

Box I

The introduction of the TARGET system

The TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system became operational at 7 a.m. on 4 January 1999. On average, TARGET as a whole has processed payments worth around 1,000 billion every day, an amount that is comparable with the Fedwire system in the United States. This represents a substantial increase in the value of payments processed in the real-time gross settlement (RTGS) mode in EU countries (which was around 650 billion on average per day in 1998). Approximately 60% of these payments were processed within local RTGS systems, while around 40% were processed using the Interlinking mechanism established between EU NCBS.

The large payment flows have enabled the primary objectives of TARGET to be fulfilled swiftly and effectively; these are the following: to serve the needs of both the Eurosystem's monetary policy and the money market in euro, to provide a safe and reliable mechanism for the settlement of cross-border payments and to increase the efficiency of intra-EU cross-border payments.

Overall, the technical performance of TARGET throughout the first month was satisfactory and, with the exception of a major breakdown in the hardware of one national Interlinking component on 29 January 1999, the system has proven to be reliable from a technical point of view. In a few financial centres some difficulty was experienced during the first week in redistributing liquidity at the end of the day. The main reasons for this were related to local credit institutions, many of which had some initial difficulties in adapting to the new technical and business environment. There had already been a substantial reduction in these difficulties by the second week.

To assist banks in adapting to new treasury management practices and to the TARGET environment, the ECB decided on 11 January 1999 to provide an "Extended Service Window" – extending the opening hours of TARGET by delaying the closing time by one hour from 6 p.m. to 7 p.m. between 11 and 29 January 1999. The arrangement met the needs of most banks. The ECB also decided to levy a special fee of 15 per payment made during the Extended Service Window in order to avoid any abuse of this arrangement. Less than 1% of the total number of payments (4-7% in value terms) were processed between 6 p.m. and 7 p.m., and the end-of-day matching procedures were executed more smoothly than at the beginning of January.

The number of cross-border payments processed grew steadily from 5,000 on 4 January 1999 to around 28,000 at the end of January 1999. The value of the cross-border payments processed increased at a slower pace: it stood at 250 billion on 4 January and increased to 400 billion on 7 January 1999, before stabilising at a daily value of between 350 billion and 400 billion.

As expected, most transactions were interbank payments (85-90% in terms of volume and 98-99% in terms of value). At the beginning of the month the value of payments sent during the last working hour was very high (26% of the total value of payments on 8 January 1999). However, by the end of the month the intraday pattern was more even, with a modest peak in the morning, a smaller one mid-afternoon and less than 15% of the value of payments being processed during the last hour of operation. The sharp decrease in the payment rejection rate (from 11% on 4 January 1999 to around 1% at the end of the month) combined with a lower concentration of payments after 5 p.m. should facilitate the return to normal operating hours as from 1 February 1999.