

The crisis in the Area Zone and the role of ECB

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Abstract

This paper presents the first comprehensive Target database of the Eurozone and interprets it from an economic perspective. We show that the Target accounts measure the intra-Eurozone balances of payments and indirectly also international credit given through the Eurosystem in terms of reallocating the ECB's net refinancing credit. The Target and liabilities are interest-bearing. Their interest rate equals the ECB's main refinancing rate. However, interest revenues and expenses are socialized within the Euro system.

Many think that the Target imbalances are a normal side effect of the Eurozone payment system, as they won't occur in a currency system. The term Target balances has created much confusion even among academics; because it is a catchy term with several meanings that are not obviously connected with each other at first glance. In several countries, private debts arising from a property booble were transferred to sovereign debt as a result of banking system bailouts and government responses to slowing economies post-bubble.

Keywords: Currency union, Balance of payments, Bailout, Euro system, Target.

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Academic Journal of Business, Administration, Law and Social Sciences ISSN 2410-3918 (print)

ISSN 2410-8693 (online)

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