-speaking central banks, in Luxembourg. About 30 delegations from Africa, North-America, Asia, Caribbean, Europe, Middle East and Pacific participated in the meeting organised in Echternach.

- 1 *Mr. Jean-Claude Trichet, President of the ECB*
- 2 *Mr. Christian Noyer, Governor of the Banque de France*
- 3+4 *15 meeting of the governors of the French speaking central banks in Luxembourg*
- 5 *Group picture of all the participants at the 15th meeting of the governors of the French-speaking central banks in Luxembourg*

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5.1 List of BCL circulars published in 2008

- **BCL Circular No 2008/217 of 21 April 2008** : Surveys on foreign direct investment – sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- **BCL Circular No 2008/218 of 5 September 2008** : Slovakia's adoption of the Euro, as from 1st January 2009 - sent to all Undertakings for Collective Investment (UCI).
- **BCL Circular No 2008/219 of 5 September 2008** : Slovakia's adoption of the Euro, as from 1st January 2009 - sent to all credit institutions.
- **BCL Circular No 2008/220 of 5 Septembre 2008** : Slovakia's adoption of the Euro, as from 1st January 2009: Impact over the statistical statements referring to the balance of payments – sent to all credit institutions as well as to the financial services of the Postal and Telecommunications Services Company (giro accounts service).
- **BCL Circular No 2008/221 of 8 October 2008** : Suspension of payments - Landsbanki Luxembourg S.A. and Glitnir Bank Luxembourg S.A. - sent to all credit institutions.
- **BCL Circular No 2008/222 of 9 October 2008** : Suspension of payments – Kaupthing Bank Luxembourg S.A. - sent to all credit institutions.

5.2 List of BCL regulations published in 2008

2008/N°1 of 28 November 2008

BCL regulation 2008/N°1 of 28 November 2008 containing temporary changes in rules applicable to the eligibility of collateral

Domain: implementation of the monetary policy in the Euro zone

5.3 List of BCL publications published in 2008

BCL bulletins

Revue de stabilité financière, April 2008
Bulletin BCL 2008/1, September 2008
Bulletin BCL 2008/2, December 2008

BCL Annual Report

Rapport Annuel 2007, June 2008
Annual Report 2007, August 2008

BCL Working papers

- Working Paper N°29, February 2008
Les taux d'intérêt des banques luxembourgeoises: une étude sur base agrégée et individuelle, by Yann Wicky
- Working Paper N°30, March 2008
Eurosystem Communication and Financial Market Expectations, by Patrick Luennemann and Dirk Mevis
- Working Paper N°31, March 2008
A Monthly Indicator of Economic Activity for Luxembourg, by Muriel Nguiffo-Boyom
- Working Paper N°32, March 2008
Search in the Product Market and the Real Business Cycle, by Thomas Y. Mathä and Olivier Pierrard
- Working Paper N°33, July 2008
Sequential bargaining in a new-Keynesian model with frictional unemployment and staggered wage negotiation, by Gregory de Walque, Olivier Pierrard, Henri Sneessens and Raf Wouters
- Working Paper N°34, September 2008
Regional Mc Parity: do common pricing points reduce deviations from the law of one price? by Thomas Y. Mathä
- Working Paper N°35, October 2008
Financial (in)stability, supervision and liquidity injections: a dynamic general equilibrium approach, by Gregory de Walque, Olivier Pierrard, Abdelaziz Rouabah

BCL Brochures

- 1998-2008 - Emergence d'une banque centrale au Luxembourg (brochure published on the occasion of the 10th anniversary of the BCL), June 2008

Publications and external presentations of BCL Staff

Publications

- *Olivier Pierrard and Henri Sneessens "Biased Technological Shocks, Wage Rigidities and Low-skilled Unemployment" Scottish Journal of Political Economy, Vol. 55, N°3, pp 330-352.*
- *Olivier Pierrard "Commuters, residents and job competition" in Regional Science and Urban Economics, Vol. 38, N°6, November 2008, pp 565-577.*

External presentations

- January 2008, Presentation BCL research project, CEPS / INSTEAD Differdange
- February 2008, Wage Dynamics Network Workshop, ECB, Frankfurt
- June 2008, Presentation of BCL research on inflation to CES members and other national experts
- June 2008, 25th International Symposium on Money, Banking and Finance, Luxembourg
- June 2008, North American Productivity Workshop, Stern School of Business, New York
- June 2008, International Symposium on Forecasting, Nice
- July 2008, CCBS workshop on "Financial sector in macro-forecasting", London
- August 2008, Annual meeting of the European Regional Science Association, Liverpool
- August 2008, European Economic Association annual congress, Milan
- September 2008, 4th annual Dynare conference, Boston Federal Reserve Bank
- October 2008, 5th international NBB colloquium, Brussels
- October 2008, Non-Supervisory Central Banks workshop, Mexico
- November 2008, ECB-CFS-Bundesbank Joint Seminar, Frankfurt

- November 2008, CEPR-EABCN conference, Universitat Pompeu Fabra, Barcelona
- November 2008, BCL-SUERF Conference on "Productivity in the Financial Services Sector" Commande

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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.

5.4 European Central Bank (ECB) publications

For a complete list of the documents published by the European Central Bank (ECB) 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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BCE / ECB
Postfach 160319
D-60066 Frankfurt am Main
www.ecb.int

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5.6 List of abbreviations

ABBL	Association des Banques et Banquiers, Luxembourg
AGDL	Association pour la garantie de dépôts, Luxembourg
ALCO	Asset and liability management committee
BCL	Banque centrale du Luxembourg
BIS	Bank of international settlements
BLEU	Belgian Luxembourg Economic Union
BNB	Banque Nationale de Belgique
CBL	Clearstream Banking Luxembourg
CCBM	Correspondent central banking model
CERS	Committee European Securities Regulators
CPI	Consumer Price Index
CMFB	Committee on monetary, financial and balance of payment statistics
CSSF	Commission de surveillance du secteur financier
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFC	Economic and Financial Committee
EIB	European Investment Bank
EMI	European Monetary Institute (1994-1998)
EMS	European Monetary System
ESCB	European System of Central Banks
ESP	European Service Providers
EU	European Union
EUR	Euro
Eurostat	Statistical office of the European Communities
FATF	Financial Action Task Force against money laundering
FASP	Financial sector Assessment Program
GDP	Gross domestic product
HICP	Harmonised Index of Consumers Prices
IADB	Inter American Development Bank
IGC	Intergovernmental conference

IMF	International Monetary Fund
IML	Institut Monétaire Luxembourgeois (1983-1998)
LIPS-Gross	Luxembourg inter bank payment system real-time Gross Settlement System
LIPS-Net	Luxembourg Interbank Payment System Real-Time Net Settlement System
MFI	monetary financial institution
MRA	maximum risk allowance
MRO	main refinancing operation
NAV	net asset value
NCB	National central bank
OECD	Organisation for Economic Cooperation and Development
OFI	Other Financial Intermediaries
OPEC	Organisation of Petroleum Exporting Countries
LTRO	Longer term refinancing operation
PBO	Projected Benefit Obligation
ROA	Return on Assets
ROE	Return on Equity
RTGS system	Real-Time Gross Settlement system
RTGS-L GIE	Economic interest grouping for real-time gross settlement of payments in Luxembourg
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
SEC	European System of National Accounts
SWIFT	Society for Worldwide Interbank Financial Telecommunication s.c.
SYPAL-GIE	Economic interest grouping for the promotion and management of payments systems in Luxembourg
STATEC	Central service for statistics and economic studies
Target System	Trans-European Automated Real-time Gross settlement Express Transfer system
UCI	Undertaking for Collective Investment
UCITS	Undertaking for Collective Investments in Transferable Securities
VaR	Value at Risk

5.7 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 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 immobilized) or dematerialized form (i.e. so that they exist only as electronic records).

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.

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

Correspondent central banking model (CCBM): a mechanism established by the Eurosystem with the aim of enabling counterparties to use eligible assets 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).

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.

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).

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

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 Tre-

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aty, 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.

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 behavior, 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.

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 non-euro 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.

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 $\pm 15\%$. 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 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, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

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 107(2)). 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 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 Banks on 1 June 1998.

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 harmonized 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).

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.

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 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 European Central Bank (ECB). It comprises the President and the Vice-President of the ECB and four other members appointed by common accord by the Heads of State or Government of the Member States that have adopted the euro.

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.

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: 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.

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Harmonized index of the consumer prices (HICP): a measure of the development of consumer prices that is compiled by Eurostat and harmonized 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 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.

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.

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.

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).

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).

M1: a narrow monetary aggregate that comprises currency in circulation plus overnight deposits held with MFIs and central government (e.g. at the post office or treasury).

M2: an intermediate monetary aggregate that comprises M1 plus deposits redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and deposits with an agreed maturity of up to and including two years (i.e. short-term time deposits) held with MFIs and central government.

M3: a broad monetary aggregate that comprises M2 plus marketable instruments, in particular repurchase agreements, money market fund shares/units, and debt securities with a maturity of up to and including two years issued by MFIs.

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).

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

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.

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.

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 maintenance of price stability. At present, the reference value for annual M3 growth is 4,5%.

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 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).

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 and interest of these securities depend on the cash flows produced by the pool of underlying financial assets.

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) No 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) No 1055/2005 of 27 June 2005, and ii) Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation (EC) No 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

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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.

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.

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

Treaty: refers to the Treaty establishing the European Community (“Treaty of Rome”). The Treaty has been amended on several occasions, in particular by the Treaty on European Union (“Maastricht Treaty”) which laid the foundations for Economic and Monetary Union and contained the Statute of the ESCB.