The increase in Germany's TARGET2 claims

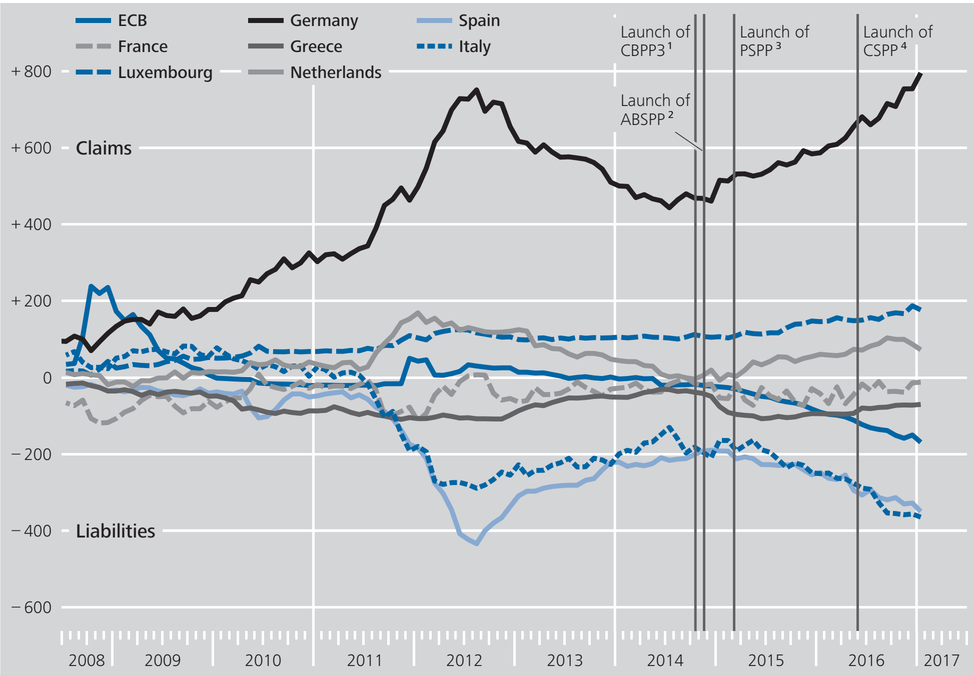
The Bundesbank's TARGET2 claims went up by €170 billion in 2016 to €754½ billion, having already risen by €123½ billion in the previous year.[1] These changes were directly reflected in the German balance of payments as capital exports. This increase also continued into the new year. As at 28 February 2017, Germany's TARGET2 claims amounted to €814½ billion and were thus significantly higher than the level reached during the peak of the European sovereign debt crisis in the summer of 2012 (see the chart below).[2]

The main reason for the strong growth in Germany's TARGET2 balances over the past two years was the implementation of the expanded asset purchase programme (APP). This was due to the fact that a significant part of the asset purchases by the Eurosystem are conducted with credit institutions located outside the euro area. This is especially true of asset purchases from credit institutions operating in the City of London, as international institutions often hold a TARGET2 account with the Bundesbank either directly or indirectly via their subsidiaries domiciled in Germany. If, for example, other Eurosystem central banks purchase securities from investors domiciled outside the euro area and the seller receives a credit entry on a TARGET2 account held with the Bundesbank, this, in itself, would lead to an increase in Germany's TARGET2 claims.[3] If this credit entry is made to an account that the seller holds with a bank domiciled in Germany, the deposits of non-resident investors held with German credit institutions also increase in the other investment

1 The sum total of TARGET2 claims/TARGET2 liabilities in the Eurosystem also rose during the reporting year by €245½ billion to €1,058½ billion.
2 At the same time, the Bundesbank's liabilities arising from the allocation of euro banknotes within the Eurosystem also rose. As at 28 February 2017, these liabilities totalled €330 billion.
3 In these cross-border transactions, any changes to the TARGET2 claims in the Eurosystem as a whole hinge on the existing TARGET2 positions of the NCBs involved in the transaction. This is explained in greater detail in: Deutsche Bundesbank, The impact of Eurosystem securities purchases on the TARGET2 balances, Monthly Report, March 2016, pp 53-56.

Selected TARGET2 balances in the Eurosystem

€ billion, month-end figures



Source: ECB. **1** Third covered bond purchase programme. **2** Asset-backed securities purchase programme. **3** Public sector purchase programme. **4** Corporate sector purchase programme.
Deutsche Bundesbank

account. Conversely, the Bundesbank's asset purchases conducted via accounts held abroad reduce Germany's TARGET2 balance when viewed in isolation. This effect is, however, lower than the one described above. The ECB plays a quantitatively important role in the increase of the TARGET2 balances, which itself purchases securities under the APP. The settlement of these purchases occurs via accounts held with the national central banks (NCBs).[4] In 2016, the ECB's deficit in the TARGET2 system rose by €68 billion.

The impact of the APP on the TARGET2 balances considered here focuses solely on the direct effects. The cross-border redistribution of the generated liquidity can result in further changes in the TARGET2 balances. It is worth noting, however, that these second-round effects do not cancel out the above-mentioned effects of the APP in a number of countries, including Germany.

TARGET2 balances could then be associated with a risk if a country with TARGET2 liabilities vis-à-vis the ECB leaves the monetary union, and if this claim has to be written off by the ECB. The Bundesbank's TARGET2 claims would not be the relevant benchmark under these circumstances, however. Instead, the key factor here would be the TARGET2 liabilities of the country leaving the monetary union. The losses which could potentially arise from a country not being able to fully fulfil its liabilities vis-à-vis the ECB would be shared among the remaining Eurosystem NCBs in line with their respective capital shares. Central banks with TARGET2 liabilities would therefore be affected in exactly the same way as those with TARGET2 claims on the ECB.

4 The ECB's role in managing accounts in TARGET2 is essentially limited to other pan-European payment systems operated by the private sector (notably EURO1 and CLS) where inpayments and outpayments mutually offset one another, therefore avoiding a build-up of TARGET2 balances at the ECB. The ECB can inter alia maintain accounts for other central banks as well as European and international organisations, but may not do so for credit institutions (ECB Governing Council's decision ECB/2007/7).