Monetary policy and banking business

Interest rate policy and the money market

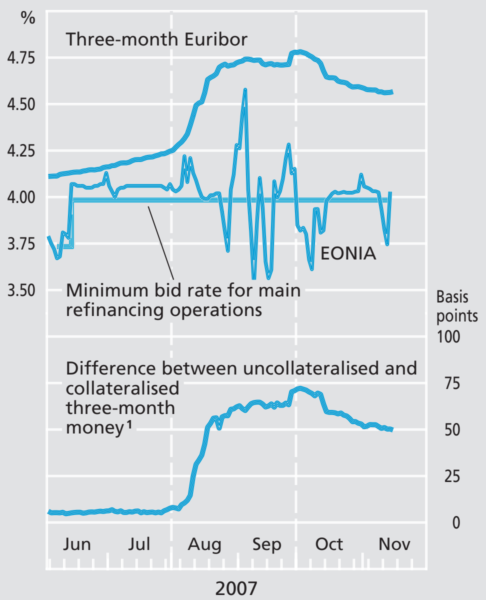
Interest rate policy course remains steady

The Governing Council of the European Central Bank left the Eurosystem's key interest rates unchanged in the third quarter. Since the last interest rate increase on 13 June, the main refinancing operations have been conducted consistently with a minimum bid rate of 4%; the interest rates on the marginal lending facility and the deposit facility have been 5% and 3%, respectively. A steady monetary policy course was justified by the particularly large degree of uncertainty in assessing the possible impact of the financial market turbulence, which was brought about by the problems in the US subprime mortgage loan market. Furthermore, the temporary tension in the money market strongly confirmed the advisability of keeping the central bank rates unchanged. However, the monetary policy's primary objective of maintaining price stability was not affected by this. With the subsequently progressive relaxation of tension in the money markets, the increasing inflationary risks were also brought into sharper focus again. This was due to the fact that there was a steep rise in energy prices and the increase in the prices of food and other consumer goods and services increasingly gave rise to such concerns.

Interest rate developments in money market characterised by financial market turbulence

Since the beginning of August, interest rate developments in the money market have been reflecting the increased level of uncertainty in banks' liquidity management. This development was due to the effects of the crisis in the US subprime market and is particularly evident in changes in the EONIA

Money market interest rates in the euro area



1 Three-month Euribor less three-month Eurepo.

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overnight rate at which banks trade overnight liquidity. Although this rate is usually slightly above the marginal allotment rate, it initially rose significantly at the beginning of August when the banks were confronted with considerably higher liquidity risks. These risks stemmed from the danger that the banks' own financing and securitisation vehicles, which had invested either directly or indirectly in the US subprime market, would draw on their credit lines unexpectedly with respect to both timing and scale. In order to reduce the tensions and to offset the associated functional shortcomings in the longer maturity segments of the money market, the ECB expressed its willingness to counter the sudden liquidity shortages by offering generous refinancing facilities. To this end, the Eurosystem again carried out generous liquidity-providing fine-tuning operations in addition to the regular main refinancing operations, especially at the beginning of the turmoil in the money markets. Later, the long-term tender operations were also supplemented by means of additional special refinancing operations with a three-month maturity (see the table on page 27). Only in exceptional cases did banks feel compelled to take greater recourse to the significantly more expensive marginal lending facility. However, the abundant supply of liquidity meant that, subsequently, the overnight interest rate fell well below the minimum bid rate, a development which was later corrected again using Eurosystem liquidity-absorbing fine-tuning operations. The purpose of these supportive Eurosystem measures was to prevent long-term and destabilising liquidity shortages for the financial system as a whole and thus to boost confidence in the markets during this particularly critical period.

The high degree of nervousness that reigned among market participants for a time was also reflected in the development of the somewhat longer-term money market rates, which had gone up significantly at the beginning of the turbulence in the financial markets owing to the sharp rise in risk premiums on the uncollateralised money market. For example, the interest rate premium for uncollateralised three-month money (Euribor) initially went up to a total of just over ¾ percentage point vis-à-vis collateralised three-month money (Eurepo). This interest rate spread did not start to decline again until about mid-October. As this report went to press, the interest rate spread, at ½ percentage point,

Money market management and liquidity needs

During the three reserve maintenance periods between 11 July and 9 October 2007, euro-area credit institutions' need for central bank liquidity, which is determined by autonomous liquidity factors, rose by €5.3 billion net. The volume of banknotes in circulation continued to expand robustly, absorbing €6.0 billion. In the period under review, this volume reached its highest level for the current year, peaking at €645.0 billion on 3 August 2007. General government deposits with the Eurosystem increased by a total of €9.8 billion and likewise raised liquidity needs. If the net foreign reserves and the other factors are taken together, which eliminates liquidity-neutral valuation effects, there was a decline of €10.5 billion in banks' liquidity needs over the three periods, which were therefore at around the prior-year level. This decline was mainly caused by Eurosystem purchases of financial assets which are unrelated to monetary policy. Credit institutions were comfortably able to meet the minimum reserve requirement, which expanded by €4.1 billion over the three maintenance periods (see the table on page 26).

During the reporting period, liquidity management within the Eurosystem had to contend with some particular challenges on account of the tensions which arose in the money market in early August 2007. In order to keep the money market functioning as normally as possible, the Eurosystem not only provided generous liquidity but also enabled the banks to fulfil their reserve requirements earlier within the maintenance period by changing the structure of liquidity provision (frontloading). In addition, the mix of maturities for the open market operations was adjusted to give three-month refinancing operations a greater weight than those with a weekly maturity. All in all, the Eurosystem did not provide any more liquidity than it had done in the preceding periods. Nevertheless, within the reserve maintenance period, liquidity was distributed differently. On the whole, the monetary policy framework of the Eurosystem demonstrated that it was capable of responding effectively and flexibly to special liquidity situations.

During the July-August maintenance period, no signs of perceptible strains in the money market had yet been registered in the EONIA.

In the August-September maintenance period overnight funds ran low on 9 August despite the (ECB's) generous allotment policy and the rates climbed during the day to a level of 4.60% owing to shortages in the US dollar money market. This prompted the ECB to conduct liquidity-providing fine-tuning operations. In four consecutive operations, the volumes were €94.8 billion, €61.1 billion, €47.7 billion and €7.7 billion (see the table on page 27). As liquidity needs were not easy to quantify, the first fine-tuning operation was conducted as a fixed-rate tender at 4.00% with pre-announced full allotment of the bids received. All three subsequent procedures, however, were conducted using normal tender procedures, ie as variable rate tenders with a minimum bid rate and without pre-announced allotment amounts. Following these operations, the EONIA was fixed at 4.05%, thus returning to a level close to the minimum bid rate. These rapidly acting operations were supplemented by a substantial topping-up of the regular (weekly) main refinancing operations (MROs) as well as a further long-term tender with a volume of €40.0 billion. The main reason for this was that only a small group of commercial banks took part in the fine-tuning operations. The volumes allotted above the MRO benchmark amount were €73.5 billion, €46.0 billion, €14.5 billion and €5.0 billion. While the size of the last allotment was consistent with the ECB communication on the gradual reduction of amounts allotted above the benchmark, the market found it so inadequate that on the value date of the MRO the EONIA climbed to 4.59%. A liquidity-providing fine-tuning operation on the following day with a volume of €42.2 billion succeeded in bringing the EONIA back down to 4.05%. The maintenance period ended with a liquidity-absorbing fine-tuning operation with a volume of €60.0 billion and the EONIA standing at 3.87%.

The September-October maintenance period was likewise characterised by banks' hoarding behaviour and the volatility of overnight funds. Owing to dried-up longer-term segments of the money market, the bulk of liquidity continued to be rolled over in the overnight segment. In order to relieve the pressure on this segment and, at the same time, revive maturities of one week or longer, the Eurosystem conducted an additional supplementary long-term tender with a volume of €75.0 billion. Despite this, there was little discernible easing of the situation, as the excess liquidity was again being traded almost exclusively in the overnight market, not least as a result of many banks' cautious lending policies. With respect to the MROs, volumes were being allotted well above the benchmark amount at €10.0 billion, €36.0 billion, €33.0 billion and €7.5 billion. A striking factor was the very high marginal rate of 4.27% which applied to the MRO of 26 September 2007 despite a generous allotment policy. There were various reasons for this. First, the precautionary demand for central bank liquidity remained high. Second, the tender encompassed the end of the quarter. Third, banks placed additional safety bids, having received a zero allotment in the previous week's tender. Over the course of the entire maintenance period the EONIA fluctuated between 3.57% and 4.29%. A liquidity-absorbing fine-tuning operation resulted in the EONIA standing at 3.95% on the final day of the maintenance period.

With the onset of the October-November maintenance period in 2007, the EONIA rate gradually stabilised at a level close to the minimum bid rate of 4.00%. Even so, the MRO rates remained at a high level with the marginal allotment rate for the tender standing at 4.14% on 7 November.

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Factors determining bank liquidity *

€ billion; changes in the daily averages of the reserve maintenance periods vis-à-vis the previous period

Item	2007 11 Jul to 7 Aug	8 Aug to 11 Sep	12 Sep to 9 Oct
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors			
1 Banknotes in circulation (increase: –)	– 8.4	+ 0.5	+ 1.9
2 General government deposits with the Eurosystem (increase: –)	+ 1.6	+ 0.0	– 11.4
3 Net foreign reserves [1]	– 6.3	+ 0.6	+ 4.6
4 Other factors [1]	+ 9.4	+ 2.0	+ 0.2
Total	– 3.7	+ 3.1	– 4.7
II Monetary policy operations of the Eurosystem			
1 Open market operations			
(a) Main refinancing operations	+ 6.3	– 33.0	– 74.4
(b) Longer-term refinancing operations	± 0.0	+ 21.7	+ 90.6
(c) Other operations	– 0.1	+ 9.0	– 9.9
2 Standing facilities			
(a) Marginal lending facility	– 0.1	+ 0.0	+ 0.1
(b) Deposit facility (increase: –)	– 0.1	– 0.0	– 1.2
Total	+ 6.0	– 2.3	+ 5.2
III Change in credit institutions' current accounts (I + II)	+ 2.4	+ 0.7	+ 0.7
IV Change in the minimum reserve requirement (increase: –)	– 2.9	– 0.6	– 0.6

* For longer-term trends and the Deutsche Bundesbank's contribution, see pages 14* and 15* of the Statistical Section of this *Monthly Report*. — 1 Including end-of-quarter valuation adjustments with no impact on liquidity.

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was still significantly higher than it had been in July, for example, when it stood at less than 0.1 percentage point – ie before the outbreak of the financial market turbulence.

Monetary developments in the euro area

Monetary growth accelerates

At a seasonally adjusted annual rate of just over 11½%, the euro-area money stock M3 grew much more sharply in the third quarter than in the second quarter when the pace of growth decelerated somewhat for a time. As in previous quarters, German investors were less inclined to increase their sight deposits, which often bear only a low rate of interest, or their cash holdings and were more intent on augmenting, above all, M3 components which are remunerated at market rates. During the period under review, there was a particularly sharp rise in short-term time deposits, repurchase agreements and bank debt securities with an original maturity of up to two years. While short-term time deposits have been expanded sharply since key Eurosystem interest rates were tightened in the fourth quarter of 2005, it is only in the past few months that there has again been noticeably greater demand for short-term bank debt securities and repurchase agreements. The increase in short-term repurchase agreements – ie domestic non-banks' deposits at euro-area banks which are backed by securities – is likely to be linked to the recent tension in the money market. However, the strong growth in outstanding short-term bank debt securities outside the banking sector is also likely to be due to the developments in the money market as this short-

Open market operations of the Eurosystem

Value date	Type of trans-action 1	Maturity in days	Actual allotment in € billion	Deviation from the benchmark in € billion	Marginal rate/fixed rate %	Allotment ratio %	Weighted rate %	Cover ratio % 2	Number of bidders
08.08.07	MRO	7	292.5	1.0	4.06	27.24	4.07	1.34	319
09.08.07	FTO (+)	1	94.8	–	fixed: 4.00	–	–	1.00	49
10.08.07	FTO (+)	3	61.1	–	4.05	–	4.08	1.80	62
13.08.07	FTO (+)	1	47.7	–	4.06	–	4.07	1.77	59
14.08.07	FTO (+)	1	7.7	–	4.07	–	4.07	5.97	41
15.08.07	MRO	7	310.0	73.5	4.08	47.99	4.10	1.38	344
22.08.07	MRO	7	275.0	46.0	4.08	25.82	4.09	1.60	355
24.08.07	S-LTRO	91	40.0	–	4.49	75.20	4.61	3.14	146
29.08.07	MRO	7	210.0	14.5	4.08	79.30	4.09	1.68	320
30.08.07	LTRO	91	50.0	–	4.56	37.65	4.62	2.40	168
05.09.07	MRO	7	256.0	5.0	4.15	25.78	4.19	1.67	356
06.09.07	FTO (+)	1	42.2	–	4.06	–	4.13	2.15	46
11.09.07	FTO (–)	1	– 60.0	–	4.00	90.38	–	1.11	37
12.09.07	MRO	7	269.0	10.0	4.14	68.24	4.17	1.51	381
13.09.07	S-LTRO	90	75.0	–	4.35	22.58	4.52	1.85	140
19.09.07	MRO	7	155.0	36.0	4.15	69.03	4.16	2.30	371
26.09.07	MRO	7	190.0	33.0	4.27	18.59	4.29	1.94	378
27.09.07	LTRO	84	50.0	–	4.50	72.08	4.63	1.71	159
03.10.07	MRO	7	163.0	7.5	4.14	92.97	4.16	1.83	316
09.10.07	FTO (–)	1	– 24.5	–	4.00	60.89	–	1.64	18
10.10.07	MRO	7	218.0	40.0	4.12	36.10	4.16	1.48	342
12.10.07	FTO (–)	5	– 30.0	–	4.00	74.85	–	1.34	22
17.10.07	MRO	7	171.0	18.0	4.11	78.59	4.14	1.66	349
24.10.07	MRO	7	182.0	14.5	4.11	2.88	4.14	1.67	245
31.10.07	MRO	7	170.0	9.5	4.14	62.59	4.16	1.69	308
01.11.07	LTRO	91	50.0	–	4.45	77.43	4.53	1.75	157
07.11.07	MRO	7	160.0	3.5	4.14	65.69	4.15	1.72	300
13.11.07	FTO (–)	1	– 27.8	–	4.00	100.00	–	1.00	10
14.11.07	MRO	7	182.0	20.0	4.15	83.72	4.16	1.54	298

1 MRO: main refinancing operation, LTRO: longer-term refinancing operation, S-LTRO: supplementary longer-term refinancing operation, FTO: fine-tuning operation (+: liquidity providing operation, –: liquidity absorbing operation). — **2** Ratio of total bids to the allotment amount.

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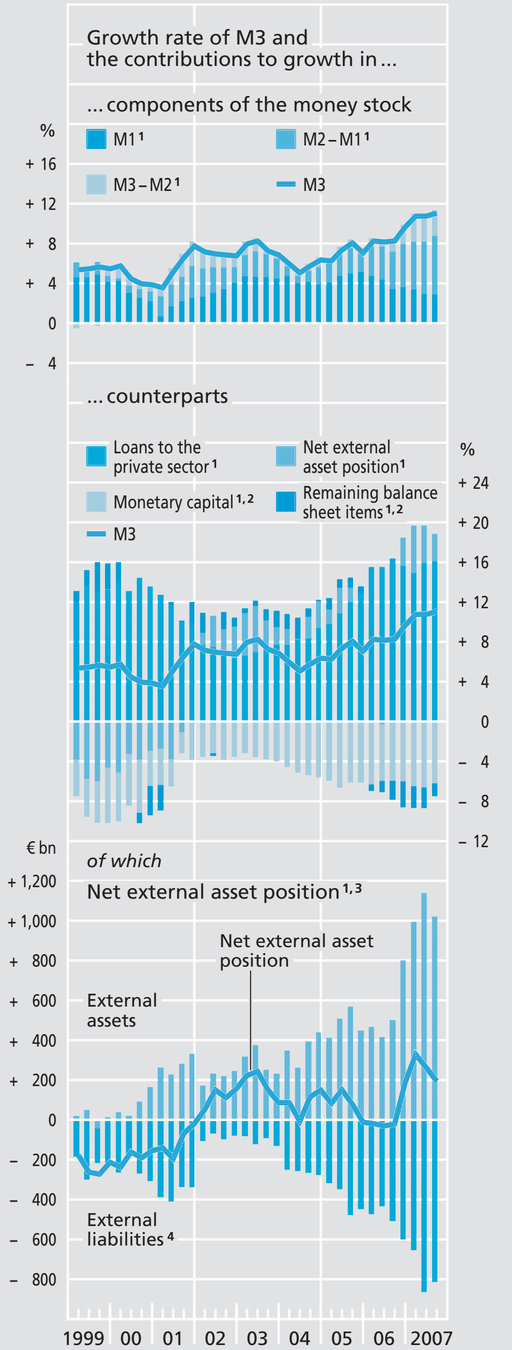
dated paper is traditionally remunerated close to the Euribor, which had risen substantially in the quarter under review. By contrast, investors' demand for money market funds, some of which were also indirectly invested in the US market, declined substantially following the refusal of some funds to conduct fire sales during this period of turmoil in order to repurchase their own shares. This is likely to have contributed to the significant decline in money market fund shares in the quarter under review, which fell by a seasonally adjusted and annualised 11%. In the previous quarter, this form of investment benefited, in particular, from the fairly low interest rate differentials between money and capital markets.

Heavy lending to private sector continues ...

The private sector's strong demand for credit is still the main driving force behind monetary expansion. In seasonally adjusted and annualised terms, the increase amounted to 12½% in the third quarter, compared with 13½% in the previous quarter. This means that in the case of non-financial corporations, in particular, the increase in bank lending rates, of between 1.1 percentage points and 2.2 percentage points, recorded over the past two years has not had a dampening effect on borrowing. One reason for this is likely to be the greater credit utilisation for corporate takeovers and mergers during this period. However, data provided by banks participating in the Bank Lending Survey show a discernible tightening of credit standards for enterprises in the third quarter, especially in the case of lending for corporate takeovers. There was

Components and counterparts of the money stock in the euro area

Seasonally adjusted, quarterly



1 Calculated from the changes cumulated over 12 months. — 2 Taken in isolation, an increase curbs M3 growth. — 3 Not seasonally adjusted. — 4 Increase: –.

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also a sharp rise in unsecuritised lending to other financial intermediaries at the end of the period under review. The financial assistance given by banks to their securitisation subsidiaries is also likely to have had an impact here. By contrast, the declining trend in loans to households observed over the past few quarters continued. Although housing loans were still 7.8% up on the year at the end of the period under review, this figure was as high as 8.4% in June. The more subdued momentum in the real estate markets in some euro-area countries evidently had a dampening effect on the demand for loans. The effects of the higher mortgage rates and the first signs of the slight tightening of banks' credit standards in the third quarter reported by a number of euro-area countries were also apparent in this important subsegment of the European credit markets. Consumer credit and other lending to households, with annual growth rates of 5% and 3.4% respectively, continued to develop at a visibly more sluggish pace than housing loans in the quarter under review.

... while banks increase securities acquisitions

Outside the traditional credit business, euro-area banks once again significantly increased their holdings of securities issued by domestic enterprises in the third quarter. In doing so, they acquired exclusively fixed-income securities, which were predominantly denominated in euro. By contrast, they sold domestic shares and other equities after they had purchased these on a large scale in the previous quarter.

In contrast to events in preceding quarters, the expansionary effect of the large volume

Moderate rise in longer-term investment with banks

of lending on M3 growth was not dampened by a sharp rise in monetary capital formation. The longer-term bank deposits and even more so the longer-term bank debt securities showed only a comparatively moderate increase. Bank debt securities rose at no more than a seasonally adjusted annual rate of just under 3% in the third quarter, which was the weakest annual rise recorded since the second quarter of 2001. This was probably due to the significant narrowing of the spread between longer-term and shorter-term bank debt securities, which was caused by the rise in three-month interest rates as a result of the financial market turmoil. While German and Dutch banks redeemed net amounts of such paper, Spanish banks, in particular, issued significantly fewer longer-term bank debt securities than in previous quarters. Domestic investors were also far less inclined to increase their longer-term time deposits. These were expanded by a seasonally adjusted 5½% during the reporting period after they had increased by an annualised rate of 13% in the second quarter. Other financial intermediaries, in particular, contributed to this slowdown, which was probably due to the fact that, owing to the financial market turbulence, they had recorded far smaller inflows of funds through credit securitisation business, which had previously proved so profitable.

Significant decline in banks' net external asset position

There was a marked decline in banks' net external asset position in the third quarter, and this, in itself, had a significant dampening effect on monetary expansion in the euro area. Between July and September, substantial outflows of funds from non-banks to countries outside the euro area were observed primarily in France, the Netherlands and Ireland, whereas German non-banks recorded net inflows of funds from non-euro-area countries.

Monetary analysis indicates continuation of longer-term inflation risks

From a monetary policy perspective, the acceleration in monetary and credit growth is still a cause for concern. The recent developments in the financial markets have played a very limited role in this respect. Although the higher risk premiums are also likely to be reflected in the interest rates of banks and have a certain dampening effect on credit growth, the knock-on effects of the financial market turbulence on the credit and money creation policies of banks have been quite moderate so far. Given the growing importance of the price impulses stemming from oil price developments and the food sector, the adequate supply of liquidity of non-banks remains a serious risk factor.

German banks' deposit and lending business with domestic customers

Sharp increase in shorter-term bank deposits

As in the rest of the euro area, short-term bank deposits of domestic customers showed a further perceptibly sharp rise in the third quarter; they went up by a seasonally adjusted and annualised rate of 13½%. As in the preceding quarters, there was strong demand for short-term time deposits remunerated at market rates, in particular. Following the latest interest rate increase by the Governing Council of the ECB, the banks raised their rates for time deposits with an agreed maturity of up to two years by around ¼ percentage point, whereas interest rates on short-

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

€ billion

Item	2007 July to Sep	2006 July to Sep
Deposits of domestic non-MFIs 1		
Overnight	+ 8.5	− 13.1
With agreed maturities		
of up to 2 years	+ 45.5	+ 23.9
of over 2 years	+ 4.5	+ 5.7
Redeemable at agreed notice		
of up to 3 months	− 13.2	− 12.2
of over 3 months	+ 1.4	+ 3.8
Lending		
to domestic enterprises and households		
Unsecuritised	+ 17.5	+ 17.2
Securitised	− 0.9	− 2.1
to domestic government		
Unsecuritised	− 6.2	− 3.0
Securitised	− 6.3	− 8.7

* 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.

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term savings deposits increased only slightly. In some cases, there are likely to have been further shifts away from short-term savings deposits, which were significantly reduced during the reporting period. Furthermore, funds from other investment areas are also likely to have been moved into short-term time deposits. Much the same applies to investments in money market funds, which recorded strong outflows of funds in Germany in the third quarter. In view of the recent financial market turmoil, funds which, in the past, tended to be invested in longer-term bank debt securities and which recently showed a sharp decline could also have been temporarily parked in high-interest-bearing short-term time deposits while waiting to see how the yields developed in the money and capital markets. In contrast to what happened in the two preceding quarters, however, there was also substantial growth in overnight deposits. These were used mainly by other financial intermediaries, which, evidently, built up their liquidity buffer with banks to a large extent to ensure that they were always able to meet any payment obligations resulting from the return of share certificates and other securities issues.

Interest also shown in longer-term bank deposits

Whereas investors were clearly reluctant to invest in longer-term bank debt securities, they continued to show interest in longer-term bank deposits at the end of the period under review. In the reporting quarter, these bank deposits were built up at a seasonally adjusted annual rate of 4½%, compared with 3½% in the previous quarter. The operations of domestic insurance companies, which, in times of uncertain interest rate prospects, tend to prefer longer-term time deposits, often in the form of registered bank debt certificates, were major contributing factors in this. Households also stocked up their long-term savings deposits.

Slight increase in loans to private sector ...

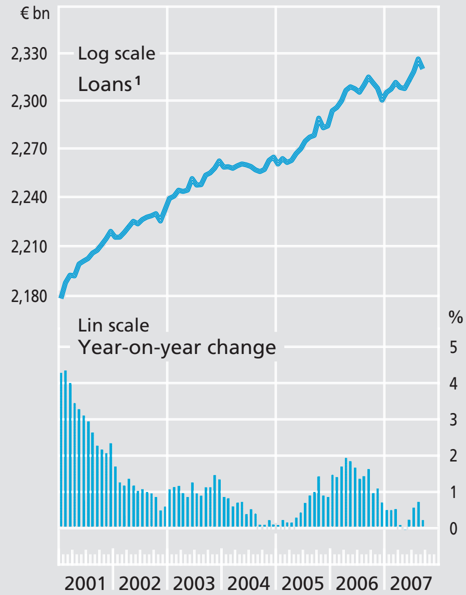
In contrast to lending in other euro-area countries, lending by German banks to domestic customers developed only weakly. Furthermore, German credit institutions reduced their investments in the domestic securities markets. They reduced their loans to domestic general government by an even greater amount. Increases were recorded only in the area of loans to enterprises and households in Germany in the third quarter, albeit by little more than 1% in seasonally adjusted and annualised terms.

... with quite heterogeneous sectoral developments

With regard to the individual sectors, for which only seasonally unadjusted figures are available, it was primarily the non-financial enterprises which again took recourse to bank loans. Loans to these enterprises were 2.9% up on the year at the end of the period under review. Although other financial intermediaries also stepped up their unsecuritised borrowing from German banks, this increase was much lower than it had been in the preceding two years. The stagnation in lending to households also had a dampening effect on domestic credit growth in the reporting quarter. In the previous year, households substantially increased their borrowing from German banks in the third quarter, especially for the purpose of housing construction. On the whole, banks' lending to German households was 0.9% down on the year.

Loans to domestic enterprises and households

Seasonally adjusted



1 End of month; adjusted for statistical changes.

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Credit standards still unchanged to expansionary despite financial market turbulence

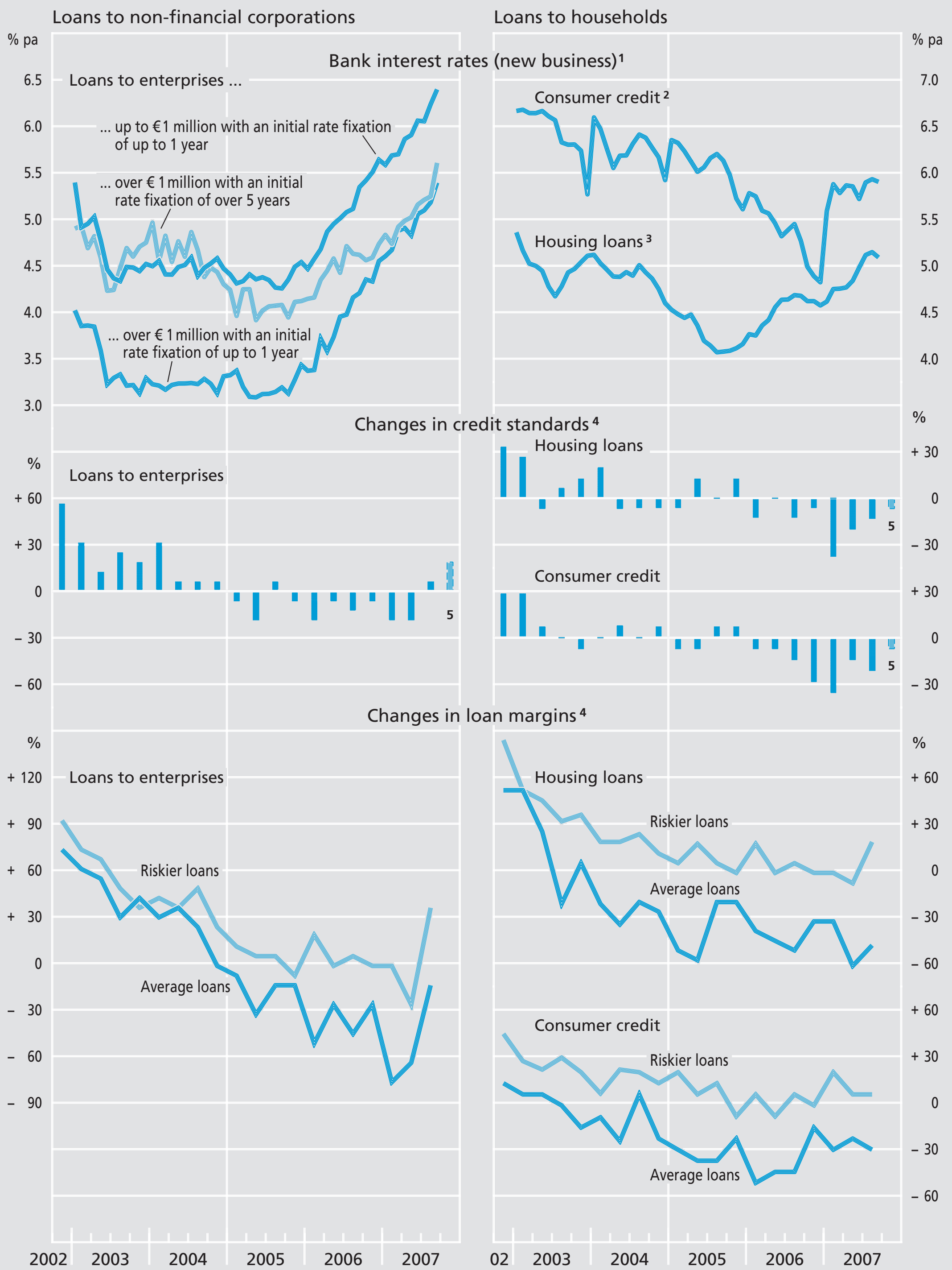
The reasons for the weakness in credit growth are still to be found mainly on the demand side: the sluggish pace of growth in housing construction has been curbing banks' real estate financing business for a number of years now. Furthermore, the favourable earnings situation of enterprises has been enabling them to finance their buoyant investment from their own financial resources. Consequently, according to information provided by German banks participating in the Eurosystem's Bank Lending Survey, there were still no particular additional constraints on credit supply in the third quarter of 2007, despite the turmoil in the credit markets. In fact, as in the previous quarter, the credit supply policy of German banks was less tense than in the euro area as a whole. Thus, the credit standards for both housing loans and consumer credit were eased again slightly, whereas they remained virtually unchanged in the case of corporate loans on the whole. The margins for average-risk exposures declined significantly, while the margins for riskier loans tended to increase somewhat.

Impact of financial market turbulence on lending only minor in reporting quarter

The survey participants also reported that the lending conditions for loans to households were unaffected by the turmoil in the financial markets.[1] If viewed in isolation, it was only in the area of corporate lending that the developments in the financial markets con-

1 A few additional questions were added to the Bank Lending Survey in the third quarter to take account of the isolated effects of the turmoil in the financial markets on the lending policies of the participating institutions. A selection of the responses to these questions is shown in the chart above.

Banking conditions in Germany



1 According to harmonised MFI interest rate statistics. — 2 With an initial rate fixation of over 1 year and up to 5 years. — 3 With an initial rate fixation of over 5 years and up to 10 years. — 4 According to Bank Lending Survey; percentage difference between the numbers of respondents reporting “tightened considerably” and “tightened somewhat” and the numbers of respondents reporting “eased somewhat” and “eased considerably”. — 5 Expectations for 2007 Q4.

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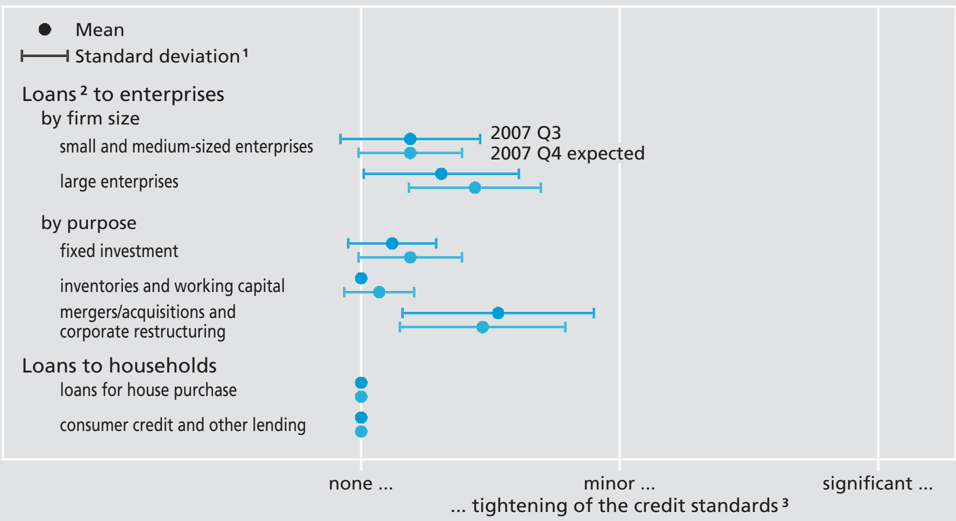
Effects of financial market turbulence on the credit standards of German banks participating in the Bank Lending Survey*



* Additional questions relating to these effects are published on the Bundesbank's website at www.bundesbank.de/volkswirtschaft/vo_veroeffentlichungen.en.php. — **1** The indicated spread includes a standard deviation. In purely mathematical terms, the spread can also lie outside the range of possible responses. — **2** Including credit lines. — **3** Means and standard deviations are calculated on the basis of the following quantification: 1 = Contributed considerably to tightening of credit standards; 2 = Contributed somewhat to tightening of credit standards; 3 = Has basically had no impact on credit standards.

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tributed to a somewhat more restrictive lending policy on the part of the banks participating in the survey. This primarily affected loans to large enterprises and the financing of mergers and acquisitions. By contrast, loans to small and medium-sized enterprises were affected to a lesser extent.

Little effect expected for fourth quarter as well

Banks are expecting that the current developments will continue in the fourth quarter as well. They are anticipating somewhat more restrictive credit standards in the corporate sector with the exception of small and medium-sized enterprises and largely unchanged standards for loans to households.

Lending and deposit rates rise in Germany

Owing to market developments, especially in the shorter-term maturity segment, German banks' lending and deposit rates went up again in the third quarter. Contributory factors were not only the tightening of the Eurosystem's interest rate policy but also the general reassessment of risks, which was reflected in the higher interest rate spreads. There were, however, no major adjustments, such as the sharp rise in interest rate premiums seen in the interbank money market. Overall, interest rates for loans to enterprises went up by an average of ¼ percentage point. Thus, at the end of the period under review, institutions were demanding interest rates of between 5.4% and 6.4% for short-term loans and between 5.4% and 5.6% for long-term loans, depending on the size of the loan. The cost of loans for house purchase also went up in the period under review. The terms for loans with an interest rate fixation of over ten years stood at 5.1% in the quarter under review, compared with 5.0% in the second quarter. The terms for consumer credit intensified in the medium-term maturity band, in particular, whereas they eased somewhat at the long end of the maturity spectrum. The time deposits of households with a maturity of up to one year benefited the most from the improved interest rate conditions in deposit business with German banks. With an average interest rate of 4.0%, rates were ¼ percentage point higher than at the end of June.