# Monetary developments

## Money market management and central bank money requirements

*Bundesbank interest rates unchanged*

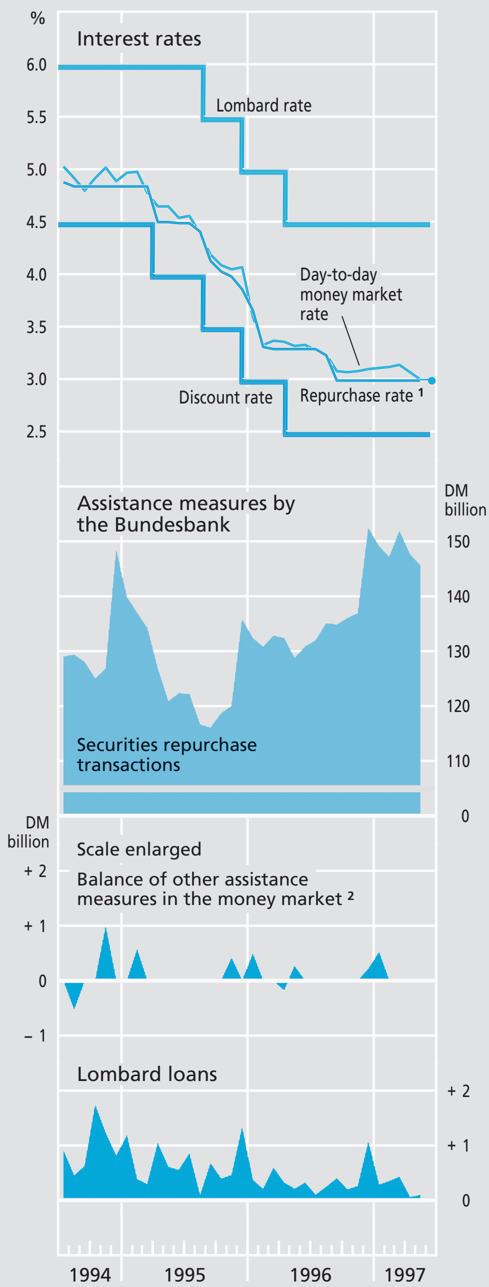
In spring the Bundesbank continued its policy of keeping interest rates steady. It left the official interest rates unchanged at the very low level that has applied since April 1996, with the discount rate at 2.5 % and the lombard rate at 4.5 %. The terms for securities repurchase agreements were likewise left unchanged in the period under review, and the terms for new repo agreements to be concluded in the following weeks were in all cases announced in advance immediately after the meetings of the Central Bank Council. All repurchase agreements were offered in the form of fixed-rate tenders at a rate of interest of 3.0 %. The repurchase rate, which is the benchmark variable for interest rate formation in the money market, thus remained in the lower region of the interest rate corridor.

A "steady-as-she-goes" approach to interest rate policy remained appropriate in the light of the monetary and overall economic situation. Although the growth of the money stock slowed down somewhat, on the whole it still exceeded the level envisaged by the Bundesbank. As before, the virtual price stability that has meanwhile been achieved does not seem to be endangered. Following the downturn in the second half of 1996, the cyclical momentum picked up again at the beginning of this year and the previous growth trend was resumed.

*Money market rates*

Given stable central bank interest rates, money market rates changed only little in the

## Operating variables in the money market




1 Average monthly interest rate for securities repurchase transactions with two-week maturities, uniform allotment rate (fixed-rate tenders) or marginal allotment rate (variable-rate tenders). — 2 Quick tenders, foreign exchange swap and repurchase transactions and short-term Treasury bill sales. — ● = Latest position: June 11, 1997.

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spring months. The rate for day-to-day money was generally five to ten basis points above the rate for fixed-rate tenders. At the beginning of June short-term time deposit rates were approximately at the same level as in February. The rate for one-year funds latterly exceeded its level at the beginning of the year only slightly, after it had grown more strongly in March as a result of the temporary yield surge in the capital market. In overall terms, the yield curve in the money market had grown only a little steeper. In view of that fact and the rates for interest rate futures, current market expectations are geared to the probability of no change in central bank interest rates in the near future.

*International term spread*

The interest rate trends in foreign money markets varied in the past few months. Whereas some European central banks continued to reduce their comparatively high refinancing rates, other neighbouring countries increased their interest rate level moderately. On balance, the international interest rate spectrum narrowed further; Deutsche Mark money market rates continue to be in the lower reaches of the international range.

*Liquidity managed solely through repurchase agreements*

Between February and May, the Bundesbank's ongoing money market management was largely free of tensions and was confined to the customary weekly conclusion of securities repurchase agreements. The Bundesbank did not resort to very short-term fine-tuning measures in the spring months. However, when assessing the provision of liquidity, it had to take account of the sizeable changes in banks' funding requirements (see the adjacent chart). For one thing, it had to take into account the transfer on April 17 of the Federal Government's share of the Bundesbank profit (amounting to DM 8.8 billion) for the 1996 financial year. The injection of central bank money into the money market directly associated with that profit transfer was offset without any frictions by timing the regular securities repurchase agreements for the same day and reducing the volme outstanding correspondingly. For another thing, major variations in the amounts purchased under fixed-rate tenders were necessary at the beginning of February and over the Easter holiday in late March/early April in order to offset fluctuations in the amount of currency in circulation. Finally, in early March and May, contractionary movements in the float in the Bundesbank system necessitated a corresponding increase in the volume of repo transactions. The change in the Bundesbank's net external position, on the other hand, affected liquidity to a major extent on a few days only in the period under review. Banks' rediscount borrowing was likewise fairly consistent.

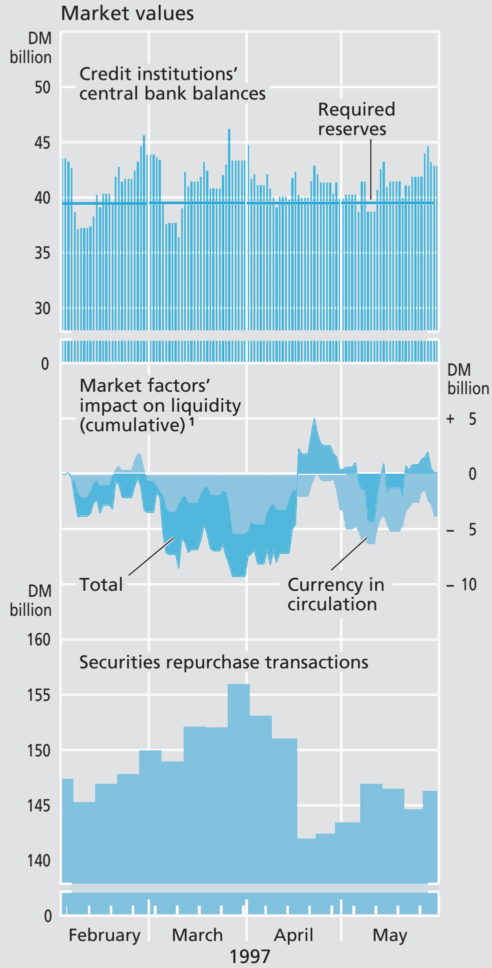
*Banks' recourse to assistance measures*

Utilisation of the rediscount quotas, which had declined fairly markedly at the turn of the year, continued to rise gradually again during the period under review and from April stabilised at a comparatively high level. Little recourse was had to lombard loans. Contrary to their usual practice, banks did not need to take up lombard loans on the last day of April and May in order to equalise their minimum reserve holdings.

*Rise in central bank money*

The trends in the principal factors determining bank liquidity between February and May are shown in detail in the table on page 22.

Liquidity management in spring 1997




1 Currency in circulation, the Bundesbank's external position, cash items in the process of settlement and other factors; provision (+) or absorption (–) of central bank balances.

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As can be seen, central bank money (currency in circulation held by non-banks and minimum reserves on domestic liabilities at current reserve ratios) expanded by DM 2.3 billion during this period. This rise was due solely to the increase in currency in circulation, which expanded more strongly in March and May owing to seasonal factors (bunching of public holidays). By contrast, minimum reserves required on domestic liabilities

## Factors determining bank liquidity *

DM billion;
calculated on the basis of daily averages of the months

| Item | 1997 Feb. to March | Apr. to May pe | Feb. to May pe |
|---|---|---|---|
| I. Provision (+) or absorption (–) of central bank balances by | | | |
| 1. Change in central bank money (increase: –) | – 1.2 | – 1.2 | – 2.3 |
| Currency in circulation | (– 1.8) | (– 1.3) | (– 3.1) |
| Minimum reserves on domestic liabilities | (+ 0.6) | (+ 0.2) | (+ 0.8) |
| Memo item Change in seasonally adjusted central bank money | (+ 2.8) | (+ 1.6) | (+ 4.4) |
| 2. Change in the Bundesbank's external position 1 | – 1.3 | + 0.6 | – 0.8 |
| 3. Other factors | – 1.1 | – 1.8 | – 3.0 |
| Total | – 3.6 | – 2.4 | – 6.1 |
| II. Lasting provision (+) or absorption (–) of funds | + 1.2 | + 9.0 | + 10.2 |
| 1. Change in refinancing facilities | (– 0.2) | (– 0.1) | (– 0.3) |
| 2. Recourse to unused refinancing facilities (reduction: +) | (+ 1.5) | (+ 0.3) | (+ 1.8) |
| 3. Transfer of the Bundesbank profit to the Federal Government | – | (+ 8.8) | (+ 8.8) |
| III. Change in the short-term liquidity deficit (I plus II; increase: –) | – 2.4 | + 6.6 | + 4.2 |
| IV. Meeting of remaining deficit (+) or absorption of surplus (–) by | | | |
| 1. Securities repurchase transactions | + 2.8 | – 6.3 | – 3.5 |
| 2. Quick tenders | – 0.5 | – | – 0.5 |
| 3. Lombard loans | + 0.1 | – 0.3 | – 0.2 |
| Memo items 2 | | | |
| Unused refinancing facilities | 2.7 | 2.4 | 2.4 |
| Securities repurchase transactions | 151.9 | 145.6 | 145.6 |
| Balance of very short-term assistance measures 3 | – | – | – |
| Lombard loans | 0.4 | 0.1 | 0.1 |

* For longer-term trends see pages 12*/13* in the Statistical Section of this Report. — 1 Excluding foreign exchange swap transactions. — 2 Levels (in the current month or in the last month of the period). — 3 Quick tenders, foreign exchange swap and repurchase transactions and sales of short-term Treasury bills.

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declined in line with the usual seasonal pattern. On the whole, seasonally adjusted central bank money grew at a similar pace in the spring to that of the money stock M3.

*Current transactions*

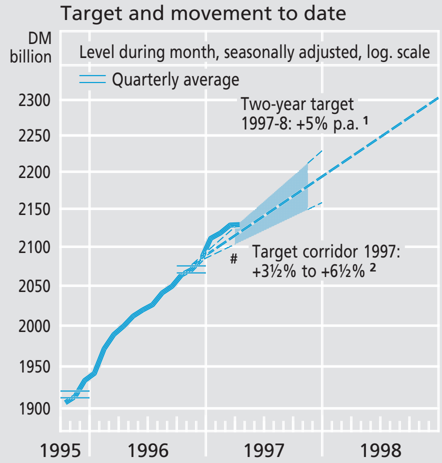
Credit institutions' current transactions with the Bundesbank were likewise contractionary in the period under review. On the one hand, this was attributable to the change in the Bundesbank's net external position, which fell by DM 0.8 billion between February and May. This fall was mainly caused by the Bundesbank's transactions featuring sales of foreign currency that had previously accrued outside the market (through purchases of dollars from US military agencies, in particular). On the other hand, "Other factors" drained a total of DM 3.0 billion from banks. This amount mainly reflects the current entries to the Bundesbank's profit and loss account. Moreover, the float in the Bundesbank system likewise had a slight net contractionary impact on liquidity, on a monthly average. Another factor was the increase in the reserves required on foreign liabilities, changes in which are included here in the condensed form of the liquidity account. These liquidity-reducing effects were accompanied by the decrease in credit institutions' cash holdings, which is typical of the beginning of the period under review.

*Short-term liquidity gap*

On balance, banks recorded outflows of funds totalling DM 6.1 billion during the spring months caused by the change in central bank money and by current transactions. In the period under review, the transfer of the Bundesbank profit to the Federal Government had a major expansionary impact on liquidity – as mentioned before. Moreover, banks increased their use of refinancing facilities by DM 1.8 billion. On the other hand, the still outstanding refinancing lines under the special rediscount facility (ceiling B) granted to the *AKA Ausfuhrkredit-Gesellschaft mbH,* which had been terminated with effect from the end of May 1996, gradually petered out. The permanent provision of funds increased by DM 10.2 billion in total. The short-term liquidity gap narrowed by DM 4.2 billion net between February and May. This liquidity surplus was mainly absorbed by the cutback in the Bundesbank's regular securities repurchase transactions in May to DM 145.6 billion. Credit institutions' lombard borrowings were confined to DM 0.1 billion on a monthly average.

Growth
of the money stock M3 *

Target and movement to date




* Average of five bank-week return days; end-of-month levels included with a weight of 50%. — # The target corridor has not been shaded until March because M3 is normally subject to major random fluctuations around the turn of the year. — **1** Between the fourth quarter of 1996 and the fourth quarter of 1998. — **2** Between the fourth quarter of 1996 and the fourth quarter of 1997.

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## Monetary developments

*Difficult start to the new target period*

Overall, the money stock grew at a faster pace in the first few months of the year than had been envisaged by the Bundesbank. However, this is primarily attributable to the high "statistical overhang" at the end of last year which made the start to the current target period rather difficult. Subsequently, monetary expansion slowed down perceptibly. In April the money stock M3[1] exceeded its average level of the fourth quarter of 1996 by 2.7 %, after eliminating seasonal influences; expanded to yield an annualised rate, this amounts to 6.7 %, following 8.3 % in March, 9.1% in February and 11.7 % in January. It has thus drawn distinctly closer to the top edge of this year's target corridor of 3½ % to 6½ %. The money stock M3 grew at a similar pace to that between the fourth quarter of 1996 and April 1997 in the last 12 months and 24 months, respectively.

*Determinants of monetary growth*

The strong monetary expansion at the beginning of the year was mainly attributable to the surge in the money stock at the end of 1996 caused by exceptionally high borrowings of the private sector in anticipation of changes from 1997 in the tax treatment of real estate purchases in eastern Germany, in particular. Monetary expansion was further fuelled in the first four months of the year by a renewed slowdown in monetary capital formation and a perceptibly higher credit

**1** Currency in circulation and the sight deposits, time deposits for less than four years and savings deposits at three months' notice held by domestic non-banks – other than the Federal Government – at domestic credit institutions; viewed as a monthly average.

### The money stock and its counterparts *

DM billion; change during period

| Item | Jan. to Apr. 1996 | Jan. to Apr. 1997 |
|---|---|---|
| I. Bank lending to domestic non-banks, total 1 | + 114.3 | + 94.8 |
| 1. Lending by the Bundesbank | – 0.9 | + 0.0 |
| 2. Lending by credit institutions | + 115.2 | + 94.8 |
| to enterprises and individuals | + 67.8 | + 56.3 |
| of which Short-term lending | – 4.8 | – 18.9 |
| to public authorities | + 47.4 | + 38.5 |
| II. Net external assets of credit institutions and the Bundesbank | – 73.7 | – 94.9 |
| III. Monetary capital formation at credit institutions from domestic sources, total | + 41.0 | + 44.1 |
| of which Time deposits for four years and more | + 26.8 | + 18.1 |
| Savings deposits at more than three months' notice | – 10.0 | – 13.2 |
| Bank savings bonds | – 6.6 | + 2.7 |
| Bank debt securities outstanding 2 | + 20.3 | + 26.8 |
| IV. Deposits of the Federal Government in the banking system 3 | – 2.1 | – 6.0 |
| V. Other factors | + 1.4 | + 8.8 |
| VI. Money stock M3 (Balance: I plus II less III less IV less V) | + 0.3 | – 47.0 |
| Currency in circulation | – 1.4 | – 1.2 |
| Sight deposits | – 34.6 | – 66.2 |
| Time deposits for less than four years | – 13.3 | – 3.2 |
| Savings deposits at three months' notice | + 49.7 | + 23.5 |
| Memo item M3 as a monthly average in April 1997 compared with the 4th qtr of 1996 in % 4 | . | + 6.7 |

* The figures for the latest period are always to be regarded as provisional. — 1 Including lending against Treasury bills and against securities. — 2 Excluding banks' holdings. — 3 Sight deposits and time deposits for less than four years. — 4 Change in the money stock M3 as a monthly average derived from five bank-week return days (end-of-month levels included with a weight of 50 %) compared with the average of the fourth quarter of 1996, expressed as an annual rate, seasonally adjusted.

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demand of the public sector owing to the tight budgetary situation. Finally, domestic non-banks have tended to further reduce their holdings of money market fund certificates so far this year. The unusually high outflows of funds on the foreign payment transactions of domestic non-banks between January and April, on the other hand, tended to slow down monetary growth. Moreover, bank lending to enterprises and individuals receded somewhat during the period under review in a counterswing to the aforementioned anticipatory effects at the end of 1996.

*Components of the money stock*

Of the individual (seasonally adjusted) components of the money stock, the largest increase in the first four months of the year was recorded by savings deposits at three months' notice; on balance these were exclusively higher-yielding special savings facilities. Compared with the last two years, however, their growth has normalised somewhat. Currency in circulation and sight deposits likewise expanded perceptibly. By contrast, shorter-term time deposits, which have been declining more or less continuously since the spring of 1994, continued to decrease, albeit at a considerably slower pace.

*Further resales of money market fund certificates*

Domestic non-banks continued to reduce their holdings of money market fund certificates in the period under review (– DM 3.8 billion). Apart from the massive demand in the first few months following their introduction in August 1994 and the purchases at the end of both 1994 and 1995 (which were mainly induced by wealth tax considerations), these certificates have not proved particularly attractive at the prevailing interest rate terms. Credit institutions have apparently been able to attract or regain investment funds by offering attractive interest rates on sight deposits, money market accounts and savings deposits. In connection with this trend, the downward shift in the demand for money, which occurred at the turn of 1994-5 and of 1995-6 owing to the high volume of investment in money market fund certificates at that time, is gradually being reversed. As this process is proceeding steadily and fairly transparently, however, it is having virtually no disruptive impact on monetary targeting.

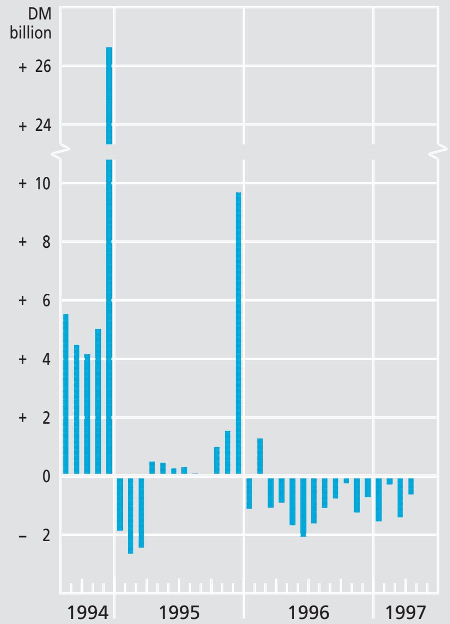
*Rapid growth of the money stock M3 extended*

Domestic non-banks stepped up their holdings in the Euro-market considerably in the first quarter of this year after having run them down last year. Over the somewhat longer term, however, the money stock M3 extended[2], which includes such deposits as well as money market fund certificates held by domestic non-banks, continued to grow at a slower pace than the money stock M3. In the course of the last twelve months, M3 extended grew by just over 5 ½ %, compared with a rate of 7 % for M3.

*Weak monetary capital formation*

Viewed in the balance sheet context of the monetary analysis, investors' low willingness to accumulate longer-term financial assets at banks was – as mentioned – a major factor influencing the relatively strong growth of the money stock in the first four months of the year. After accelerating slightly in the last few months of 1996, monetay capital formation slowed down again in the period under review. The decisive factor in this was presumably the overall low capital market rates

Net purchases of money market fund certificates by domestic non-banks

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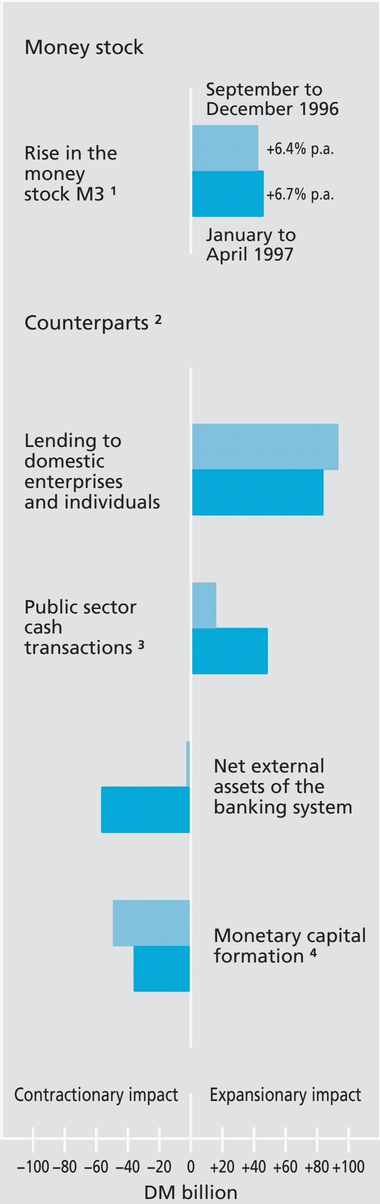
(which have fluctuated more strongly in recent months) and perhaps also uncertainty in connection with the approaching European monetary union. Between January and April credit institutions received longer-term funds worth DM 44.1 billion from domestic sources; this was only slightly more than a year earlier (DM 41.0 billion), when monetary capital formation was likewise very subdued. After eliminating seasonal influences, monetary capital held at banks grew by an annual rate of 4 % in the period under review, as against 5 ½ % in the previous four months.

2 Money stock M3, domestic non-banks' deposits with the foreign subsidiaries and foreign branches of German banks and the short-term bank debt securities and certificates of domestic and foreign money market funds in the hands of domestic non-banks, less the bank deposits and short-term bank debt securities of domestic money market funds.

The money stock and its principal counterparts

DM billion, seasonally adjusted, change in the period mentioned




1 M3 as a monthly average. — 2 The changes in the counterparts as shown reflect their expansionary (+) or contractionary (–) impact on the money stock; end-of-month levels. — 3 Lending by the banking system to public authorities less the deposits of the Federal Government in the banking system. — 4 Monetary capital formation by domestic non-banks at domestic credit institutions.

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*Components of monetary capital formation*

Credit institutions raised DM 26.8 billion from sales of bank debt securities. The amount of long-term time deposits, however, was stepped up by only DM 18.1 billion; this was significantly less than in the last few years. Savings bonds were sold to the tune of DM 2.7 billion net. Savings deposits at over three months' notice, by contrast, contracted further. At DM 13.2 billion, they dropped much more sharply than they usually do in any case at the beginning of the year on account of maturing savings deposits built up under the Personal Asset Acquisition Act. The banks' capital and reserves mounted by DM 9.7 billion.

*Expansionary impact of the public sector*

Public sector cash transactions had a highly expansionary impact on monetary growth in the period under review. Bank lending to the government sector expanded during this period by DM 38.5 billion; DM 26.5 billion, or around two-thirds, of this amount was accounted for by lending against securities. The high issue volume of the Federal Government, in particular, which used the favourable capital market rates applying at the beginning of the year to sharply raise its net borrowing, was accompanied by a relatively moderate demand from domestic non-banks and declining investment activity by non-residents from February onwards, with the result that credit institutions expanded their securities portfolios markedly. At DM 16.7 billion, loans and advances likewise rose strongly, whereas banks' holdings of money market paper and equalisation claims decreased by DM 4.7 billion. Seasonally adjusted and expanded to yield an annualised rate, lending to the public sector rose by 12 % from January to April, compared with 5½% between September and December 1996. In addition to bank credit, monetary expansion – regarded in isolation – was also fuelled in the period under review by the transfer of the Bundesbank profit totalling DM 8.8 billion to the Federal Government in April and the reduction in the Federal Government's deposits in the banking system amounting to DM 6.0 billion, which are not included in M3.[3]

*Lower lending to the private sector*

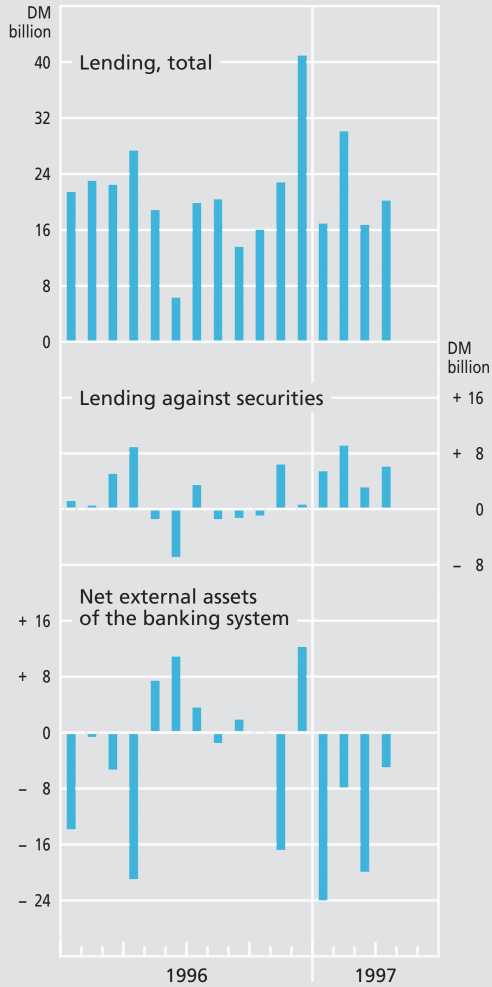
Bank lending to enterprises and individuals, which had grown markedly towards the end of last year in anticipation of the reduction from 1997 in the special depreciation allowances on investment in eastern Germany and the raising of the tax on the acquisition of land and buildings, contracted during the period under review, as was to be expected. In total, private sector indebtedness at credit institutions increased by DM 56.3 billion between January and April, compared with DM 67.8 billion a year earlier. Seasonally adjusted and expanded to yield an annualised rate, this represents an increase of just over 7% (as against just over 8% between September and December 1996). When interpreting this figure, it should be borne in mind that high outflows of funds have been recorded so far this year on domestic non-banks' payment transactions with non-residents.

*Lending, by type of credit*

In the period under review, banks granted credit on a major scale by purchasing securities of the enterprise sector. Securitised lending accounted for around half of total lending to enterprises and individuals. In this context, DM 18.9 billion was accounted for by equities issued by the non-bank sector and DM 8.5 billion by investment fund certificates. As such transactions are mainly conducted in the secondary market, they are not associated with any granting of new loans to the issuer. At a seasonally adjusted annual rate of 7½%, longer-term direct lending grew only

Lending * and
net external assets

Change during month, seasonally adjusted




* Lending by credit institutions to domestic enterprises and individuals.

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3 In the statistical figures of the monetary analysis, the profit transfer is reflected by a decrease in "Other factors", which has an expansionary impact on the money stock.

## Movement of major lending rates

% p. a.

| Type of credit | as in | Average interest rate 1 | Spread 2 |
|---|---|---|---|
| Personal credit lines 3 | Nov. 1996 | 11.30 | 10.25 – 12.25 |
| | May 1997 | 11.21 | 9.75 – 12.25 |
| Current account credit | | | |
| from DM 1 million to less than DM 5 million | Jan. 1993 | 12.06 | 11.00 – 13.75 |
| | May 1997 | 7.76 | 6.00 – 10.50 |
| Bills discounted | Jan. 1993 | 10.36 | 8.95 – 12.25 |
| | May 1997 | 4.73 | 3.00 – 6.85 |
| Mortgage loans secured by residential real estate with interest rates locked in for ten years | Jan. 1993 | 8.33 | 7.98 – 9.28 |
| | May 1997 | 6.90 | 6.49 – 7.42 |
| Long-term fixed-rate loans to enterprises and self-employed persons (excluding housing loans) 3 | | | |
| from DM 200,000 to less than DM 1 million | Nov. 1996 | 6.85 | 5.70 – 9.23 |
| | May 1997 | 6.65 | 5.64 – 8.75 |
| from DM 1 million to less than DM 10 million | Nov. 1996 | 6.57 | 5.50 – 8.30 |
| | May 1997 | 6.44 | 5.55 – 8.50 |

1 The average rates are calculated as unweighted arithmetic means from the interest rates reported within the spread. — 2 The spread is ascertained by eliminating the reports in the top 5 % and the bottom 5 % of the interest rate range. — 3 First collected for November 1996 for the purposes of the restructured interest rate statistics.

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slighly more slowly in the period under review than in the last four months of 1996. At the beginning of the year, its growth was presumably boosted by the fact that short-term loans were converted into longer-term loans in connection with the tax changes applying from 1997 onwards. Short-term lending to trade and industry, which had risen very strongly at the end of last year, declined a little from January to April.

*Lending, by borrower*

According to the quarterly borrowers statistics, (direct) lending decreased on a broad front in the first quarter of 1997. Not only lending to the enterprise sector, but also consumer credit and housing loans expanded distinctly more slowly than in the preceding three months. However, the classification by category of borrowers was presumably again misstated as a result of the corresponding distortions in the previous quarter. At the end of the year, self-employed persons and employed individuals borrowed heavily in order to claim the expiring higher special tax depreciation allowances applying to new rented housing construction in eastern Germany. It was not possible in the time available to mortgage and process all of these amounts as housing loans. Some were therefore temporarily booked and reported as loans to enterprises or as consumer credit, but were rebooked as housing loans in the quarter under review.

*Lending to enterprises*

Against this background, the enterprise sector expanded its indebtedness at credit institutions distinctly less rapidly in the first quarter of 1997, at just over 4 %, than in the last quarter of 1996 (7 %), which was attributable to a decline in short-term loans – in keeping with the above-mentioned supposition. Credit expansion slowed markedly in the services sector and among the professions, in particular. Moreover, the credit requirements of the distribution sector slackened in line with the lacklustre consumption demand. In the manufacturing and construction sectors, by contrast, the propensity to incur debt increased, particularly for short-term debt.

*Consumer credit ...*

Statistically recorded consumer credit remained virtually unchanged on the whole in the first quarter – owing to the strong fall in short-term borrowing – compared with an increase of 10 % (annual rate) from October to December. Housing loans expanded at an annual rate of 8 ½ %, which was three percentage points lower than in the fourth quar-

*... and housing loans*

ter of 1996. This still fairly high level was presumably attributable mainly to the rebooking of loans to enterprises and of consumer credit as housing loans, as explained above.

*Lending commitments still at a high level*

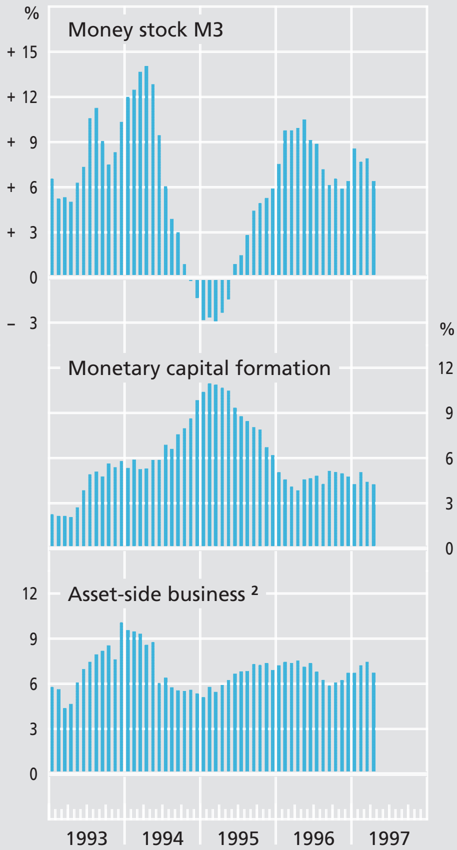
New medium and long-term lending commitments, which had increased rapidly at the end of last year owing to the changes in tax legislation, remained at a fairly high level in the first four months of this year. This probably owed something to the low but volatile and slightly rising capital market rates, which prompted many borrowers to avail themselves of the exceptionally favourable terms by taking up long-term fixed-rate loans. The amount of commitments outstanding increased accordingly.

*Bank lending rates*

Bank lending rates remained virtually unchanged on balance in the past few months. In May, between 10 % (for amounts of less than DM 200,000) and 7 ¾ % (for amounts of DM 1 million to less than DM 5 million) were charged on average for credit in current account. Bills were mostly discounted at 4 ¾ %. Following a temporary slight fall, effective rates charged for long-term fixed-rate loans have meanwhile likewise more or less regained their level of four months ago. In May mortgage loans secured by residential real estate with interest rates locked in for five and ten years cost just under 6 % and just under 7 %, respectively. Variable-rate mortgages most recently cost 6 ¼ %. In May long-term fixed-rate loans to enterprises and self-employed persons mostly cost between 6 ⅔ % (for amounts of DM 200,000 to less than DM 1 million) and 6 ½ % (for amounts of DM 1 million to less than DM 10 million).

## Money stock M3, monetary capital formation and asset-side business of the banking system *

Seasonally adjusted, annual rate 1




* M3: monthly average; monetary capital and asset-side business: end-of-month levels. — 1 Change in the last six months expressed as an annual rate. — 2 Lending to domestic non-banks and net external assets.

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*Monetary growth dampened by outflows of funds on foreign payment transactions*

Domestic non-banks' current and financial transactions with non-residents resulted in heavy outflows of funds between January and April. The net external assets of credit institutions and the Bundesbank, a fall in which statistically reflects such outflows, dropped by DM 94.9 billion, compared with DM 73.7 billion in the corresponding period of 1996. One reason for this may have been that in the first four months of the year domestic non-banks showed a keen appetite for foreign securities – especially equities – whereas foreign investors have shown a pronounced reluctance since February to enter the German securities markets. The large outflows of funds on payment transactions with non-residents noticeably restrained monetary growth, while presumably also having an expansionary impact on lending, particularly in March and April. To that extent, these outflows therefore qualify the impression imparted by the rather buoyant level of lending to the private and public sectors, if viewed in isolation. If the net external position and the overall volume of lending are aggregated to yield the banking system's asset-side business, this figure expanded distinctly more slowly in the last six months, at an annual rate of just over 6 ½ %, than lending to domestic non-banks (8 %).