



**EUROPEAN CENTRAL BANK**  
EUROSYSTEM

**ECB-PUBLIC**  
*COURTESY TRANSLATION*

Mario DRAGHI  
President

Mr Joachim Starbatty  
Ms Ulrike Trebesius  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 12 September 2018  
L/MD/18/309

**Re: Your letter (QZ-060)**

Honourable Members of the European Parliament, dear Mr Starbatty, dear Ms Trebesius,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 11 July 2018.

TARGET2 is the financial market infrastructure through which the Eurosystem settles euro-denominated payments in real time using central bank money. The payments settled relate to interbank and customer payments, the operations of other settlement systems, and also monetary policy operations.

TARGET2 is integral to Monetary Union as it ensures that banks' reserves held at national central banks (NCBs) can flow freely across euro area Member States.<sup>1</sup> By facilitating the cross-border flow of liquidity between banks, TARGET2 substantially reduces systemic risk and plays a key role in ensuring the smooth conduct of monetary policy, the correct functioning of financial markets, and ultimately banking and financial stability in the euro area.

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<sup>1</sup> For further details, see Eisenschmidt et al. (2017), "The Eurosystem's asset purchase programme and TARGET balances", *Occasional Paper Series*, No 196/2017, ECB, available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op196.en.pdf>.

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TARGET2 balances are intra-Eurosystem claims and liabilities that arise from net cross-border payments in the form of central bank money. In TARGET2, at the end of each day all bilateral transactions between NCBs are netted and transformed into aggregate TARGET2 claims and liabilities of each NCB against the ECB.<sup>2</sup>

Intra-system balances are an inherent feature of any decentralised monetary union. Limiting their size could restrict the free flow of money across borders and as a result undermine the smooth functioning of Monetary Union. For this reason, neither NCBs nor the ECB have put in place provisions to limit the size of TARGET2 balances, which are, however, constrained by the size and structure of the Eurosystem balance sheet.<sup>3</sup>

Yours sincerely,

[signed]

Mario Draghi

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<sup>2</sup> For further discussion, see "TARGET balances and monetary policy operations", *Monthly Bulletin*, ECB, May 2013, available at: [https://www.ecb.europa.eu/pub/pdf/other/art3\\_mb201305en\\_pp103-114en.pdf](https://www.ecb.europa.eu/pub/pdf/other/art3_mb201305en_pp103-114en.pdf).

<sup>3</sup> Eisenschmidt et al. (2017), op. cit., p. 12, footnote 23.

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