

THE GOVERNOR'S MESSAGE



In 2017, the recovery of the euro area economy accelerated and expanded, and inflation recovered from the previous year. The Eurosystem's accommodative monetary policy contributed to this development, in particular by helping to reduce the cost of credit.

The strengthening of the economy and the inflation outlook have motivated several important decisions by the Governing Council of the European Central Bank (ECB), notably pertaining to the asset purchase programme.

First, in June 2017 the Governing Council deleted the reference to the possibility that policy rates could move further downwards.

Second, in October 2017 the Governing Council decided to reduce monthly purchases under the asset purchase programme from € 60 billion to € 30 billion from January 2018. At the same time, it decided to extend the duration of the programme until September 2018, or beyond if necessary.

Finally, in March 2018 the Governing Council decided to no longer make explicit reference in its communication to the possibility of increasing the size of its acquisitions under the asset purchase programme should the outlook become less favourable. The Governing Council also stressed the importance of a sustainable recovery in inflation.

The Governing Council's conduct of monetary policy has been and will continue to be guided by the principles of persistence, prudence and patience. Thus, the Governing Council also decided to leave the Eurosystem's key rates unchanged and reiterated its position that they should remain unchanged for an extended period of time, well beyond the horizon set for net asset purchases. In line with the Eurosystem's mandate, these decisions were motivated by the Eurosystem's primary objective, i.e. to achieve annual inflation for the euro area as a whole below, but close to, 2% over the medium term.

In October 2017, the European Commission submitted a report to the European Parliament and the Council on the functioning of the Single Supervisory Mechanism (SSM). The report, prepared in accordance with the SSM Regulation and assessing the legislative, institutional and procedural framework of the Mechanism, concluded that the establishment of the SSM had been generally satisfactory. However, for the first time since the establishment of the Mechanism in November 2014, the Governing Council of the ECB declared in 2017 three banks that it directly supervised to be failing or likely to fail, another case having arisen in February 2018.

In particular, the SSM ensures that banks reduce their non-performing loans. As such, the Governing Council of the ECB issued non-binding guidelines to banks in March 2017. Following a public consultation, these guidelines were supplemented by an addendum in March 2018 in order to clarify prudential expectations regarding the provisioning of new non-performing loans.

At the euro area level, the number of credit institutions directly supervised by the ECB decreased slightly from 125 at the end of 2016 to 119 as of 31 December 2017. In Luxembourg, the number was four and thus unchanged from the previous year.

Of the four banks which the ECB considered to be failing or likely to fail, the Single Resolution Board considered that in one case a resolution procedure should be initiated, in the public interest, at the European level. The respective national authorities dealt with the other three cases.

The debate on the establishment of a backstop to strengthen the Single Resolution Fund continued. The European Commission, when publishing its roadmap for the deepening of the Economic and Monetary Union, reiterated that the European Stability Mechanism could provide such a safety net. In addition, the European Commission proposed that the European Stability Mechanism be integrated into the Union's legal framework and transformed into a European Monetary Fund.

As regards the introduction of the future European Deposit Insurance Scheme, differences of opinion between Member States have prevented any significant progress.

Work to establish a Capital Markets Union also continued. Some legislative proposals submitted by the European Commission have been adopted, mainly on securitisation.

On 4 April 2017, the €50 banknote of the new “Europe” series was put into circulation. The €50 denomination of the previous series remains legal tender and will gradually be withdrawn from circulation. The denominations of €100 and €200 of the new series will be put into circulation in 2019.

At the national level, on 11 December 2017 the government tabled draft law 7218 on the adoption of macroprudential measures targeting household borrowers and pertaining to residential mortgages. This draft law consolidates the BCL’s leading role in performing analyses and studies to identify systemic risks as early as possible and plans to facilitate the Bank’s access to aggregated, i.e. non-granular, data available from state administrations and public institutions. While this is welcome, it is regrettable that the government did not accept the initial proposal of the Systemic Risk Committee to allow the BCL to access granular data. In its opinion of 19 February 2018, the ECB considered that the draft law should provide access to more granular data to the BCL, considering that such access was a necessary condition for the Bank to use its analytical capacity.

In March 2017, the BCL was honoured by the visit of Her Royal Highness the Grand Duchess as part of the presentations given to primary school pupils during the “Money Week” (Woch vun de Suen). During her visit, Her Royal Highness the Grand Duchess attended a workshop during which students from Lycée Vauban tested their knowledge about the security features of euro banknotes and the responsible management of a budget thanks to a game specially developed by the BCL for the occasion. Her Royal Highness the Grand Duchess also interacted with students on money management issues.

In September, His Royal Highness the Grand Duke was welcomed to the ECB by its President, Mr Mario Draghi, for a formal visit. This fruitful visit demonstrated His Royal Highness the Grand Duke’s keen interest in the Eurosystem, of which the ECB and the BCL are members.

Mr Roland Weyland was appointed Director of the BCL, with effect from 1 January 2017 for a renewable term of six years. In this capacity, he also became a member of the Bank’s Council.

To conclude, I would like to thank, on behalf of the Executive Board, the Bank’s staff for their commitment and the quality of their work.



Gaston Reinesch