

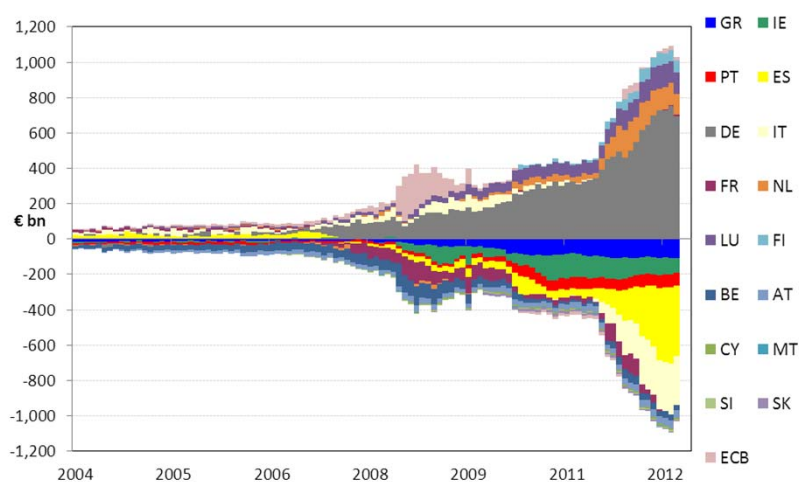
“Target2 imbalances” Discussion

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Views expressed are not necessarily those of the ECB.

The “trumpet” of Eurosystem Target2 balances



Source: Cour-Thimann (mimeo).

Note: ECB and NCBs, IMF's International Finance Statistics. Last observation: end-September 2012. Balances are vis-à-vis the ECB and add up to 0.

What are Target2 balances?

Fundamentally, Target2 balances derive from the need to ensure that “ $1\text{€} = 1\text{€}$ ” throughout the currency area.

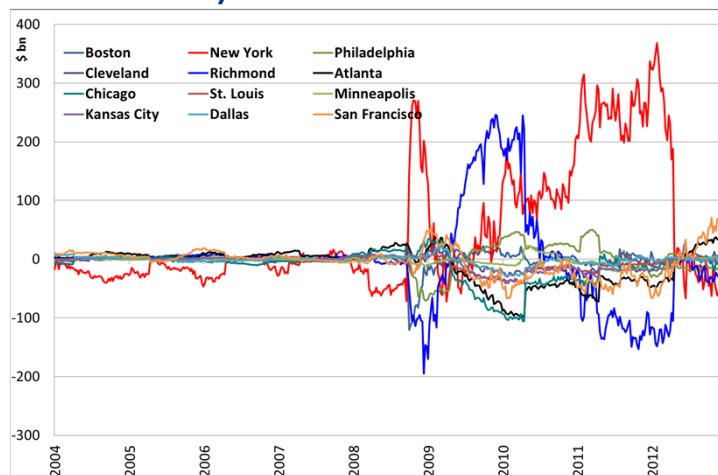
A system like Target2 has to exist in any currency area.

Target2 balances can be seen along three dimensions:

- **Funding stress** for countries' banking system
- **Monetary policy** response to the crisis
- **Balance of payments** imbalances

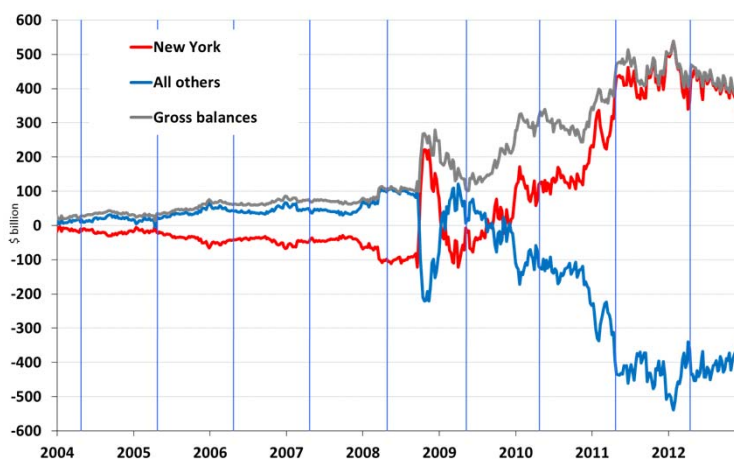
Cross-system balances not specific to the Eurosystem

US Federal Reserve system: Interdistrict Settlement Accounts



Source: Archival Federal Reserve Economic Data
Note: Last observation: 12 December 2012.

US Fed: balances assuming no settlement



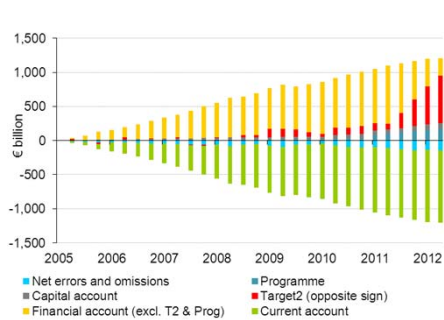
Source: Archival Federal Reserve Economic Data, own calculations in Cour-Thimann (mimeo).
Note: Last observation: 12 December 2012.

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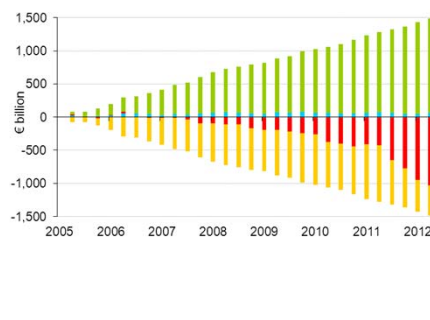
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Target2 balances and balance of payment imbalances

'Deficit' countries



'Surplus' countries



Source: Cour-Thimann (mimeo).

Note: Deficit countries include Greece, Ireland, Portugal, Spain and Italy. Surplus countries include Germany, the Netherlands, Finland and Luxembourg.
Last observation: 2012 Q2.

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Two remarks on the paper by Aaron Tornell

Monetary policy

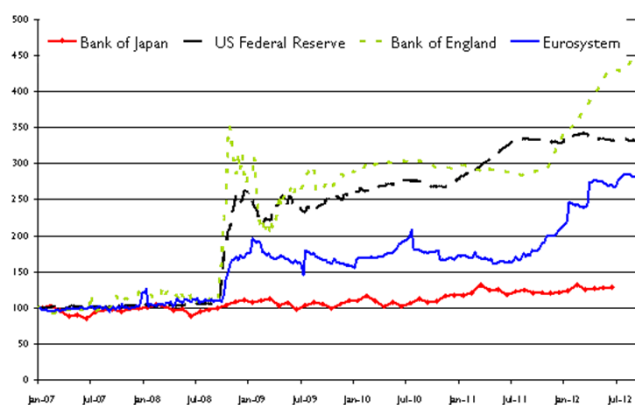
- **NCBs implement decisions that are taken centrally**
- **Increase in liquidity provision is not ECB-specific in the crisis**

Target2

- **Recall: a system like Target2 has to exist in any currency area**
- **Balances follow from ensuring '1€=1€' throughout euro area**

Increase in central bank liquidity is not ECB specific

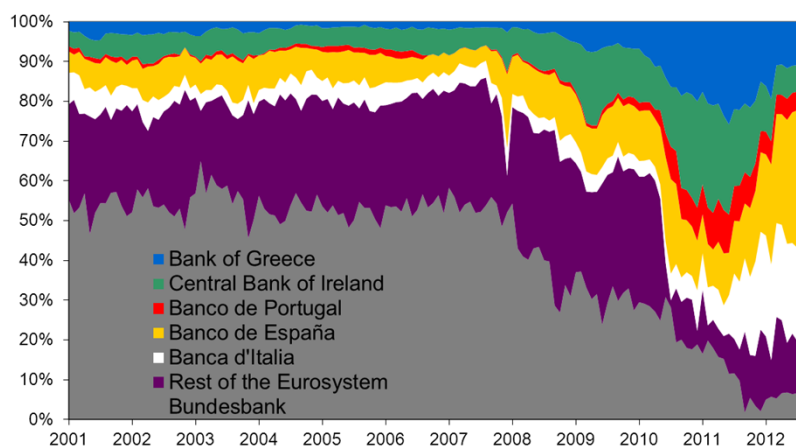
Balance sheet sizes of selected central banks (value of total assets with reference to January 2007)



Source: Cour-Thimann and Winkler (forthcoming).
Data from ECB, US Federal Reserve, Bank of England, Bank of Japan.

Liquidity provision in monetary policy operations

Shares of National Central Banks



Source: Bindseil, Cour-Thimann and König (2012).

Note: Latest observation: end-September 2012.

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Some references at the ECB

- **Bindseil, U., Cour-Thimann, P. and P. König (2012), "Target2 and Cross-border Interbank Payments during the Financial Crisis", CESifo Forum 13 (Special Issue January 2012), 83-92**
- **Bindseil, U. and P. König (2011), "The economics of Target2 balances", SFB 649 Working Paper 35, Humboldt University Berlin**
- **Cour-Thimann, "Target balances and the crisis in the euro area", mimeo**
- **Cour-Thimann, P. and B. Winkler, "The ECB's non-standard monetary policy measures: the role of institutional factors and financial structure, Oxford Review of Economic Policy, forthcoming**
- **European Central Bank (2011), "Target2 balances of national central banks in the euro area", Monthly Bulletin, October**
- **European Central Bank (2012), Annual Report 2011, "Target2 balances in the Eurosystem in a context of impaired money markets"**

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