

## TARGET-2

### Pilferage of the Deutsche Bundesbank

Executive Summary (22 February 2012)

TARGET-2 (T2) is a payment system for amounts of *large-value* in the Euro-zone. It permits the recognition and settlement of electronic payments from country to country (cross-border) by the corresponding central banks. T2 is integrated into the European System of Central Banks (**ESCB**) and is bilaterally active via the participating National Central Banks (NCBs). The day balance is re-posted (again bilaterally) to the ECB on 12:00 a.m.<sup>1</sup>

In the following, the consequences of Target-2 will be described by taking the Deutsche Bundesbank as example. These consequences are, however, applicable by analogy to all other National/Federal Banks in the strong Euro countries.

#### 1<sup>st</sup> Example of a Target-2 operation:

The Greek citizen Gyros (buyer) buys –**in form of a loan** – via Feta-Bank (his Greek house bank) a yacht (or shares, houses, bonds, etc.) in the amount of EUR 10 million from Michl (seller) in Germany who has an account with Deutsche Bank (DB). How is this purchase settled in practice? Why does this lead to a **positive T2 balance (claim)** of the deutsche Bundesbank (**BuBa** = NCB1) against the **ECB** (European Central Bank) and a (correspondingly) **negative T2 balance (debt)** of the Bank of Greece (**BoG** = NCB2) with respect to the ECB. The prerequisites, reasons and steps are as follows:

1. Buyer and seller have their (house) bank in different Euro countries.
2. All money transfers are coordinated and settled by the **TARGET2 System**, irrespective of where the sending or receiving banks have their seats.
3. All central banks of the Euro-zone are connected to this TARGET2 system via the ECB. The ECB and the NCBs have accounts with the TARGET2 system and use them mutually so as to *order* or *pay* (large-value) money transfers in real time.
4. Initially, cross-border payment orders between banks are recognized and executed by TARGET2 (only until 12:00 a.m!) via the books of both NCBs.
5. On 12:00 a.m, the NCBs' mutual claims/obligations are balanced by transferring them to the **ECB** books.
6. Gyros asks Feta to transfer the EUR 10 million payable to Michl to the DB. Immediately, Feta debits Gyros' account with EUR 10 million; moreover it sends an order to the TARGET2-System so as to credit the EUR 10 million on Michl's account with DB.
7. Simultaneously, TARGET-2 immediately deducts EUR 10 million from Feta's deposit account with the BoG (=NCB2). De facto, on the Greek side the money granted by the BoG (NCB2) in form of a loan (via Feta) to Gyros returns to the BoG.
8. Moreover, TARGET-2 immediately books (*by order of the BoG*) EUR 10 million from the BuBa-account (=NCB1) onto the **DB-own** deposit account with the BuBa, and Michl receives from this DB account an amount of EUR 10 million which is credited into his own account with the DB.

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<sup>1</sup> The business banks of the individual countries have (clearing) accounts with the corresponding central banks.

9. Due to its payment to the DB, the BuBa (NCB1) now has a EUR 10 million claim against its client (ordering party), the BoG (NCB2), *which is only existing until the end of that day, however*. On 12:00 a.m this claim is transferred – in accordance with TARGET-2 regulations – into a EUR 10 million **claim** the BuBa (NCB1) has against the ECB and into a EUR 10 million **debt** the BoG (NCB2) has against the ECB (see point 5). With this, all direct, bilateral/dual claims/obligations regarding this BuBa - BoG relationship are terminated = lapsed.
10. In default of any liquidity requirement (and due to reasons of interest payments), Michl and his house bank, the DB, leave the EUR 10 million with the BuBa, this will reduce the DB's loan with the BuBa **or** might even lead to a crediting of the Bundesbank by the DB!

Michl hands over his yacht to Gyros and everybody is happy – except the BuBa: in net terms, T2 has “organised” the total capital transfer so that the BuBa is paying Gyros' EUR 10 million yacht by force and BuBa – *as consideration* – receives a (sub-standard) claim against the ECB. A **sound** claim against the DB has been converted against a **bad** one against the ECB (see point 10.: credit reduction and/or step up contributions of the DB!).

Since 2007 – 2012 (February), this is exactly the way used for extracting by force an approx. EUR 550 000 million from the BuBa's coffers – all of which are missing now. At most they are replaced by pro forma IOU statements<sup>2</sup> issued by the “inflationary ECB bank“(cf.: Germany's overall national revenue in the year 2010: EUR 226 000 million!)

### **(2) Clear warnings as to errors in the T2 system at an early stage (1998/1999)**<sup>3</sup>

From the very beginning, the ESCB and Target2 supposed a huge potential risk because of the:

- (a) Unreasonable distribution of voting rights in the EU, the ESCB and the ECB
- (b) Default of stability criteria
- (c) Default of controls and sanctions
- (d) Predominant use of the English language
- (e) Lacking regulation for 1 : 1 “Inter-NCB-NCB-claim balances“
- (f) Provision of T2 intra-day credits and the possibility of an (abusive!) conversion into unlimited permanent T2 credits by the ECB at an interest rate of 1 %.
- (g) Enabling and (f) and acceptance of the miss-use of T2 credits by the ECB.

That the risks connected with T2 became true is mainly attributable to the (co-) responsibility of the German governments since 1997, but particularly since 2007.

### **(3) 2007 outbreak of the crisis, T2 starts pilferage of the Bundesbank:**

The main difficulty in understanding the problems in connection with TARGET2 is that every person with common sense will be more than reluctant in seriously considering that these EUR 550 000 million are actually lost<sup>4</sup> and, at least initially, be

<sup>2</sup> “IOU“, abbreviation of the expression “I owe you“, i.e. “I have to pay you“.

<sup>3</sup> Peter M. Garber: “Target creates a perfect mechanism to make an explosive attack on the system” in “NOTES ON THE ROLE OF TARGET” (1998), p. 19, <http://www.nber.org/papers/w6619>

<sup>4</sup> This EUR 500 000 million loss is clearly exceeding the overall 2-year tax revenues of the Federal Republic of Germany (EUR 452 000 million) .

unable to believe that the reason for this loss – i.e. the source of the mistake - is so very trivial!<sup>5</sup> The **Target settling system** used for the daily payment of thousands of millions has an absurd, incredible and downright ridiculous **mistake in the system**: the **daily balances of the claims** one central bank has against the other **do not have to be settled regularly** (other than in the USA!). On the contrary, every day on 12:00 a.m. an automatic change of the borrowers and an accumulated “chalking up” of positive T2 balances at the expense of the ECB is taking place. T2 is a request **par excellence** to help yourself.

In this scenario, the BuBa is kind of a **Club-Med bar**: day after day the Portuguese, the Greek, the Italians and other nice neighbours come and empty the bar, then they stagger home happily – but without having paid. On 12:00 a.m. their beverages are transformed and “chalked up” at the ECB’s expense, which doesn’t pay either but rather passes a further borrower’s note (IOU) to the BuBa by stating: the cherished guests simply need their free daily buzz. We, the German Taxpayers Association, are fearing, however, that the BuBa’s **Club-Med bar** will be very soon a dry drinking spot as this rather strange bar business will probably end up sooner or later in bankruptcy.

Despite the warnings, since 1998 various of the German governments have been creating an optimum stage with respect to what is technically and practically needed for a **T2 attack against the Bundesbank** - without even thinking twice about it.<sup>6</sup> As a result, it was possible to bottle up a number of harmful effects until 2007. The debt spiral turned at a breathtaking speed; what followed was a continuous drifting apart of countries with *more or less* stable economies and countries with *extreme* indebtedness and artificially heated up economies, based only on credits and subventions. In the year 2007, the dam broke: all the unnoticed debts bottled up over a 10-year period appeared and had a knock-on effect. Further alimentation did not continue and the provision of credits came to an abrupt end in several of the countries involved. The creditors (equally surprised) were no longer ready to support ailing countries with low-interest credits at their own risk.

As a logical consequence of these events, since 2007 the weak countries are increasingly fearing a crash of the Euro system and/or state bankruptcy. This fear has deep-rooted reasons. Increasing interest payments for government bonds indicate that the temperature on the fever thermometer is high. Just as a shy deer, these countries’ capital – polluted by local credit excesses – is seeking a place of security and peace. And comes - via T2 – to Germany.

Because nowhere in this world a better **capital flight** method exists as the one provided by TARGET2: authorized by Federal government and **financed** only from **Deutsche Bundesbank’s funds, i.e. from the money of the German citizens!** In addition, it is fast and cheap, at the push of a button, in real time. And the best of all: no luggage has to be carried during your flight: it is simply deposited with the Bank of Greece and – in return – the Deutsche Bundesbank (*one can hardly say „voluntarily“*) provides fresh, clean money out of its coffers - in only the best quality and free

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<sup>5</sup> One should have thought it possible to rely on certain minimum abilities of our German officials in connection with the T2 system examination.

<sup>6</sup> As predicted by Garber; opt. cit., p. 9, 19 “An attack scenario“

domicile. And, our Gyros can do as he wishes with it: he can buy a ship, a house or simply invest it as fixed-term deposit with any German bank.<sup>7</sup>

#### (4) The risk of empty coffers

If, however, the Bundesbank lost 70 % - 80 % of its property due to this method and if exactly the same amount de facto fell into the hands of the German banking system (page 2, point 10), this can only mean that further T2 operations are invariably **endangering the contributions German banks have with the BuBa** and, as a consequence, an exponential increase of the involved parties' general risks. We can only assume that this hot spot has been reached now with a **EURO 550.000 million T2 balance**.<sup>8</sup>

If the BuBa continues its self-destructing T2 operations, credit procurement will be more and more difficult and the creditors will be exposed to increasing risks. It might probably issue own bonds or directly activate the money printing press, but this would place it at the same level at which Greece and the ECB already are. The result would be: *inflation without any restraint!* The first warnings of competent experts have already been presented and – according to our assessment – things are getting tighter and tighter for the Bundesbank.<sup>9</sup>

#### (5) Who benefits from the rescue measures?

If the Euro falls, this Euro union will prove very beneficial to both the world-wide financial oligarchy and Europe's moribund political elites. That is exactly the reason why this union is not permitted to break apart and why it is staggering from one money injection to the next, permanently on the verge of its financial ruin. In the meantime, the financial holes are becoming bigger and bigger: banks and other creditors want their money back while an uncontrolled indebtedness of these countries insatiably requires additional, even larger credits. As money is not available, the governments (more or less secretly) are digging deeper and deeper in the pockets of the (deceived) citizens so as to extract mercilessly money for the next (provisional) financing of their Euro adventure in order to hand it over to the banks. All these **banks claims** in the amount of thousands of millions - in connection with loans, rescue packages and guarantee commitments, first and foremost via Target2, are never presented directly or immediately – they are rather **socialized by sophisticated ways and means, allegedly in the interest of the citizens, in reality, however, to the benefit of the politicians and the financial elites**. In a way, our government does not place the bomb they have for us in our yard, the place it - provided with a long fuse and quadruple explosive power – in our basement. Everybody still is in command of his sanity and reason will know that the basement variant is the real dangerous one. It is able to hit the German citizens (*and their children and grandchildren!*) in too many cruel ways.

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<sup>7</sup> According to Prof. H.-W. Sinn, this is "printing of money" for capital flight purposes *ifo Working Paper 105, p. 28*.

<sup>8</sup> February 2012: **EUR 547.000 000 million**, [www.Querschüsse.de](http://www.Querschüsse.de) Target2

<sup>9</sup> "Die Bundesbank sitzt in der Falle - The Bundesbank is in the trap", Jörg Krämer, senior economicist of the Deutsche Bank, *in Wirtschaftswoche, 17 February 2012 (8/12)*; "This development is alarming", Thomas Mayer, senior economist of the Deutsche Bank *in FAZ, 11 November 2011*

## (6) Who is liable?

As for the losses of the Bundesbank and/or the guarantee commitments of the German governments, the one that will **solely and always be liable is the German citizen. In a worst case scenario this liability will be unrestricted** and include the property and revenues of all citizens – even though in the heads of the Germans this scenario seems unbelievable and they still do not consider and/or dismiss it (in the year 2012) as a possibility that may come true. If this development of Target2 via ESM <sup>10</sup> and the topping-up of it is continued, however, not only the state but also the majority of its citizens will be ruined. Up to now and to a large extent, Germany alone paid the T2 bill for its friends from the Club-Med bar – the money is already withdrawn from our accounts, only the corresponding invoice is still missing. Either this bar is closed now or the German Michel will have to replenish it out of his own existences. At least this is exactly the wish of the government. Unlike others, we, the Taxpayers Association, are however of the opinion that it is high time our Club-Med friends open their own bar and then we will be the ones visiting them – but we will pay for our consumption!

## (7) The consequences

All these rescue activities by the Eurocrats –acquisition of government bonds by the ECB, EUR 1.000 000 Billion ECB tender, ECB emergency loan, ESFS moneys, money creation by the BoG, ESM moneys, future Euro bonds, etc. – are hardly secured<sup>11</sup> as far as their value is concerned. These are not any kind of actions but only helpless reactions to the consequences resulting from the political mistakes of the last 14 years. If this uncontrolled extension of loans in thousands of millions and even higher amounts continues, this continuous pilferage of the Bundesbank via Target2 will certainly lead to a breathtaking inflation and, in the worst of all cases, to the state's bankruptcy. Is this what we really want? Who has to make the decisions in this respect?

The main reasons for the Euro crisis still remain the same: **(a)** Pending, compounded and cumulated heaps of debts during a period of more than 10 years. **(b)** The continuing rotten condition of individual states and their budgetary deficits. **(c)** Finally, the criminal activities in an environment of helpless and confused “rescue activities”.

The debt cut planned for Greece only insufficiently reduces part of the problem (a). The overall problem as to bottled-up deficits, economic imbalances with no solutions and/or different performance of Euro countries still remains completely unchanged. It has to be categorically stated, however, that the normal citizens of these Euro countries, e.g. the Greeks, are not the ones responsible for this crisis. It's the governments and their irresponsible policies that are the origin and the core of the problem. And we definitely have to find a solution for it!

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<sup>10</sup> <http://deutsch.taxpayers-europe.com/infos/aktuell/39/162-esm-stoppen-die-eu-buerger-zahlen-die-zeche.html>

<sup>11</sup> In the meantime, the ECB is granting credits even when these credits are only “secured” by government bonds of de facto bankrupt countries from the periphery, i.e. unsecured. This entitles the borrowers to take the spread between government bonds and ECB loan in addition and without any risks. With these loans further government bonds can be acquired and deposited for “securing” the next loan, etc. – quasi a financial perpetuum mobile and/or snowball system! The aim: maintaining the “stability of prices” à la ECB.

It is impossible to fight against the credit orgies caused by lacking political and financial discipline and the structural problems of the weak Euro countries with exactly the same kind of measures that have triggered these problems after all: **with loans**.

Approx. EUR 550 000 million are now missing in the coffers of the Bundesbank due to T2 operations. This money is gone, whatever the explanations the Bundesbank and the Federal Government may give and regardless of the ways they may take to “book” this loss without lifting the lid in the future! The Greek and Portuguese will not be able to “re-operate” this money via T2 as well as the ECB will never ever pay its Target2 debts with sound money.

### **(8) The infallible rescue by the ESM**

Nevertheless, T2 continues to operate and, for that matter, the **gold** of the Germans could be the next to bite the dust. As this is not that easy,<sup>12</sup> they speed up the establishment of the ESM with brutal force from formerly 2013 to 2012 in order to extract additional means as fast as possible for their financial exercise: initially, it was EUR 500 000 million, but, according to the wishes of well-known Mr. Asmussen, it could also be a few hundred thousand millions more without further ado<sup>13</sup> - always with the guarantee or at the expense of the citizens. In the meantime, the government has finished establishing the ESM Bank, a childish, dubious and more than impertinent machination with clearly dictatorial character<sup>14</sup> in order to loot whole nations and to enrich political elites.<sup>15</sup> It is via this bank that the sacrosanct European Governors want to “get rid” (without attracting attention) of the financial chaos they themselves originated. This will not happen, however, just as they will not be able to shoot down the moon from the skies by using bow and arrow: the Euro-zone in its current condition is like a sieve, all the money poured into it disappears like water.<sup>16</sup> For the Germans, however, the damages caused with the implementation of this ESM, a coup d'état against its own people, will turn out to be even worse than what has already happened up to now.

Future T2 operations and “rescue measures” will further heat up inflation. In Germany, inflation is considered a crime of the government against its citizens, and rightly so. All the aforementioned overall disastrous events have taken a life of their own by now and can only be stopped by de-coupling the systems and implementing fundamental reforms. This is the task of the respective national governments, together with their citizens – but *not the task of the German citizens for the whole of Europe*. We Germans are not the masters of discipline or the paymasters of other nations! There is only one rescue package the European nations currently badly need: the one against their own governments!

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<sup>12</sup> At least the gold should be there.

<sup>13</sup> “ESM- Asmussen fordert mehr Mittel für ständigen Rettungsschirm - ESM- Asmussen demands financial means for permanent rescue package“, *FAZ*, 20 February 2012.

<sup>14</sup> “Der finale ESM-Vertrag – Ende von Demokratie und Parlamentsvorbehalt – The final ESM Treaty - and end to democracy and parliament’s reservation“, *Beatrix v. Storch* in [www.freiewelt.net](http://www.freiewelt.net), 26 January 2012; „Selbstermächtigung der Technokraten: der ESM-Vertrag beendet Recht und Demokratie in Europa – Self-enabling of technocrats: the ESM Treaty ends up rights and democracy in Europe“, *Peter Boehringer* in [www.goldseitenblog.com](http://www.goldseitenblog.com), 27 January 2012

<sup>15</sup> <http://deutsch.taxpayers-europe.com/infos/aktuell/39/162-esm-stoppen-die-eu-buerger-zahlen-die-zeche.html>

<sup>16</sup> Sinn, Wollmershäuser, opt. cit., p. 42

## (9) Summary

The reasons for the Euro crisis are the result of a basically erroneous construction of the Euro system and the currently prevailing distribution of voting rights. The core of T2 – which is part of the system- presents disastrous mistakes (not corrected by the German side) all of which now – in the event of a crisis – have led to unilateral granting of permanent loans to weak Euro countries at the expense of the Deutsche Bundesbank. With this, the extraction of EUR 550 000 million from the Bundesbank in only in 4 years was possible (corresponding to 13 times the amount of Germany's net new deficit in 2010!). A prerequisite for these *fatal* T2 operations, however, were the massive breaches of the Euro stability criteria by Member States and the ECB since 1999. This triggered the dangerous T2 pilferage mechanism in 2007. Since that point in time, T2 is leading and supporting the capital flight from weak to strong Euro countries and is thus damaging the overall Euro system. The numerous “rescue measures” even accelerate this process, heat up inflation and clear out further capital into allegedly “safe havens”, such as Germany.

Under such conditions, only speculative money remains with the weak Euro countries and further continues its constructive job. As by and large the coffers of the Bundesbank are empty in the meantime, any further continuation of T2 operations will lead to incalculable risks for the Bundesbank and the German banking system. Moreover, the Bundesbank's gold reserves – after all its only real valuable capital in terms of assets – are put in acute danger. The fact that the BuBa rejects exact information undermines the suspicions of some people who fear the worst.

## (10) Final conclusion

*Ludwig von Mises* rightly stated: “The tricks of banking and monetary policies can achieve a transitory apparent improvement but they will lead us to an all the more serious catastrophe. The damage caused to the peoples' prosperity by the application of such means is all the more serious the longer the simulation of specious prosperity is possible because of the creation of additional credits.”<sup>17</sup>

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<sup>17</sup> Ludwig von Mises, “Die Gemeinwirtschaft – Untersuchung über den Sozialismus – Socialism: An Economic and Sociological Analysis“, 2<sup>nd</sup> amended edition, Jena 1932, p. 461 et. seq.

If both the Federal Government and the Bundesbank do not care for the future of the German citizens as well as the future of their children and grandchildren they should continue as before. The ultimate “rescue attempt” via **ESM**, however, will inevitably plunge Germany into its political and economic ruin.<sup>18</sup> And that is why the following statement of the English Minister of Foreign Affairs, William Hague<sup>19</sup> is more than correct:

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„It was sheer foolishness to create this system. For centuries people will write about it as a kind of monument of collective stupidity.“

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<sup>18</sup> See for example ESM Art. 5 point 1, sentence 3 (the future Governors); Art. 8 in connection with Art. 10 point 1, sentence 2, Art. 9 in connection with Art. 25 point 2 (absolutely unrestricted payment obligation of Germany – without the participation of the parliament); Art. 21 point 1 (authorization for eurobonds); Art. 32; Art 35 (legal withdrawal of control as well as total acquittal and immunisation of the BoG, the Board or Directors and other staff of the ESM as to all acts and operations in the field of thousands of millions (and more) transactions in Euro, and, at the same time the granting of special benefits in an unbelievable manner as to the nature and amount of such benefits, Art. 5 point 7. (n) in connection with Art. 36 points 1., 2., 5. (Self-determination of salaries and tax exemption) etc., etc.

<sup>19</sup> On 28 September 2011 to *The Spectator*, a political magazine