Monetary policy and banking business

Monetary policy and money market developments

Main refinancing rate at new all-time low

At its monetary policy meeting at the beginning of May 2013, the ECB Governing Council decided to lower the interest rate on the Eurosystem's main refinancing operations by 25 basis points to 0.50% to help support prospects for an economic recovery later in the year. The decision was based on the assessment that price pressure in the euro area is low over the medium term. This is indicated, first, by the weakness of economic growth, which remains burdened by necessary balance sheet adjustments in the public and private sectors. Second, the subdued money and credit growth also points to low pressure on prices.

Simultaneously with the interest rate cut of 2 May 2013, the interest rate corridor formed by the Eurosystem's standing facilities was narrowed from +/-75 basis points to +/-50 basis points. Banks' balances in the deposit facility – as well as their excess reserves on current accounts – continue to earn 0% interest. Meanwhile, Eurosystem counterparties can now obtain overnight credit through the marginal lending facility for as little as 1.00%, ie for 50 basis points less than before.

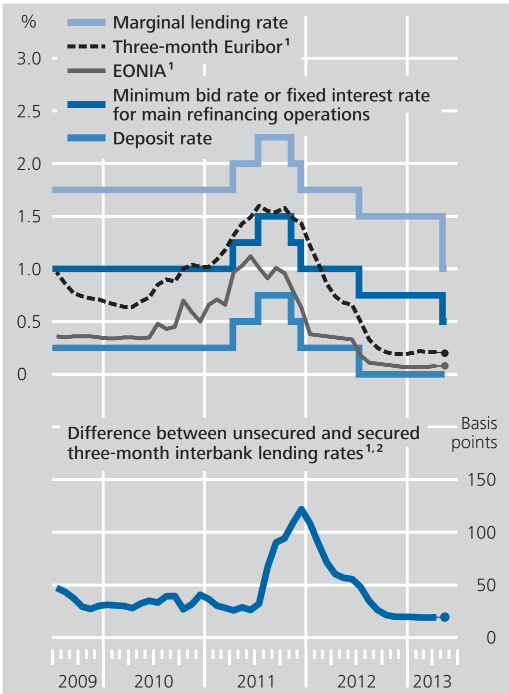
ECB Governing Council decides to again extend full allotment for refinancing operations

Coinciding with the interest rate cut, the ECB Governing Council decided to continue conducting its regular monetary policy refinancing operations as fixed-rate tenders with full allotment until at least the end of the second quarter of 2014. Furthermore, the ECB Governing Council announced in early May that, for the time being, marketable debt instruments issued or guaranteed by the Republic of Cyprus would again constitute eligible collateral for Eurosystem credit operations. This decision was based on the Governing Council's assessment of the appropriateness of the economic and financial adjustment programme for Cyprus. Moreover, the ECB Governing Council had previously announced on 22 March that, from 1 March 2015 onwards, banks would no longer be permitted to use government-guaranteed bank bonds issued by themselves or by affiliated institutions as collateral in monetary policy refinancing operations.

Still no bond purchases in the form of Outright Monetary Transactions

In the quarter under review and up to the current end, the Eurosystem did not make any purchases as part of monetary policy-based bond purchase programmes. In particular, purchases were still not being made in the form of Outright Monetary Transactions (OMT). The Eurosystem's holdings of securities acquired under the Securities Markets Programme (SMP), which was discontinued in 2012, amounted to €201.0 billion of late. Holdings totalling €62.2 billion were accounted for by the two covered bond purchase programmes, which have likewise been discontinued in the meantime.

Money market interest rates in the euro area



1 Monthly averages. **2** Three-month Euribor less three-month Eurepo. • Average 1 to 15 May 2013.
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Money market management and liquidity needs

During the three reserve maintenance periods from 16 January to 9 April 2013, euro-area credit institutions' need for central bank liquidity determined by autonomous liquidity factors rose by €29.4 billion in net terms. This greater need for liquidity resulted from the sum of changes in net foreign assets and other factors (€54.1 billion in total) which, taken together, eliminate valuation effects with no impact on liquidity. The crucial factor in this increase was the liquidity-absorbing reduction of Emergency Liquidity Assistance (ELA). By contrast, the decreased volume of banknotes in circulation and the reduction in general government deposits with the Eurosystem had the effect of providing liquidity and compensating partly for the additional need. Banknote circulation contracted by €14.3 billion in net terms during the period under review; this was induced by the typical seasonal countermovement to the higher demand for banknotes in the pre-Christmas period. Comparing the period averages, general government deposits decelerated by a total of €10.4 billion during the three reserve maintenance periods under review. The minimum reserve requirement declined in all three reserve maintenance periods and fell by €1.5 billion in net terms, which had an additional – albeit minimal – effect on liquidity provision.

In the period under review, 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 23). The ECB Governing Council decided at its meeting on 6 December 2012 to continue this full allotment policy until at least the start of July 2013. Central bank liquidity provided by the Eurosystem was still considerably higher than the benchmark amount of liquidity needs arising from autonomous factors and the minimum reserve requirement; the resulting excess liquidity declined sharply, however, in the period under review. This decline was mainly due to the early repayments from both three-year tenders, which resulted in a significant reduction of the outstanding refinancing volume. During the period under review, credit institutions repaid €162 billion (first three-year tender) and €82 billion (second three-year tender) in total respectively to the Eurosystem, so that the still outstanding volumes of both these refinancing operations were reduced to €305 billion and €441 billion respectively by the end of the three reserve maintenance periods under review.

The total volume of longer-term refinancing operations (LTROs) – which include the three-year tenders as well as refinancing operations with a three-month maturity and with the duration of a reserve maintenance period – showed a total decrease of €254 billion in the period under review (comparing the period averages). Notwithstanding the early repayments of liquidity provided in the three-year tenders, demand for the main refinancing operations (MROs) accelerated by almost €46 billion during the same period. Overall, there was a substantial drop in excess liquidity, which led, on the one hand, to reduced recourses to the deposit facility (down by €105 billion in net terms) and, on the other hand, to diminished current account holdings (€143 billion in net terms). Thus, credit institutions scaled back their excess reserves – ie current account holdings that exceed the minimum reserve requirement – to a greater extent than their recourses to the deposit facility. This decision had a negligible effect on interest paid, however, because both excess reserves and recourses to the deposit facility continued to bear no interest under the given key interest rates. Recourses to the marginal lending facility were lower in the three reserve maintenance periods under

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
16.01.2013	MRO (FRT)	7	131.2	240.2	0.75	100.00	–	1.00	72
16.01.2013	FTO (–)	7	– 208.5	–	0.01	73.33	0.01	1.71	61
16.01.2013	S-LTRO (FRT)	28	10.5	–	0.75	100.00	–	1.00	19
23.01.2013	MRO (FRT)	7	125.3	290.8	0.75	100.00	–	1.00	71
23.01.2013	FTO (–)	7	– 208.5	–	0.01	81.73	0.01	1.55	60
30.01.2013	MRO (FRT)	7	124.1	160.6	0.75	100.00	–	1.00	74
30.01.2013	FTO (–)	7	– 208.5	–	0.20	17.12	0.04	1.36	66
31.01.2013	LTRO (FRT)	84	3.7	–	[4] 0.75	100.00	–	1.00	46
06.02.2013	MRO (FRT)	7	129.3	95.3	0.75	100.00	–	1.00	73
06.02.2013	FTO (–)	7	– 205.5	–	0.10	32.86	0.04	1.63	91
13.02.2013	MRO (FRT)	7	128.7	129.7	0.75	100.00	–	1.00	73
13.02.2013	FTO (–)	7	– 205.5	–	0.06	26.21	0.04	1.70	93
13.02.2013	S-LTRO (FRT)	28	7.8	–	0.75	100.00	–	1.00	16
20.02.2013	MRO (FRT)	7	132.2	142.7	0.75	100.00	–	1.00	75
20.02.2013	FTO (–)	7	– 205.5	–	0.04	54.57	0.03	1.70	90
27.02.2013	MRO (FRT)	7	131.1	12.1	0.75	100.00	–	1.00	79
27.02.2013	FTO (–)	7	– 205.5	–	0.04	56.28	0.03	1.52	89
28.02.2013	LTRO (FRT)	91	8.3	–	[4] …	100.00	–	1.00	36
06.03.2013	MRO (FRT)	7	129.8	– 91.7	0.75	100.00	–	1.00	80
06.03.2013	FTO (–)	7	– 205.5	–	0.04	30.21	0.03	1.52	91
13.03.2013	MRO (FRT)	7	127.3	87.3	0.75	100.00	–	1.00	78
13.03.2013	FTO (–)	7	– 205.5	–	0.04	39.08	0.03	1.39	78
13.03.2013	S-LTRO (FRT)	28	4.2	–	0.75	100.00	–	1.00	19
20.03.2013	MRO (FRT)	7	119.4	54.9	0.75	100.00	–	1.00	76
20.03.2013	FTO (–)	7	– 205.5	–	0.04	62.84	0.03	1.33	72
27.03.2013	MRO (FRT)	7	123.2	– 11.8	0.75	100.00	–	1.00	75
27.03.2013	FTO (–)	7	– 205.5	–	0.24	99.54	0.06	1.10	64
28.03.2013	LTRO (FRT)	91	9.1	–	[4] …	100.00	–	1.00	46
03.04.2013	MRO (FRT)	7	124.9	– 85.1	0.75	100.00	–	1.00	74
03.04.2013	FTO (–)	7	– 205.5	–	0.07	30.19	0.04	1.32	72

* For more information on the Eurosystem's operations from 10 October 2012 to 15 January 2013, see Deutsche Bundesbank, Monthly Report, February 2013, p 27. **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 or main refinancing rate of the MROs conducted over the life of this operation (may be rounded to two decimal places in the table).

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review than in the previous periods; its period averages were each under the €1 billion mark.

After taking into consideration the regular quarterly revaluations at the end of each quarter, the total central bank liquidity provided under the securities purchase programmes set up for monetary policy purposes declined again on account of securities reaching maturity. Purchases did not occur as existing programmes were discontinued (Securities Market Programme – SMP) or expired as planned (Covered Bond Purchase Programme – CBPP, Second Covered Bond Purchase Programme – CBPP2) or indeed were not yet activated (Outright Monetary Transactions – OMT). As a result, the balance sheet holdings of securities purchased under the SMP fell by €2.9 billion in total to €205.9 billion. Weekly fine-tuning operations continued to neutralise the liquidity effect induced by the SMP portfolio. CBPP holdings dropped by €4.4 billion to €47.0 billion, while the balance sheet value of securities held under the CBPP2 diminished by €0.2 billion to €16.1 billion.

The January-February 2013 reserve maintenance period was characterised in particular by the new opportunities for early repayment of the first three-year tender. It was mainly due to this, especially on account of the first repayment to the sum of €137 billion, that the outstanding refinan-

Factors determining bank liquidity[1]

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

Item	2013 16 Jan to 12 Feb	13 Feb to 12 Mar	13 Mar to 9 Apr
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors			
1 Banknotes in circulation (increase: –)	+ 20.1	+ 2.9	– 8.7
2 Government deposits with the Eurosystem (increase: –)	+ 9.3	+ 12.0	– 10.9
3 Net foreign assets[2]	– 27.4	– 0.8	+ 1.1
4 Other factors[2]	– 43.9	– 1.5	+ 18.4
Total	– 41.9	+ 12.6	– 0.1
II Monetary policy operations of the Eurosystem			
1 Open market operations			
(a) Main refinancing operations	+ 49.3	+ 3.0	– 6.8
(b) Longer-term refinancing operations	– 76.5	– 117.1	– 60.3
(c) Other operations	– 4.6	– 1.2	– 0.8
2 Standing facilities			
(a) Marginal lending facility	– 3.4	+ 0.6	– 0.4
(b) Deposit facility (increase: –)	+ 54.1	+ 39.0	+ 11.5
Total	+ 18.9	– 75.7	– 56.8
III Change in credit institutions' current accounts (I + II)	– 22.7	– 63.3	– 57.0
IV Change in the minimum reserve requirement (increase: –)	+ 0.6	+ 0.2	+ 0.7

1 For longer-term trends and the Deutsche Bundesbank's contribution, see pp 14• and 15• of the Statistical Section of this Monthly Report. **2** Including end-of-quarter liquidity-neutral valuation adjustments.
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cing volume from LTROs fell from €1,031 billion at the start of the period to €888 billion at the end of the period. At the same time, there was a significant rise in interest in the MROs. After averaging €78 billion in the previous period, demand for the MROs grew to just under €128 billion on average in the January-February 2013 reserve maintenance period. The higher demand was predominantly a result of the fact that some larger Greek banks, following their successful recapitalisation, regained access to the regular open market operations of the Eurosystem. Against the backdrop of these two countervailing developments, the outstanding volume from tender operations (excluding fine-tuning operations) fell to €1,088 billion on average, compared with €1,115 billion in the previous period. Given that autonomous factors additionally rose by €42 billion on average to €503 billion compared with the previous period, the average excess liquidity – calculated from current account holdings plus deposit facility minus the minimum reserve requirement – contracted by €76 billion to €545 billion. This contraction was especially evident in the lower recourses to the deposit facility (down €54 billion on average to €184 billion); excess reserves held in current accounts, by contrast, receded by only €22 billion on average to €361 billion with the result that its share of total excess liquidity rose to 66% (62% in the previous period). Average overnight rates remained virtually unchanged from the previous period. The EONIA, the reference rate for unsecured overnight money, was fixed at 0.072% on average (0.071% in the previous period), while the secured overnight rate on Eurex Repo's GC Pooling (ECB basket) stood at 0.021% and was almost identical to the rate of the previous period (0.020%). Secured overnight money continued to be traded at a rate that was significantly lower than the EONIA and only marginally higher than the rate on the deposit facility. Overnight turnover likewise showed little change: EONIA turnover remained low at €17.2 billion (€16.3 billion in the previous period), while at the same time the underlying GC Pooling overnight turnover averaged €8.2 billion (€8.3 billion in the previous period).

In the February-March 2013 reserve maintenance period, credit institutions were offered the opportunity to repay the liquidity received in the second three-year tender to the Eurosystem early. Participating credit institutions used the first repayment opportunity of this kind to the tune of €61 billion, ie to a much lower amount than the first repayment opportunity for the first three-year tender in January. The second repayment opportunity a week later only generated a sum of around €8 billion. During this reserve maintenance period, repayments for the first three-year tender came to approximately €15 billion in total. The outstanding tender volume (excluding fine-tuning operations) declined – with the volume of MROs at a fairly constant €130 billion on average – to €974 billion on average over the period, thereby falling below the €1 trillion mark for the first time since the February-March 2012 reserve maintenance period. The liquidity needs stemming from autonomous factors likewise abated by just under €13 billion on average to €491 billion; this figure was only slightly weakened, however, by the fall in excess liquidity. Average excess liquidity receded to €443 billion, of which approximately two-thirds (€297 billion) was accounted for by excess reserves on current accounts and one-third (€145 billion) by the deposit facility. The EONIA averaged 0.064% over this reserve maintenance period and thus was down somewhat on the previous period. At the same time, EONIA turnover increased markedly to €21.5 billion. The GC Pooling secured overnight rates (ECB basket) again remained broadly unchanged compared with the previous period at a period average of 0.020%; the corresponding turnover rose distinctly, however, to €10.6 billion.

As observed in the preceding periods, the March-April 2013 reserve maintenance period was similarly marked by a reduction in the volume of LTROs. However, interest in the weekly repayment opportunities for both three-year tenders was fairly low. Total early repayments in this period amounted to approximately €20 billion. Since, moreover, the average volume of the MROs contracted by just under €7 billion to around €124 billion and liquidity needs resulting from autonomous factors remained virtually unchanged at an average of €491 billion, excess liquidity was down on average over the period to €375 billion, of which €134 billion (36%) was directed to the deposit facility, whereas the majority at €241 billion (64%) continued to be held as excess reserves. The outstanding tender volume (excluding fine-tuning operations) dropped to €907 billion on average. With regard to overnight money, the EONIA was fixed at 0.071% on average over this period and was thus somewhat higher than the rate of the previous period. This rise was also attributable to the higher quotation at the end of the quarter, which featured a *de facto* five-day life in connection with the subsequent Easter public holidays. On 28 March 2013, the last trading day of the first quarter, the EONIA rose to 0.112%, indicating an increase of 4.5 basis points on the previous day (compared with +3.9 basis points at the end of the quarter in March 2012). The GC Pooling secured overnight rate (ECB basket) also augmented at the end of the quarter, climbing by 2.7 basis points to 0.058%. This period-average rate accelerated markedly to 0.038%, which was also caused by the higher overnight rates towards the end of this reserve maintenance period. The underlying overnight turnover in this reserve maintenance period grew somewhat once again and stood at a period average of €22.8 billion (EONIA) and €11.6 billion (GC Pooling, ECB basket) respectively.

Monetary policy refinancing volume and excess liquidity down

Recourse to monetary policy refinancing operations by euro-area banks declined considerably on the whole from the beginning of this year. This was due mainly to early repayments of the liquidity provided in the two outstanding three-year refinancing operations; early repayments were not possible until the first quarter of 2013. By 15 May 2013, the monetary policy counterparties to the two operations had voluntarily repaid to the Eurosystem just over €284 billion of the total amount of roughly €1,019 billion originally provided through the three-year tenders. In particular, institutions and banking groups with excess central bank liquidity and/or more favourable alternative financing sources are again likely to have made use of the early repayment opportunity. There is still no sign of increased recourse to the regular refinancing operations with maturities of up to three months in connection with these repayments. As a result, excess liquidity decreased to around €320 billion of late, which is almost half the total amount recorded at the beginning of the year. Given that the interest rate corridor has been narrowed from +/-75 basis points to +/-50 basis points, the incentive for the banking sector to return excess liquidity to the Eurosystem is likely to have diminished on the whole. Compared with previous months, this may be reflected in a further decline in repayment amounts.

At the end of January 2013, when expectations among market participants of a more rapid repayment of excess liquidity contributed temporarily to a broader-based increase in money market rates, in particular short-term money market rates and money market risk indicators (depo-repo spread, Euribor-OIS spread) have been almost unchanged at a comparatively low level during the second quarter. So far, money market rates have shown only a fairly limited response to the cut in the main refinancing rate decided on 2 May 2013. In the case of the short-term money market rates this is probably due primarily to the fact that, owing to the still high levels of excess liquidity, they are particularly dependent on the interest paid on the deposit facility, which was not changed as part of the ECB Governing Council's latest interest-rate policy decisions.

Monetary developments in the euro area

Euro-area monetary developments muted

Growth of the broad monetary aggregate M3, which has persisted since the second quarter of 2010, continued in the quarter under review. However, expansion declined perceptibly compared with the previous two quarters. Once again, monetary growth was fuelled by the overall low level of interest rates and a renewed flattening of the yield curve, which led to further portfolio shifts by the money-holding sector away from longer-term and securitised investments to short-term bank deposits. The underlying trend of M3 growth is still to be regarded as moderate, with an annual growth rate of 2.6% at the end of the quarter under review. By contrast, the annual growth rate of loans (adjusted for loan sales and securitisation) to the euro-area private sector remained in negative territory at -0.3%. Thus, monetary growth and growth of loans remain decoupled from one another.

Strong inflows to overnight and short-term savings deposits

As in the previous quarters, monetary growth was due to strong inflows to overnight and short-term savings deposits. The growth was supported by all private sectors, notably households. Besides the interest rate differential – which again declined slightly – between short-term and longer-term investments, investors' persistently high preference for liquidity in view of the heightened real economic uncertainty is also likely to have played a part. At the same time, the rise in deposits of domestic non-banks in the euro-area peripheral countries indicates that confidence in the respective banking sector has risen again. By contrast, short-term time deposits were reduced on balance, as in the previous quarters. This was probably due to the relatively unattractive interest rate environment.

Consolidated balance sheet of the MFI sector in the euro area*

Changes in € billion, seasonally adjusted

Assets	2013 Q1	2012 Q4	Liabilities	2013 Q1	2012 Q4
Credit to private non-MFIs in the euro area			Central government deposits	– 6.5	– 0.4
Loans[1]	0.7	– 8.7	Monetary aggregate M3	50.5	86.1
Securities	17.2	37.6	*of which:* Components		
Credit to general government in the euro area			Currency in circulation and overnight deposits (M1)	94.8	84.4
Loans	– 20.0	– 11.4	Other shorter-term bank deposits (M2-M1)	0.1	36.4
Securities	45.8	11.0	Marketable instruments (M3-M2)	– 44.4	– 34.6
Net external assets	57.8	108.9	Monetary capital	0.9	– 13.2
Other counterparts of M3	– 56.6	– 64.7	*of which*		
			Capital and reserves	54.7	39.2
			Other longer-term financial liabilities	– 53.8	– 52.4

***** Changes for statistical reasons eliminated. **1** Adjusted for loan sales and securitisation.
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Accelerated decline in marketable financial instruments

In addition, monetary growth in the first three months of 2013 was dampened primarily by a sharp decline in marketable financial instruments (M3-M2), which accelerated even more compared with the previous quarters and was mainly attributable to considerable net redemptions of short-term bank bonds. The redemptions were of bonds of credit institutions throughout the euro area and may be explained, *inter alia*, by the ongoing deleveraging by banks, strong inflows to deposits and changes to regulatory requirements.

Further rise in net external position

On the counterparts' side, monetary developments in the euro area were supported by a renewed rise in the banking sector's net external asset position. This reflected further portfolio shifts by international investors in favour of profitable investment opportunities in the euro area. However, non-resident investors' interest in buying securities of domestic issuers was dampened by at times heightened political uncertainty. The increase in the net external asset position was thus considerably weaker on balance in the quarter under review than in the fourth quarter of 2012.

Discernible increase in credit to general government

Moreover, monetary growth was supported in the winter months by a further expansion of credit to the general government sector. Compared with the first quarter of 2012, when much of the large amount of liquidity provided through the three-year tenders flowed into government bonds, the rise in government credit slowed down markedly. Nevertheless, German MFIs seeking profitable investment opportunities again stepped up their holdings of government securities significantly in the quarter under review. Additionally, a sizeable shift was observed between MFI loans and securitised lending to general government. This resulted from the orderly restructuring of the Irish banking sector in February, in the course of which loans to the Irish government were replaced by corresponding government bonds.

Slight rise in lending to the private sector

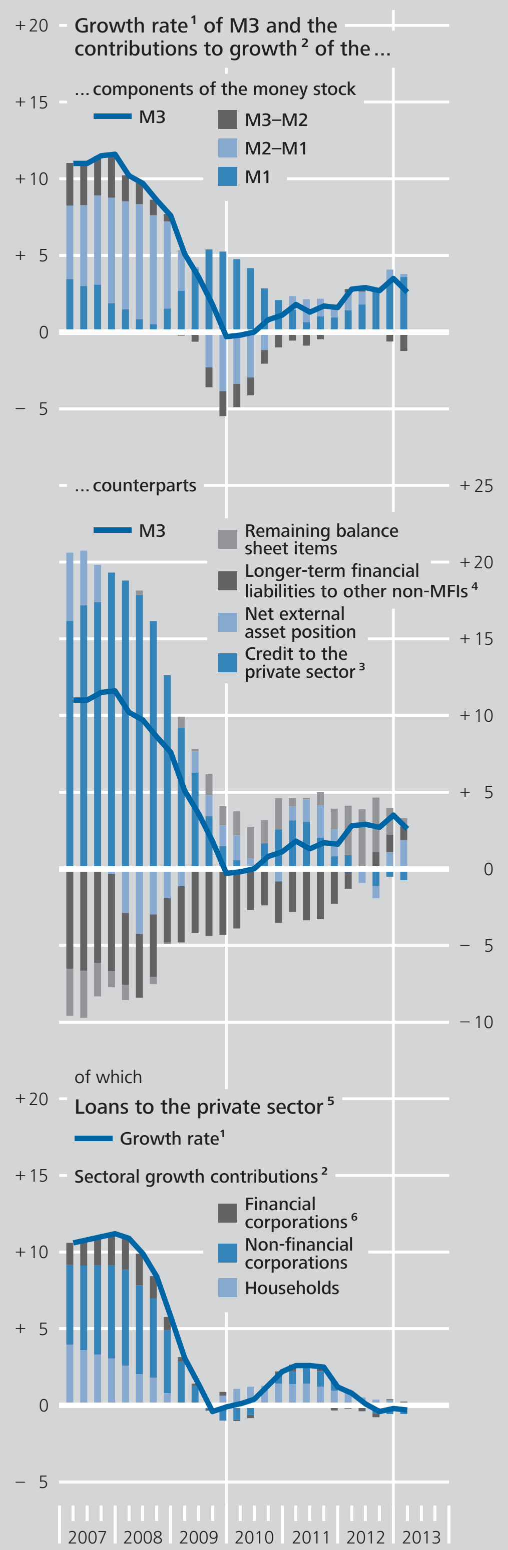
Lending to the euro-area private sector had a further, albeit slight, expansionary effect on money supply in the quarter under review, after the outflows previously observed had slowed down perceptibly at the end of 2012. Against the backdrop of rising bond and equity prices, the growth in credit volume was fuelled by an increase in German MFIs' securities holdings. By contrast, only slight inflows to loans to private non-banks were observed. These were attributable to various sectoral developments, however.

Loans to non-financial corporations decline only slightly

Loans to non-financial corporations, the drop in which had accelerated markedly in the autumn months, declined only slightly in the

Components and counterparts of the money stock in the euro area

Seasonally adjusted, end-of-quarter data



1 Year-on-year change in per cent. 2 In percentage points. 3 Adjusted for loan sales and securitisation. 4 Taken in isolation, an increase curbs M3 growth. 5 Adjusted for loan sales and securitisation from 2010 Q1. 6 Non-monetary financial corporations.

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quarter under review. Net redemptions of loans with medium and long-term maturities continued against the background of gloomier economic prospects. However, these outflows contrasted with a marked increase in short-term loans, which are generally more volatile. As a result, annual growth of loans to non-financial corporations (adjusted for loan sales and securitisation) stabilised at -1.3%. In particular, negative annual growth rates were seen in the euro-area peripheral states affected by the sovereign debt crisis. In these countries, there were not yet any signs of a broad-based stabilisation.

By contrast, distinct growth in loans to households

Unlike in the corporate sector, distinct growth was again recorded in loans to households during the winter months. As in the previous quarters, growth was driven by the rise in loans for house purchase in a number of euro-area core countries; this was probably due, not least, to the low interest rates. Consumer credit, on the other hand, was reduced further. Given a negative base effect, the annual growth rate of loans to households (adjusted for sales and securitisation) fell to 0.4% at the end of March 2013, from 0.7% at the end of December 2012. The annual growth rates in the euro-area peripheral countries remained in negative territory.

A high degree of heterogeneity is to be seen in the overall weak growth in loans to the euro-area non-financial private sector. First, demand for credit has been dampened by unfavourable economic prospects, heightened uncertainty and the associated low level of propensity to invest as well as by the necessary balance sheet consolidations in the household and corporate sectors of some euro-area countries. What is more, non-financial corporations in a number of euro-area countries have replaced loans with market financing or by making greater use of internal funding. Second, supply-side constraints as a result of banks' weak balance sheets, regulatory changes and higher lending risks cannot be ruled out in a number of euro-area countries.

Monetary capital stagnating

The MFIs' longer-term financial liabilities vis-à-vis other sectors in the euro area, which had played a considerable part in monetary expansion in 2012, stagnated in the first quarter of 2013. Essentially, this was the outcome of two divergent developments. First, for the reasons mentioned above, extensive net redemptions of bank debt securities were made – also in the long-term maturity range – both by the peripheral countries and by the core countries of the euro area in the quarter under review. Second, these net redemptions coincided with a further sharp strengthening of the capital base of MFIs due, on the one hand, to higher provisioning as a result of the financial and sovereign debt crisis and, on the other hand, to changed regulatory requirements. For the first time in a year, long-term time deposits, too, rose in the winter quarter, following a recovery in loan securitisation activity.

Money-based forecasts with balanced inflation risks

On average, inflation forecasts based on various monetary indicators (monetary aggregates, short-term deposits, loans) currently signal balanced risks for price stability over the next three years. However, the uncertainty associated with these forecasts remains high.

German banks' deposit and lending business with domestic customers

Increase in deposits driven solely by overnight deposits

German banks' deposit business – which had lost considerable momentum in the previous year – again posted a marked increase on balance in the first quarter of 2013. In this context there were – as in the euro area as a whole – further portfolio shifts from long-term to shorter-term deposits given the low interest rates and the flat yield curve. The growth in deposit business was driven solely by a further considerable rise in overnight deposits, whilst all other types of deposit experienced outflows.

However, investment behaviour in the individual sectors was not homogeneous in the quarter under review. The portfolio shifts observed on the whole resulted, above all, from investment decisions by households as well as, to a lesser extent, by financial corporations. On the other hand, non-financial corporations scaled back their longer-term deposits to a far greater extent than they increased overnight deposits and deposits with an agreed maturity of up to two years.

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

Changes in € billion, seasonally adjusted

Item	2012 Q4	2013 Q1
Deposits of domestic non-MFIs1		
Overnight	33.8	35.6
With agreed maturities		
of up to 2 years	– 47.6	– 0.8
of over 2 years	– 14.7	– 5.6
Redeemable at notice		
of up to 3 months	1.9	– 1.3
of over 3 months	– 4.8	– 3.9
Lending		
to domestic general government		
Loans	– 9.2	– 3.8
Securitised lending	2.5	– 5.7
to domestic enterprises and households		
Loans2	5.3	2.8
of which to households3	4.7	4.3
to non-financial corporations4	– 1.6	0.7
Securitised lending	– 5.1	– 2.0

* 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** Adjusted for loan sales and securitisation. **3** Including non-profit institutions serving households. **4** Corporations and quasi-corporations.

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Further decline in longer-term deposits

In the case of longer-term deposits, deposits with a maturity of over two years fell, as in the preceding eight quarters. However, the decline in the quarter under review was somewhat more subdued than in the final quarter of 2012. Insurance companies and pension funds as well as non-financial corporations played the greatest part in this connection. Savings deposits with longer periods of notice likewise fell again in the quarter under review. Movements in this market segment are usually attributable almost exclusively to portfolio decisions by households, which again built up overnight deposits on a large scale.

Loans of German banks to selected sectors

Seasonally adjusted and adjusted for loan sales and securitisation, end-of-quarter data

1 Year-on-year rate of change. **2** Non-financial corporations and quasi-corporations.
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Perceptible decrease in banks' lending to domestic non-banks

As in the final quarter of 2012, lending by German banks to domestic non-banks receded appreciably in the quarter under review. Once again, this was due primarily to a marked drop in loans and securitised lending to general government, which stood in contrast to the net growth in lending to general government in a number of other euro-area countries. In the case of loans to the private sector, the slight growth in loans contrasted with a modest decline in securitised lending.

Only weak rise in loans to non-financial corporations

The slight increase in loans to the German private sector was attributable solely to growth in lending to households and non-financial corporations, as lending to financial corporations contracted slightly. Despite the fact that lending rates remained low, growth in credit to the non-financial corporation sector was only marginal on balance. As in the previous three-month period, this was due to a decline in the short-term maturity segment, which was more than offset by an appreciable increase in loans with longer-term maturities. The net redemptions in the short-term maturity segment can probably be attributed to the persistently subdued investment in machinery and equipment by domestic enterprises as well as, in part, to firms making greater use of internal financing and alternative external resources such as the issuance of debt securities.

Moderate growth in loans to households again driven solely by loans for house purchase

Unlike loans to non-financial corporations, loans to domestic households went up markedly in the first quarter of 2013. As in the preceding quarters, this growth was driven by loans for house purchase. By contrast, consumer credit and other lending receded slightly. On the whole, however, the annual growth rate of loans to domestic households remained low, at 1.2%. The same may be said of loans for house purchase, the 12-month growth rate of which stood at 2.1% at the end of March, rising once again on the quarter.

German banks' credit standards vis-à-vis non-financial corporations relaxed moderately

The German banks questioned for the Bank Lending Survey stated that they had moderately relaxed credit standards vis-à-vis non-financial corporations in the first quarter of 2013. Enterprises of all sizes benefited from this easing, which affected all maturities. Amongst other things, the reasons given by the banks included stronger competition by other institutions. Contrary to the general trend towards an easing of credit standards, a marked widening of margins was observed on both average and riskier loans to enterprises.

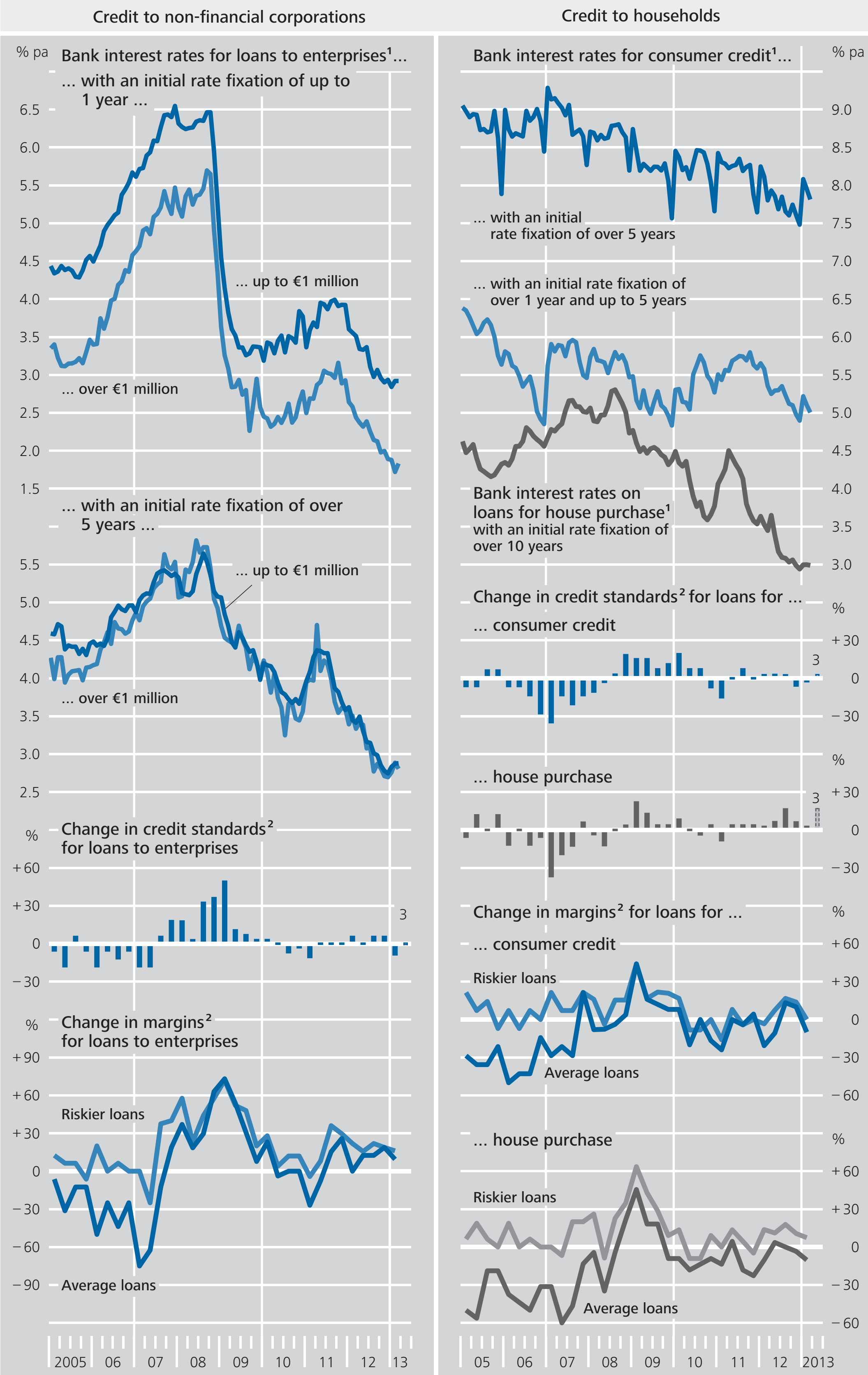
Credit standards vis-à-vis households unchanged

The banks made no notable alterations to the standards vis-à-vis households for housing loans or consumer credit. Margins for average loans narrowed moderately in both segments. In the case of riskier housing loans, margins widened to a lesser extent than in preceding quarters; margins for riskier consumer credit were unchanged, after expanding markedly in the quarters before.

Considerable rise in demand for housing loans continues

According to the banks surveyed, the considerable rise in demand for private loans for house purchase observed since the spring of 2010

Banking conditions in Germany



1 New business. According to harmonised MFI interest rate statistics. 2 According to the Bank Lending Survey, difference between the number of respondents reporting “tightened considerably” and “tightened slightly” and the number of respondents reporting “eased somewhat” and “eased considerably” as a percentage of the responses given. 3 Expectations for 2013 Q2.

Deutsche Bundesbank

continued unabated in the first quarter of 2013. As in the preceding quarters, banks cited the positive outlook in the housing market as the main factor behind this development. Consumer confidence, too, contributed to the growing demand for housing loans, whereas the possibility to borrow from other banks in itself had a dampening effect on demand. By contrast, consumer credit demand was almost unchanged.

Further distinct improvement in German banks' funding conditions

The survey for the first quarter again contained ad hoc questions on the impact of the financial and sovereign debt crisis on banks' funding conditions and credit standards. As in the previous two quarters, the surveyed banks reported an, on the whole, distinct improvement in funding conditions. According to the information provided by the institutions, the sovereign debt crisis had no effect whatsoever on lending policies in the first quarter.

Euro area sees slight tightening of credit standards and significant drop in demand

Overall, credit standards in the euro area were tightened moderately in the first quarter. The main reason for this development, according to the institutions surveyed, were economic risks, whereas bank-related factors played only a subordinate role. Demand for credit in the euro area contracted significantly, with non-financial corporations and households equally responsible for this decline. The surveyed banks mainly attributed this to lower financing needs for fixed asset investment on the business side and to the marked decline in consumer confidence where households were concerned. What is also striking is that the credit standards and demand for credit experienced a very heterogeneous development across all countries of the euro area. At the euro-area level, the banks reported marked improvements in funding conditions and stated that the sovereign debt crisis had had only a marginal effect on banks' funding conditions and lending policies.

Mixed developments in bank lending rates in Germany

The first quarter of 2013 saw bank lending rates in Germany stagnate or rise across all the relevant business areas, maturities and volumes, thus reflecting, in part, interest rate developments on the money and capital markets, which – after a fairly prolonged downward trend – did not fall further. Interest rates for long-term loans to corporations stood at 2.9% for small-scale loans and at 2.8% for large-scale loans; this was just over 10 basis points higher than at the end of December 2012. Interest rates on loans to households for house purchase with an initial rate fixation period of more than ten years likewise rose slightly, to 3.0%. Consumer credit was priced significantly higher, amongst other things because the typical seasonal effect of the final quarter was reversed. Interest rates on long-term consumer credit increased by 33 basis points to 7.8%, while rates on short-term loans with initial rate fixation period variable or up to one year went up by as much as 68 basis points to 4.6%. Moreover, once again, deposits of households and non-financial corporations almost consistently earned less interest than just a quarter earlier.