Monetary policy and banking business

Monetary policy and money market developments

ECB Governing Council raises key interest rates by 25 bp

The ongoing global economic recovery and the still very expansionary monetary policy contributed to the continued positive economic developments in the euro area over the winter months. The recovery, driven largely by export growth to date, has strengthened business confidence and makes a rapid upturn in domestic demand, especially gross fixed capital formation, look likely, which should in turn increasingly buoy the economy. Against this backdrop and given the continued upwards movement in commodity prices, the Governing Council of the ECB concluded that the upside risks to price stability in the euro area warranted an adjustment of the exceptionally accommodative monetary policy stance. In early April it therefore decided to raise key interest rates by 25 basis points with effect from 13 April 2011. As the present corridor width of 150 basis points was left untouched, the Eurosystem is currently remunerating balances held in the deposit facility at ½% and charging 2% for recourse to the marginal lending facility. The main refinancing rate stands at 1¼%.

Lower excess liquidity triggers a rise in overnight rates

During the first quarter of 2011, banks reduced their excess liquidity appreciably, amid fluctuations. On the one hand, this led to a further narrowing of the average spread between overnight rates and the main refinancing rate. On the other hand, full allotment in refinancing operations caused demand-driven fluctuations in excess liquidity to be reflected in the overnight rate. From a monetary policy perspective, however, this in-

Money market management and liquidity needs

During the three reserve maintenance periods from 19 January to 12 April 2011, euro-area credit institutions' need for central bank liquidity determined by autonomous liquidity factors fell by €44.4 billion in net terms. The demand for liquidity from banknotes in circulation decreased by €9.5 billion, owing to the usual seasonal fall in demand for banknotes in the January-February 2011 maintenance period, counteracting the sharply increased demand in the pre-Christmas period. Changes in the remaining autonomous factors also contributed to a decline in demand for liquidity in the period under review. First, general government deposits with the Eurosystem went down by €8.2 billion on balance and, second, if the net foreign reserves and the other factors are taken together, a move which eliminates liquidity-neutral valuation effects, there was a renewed decrease in liquidity needs of €26.7 billion. One reason for this outcome was that several national central banks of the Eurosystem increased their holdings of euro-denominated securities not related to monetary policy. However, the disbursements of the Bundesbank profits in the amount of €2.2 billion on 8 March also contributed to this effect. Minimum reserve requirements declined by a total of €1.2 billion in the three maintenance periods and led to a further decline in demand for central bank liquidity.

As in previous months, the Eurosystem made it easier for credit institutions to obtain liquidity by fully meeting their demand for central bank liquidity – over and above the benchmark amount. Liquidity-providing open-market operations continued to be carried out as fixed-rate tenders with full allotment of the submitted bids (see table on page 29). In addition, at its meeting on 3 March 2011, the Governing Council of the ECB decided to continue the full allotment policy both in main and longer-term refinancing operations at least until the end of the June-July 2011 maintenance period. The three-month refinancing operations will again be allotted at the fixed rate, which is indexed to the average of the minimum bid rates or the main refinancing rates of the main refinancing operations over the life of this operation.

Having benefited from the reduced demand for liquidity from autonomous factors and the reserve requirement, demand for liquidity in open-market operations decreased markedly in the period under review. Comparing period averages, despite the volume of longer-term refinancing operations growing by around €19 billion (net), the volume of main refinancing operations declined substantially by around €100 billion. The banks' weakened demand led to a perceptibly lower outstanding refinancing volume and caused average recourse to the deposit facility in the Eurosystem per maintenance period to fall considerably: comparing period averages, a net decrease of just over €43 billion was recorded in the period under review. By contrast, recourse to the marginal lending facility, which was generally rather moderate over the three maintenance periods under review, increased temporarily in the February-March period: Due to special effects arising from the restructuring of the Irish banking sector, recourse peaked at as high as €17 billion.

The purchases made as part of the Securities Market Programme (SMP) continued in the period under review, albeit to a small extent. Overall, the amount outstanding – even if matured securities are taken into account – increased by €0.5 billion to total €77.0 billion in this period. The weekly liquidity-absorbing fine-tuning operations almost fully neutralised the liquidity-providing effect that resulted from the programme. Only in the January-February maintenance period did a slight underbidding occur in the course of an SMP liquidity absorbing tender. Furthermore, the Eurosystem continued to conduct a liquidity-absorbing fine-tuning operation on the last day of every maintenance period throughout the period under review in order to withdraw excess central bank liquidity no longer needed to meet reserve requirements.

The merely three week long January-February 2011 maintenance period was characterised by at times scarce liquidity which resulted from a relatively low level of excess liquidity (ie central bank liquidity exceeding the benchmark amount) and left its mark on overnight money in the form of increased volatility and high rates. Despite the fact that, in the first two weeks of the period, the outstanding volume of main and longer-term refinancing operations (excluding liquidity-absorbing fine-tuning operations) was – at an average of around €484 billion – slightly above the level recorded in the last week of the preceding period, an increased demand for liquidity from autonomous factors, the hitherto limited progress in fulfilling the minimum reserve requirements and – notwithstanding these circumstances – the high recourse to the deposit facility (measured in terms of excess liquidity), led to a certain liquidity shortage. Boosted by end-of-the-month effects, the EONIA climbed to 1.32% and was thus well above the main refinancing rate of 1.00%. In response to this, credit institutions significantly increased their demand for liquidity by around €48 billion to €214 billion in the final main refinancing operation of the period. This, in turn, led to a sharp decline of up to 0.35% in EONIA fixings and a rebound in recourse to the deposit facility. The daily use of the deposit facility averaged €39 billion over the period compared with €66 billion in the previous period. At the same time, the reduced liquidity supply caused EONIA to rise to an average of 0.85% in this period, which was substantially up on the previous period (0.47%). The underlying EONIA-turnover remained virtually unchanged at an average of €40.9 billion compared with the previous period (€40.4 billion). Secured overnight money trading on Eurex Repo's GC Pooling trading platform saw a similar development in rates. On a volume-weighted average, the overnight rate was recorded at 0.93% (previous period 0.43%), while the respective turnover averaged €9.4billion (previous period €12.4 billion).

In the February-March maintenance period, demand for liquidity from the banks declined noticeably, primarily in the case of the main refinancing operations. This was due to the average allotment volume in the main refinancing operations dropping to €134 billion, having still stood at €185 billion in the previous period. As a result, recourse to the deposit facility also decreased to €27 billion on average over the period. With regard to overnight rates, the development of EONIA followed the typical pattern. With high fixings at the beginning of the period (up to 1.093%), which were mainly attributable to frontloading on the part of credit institutions, the rates for overnight money gradually declined to 0.38% as the period progressed. EONIA was thus recorded at 0.66% on average – almost 20 basis points lower than in the previous period. This decline had virtually no impact on underlying trading activity as the relevant average EONIA-turnover (€41.1 billion) remained at the average level of the previous period. On average over the period, the secured overnight rate on GC Pooling was likewise significantly down on the period at 0.62% while turnover increased (average volume €11.9 billion).

Factors determining bank liquidity[1]

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

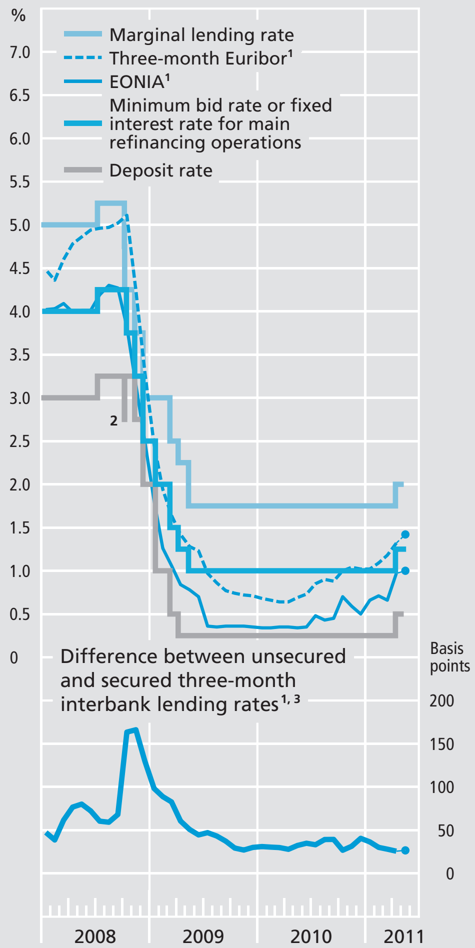
Item	2011 19 Jan to 8 Feb	9 Feb to 8 Mar	9 Mar to 12 Apr
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors			
1 Banknotes in circulation (increase: –)	+ 11.9	+ 1.1	– 3.5
2 Government deposits with the Eurosystem (increase: –)	– 19.9	+ 11.4	+ 16.7
3 Net foreign assets[2]	+ 22.2	+ 0.3	– 5.9
4 Other factors[2]	– 18.4	+ 13.2	+ 15.3
Total	– 4.2	+ 26.0	+ 22.6
II Monetary policy operations of the Eurosystem			
1 Open market operations			
(a) Main refinancing operations	– 11.6	– 51.0	– 37.1
(b) Longer-term refinancing operations	+ 1.6	+ 2.8	+ 14.4
(c) Other operations	– 11.5	+ 1.7	+ 0.5
2 Standing facilities			
(a) Marginal lending facility	– 0.4	+ 7.5	– 6.8
(b) Deposit facility (increase: –)	+ 27.3	+ 12.3	+ 3.9
Total	+ 5.4	– 26.7	– 25.1
III Change in credit institutions' current accounts (I + II)	+ 1.2	– 0.7	– 2.4
IV Change in the minimum reserve requirement (increase: –)	– 1.8	+ 0.7	+ 2.3

1 For longer-term trends and the Deutsche Bundesbank's contribution, 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.

Credit institutions' interest in main refinancing operations continued to subside in the March-April maintenance period – no more than €97 billion were demanded and allotted in these operations on average over the period. Towards the end of the maintenance period the outstanding volume of main and longer-term refinancing operations (excluding fine-tuning operations) stood at roughly €407 billion (€70 billion less compared with the beginning of the January-February reserve period). In addition, recourse to the deposit facility in the Eurosystem decreased to an average of €23 billion in this period. EONIA trended steadily downwards from 0.84% at the beginning of the maintenance period to 0.53% on the penultimate day. However, the reference rate peaked at the end of the quarter (end-March) – at 0.90%. The period average (0.67%) remained at the previous periods' level. Secured overnight money trading on GC Pooling followed a similar path to EONIA in this maintenance period too, with the exception of the end of the quarter, there was a gradual fall in rates which ultimately generated an average of 0.63% over the period (given an average turnover of €11.5 billion).

In the subsequent April-May maintenance period, the main refinancing operations and reserve period tenders were conducted at the new main refinancing rate of 1.25% after the Governing Council of the ECB decided to increase the key interest rate by 25 basis points at its meeting on 7 April.

Money market interest rates in the euro area



1 Monthly averages. — **2** Only on 8 October 2008 2.75%. — **3** Three-month Euribor less three-month Eurepo. — ● Average from 1 to 17 May 2011.

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creased volatility was not problematic as, in the light of developments in the longer-term money market sector, it did not impair the ability of the main refinancing rate to signal the monetary policy stance. This was not least due to the fact that market participants understood the demand-driven reasons for the greater volatility in very short-term money market rates.

Longer-term money market rates on increasing upward trend

Following its monetary policy meeting at the beginning of March, the Governing Council of the ECB highlighted the upside risks to price stability. Notwithstanding the increased fluctuations in very short-term money market rates, this generated a perceptible increase in longer-term money market rates, accompanied by greatly reduced volatility in this market segment. This prompt upward revision of interest rate expectations bolstered and strengthened the gradual upward movement exhibited by both the secured (Eurepo) and the unsecured (Euribor) money market rates since the second half of 2010. As the upward trend in secured money market rates was more pronounced than in unsecured interest rates across all maturities, the yield spread between the two rates (depo-repo spread), which can be interpreted as a risk premium, narrowed from the beginning of the year onwards and is now below its average of the last twelve months across all maturities. That said, the renewed widening of the differential between the 12-month and three-month depo-repo spreads observed since the escalation of the sovereign debt crisis in May 2010 indicates a growing maturity-based differentiation in market participants' risk perception.

Full allotment to be continued

At the beginning of March, the Governing Council of the ECB decided to continue conducting all its refinancing operations with full allotment for as long as necessary, but at least until mid-July 2011.

Open market operations of the Eurosystem*

Value date	Type of transaction[1]	Maturity in days	Actual allotment in € billion	Deviation from the benchmark in € billion[2]	Marginal rate/fixed rate %	Allotment ratio %	Weighted rate %	Cover ratio[3]	Number of bidders
19.01.11	MRO (FRT)	7	176.9	– 50.6	1.00	100.00	–	1.00	171
19.01.11	S-LTRO (FRT)	21	70.4	–	1.00	100.00	–	1.00	45
19.01.11	FTO (–)	7	– 76.5	–	0.80	20.73	0.69	1.36	62
26.01.11	MRO (FRT)	7	165.6	– 29.9	1.00	100.00	–	1.00	209
26.01.11	FTO (–)	7	– 76.5	–	0.99	80.53	0.89	1.16	58
27.01.11	LTRO (FRT)	91	71.1	–	4 1.04	100.00	–	1.00	165
02.02.11	MRO (FRT)	7	213.7	83.7	1.00	100.00	–	1.00	371
02.02.11	FTO (–)	7	– 68.2	–	1.00	100.00	0.85	1.00	53
08.02.11	FTO (–)	1	– 158.7	–	0.80	100.00	0.78	1.00	161
09.02.11	MRO (FRT)	7	156.7	– 25.3	1.00	100.00	–	1.00	220
09.02.11	S-LTRO (FRT)	28	61.5	–	1.00	100.00	–	1.00	42
09.02.11	FTO (–)	7	– 76.5	–	0.95	98.51	0.87	1.22	66
16.02.11	MRO (FRT)	7	137.0	59.0	1.00	100.00	–	1.00	253
16.02.11	FTO (–)	7	– 76.5	–	0.80	76.69	0.71	1.34	73
23.02.11	MRO (FRT)	7	119.5	12.5	1.00	100.00	–	1.00	189
23.02.11	FTO (–)	7	– 77.0	–	0.70	22.89	0.58	1.24	74
24.02.11	LTRO (FRT)	91	39.8	–	4 ...	100.00	–	1.00	192
02.03.11	MRO (FRT)	7	124.4	53.4	1.00	100.00	–	1.00	182
02.03.11	FTO (–)	7	– 77.5	–	0.65	18.73	0.56	1.23	71
08.03.11	FTO (–)	1	– 95.8	–	0.80	100.00	0.79	1.00	141
09.03.11	MRO (FRT)	7	111.3	– 45.7	1.00	100.00	–	1.00	185
09.03.11	S-LTRO (FRT)	35	82.5	–	1.00	100.00	–	1.00	52
09.03.11	FTO (–)	7	– 77.5	–	0.90	63.38	0.83	1.23	65
16.03.11	MRO (FRT)	7	100.5	64.5	1.00	100.00	–	1.00	177
16.03.11	FTO (–)	7	– 77.5	–	0.69	73.89	0.66	1.54	74
23.03.11	MRO (FRT)	7	89.4	65.4	1.00	100.00	–	1.00	173
23.03.11	FTO (–)	7	– 77.5	–	0.70	36.09	0.64	1.38	63
30.03.11	MRO (FRT)	7	100.4	– 48.1	1.00	100.00	–	1.00	174
30.03.11	FTO (–)	7	– 76.5	–	1.00	79.75	0.72	1.01	58
31.03.11	LTRO (FRT)	91	129.5	–	4 ...	100.00	–	1.00	290
06.04.11	MRO (FRT)	7	84.5	53.0	1.00	100.00	–	1.00	161
06.04.11	FTO (–)	7	– 77.0	–	0.64	46.41	0.59	1.57	76
12.04.11	FTO (–)	1	– 78.9	–	0.80	100.00	0.79	1.00	131

* For more information on the Eurosystem's operations from 13 October 2010 to 18 January 2011, see Deutsche Bundesbank, Monthly Report, February 2011, p 25. — **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), FRT: fixed-rate tender. — **2** Calculation according to publication after MRO allotment. — **3** Ratio of total bids to the allotment amount. — **4** The interest rate corresponds to the average minimum bid rate of the MROs conducted over the life of this operation.

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Monetary developments in the euro area

Discernible monetary growth in first quarter of 2011

M3 growth accelerated perceptibly in the first quarter of 2011. During the period under review, renewed strong lending to the private sector, along with large inflows of funds from abroad, proved instrumental in boosting monetary expansion in the euro area. Against this background, the trend acceleration in the annual growth rate of M3 in evidence since the second quarter of 2010 continued apace.

Greater demand for M3 components remunerated at close-to-market rates

Looking at the components of M3, during the period under review domestic investors' interest was mainly focused on short-term deposits which, since they are remunerated at close-to-market rates, were being accumulated heavily even prior to the latest rate increase by the Eurosystem in April 2011.

Monetary developments in the euro area

Changes in € billion, seasonally adjusted

Monetary aggregate in a balance sheet context	2010 Q4	2011 Q1
Monetary aggregate M3 (=1+2-3-4-5)	21,759	50,007
Components:		
Currency in circulation and overnight deposits (M1)	17,094	15,554
Other short-term deposits (M2-M1)	4,875	40,293
Marketable instruments (M3-M2)	– 210	– 5,840
Counterparts		
1. Total credit to non-MFIs in the euro area	236,308	25,213
Credit to general government	176,396	– 43,758
Credit to private-sector non-MFIs in the euro area	59,912	68,971
2. Net external assets	– 36,230	163,019
3. Central government deposits	30,219	– 22,064
4. Longer-term financial liabilities to other non-MFIs in the euro area	82,441	82,134
5. Other counterparts of M3 (residual)	– 65,659	– 78,155

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Taken as a whole, in the first quarter of 2011, M3 components remunerated at close-to-market rates boasted seasonally adjusted and annualised three-month growth of 4½%, and were thus well above the figure recorded in the previous quarter. At the same time, seasonally adjusted annual growth, at just over 2%, entered positive territory for the first time since mid-2009.

Demand for highly liquid M3 components still declining

By contrast, during the period under review, growth in currency in circulation and overnight deposits, which together form the M1 aggregate, was again down in the reporting period from the preceding quarters. Overall, at just under 1½%, the seasonally-adjusted and annualised three-month rate for the reporting quarter fell to its lowest level since mid-2008.

Marketable financial instruments see discernible decrease

In the reporting period, M3 growth was also dampened by the marked net outflows in marketable financial instruments. This was essentially due to the sizeable net outflows from money market fund shares already observed since mid-2009 that are likely a reflection of the comparatively low remuneration on this form of investment. Conversely, short-term debt securities of monetary financial institutions held by non-banks (with a maturity of up to two years) recorded noticeable positive net inflows for the first time since the beginning of 2010, which is probably due to rising interest rates at the short end of the maturity spectrum.

Expansion of lending business with domestic private non-banks

Among the counterparts of M3, loans to the euro area private sector again rose sharply in the first quarter of 2011. The upward trend seen in the preceding three quarters thus continued between January and March 2011. In seasonally adjusted and annualised terms, unsecuritised lending in the reporting period increased by 2½%. From a sectoral perspective it can be discerned that, unchanged from the previous quarter, loans to households continued to be granted on a large scale. As before, this was largely driven by the strong growth in lending for house purchase, the majority component of household borrowing, at a current seasonally adjusted and annualised three-month rate of 6½%. In addition, loans to non-financial corporations also increased significantly following clear outflows in the previous quarter; the corresponding seasonally adjusted and annualised three-month rate for this sector stood at just under 3½%. In this sector, lending was focused on short and long-term maturities while medium-term loans (with a maturity of over one and up to five years) again shrank by a significant margin in the reporting period. Furthermore, euro-area banks' lending operations to the domestic private sector in the months January to March 2011 were characterised by a perceptible decrease in loans to other financial intermediaries. However, as such loans are mainly indirect interbank transactions, they are not *per se* accompanied by constrained lending to the private non-banking sector.

Considerable drop in loans to general government

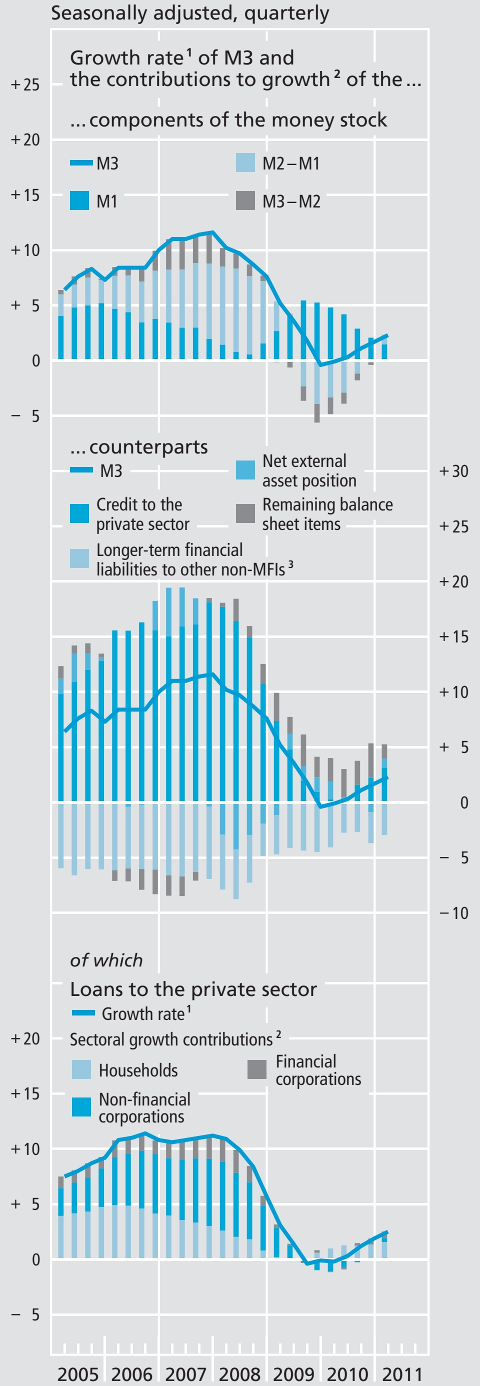
In the quarter under review, inflows of loans to the domestic private sector were accompanied by a considerable drop in lending to general government, which had still burgeoned substantially as late as the final quarter of 2010. Banks reduced their holdings of securities issued by the public sector as well as of unsecured loans. At the same time, there was also a marked decrease in the central governments' deposits, which are not part of the monetary aggregate M3. On balance, however, banks' net credit supply to general government declined by a significant margin, thus dampening the M3 growth seen in the first quarter of 2011.

Extremely sharp rise in net external asset position flanked by significant monetary capital formation

By contrast, the net external assets of the euro-area MFI sector, which had been scaled back somewhat in earlier quarters, rose extremely sharply, which in and of itself had an expansionary effect on monetary growth. This was attributable to a large increase in external assets combined with a marked decline in external liabilities. Conversely, in the reporting period M3 growth was again restrained by significant monetary capital for-

Components and counterparts of the money stock in the euro area

Seasonally adjusted, quarterly



1 In percent, 12-month flows. — 2 In percentage points. — 3 Taken in isolation, an increase curbs M3 growth.

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

Changes in € billion, seasonally adjusted

Item	2010 Q4	2011 Q1
Deposits of domestic non-MFIs 1		
Overnight	13.8	1.7
With agreed maturities		
of up to 2 years	– 11.8	18.4
of over 2 years	0.1	– 4.9
Redeemable at notice		
of up to 3 months	8.7	3.4
of over 3 months	– 3.7	0.4
Lending		
to domestic enterprises and households		
Loans	21.9	– 4.0
of which to households 2	5.1	2.2
to non-financial corporations 3	– 1.6	12.5
Securities	3.3	0.0
to domestic general government		
Loans	70.0	– 15.4
Securities	3.9	– 10.7

* As well as banks (including building and loan associations, but excluding the Bundesbank), monetary financial institutions (MFIs) here also include money market funds. End-of-quarter data, adjusted for statistical changes. — 1 Enterprises, households and general government excluding central government. — 2 Including non-profit institutions serving households. — 3 Including non-financial quasi-corporations.

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mation, which was primarily driven by the sharp increase in long-term bank debt securities (with a maturity of over two years).

Slight upside risks to price stability from a monetary perspective

Considered as a whole, the upward trend in the underlying monetary dynamics – the measure that is ultimately relevant for inflation – that has been in place for a number of quarters continued in the first quarter of 2011. That monetary expansion accelerated was also reflected in inflation risk indicators derived from monetary data, some of which currently point to pronounced upside risks to price stability over the monetary policy horizon. However, the high degree of uncertainty associated with these indicators at present should not be overlooked.

German banks' deposit and lending business with domestic customers

Greater demand for short-term bank deposits of late

At just over 2½%, deposit growth among German banks resurged in the first quarter of 2011 following a mere 1% in the previous quarter. As in the euro area as a whole, this revival was primarily due to growing additions to short-term deposits. In this context, Germany likewise experienced particularly strong inflows of short-term time deposits (with an agreed maturity of up to two years). This development is most likely attributable to the relatively high rate of interest on this form of investment compared with other investment options.

Continued reduction of longer-term deposit types

As in the preceding three quarters, there was a further net reduction in longer-term bank deposits in Germany in the first quarter of 2011 which, compared with the previous reporting period, occurred at a slightly accelerated pace. This reduction, which spanned all sectors, is likely to have been due to the fact that the interest rate on longer-term bank deposits in Germany did not go up to the same extent as capital market yields.

Slight decline in banks' lending to the domestic private sector, ...

At a seasonally adjusted and annualised three-month rate of -3½%, German banks' lending to domestic non-banks went down in the reporting period, which, as in the previous quarter, was largely the result of reduced lending to general government. This development was flanked by a slight decline in banks' lending to the domestic private sector, mainly on the back of reduced loan volumes, which fell to a seasonally adjusted and annualised three-month rate of just over -½%

after having stood at just under 4% in the previous quarter. The clear expansion of credit to non-financial corporations and households was overshadowed by the decrease in loans to financial corporations, following a considerable increase one quarter previously. The extreme volatility of unsecuritised loans to financial corporations since the fourth quarter of 2008 therefore continued unabated.

... whereas loans to non-financial corporations returned to late-2008 growth rate

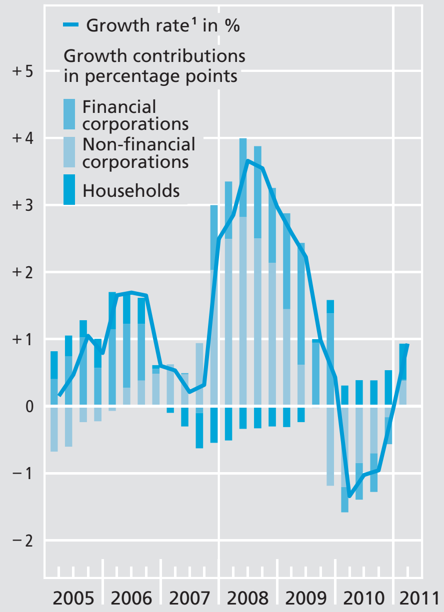
At a seasonally adjusted and annualised three-month rate of 6½%, the increase in lending to non-financial corporations was equivalent in strength to that last seen in the fourth quarter of 2008. Growth was recorded in all maturity segments, with short-term loans experiencing the greatest percentage increase. Unsecuritised loans to households also put in a positive performance (½% net). The moderately negative performance of consumer credit and of other loans to households was offset by the perceptible increase in lending for house purchase (1½%). While mortgage rates went up again slightly, they remain reasonably priced in a long-term comparison. Overall, loans to households have now recorded gains for the eighth consecutive quarter.

Banks relaxed their lending policies appreciably in the first quarter of 2011

German banks' lending policies are likely to have supported developments in terms of credit to the private sector during the first quarter of this year, with banks participating in the Bank Lending Survey (BLS) reporting that they had relaxed their lending policies appreciably in that quarter. In the previous quarter, this had only applied to a few individual sectors of the bank lending business. According to the results of the latest survey

Loans of German banks to selected domestic sectors

Seasonally adjusted, quarterly



1 Year-on-year rate of change.

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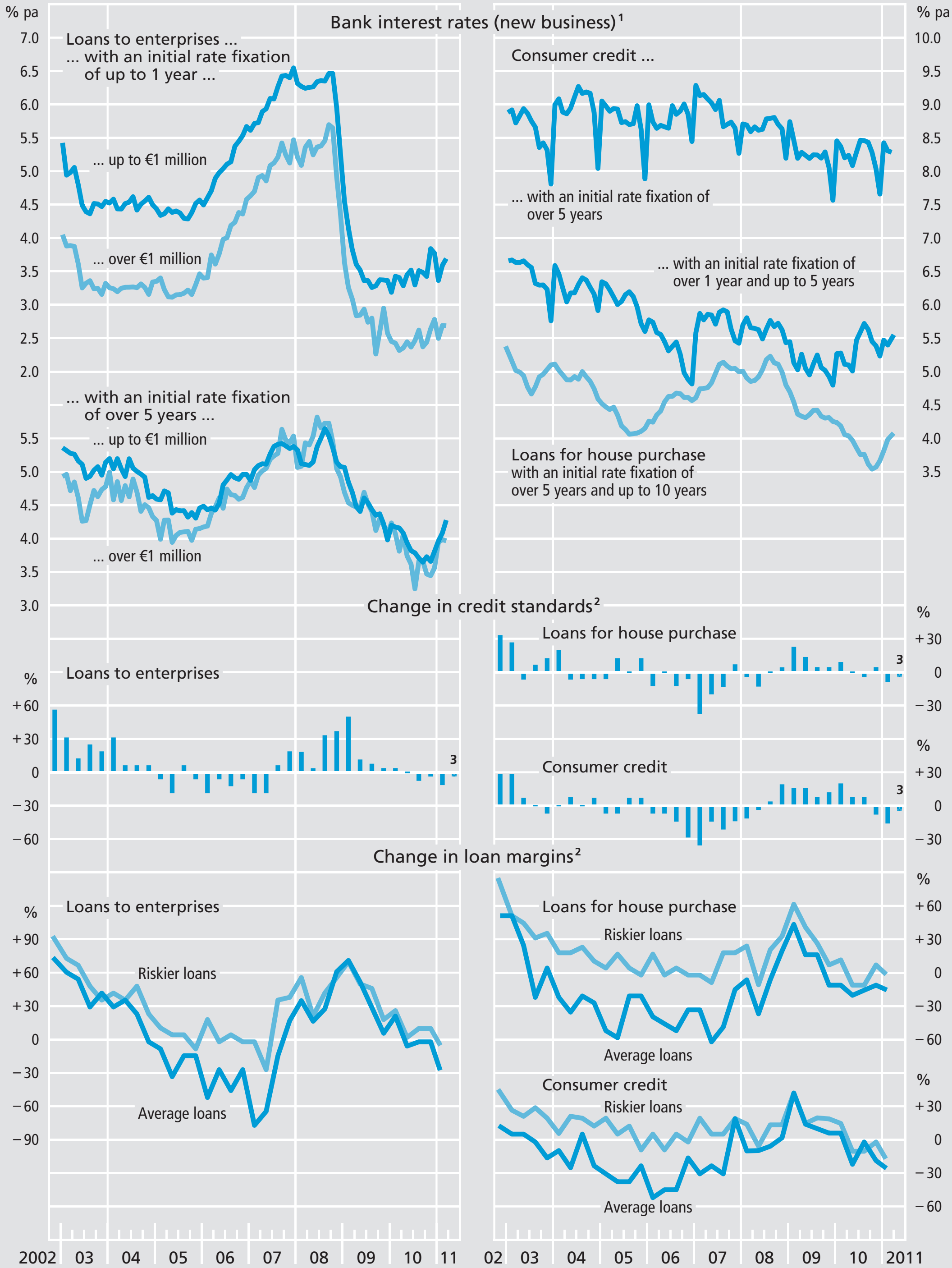
round, credit standards in lending to both enterprises and households eased somewhat in the reporting period. Furthermore, the margins on average loans were narrowed considerably in some cases. Higher-risk borrowers, too, benefited from somewhat lower margins in consumer credit, whereas margins for riskier loans to enterprises and private loans for house purchase remained virtually unchanged. This was very much due to participating banks' renewed optimism in their perception of risk. The banks expect little change to credit standards in the coming quarter.

Marked increase in demand

At the same time, they observed a clear increase in demand for loans to the private sector; owing to increased fixed investment and currently low interest rates, this concerned mainly long-term loans.

Banking conditions in Germany



1 According to harmonised MFI interest rate statistics. — **2** According to the Bank Lending Survey, difference between the numbers of respondents reporting "tightened considerably" and "tightened somewhat"and the numbers of respondents reporting "eased somewhat" and "eased considerably" as a percentage of the responses given. — **3** Expectations for 2011 Q2.

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Euro-area credit standards tightened, however

Compared with the results for Germany, credit supply conditions in the euro area as a whole in the first quarter of 2011 were, as expected, more restrictive; credit standards were tightened in all surveyed lines of business. The European banks cited not only cyclical but, given the ongoing sovereign debt crisis, also – and primarily – bank-related factors as reasons for this development.

Access to wholesale funding broadly unchanged

As in the previous surveys, the BLS once again contained an ad hoc question on the impact of the financial crisis on respondents' wholesale funding. According to the bank managers surveyed in Germany, there was little change to access to wholesale funding on the money and capital markets compared with the previous quarter, an assessment largely shared by the other European banks included in the sample.

Bank loans more expensive, particularly those with longer periods of interest rate fixation

In the first quarter of 2011, the reporting institutions recorded a renewed increase in lending rates, particularly for loans with a longer period of interest rate fixation; this increase, however, was more pronounced than a quarter earlier. Interest rates for long-term loans for house purchase rose by just under 50 basis points to 4.3%. Long-term loans to non-financial corporations were likewise priced at a much higher level, standing at 4.0% for large-scale loans and 4.3% for small-scale loans as this report went to press. Short-term loans to households were also somewhat more expensive compared with the previous quarter, while the corresponding conditions for loans to enterprises fell by just under ten basis points, irrespective of the size of the loan. Adjustments in the short-term segment therefore lagged behind developments in the money and capital markets.