

THE

Hans-Werner Sinn

€CONOMICS

OF TARGET

BALANCES

From Lehman to Corona



The Economics of Target Balances

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"Though not initially expected or understood large movements in Target balances at eurozone Central Banks turned out to be a central essential feature of enabling the euro-system to survive a series of major shocks. In this beautifully and magisterially written book, Sinn describes clearly how this complex system has operated, and the several problems that this has entailed. An essential read for anyone interested in the workings of the euro-system."

—**Charles Goodhart**, Professor Emeritus, London School of Economics

"A highly recommend and timely publication. Over the last years, the academic contributions of Hans-Werner Sinn have deeply improved my understanding of the topic of Target-Balances. The book will make this knowledge accessible to a much wider audience and readership. It is a must-read for anyone who seriously intends to participate in the policy debate."

This excellent book comes at a crucial moment in European history where due to the Corona-Crisis deep reforms in the institutional organization of the Euro-Area and the EU will become necessary. It will help policy makers and academics when facing this enormous challenge. It is rooted in theoretical economic principles and does not reflect a mere dogmatic or political view of the issue."

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"This book is a must-read for anybody interested in the working and the problems of the euros system. The author analyses the developments which are reflected in a seemingly pure technical issue. Persuasive, stringent, just brilliant."

—**Otmar Issing**, former chief economist of the ECB and member of the directorate

Target balances are the largest single item in some of the balance sheets of the Eurosystem's national central banks (NCBs), and yet very little is known about them by the general public and even by economists. This book shows that Target balances measure overdraft credits between the NCBs that resemble ordinary fiscal credit and which have grown disproportionately, exceeding one billion euros. The book sheds light on the economic significance of the balances seeing them as useful shock absorbers, but it questions their limitlessness. It addresses controversial views that have been expressed regarding the Target balances and uses the Target statistics to analyze the course of the euro crisis and the ECB's policy reactions from the time of the Lehman bankruptcy up to the outbreak of the Corona crisis. It analyzes the credit risks involved for the Eurosystem and concludes with a reform proposal.

This book will be of interest not only to experts, but also to non-specialist economists and policy makers.

Hans-Werner Sinn is President emeritus at the Ifo Institute for Economic Research and Professor emeritus in Economics and Public Finance at the University of Munich. He was President of the International Institute of Public Finance (the world organization of Public Sector economists) and the German Economic Association. He has written numerous books and articles in scholarly journals.

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