Perspectives on Imbalances within the TARGET2 International Payment System

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This paper looks at the causes and emergence of imbalances within the TARGET2 payment system. TARGET2 is one of the basic foundations necessary for the currency union within Europe to work, and it secures payments between participating financial institutions. The system is overseen by the European Central Bank, and its owner and payment system operator is Eurosystem. It is the largest European platform for processing large-value payments and is used to process payments in Euro in real time by both central and commercial banks.

This paper aims to describe and analyse imbalances within the TARGET2 system. It first discusses the system’s basic mechanism, while the subsequent chapter summarises the theoretical framework in regard to the paper’s objective and analyses different schools of thought about the issue looked at. Subsequent sections detail possible causes behind the emergence of imbalances within the TARGET2 system, solutions to secure balance and the consequences arising from both states looked at – balanced and imbalanced. The paper is a type of review which looks generally at the TARGET2 payment system and analyses the positions of different schools of economic thought dealing with the issue.

In the study for this paper, it is shown through the TARGET2 payment system in the eurozone that individual problems within the banking sector can be illustrated from various perspectives. In this case, the problem is the economic performance of individual eurozone countries, as often discussed at various levels, and this leads to problems in ensuring balance within currency stability too.

In 2011 (Sinn and Wollmershauereuer, 2011), a paper contributed to discussion of the debt trap in the eurozone within the TARGET2 international settlement system, in which Germany is paying for the eurozone’s southern states. In the Czech Republic, Tomšík and Mandel (2012) added to the debate, with questions on the weight of risk on the counterparty in debts within the TARGET2 system and what consequences leaving the eurozone could cause for one or more member states. Imbalance between the eurozone states is the most criticised aspect of the common currency union. Stiglitz (2016) and Sinn (2016) amongst others discuss this fundamental problem. At the current time, the most common opinions stated suggest there needs to be a major change in the working of the eurozone through creating a fully-fledged EMU with a common fiscal policy, or a separation into two or three compact units. These authors and others stress the role of the current account in forming imbalances and this is undoubtedly justified, however current account deficit is not sufficient a condition to create a TARGET position. Febreiro and Uxó (2013), amongst others, take a different position, suggesting a change in financial flows in the form of divestments and deposit outflow from peripheral countries has contributed to increasing imbalances in the TARGET payment system. The paper gives a detailed analysis of various perspectives and economic approaches within the matter looked at.

Growth in imbalances between the two groups within the eurozone is connected to the economic situation within individual states. The poor payment situation of the countries of the eurozone’s “south” is a result of poor macroeconomic indicators. The European Central Bank is attempting to respond to developments by providing unlimited liquidity. This is resulting in a higher TARGET2 deficit balance within the countries mentioned.

Keywords: Target2, payment system, ECB, eurozone, imbalances