The TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system is a euro payment system which consists of 15 national real-time gross settlement (RTGS) systems and the European Central Bank payment mechanism (EPM). The RTGS systems and the EPM are interconnected by common procedures, known as the Interlinking system, so as to provide participants across the European Union (EU) with a uniform platform for the processing of euro payments.
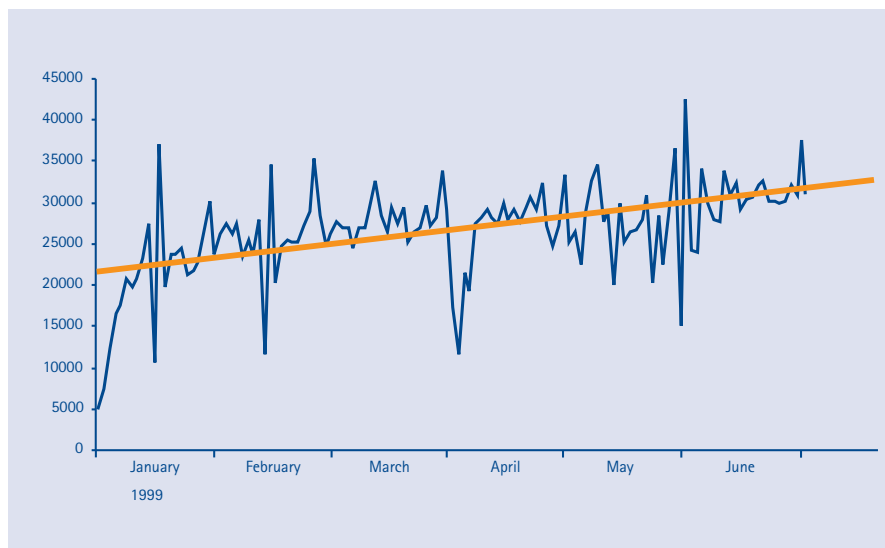
FACTS

TARGET was created to meet three main objectives:

➜ to provide a safe and reliable mechanism for the settlement of cross-border payments in euro on an RTGS basis;

➜ to increase the efficiency of intra-EU cross-border payments; and, most importantly,

➜ to serve the needs of the monetary policy of the European Central Bank and the national central banks of the euro area (the "Eurosystem").
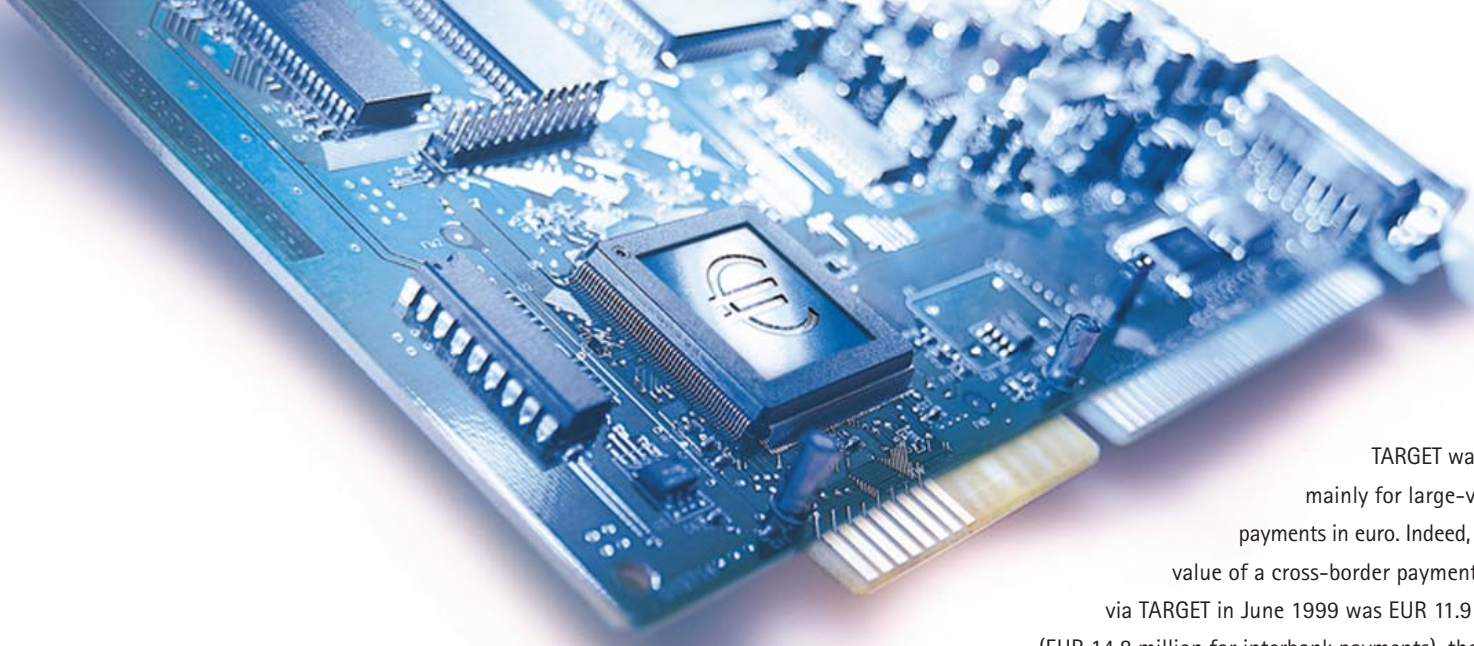
The TARGET system commenced operation on Monday, 4 January 1999. It can be accessed by some 30,000 institutions (mostly credit institutions, including their branches and subsidiaries) throughout the European Union. These are all listed in the TARGET Directory, which is available from S.W.I.F.T.

TARGET processes over 3.5 million domestic and cross-border payments per month – representing a value of more than EUR 20 trillion.[1] These figures show that TARGET is already one of the largest payment systems in the world.

Compared to the situation before the introduction of the euro on 1 January 1999, TARGET has clearly increased the use of real-time gross settlement in the EU. Furthermore, it has contributed to the integration of the euro money market and facilitated the consolidation of the treasury management of institutions with different activity centres throughout Europe.

[1] Figures for June 1999.

Volume of TARGET cross-border payments (sent)

Graph 1

The volume and value of TARGET cross-border payments increased quickly from 4 January 1999 and, after a short period of operation, reached a stable level of 25,000-35,000 transactions a day (Graph 1) and a daily value of between EUR 300 billion and EUR 400 billion (Graph 2). These figures represent over 20% of the volume and 40% of the value of all TARGET payments. Including domestic payments made via national RTGS systems, TARGET processes daily about 160,000 payments, representing a value of EUR 900 billion.

TARGET was created mainly for large-value payments in euro. Indeed, the average value of a cross-border payment processed via TARGET in June 1999 was EUR 11.9 million (EUR 14.8 million for interbank payments), the highest average shown by large-value systems operating in euro. This confirms that TARGET is being used overwhelmingly for large-value interbank payments, as intended. Nevertheless, payments to be processed in TARGET are not subject to a minimum or a maximum value limit, and for many corporations TARGET is an essential tool in their cash management strategy. Customer payments – with an average value of EUR 1.3 million – represent around 15% of the volume and 2.5% of the value of cross-border payments executed in TARGET.
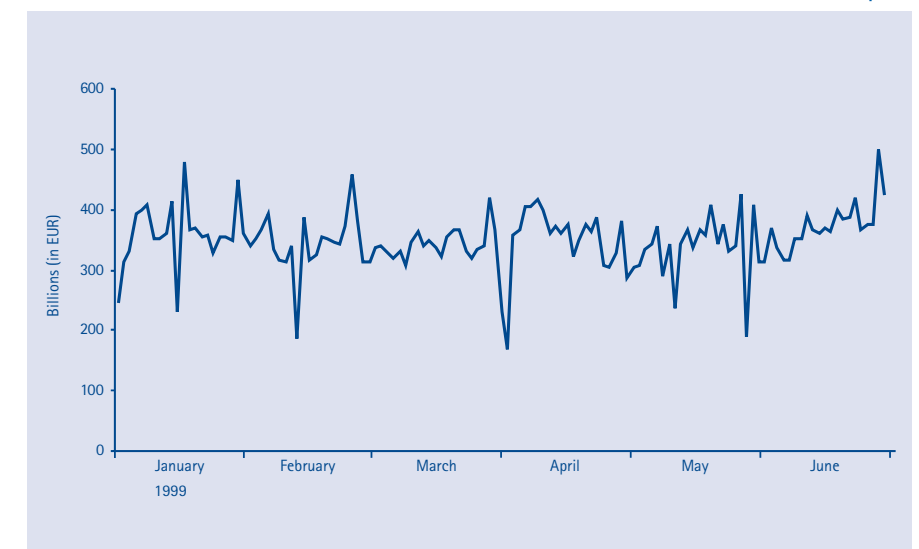
FIGURES

Total TARGET payments in June 1999 represented 68% of the value and 53% of the volume of all payments in euro processed through large-value euro payment systems.

The intraday distribution of cross-border traffic shows that almost 60% of the volume of payments is processed before 11 a.m. (Graph 3). Moreover, 75% of the volume and 55% of the value of payments are executed before 1 p.m. Due to the settlement of several net settlement systems and the high number of treasury management operations, there is, in terms of value, also a high level of activity in the afternoon between 4 p.m. and 5 p.m.

Value of TARGET cross–border payments (sent)

Graph 2

RTGS share of large–value euro payment systems (value of payments)

68% TARGET RTGS   32% Other systems

The future of TARGET is being shaped by the experience gained in operating the system and the evolution in technology and business requirements. Improvements will be made with the aim of enhancing the smooth functioning of TARGET and the service provided to the participants. An active exchange of views and co-operation with its users plays a pivotal role in the future development of TARGET.

In the short term, TARGET is preparing for the year 2000 changeover. Testing is proceeding well and according to schedule. All the national central banks in the European Union and the European Central Bank have tested their RTGS systems for year 2000 compliance and have completed tests of the cross-border link between RTGS systems. Credit institutions have also been involved in year 2000 tests.

On 25 September 1999 TARGET will conduct an end-to-end year 2000 compliance demonstration in which all EU central banks will participate, together with those credit institutions that wish to do so. This will conclude the major part of the preparatory work, although fine-tuning and organisational preparation for the millennium changeover will continue.

To enhance the safety of the transition to the year 2000, it has been decided that TARGET will be closed on 31 December 1999. Furthermore, the number of days on which TARGET is closed will increase from two to six in 2000. In addition to Saturdays and Sundays, in 2000 TARGET will be closed on New Year's Day, Good Friday, Easter Monday, 1 May (Labour Day), Christmas Day and 26 December.
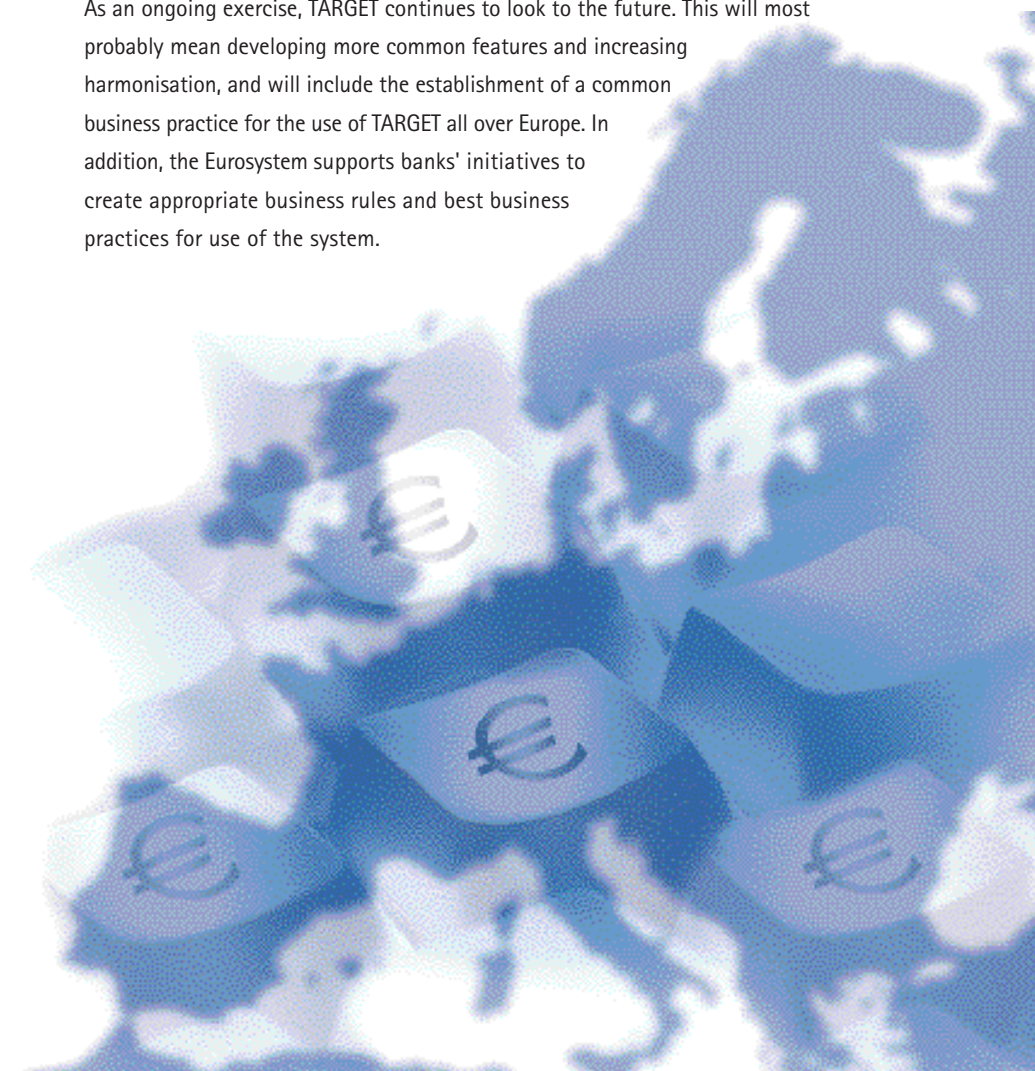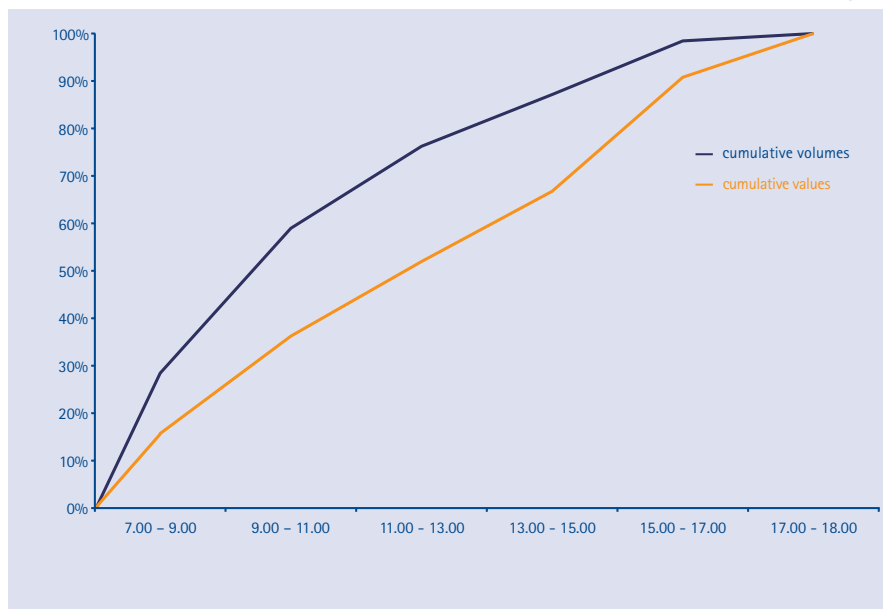
TARGET is preparing for an update in 2000. There are plans to include the S.W.I.F.T. MT 103 message format that can be used for straight-through processing and to make some enhancements to improve the core service provided by the system.

As an ongoing exercise, TARGET continues to look to the future. This will most probably mean developing more common features and increasing harmonisation, and will include the establishment of a common business practice for the use of TARGET all over Europe. In addition, the Eurosystem supports banks' initiatives to create appropriate business rules and best business practices for use of the system.

FUTURE

Intraday distribution of TARGET cross-border traffic — June 1999

Graph 3

— cumulative volumes
— cumulative values

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Facts

Figures

Future

Further information about
TARGET is available on
the ECB's Web site:
http://www.ecb.int

EUROPEAN CENTRAL BANK