

10TH
ANNIVERSARY



**GENERATION €URO
STUDENTS' AWARD**

2022 - 2023

**TEACHER'S
BOOKLET**

WWW.GENERATIONEURO.EU

PARTICIPATE WITH YOUR
STUDENTS IN THE VIRTUAL
INFORMATION SESSION
ON 20 OCTOBER 2022
BY WRITING TO
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EUROPEAN CENTRAL BANK
EUROSYSTEM



BANQUE CENTRALE DU LUXEMBOURG
EUROSYSTEM

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FOREWORD



Dear teachers,

A new school year is beginning and I am delighted to inform you that the Banque centrale du Luxembourg (BCL) will organise a new edition of the Eurosystem Generation Euro Students' Award school competition in Luxembourg in 2022-23.

This new edition will be of particular significance as it will be the tenth time that the BCL organises this competition, which has been hailed as a major educational project since its creation.

Over the past ten years, hundreds of students from both public and private high schools have had the opportunity to test themselves in the task of formulating monetary policy decisions.

The competition provides high school students with the opportunity to learn about key concepts pertaining to the Eurosystem's monetary policy and institutional framework, encourages them to work as a team within well-defined deadlines and allows them to hone their writing and presentational skills. The motivating goal is to reach the national final – during which all finalists are awarded a prize - and perhaps even the European award ceremony organised by the European Central Bank.

In addition, the finalists will be able to do an internship at the BCL, which represents an interesting opportunity to gain a better understanding of how a central bank works.

Through the organisation of this contest, the BCL continues its efforts to reach out to the educational world. We are eager to contribute to improving our young citizens' understanding of essential economic mechanisms. The skills the students will acquire by participating in this competition will be useful, not only in the pursuit of their studies, but also in their future professional life.

As participating teachers, you will play a pivotal role in encouraging and mentoring your students during the competition. Let me assure you that the BCL will be at your disposal throughout the contest to answer your questions and provide you with the necessary educational material. This brochure includes the rules of the competition and provides you with the economic knowledge required to participate successfully.

It only remains for me to wish good luck and many discoveries to all the participants of this anniversary edition!

Gaston Reinesch
Governor of the Banque centrale du Luxembourg

1. INTRODUCTION

About the competition

The Generation Euro Students' Award (GESA) is an annual competition that aims to help secondary school students understand monetary policy and how it relates to the economy as a whole. Participating students will gain insight into the role of a central bank by learning about the function of monetary policy instruments, in particular interest rate decisions, and by using some of the data available to the Governing Council of the European Central Bank (ECB). The competition will also raise students' awareness of the Eurosystem and deepen their knowledge of the world of finance.

The competition consists of several rounds – an online quiz, an assignment and an oral presentation. The competition will end with two events: the national finals for the best three teams and an award ceremony for the best team of each country organised by the ECB.

Due to the sanitary crisis, all of these activities can be held remotely, depending on the restrictions in force.

Participation

The competition is for students aged 16 to 19 who live in a euro area country. The age of participating students may vary slightly from country to country (depending on the national education system), but they should be in their final years of secondary education. All students are entitled to take part, irrespective of the subjects they are studying. Students may participate more than once, as long as they are in a different team each year.

Students will need to form teams consisting of three or five members, and ask a teacher to support their entry. Each team should come from the same school, with the teachers and students themselves deciding on membership. Each team should also nominate one of its members as team leader. More than one team from the same school may participate. The teacher must work at the school taking part in the competition, and must teach at least one member of the team. The composition of the team should remain the same during the competition, except in the case of extraordinary circumstances such as illness.

Each team and its supporting teacher should register for the competition on the [Generation Euro website](http://www.generationeuro.eu). (www.generationeuro.eu - Luxembourg page).

Participation is possible in English and French.

Prize

The finalists will receive a prize after the deliberation of the jury. Also, interested finalists will have the opportunity to do an internship at the BCL and discover from the inside how a national central bank works.

The winning teams of the national central bank competitions will be invited to the award event organised by the ECB.

What's in it for the students?

Participating students will deepen their understanding of the economy. They will also have the opportunity to develop their core skills, such as analytical and critical thinking. The competition will give students a chance to improve their ability to work as part of a team and hone their communication and presentation skills. They will meet confirmed economists and have the opportunity to share their experience with students from other euro area countries. In addition, the knowledge and skills gained during the competition may benefit their university studies.

Rules

The rules and organisational procedures of the competition are set out in this booklet, and in the [Terms and Conditions](#) published on the Generation Euro website www.generationeuro.eu.

2. TEACHERS

Your role

As a teacher, you will play a key role throughout the competition. Your main task will be to coordinate the team, guiding your students through each round of the competition, in particular the written assignment, in order to ensure their work is consistent and of good quality.

Resources

You will have access to a number of resources to guide and support your students in each round of the competition. Your main resources will be:

- this booklet;
- the [Generation Euro website](#), which provides all competition-related information and materials to make it easier for you to teach the core concepts of monetary policy-making;
- documents and information regularly transmitted by the BCL;
- presentations organised by the BCL to help participating students and professors.



Preparation session at the BCL

3. ROUNDS

Round 1: online quiz (deadline: 20 November 2022)

Before taking the quiz to enter the competition, teams must first register to ensure that their scores are saved. After registering, students can practise with the trial version of the quiz as often as they wish, but they can do the complete quiz (30 questions) only once. Students are expected to answer the questions as a team. The quiz consists of ten easy questions, ten of medium difficulty and ten harder ones. The 30 questions will be selected at random from a pool each time a team starts the quiz. At the end of the quiz, all participating teams will receive an electronic certificate showing their scores. The scores obtained as well as the electronic certificates can be shared on social media. The teams with the best scores will be invited by the BCL to register for the second stage of the competition.

Round 2: assignment (1 February 2023)

Task

The teams are required to:

1. propose a monetary policy decision of the Governing Council on the interest rate of the main refinancing operations;
2. base their decision on their assessment of the key economic indicators available, an economic analysis, a monetary and financial analysis, and the inflation outlook;
3. where appropriate report downside risks or potential upside risks weighing on the medium-term inflation outlook, and make reference to non-conventional monetary policy measures.

Format

Teams must write analysis presenting their own research and indicating the reasons that led them to make their decision on the key interest rate. **The format is free.**

It is not necessary to present or explain the ECB's institutional functions and governance.

The written assignment must conclude with a clear decision on the interest rate and it must not exceed 2,000 words (or approximately 2 A4 pages). Graphics are welcome. The jury can lower the mark if the maximum length is passed.

Preparation

The Generation Euro website contains additional information about the task the students have to complete.

All members of the team are expected to contribute to the written test, which should reflect the opinion of the majority of the team. Teachers are encouraged to actively coach and advise their students.

Teams should email their assignment to generationeuro@bcl.lu by the deadline. The tests will be evaluated by the BCL's jury of experts, who will select the three teams that will go on to the next round. The BCL will inform these teams of the jury's decision.

Final round: presentation at the BCL (March or April 2023)

The teams that reach the final round will have to present a new monetary policy decision on interest rates to the BCL jury of experts. This presentation will be made at the BCL, if the sanitary conditions allow it. The teams' task will be twofold.

A) Presentation

Task

The teams:

1. have to draft an upcoming decision of the Governing Council on the interest rate of the main refinancing operations;
2. have to explain their decision by assessing the main economic indicators, an economic analysis, a monetary and financial analysis, and the inflation outlook;
3. can, where appropriate, indicate potential downside and upside risks to the medium-term inflation outlook and mention unconventional monetary policy measures.

Format

Students are encouraged to present their decision in the form of an economic and of a monetary and financial analysis, which are two essential parts of the monetary policy statement at the press conference during which the President of the ECB explains the Governing Council's monetary policy decisions. Teams are invited to be creative in their presentation and each of their members (with the exception of the teacher) must participate equally in the

presentation. Teams will provide the members of the jury with a copy of their presentation in order to facilitate note-taking during the final round.

Presentations will not exceed 20 minutes. Exceeding the time limit will be penalized by the jury.

Preparation

The Generation Euro website www.generationeuro.eu provides further information on the preparation of the final round.



Mr Reinesch, Governor of the BCL, with finalists and members of the jury in 2019.

B) Question and answer session

Each presentation given by a team will be followed by a question and answer session of a duration of 20 minutes. This duration may be increased according to the actual duration of the oral presentation, the total duration of the final round being 40 minutes by team. This session will allow the jury to test, on the one hand, the knowledge and the understanding of policy issues and to judge, on the other hand, how the teams justify their interest rate decision. It will take place in the spirit of the question and answer sessions at press conferences following the meetings of the ECB's Governing Council, at which the President of the ECB explains monetary policy decisions.

Members of the teams may be asked to clarify or develop certain points evoked during the presentation, or to explain the workings of the economy and how the decision made about the interest rate is part of the mandate entrusted to the Eurosystem, which consists in ensuring price stability.

Questions may also be asked about major real world events that may have recently affected the economy.

Team members may consult each other during the question and answer session, without being able to call on their teacher. All members of the team should, as much as possible, take part in the question and answer session.

At the end of the presentations and question and answer sessions, the jury will withdraw to deliberate and select the winning team. The decision will be announced in front of all participants during the award ceremony. All students who participated in the final round will receive a certificate and an award. They will also have the opportunity to do an internship at the BCL during the summer.

4. COMPOSITION OF THE JURY

The assignments and presentations will be assessed by a jury composed of experts from the BCL

5. ASSESSMENT CRITERIA

The jury will assess the assignments on the basis of:

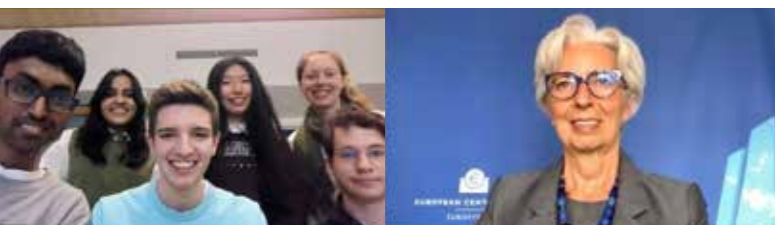
- reasoning behind the proposed decision concerning the interest rate;
- relevance of the decision;
- familiarity with, and accurate use of, expressions and terms related to monetary policy;
- students' creativity and own research.

The jury will assess the oral presentations on the basis of:

- reasoning behind the proposed decision concerning the interest rate;
- relevance of the decision;
- familiarity with, and accurate use of, expressions and terms related to monetary policy;
- the structure of the presentation;
- oral presentation skills;
- level of participation of each team member;
- method used to make the presentation.

6. EUROPEAN AWARD CEREMONY

The winning team from each participating country will be invited to participate in the European award event, organised by the ECB.



ECB Ceremony

The winners of the 2021 - 2022 edition at the European ceremony with Christine Lagarde, President of the ECB

ANNEX

INTRODUCTION TO CENTRAL BANKING AND MONETARY POLICY IN THE EURO AREA

This annex ⁽³⁾ provides a brief overview of the European System of Central Banks (ESCB) and the Eurosystem as well as an introduction to the monetary policy of the ECB. In order to help you prepare your students for the competition, more detailed information is available on the website www.generationeuro.eu in the section entitled "Information/Resources".

The European System of Central Banks, the Eurosystem and the euro area

Since 1 January 1999, the ECB has been responsible for setting monetary policy in the euro area. The euro area is the group of Member States of the European Union that have adopted the euro. It came into existence in January 1999 with the transfer of monetary policy from the national central banks of eleven countries (at the time) to the Governing Council of the ECB. Greece joined the euro area in 2001, Slovenia in 2007, Cyprus and Malta in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014 and Lithuania in 2015. Croatia will join the euro area on 1 January 2023. The birth of the euro area and the creation of the ECB were major milestones in European integration. To be able to join the euro area, the aforementioned countries had to fulfil the "convergence criteria", as other EU member states will have to do before they can adopt the euro. Compliance with these criteria is the precondition, from an economic and legal point of view, for participation in the Economic and Monetary Union.

The Treaty on the Functioning of the European Union and the statutes of the ESCB and the European Central Bank constitute the legal basis of the single monetary policy.

The ECB is placed at the heart of the Eurosystem and the ESCB. Together, the ECB and the national central banks (NCBs) carry out the tasks assigned to them.

⁽³⁾This chapter is based on information available on the ECB website (<http://www.ecb.europa.eu>).

The ESCB is made up of the ECB and the NCBs of all Member States, whether or not they have adopted the euro. The Eurosystem groups together the ECB and the NCBs of the Member States whose currency is the euro. The Eurosystem will coexist with the ESCB for as long as certain Member States are not part of the euro area.

European Central Bank

The ECB is the central bank in charge of the single European currency, the euro.

Objectives

According to the Treaty, the primary objective of the ESCB is to maintain price stability. Without prejudice to this objective, the ESCB supports the general economic policies of the EU, in particular with a view to full employment and sustainable development.

The objective of monetary policy under the treaty

The treaty establishes a clear hierarchy between the objectives of the Eurosystem, the first of which is price stability. It further states that the best contribution that monetary policy can make towards fostering a favourable economic environment and full employment is to ensure price stability.

These provisions of the treaty reflect the broad consensus around the substantial benefits of price stability, the sustainable maintenance of which is an essential prerequisite for strengthening economic well-being and potential GDP growth. The natural role of monetary policy in an economy is to maintain price stability. Monetary policy can influence real activity in the short term, but in the longer term it can only influence price levels.

The treaty also states that, in the implementation of effective monetary policy decisions aimed at ensuring price stability, the Eurosystem also takes into account the general economic objectives of the EU. In particular, since monetary policy can influence real activity in the short term, the ECB should avoid encouraging excessive fluctuations in output and employment if this is consistent with its primary objective.

Basic tasks

Under the Treaty, the basic tasks of the ESCB are as follows:

- to define and implement the monetary policy of the Union;
- to conduct foreign exchange transactions;
- to hold and manage the official foreign exchange reserves of euro area countries;
- to promote the proper functioning of payment systems.

Other ESCB tasks

The ESCB is also in charge of other tasks, such as:

- banknotes: the ECB and the NCBs are responsible for issuing euro banknotes;
- statistics: assisted by the NCBs, the ECB collects the statistical information it needs to carry out its tasks, either from the competent national authorities or directly from economic agents;
- stability and supervision of the financial system: the ESCB contributes to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system;
- international and European cooperation: the ECB maintains working relations with the appropriate institutions, bodies and forums within the EU and at global level when it comes to the tasks entrusted to the ESCB.

The Governing Council of the ECB

The Governing Council is the main decision-making body of the ECB. It consists of:

- the six members of the Executive Board; and
- the governors of the NCBs of the Member States whose national currency is the euro.

Its responsibilities are as follows:

- adopting the regulations and taking the decisions necessary for performance of the tasks entrusted to the ESCB; and
- setting the monetary policy of the euro area. This notably involves taking decisions relating to monetary objectives, key interest rates and the supply of reserves in the Eurosystem, as well as establishing the guidelines necessary for implementing these decisions.

Meetings and decisions of the ECB Governing Council

Since January 2015, the meetings of the Governing Council devoted to monetary policy have been held every six weeks and no longer every month. During these meetings, the Board analyses economic and monetary developments and takes monetary policy decisions. Meetings on non-monetary matters continue to take place at least once a month. At these meetings, the Governing Council mainly discusses issues relating to the other tasks and responsibilities of the ECB and the Eurosystem. The meetings are usually held in Frankfurt am Main, Germany.

Monetary policy decisions are explained in detail during a press conference at the end of each monetary meeting. The President of the ECB, accompanied by the Vice-President, chairs this press conference, which takes place in two stages: the President first reads the monetary policy statement, which explains the reasons underlying the monetary policy decisions adopted by the Board of Governors, and then answers questions from journalists. Since January 2015, the ECB has published reports on the monetary policy debates within the Governing Council.

The objective of price stability

The objective of price stability refers to the general level of prices in the economy and consists in avoiding prolonged periods of inflation and deflation.

Since the revision of its monetary policy strategy in 2021, the ECB has set its price stability objective as a 2% inflation rate over the medium term.

This target is symmetric, meaning that the Board of Governors considers positive or negative deviations from the target to be equally undesirable.

To determine whether the price stability objective has been achieved, the ECB measures inflation using the harmonised index of consumer prices (HICP).

Price stability contributes to achieving high levels of economic activity and employment by:

- strengthening the transparency of the price formation mechanism. With regard to price stability, it is easier for consumers to identify changes in relative prices (i.e. the prices of different goods), without being disturbed by large changes in the general price level when inflation is

high. They can therefore make informed consumption and investment decisions and better allocate their resources, i.e. their money;

- reducing the inflation risk premiums in interest rates (i.e. the compensation required by investors for any unexpected acceleration in inflation during the term of their investment). This lowers real interest rates and strengthens incentives to invest;
- making unproductive activities related to hedging against inflation or deflation risks unnecessary (for example, holding onto assets in the hope that their price will rise);
- reducing distortions due to inflation or deflation that are liable to increase changes in the behaviour of economic agents caused by taxation and social security systems; and
- preventing the arbitrary redistribution of wealth and income following unexpected episodes of inflation or deflation.

The role of the Eurosystem's monetary policy strategy

A monetary policy strategy is a coherent and structured framework defining how decisions are made to achieve the central bank's objective. The monetary policy strategy of the euro area has two essential tasks. Firstly, by providing a clear framework for the monetary decision-making process itself, it ensures that the ECB Governing Council has the information and analysis it needs to make its monetary policy decisions. Secondly, it constitutes an instrument for explaining these decisions to the public. By contributing to the effectiveness of monetary policy and signalling the Eurosystem's commitment to price stability, the strategy contributes to the credibility of the Eurosystem on the financial markets.

The monetary decisions of the Governing Council of the ECB, which consist in steering short-term interest rates, influence the economy and ultimately price levels.

The monetary policy strategy

Basis for interest rate decisions

The Governing Council bases its decisions on an integrated analytical framework that includes all relevant factors, drawing on two interrelated analyses:

- economic analysis; and
- monetary and financial analysis.

These analyses form the basis for the Governing Council's assessment of the economic outlook, how monetary policy measures are transmitted to the economy and reach businesses and individuals, and the risks to price stability.

Within this framework, economic analysis focuses on real and nominal economic developments. It covers changes in terms of economic growth, employment and inflation, the assessment of shocks to the euro area economy, projections of key macroeconomic variables and an overall risk assessment for economic growth and price stability. Particular attention is also given to the analysis of structural trends and their implications for monetary policy.

The monetary and financial analysis focuses on the functioning of the monetary policy transmission mechanism and the possible risks that financial imbalances pose to price stability over the medium term. The monetary policy transmission analysis aims to identify any potential changes in transmission (such as the increasing role of non-banking financial intermediation) or alterations in transmission, that might affect the effectiveness of monetary policy. In addition, the monetary and financial analysis assesses the longer-term build-up of financial vulnerabilities and imbalances and their possible implications in terms of indirect risks to output and inflation. It thus recognises that financial stability is a prerequisite for price stability. Finally, information from monetary and credit aggregates is used to assess the functioning of monetary and financial transmission, given the importance thereof in identifying risks to price stability.

Monetary policy instruments

The monetary policy aims to control short-term interest rates as well as possible, thus influencing economic developments. Short-term interest rates are managed through the operational implementation of monetary policy. The Eurosystem has various instruments for this purpose. These are: open market operations, standing facilities and minimum reserves.

(a) Open market operations

The main instrument of monetary policy, these are used to:

- steer interest rates;
- manage liquidity conditions in the money market; and
- signal the direction of monetary policy.

There are four categories of open market operations:

- main refinancing operations, which consist of reverse operations intended to provide liquidity on a regular basis. These are performed weekly and expire after one week;
- longer-term refinancing operations, which consist of reverse operations intended to provide liquidity. These are performed monthly and expire after three months;

- fine-tuning operations, which are carried out on an ad hoc basis and aim to manage liquidity in the market and to steer interest rates; in particular, to mitigate the impact of unexpected fluctuations in liquidity on interest rates; and
- structural operations, which are carried out by issuing debt certificates and using reverse transactions or outright transactions.

(b) Standing facilities

The Eurosystem also offers standing facilities to provide and absorb overnight liquidity and to set limits on overnight market interest rates.

The two standing facilities are:

- the marginal lending facility, through which counterparties (i.e. credit institutions) can obtain overnight liquidity from national central banks in the euro area against the posting of eligible collateral; and
- the deposit facility, under which counterparties can make overnight deposits with national central banks in the euro area.

(c) Mandatory reserves

The Eurosystem requires credit institutions to hold minimum reserves on accounts opened with euro area NCBs. The purpose of these reserves is to stabilise money market interest rates and to create or increase structural refinancing needs.

Unconventional monetary policy measures

Since the financial crisis of September 2008, the ECB has introduced a number of unconventional monetary policy measures that are unprecedented in their nature, scope and scale, in order to preserve the primary objective of price stability and ensure adequate monetary policy transmission. These measures are part of the "toolbox" that allows the Eurosystem to implement monetary policy; however, they are exceptional by definition and temporary by nature. They generally cover the banking sector as the financing of businesses in the euro area is dependent on the banks (and not on the capital markets). Here are some examples of unconventional measures adopted by the ECB:

- fixed-rate, fully allocated liquidity provision;
- longer-term liquidity provision (up to three years);
- expansion of the list of assets accepted as collateral;
- provision of foreign currency liquidity;
- outright purchases of specific debt securities.

In 2014, the Eurosystem implemented the ECB's Asset Purchase Programme (APP) to support the monetary

SCHEDULE

THE COMPETITION WILL TAKE PLACE IN 2022-23 AS FOLLOWS:*

- Information event: 20 October 2022 at 2:30 pm
- Round 1 (online quiz): by 20 November 2022
- Round 2 (assignment): by 1 February 2023
- Final round at the BCL: March or April 2023, exact date to be confirmed
- European award ceremony organised by the ECB: May or June 2023, exact date to be confirmed.

CONTACTS AT THE BCL

BCL staff members will be pleased to help you with any questions you may have during the competition.
Please write to: generationeuro@bcl.lu
Website: www.generationeuro.eu



* These dates are subject to change.



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