Box 4
Publication of TARGET balances

The ECB will, as of this month, publish data on the individual TARGET balances of the euro area national central banks (NCBs) on a monthly basis.[1] These data will be included in the ECB's statistical data warehouse (SDW) under the framework of the monetary financial institution balance sheet statistics.[2] The publication of individual TARGET balances is part of the ECB's commitment to transparency. This Box briefly recalls what TARGET balances are and the factors behind their evolution.[3]

TARGET balances are the net claims and liabilities of the euro area NCBs vis-à-vis the ECB which arise through cross-border payments settled in central bank money of the respective national banking sectors or the NCBs themselves and are executed via the common euro area payment platform known as TARGET.[4] When a bank makes a payment to another bank via TARGET, the current account of the payer's bank at its NCB is debited and the current account of the recipient bank at its NCB is credited. If both banks hold their current accounts at the same NCB there is no net impact on the aggregate account of banks at the NCB and there are no implications for TARGET balances. However, in the case of cross-border transactions, the NCB of the paying bank sees a reduction in that bank's account at the NCB, and the NCB of the recipient bank sees an increase in the recipient bank's account. Such positions are balanced by a TARGET liability for the first NCB and a TARGET claim for the second NCB. TARGET liabilities and claims also result from cross-border transactions by NCBs themselves, such as the purchase or sale of securities held for investment purposes. At the end of each day, such intra-Eurosystem claims and liabilities are aggregated and netted out throughout the Eurosystem. This leaves each NCB with a single net bilateral position vis-à-vis the ECB, in the form of a positive or negative TARGET balance. By design, all the TARGET balances (including the ECB's balance) add up to zero.[5]

These TARGET balances constitute a normal feature of the decentralised implementation of monetary policy in the euro area. They reflect cross-border

1 TARGET stands for Trans-European Automated Real-time Gross Settlement Express Transfer System. The current system is called TARGET2. It fully replaced TARGET in May 2008, but for convenience both TARGET and TARGET2 are referred to in this box as "TARGET".

2 Data are published on the first working day of every month, with a one month time lag. For more details, see the ECB's website under "Statistics > Monetary and financial statistics > TARGET balances of participating NCBs".

3 For more details, see the article entitled "TARGET balances and monetary policy operations" in the *Monthly Bulletin*, Issue 5, ECB, May 2013.

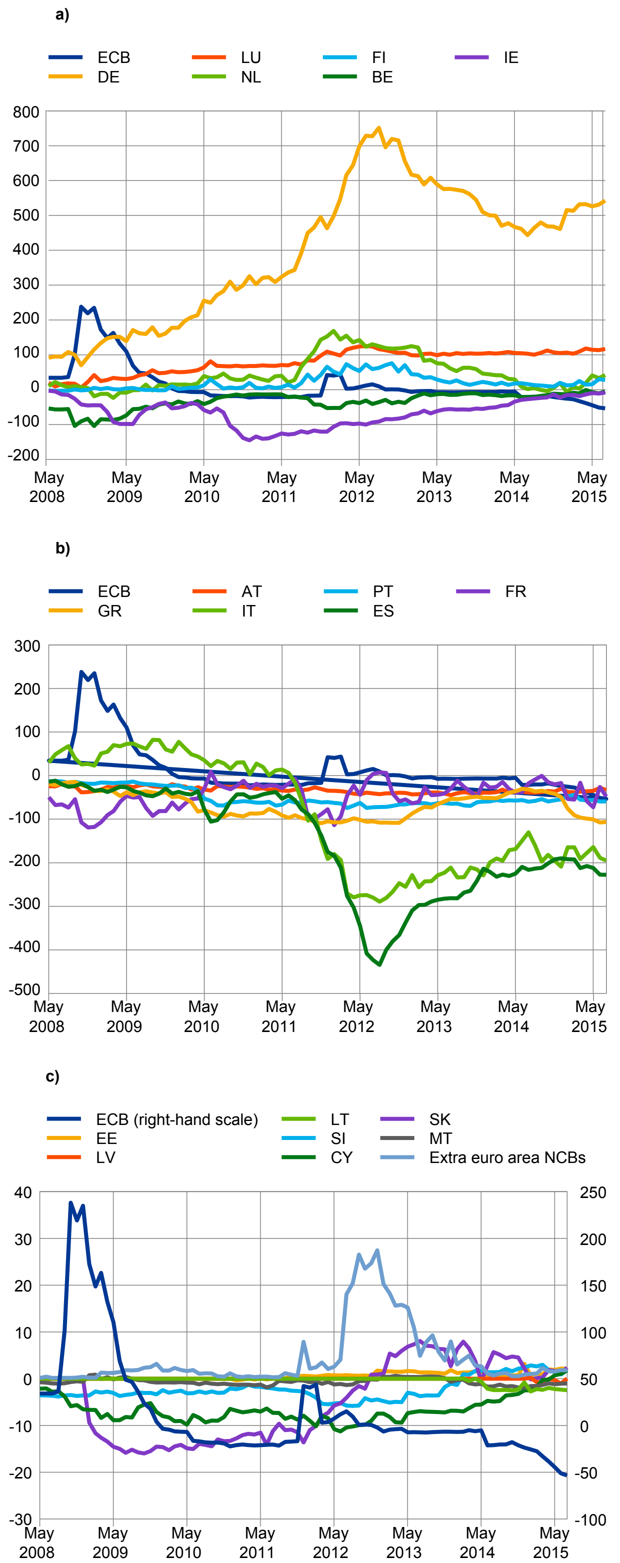
4 A few non-euro area NCBs in the European Union have joined TARGET on a voluntary basis. This article focuses on the euro area countries.

5 The ECB's TARGET balance vis-a-vis the NCBs as depicted in the chart reflects the net result of claims and liabilities stemming from activities carried out directly by the ECB, for instance in the context of the US dollar-euro liquidity swap arrangements.

Chart

TARGET balances

(EUR billions)



Source: ECB.

Notes: “Extra euro area NCBs” represents the claims of those non-euro area EU NCBs that participate in TARGET on a voluntary basis. The NCBs included in this group change over time. As of January 2015, it refers to Bulgaria, Denmark, Poland and Romania.

financial flows within the euro area, which arise from cross-border financial transactions largely initiated by private entities such as credit institutions, corporates or individuals and the resultant cross-border distribution of central bank liquidity. Individual TARGET claims and liabilities of the NCBs vis-à-vis the ECB and of the ECB vis-à-vis the NCBs have therefore existed since the start of Economic and Monetary Union. In fact, the sum of all claims on the balance sheets of euro area NCBs stood at around EUR100 billion prior to mid-2007.

The emergence of large TARGET balances during the crisis broadly reflects the distribution of non-cash central bank liquidity within the Eurosystem. The Eurosystem implements its monetary policy in a decentralised manner, whereby the aggregate Eurosystem liquidity provision via its NCBs corresponds to the aggregate liquidity needs of the euro area banking sector. Liquidity can be redistributed across banking sectors through the euro area interbank market. During the crisis, the liquidity needs of euro area banks increased significantly, with substantial dispersion across countries. At the same time, interbank markets dried up, which prevented the distribution of liquidity via private markets. From the start of the crisis, the Eurosystem accommodated the euro area banking sector’s liquidity needs, providing ample extra liquidity through its refinancing operations. As of October 2008, the Eurosystem has fully satisfied banks’ demand for central bank liquidity in fixed-rate full-allotment tenders subject to the availability of eligible collateral.

The significant increase in the recourse to central bank funding during the crisis, and its uneven distribution across countries, were associated with a corresponding rise in TARGET claims and liabilities. These increased until the end of 2012 (see chart) as a result of banks in some countries facing net payment outflows in conjunction with reduced access to short-term funding markets while banks in other countries benefited from large financial inflows. Subsequently, as market financing conditions gradually improved and banks’ use of Eurosystem refinancing operations declined, TARGET balances generally decreased in absolute terms. They widened again somewhat in late 2014. This in part reflected the relatively higher participation of banks in some countries with TARGET liabilities in the Targeted Longer-Term Refinancing Operations (TLTROs) launched in June 2014, as these operations tended to be more attractive for such counterparties. The expanded asset purchase programme (APP) that started in March 2015 may affect TARGET balances when the buying and selling parties are operating in different jurisdictions, which might explain more recent developments.

Interpreting TARGET balances within an integrated financial system like the euro area requires caution. For instance, these balances also reflect money transfers within large, cross-border banking groups where the central bank money needed by the group is procured centrally at one NCB and then redistributed among group members via TARGET. These balances also reflect payment flows caused by remote participants.[6] Other factors that highlight the need for caution include differing preferences between euro area countries regarding holding banknotes and access to the Eurosystem monetary policy instruments of banks outside the European Economic Area via subsidiaries in a country connected to TARGET.[7] In addition, cross-country purchases of securities in the context of the APP may affect TARGET balances but do not indicate financial stress. Thus, TARGET balances do not, and are not meant to, provide a complete picture of the net financial flows between countries.

6 An institution established in a country in the European Economic Area but which is not participating in TARGET (e.g. a bank located in the United Kingdom) may open an account at another NCB of its choice participating in TARGET.

7 More information on this is provided in the box entitled “TARGET2 balances of national central banks in the euro area”, *Monthly Bulletin*, Issue 10, ECB, October 2011.