



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC
COURTESY TRANSLATION

Christine LAGARDE
President

Mr Engin Eroglu
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt am Main, 22 September 2023

L/CL/23/182

Re: Your letter (QZ-023)

Honourable Member of the European Parliament, dear Mr Eroglu,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 26 July 2023.

As regards the link between the Eurosystem's asset purchases and TARGET balances, let me first highlight the fact that TARGET balances are intra-Eurosystem claims and liabilities arising from euro-denominated cross-border payments in the form of central bank money that take place via TARGET. When a country's banking sector receives a cross-border inflow of central bank money, its claim increases or its liability decreases; cross-border outflows have the opposite effect. These intra-system balances are an inherent feature of the decentralised implementation of our monetary policy.

During the period of Eurosystem net asset purchases, TARGET balances increased substantially. Under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP), national central banks (NCBs), purchased securities issued by national entities from a wide range of counterparties located across the euro area and beyond. When an NCB purchases securities in a cross-border transaction, it makes a payment in central bank money to the selling counterparty, receiving the security in exchange. In this case, the reserves created through the purchases accrue in a different country than that of the buying

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NCB. This results in a decline in the TARGET balance of the buying NCB and a corresponding increase in the balance of the NCB in the country in which the selling counterparty resides.¹

Many Eurosystem net asset purchases were carried out as cross-border transactions. They included transactions with banks located outside but operating within the euro area via branches or correspondent banks in countries where the financial services industry is concentrated, such as Germany. In these cases, the NCB of the banking sector receiving a net cross-border inflow of central bank money experienced an increase in its TARGET claim or a decrease in its TARGET liability. For instance, the TARGET claim of the Deutsche Bundesbank nearly tripled between 2014 and 2022, standing at €1,269 billion in December 2022.

Net asset purchases under the APP ended in July 2022 and the APP portfolio declined by €15 billion per month on average from March 2023 until the end of June 2023, as not all repayments of maturing securities were reinvested. Since July 2023 the Eurosystem has discontinued all reinvestments under the APP. In contrast to net asset purchases, the maturing of securities issued by entities located in the same country as the NCB holding the bonds does not immediately give rise to cross-border transactions. For instance, the maturing of securities issued by an NCB's domestic government results in payments from the national government to the NCB of that country. As a result, the non-reinvestment of maturing securities under the APP does not directly affect TARGET balances.

Turning to your question of whether the ECB considers it possible that Germany's TARGET balance could even out in the next few years, large TARGET claims and liabilities can persist over an extended period of time. However, with the non-reinvestment of maturing security holdings under the APP, investors are expected to engage in cross-border purchases of securities over time and this could ultimately lead to an adjustment in TARGET balances. However, as TARGET balances are an inherent feature of the Eurosystem's decentralised implementation of monetary policy, the ECB does not aim for or prefer any particular development or outcome with regard to the size of these balances.

Yours sincerely,

[signed]

Christine Lagarde

¹ For more details on the link between asset purchases and TARGET balances, see "TARGET balances and the asset purchase programme", *Economic Bulletin*, Issue 7, ECB, 2016, available at: <https://www.ecb.europa.eu/pub/pdf/ecbu/eb201607.en.pdf>.