

## The impact of Eurosystem securities purchases on the TARGET2 balances

In March 2015, the Eurosystem expanded its existing purchase programmes for asset-backed securities (ABSPP) and covered bonds (CBPP3) that had been up and running since the autumn of 2014 through the addition of a public sector purchase programme (PSPP). The purpose of this new programme is to purchase bonds issued by euro-area central governments as well as by agencies and supranational European institutions.<sup>1</sup> These purchases are made by national central banks (NCBs), in line with their respective stakes in the capital of the ECB, and by the ECB itself. The total purchase volume of the expanded asset purchase programme (EAPP) amounted to roughly €60 billion per month in 2015, with the PSPP thus far accounting for the bulk of acquisitions at around 85% of this total.

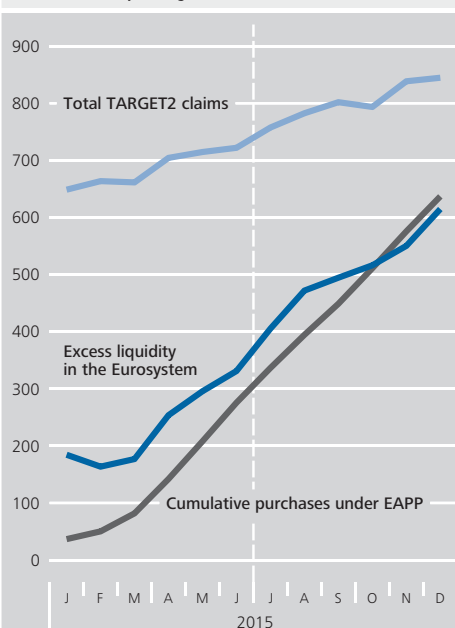
Liquidity provision via the various purchase programmes has elevated the amount of excess liquidity in the Eurosystem (see the adjacent chart). At the same time, the sum total of TARGET2 claims/TARGET2 liabilities in the Eurosystem has risen sharply again (up by €200 billion in the course of 2015). It is therefore reasonable to assume that the recorded increase in the TARGET2 balances might be connected with the EAPP.

The impact of the aforementioned purchase programmes on the TARGET2 balances can be subdivided into direct and indirect ef-

fects. A direct effect is triggered whenever an NCB buys securities from a commercial bank participating in TARGET2 via another NCB and the liquidity amount is credited on a cross-border basis. The direct effect of EAPP transactions on the TARGET2 balance of a given NCB is the product of the difference between that central bank's own purchases from banks outside its borders (ie banks with a TARGET2 account in countries abroad) and sales made by domestic banks (ie banks with a domestic TARGET2 account) to foreign central banks belonging to the Eurosystem. The manner in which the counterparty is linked to TARGET2 can thus determine the direct effects of EAPP on the TARGET2 balance. This is particularly of significance because credit institutions domiciled outside the euro area participate in TARGET2 via a Eurosystem NCB,<sup>2</sup> not

Excess liquidity, cumulative EAPP purchases\* and total TARGET2 claims\*\*

€ billion, monthly averages



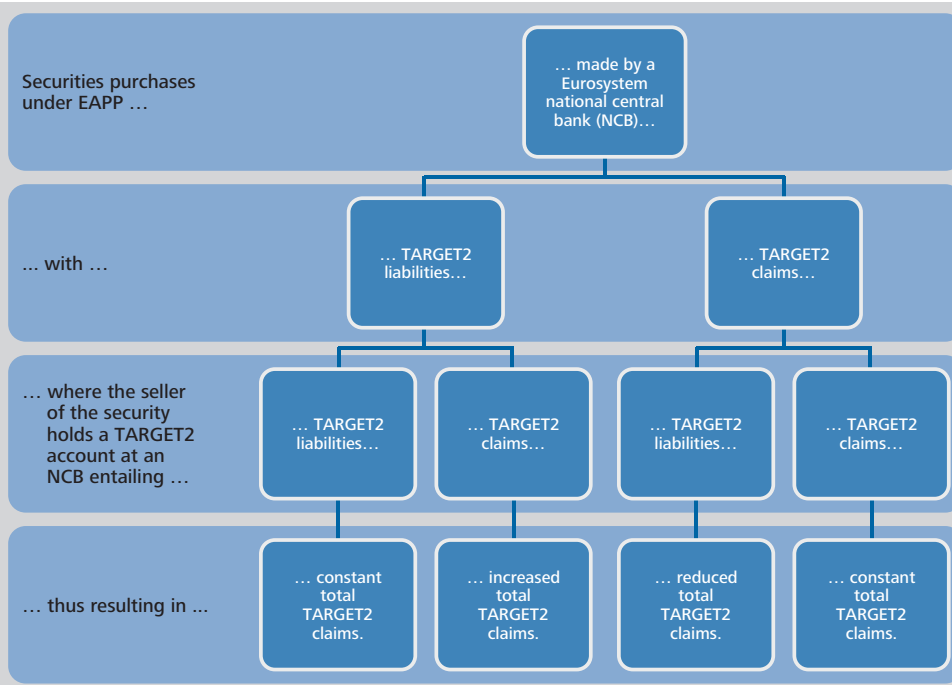
Source: ECB and Bundesbank calculations. \* Expanded asset purchase programme. \*\* Sum total of all positive TARGET2 balances in the Eurosystem.

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<sup>1</sup> In December 2015, the ECB Governing Council decided to extend this to include regional and local government bonds.

<sup>2</sup> Credit institutions domiciled in the European Economic Area (EEA) or operating a branch in this area can maintain their own TARGET2 account with a Eurosystem NCB (an arrangement referred to as direct participation). Institutions not domiciled in the euro area and/or without a branch in this area can participate in TARGET2 via other direct participants (known as addressable BIC holders).

Direct impact of EAPP\* on total TARGET2 claims\*\*



\* Expanded asset purchase programme. \*\* Sum total of all positive Eurosystem TARGET2 balances.  
 Deutsche Bundesbank

least in the case of major international banks operating in the City of London.

Since international commercial banks also participate in TARGET2 via the Bundesbank, inflows to accounts held at the Bundesbank are generated whenever other Eurosystem NCBs purchase securities from these banks. Viewed in isolation, such structural inflows cause the Bundesbank's TARGET2 claims to swell. In the case of cross-border transactions, any changes to total TARGET2 claims in the Eurosystem hinge on the existing TARGET2 positions of the NCBs involved in the transaction (see the chart above).

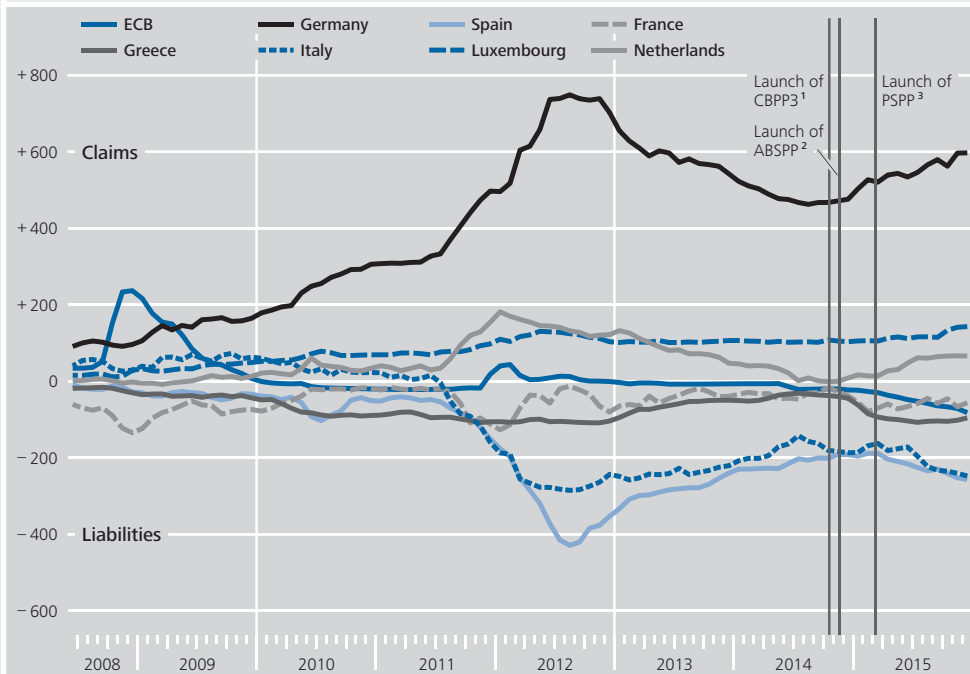
One EAPP-induced indirect effect on the TARGET2 balances arises when the additional liquidity gained from that programme is redistributed across borders in a second-round effect. This occurs on a frequent basis, also through intra-group transactions

on the part of international banks. Needless to say, a raft of other (cross-border) dealings likewise affect the TARGET2 balances. While monthly purchases in 2015 stood at roughly €60 billion, TARGET2 turnover came to €1.9 trillion per day. It is for this reason that TARGET2 balances demonstrate a perceptibly higher degree of volatility compared with the steady (cumulative) increase in purchases under EAPP (see chart on page 53).

The path followed by the TARGET2 balances of individual central banks is heterogeneous (see the the chart on page 55). Looking at the ECB, the launch of the EAPP has meant that TARGET2 liabilities are created during settlement. This stems from the fact that the ECB purchases securities for its own account and yet credit institutions do

### Selected TARGET2 balances in the Eurosystem

€ billion, monthly averages



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

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not hold accounts with the ECB.<sup>3</sup> The ECB counterparties' accounts to which the liquidity is credited are maintained by NCBs. Hence, each purchase of a security by the ECB automatically results in a "cross-border" transaction, thus increasing the ECB's TARGET2 liabilities (see the chart above).<sup>4</sup>

In 2015, there was an upturn in TARGET2 liabilities, especially in Spain and Italy, whereas in Germany, the Netherlands and Luxembourg there was a rise in TARGET2 claims. Overall, from a long-term perspective, the phase of decreasing TARGET2 claims/liabilities that persisted up to around the beginning of 2015 has since been replaced by a shift back towards rising TARGET2 claims/liabilities (see the chart above). However, aside from the influence of the EAPP described above, the increase in the first six months of 2015 was also attributable to the escalation of the financial

stress situation in Greece at that time, which was then defused in the summer of 2015 with the introduction of capital controls and agreement on an additional assistance package.

<sup>3</sup> 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).

<sup>4</sup> The extent to which this induces an expansion of the sum total TARGET2 claims/TARGET2 liabilities depends on whether the NCB used for settling the transaction itself has a negative or a positive TARGET2 balance (see the chart on page 54).