

TARGET - NEW PAYMENT SYSTEM FOR THE EURO AREA

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Abstract

At EU level, the funds transfer systems have undergone significant changes starting with the introduction of euro. The launch of the euro, the emergence of new technologies, introduction of financial innovations and the globalization have led to reorganization of funds transfer systems' infrastructure. The paper aims to offer an analysis of actual payment system for Euro area, a trans-European funds transfer system with gross settlement in real-time for payments in euro TARGET- to increase economical and operational efficiency of payments and also to reduce the risks in the electronic funds transfer system by creating efficient and secure payment systems.

Keywords: TARGET, payment system, EBC, Euro-system, euro

Clasificare JE: M40, M41

1. Introduction

The appearance of new technologies and the globalization have led to modern, efficient and secure funds transfer systems. The importance of a performant funds transfer system is given by the role it plays in the economy ensuring the flow of payments for goods and services, and their well-functioning is also important for successful implementation of monetary policy of a central bank and for ensuring and maintaining stability and confidence of the currency, financial system and economy. At E.U. level operate high value payment systems, which represent the main key of market infrastructure in the euro area and have an important role in ensuring the stability and efficiency of the financial domain and the economy as a whole, and also low value payment systems through which was followed the harmonization, integration and consolidation of the low value payments in the euro currency.

The most important funds transfer system from E.U. was introduced by the Euro-system in January 1999 and it is TARGET- the trans-European funds transfer system with gross settlement in real-time for payments in euro, provided by the Euro-system (European Central Bank and the Central Banks of European Union which have adopted the euro). TARGET was replaced in 2007 with the new generation system that is TARGET 2, which works on a single technical platform and processes over 90% of the entered payments at E.U. level.

2. TARGET 1 – A payment mechanism for Euro-zone

Text, In order to successfully implement the single monetary policy in European Union and to facilitate the rapid and sure movement of the euro currency between member states, the Euro-system has introduced in January 1999a new high value payment system. TARGET is a system with gross settlement in real-time (RTGS) for payments in euro. The TARGET system had a technical decentralized structure and was born by connecting 17 RTGS national systems of E.U. countries and the EBC payment mechanism, with the objective of a single payment system necessary to process all payments for euro area.

In the first ten years of functioning, the TARGET system had an increasing evolution both of processed transactions number (Chart 1) and regarding the value of the transactions (see Chart 2).

In the first year of working, the TARGET system processed a total of 42 million transactions worth about 233

billion euro. In the discussed period, the maxim level of processed TARGET transactions was in 2008 with a number of 94 million totaling 675 billion euro (Chart 1).

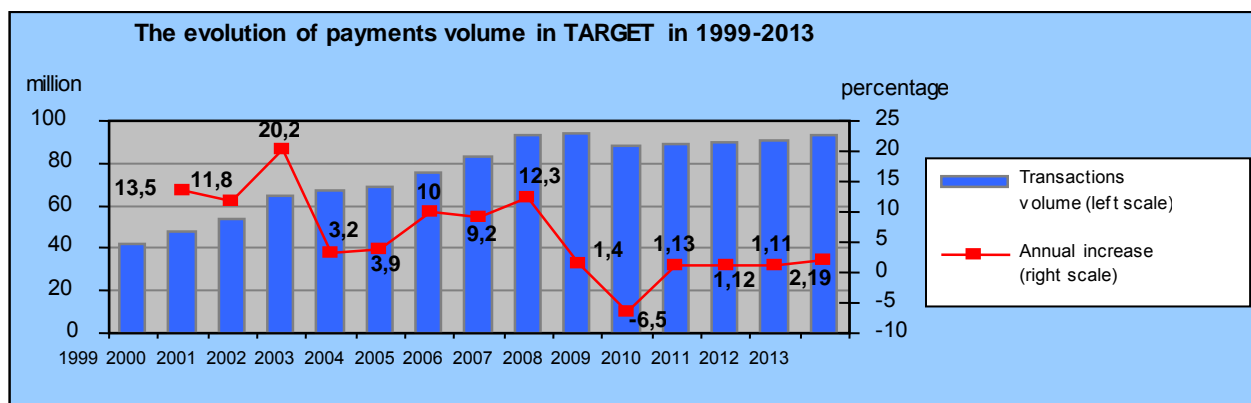


Chart 1 The evolution of TARGET payments volume in the period 1999-2013

Source: Data collected and processed from <http://www.ecb.int/stats/payments/payments/html/index.en.html>

In 2009 took place a decrease with 6.5% of processed transactions, compared with 2008 and with the 19.2% of payments value operated by the TARGET system. The explanation for this decrease can be associated with the financial crisis that led to decreasing of transactions volumes and their value (Chart 2).

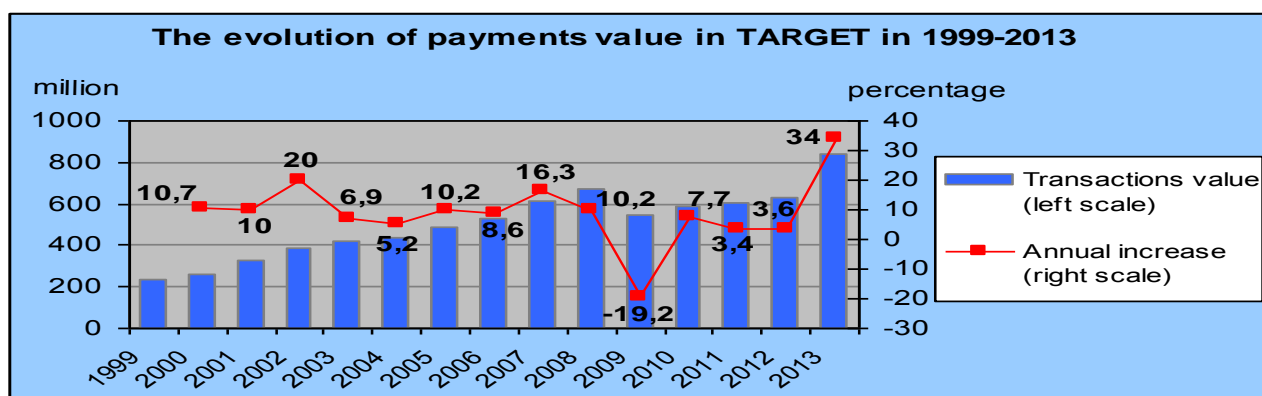


Chart 2 Evolution of payments value in TARGET in the period 1999-2013

Source: Data collected and processed from <http://www.ecb.int/stats/payments/payments/html/index.en.html>

3. The TARGET 2 system

Along its years of operation, the TARGET system has successfully fulfilled its main objectives; however TARGET has also certain disadvantages, caused mainly by its decentralized structure. In order to meet these challenges, the Euro-system has built a new generation system TARGET2, system that in November 2007 successfully replaced the first generation system TARGET.

The main reasons that led to the TARGET 2 were:

- The necessity of some harmonized services that should be provided by a single technical platform;
- The problem of costs recovery;
- Adaptability issue;
- E.U. enlargement and interconnection difficulty of the 27 national systems compared with 15 that were initially;
- The credibility of the Euro-systems under the competitive conditions of the EURO1 system.

The TARGET 2 system - system with gross settlement in real time for payments in euro, provided by the Euro-system – represents the main objective of the financial system in euro. Through this system take place the final settles in euro, both national and cross-border payments, including the payments made through related systems (payment systems of clearing or settlement).

The system TARGET 2 has operated with no problems also in 2012, establishing the leader position, at level of high value payments from euro area with a share of 91% from the total value of entered payments. The TARGET 2 system increased in 2012 by 2.75 % of payments value, reaching 612,936 million euro and a daily average of 2,477

million euro. The payments volume traded have increased by 1.22% compared with 2011, reaching 90 666 129 transactions, while the daily average was 354,185 for transactions (Chart 3).

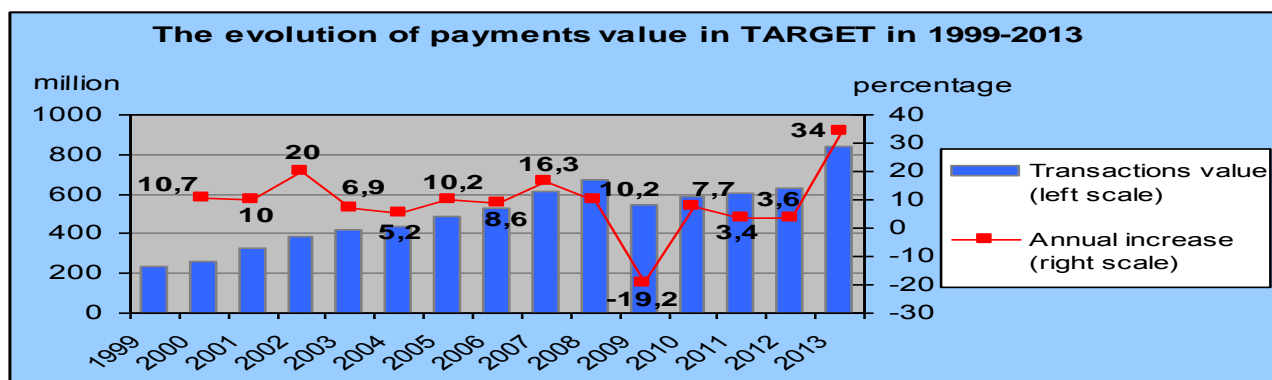


Chart 3 Evolution of payments value in TARGET in the period 1999-2013

Source: Data collected and processed from <http://www.ecb.int/stats/payments/payments/html/index.en.html>

The value of payments in 2012 was 629 billion euro, with a silently increased recorded each year due to a decrease in 2009 because of the effects of financial crisis. The financial crisis caused a decreased by 19.2% of the transactions in 2009 compared with 2008. In 2010 there was a 7.7% increase of transactions compared with 2009, this increasing trend was also maintained also in 2011 reaching 607 billion euro in growth of 3.4% compared with 2010 (Chart 4).

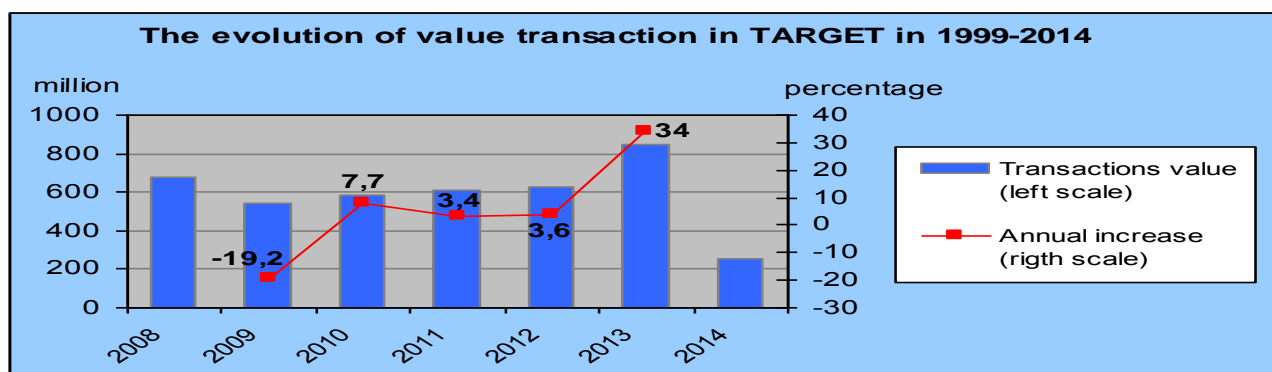


Chart 4 The evolution of value transactions in TARGET in the period 2008 – 2014

Source: Data collected and processed from the Annual Report TARGET 2011 and EBC

The TARGET payments volume system in 2008 presented a maximum value of 94 million transactions, followed by a decrease with 6.5% of the transactions number in 2009 as a consequence of the financial crisis effects. In the following three years the volume of payments in the TARGET system recorded a slightly increase of approx 1.2% so in 2012 there were a number of 90 million transactions (Chart 5).

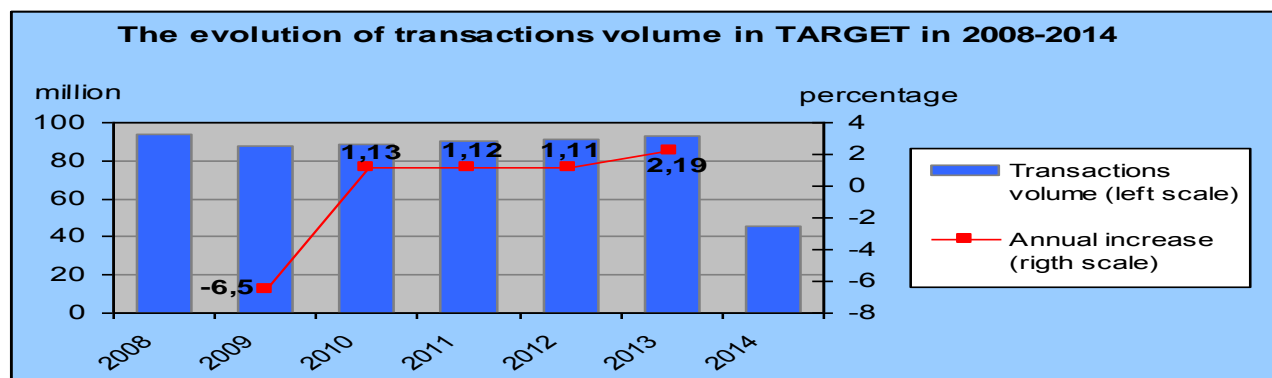


Chart 5 Evolution of TARGET payments in the period 2008 – 2012

Source: Data collected and processed from the Annual Report TARGET 2011 and EBC

Depending on the transactions types made by TARGET 2 system are representative four types of payments, as the payments between the participants, the payments with the central bank, the auxiliary payments and the payments of liquidity transfers.

The four types of transactions in 2012 have been made between the participants, 78% of the total payments, followed by the payments for transactions with central bank (10%), payments for auxiliary settlements were at the level of 9% and the payments for liquidity transfer represent 3% from the total volume of payments made in 2012 (Chart 6).

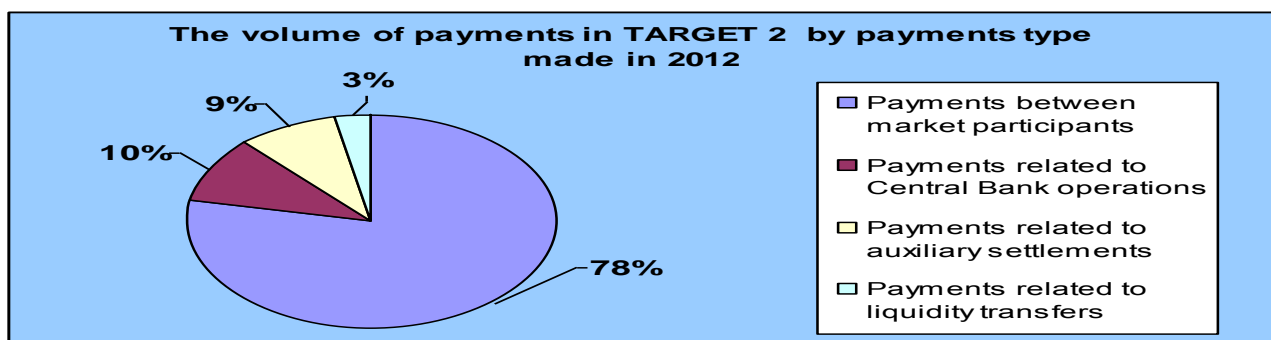


Chart 6 The volume of payments in TARGET 2 by the payments made in 2012
Source: Data collected and processed from the Annual Report TARGET 2011 and EBC

Following the payments made in 2012 in the TARGET 2 system with over 38%, there are payments between the participants, being followed by the liquidity transfer payments with 26%, while 19% of the payments value already done are payments for auxiliary settlements, payments for transactions with the central bank have the lower value of transactions processed by the system (Chart 7).

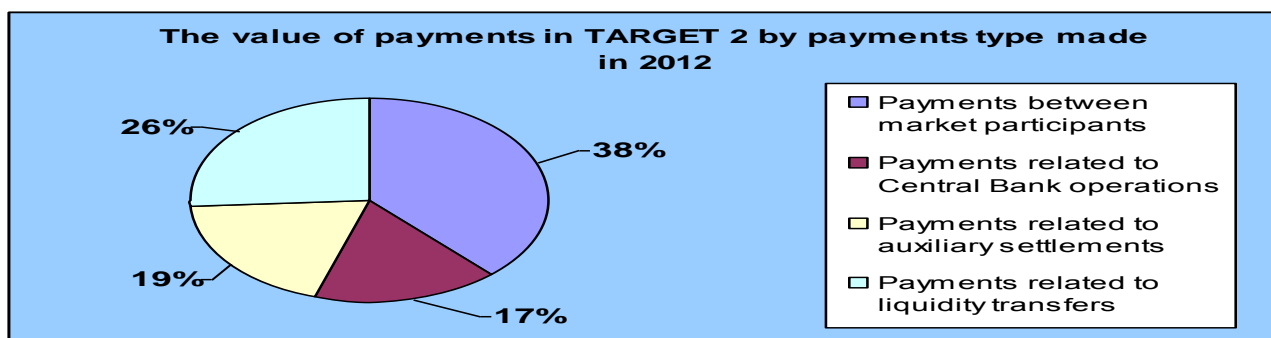


Chart 7 Value of TARGET 2 system by the payments made in 2012
Source: Data collected and processed from the Annual Report TARGET 2011 and EBC

The share traffic of payments between member states (Chart 8) in 2012 was 33% in value terms and 35% in volume terms. Both the value and the volume recorded in 2012 are higher than those reported in 2011, and have reached 31% in value and 33% in volume. The migration to TARGET 2 helped to blur the border between member states and to help the increasing of integration on monetary market from euro area (Table 3).

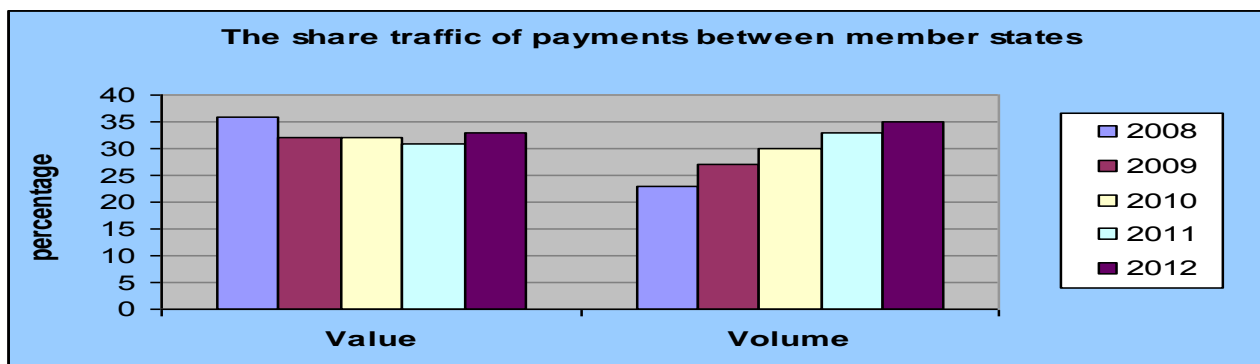


Chart 8 The share traffic of payments between member states
Source: EBC

TARGET 2 works on a single platform through which provides services of settlement for all the participants regardless the country they connect from. In chart 9 is the contribution of member countries at the value of payments in TARGET 2 in 2012 and the same as in the previous two years the activity of the system has been focused on a small number of banking communities.

Five countries: Germany, France, Spain, Netherlands and Italy were the mainly taxpayers of TARGET 2 and together accounted over 90% from the payments value.

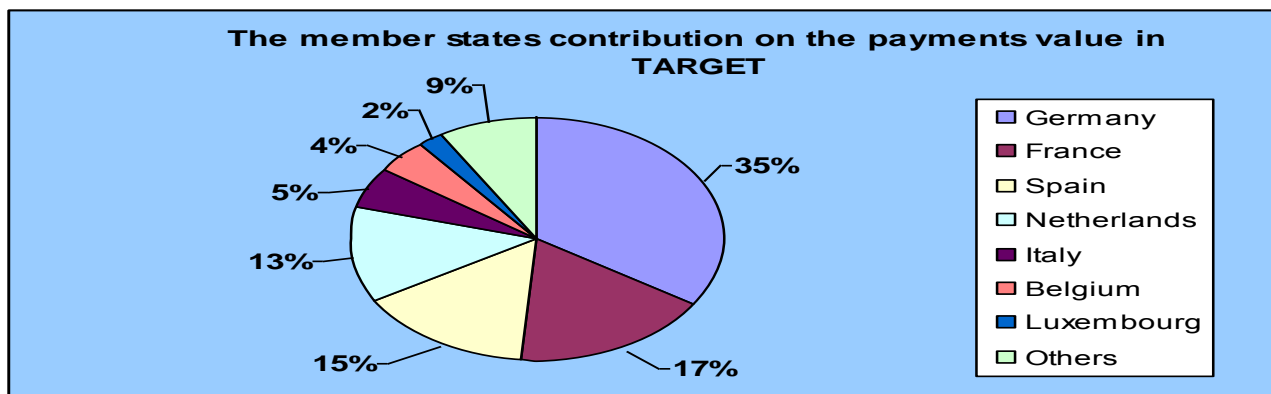


Chart 9 The member states contribution on the payments value in TARGET 2
Source: EBC

The chart 10 presents the contribution of different banking communities at the payments recorded in the TARGET 2 in 2012. Germany is still the country where the volume of payments recorded at TARGET 2 has the highest percentage of almost 49% from the changed volume in the payment system. France, Spain, Italy and Netherlands are countries that with Germany form a concentration of 90% from the total volume of payments made in TARGET 2 in 2012.

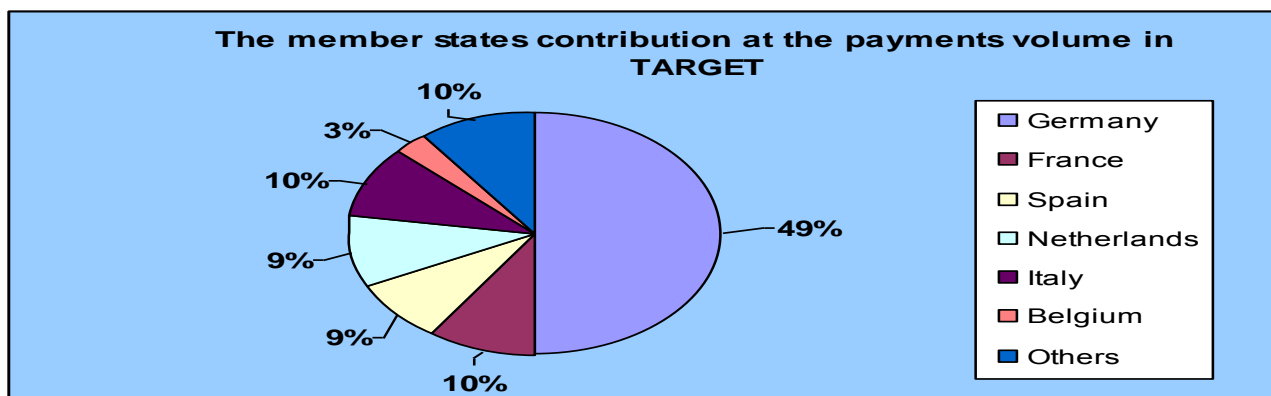


Chart 10 The member states contribution at the payments volume in TARGET
Source: EBC

4. Conclusions

In conclusion it should be mentioned that the funds transfer electronic systems from a modern market economy represents the specialized mechanisms that supplies the implementation of the policy in the economy domain, of fiscal financial markets and even social.

In the first ten years of operation the TARGET system had an increasing evolution both of the processed number of transactions and the value of transactions, in 1999 there was a market share of 70% in value terms and 52% in volume terms, processing a number of 42 million transactions in the amount of approx. 233 billion euro.

The TARGET 2 system increased in 2012 with 2,755 of the payments, reaching 612,936 million euro and a daily average of 2,477 million euro. The payments volume growth by 1.22% compared with 2011 reaching 90 666 129 transactions, while the daily average was 354,185 transactions.

In 2012 as in the previous years, the activity of the TARGET 2 system has been focused on a small number of banking communities. Five countries: Germany, France, Spain, Netherlands and Italy were the mainly taxpayers of TARGET 2 and together accounted over 90% from the payments value.

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