



INTERNATIONAL JOURNAL OF CENTRAL BANKING

Interest Rate Setting by the ECB, 1999–2006:  
Words and Deeds

*Stefan Gerlach*

Imperfect Knowledge, Adaptive Learning, and the Bias  
Against Activist Monetary Policies

*Alberto Locarno*

Economic and Regulatory Capital in Banking:  
What Is the Difference?

*Abel Elizalde and Rafael Repullo*

Stock Liquidity Requirements and the Insurance Aspect of the  
Lender of Last Resort

*Spyros Paganis*

Technology Diffusion within Central Banking: The Case of  
Real-Time Gross Settlement

*Morten L. Bech and Bart Hobijn*

Fear of Floating and Social Welfare

*Demosthenes N. Tambakis*



Interest Rate Setting by the ECB, 1999–2006: Words and Deeds <i>Stefan Gerlach</i>	1
Imperfect Knowledge, Adaptive Learning, and the Bias Against Activist Monetary Policies <i>Alberto Locarno</i>	47
Economic and Regulatory Capital in Banking: What Is the Difference? <i>Abel Elizalde and Rafael Repullo</i>	87
Stock Liquidity Requirements and the Insurance Aspect of the Lender of Last Resort <i>Spyros Pagratis</i>	119
Technology Diffusion within Central Banking: The Case of Real-Time Gross Settlement <i>Morten L. Bech and Bart Hobijn</i>	147
Fear of Floating and Social Welfare <i>Demosthenes N. Tambakis</i>	183

*The contents of this journal, together with additional materials provided by article authors, are available without charge at [www.ijcb.org](http://www.ijcb.org).*

Copyright © 2007 by the Association of the International Journal of Central Banking. All rights reserved. Brief excerpts may be reproduced or translated provided the source is cited. Consult [www.ijcb.org](http://www.ijcb.org) for further information.

The *International Journal of Central Banking* is published quarterly (ISSN: 1815-4654). Online access to the publication is available free of charge at [www.ijcb.org](http://www.ijcb.org). Individual print subscriptions are available at an annual rate of \$100 (USD).

Print subscription orders may be placed online at [www.ijcb.org](http://www.ijcb.org), by phone (202-452-3245), via fax (202-728-5886), or by e-mail ([editor@ijcb.org](mailto:editor@ijcb.org)).

Renewals, claims, address changes, and requests for permission to reprint material from this journal should be addressed to:

International Journal of Central Banking  
Publications Fulfillment, MS-127  
Federal Reserve Board  
Washington, DC 20551  
Phone: 202-452-3245  
Fax: 202-728-5886  
E-mail: [editor@ijcb.org](mailto:editor@ijcb.org)

The views expressed in this journal do not necessarily represent the views of the Association of the International Journal of Central Banking or any of its members.

ISSN: 1815-4654

# International Journal of Central Banking

## Board of Directors

### Chairman

Charles Bean, *Bank of England*

### Board Members

Abdulrahman Al-Hamidy, *Saudi Arabian Monetary Agency*

Jan Marc Berk, *The Nederlandsche Bank*

Afonso Bevilaqua, *Central Bank of Brazil*

Claudio Borio, *Bank for International Settlements*

Mohammed Tahar Bouhouche, *Bank of Algeria*

Malcolm Edey, *Reserve Bank of Australia*

Khor Hoe Ee, *Monetary Authority of Singapore*

Manuel Ramos Francia, *Bank of Mexico*

Hans Genberg, *Hong Kong Monetary Authority*

Heinz Herrmann, *Deutsche Bundesbank*

Nobuo Inaba, *Bank of Japan*

Tor Jacobson, *Sveriges Riksbank*

He Jianxiong, *People's Bank of China*

Ali Hakan Kara, *Central Bank of Turkey*

Ulrich Kohli, *Swiss National Bank*

Donald Kohn, *Federal Reserve Board*

Ana Leal, *Bank of Portugal*

Vyacheslav Morgunov, *Central Bank of Russian Federation*

John Murray, *Bank of Canada*

Tom O'Connell, *Central Bank of Ireland*

Fabio Panetta, *Bank of Italy*

Jan Qvigstad, *Norges Bank*

Lucrezia Reichlin, *European Central Bank*

Fernando Restoy, *Bank of Spain*

Ivan Ribnikar, *Bank of Slovenia*

Arnor Sighvatsson, *Central Bank of Iceland*

Jan Smets, *National Bank of Belgium*

Marc-Olivier Strauss-Kahn, *Bank of France*

Juha Tarkka, *Bank of Finland*

George Tavlas, *Bank of Greece*

Dobieslaw Tymoczko, *National Bank of Poland*

## Editorial Board

### Managing Editor

John B. Taylor  
Stanford University

### Co-editors

Hyun Shin  
Princeton University

Frank Smets  
European Central Bank

Kazuo Ueda  
The University of Tokyo

Michael Woodford  
Columbia University

## Associate Editors

Franklin Allen  
The Wharton School of the  
University of Pennsylvania

Michael D. Bordo  
Rutgers University

Guy Debelle  
Reserve Bank of Australia

Michael B. Devereux  
University of British Columbia

Douglas W. Diamond  
University of Chicago Graduate  
School of Business

Michael Dotsey  
Federal Reserve Bank of  
Philadelphia

Douglas Gale  
New York University

Jordi Galí  
Centre de Recerca en Economia  
Internacional (CREI)

Marvin Goodfriend  
Carnegie Mellon University

Charles A.E. Goodhart  
London School of Economics

Michael B. Gordy  
Federal Reserve Board

Luigi Guiso  
Ente Luigi Einauldi

Andrew G. Haldane  
Bank of England

Takatoshi Ito  
University of Tokyo

Philip Lane  
Trinity College Dublin

Andrew T. Levin  
Federal Reserve Board

Francesco Lippi  
University of Sassari

Carmen M. Reinhart  
University of Maryland

Rafael Repullo  
Centro de Estudios Monetarios  
y Financieros (CEMFI)

Eli M. Remolona  
Bank for International  
Settlements

Hélène Rey  
Princeton University

Andrew K. Rose  
University of California,  
Berkeley

Klaus Schmidt-Hebbel  
Central Bank of Chile

Lars E.O. Svensson  
Princeton University

Jürgen von Hagen  
University of Bonn

Tsutomu Watanabe  
Hitotsubashi University