Monetary policy and banking business

Monetary policy and money market developments

Key interest rates unchanged

Based on its regular economic and monetary analyses, and in line with its forward guidance, the ECB Governing Council kept the key interest rates unchanged in the reporting period. Therefore, the main refinancing rate remains at 0.05%, the marginal lending rate at 0.30%, and the deposit rate at -0.20%. Moreover, the Eurosystem continued as planned to purchase bonds under the expanded asset purchase programme (EAPP) agreed in January 2015 and launched in March 2015.

ECB Governing Council announces re-examination of degree of monetary policy accommodation

The ECB Governing Council announced that it would re-examine the degree of monetary policy accommodation on the basis of macroeconomic projections compiled by Eurosystem experts at its next monetary policy meeting in December. This decision was made against the backdrop of information becoming available in the reporting period, which – according to the ECB Governing Council – continued to signal downward risks regarding the outlook for growth and inflation despite robust domestic demand. The persistence of the factors slowing down the return of inflation to a level of below, but close to 2%, likewise justified a detailed analysis. The ECB Governing Council again underlined its willingness to respond by using all the instruments available within its mandate to ensure an appropriate degree of monetary policy accommodation. In this context, it was highlighted that the EAPP's volume, composition and duration offered sufficient scope for adjustment.

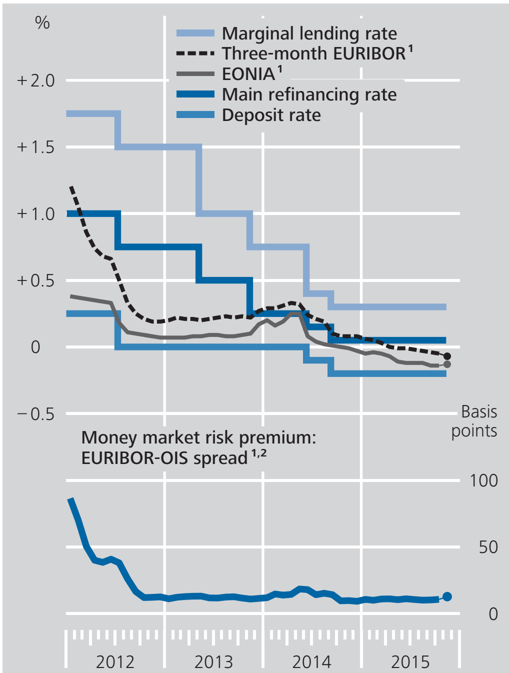
Limit for purchases of individual public sector assets up from 25% to 33%

Following the review after the first six months of purchases, which was announced when the programme was launched, the Governing Council decided in September to increase the issue share limit for purchases of individual public sector assets from the initial limit of 25% to 33%. However, for each individual issue, it must be verified that a situation in which the Eurosystem has a blocking minority is avoided. Wherever this is not possible, the purchasing limit would remain at 25%.

Purchase volumes remain consistent with announced target

On 6 November, the Eurosystem held assets in the amount of €406.6 billion as part of the public sector purchase programme (PSPP). The average residual maturity of the PSPP portfolio is currently just over eight years. The outstanding amounts purchased to date under the third covered bond purchase programme (CBPP3) and the asset backed securities purchase programme (ABSPP) came to €132.5 billion and €14.8 billion respectively. Overall, the volume of securities purchased under the EAPP thus equates to the average monthly volume of €60 billion previously announced.

Money market interest rates in the euro area



Source: ECB. **1** Monthly averages. **2** Three-month EURIBOR less three-month EONIA swap rate. • Average 1 to 12 November 2015.

Deutsche Bundesbank

Money market management and liquidity needs

During the two reserve maintenance periods from 22 July to 27 October 2015, there was a marked increase in euro-area liquidity needs stemming from autonomous factors. In the September-October 2015 reserve period, the figure averaged €557.5 billion, which was €44.2 billion above its average level in the June-July 2015 reserve period. This was largely due to the change in the liquidity-providing other factors which, if taken together with net foreign assets in order to eliminate valuation effects with no impact on liquidity, declined by €35.5 billion. Added to this, the €9.7 billion increase in the volume of banknotes in circulation also had a liquidity-absorbing effect. By contrast, government deposits remained virtually unchanged on balance in the period under review, with a decline during the July-September 2015 period, which includes the summer holidays, being followed by an upturn in the September-October 2015 period. Minimum reserve requirements rose by €0.3 billion across both reserve periods to stand at €113.2 billion in the September-October 2015 period. This increase additionally slightly raised the calculated liquidity needs (see the table below).

During the period under review, the outstanding tender volume averaged €533.4 billion, fluctuating less strongly than in previous periods (see chart on page 28). A key contributory factor here was the limited interest in the fifth targeted longer-term refinancing operation (TLTRO) in which €15.5 billion were allotted. The overall volume of TLTROs consequently totalled €400 billion as at 27 October 2015. Three-month tenders fell in volume from €83 billion to €67 billion, while the volume of main refinancing operations shrank only gradually, from

Factors determining bank liquidity*

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

Item	2015: 22 July to 8 Sep	2015: 9 Sep to 27 Oct
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1 Banknotes in circulation (increase: –)	– 12.6	+ 2.9
2 Government deposits with the Eurosystem (increase: –)	+ 32.9	– 31.8
3 Net foreign assets[1]	– 15.5	– 8.3
4 Other factors[1]	– 0.9	– 10.8
Total	+ 3.9	– 48.0
II Monetary policy operations of the Eurosystem		
1 Open market operations		
(a) Main refinancing operations	– 10.0	– 2.2
(b) Longer-term refinancing operations	+ 19.0	– 0.1
(c) Other operations	+ 79.0	+ 92.4
2 Standing facilities		
(a) Marginal lending facility	+ 0.3	– 0.5
(b) Deposit facility (increase: –)	– 44.9	– 4.8
Total	+ 43.4	+ 84.8
III Change in credit institutions' current accounts (I + II)	+ 47.0	+ 36.9
IV Change in the minimum reserve requirement (increase: –)	– 0.5	+ 0.2

* For longer-term trends and the Bundesbank's contribution, see pp 14• and 15• of the Statistical Section of this Monthly Report. 1 Including end-of-quarter liquidity-neutral valuation adjustments.

Deutsche Bundesbank

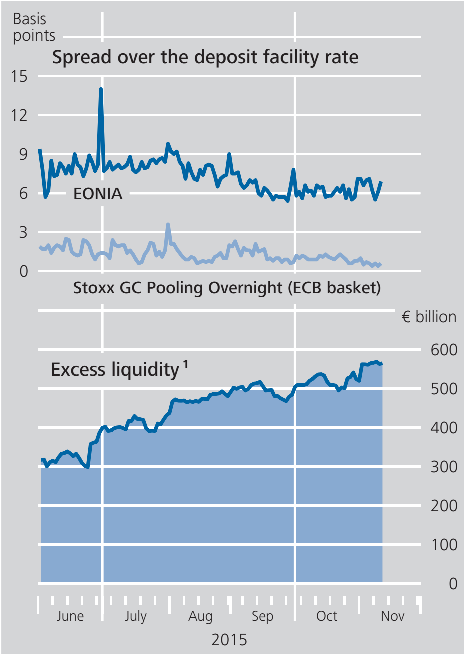
€75 billion to around €66 billion, despite the sharp increase in excess liquidity. The familiar pattern of greater demand for these operations prior to month-end was less pronounced than in the preceding reporting period, probably on account of the ample amounts of liquidity provided by the TLTROs and the purchase programmes.

Purchases made as part of the expanded asset purchase programme (EAPP) had the greatest liquidity-providing effect in the reporting period. Balance sheet holdings of securities under the three sub-programmes increased in the two reserve periods by €154.0 billion (PSPP), €28.4 billion (CBPP3) and €5.2 billion (ABSPP). As at 6 November 2015, these holdings amounted to €406.6 billion (PSPP), €132.5 billion (CBPP3) and €14.8 billion (ABSPP). Holdings under discontinued Eurosystem purchase programmes dwindled further as a result of maturities and taking into account end-of-quarter revaluations. The balance sheet holdings of these programmes stood at €20.8 billion (CBPP1), €10.0 billion (CBPP2) and €123.0 billion (SMP) as at 6 November 2015. On 5 August 2015, the overall balance sheet volume of all outstanding purchase programmes exceeded the refinancing volume arising from tenders for the first time.

In the July-September 2015 reserve period, excess liquidity rose by €92 billion compared with the previous period to an average level of €464 billion. The September-October 2015 reserve period saw a more moderate increase in excess liquidity to the tune of €41 billion, resulting in an average level of €505 billion thanks to the compensating effect of higher autonomous factors. As in the preceding reporting period, excess liquidity fluctuated fairly strongly at times over the space of just a few days, which was often the result of the higher volatility

Interest rate spread and excess liquidity

Daily data



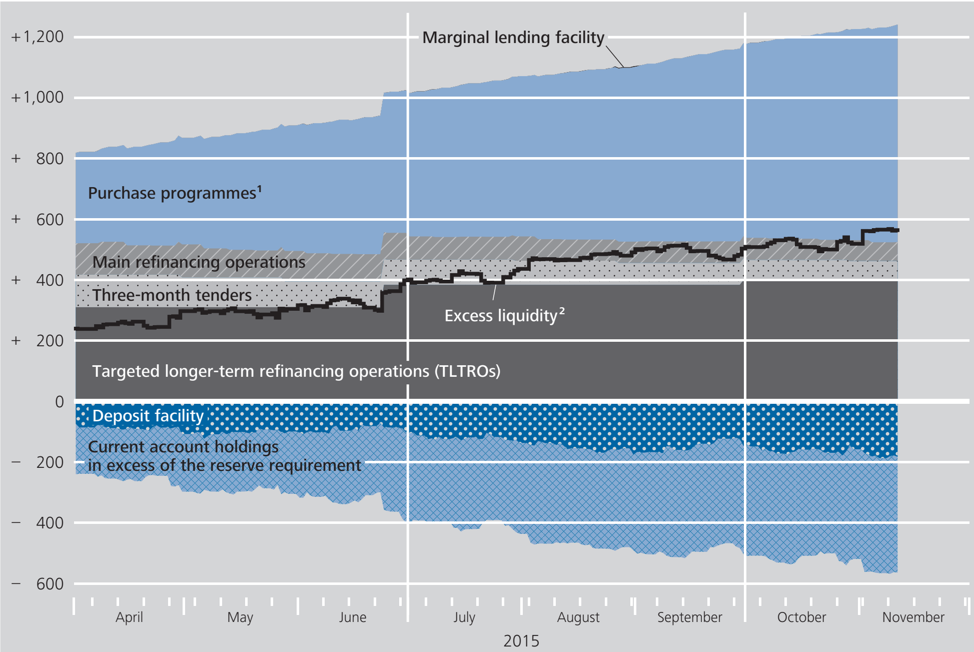
Sources: ECB, Eurex Repo and Bundesbank calculations. **1** Current account holdings minus the minimum reserve requirement plus the deposit facility.
Deutsche Bundesbank

of the autonomous factors (especially government deposits with the Eurosystem). The liquidity needs resulting from the autonomous factors fluctuated between €489 billion and €602 billion.

The very generous liquidity supply meant that overnight rates in the reporting period remained in line with the deposit facility rate of -0.20%. The overall increase in excess liquidity caused the spread on the deposit facility rate to narrow further. This was true both of the EONIA as the reference rate for unsecured overnight deposits and of secured overnight money (Stoxx GC Pooling Overnight, ECB basket) (see chart above). In the July-September 2015 reserve period, the EONIA averaged -0.12%, dropping to a rate of -0.14% over the September-October period. Secured overnight money followed a similar, albeit less pronounced pattern, as it was already close to the deposit facility rate. GC Pooling Over-

Liquidity provision and use

€ billion, daily data



Sources: ECB and Bundesbank calculations. **1** Securities Markets Programme (SMP), Covered Bond Purchase Programmes (CBPP1, CBPP2 and CBPP3), Asset-Backed Securities Purchase Programme (ABSPP) and Public Sector Purchase Programme (PSPP). **2** Current account holdings minus the minimum reserve requirement plus the deposit facility.

Deutsche Bundesbank

night (ECB basket), which was consistently below the EONIA in the reporting period, stood at an average of -0.19% in the two periods under review (previous period: -0.18%), just 1 basis point higher than the deposit facility rate. The fact that secured overnight money rates barely increased at the end of the month or quarter during the reporting period (see chart on page 27) is indicative of the weakened response of overnight money to the liquidity situation. Moreover, average EONIA turnover, which was already low at roughly €20 billion on average in the April-June and June-July 2015 reserve periods, decreased further to stand at around €16 billion in the September-October period. This highlighted the fact that the need for a daily redistribution of liquidity appears to have diminished owing to the longer-term supply of central bank money and a greater emphasis on longer money market maturities. Furthermore, yield prospects rendered the intraday provision of liquidity less attractive.

The first two weeks of the October-December 2015 reserve period were characterised by a further rise in excess liquidity (€566 billion as at 6 November 2015), low overnight rates close to the deposit facility rate and a further fall in overnight turnover, with Stoxx GC Pooling Overnight secured turnover (ECB basket) also declining significantly this time.

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

Changes in € billion, seasonally adjusted

Assets	2015 Q3	2015 Q2	Liabilities	2015 Q3	2015 Q2
Credit to private non-MFIs in the euro area	51.8	– 6.6	Central government deposits	30.1	– 22.5
Loans	– 15.1	2.6	Monetary aggregate M3	109.8	108.0
Loans, adjusted[1]	– 2.0	– 0.5	*of which* Components		
Debt securities	66.9	– 9.2	Currency in circulation and overnight deposits (M1)	135.3	173.4
Credit to general government in the euro area	120.3	51.3	Other shorter-term bank deposits (M2-M1)	– 31.2	– 34.6
Loans	– 12.9	– 15.4	Marketable instruments (M3-M2)	5.7	– 30.9
Debt securities	133.3	66.6	Longer-term financial liabilities to other non-MFIs	– 11.0	– 92.0
Net external assets	– 67.3	– 5.4	*of which* Capital and reserves	36.1	– 0.4
Other counterparts of M3	24.0	– 45.8	Other longer-term financial liabilities	– 47.1	– 91.6

* Adjusted for statistical changes and revaluations. **1** Adjusted for loan sales and securitisation.
Deutsche Bundesbank

88 banks borrow €15.5 billion in fifth TLTRO

On 24 September 2015, the fifth of eight targeted longer-term refinancing operations (TLTROs) was carried out, with 88 banks taking up an overall volume of €15.5 billion. The allotted amount, which was below market expectations, is to be seen in the context of the high and increasing excess liquidity as well as the operation's relative attractiveness compared with market-based funding alternatives. The conditions for market-based funding at equivalent maturities hardly changed, or declined, compared with when the fourth TLTRO was conducted. This was probably one of the reasons why the institutions did not increase their demand for TLTRO funds any further. At the same time, recourse to the standard main refinancing operations and three-month tenders again declined slightly. The Eurosystem's total monetary policy refinancing volume amounted to just under €531 billion in October, ie lower than at the time of the last report.

Significant growth in excess liquidity persists

Driven by purchases under the EAPP, excess liquidity continued to grow significantly by just under €100 billion in the reporting period despite the subdued demand in the fifth TLTRO, following the trend of the preceding reporting quarter. At around €565 billion, excess liquidity is now at as high a level as last seen in January 2013. Owing to the implementation of the EAPP, further growth is to be expected in the months ahead.

Downward potential of short-term money market rates largely exhausted

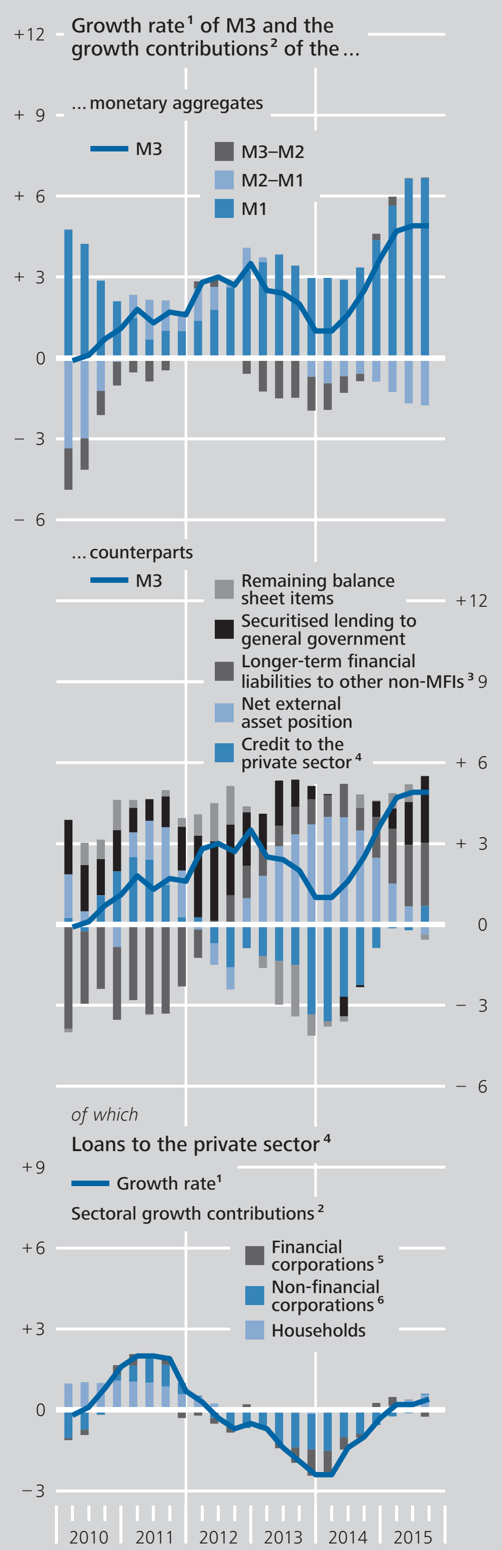
However, the increase in excess liquidity only sporadically caused short-term money market rates to decline further. The secured overnight rate (Stoxx GC Pooling) changed only marginally overall and remained close to the deposit rate, while the unsecured interbank money market rate (Eonia) moved only sideways of late, following a slight decline until mid-September. The interest rate on the deposit facility limits the downward potential of these short-term rates, even while excess liquidity continues to grow. However, the negative trend of the unsecured three-month Euribor continued and recently reached an all-time low of -0.081%, which meant that the spread between the three-month Euribor and Eonia contracted further.

Market expectations regarding further deposit rate reduction

More significant declines were recorded at the longer end of the money market curve of late. Eonia swap rates with a maturity of six months, for example, fell short of the deposit rate at -21 basis points, while implicit Eonia forward rates with a nine-month maturity fell at times to as low as -29 basis points. These downward movements occurred against the backdrop of growing market expectations of a further easing of the monetary policy stance in the euro

Monetary aggregates and counterparts in the euro area

Seasonally adjusted, end-of-quarter data



Source: ECB. **1** Year-on-year percentage change. **2** In percentage points. **3** Denoted with a negative sign because, per se, an increase curbs M3 growth. **4** Adjusted for loan sales and securitisation. **5** Non-monetary financial corporations. **6** Non-financial corporations.

Deutsche Bundesbank

area. The declines in the forward rates are consistent, in particular, with expectations regarding a possible further reduction in the deposit rate.

Monetary developments in the euro area

Monetary developments increasingly marked by EAPP

The broad monetary aggregate M3 grew again considerably in the third quarter. The robust growth in the money components was attributable to the money-holding sector's sustained preference for highly liquid assets, which was driven by the interest rate situation. In this context, monetary developments were dominated by the effects of the EAPP, with growth in securitised lending by the MFI sector to general government again accelerating significantly due to Eurosystem purchases. However, part of this positive direct effect that the securities purchases had on monetary growth was offset by outflows of funds from the euro area as a result of foreign investors' net sales of euro-area sovereign bonds to euro-area residents. Despite a further decline in lending rates, no supporting effect emanated from loans to the private sector. Loans to the non-financial private sector, on the other hand, recorded sustained inflows.

Significant M3 growth still driven by overnight deposits

Growth in M3 in the third quarter was still mainly driven by overnight deposits, which were accumulated by households and non-financial corporations, in particular, in the light of the comparatively small and decreasing interest rate spreads over other types of investment. Conversely, households' demand for short-term time deposits fell again significantly in the reporting quarter. Unlike in the previous quarters, non-monetary financial corporations did not continue to increase their overnight deposits in the third quarter. On balance, the annual growth rate of M3 remained unchanged on the quarter at 4.9%. This means that the upward trend in the expansion of the money stock observed from the beginning of 2014 has given way to a robust sideways movement.

Adjusting loan data for sales and securitisation

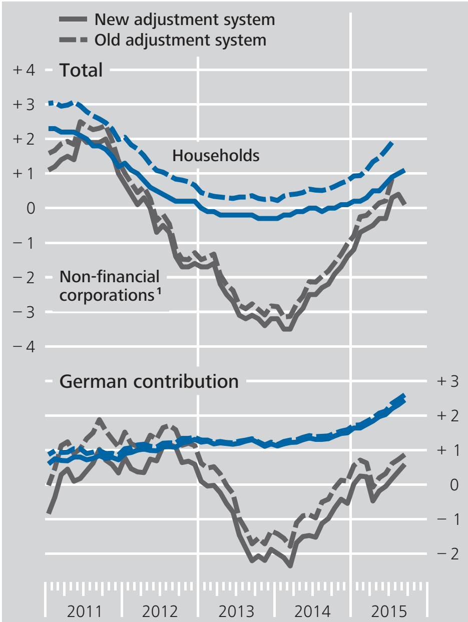
Ever since the September 2015 reporting date, the national central banks (NCBs) of the Eurosystem and the European Central Bank (ECB) have been using an improved reporting framework for loans to the euro-area private sector.[1] One benefit of the new method is that it allows loan data to be adjusted more accurately for the effects of securitisation and other transfers of loans. This adjustment step is generally needed because securitised loans that are derecognised from banks' balance sheets are reported as a reduction in the stock of loans originated by banks, even though the actual amount of bank financing received by the real economy remains unchanged. Another improvement brought about by the new statistical adjustment method is that it enhances the comparability of loan data across member states, some of which apply different accounting practices when loans are derecognised.

The refined adjustment method was made possible by a new ECB Regulation and Guideline.[2] The previous statistical data only allowed the actual impact of off-balance-sheet securitisation and comparable loan transfers to be captured by adjusting the loan flows for the reduction in the reported loan stock (triggered by one-off derecognition) in the month in which the transfer took place. Statistical data to adjust for subsequent repayments of transferred loans were not available, however. The new reporting standards now require monetary financial institutions (MFIs) which act as servicers[3] to report data on an ongoing basis on the stocks and repayments of derecognised securitised loans. Data on derecognised loans which are not serviced by MFIs, where available, will also be fed into the new adjustment method. This means that it is now possible to adjust statistical data for periods subsequent to derecognition as well. The new adjusted data series are available from the beginning of 2010, the back-data having been produced in part with the aid of estimations.

The effect of the change in methodology on adjusted growth rates speaks for itself when the growth rate is expressed as the quotient of current-period transactions (numerator effect) and of the outstanding previous-period amount (denominator effect).

Loans* to the euro-area non-financial private sector

Seasonally adjusted data, year-on-year percentage change

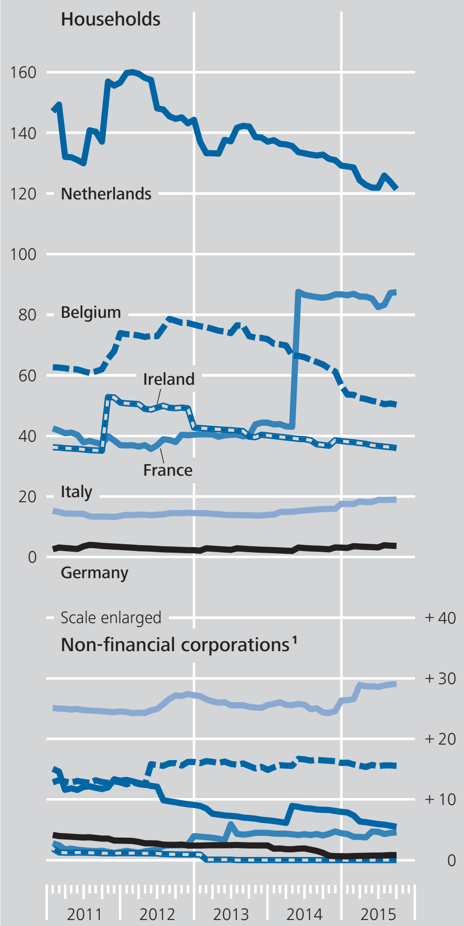


Source: ECB and Bundesbank calculations. * Adjusted for loan sales and securitisation. 1 Non-financial corporations and quasi-corporations.
Deutsche Bundesbank

1 See European Central Bank, New data on loans to the private sector adjusted for sales and securitisation, Economic Bulletin, Issue 7/2015, pp 25-27.
2 Specifically, these are Regulation ECB/2013/33 concerning the balance sheet of the monetary financial institutions sector and Guideline ECB/2014/15 on monetary and financial statistics.
3 An MFI acts as a servicer when it manages the loans underlying a securitisation in terms of the collection of principal and interest from the obligors, which is then forwarded to investors in the securitisation scheme.

Derecognised loans to selected sectors in the euro area*

€ billion, end-of-month data



Source: ECB. * Derecognised loans serviced by euro-area MFIs. **1** Non-financial corporations and quasi-corporations.
Deutsche Bundesbank

The new method of adjustment broadens the capture of data for transactions beyond the derecognised volumes of loan transfers in the month of derecognition by also including data on repayments of derecognised loans in subsequent periods, reducing the size of the numerator accordingly. In contrast, the denominator increases, because the refined adjustment method now captures not only loan stocks carried in balance sheets but also the outstanding amount of derecognised loans. Taken as a whole, the new method of adjustment therefore has a negative effect on the adjusted growth rates of loans to the euro-area private sector.

As can be seen in the chart on the previous page, growth rates for loans to the euro area's non-financial private sector, when calculated according to the new method, are somewhat down on previous rates, as would be expected. The chart also shows that loans to households at the euro-area level are affected more strongly than those to non-financial corporations. One likely explanation for this is that the stocks of derecognised loans to households being serviced by an MFI (€335 billion in September 2015) far exceed those to non-financial corporations (€57 billion). But in overall terms, loan growth rates have not been affected by the refined adjustment method; in particular, the robust recovery which the growth rate for loans to the euro area's non-financial private sector has shown since the beginning of 2014 remains intact.

The negative effect of the new adjustment method on growth rates can also be observed in Germany's contributions to the euro-area aggregates; the pace of the recovery process has not been significantly affected by the improvements made to the adjustment method either (see the chart on the previous page). Unlike in the euro area as a whole, the difference between the growth rates for loans to households calculated according to the old and new adjustment methods is very narrow, however. This is because the stock of derecognised loans to households in Germany is quite low (see the chart on this page). Consumer loans account for the bulk of securitisation in Germany, with auto finance loans probably accounting for much of this activity. By contrast, the securitisation of loans for house purchase, which make up a great deal of the euro area's total stocks, plays only a secondary role in Germany. Loans for house purchase are normally retained on the balance sheets of German credit institutions where they serve as cover assets securing Pfandbriefe, which offer attractive yields.

One factor that does figure quite strongly in the flatter growth rate for loans to non-financial corporations across the euro area, however, is the downward revision of the German figures. This would appear counterintuitive at first – after all, the stock of derecognised loans to non-financial corporations in Germany is likewise relatively low compared with other euro-area countries (see the chart on the previous page). But it is important to note, when calculating growth rates, that the bulk of loans securitised in Germany have short maturities (of up to one year), while the maturity profile in the euro area is a lot more mixed. In Germany, then, repayments are a relatively important factor compared to the outstanding loan amounts, causing the growth rate to contract more strongly under the new method of adjustment.[4] However, the influence of German data is likely to wane in future periods, assuming securitisation activity remains as it is, since the stock of derecognised corporate loans being serviced by German banks has been shrinking since 2010 and is now very small indeed.

As part of the changeover to the new method of adjustment, action was also taken to harmonise the seasonal adjustment of loans to the private sector,[5] in a move which ensures that NCBs and the ECB now use uniform methods for reporting on the transactions of domestic banks with the domestic private sector as well as the respective national contributions to the euro-area aggregates.

4 This is mainly because the numerator (that is, the flow effect) accounts for the bulk of the difference between the growth rates calculated according to the old and the new methods.
5 This related inter alia to the question of which data series for loans to households and non-financial corporations are seasonally adjusted according to the direct estimating approach and which use the indirect approach.

Upturn in lending growth continues despite net redemptions

By contrast, the annual growth rate of loans to the euro-area private sector (adjusted for sales and securitisation)[1] continued to recover on the whole despite slight net redemptions in the reporting quarter, climbing slightly to 0.4% at the end of September. Correspondingly, the gap between monetary growth and growth in loans to the private sector remains exceptionally high.

Slight reduction in loans to non-financial corporations …

As in the preceding quarter, the development of loans to the private sector in the third quarter was dampened by clear outflows in lending to the financial corporations sector, whereas loans to the non-financial private sector again expanded markedly. However, lending to non-financial corporations, which had recorded inflows in the three previous quarters, contracted slightly in the third quarter on balance (see the chart on page 34). This was attributable to considerable net redemptions of loans with short-term maturities, which were offset by an appreciable expansion in medium and longer-term lending.

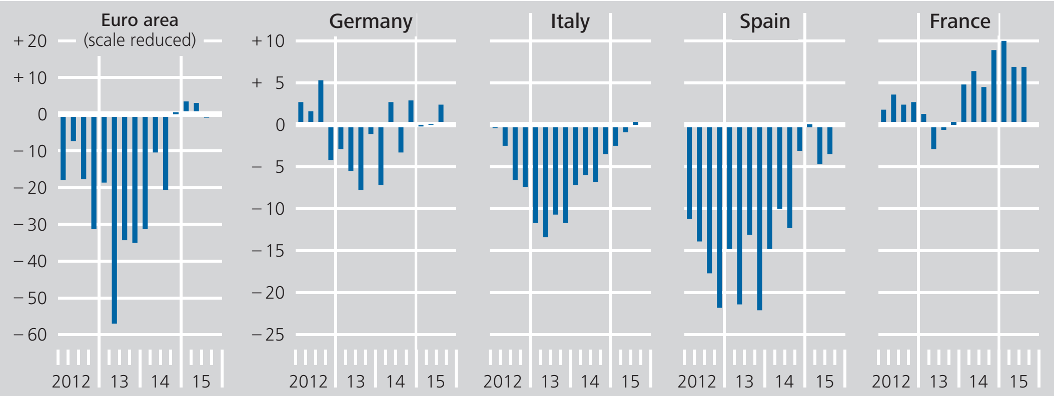
… due to one-off effects in a single core country

Yet, a breakdown of the data by countries reveals that the decline in short-term lending was driven by one-off effects in the Netherlands, implying that the reported figures probably understate the credit dynamics in the reporting quarter. This is mirrored by the fact that lending to non-financial corporations in the reporting quarter showed positive developments in all four large euro-area member states, albeit to different extents. Some banks in France, Italy and Germany, for example, recorded discernible increases in lending, and net redemptions decreased somewhat in Spain. Despite the above-mentioned one-off effect, the annual growth rate for loans to non-financial corporations in the euro area as a whole continued to

1 For details on the methodological changes to the adjustment of loan series for loan securitisation and their implications for growth rates, see the box on pp 31-33.

Loans to non-financial corporations*

€ billion; end-of-quarter three-month changes, seasonally adjusted and adjusted for loan sales and securitisation



Sources: ECB and Bundesbank calculations. * Non-financial corporations. As from the implementation of ESA 2010, from December 2014, holding companies of non-financial groups are no longer counted as belonging to the sector of non-financial corporations but are now allocated instead to the financial corporations sector in banks' monthly balance sheet statistics.
Deutsche Bundesbank

recover slightly and, at 0.1% at the end of the reporting quarter, moved marginally back into positive territory for the first time since the beginning of 2012.

Ongoing recovery in demand for loans by non-financial corporations

The Bank Lending Survey (BLS) carried out in the third quarter also pointed to a continued upward movement in lending to the non-financial corporations sector. Although the euro-area banks surveyed said they had, on balance, eased their standards for loans to enterprises only marginally,[2] they reported a further marked increase in non-financial corporations' demand for loans. According to the banks, this demand was driven, above all, by the low general interest rate level. In addition, financial needs for investment and corporate restructuring as well as adjustments to enterprises' equity and debt funding had a boosting effect on demand. The BLS stated that the EAPP, too, had had a positive impact on lending. For example, the respondent euro-area banks reported to have primarily deployed the liquidity received under the EAPP for lending purposes over the past six months and indicated that they planned to continue on this path in the six months to come. Moreover, the surveyed institutions stated that they intended, in particular, to ease credit conditions on the back of the EAPP.

Loans to households up perceptibly; driven by loans for house purchase

Growth in lending to households accelerated appreciably again compared to the previous quarter. However, at an annual growth rate of 1.1% in the reporting quarter, the expansion of this aggregate was still moderate.[3] In an environment of historically low interest rates, lending growth was again driven by loans for house purchase, although consumer credit also continued to make a distinctly positive contribution. As in the preceding quarters, the aggregate increase in loans for house purchase in the euro area masked heterogeneous developments in the different countries. Whereas these loans continued to increase significantly in France and Germany, in particular, most euro-area periphery countries saw them decline – not least as a result of the persistent need for deleveraging among households in some of these countries. For the euro area as a whole, the banks surveyed in the BLS reported that demand in this credit segment had risen substantially yet again, while credit standards had tightened marginally.

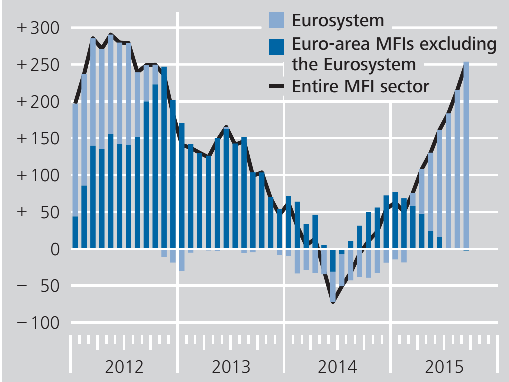
2 Banks last reported that they had tightened their lending standards in this business line for the final quarter of 2013.
3 The improved methodology for adjusting credit data for credit transfers (see the box on pp 31-33) has had a particularly pronounced effect on loans to households, causing annual growth rates in that segment to be revised downwards discernibly.

Stable growth in consumer credit

Compared to loans for house purchase, the rise seen in consumer credit over the past few quarters was visibly more broad-based – probably a reflection of the ongoing pick-up in private consumption in the euro area. According to the BLS, this is consistent with the renewed marked rise in funding requirements in the consumer credit segment, which the surveyed banks continued to attribute, in part, to consumers' high propensity to spend, improved consumer confidence and the low interest rate level. The BLS reported a marginal loosening of credit standards in this segment.

Securitised lending of MFIs to general government in the euro area

€ billion, end-of-month 12-month changes, not seasonally adjusted



Sources: ECB and Bundesbank calculations.
Deutsche Bundesbank

Securitised lending to general government and private sector pushes growth in monetary aggregate

The discrepancy between the overall weak lending to the private sector and the robust growth in the monetary aggregate in the reporting quarter can primarily be explained by the major expansion in securitised lending to general government (see the adjacent chart), which, in turn, was supported by Eurosystem purchases of securities made under the EAPP. In this vein, claims by the entire MFI sector (to which the Eurosystem also belongs) vis-à-vis general government again increased considerably in the quarter under review, which suggests that a fair share of the paper was ultimately sold by holders outside the domestic banking sector. This goes hand in hand with the fact that the sovereign debt held by banks and money market funds in the euro area fell only slightly in the third quarter. However, they simultaneously clearly increased their holdings of debt securities from the euro-area private sector in the reporting quarter, from which it can be assumed that government securities were partly substituted with private sector securities.

Net capital exports in securities transactions cause net external position to contract

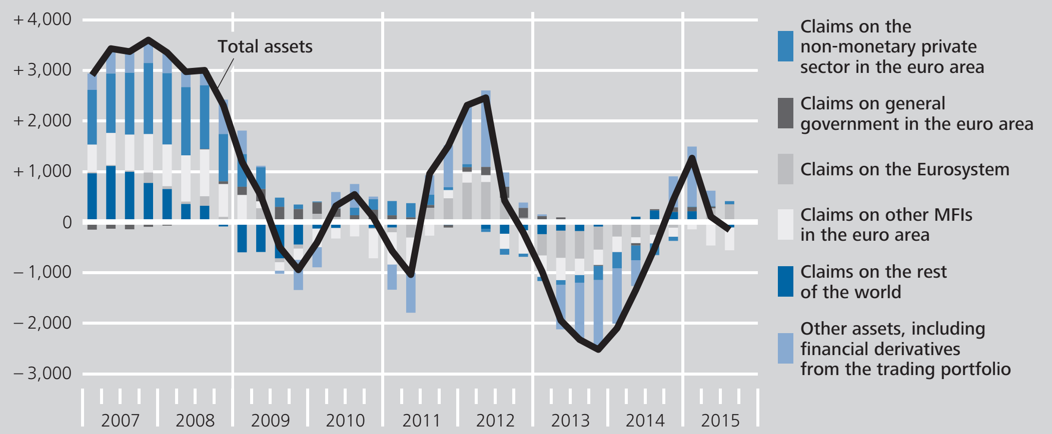
The development of the MFI sector's net external position, too, is increasingly being influenced by the Eurosystem's securities purchases. However, the inflow of external funds to euro-area non-banks continued as a result of the ongoing current account surpluses, which – taken in isolation – increase the MFI sector's net external assets and thereby support monetary expansion. At the same time, substantial net capital exports in portfolio investment were increasingly observed from April of this year, which, *per se*, lead to outflows of funds to non-euro-area countries and diminish the MFI sector's net external position. The outflows from securities transactions were attributable, first, to a persistently elevated demand by domestic investors for debt securities issued outside the euro area. One factor behind this is likely to have been the substitution of domestic securities sold to the Eurosystem under the EAPP with foreign securities. Second, the expected reduction of euro-area sovereign bond holdings by foreign investors under the purchase programme was clearly observable with a small lag from June. In addition, non-residents scaled back both their activities in the equity market and their exposures to bonds of the non-financial private sector slightly on balance.

Further decline in monetary capital due to shrinking long-term bank debt securities

The contraction in monetary capital, which had been the largest supporting M3 counterpart for a while, slowed down noticeably in the reporting quarter. This was mainly due to the fact that the persistently considerable net redemptions of long-term bank debt securities were offset by a perceptible increase in capital and reserves. Furthermore, due to a large-volume securitisation transaction by other financial intermediaries in July, longer-term time deposits recorded net inflows for the first time in

Balance sheet assets of euro-area banks*

End-of-quarter 12-month changes[1] in € billion



Source: ECB. * Including money market funds. **1** Adjusted for statistical changes and revaluations.
Deutsche Bundesbank

quite a while (see below). As in the preceding quarters, the continued reduction in bank debt securities in the hands of the money-holding sector is probably attributable to the fact that market-based funding is currently comparatively unattractive due to banks further expanding their deposits and liquidity being provided by the Eurosystem at favourable conditions.

Slight fall in banks' balance sheet assets

The balance sheet assets of euro-area banks fell slightly again in the third quarter of 2015, which, besides the continued decline in interbank claims in the euro area, was predominantly due to the reduction in claims vis-à-vis non-residents and – in the context of the EAPP – claims on general government in the euro area (see the chart above). The latter applied, in particular, to banks in Italy and Spain, which mainly reduced their holdings of domestic government bonds. Conversely, credit institutions in Ireland, France and Germany, in particular, experienced a reduction in external claims. The persistent decline in interbank claims is probably attributable to the financial institutions' comfortable liquidity position, which is reflected, amongst other things, in the claims on the Eurosystem, which have once again risen discernibly.

German banks' deposit and lending business with domestic customers

Deposit business still marked by portfolio shifts towards overnight deposits …

In Germany, too, the investment behaviour of non-banks was characterised – as in the previous quarters – by an expansion in short-term deposits, of which predominantly overnight deposits increased. Especially households and, to a substantially lesser extent, non-financial corporations strengthened their holdings of overnight deposits, in part also by reducing other longer-term deposits. This reflected the steep incline in households' disposable income and the high level of liquidity currently held by non-financial corporations. In addition, the consistently elevated demand for overnight deposits mirrors investors' distinct preference for liquidity, which was driven in the reporting quarter by greater fluctuations in the capital markets.[4] Moreover, the ever-narrowing interest rate spread between savings and short-term time deposits on the one hand and overnight deposits on the other has further pushed down the opportunity costs of holding money (see the chart on page 37).

4 See Deutsche Bundesbank, German households' saving and investment behaviour in light of the low-interest-rate environment, Monthly Report, October 2015, pp 13-31.

... but only in the non-financial private sector

With the exception of long-term time deposits, financial corporations recorded no noteworthy changes in deposit holdings in the third quarter. As in the previous quarters, insurance companies and pension funds managed by professional investors continued to scale back their (persistently high level of) holdings of long-term time deposits, probably due to shifts in favour of higher-yielding assets. By contrast, other financial intermediaries' long-term time deposits recorded a substantial increase as a result of a large-volume securitisation transaction.

Considerably more lending business with domestic non-banks on balance

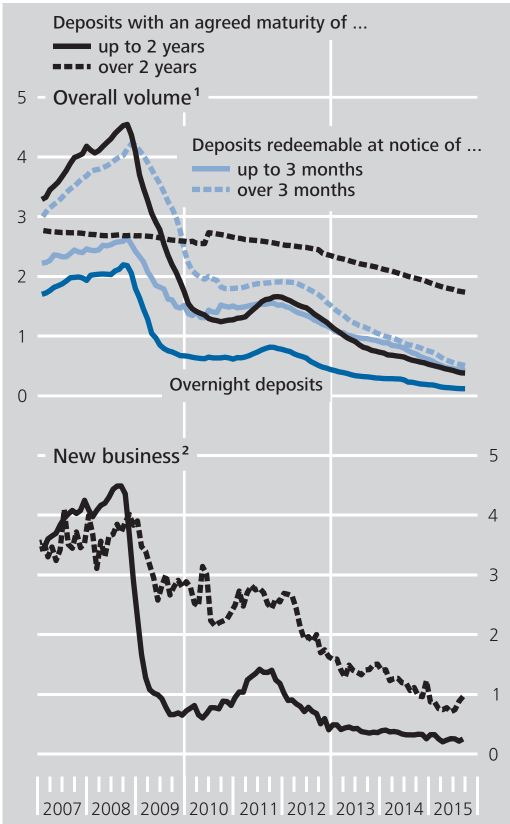
The increase in banks' lending operations with the domestic non-bank sector persisted in the reporting quarter. Whereas loans of commercial banks to general government increased only slightly, loans to the private sector recorded robust growth in the third quarter. This was due, on the one hand, to a clear expansion in securitised lending to private non-banks stemming from the above-mentioned securitisation transaction. On the other, loans to the private sector (adjusted for sales and securitisation), likewise increased markedly – as in the preceding quarters.[5] This rise solidified again in the third quarter, but remains at a moderate level with an annual growth rate of 2.0%.

Housing loans to households act as key driver of growth

The lively demand by households for loans for house purchase was once again the key driver behind the expansion in loans to the domestic private sector. Growth in this credit segment markedly accelerated in recent quarters, gaining 3.3% on the year at the end of September, which represents the highest figure in 13½ years. Besides the substantial increase in households' financial assets and the stable income situation, the still markedly favourable borrowing conditions, too, are likely to have played a role in this context. According to MFI interest rate statistics, the interest rate on long-term housing loans climbed to 2.1% in the third quarter. However, the rate remains close to its historic low of May 2015, since the introduction of harmonised MFI interest rate statistics in 2003 (see the chart on page 39).

Interest rates on bank deposits in Germany*

% pa, monthly



* Deposits of households and non-financial corporations. **1** According to the harmonised MFI interest rate statistics. Volume-weighted interest rates across sectors. Interest rate levels for overnight and savings deposits may also be interpreted as new business due to potential daily changes in interest rates. **2** According to the harmonised MFI interest rate statistics. Volume-weighted interest rates across sectors and maturities. Unlike the overall volume of contracts (ie deposit contracts on the balance sheet at the end of the month), the volume of new business (ie all contracts concluded in the course of a month) is explicitly recorded for time deposits only.

Deutsche Bundesbank

Indications of further determinants are provided by the latest BLS results. Besides the low general interest rate level, the dynamic demand for loans in this segment was, according to the surveyed banks, also supported by the positive outlook on the housing market, including prospective price movements, and by strong consumer confidence. By contrast, the bank man-

5 As at the September 2015 reporting date, the Eurosystem introduced its improved reporting framework for loans to the euro-area private sector. One benefit of the new method is that – with retroactive effect from the beginning of 2010 – it allows loan data to be adjusted more accurately for the effects of securitisation and other transfers of loans. For details and more information on the impact on German figures, see the box on pp 31-33.

Lending and deposits of monetary financial institutions in Germany*

Changes in € billion, seasonally adjusted

Item	2015 Q2	2015 Q3
Deposits of domestic non-MFIs[1]		
Overnight	47.7	33.5
With agreed maturities		
of up to 2 years	− 15.2	− 4.9
of over 2 years	− 14.4	12.5
Redeemable at notice		
of up to 3 months	2.2	2.2
of over 3 months	− 4.2	− 4.5
Lending		
to domestic general government		
Loans	− 6.3	− 2.3
Debt securities	− 6.4	6.4
to domestic enterprises and households		
Loans[2]	12.0	13.6
of which to households[3]	9.6	11.3
to non-financial corporations[4,5]	− 0.9	2.3
Debt securities	− 5.8	13.9

* 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 and revaluations. **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. **5** As from the implementation of ESA 2010 in banks' balance sheet statistics, the holding companies of the non-financial corporations sector (eg management holding companies with predominantly financial shareholdings) have been reclassified from the non-financial corporations sector to the financial corporations sector (as other financial intermediaries). Moreover, those entities and enterprises which are non-market producers (eg municipal utilities) and have been counted as non-financial corporations thus far have now been reallocated to the general government sector (as off-budget entities).
Deutsche Bundesbank

agers reported that, taken in isolation, a notably dampening effect on financing requirements was merely the result of households drawing on their own funds. Banks' lending policies sent mixed signals to households. Although the banks participating in the BLS moderately lowered their margins for average loans on the whole in the face of intense competition for new customers, a slight tightening of credit standards for loans to households for house purchase simultaneously took place on balance in the third quarter.

Demand for consumer credit boosted by favourable framework conditions

According to the bank managers interviewed as part of the BLS, the demand for consumer credit increased in the third quarter. Their assumption was that the increase occurred as a result of consumers' elevated propensity to spend, strong consumer confidence and the low general interest rate level. Yet, unlike with loans to households for house purchase, the surveyed banks on balance left their credit standards for consumer credit unchanged. They did, however, likewise narrow their margins on average loans, attributing this – as in the case of private housing loans – to the current competitive environment.

Slight increase in loans to non-financial corporations …

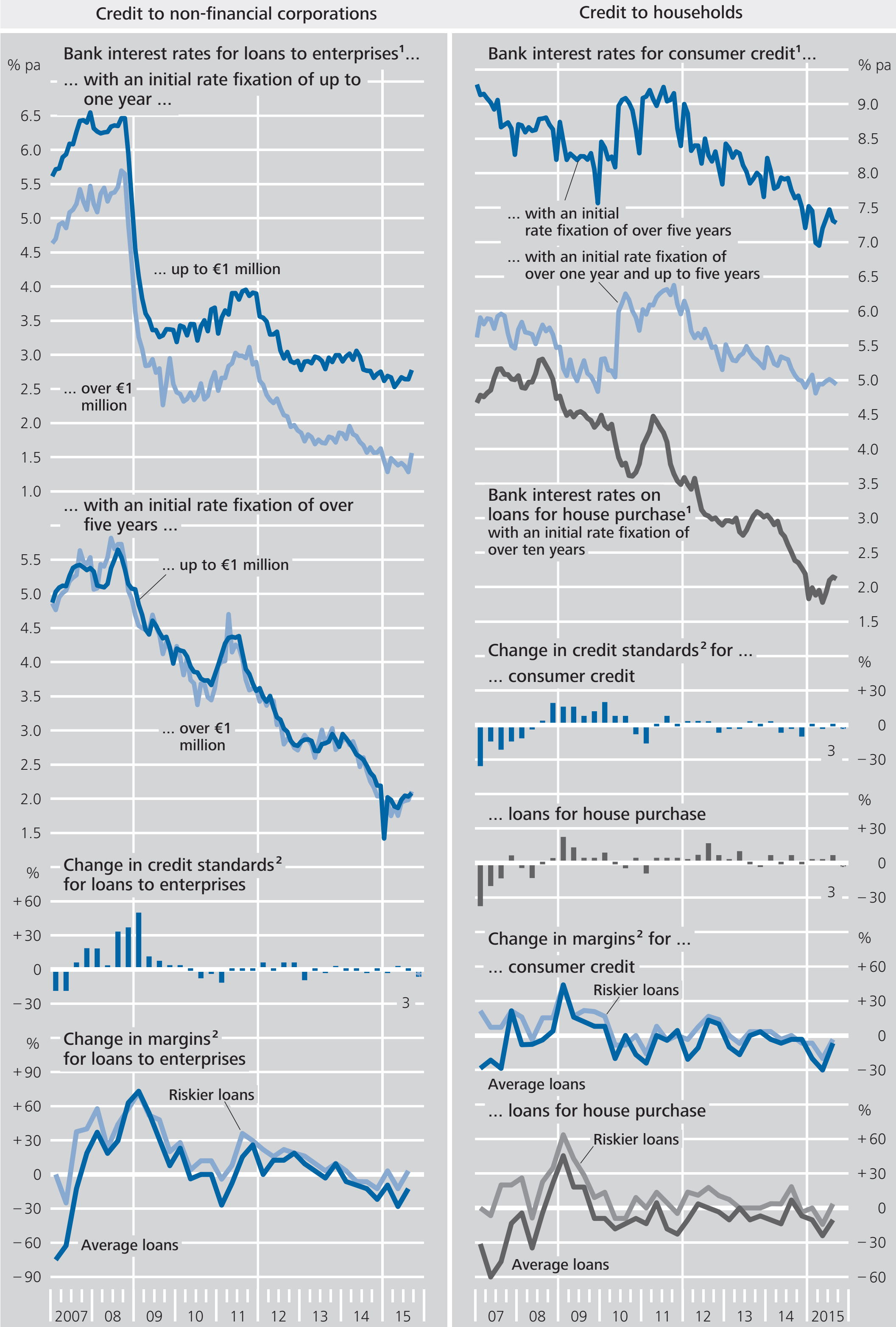
Following two consecutive weaker quarters, German banks' lending business with domestic non-financial corporations regained some momentum in the reporting quarter. This was once again attributable solely to long-term loans, which enterprises generally use to fund larger projects. Conversely, outflows from short and medium-term lending, which is less significant in terms of volume, continued; outflows in short-term lending were a great deal weaker compared with a year earlier, however.

… due to low interest rate level and vast scope for internal financing

The results of the BLS suggest that the gradual increase in lending to non-financial corporations is due to a growing demand driven primarily by the general low interest rate level. For example, at the end of September, domestic enterprises paid interest amounting to 2.8% for small-volume and 1.6% for large-volume loans in the short-term segment, while interest on long-term loans stood at 2.1% across all volumes of late (see the chart on page 39).

Additional positive stimulus to demand for loans was exerted, according to the BLS, by the financing needs of enterprises for fixed investment as well as for refinancing, restructuring and renegotiating, in particular. By contrast, taken in isolation, a dampening effect on demand was caused by the decline in financing needs for inventories and working capital as well as the recourse by enterprises to alternative sources of funding, which in Germany for some time now have included enterprises' vast scope for internal financing as well as loans to

Banking conditions in Germany

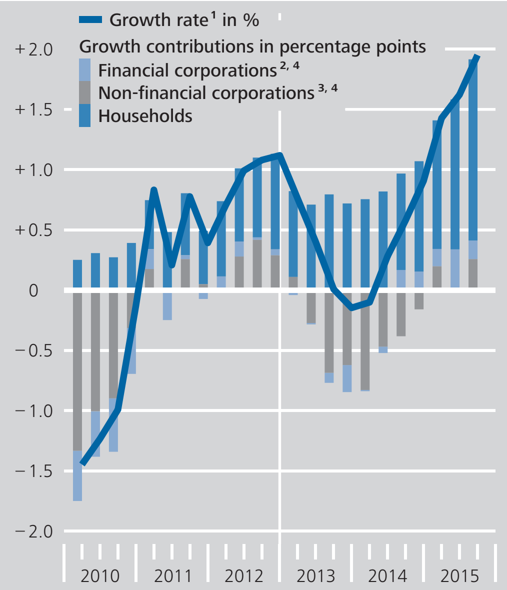


1 New business. According to the harmonised euro-area MFI interest rate statistics. Until May 2010, the aggregate interest rate was calculated as the average rate weighted by the reported volume of new business. As of June 2010, an interest rate weighted by the reported volume of new business is first calculated for each level. The aggregate interest rate is calculated by weighting the interest rates for the levels by the extrapolated volumes. **2** According to the Bank Lending Survey; for credit standards: 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; for margins: difference between the number of respondents reporting "widened considerably" and "widened slightly" and the number of respondents reporting "narrowed somewhat" and "narrowed considerably" as a percentage of the responses given. **3** Expectations for 2015 Q4.

Deutsche Bundesbank

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-monetary financial corporations. **3** Corporations and quasi-corporations. **4** As from the implementation of ESA 2010 in December 2014, holding companies of non-financial groups are no longer counted as belonging to the sector of non-financial corporations but are now allocated instead to the financial corporations sector.

Deutsche Bundesbank

group affiliates, trade credits and loans from shadow banks.

Upturn in lending growth continues despite net redemptions

The answers provided in the latest BLS give no indications of any major changes to the lending policies of the surveyed banks. According to the German results, the surveyed institutions did not alter their lending standards for loans to enterprises on balance in the third quarter of 2015. In this way, the phase of unchanged or only marginally adjusted standards, which began in the second quarter of 2013, continued in the latest reporting period. Conversely, the banks adjusted their margins for average loans markedly on balance and also somewhat eased their non-interest rate charges, covenants and interest fixation periods in favour of their customers.

German banks barely interested in selling marketable assets under EAPP

The third-quarter BLS survey included *ad hoc* questions on banks' funding conditions and on the impact of the EAPP. The German banks reported that, given the situation in the financial markets, their funding situation showed very little change compared with the preceding quarter. When asked about the EAPP, the credit institutions adopted a critical stance regarding their earnings situation. The German credit institutions taking part in the survey reported on a broad front that the programme was exerting pressure on their net lending margins and thus placing a considerable strain on their profitability, but that it was having no significant impact on their credit standards.