# Monetary policy, banking business and the capital market

## Interest rate policy and the money market

*Eurosystem interest rates unchanged*

Over the past few months the Governing Council of the ECB has maintained its steady monetary policy course. The underlying assessment is that – despite the rise in the price of oil, which has kept the rate of inflation above 2% – there has so far been no medium-term increase in price pressure. The main refinancing operations have consequently still been conducted as variable rate tenders with a minimum bid rate of 2%. The interest rates on the marginal lending facility and the deposit facility have also kept to their respective previous levels of 3% and 1%.

*Money market rates*

Apart from the short-term interest rate fluctuations frequently observed at the end of the reserve maintenance periods, there were no dramatic swings in money market rates during the period under review. The overnight interest rate (EONIA) was mostly close to the marginal lending rate, which was only a few basis points above the minimum bid rate. With regard to the other money market rates, in early September when market players' expectations of an interest rate increase became stronger still, there was for a time a perceptible increase in the rates on longer-maturity instruments in particular. However, following the meeting of the Governing Council of the ECB in early October, interest rate premiums on longer-maturity instruments declined again and in early November twelve-month deposits were back at their early August level, ie some 25 basis points above the overnight rate. Similarly, forward interest rates on three-month deposits hardly changed on balance in

## Money market management and liquidity needs

The euro-area credit institutions' need for central bank money arising from the autonomous factors determining liquidity went up by €10.6 billion net during the three reserve maintenance periods from 7 July to 11 October 2004. The main cause of this expansion was the €16.0 billion increase in banknotes in circulation; this item grew strongly in the period under review at an annual rate of around 18%. Although the pace of absolute growth slowed distinctly in August owing to seasonal factors, at the end of the September/October reserve maintenance period the figure for banknotes in circulation was €469.5 billion. By contrast, liquidity needs arising from general government deposits declined by €6.8 billion net. If, in order to eliminate valuation effects, the changes in net reserve assets and other factors are taken together, these two items resulted in a slight liquidity withdrawal of €1.4 billion. Excluding the valuation effects, this was mainly due to the reduction in the net reserve assets. The required level of minimum reserves went up by €0.7 billion and also resulted in growing demand for central bank liquidity.

The greater need for liquidity was covered primarily by the main refinancing operations (MROs) being topped up to €11 billion. The volume of longer-term refinancing operations remained unchanged. There were no fine-tuning operations during the period under review. Short-term fluctuations in the credit institutions' current accounts were offset via the standing facilities.

The EONIA rate for overnight money in the interbank market was 2.04% on 46 of 69 trading days in the period under review and was thus again close to the marginal allotment rates for the main refinancing operations. There were fairly large deviations from these rates during the final days following the allotments in the last main refinancing operation of each reserve maintenance period and at the end of the month. The increase in the volatility of the EONIA that was observed after each allotment in the final main refinancing operations in all three reserve maintenance periods reflects not least market players' uncertainty about the development of the liquidity situation at the end of the maintenance periods. In the period under review, money market players evidently rather tended to assume that there would be a liquidity shortage at the end of the maintenance period. The EONIA thus rose slightly to 2.16% on 10 August despite the excess liquidity signalled by recourse to the deposit facility amounting to €4.0 billion on that day. By contrast, on 6 August the EONIA had slipped down to 1.93%. On that day market participants correctly assumed that there would be sufficient liquidity at the end of the period.

The EONIA followed a comparable path in the subsequent reserve maintenance period. Despite recourse to the deposit facility of €2.2 billion net on the final day of the August/September period, the EONIA rose to 2.17% on the same day.

On 11 October, the final day of the September/October reserve maintenance period, the EONIA soared to this year's record high of 2.77%. On the same day, recourse to the marginal lending facility in the euro area amounted to €7.6 billion. This was due to the somewhat higher than expected autonomous factors. Six days previously, the overnight rates had begun to climb as the market anticipated the liquidity deficit that actually occurred. At the start of the new November/December reserve maintenance period the EONIA fell back again, as expected, to 2.05%.

### Factors determining bank liquidity [1]

€ billion; calculated on the basis of daily averages of the reserve maintenance periods

| Item | 2004: 7 July to 10 Aug | 11 Aug to 7 Sep | 8 Sep to 11 Oct |
|---|---|---|---|
| I Provision (+) or absorption (–) of central bank balances by | | | |
| 1 Change in banknotes in circulation (increase: –) | – 11.8 | – 1.9 | – 2.3 |
| 2 Change in general government deposits with the Eurosystem (increase: –) | + 3.9 | + 4.8 | – 1.9 |
| 3 Change in net foreign reserves [2] | – 7.4 | – 1.4 | – 0.6 |
| 4 Other factors [2,3] | + 7.7 | + 0.6 | – 0.3 |
| Total | – 7.6 | + 2.1 | – 5.1 |
| II Monetary policy operations of the Eurosystem | | | |
| 1 Open market operations | | | |
| (a) Main refinancing operations | + 8.2 | – 2.0 | + 4.8 |
| (b) Longer-term refinancing operations | ± 0.0 | – 0.0 | + 0.0 |
| (c) Other operations | – | – | – |
| 2 Standing facilities | | | |
| (a) Marginal lending facility | – 0.3 | + 0.1 | + 0.2 |
| (b) Deposit facility (increase: –) | – 0.1 | – 0.0 | + 0.2 |
| Total | + 7.8 | – 1.9 | + 5.2 |
| III Change in credit institutions' current accounts (I + II) | + 0.3 | + 0.2 | – 0.0 |
| IV Change in the minimum reserve requirement (increase: –) | – 0.5 | – 0.3 | + 0.1 |

**1** For longer-term trends and the contribution of the Deutsche Bundesbank, see pages 14* and 15* of the Statistical Section of this *Monthly Report*. — **2** Including end-of-quarter valuation adjustments with no impact on liquidity. — **3** Including monetary policy operations concluded in the second stage and still outstanding in the third stage of monetary union (outright transactions and the issuance of debt certificates) as well as financial assets not connected with monetary policy.

Deutsche Bundesbank

the period under review. A ¼ percentage point change in interest rates is currently not expected until mid-2005.

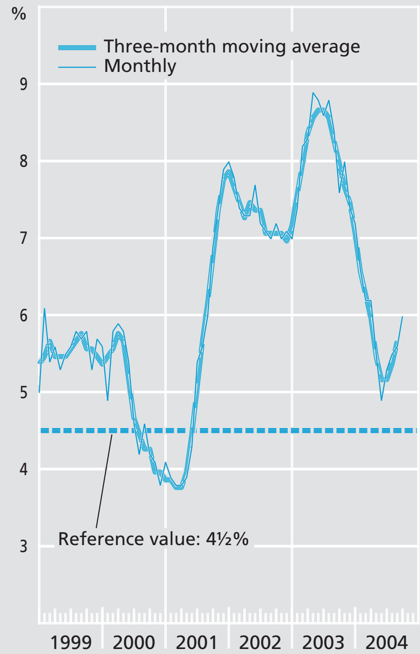
## Monetary developments in the euro area

*Monetary expansion accelerates*

The monetary slowdown which had been apparent since the second half of 2003 came to a halt. Euro-area M3 increased far more distinctly between July and September than in the preceding quarters. Following a 5% annualised seasonally adjusted three-month rate of change at the end of both March and June, the money stock grew at a rate of 8% in the third quarter. The three-month moving average of annual growth rates went up from 5.2% for the April-June period to 5.7% for the July-September months.

Growth of the money stock M3 in the euro area

Seasonally adjusted, annual percentage change



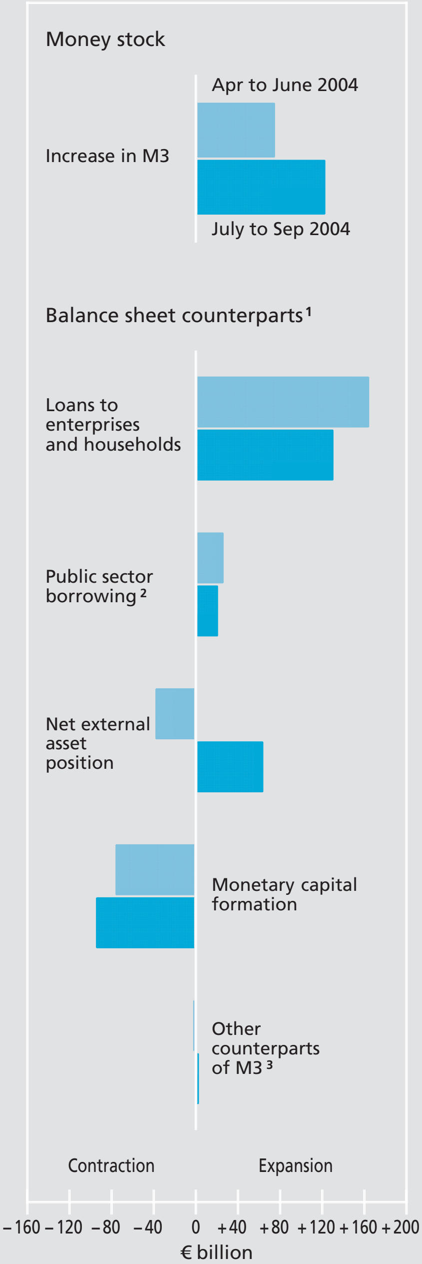

Deutsche Bundesbank

*Components of the money stock*

The increase in the money stock was mainly attributable to its liquid components. Between July and September overnight deposits increased at a seasonally adjusted annualised growth rate of 10½%. At the end of June that rate had still been 1%. Cash holdings also expanded more strongly in the third quarter than in the first half of 2004. All in all, the money stock M1 increased in the third quarter of 2004 at an annual rate of 12%. There was also a substantial topping-up of other short-term bank deposits (excluding overnight deposits) in the period from July to September. The increase was not only in deposits redeemable at notice of up to three months but also in deposits with an agreed maturity of up to two years. After what had been, in part, a very extensive reduction in the preceding quarters, the financial intermediaries – such as insurance companies – were especially active in building up deposits of this kind in the July-September period. Given sliding capital market rates and range-bound equity markets, during the summer months institutional investors appeared to be attracted to the idea of parking liquidity in short-term time accounts remunerated at market rates. By contrast, there was little demand for the negotiable financial instruments included in the money stock M3. Although investment in money market fund shares was being expanded markedly, this was offset by a decline in money market paper outstanding and short-term bank debt securities. Repurchase operations were stagnating by the end of the period under review.

## Euro-area M3 and its balance sheet counterparts

€ billion, seasonally adjusted, change over the period indicated




**1** Changes in balance sheet counterparts are shown in terms of whether they expand (+) or contract (–) the money stock. — **2** Bank loans to general government less euro-area central government deposits with MFIs and holdings of securities issued by the MFI sector. — **3** Calculated as errors and omissions from the remaining items of the consolidated balance sheet of the MFI sector.

Deutsche Bundesbank

*Balance sheet counterparts*

The strong boost to the money stock in the quarter under review came mainly from the sustained strong increase in lending to the domestic private sector, including loans in particular. Loans increased in the third quarter by just over 7½%, ie at a similar pace as in the second quarter (just under 8%). Given the ongoing shifts from short-term into longer-term loans, demand for long-term housing loans was again particularly high. In addition, consumer credit and corporate lending were latterly also gaining momentum.

Moreover, during the period under review a large amount of funds accrued to the euro area through foreign payment transactions, after the clear decline of such inflows had slowed the pace of monetary growth in the euro area until early summer. The net external assets of the MFI sector, which reflects payment transactions between domestic non-banks and non-euro-area residents, rose by €61 billion in the third quarter. In recent years, such inflows of funds had frequently originated from securities transactions with non-euro-area residents. Hence, if domestic investors again sell more securities to non-residents than they purchase from them while the euro exchange rate continues to rise, this alone can lead to a sustained acceleration of monetary growth.

By contrast, lending by domestic banks to the euro-area general government sector weakened perceptibly in the months under review. Between July and September it actually decreased in non-seasonally adjusted terms by as much as €2½ billion; in the same period in 2003 it had been expanded by €38½ billion.

Monetary expansion was again curbed by the strong growth of monetary capital formation. In addition to the further marked increase in longer-term time deposits, domestic MFIs again placed large volumes of bank debt securities with maturities of more than two years outside the domestic banking sector. Since capital market rates are low, longer-term bank bonds are currently enjoying great popularity. The yield spread over comparable government bonds is likely to have been a contributory factor here.

### Lending and deposits of monetary financial institutions (MFIs) in Germany *

€ billion

| Item | 2004 July to Sep | 2003 July to Sep |
|---|---|---|
| Deposits of domestic non-MFIs 1 | | |
| Overnight | + 5.7 | − 0.8 |
| With agreed maturities | | |
| up to 2 years | + 1.3 | − 12.0 |
| over 2 years | + 5.3 | + 9.5 |
| At agreed notice | | |
| up to 3 months | + 1.4 | + 5.8 |
| over 3 months | − 0.2 | − 4.2 |
| Lending | | |
| to domestic enterprises and households | | |
| Unsecuritised | + 2.8 | + 7.5 |
| Securitised | − 5.6 | − 3.2 |
| to domestic government | | |
| Unsecuritised | − 0.4 | + 0.6 |
| Securitised | + 6.1 | − 3.0 |

***** As well as banks (including building and loan associations, but excluding the Bundesbank), monetary financial institutions (MFIs) here also include money market funds; see also Table IV.1 in the Statistical Section of the *Monthly Report*. — **1** Enterprises, households and government excluding central government.

Deutsche Bundesbank

## Deposit and lending business of German banks with domestic customers

*Clear increase in liquidity preference in Germany*

In the third quarter there was a clear increase in liquidity preference in Germany, too. After having experienced no more than a very moderate rise in the second quarter, short-term deposits of domestic enterprises and households with German banks were topped up strongly on a broad front in the period from July to September. By contrast, the increase in the longer-term investment activity of domestic private non-banks in domestic banks in the months under review was well down on the second quarter and vis-à-vis the euro area. Declining yields on fixed-interest securities since the mid-year point and range-bound equity markets probably boosted domestic non-banks' demand for liquid bank deposits.

*Marked increase in overnight deposits*

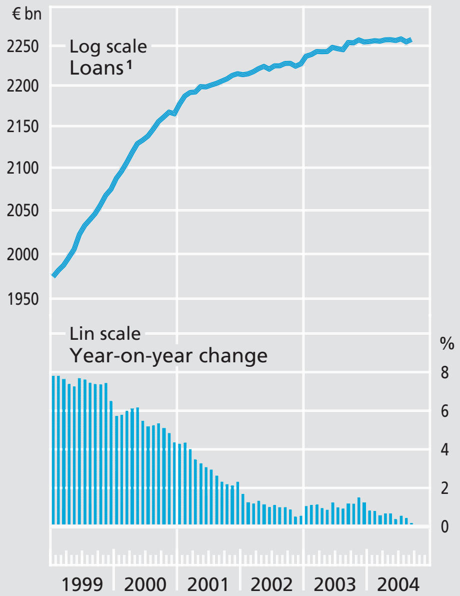
Turning to short-term bank deposits, overnight money rose strongly in the third quarter after having stagnated in the previous quarter. From July to September it expanded by 11% in seasonally adjusted annualised terms. Overnight deposits from insurance corporations and non-financial enterprises were a determinative factor.

*First new increase in short-term time deposits ...*

For the first time since the second quarter of 2002, deposits with agreed maturities of up to two years also increased again in the quarter under review. Here too, it was only the corporate sector which topped up its portfolio of short-term time deposits. Households, however, reduced them further – albeit less markedly than in the previous quarters; nonetheless, they renewed their investment in short-term savings deposits. The annualised

Loans to domestic enterprises and households

Seasonally adjusted




1 End of month; adjusted for statistical changes.

Deutsche Bundesbank

*... and further increase in short-term savings deposits*

three-month growth rate of investment in deposits redeemable at notice of three months was 4% at the end of September, after 6% at the end of June. The main demand was still for savings deposits with particularly attractive yields.

*Moderate increase in longer-term bank deposits*

Longer-term bank deposits were expanded only moderately in the quarter under review after continuing to be very popular in the previous quarter. In the period under review the increase affected only time deposits with a maturity of more than two years, which, as in the previous quarter, were again topped up by insurance corporations in particular. However, there was a further slight decrease in longer-term savings deposits (with an agreed period of notice of more than three months) in the quarter under review.

*Credit expansion still weak*

In the quarter under review the credit business conducted by German banks with their domestic non-bank customers again remained well below the buoyant credit expansion in the rest of the euro area. The annualised seasonally adjusted three-month growth rate rose at the end of September to just under 1½% after the previous quarter's credit stagnation. However, this increase is due almost entirely to the purchase by domestic banks of securities issued by the domestic public sector. In the quarter under review lending to domestic enterprises and households remained virtually unchanged, as did unsecuritised lending by German banks to general government in Germany. However, the trend towards substituting longer-term loans for short-term loans, which has been observable for some time, continued.

*Further decline in credit demand despite stable credit standards*

The ongoing weak credit development in Germany still appears to be primarily due to low credit demand. This is indicated by the October results of the Eurosystem's bank lending survey.[1] According to data supplied by the German institutions participating in the survey, net credit demand from both enterprises and households exhibited rather weak growth overall in the third quarter compared with the euro area. That is particularly true of long-term corporate and housing loans. As far as enterprises are concerned, the primary causes are said to be the decline in fixed capital formation while among private customers the slide in consumer confidence is cited. Supply-side factors, however,

1 See Deutsche Bundesbank, German results of euro-area bank lending survey, *Monthly Report,* June 2003, pp 67-76. The aggregate survey results for Germany can be viewed under http://www.bundesbank.de/volkswirtschaft/vo_veroeffentlichungen.en.php.

played a negligible role in the weak credit growth in Germany. In any case, the banks did not tighten their credit standards further in the past three months (see adjacent chart). The evolution of credit standards in Germany is thus more or less in line with developments in the euro area.[2] The respondent institutions are again expecting broadly unchanged credit standards for all categories of lending in the fourth quarter. With regard to demand, banks are expecting a perceptible recovery in the field of corporate loans in the next quarter.

*Ongoing tendency towards wider margins*

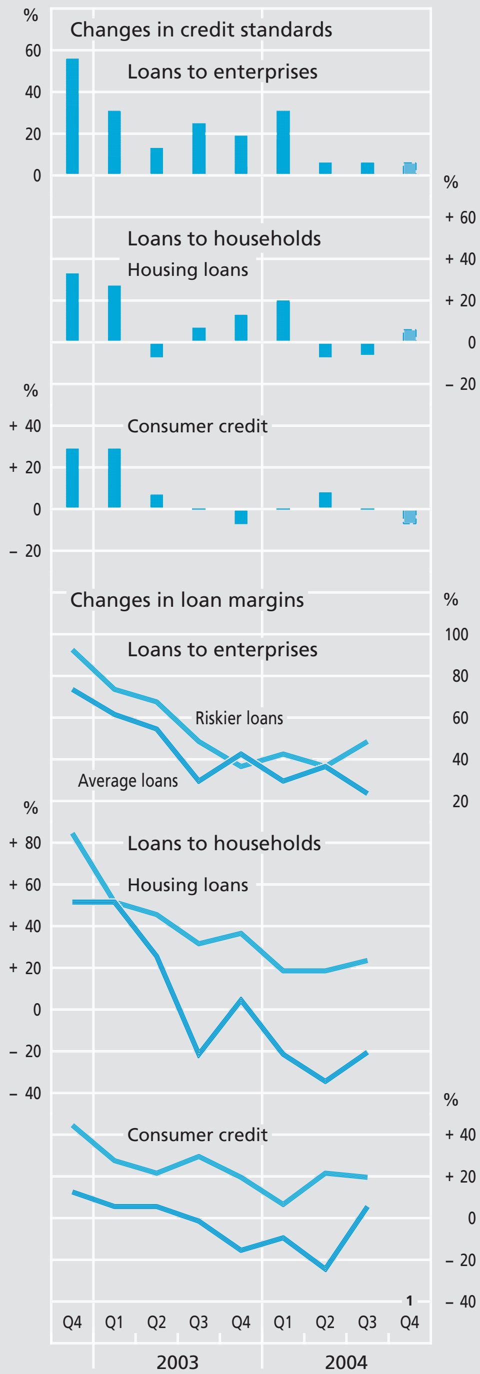
Despite virtually unchanged credit standards, the trend towards increasing credit risk premia also continued in the third quarter of 2004. The margin spread was also more pronounced than in the euro area as a whole (see adjacent chart). According to data supplied by the institutions taking part in the survey, there were – apart from the margins – virtually no further changes in other lending conditions such as collateral requirements or maturities in the third quarter of 2004.

*Fall mainly in corporate lending rates*

With regard to new business, German banks offered most lending to non-financial enterprises at cheaper rates in the third quarter of 2004. Particularly for long-term corporate lending, the banks are charging far less interest than in the previous quarter. For instance, depending on the credit volume, they have recently been charging between 4.4% and 5.0% on long-term corporate loans. In some cases, the rates on housing loans also declined noticeably in the period under review.

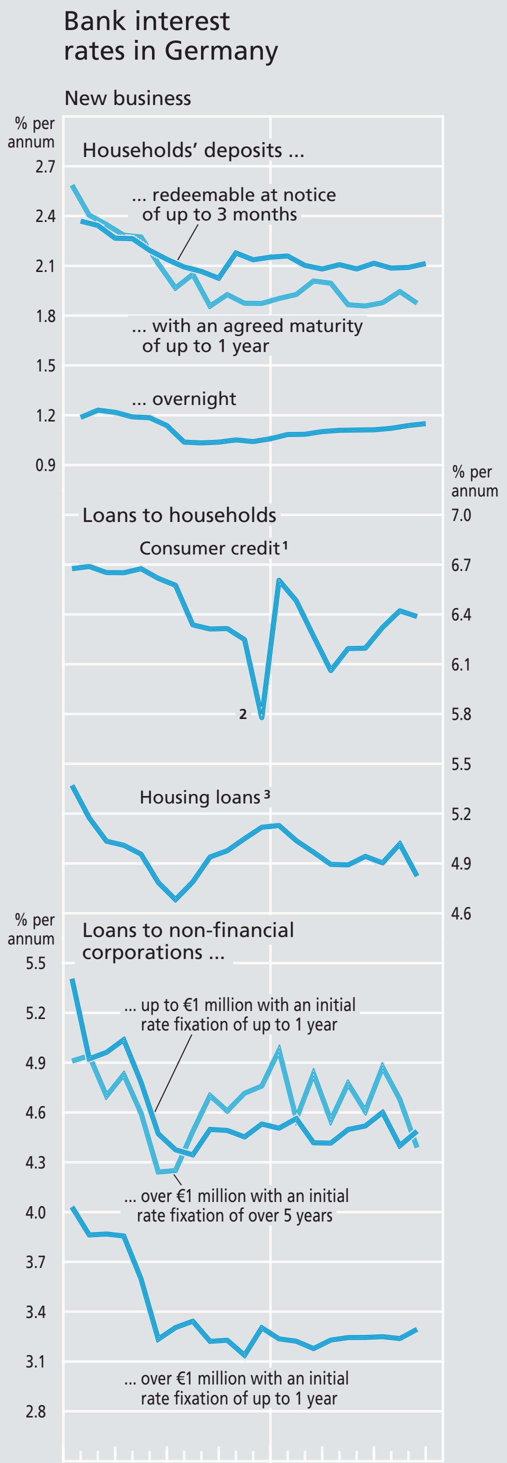
2 See European Central Bank, *Monthly Bulletin,* November 2004, pp 17-21.

Bank Lending Survey*




* Difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". — **1** Expectations for Q4.

Deutsche Bundesbank




1 With an initial rate fixation of over 1 year and up to 5 years. — 2 Decline owing to special effect. — 3 With an initial rate fixation of over 5 years and up to 10 years.

Deutsche Bundesbank

For loans with an interest rate fixation up to ten years, the rate was 5.0% towards the end of the period under review. By contrast, new consumer loans did not develop uniformly between July and September: whereas banks reduced their charges for loans with a short interest rate fixation, they were charging rather more for longer-term consumer credit than in the previous quarter.

*Little change in deposit rates*

The interest rates on deposits at domestic credit institutions remained virtually unchanged in the third quarter. Towards the end of the period – depending on the maturity – the rates on households' time deposits were between 1.9% and 2.7%, while those for enterprises were between 2.0% and 3.9%. The interest paid on savings deposits redeemable at notice of up to three months was 2.1%. For longer maturities the banks paid 2.5%.

## Securities markets

*Capital markets affected by euro appreciation and higher oil prices*

Developments in the financial markets were affected from the mid-year point onwards by the marked rise in oil prices and the perceptible appreciation of the euro vis-à-vis the US dollar. While, overall, prices rose slightly against a background of distinct fluctuations in the euro-area equity markets, the interest rate level declined. For instance, the yields on ten-year euro-area government bonds fell compared to early July by more than ½ percentage point to 3¾% at the end of the period under review. The decrease in long-term yields on dollar-denominated bonds was somewhat smaller. While US bond yields fluctuated widely, the yield spread of ten-year US

Treasuries over comparable euro-area bonds evened out at times, before rising to just under ½ percentage point by the end of the period under review. In connection with the decline in yields in the euro bond markets, there was a perceptible flattening of the yield curve. The gap between ten-year and three-month yields in the euro area narrowed in the period under review from 2¼% to 1⅔%.

*Yield curve flatter*

*Real interest rates on the decline*

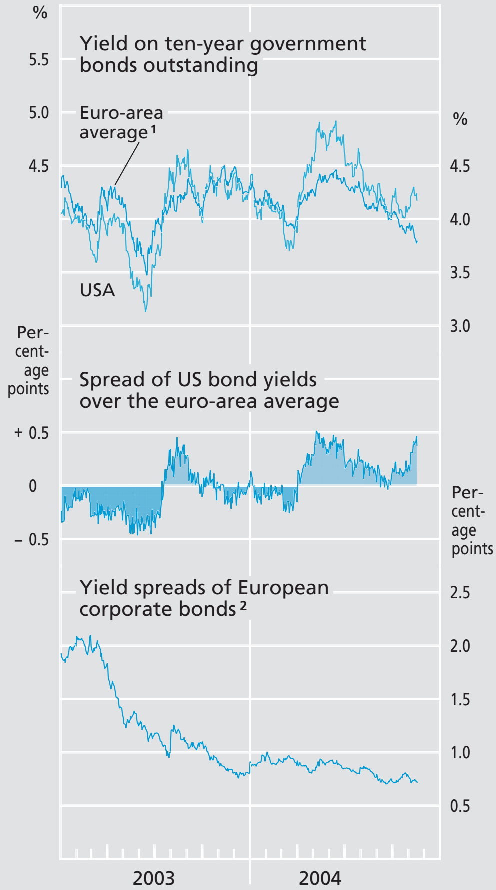
Against a backdrop of rather subdued expectations for the global economy in general and the euro area in particular, the decline in bond yields in the period under review was due primarily to a lower real interest rate component. This is indicated by the movement in the prices of inflation-indexed bonds which are linked to the European consumer price index. The (real) yields on these instruments fell by just over ½ percentage point, ie by an extent similar to nominal bond yields. After a slight increase in the second quarter, the break-even inflation rate derived from a comparison of nominal and inflation-indexed bond yields remained, on balance, virtually unchanged at 2⅓% in the period under review. Market participants are apparently tending to associate rising oil prices with the risk of an economic slowdown rather than with expectations of a longer-term increase in inflation rates.

*Low yield spreads on corporate bonds*

The cost of raising funds in the market for corporate bonds improved further in the third quarter of 2004. At the end of the period under review, the spreads on corporate bonds with a BBB rating (the lowest investment grade rating) over government bonds with the same maturities was roughly 75 basis points and therefore close to the long-standing lows. The generally low yield level in the capital market evidently prompted investors to take larger volumes of higher-yield – but hence riskier – paper into their portfolios (in a search for yield).

## Bond yields in the euro area and the USA

Daily data




**1** Weighted average of the yields on ten-year government bonds of all euro-area countries; GDP-weighted. — **2** Spread of seven to ten-year BBB-rated European corporate bonds over euro-area government bonds with a comparable maturity. Source: Merrill Lynch Indices.

Deutsche Bundesbank

*Fluctuating equity rates in Germany and Europe*

Since the middle of the year prices in the European equity markets have been affected by the changes in investor sentiment. Follow-

Nominal and real bond yields

Weekly averages


1 Weighted average of the yields on ten-year euro-area government bonds; GDP weighted. — 2 Calculated from the 2001 inflation-indexed French government bond OAT€i yielding 3%; maturity date: 25 July 2012.

Deutsche Bundesbank

ing considerable temporary price losses, a positive view has prevailed again in the end; in keeping with the recent decline in the price of oil, this resulted in euro-area equity prices rising by just over 4% by the time this *Monthly Report* went to press. In Germany, the fluctuations in equity prices as measured against the CDAX price index were somewhat more marked still; on balance, share prices rose by 3%.

*Forecasts point to low evaluation level in the equity market*

Compared with the persistently high earnings expectations for the current and the coming years, the valuation of equities on the European markets still looks comparatively low over the long term, which suggests a high risk premium on equity investment. Measured in terms of the forecast average year-on-year earnings for the Dow Jones EuroStoxx price index,[3] the October price-earnings ratio of 13.1 was well below the long-term average of 16.5.[4] The range of estimated earnings per share has increased somewhat since August. It is, however, still below the average of recent years.

## Sales and purchases of securities

*Sales receipts in the German bond market*

Large amounts of resources were again invested in the German bond market in the third quarter. Overall, domestic issuers sold debt securities to a nominal value of €303½ billion, as opposed to €290½ billion in the previous quarter. Owing to higher redemptions and changes in issuers' holdings of their own debt securities, net sales amounted to €33 billion in the period under review. In addition, sales of foreign bonds in the German market raised €23 billion net. Total funds raised from the sale of domestic and foreign debt securities thus amounted to €56 billion in the period under review. That was somewhat less than in the previous quarter (€78 billion) but far more than in the same period in the previous year (€21 billion).

*Credit institutions expanded their bonded debt*

At €23 billion net, more than two-thirds of the domestic funds raised again accrued to the credit institutions. The main demand was for other bank debt securities (€24 billion) and debt securities issued by special purpose credit institutions (€14½ billion). The volume of mortgage Pfandbriefe outstanding, however, remained unchanged. On balance, pub-

3 I/B/E/S forecasts.
4 From November 1999, estimates for the Dow Jones EuroStoxx; from 1989 to October 1999, estimates for the DAX.

lic Pfandbriefe were redeemed (-€15½ billion).

*Fewer funds raised by the public sector*

The public sector accounted for €5 billion of the funds raised in the third quarter. Most of this amount was raised by Federal Government issuances, reflecting an expansion of its bonded debt across the whole maturity range. Ten-year and thirty-year Bund issues raised €2 billion net and €3½ billion net, respectively. Sales of two-year Treasury notes (Schätze) raised €2½ billion and five-year Federal notes (Bobls) raised €3½ billion. Moreover, in the period under review a bond issued by the Currency Conversion Equalisation Fund was redeemed for €1 billion, one originally issued by the former Deutsche Bundespost was redeemed for €2½ billion and one originally issued by the former Treuhand agency for €5 billion.[5] The federal states increased their bonded debt by €2½ billion in the third quarter.

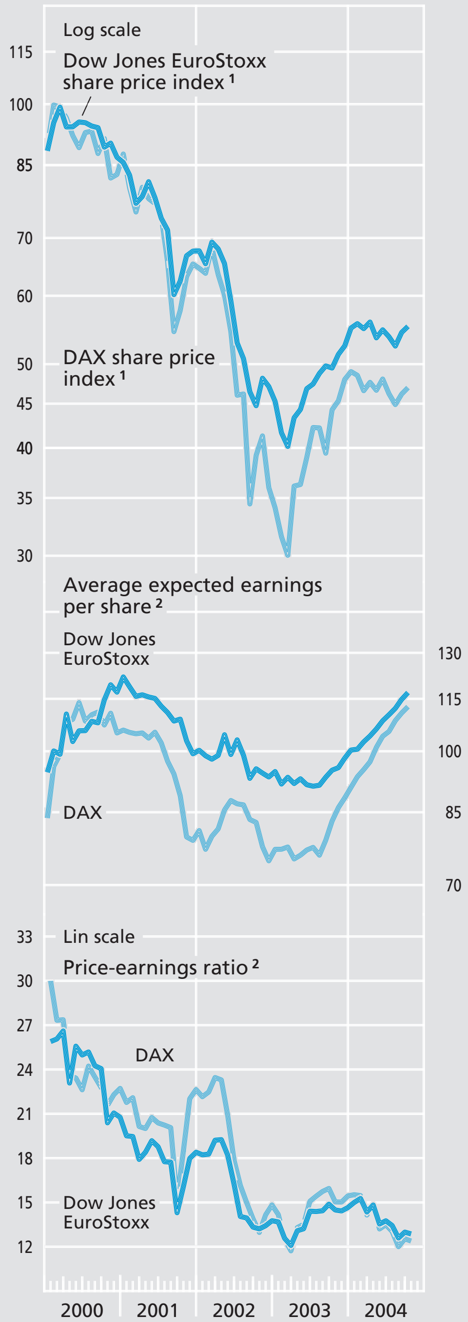
*Enterprises issued bonds to the detriment of money market paper*

Low interest rates led to a restructuring of securitised liabilities in the corporate sector in favour of longer maturities. In the third quarter €12½ billion worth of corporate bonds were sold, as opposed to just over €2 billion in the same period in the previous year. However, these figures include revenue from the securitisation of Federal Government claims on Russia. The volume outstanding of money market paper issued by German enterprises fell by €8 billion.

5 In 1995 the debts of the Treuhand agency were transferred to the Redemption Fund for Inherited Liabilities. In 1999 responsibility was assumed by the Federal Government.

Price movements and earnings estimates for European and German public limited companies

Monthly data




1 March 2000 = 100; source: Deutsche Börse AG. — 2 Based on I/B/E/S forecasts of 12-month forward earnings per share. Source: Thomson Financial Datastream.

Deutsche Bundesbank

**Investment activity in the German securities markets**

€ billion

| Item | 2004 Apr to June | 2004 July to Sep | 2003 July to Sep |
|---|---|---|---|
| **Bonds and notes** | | | |
| Residents | 63.7 | 27.6 | 27.8 |
| Credit institutions | 38.2 | 26.7 | 4.0 |
| *of which* | | | |
| Foreign bonds and notes | 18.8 | 14.2 | 0.2 |
| Non-banks | 25.5 | 0.9 | 23.8 |
| *of which* | | | |
| Domestic bonds and notes | 14.3 | – 7.7 | 23.4 |
| Non-residents | 14.2 | 28.3 | – 7.0 |
| **Shares** | | | |
| Residents | 16.9 | – 16.1 | 1.5 |
| Credit institutions | – 5.4 | – 7.3 | – 1.5 |
| *of which* | | | |
| Domestic shares | – 6.2 | – 3.5 | 0.0 |
| Non-banks | 22.3 | – 8.8 | 3.0 |
| *of which* | | | |
| Domestic shares | 23.0 | – 2.4 | – 1.0 |
| Non-residents | – 11.7 | 6.7 | 3.1 |
| **Mutual fund shares** | | | |
| Investment in specialised funds | 0.1 | – 4.9 | 4.0 |
| Investment in funds open to the general public | – 1.3 | 1.0 | 2.6 |
| *of which:* Share-based funds | – 1.4 | – 1.8 | 0.3 |

Deutsche Bundesbank

*Marked increase in purchase of domestic bonds by non-residents*

The principal buyers in the bond market were domestic credit institutions and non-residents. In the third quarter banks purchased €26½ billion net of bonds and notes, following €38 billion in the second quarter. Particularly worthy of note is the high level of foreign investment in the German market, which saw investment purchases increase from €14 billion in the second quarter to €28½ billion in the third. Almost two-thirds of these purchases were of general government bonds.

*Lower volume of funds raised in the equity market*

Issuing activity in the German equity market declined in the third quarter. Domestic enterprises placed new shares with a market value of only €1 billion. In the previous quarter, the volume of shares outstanding had increased by €5 billion, primarily as a result of a capital increase by a big bank. After minimal change in the second quarter, the volume of foreign equities outstanding in the German market fell by as much as €10 billion.

*Equities purchased by foreign investors*

On balance, German equities were purchased solely by foreign investors in the third quarter. They added €6½ billion worth of paper to their equity portfolios, while credit institutions reduced their holdings of domestic equities by €3½ billion and non-banks reduced theirs by €2½ billion. At the same time, credit institutions sold €4 billion worth of foreign equities and non-banks sold €6½ billion worth.

*Sales of mutual fund shares*

In the third quarter domestic investment funds had to accommodate a larger outflow of funds (-€4 billion) than in the previous quarter (-€1 billion). On balance, only the specialised funds earmarked for institutional investors were affected by redemptions (-€5 billion). By contrast, foreign funds sold €3 billion worth of shares and domestic funds open to the general public €1 billion worth. Of the funds open to the general public, money market funds attracted the most investment (€2½ billion). Open-end real estate funds sold €1 billion worth of shares and mixed funds sold €½ billion worth. By contrast, shares in share-based funds and bond-based funds were redeemed (-€2 billion and -€1 billion respectively), as in the previous quarter.