EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Auke Zijlstra
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 7th May 2013

L/MD/13/286

Re: Your letter

Dear Mr Zijlstra,

Thank you for your letter passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, and accompanied by a cover letter dated 11 March 2013.

Regarding your question on TARGET2, I invite you to read our publications on the matter, for example the ECB's "TARGET Annual Report"[1] and Box 4 of the 2011 ECB Annual Report entitled "TARGET2 balances in the Eurosystem in a context of impaired money markets"[2].

As you will see from our publications, transactions in the TARGET2 payment system are essentially initiated by private agents. The system allows commercial banks in Europe to conduct their payment transactions in euro and to settle them in central bank money. It was established by the Eurosystem as one of its tasks, as outlined in Article 3.1 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank "to promote the smooth operation of payment systems" in the euro area.[3] The TARGET2 payment system also allows the settlement of Eurosystem operations.

The global financial crisis imposed funding stress on banks. In the context of the sovereign debt phase of the crisis, banks with market access on the one hand, and those without on the other, were concentrated in

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[1] http://www.ecb.europa.eu/pub/pub/paym/html/index.en.html?skey=TARGET%20Annual%20Report

[2] http://www.ecb.europa.eu/pub/pdf/annrep/ar2011en.pdf

[3] http://www.ecb.europa.eu/ecb/legal/pdf/en_statute_2.pdf

specific countries. This implied imbalanced cross-border payment flows between national banking systems. The ECB's decision to accommodate the liquidity needs of solvent banks by providing liquidity against collateral implied that the national central banks allocating the funds had a TARGET liability and the national central banks re-absorbing these funds had a TARGET claim. Ensuring that solvent banks are not liquidity-constrained in their funding contributes to the effective transmission of monetary policy and, therefore, to maintaining price stability in the euro area as a whole over the medium term.

As TARGET balances are a mere accounting reflection of the imbalanced cross-border payment flows in combination with the ECB's liquidity support measures, there is, of course, no intentional accumulation of such balances.

The claims and liabilities that relate to TARGET2 are regularly published by all Eurosystem central banks as part of their balance sheets. Gross National Product (GNP) is not a particularly good metric for appreciating their orders of magnitude. Given their origins in cross-border payment flows between banks, the total assets of the banking sector in a given country would be a better metric. That being said, the notion of "cross-border" in a financially integrated area is, in itself, blurry, as is the case with transactions within a banking group.

In August 2012, total TARGET claims (and, similarly, liabilities) had reached €1 trillion, before receding thereafter on the back of improving financial market conditions, with cross-border payments again increasingly intermediated through financial markets. TARGET balances reflect these market conditions and the state of confidence. We consider that, by providing funding assurance to banks, our liquidity support measures have been pivotal in stabilising confidence and paving the way for the successive reversal of the accumulated balances.

The possibility for internal positions, such as TARGET balances, to emerge between central banks is at the core of the functioning of Economic Monetary Union (EMU). The best way to contain imbalances in the euro area in a durable manner is to restore sound fiscal, financial and economic policies and, particularly in certain countries, to regain competitiveness. A strengthened policy framework and governance framework in EMU will contribute to re-establishing trust within the private sector, normalising the flows of investors' savings across euro area countries and, as a consequence, will bring the cross-border interbank market back to conditions that are compatible with a steady decline in TARGET balances.

As for your question regarding what would happen should a Member State decide to withdraw from the European Union, the ECB is not party to such agreements. Agreements made under Article 50 of the Treaty on European Union follow, and cannot precede, any decision on a withdrawal.[4] They are concluded on behalf of the European Union by the European Council, after obtaining the consent of the European Parliament.

Yours sincerely,

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[4] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0013:0045:EN:PDF

[signed]

Mario Draghi