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Changing causes of the rocketing TARGET2 accounts imbalances in the Eurosystem and the balance of payments of Germany

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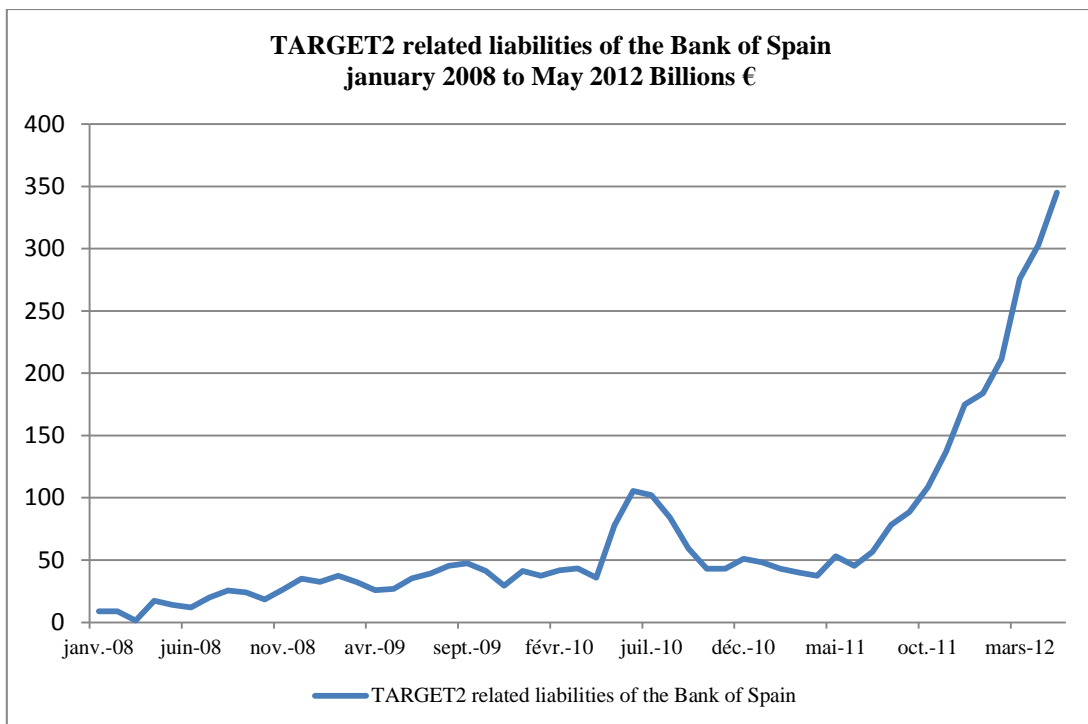
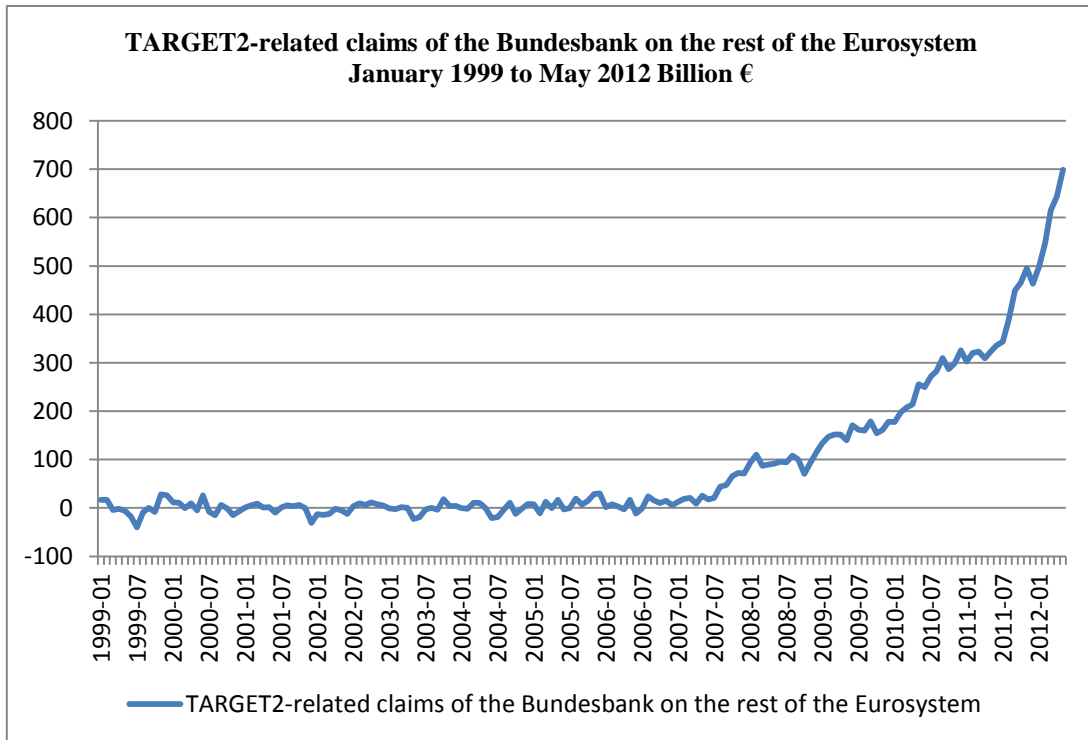
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The whole list of TARGET2 related liabilities of the National Central Banks of the Eurosystem can be estimated for April 2012.

Estimates of the TARGET2 related claims or liabilities of The NCBs of the Eurosystem in April 2012 Billions €

| | Claims | Liabilities | |
|----------------------------|--------|-------------|-------------------------------|
| Bundesbank | 644 | 303 | Banco de España |
| Central Bank of Luxembourg | 120 | 279 | Banca d'Italia |
| Nederlandsche Bank | 136 | 99 | Central Bank of Ireland |
| Bank of Finland | 63 | 98 | Bank of Greece |
| Bank of Estonia | 1 | 69 | Banco do Portugal |
| | | 35 | Oesterreichische Nationalbank |
| | | 35 | National Bank of Belgium |
| | | 26 | Bank of France |
| | | 9 | National Bank of Slovakia |
| | | 8 | Central Bank of Cyprus |
| | | 5 | Bank of Slovenia |
| | | 1 | Central Bank of Malta |
| | | -3 | ECB and errors |
| | 964 | 964 | |

A few central banks have already published their data for May. The TARGET2 related claims of the Bundesbank on the rest of the Eurosystem have reached 698 billion € in May 2012! In counterpart the Target2 related liabilities of the Bank of Spain have reached 345 Billion €, and those of the Bank of Italia have also surged.



The causes of the surge of the TARGET2 claims of the Bundesbank

To explain the surge of the TARGET2-related claims of the Bundesbank on the Eurosystem, the usual narrative tells that there are huge deposit flights out of the euro zone's distressed countries' banks, and that the withdrew funds are being reinvested on deposit accounts in German banks. However, the data of the German balance of payments show that there has not been any significant increase of foreign deposits in German banks since 2008, apart from a slight inflow in 2012.

Inflows and outflows of funds in the balance of payments of Germany, € Millions

| Main inflows of funds | | 2008 | 2009 | 2010 | 2011 | 2012 First quarter |
|-----------------------------|---|--------|--------|--------|--------|-----------------------|
| | Current account | 153633 | 140558 | 150668 | 147653 | 40926 |
| | Increase of the stock of foreign loans to German monetary financial institutions | | | 74023 | | 230482 |
| | Decrease of the stock of loans of German monetary financial institutions to the rest of the world | | 176638 | 138588 | 44248 | |
| | Increase of the stock of foreign loans to the German government | 6235 | | 94043 | 17416 | |
| | Increase of the stock of German bonds and notes held by Foreign investors | 19498 | | 57767 | 48711 | 12655 |
| | Decrease of the stock of loans of the German general government to foreign borrowers | 715 | | | | |
| | Increase of foreign deposits in German banks | | | 2339 | | 19437 |
| Main outflows of funds | | | | | | |
| | German investment in foreign bonds and notes | 28008 | 83438 | 156239 | 22285 | 35539 |
| | Decrease of the stock of foreign loans to German monetary financial institutions | 56624 | 85364 | | 93324 | |
| | Increase of the stock of loans of German monetary financial institutions to the rest of the world | 73616 | | | | 32224 |
| | Increase of Target2 claims of the Deutsche Bundesbank | 44600 | 61373 | 147618 | 137757 | 152281 |
| | Decrease of the stock of foreign loans to the German government | | 5287 | | | 32988 |
| | Increase of bank deposits of German companies and households in the rest of the world | 15418 | 17609 | 44472 | 9259 | 23788 |
| | Decrease of the stock of German bonds and notes held by Foreign investors | | 70113 | | | |
| | German net direct investment abroad | 44134 | 36881 | 47161 | 10047 | 23365 |
| | Increase of the stock of loans of the German general government to foreign borrowers | | 2426 | 53080 | 4136 | 208 |
| | Decrease of foreign deposits in German banks | 2860 | 30543 | | 3509 | |
| Other net outflows of funds | | | | | | |
| | | -85894 | -75838 | 66519 | -22289 | -16330 |

An obvious accounting identity implies that the total inflows of funds in Germany must be equal to the total outflows of funds, which include the increase of the TARGET2-related claims of the Bundesbank on the rest of the Eurosystem. Therefore, during any period of time, an increase of the claims of the Deutsche Bundesbank on the Eurosystem must result from

increases in inflows of funds that are not compensated by corresponding increases in outflows of funds, or by decreases in outflows of funds that are not compensated by corresponding decreases in inflows of funds.

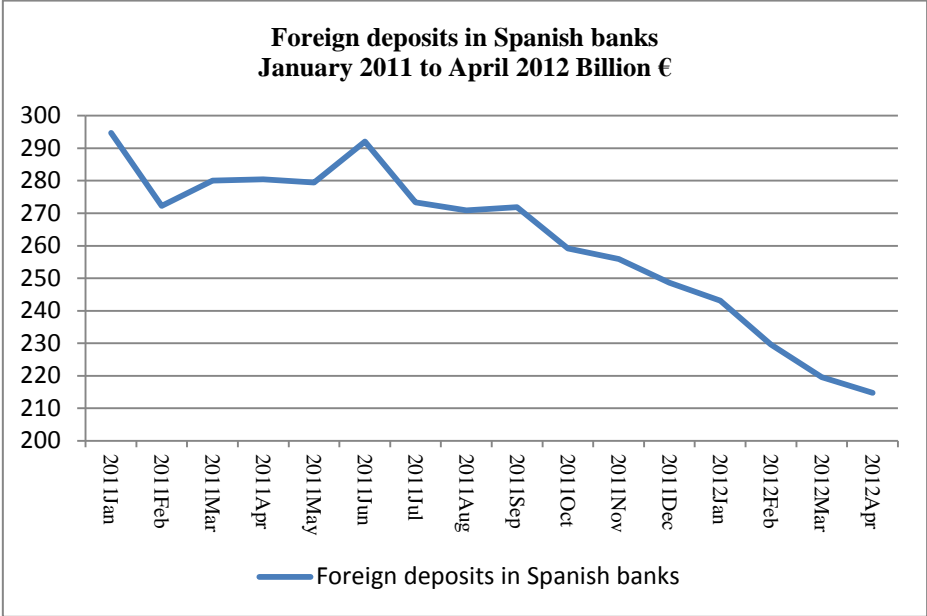
The German balance of payments therefore shows that the main driving factors of the surge of The TARGET2-related claims of the Bundesbank on the rest of the Eurosystem have been:

- A decrease of the stock of loans of German monetary financial institutions to the rest of the world in 2009, 2010 and 2011: German banks obviously decided not to renew a big part of the loans that had been awarded to foreign borrowers and that arrived at maturity, and these banks did not grant many new loans to foreign borrowers
- An increase of the stock of foreign loans to German monetary financial institutions in 2012, showing that the funds corresponding to the huge deposit flights out of distressed countries have been partly reinvested in German banks, but in the form of loans rather than deposits

Among the other driving factors, there has been a sharp decrease of the German investment in foreign bonds and notes in 2011, an increase of the stock of German bonds and notes held by Foreign investors in 2010 and 2011.

Deposit flights out of the banks of Spain

The following graphs show that domestic and foreign deposit withdrawals have been recently accelerating in Spain



**Domestic deposits in Spanish banks
by other resident sectors than banks and general
government Billions €**

