Monetary policy and banking business

Monetary policy and money market developments

ECB Governing Council decides to continue APP until end-September 2018 with reduced monthly volume …

On 26 October 2017, the Governing Council of the ECB in the context of its regular economic and monetary analysis decided to continue and recalibrate the expanded asset purchase programme (APP). The purchases are to be conducted at a monthly pace of €60 billion until the end of 2017. From January 2018, the Eurosystem aims to conduct net monthly purchases of assets at the reduced volume of €30 billion until the end of September 2018, or beyond, if necessary, and in any case until the ECB Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. Redemption amounts will be reinvested alongside the net purchases. The Eurosystem will reinvest the principal payments from maturing securities for an extended period of time after ending net asset purchases, and in any case for as long as necessary.

… and extends full allotment in refinancing operations, while policy rates remain unchanged

Moreover, the ECB Governing Council decided to continue conducting the Eurosystem's standard refinancing operations as fixed-rate tender procedures with full allotment for as long as necessary, and at least until the end of the last reserve maintenance period of 2019. At the same time, the Governing Council left the key ECB interest rates unchanged in the reporting period. The main refinancing rate thus remains at 0%, while the marginal lending rate stands at 0.25% and the deposit facility rate at -0.40%. The Governing Council continues to expect the key interest rates to remain at their present levels for an extended period of time, and well past the horizon of its net asset purchases.

Growing confidence that inflation rates are gradually approaching inflation target

The Governing Council justified the reduction of the monthly purchases under the APP from 2018 onwards with the growing confidence in the gradual convergence of inflation rates towards the inflation aim on account of the increasingly robust and broad-based economic recovery, the perceptible increase in core inflation and the ongoing effective transmission of monetary policy measures to financing conditions and the real economy.

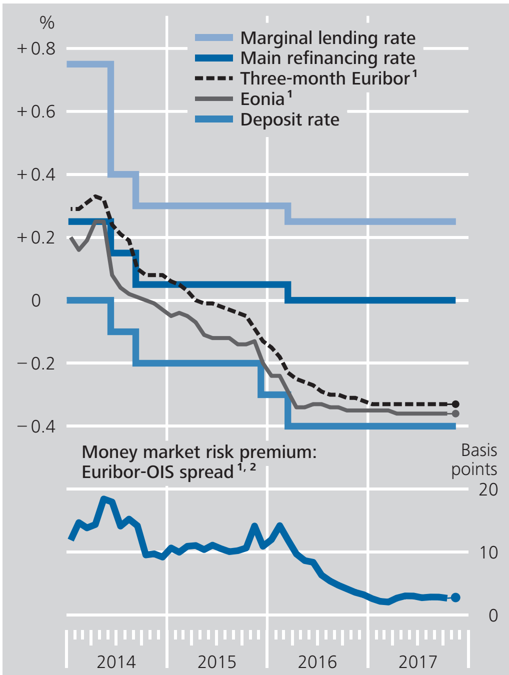
Majority in Governing Council nevertheless in favour of extending open-ended net purchases

The majority of the Governing Council members nevertheless held the view that the agreed significant extension of the net purchases beyond the end of this year combined with a continued open end date was necessary to maintain the extremely favourable financing conditions needed for a sustained return of inflation rates to levels below, but close to, 2%.

Reinvestment ensures high degree of accommodation even after net purchases end

However, owing to the high level of the Eurosystem's securities holdings and the continued policy of reinvestment, the assets purchased under the APP are guaranteed to remain a strong expansionary force even after net pur-

Money market interest rates in the euro area



Sources: ECB and Bloomberg. **1** Monthly averages. **2** Three-month Euribor less three-month Eonia swap rate. • Average 1 to 16 November 2017.

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Money market management and liquidity needs

The two reserve maintenance periods between 26 July 2017 and 31 October 2017 saw euro area liquidity needs stemming from autonomous factors increase again (see the table below). They rose to an average of €1,110.0 billion in the September-October 2017 reserve period, which was €21.4 billion more than the average for the June-July 2017 reserve period, ie the last one prior to the period under review. The sum of the autonomous factors fluctuated between €1,030.5 billion and an all-time high of €1,165.6 billion, which was reached on the last day of the September 2017 quarter. These increased liquidity needs were mainly due to the aggregate decline in net foreign assets and other factors, which are considered together because of liquidity-neutral valuation effects and which fell by a total of €26.4 billion in net terms, having a liquidity absorbing effect. The same period also saw a €6.5 billion rise in the volume of banknotes in circulation, which further absorbed central bank liquidity. By contrast, a reduction in government deposits with the Eurosystem served to provide additional liquidity, with the average for the September-October 2017 reserve period standing at €218.3 billion, down €11.5 billion from the June-July 2017 reserve period. The minimum reserve requirement fell slightly across the two reserve maintenance periods by a total of €0.2 billion to €122.3 billion in the September-October 2017 period, which led to a corresponding reduction in the calculated liquidity needs.

Comparing period averages, the total outstanding tender volume barely changed (see the chart on page 23). In the September-

Factors determining banks' liquidity*

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

Item	2017 26 July to 12 September	2017 13 September to 31 October
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1 Banknotes in circulation (increase: –)	– 6.2	– 0.3
2 Government deposits with the Eurosystem (increase: –)	+ 48.0	– 36.5
3 Net foreign assets[1]	– 17.9	– 4.0
4 Other factors[1]	– 5.7	+ 1.2
Total	+ 18.2	– 39.6
II Monetary policy operations of the Eurosystem		
1 Open market operations		
(a) Main refinancing operations	– 3.9	+ 1.2
(b) Longer-term refinancing operations	+ 1.2	– 3.3
(c) Other operations	+ 74.1	+ 89.0
2 Standing facilities		
(a) Marginal lending facility	+ 0.1	– 0.1
(b) Deposit facility (increase: –)	– 16.1	– 36.7
Total	+ 55.4	+ 50.1
III Change in credit institutions' current accounts (I + II)	+ 73.5	+ 10.6
IV Change in the minimum reserve requirement (increase: –)	+ 0.4	– 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.
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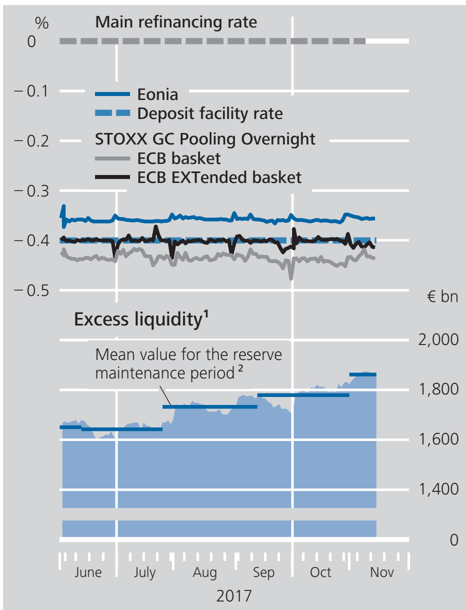
October 2017 reserve period, the total volume averaged €772 billion, which was around €5 billion below its average level in the June-July 2017 period. As regards long-term tenders, the picture was mixed. On the one hand, there was an upturn in demand for three-month operations, with the volume increasing by €1.6 billion in the same period to an albeit still low total of €8.3 billion. On the other hand, the volume of longer-term refinancing operations decreased overall. Voluntary early repayments from the third and fifth TLTRO I operations, which totalled €3.8 billion and were received on 27 September 2017, were a contributing factor here. The repayment option, available at the same time, for the first TLTRO I operation was not exercised. Repayments reduced the total TLTRO I volume to roughly €16 billion, further reducing its significance relative to the approximately €740 billion outstanding in the TLTRO II (see the chart on page 22). June 2018 will see early voluntary repayment options for the TLTRO II being offered for the first time. In addition, the volume of main refinancing operations continued to follow a downward trend overall in the period under review, falling on average – compared with the June-July 2017 period – by €2.7 billion to €6.7 billion in the September-October 2017 period.

The Eurosystem continued to provide the bulk of liquidity through the monetary policy asset purchase programmes (see the adjacent table). During the September-October 2017 period, they represented average balance sheet holdings of €2,239 billion, which was €163 billion higher than the average balance sheet amount in the June-July 2017 period. Meanwhile, net purchases under the APP remained constant at a monthly sum of €60 billion.

Excess liquidity continued to climb, driven by asset purchases for monetary policy purposes. However, the degree of the increase observed varied between the two reserve maintenance periods. While excess liquidity in the July-September 2017 period was up by an average of €90 billion in comparison to the previous period, the corresponding increase in the September-October 2017 period was only about half that, standing at €47 billion. This was primarily because higher liquidity needs stemming from au-

Central bank interest rates, money market rates 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. **2** The last period displayed is still ongoing.
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Eurosystem purchase programmes

€ billion

Item	Change across the two reserve periods	Balance sheet holdings as at 10 November 2017
Active programmes		
PSPP	+ 147.4	1,817.2
CBPP3	+ 11.2	237.4
CSPP	+ 20.1	124.0
ABSPP	+ 0.4	24.8
Completed programmes		
SMP	– 7.3	88.9
CBPP1	– 1.3	6.1
CBPP2	– 0.2	4.8

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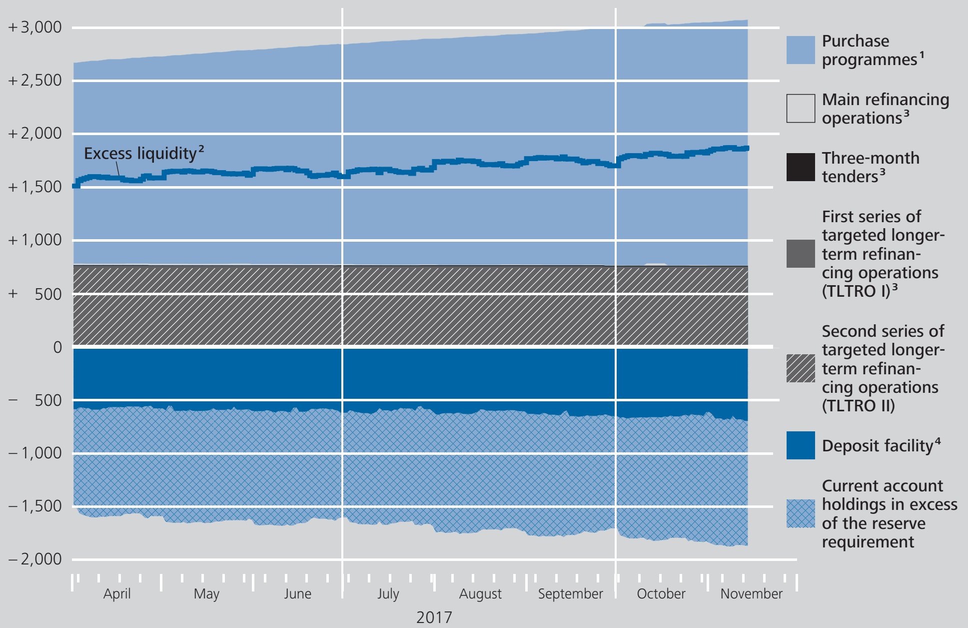
Liquidity provision and use

€ 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), public sector purchase programme (PSPP) and corporate sector purchase programme (CSPP). **2** Current account holdings minus the minimum reserve requirement plus the deposit facility. **3** Volume so small it is hardly visible. **4** The marginal lending facility is not shown in this chart owing to its very low volume.

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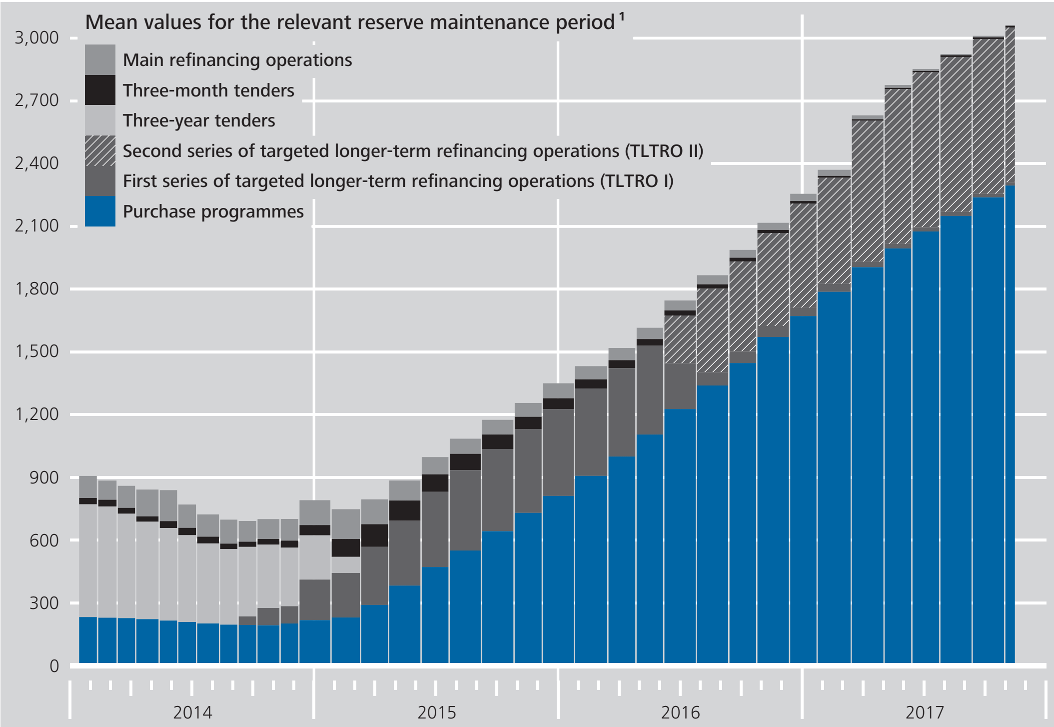
tonomous factors had an offsetting effect. In the period under review, excess liquidity rose by a total of €137 billion on average, however, similar to the growth recorded in the two previous reserve maintenance periods (€132 billion in total).

In light of the very high and still rising liquidity surplus, overnight rates in the period under review continued to move in line with the deposit facility rate (see the chart on page 21). In the September-October 2017 reserve period, Eonia averaged -0.36%, ie four basis points above the deposit facility rate – as in the previous period (July-September 2017). Turnovers of €7.2 billion, and in the previous period €6.6 billion, meant distinctly lower volumes than in the previous year’s corresponding observation period, when turnover averaged €9.8 billion. In the September-October 2017 reserve period, secured overnight money in GC Pooling traded at an average of -0.44%, or four basis points below the deposit facility rate, in the ECB basket. In the previous period, this difference was still three basis points. Overnight money in the ECB EXTended basket (which contains a larger set of eligible securities) continued to trade at an average of -0.40%. Totalling €3.9 billion, the associated overnight turnovers in the ECB and ECB EXTended baskets in the two reserve maintenance periods were €2.2 billion lower than in the previous observation period. This was attributable to reduced turnovers in the ECB basket. At the close of the September 2017 quarter, against a backdrop of smaller turnovers, Eonia rose one basis point compared with the previous day to -0.35%, thus matching the June 2017 end-of-quarter rate. On that day, the rate for secured overnight money in the ECB basket temporarily dropped by just over four basis points to -0.48%. This effect had also been observed for the ECB EXTended basket at the end of the half-year at the close of June.

Outstanding liquidity broken down by open market operations in the euro area

€ billion



Sources: ECB and Bundesbank calculations. **1** The bar width corresponds to the length of the reserve maintenance period. The last period displayed is still ongoing.
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chases have ceased. With this in mind, it would have been acceptable, from the Bundesbank's point of view, not only to recalibrate the APP but also to announce an end date for net purchases.

Purchase volumes still in line with announced target

On 10 November 2017, the Eurosystem held assets in the amount of €1,817.2 billion as part of the public sector purchase programme (PSPP). The average residual maturity of the PSPP portfolio fell yet again slightly to 7.8 years at present from the previous maturity of 7.9 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 €237.4 billion and €24.8 billion respectively. Purchases made under the corporate sector purchase programme (CSPP) totalled €124.0 billion as at 10 November.

Excess liquidity continues upward trend

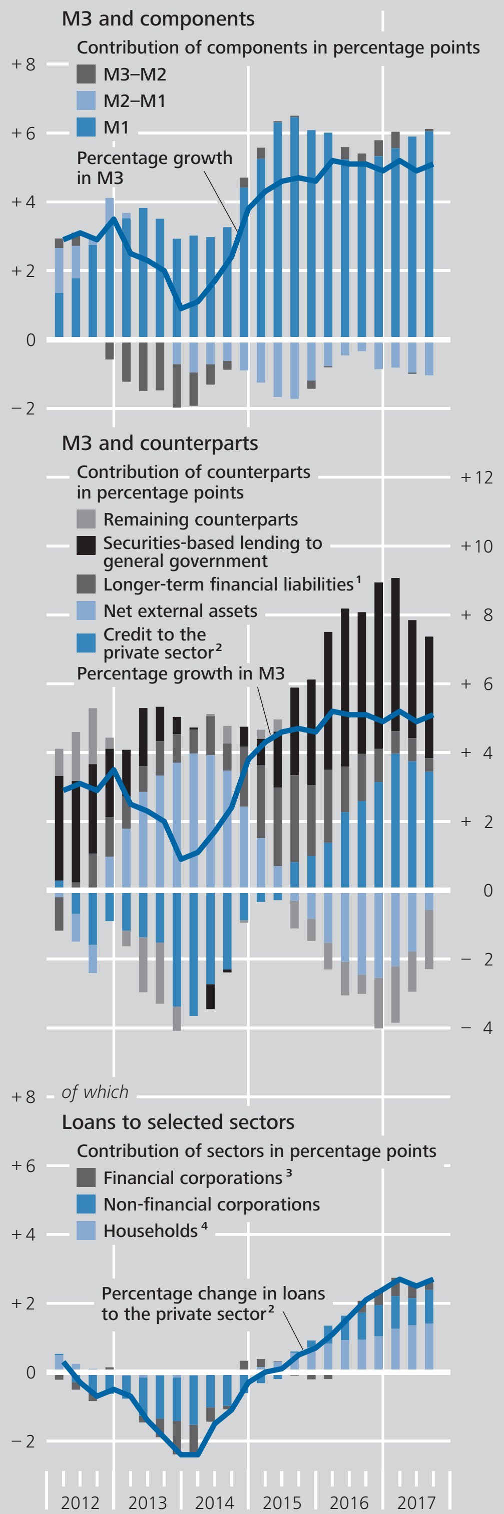
In the period under review, excess liquidity continued to follow the upward trend seen since the APP was launched, climbing by €117 billion to €1,859 billion. This increase was mainly propelled, as before, by the continued asset purchases, while volumes in the standard tender operations eased again slightly. Due to purchases under the APP being envisaged until September 2018, a further increase in the level of excess liquidity can be expected, although it is likely to slow down in sync with the reduction of the monthly purchase volumes from January 2018 onwards.

Market participants expect first policy rate increases in 2019

The unsecured overnight money market rate (Eonia) in the reporting period hovered in a narrow range of between -0.35% and -0.37%, just above the deposit facility rate of -0.40%, while the secured overnight rate (STOXX GC Pooling) was slightly below the deposit facility rate. The three-month Euribor was largely unchanged in the reporting period, standing at -0.33% at last report. On the whole, money market rates have thus remained largely static for several months now. As was already the

Monetary aggregates and counterparts in the euro area

Year-on-year change, end-of-quarter data, seasonally adjusted



Source: ECB. **1** Denoted with a negative sign because, per se, an increase curbs M3 growth. **2** Adjusted for loan sales and securitisation as well as for positions arising from notional cash pooling services provided by MFIs. **3** Non-monetary financial corporations. **4** Including non-profit institutions serving households.

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case over the entire course of the year, forward rates were also subject to heavy fluctuations in the period under review. These were driven by a prolonged period of uncertainty in the money market regarding the future of monetary policy, particularly the path of key policy rates. Following the recent decisions in October, forward rates reacted merely with a slight decline, which suggests that the Governing Council's move did not come as a surprise to the majority of market participants. At the current end, markets are pricing in an increase of 10 basis points for mid-2019.

Monetary developments in the euro area

Accommodative monetary policy shapes monetary dynamics

In the third quarter of 2017, the perceptible expansion in the broad monetary aggregate M3 continued; the annual growth rate at the end of the quarter came to 5.1%, remaining at the level observed over the last two and a half years. The sustained expansion of the money stock was attributable to the money-holding sector's ongoing strong preference for overnight deposits given low opportunity costs. A glance at the counterparts reveals that lending by the MFI sector – which includes the Eurosystem – to non-banks in the euro area was again the most significant driver of monetary growth in the reporting quarter. On the one hand, bank loans to private non-banks in the context of the still very low interest rates and the broad-based economic growth continued their sustained upward trajectory. On the other hand, the Eurosystem's bond purchases again decisively supported the MFI sector's securities-based lending to general government and private non-banks.

Overnight deposits still main driver of M3 growth

Monetary growth from July to September was again characterised by strong inflows in overnight deposits, received, in particular, from households but also from financial and non-financial corporations. Given the persistently low yield spread between long-term government bonds and components of the monetary

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

Quarter-on-quarter change in € billion, seasonally adjusted

Assets	2017 Q3	2017 Q2	Liabilities	2017 Q3	2017 Q2
Credit to private non-MFIs in the euro area	80.7	55.7	Central government deposits	87.8	− 7.6
Loans	87.3	18.8	Monetary aggregate M3	158.9	89.0
Loans, adjusted 1	93.0	42.0	*of which* Components		
Securities	− 6.6	36.9	Currency in circulation and overnight deposits (M1)	164.5	154.4
Credit to general government in the euro area	90.9	23.5	Other shorter-term bank deposits (M2-M1)	− 23.8	− 22.5
Loans	− 10.0	− 3.2	Marketable instruments (M3-M2)	18.2	− 43.0
Securities	101.0	26.6	MFI longer-term financial liabilities	− 14.4	− 6.1
Net external assets	35.9	− 18.9	*of which* Capital and reserves	43.3	14.8
Other counterparts of M3	24.7	15.1	Other longer-term financial liabilities	− 57.7	− 20.9

***** Adjusted for statistical changes and revaluations. **1** Adjusted for loan sales and securitisation as well as for positions arising from notional cash pooling services provided by MFIs.
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aggregates, money holdings, especially in risk-averse sectors, remainded attractive in the period under review. The shifts within the monetary aggregate M3 from short-term time deposits to short-term savings and, in particular, overnight deposits continued. These shifts were attributable to what continued to be low interest rate spreads between these types of deposit, which favoured highly liquid monetary components.

Lending to domestic non-banks largest counterpart once again

Monetary growth in the reporting period was again mainly supported by MFI lending to non-banks in the euro area. One of the key drivers of growth were loans to private non-banks adjusted for securitisation and other one-off effects, which regained momentum following a weaker second quarter. Their annual growth rate rose slightly from the end of June to 2.7% at the end of September. Hence, the gap between monetary aggregate and loan growth is significantly narrower than in mid-2015; it did not narrow any further in the third quarter, though.

Loans to non-financial corporations still on the rise

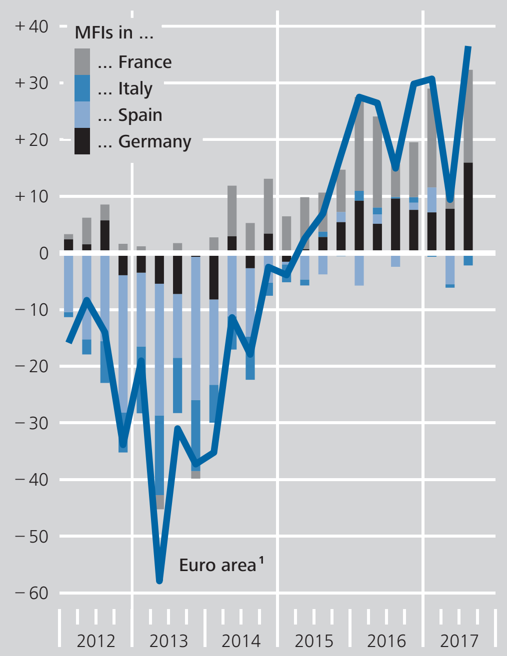
Following an unusually weak preceding quarter due to one-off factors, amongst other things, loans to non-financial corporations in the euro area managed to regain their previous upward momentum in the third quarter. On balance, the increase in the reporting quarter focused, as before, on medium and long-term loans. As a result, the annual growth rate of loans rose from 2.0% at the end of June to 2.5% at the end of September. The continued favourable underlying conditions in the euro area are reflected in the ongoing recovery of loans to enterprises. The rebound of economic activity is now not only broad-based across member states but also in terms of expenditure components. Lending rates in the euro area as a whole remain close to historical lows and the business of lending to corporate customers is highly competitive. It is consistent with this environment that demand for loans to non-financial corporations again increased substantially according to the results of the Bank Lending Survey (BLS) conducted in the third quarter. According to the survey participants, the main reasons for this were the low general interest rate level and the greater funding needs for fixed investment as well as for mergers, acquisitions and corporate restructuring. At the same time, the surveyed institutions essentially left their credit standards for loans to corporate customers unchanged.

Country-specific differences in loan dynamics

As in the preceding quarters, growth in loans to non-financial corporations in the euro area was fuelled chiefly by the contributions of banks in Germany and France (see the chart on page 26). By contrast, Italy and Spain again

Loans to non-financial corporations in the euro area*

€ billion, 3-month accumulated flows, end-of-quarter data, seasonally adjusted



Sources: ECB and Bundesbank calculations. * Loans adjusted for loan sales and securitisation. **1** Also adjusted for positions arising from notional cash pooling services provided by MFIs.
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provided only very weak impetus. In both countries, it was mainly loans to the real estate sector, which, despite a gradual pick-up in annual growth rates, were still clearly negative. The fact that demand for credit to non-financial corporations in the euro area as a whole is not growing faster despite investment activity gaining momentum is probably due to the sufficient alternative sources of funding at enterprises' disposal. It must therefore be assumed that, in the context of internal financing, the flows of funds to enterprises in Germany and Spain, in particular, were once again abundant in the reporting quarter. In addition, the issuance of debt securities by non-financial corporations in the euro area as a whole, but especially in France, has gained in importance; one of the main reasons for this are the favourable financing conditions in the capital markets, which can be attributed in part to the Eurosystem's asset purchase programmes.

Clear growth in loans to households driven by housing loans, …

The other main means of support for lending to the private sector in the reporting quarter came from loans to households, although their net increase was moderately down when compared with the two previous quarters. Once again, the largest contributions in terms of volume came from banks in Germany and France. Italy also continued its upward trend in this credit segment, with its annual growth rate reaching the euro area average. Loans for house purchase remained the driving force of growth in the euro area as a whole; their year-on-year rate rose from 3.3% at the end of June to 3.4% by the end of September. According to the bank managers surveyed as part of the BLS, household demand for loans for house purchase was up in the third quarter as well; however, the pace of growth slowed further in relation to the previous quarters. Euro area banks cited the low general interest rate level, households' continued upbeat assessment of housing market prospects, and stable consumer confidence as explanatory factors for the rise in the need for funds. Lending standards were eased significantly, primarily as a result of the high level of competition among banks.

… but also continued steep rises in consumer credit

Consumer credit likewise continued to expand substantially during the period under review, with its annual growth rate climbing to 6.7% by the end of September. Upward momentum was evident in the large euro area countries, in particular, which is probably closely related to the persistent increases observed in the underlying path of private consumption. This is consistent with the view expressed by the banks surveyed in the BLS that demand for consumer credit had yet again increased markedly. The respondents mainly put this down to stable consumer confidence, the low general level of interest rates and a high propensity to purchase. Credit standards in this segment were eased slightly.

Securities-based lending bolstered by Eurosystem's asset purchases

The Eurosystem's asset purchases also supported monetary growth considerably in the third quarter. This was particularly apparent for securities-based lending to general government, which was again heavily influenced by Eurosystem purchases under the PSPP in the reporting quarter, whereas other MFIs saw considerably less activity in this credit segment (see the adjacent chart). Unlike in the previous quarters, securities-based lending to the private sector declined slightly on balance between July and September, despite the purchases by the Eurosystem under the CSPP and ABSPP. This was attributable to sizeable net outflows from banks' debt securities and equities.

Contribution of net external assets positive again for the first time since early 2015

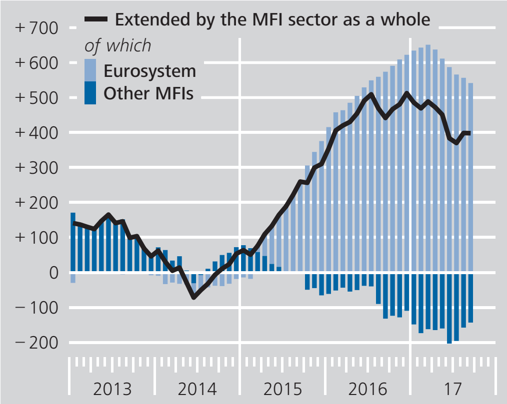
The net external asset position of the MFI sector recorded net inflows again for the first time since the beginning of 2015 and thus also supported monetary growth in the reporting quarter. This turnaround was notably due to the fact that non-resident investors bought increasingly more domestic securities on balance, not least in view of the economic recovery in the euro area and the search for alternatives to US stocks. These purchases were concentrated on equities and investment fund shares. By contrast, the balance of payments data available so far for July and August 2017 indicate that foreign investors appear to have continued to reduce their holdings of euro area bonds issued by the general government and private non-MFI sectors. Overall, the outflows of funds from portfolio transactions with non-residents have fallen in recent quarters, however, meaning that inflows related to the persistently high current account surpluses in the euro area started to dominate developments in the MFI sector's net external asset position again in the reporting quarter.

MFI longer-term financial liabilities reduced further

The supportive impact of MFI longer-term financial liabilities vis-à-vis other euro area residents on the money supply, which has been observed since the end of 2011, also continued in the quarter under review. The money-holding sector markedly reduced its stock of longer-term time deposits and savings deposits as well as longer-term bank debt securities. It is likely that this was largely encouraged by the current interest rate levels and the persistently high inflows of funds to short-term deposits.

Securities-based lending to general government in the euro area

€ billion, 12-month accumulated flows



Sources: ECB and Bundesbank calculations.
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German banks' deposit and lending business with domestic customers

Deposit growth still dominated by build-up of overnight deposits

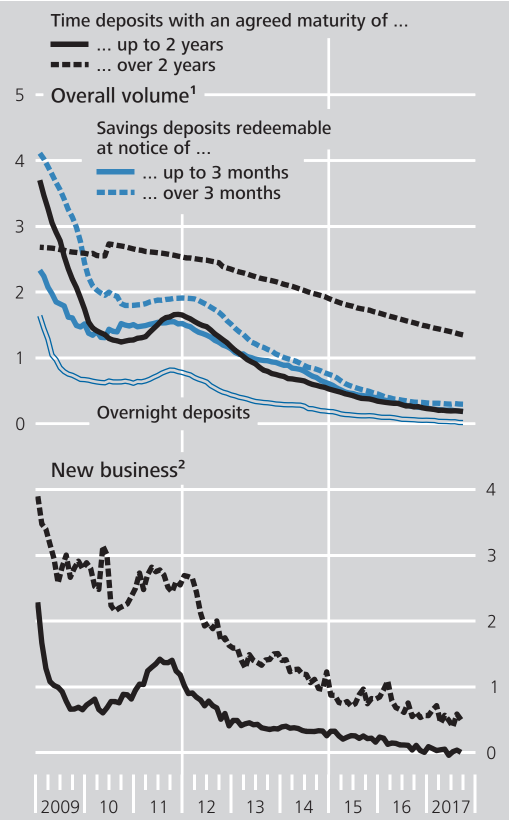
With regard to German banks' deposit business with domestic customers, the sustained growth in short-term deposits that began in early 2010 continued during the reporting quarter, while long-term deposits declined even further. Once again, it was mainly overnight deposits which recorded inflows. The growth of this highly liquid form of deposit is still being driven by the historically low interest rate level and the flat yield curve (see the chart on page 28).

Households again making greatest contribution

From a sectoral perspective, this development was again chiefly due to households. Their overnight deposits grew at a similar rate during the reporting quarter as in the two preceding quarters, which suggests that this sector continues to prefer particularly liquid forms of investment which it perceives to be low-risk. However, the fact that households – while building up their bank deposits – have increased their purchases of fund units and shares in recent quarters, indicates that the search for yield has now also become some-

Interest rates on bank deposits in Germany*

% pa, monthly data



* 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.

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thing of a factor for this sector.[1] In the quarter under review, the non-financial corporations sector, by contrast, recorded considerable outflows from overnight deposits. This, however, was primarily a countermovement to a sharp rise in the second quarter. If this effect is excluded, the positive development of this sector's overnight deposits continued in the second and third quarters of 2017 – in line with the persistently strong corporate profitability.

Decline in deposits in the financial sector driven by insurers and pension funds

Financial corporations, which traditionally have a very keen yield awareness, reduced their bank deposits in the reporting quarter on balance. Within the financial sector, it was mainly insurance undertakings and pension funds that once again reduced their long-term time deposits. This reduction is part of the ongoing portfolio shifts which are attributable not only to the search for higher-yielding forms of investment but also to regulatory requirements.[2]

Further expansion in lending to domestic non-banks

As well as their deposit business, banks once again expanded their lending to the domestic non-bank sector during the reporting quarter, too. As in the previous quarters, this was due solely to the stronger flow of credit to private non-banks. By contrast, loans to general government declined again in the quarter under review, which, given the overall very favourable budgetary situation, is likely to be connected with the public sector's further reduction in financing needs.

Loans to the private sector driven by non-financial segments

The non-financial sector was once again responsible for the marked increase in lending to private non-banks, with loans to non-financial corporations making the biggest contribution to growth in lending business in the third quarter, followed closely by loans to households. Once again, loans for house purchase were a decisive driver of growth in lending to households. However, their quarterly net increase has already been relatively constant for several quarters, meaning that at 3.9%, their annual growth rate remained unchanged on the year. Demand for housing loans was supported not only by households' ongoing favourable income and asset situation, but also by the continued exceptionally low financing costs. The interest rate on long-term loans for house purchase rose slightly according to the MFI interest rate statistics to 2.0% over the course of the third quarter. Nevertheless, it still stood close to its all-time low since the harmonised statistics were introduced in 2003, which it reached in September 2016 (see the chart on page 30).

1 See Deutsche Bundesbank, Acquisition of financial assets and external financing in Germany in the second quarter of 2017, press release, 13 October 2017.
2 See Deutsche Bundesbank, Ongoing portfolio shifts into higher-yielding assets in Germany, Monthly Report, May 2017, pp 30-33.

Banks' lending policies help stimulate demand for housing loans

The results of the latest BLS provide evidence of further factors influencing these developments. They show that demand for loans for house purchase was supported by the positive outlook for the housing market and robust consumer confidence, in addition to the low general level of interest rates. This impact, however, was offset by factors such as a greater inclination among households to draw on their own savings as well as a number of banks having lost market share to competitors, both of which dampened demand, meaning that the demand reported in the BLS remained unchanged on the whole. At the same time, the BLS revealed that banks' lending policies helped to stimulate the demand for loans for house purchase in the quarter under review. Having eased their standards for the first time since 2011 in the first quarter of this year, the reporting quarter saw banks relax their credit standards for the second time this year in net terms, although to date, this has not affected the entire banking sector. On balance, banks expect credit standards to ease slightly further in the coming quarter.

Fresh inflows for consumer credit

In line with the persistent increases observed in the underlying path of private consumption in Germany, consumer credit also recorded distinct inflows again. This is consistent with the banks surveyed in the BLS having stated that consumer credit demand had continued its dynamic development of previous years in the third quarter of 2017, which they put down to households' stable propensity to purchase, persistently robust consumer confidence and the low general level of interest rates. By contrast, the surveyed banks barely mentioned any demand-curbing effects. The respondents eased their credit standards slightly in this segment, too, on balance.

Renewed increase in lending to non-financial corporations amid slight easing in credit standards

German banks participating in the BLS also painted a more positive picture with regard to loans to enterprises. In addition to the low general interest rate level, the surveyed bank managers notably attributed the perceptible increase in demand in this credit segment to enterprises' financing needs for fixed investment as well as for mergers, acquisitions and corporate restructuring. An additional bolstering effect on demand was brought about by the lending policies of the surveyed banks which, for the first time since the second quarter of 2013, reported having eased their credit standards again on balance.

Taking the aggregate across all banks in Germany, the favourable financing conditions combined with enterprises' very positive business expectations were reflected in accelerated growth in loans to domestic enterprises. With a year-on-year rate of 3.7% at the end of Sep-

Lending and deposits of monetary financial institutions in Germany*

€ billion, 3-month accumulated flows, end-of-quarter data, seasonally adjusted

Item	2017 Q2	2017 Q3
Deposits of domestic non-MFIs[1]		
Overnight	47.7	21.0
With an agreed maturity of		
up to 2 years	− 6.2	− 6.3
over 2 years	− 7.0	− 2.2
Redeemable at notice of		
up to 3 months	1.7	0.3
over 3 months	− 0.7	− 2.2
Lending		
to domestic general government		
Loans	− 6.9	− 8.1
Securities	− 5.9	− 4.8
to domestic enterprises and households		
Loans[2]	22.0	28.2
of which to households[3]	13.4	12.0
to non-financial corporations[4]	7.4	12.6
Securities	8.2	0.8

* 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 Non-financial corporations and quasi-corporations.
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Banking conditions in Germany

1 Including non-profit institutions serving households. 2 New business. According to the harmonised 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. 3 According to the Bank Lending Survey; for credit standards: difference between the number of respondents reporting "tightened considerably" and "tightened somewhat" 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 somewhat" and the number of respondents reporting "narrowed somewhat" and "narrowed considerably" as a percentage of the responses given. 4 Expectations for 2017 Q4.

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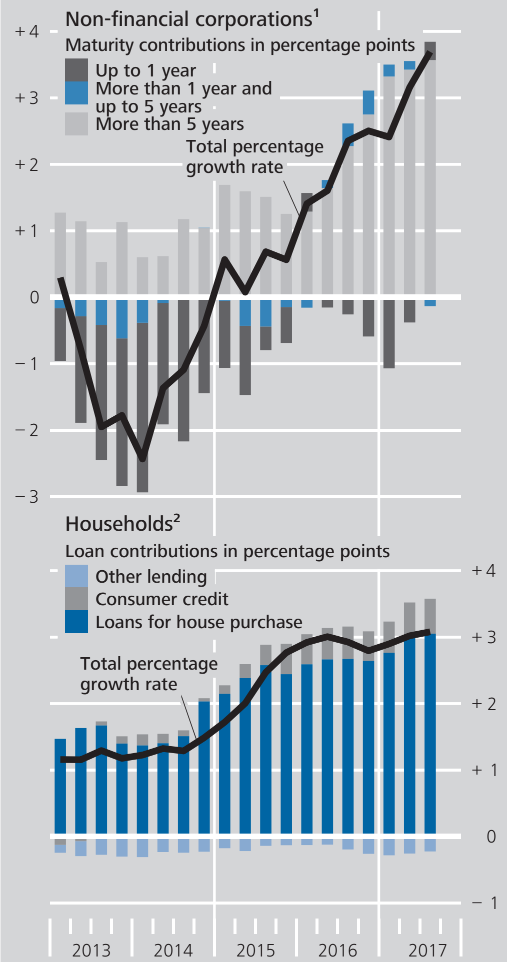
tember, the growth momentum in this credit segment has now even become appreciably stronger than for loans to households, which ended the reporting quarter with an annual growth rate of 3.1%.

Banks' profitability dented by APP and negative deposit facility rate

The October BLS contained a number of additional questions. The German banks reported in their responses that, given the situation in the financial markets, their funding situation had hardly changed compared with the preceding quarter. The Eurosystem's expanded asset purchase programme continued to improve banks' liquidity position and funding conditions over the past six months. The increased liquidity, which was primarily used for lending, was not only the result of higher customer deposit volumes following sales of marketable assets, but was also produced by the banks' own sales. However, the programme weighed on banks' profitability. The negative interest rate on the deposit facility was another key factor in banks' shrinking net interest income over the past six months. Owing to the negative deposit rate, both lending rates and margins in all surveyed business lines fell, while the effects on the credit volume were limited.

Loans* by German banks to the domestic private non-financial sector

Year-on-year changes, end-of-quarter data, seasonally adjusted



* Adjusted for loan sales and securitisation. **1** Non-financial corporations and quasi-corporations. **2** Including non-profit institutions serving households.

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