

## explainity explains: Target 2

Have you ever heard the term Target 2? No, we are not talking about the store or a game. Target is short for Trans-European Real-Time Gross Settlement Express Transfer. It was established in 2007 and is used every time Euros are being transferred within the European Union from one country to another. This transaction takes place at the European Central Bank, ECB for short. The amount of daily transactions adds up to 1,9 trillion Euros!

So how does Target 2 work?

This for example is Aada from Finland. She wants to buy shoes from Spain. The Spanish shoemaker sends the package on its way and Aada transfers the money from her Finnish bank account. Simple enough, right? Well, not exactly. First Aada's money is sent from her Finnish bank to the National Bank of Finland. Then it goes to the ECB. At the same time the Spanish shoemaker has an open demand for the money, which the Bank of Spain communicates to the ECB representing him and his Spanish bank.

This is when Target 2 enters the stage: at the exact moment the ECB transfers the money from one National Bank to the other. In the last step, the Bank of Spain sends the money to the shoemaker's bank account.

So, Target 2 standardizes Euro payments within the European Union. A positive side effect is knowing the direction of the money flow. The reason for this is some country's export surplus, which creates high demands towards the ECB, whereas countries who export less are more likely to accumulate "debts". This imbalance within the European Union causes many disputes and makes it hard for the ECB to achieve its main goal: the preservation of economic stability in the EU. This not only requires a standardized payment system like Target 2, but political cooperation too. Preserving the shared currency of the Euro is in every European country's interest. To ensure a stable economy in the future, countries have to collaborate closely in order to find a solution.

So effectively thanks to Target 2 Aada could pay for her shoes and the shoemaker got his money.

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