

## Monetary policy and banking business

### Monetary policy and money market developments

*ECB Governing Council leaves policy rates on hold ...*

The Governing Council of the European Central Bank (ECB) kept its policy rates on hold in the reporting period, leaving the main refinancing rate at 0% and the rates for the marginal lending and deposit facilities at 0.25% and -0.40%, respectively. The Governing Council continues to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the Eurosystem's net asset purchases.

*... and decides to extend APP purchases until December 2017 at a lower monthly volume*

At its meeting on 8 December 2016, the Governing Council decided to continue the purchases under the expanded asset purchase programme (APP) at the current monthly pace of €80 billion until the end of March 2017. From April 2017, net asset purchases are intended to

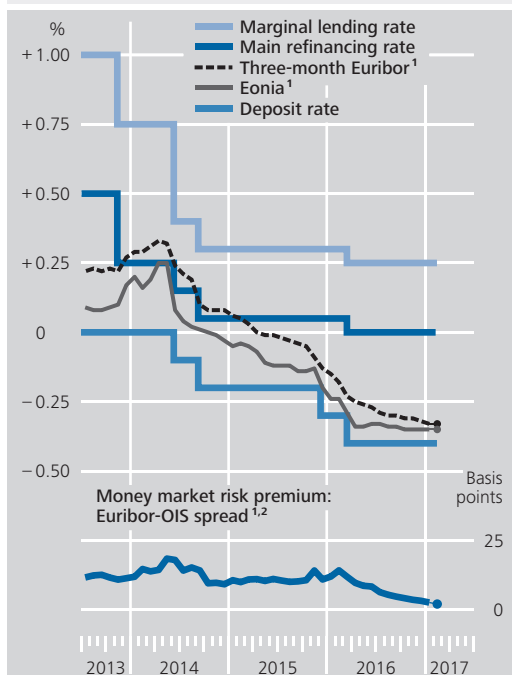
continue at a monthly pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. As agreed in December 2015, the net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP. The majority of the Governing Council deemed the extension of the asset purchase programme necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term. The reversion to the initial monthly pace of APP purchases of €60 billion was put down to the Governing Council's assessment that the recovery in the economy was firming.

This decision was founded upon a comprehensive assessment of the growth and inflation outlook and the monetary policy stance based on the regular economic and monetary analyses. One of these was the December 2016 Eurosystem staff macroeconomic projections, which determined that the baseline scenario for GDP growth and inflation in the euro area was largely unchanged against the September projections. These projections expect the annual rate of inflation according to the Harmonised Index of Consumer Prices (HICP) for the euro area to average 1.3% this year and to come to 1.5% in 2018 and 1.7% in 2019. However, given the considerable rise in oil prices after the projections went to press, it appears today as though consumer prices will pick up more quickly than projected in December, especially in 2017.

With a view to safeguarding the smooth implementation of purchases, the Governing Council also decided to decrease the minimum remaining maturity for eligible securities under the public sector purchase programme (PSPP) from two years to one year, starting in January 2017,

*Parameter adjustments to safeguard smooth implementation of purchases*

**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 13 February 2017.

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## Money market management and liquidity needs

The two reserve maintenance periods between 26 October 2016 and 24 January 2017 saw a marked increase in euro-area liquidity needs stemming from autonomous factors (see the table below). Compared with the average of the reserve period September-October 2016, the liquidity needs increased by €77.9 billion to an average of €901.1 billion in the period December 2016-January 2017. Here the sum of the autonomous factors in the period under review fluctuated within a broad corridor between €819.9 billion and €936.7 billion. The increase in the average liquidity needs resulted mainly from the decline by €78.7 billion in the combined total of net foreign assets and other factors, which are considered together because of liquidity-neutral valuation effects. Another liquidity-absorbing factor was the increase in bank-

notes in circulation, typical for the Christmas period, by €24.4 billion, which was somewhat greater than in the previous year (+€20.4 billion). Liquidity was provided, on the other hand, by the €25.2 billion net decline in government deposits to an average of €143.1 billion. The minimum reserve requirement rose across the two reserve periods by €1 billion to €118.8 billion on the previous period, thus additionally pushing up the calculated liquidity needs.

Overall, the outstanding tender volume increased by €42.6 billion on balance to an average of €583 billion during the period under review (see the charts on pages 25 and 26). Demand in the third targeted longer-term refinancing operation (TLTRO II) in mid-December 2016, which was high due to the attractive interest rate in com-

### Factors determining banks' liquidity\*

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

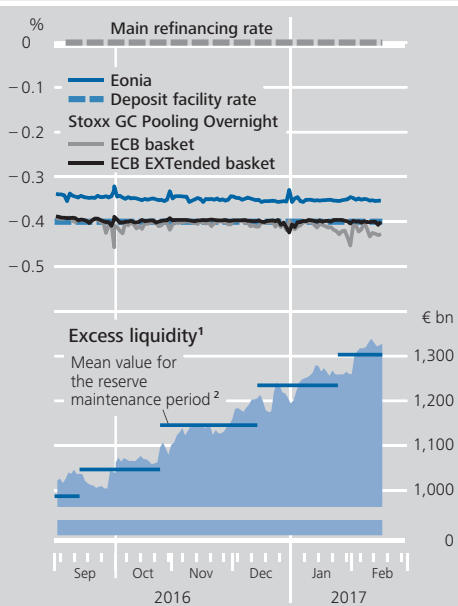
Item	2016/2017	
	26 October to 13 December	14 December to 24 January
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1 Banknotes in circulation (increase: –)	– 8.4	– 16.0
2 Government deposits with the Eurosystem (increase: –)	+ 8.6	+ 16.6
3 Net foreign assets <sup>1</sup>	– 0.4	– 12.7
4 Other factors <sup>1</sup>	– 29.6	– 36.0
<b>Total</b>	<b>– 29.8</b>	<b>– 48.1</b>
II Monetary policy operations of the Eurosystem		
1 Open market operations		
(a) Main refinancing operations	– 3.4	+ 0.6
(b) Longer-term refinancing operations	+ 8.3	+ 37.1
(c) Other operations	+ 123.2	+ 100.6
2 Standing facilities		
(a) Marginal lending facility	+ 0.1	+ 0.0
(b) Deposit facility (increase: –)	– 52.1	+ 5.0
<b>Total</b>	<b>+ 76.1</b>	<b>+ 143.3</b>
III Change in credit institutions' current accounts (I + II)	+ 46.5	+ 95.1
IV Change in the minimum reserve requirement (increase: –)	+ 0.4	– 1.4

\* 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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### 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 9 February 2017
<b>Active programmes</b>		
PSPP	189.4	1,350.8
CBPP3	10.9	210.6
CSPP	21.0	62.5
ABSPP	1.7	23.3
<b>Completed programmes</b>		
SMP	- 1.4	99.4
CBPP1	- 3.0	11.0
CBPP2	- 0.3	6.8

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parison to four-year market interest rates, contributed to this substantial growth to the tune of €62.2 billion (net liquidity effect €48.0 billion). The overall volume of TLTRO I and II consequently rose to €545.2 billion. However, the volumes of the standard tenders decreased further, which was also due to liquidity provision from the purchase programmes. The one-week main refinancing operation therefore decreased from the be-

ginning of the period under review by €3.7 billion net to €32.3 billion, while the three-month tender fell by €3.6 billion to €11.4 billion, with the demand for the main tender always rising temporarily prior to reporting dates and month-ends.

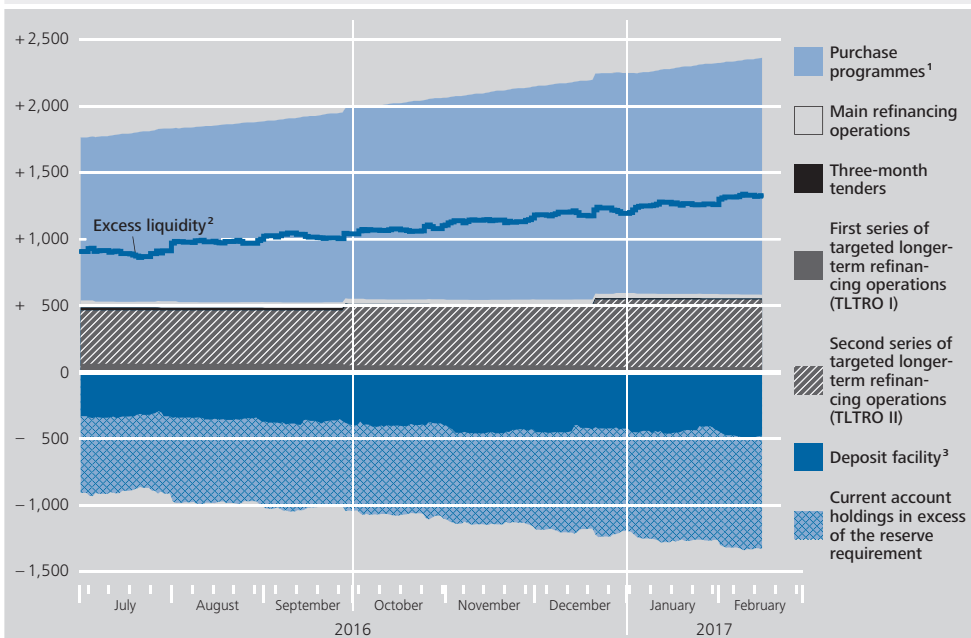
By far the greatest share of the Eurosystem's liquidity provision came via the monetary policy purchase programmes. In the reserve period December 2016-January 2017, their balance sheet holdings reached an average of €1,671 billion in total, which equates to double the figure from the comparable period of the preceding year. This was equivalent to a share of 74% of the total central bank liquidity provided through open market operations during this period on average. Of the liquidity stemming from the purchase programmes, €1,549 billion was accounted for by the expanded asset purchase programme (APP). Of this, €1,269 was attributable to the government bond-buying programme. (For the positions and changes in the individual programmes, see the adjacent table.)

Excess liquidity continued to increase, which was mainly due to liquidity provision on the supply side under the purchase programmes, although this was curbed by liquidity needs stemming from autonomous factors, which rose by an average of €78 billion. In the December 2016-January 2017 reserve period, excess liquidity averaged €1,235 billion, which was €188 billion higher than the average of the period preceding the period under review. Around two-thirds of the credit institutions' excess liquidity was held as excess reserves in their central bank accounts and approximately one-third in the deposit facility.

In light of the very high and still rising liquidity surplus, overnight rates in the period under review continued to move in

### 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** The marginal lending facility is not shown in this chart owing to its very low volume.

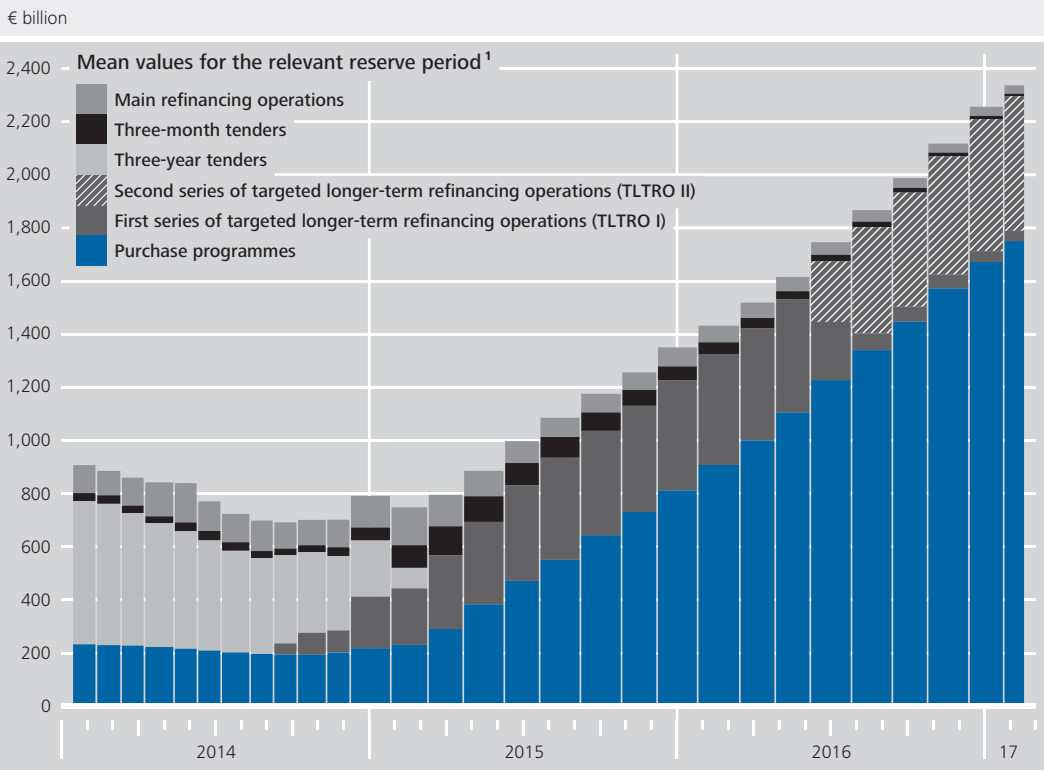
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line with the deposit facility rate (see the chart on page 24). Amidst low turnover in both periods, Eonia averaged -0.35%, placing it five basis points above the deposit rate. By contrast, secured overnight money (GC Pooling Overnight, ECB basket) in the period December 2016-January 2017 fell below the deposit facility rate, averaging -0.41%, representing a decline of one basis point compared with the previous period. This could be attributable to the fact that some banks want to continue repo trading with high-quality collateral, amongst other reasons. Overall, liquidity-driven money market turnover decreased considerably compared with the corresponding period last year. The GC Pooling Overnight turnover in both periods came to €5.2 billion on average (2015/2016: €11.6 billion). Unlike in the previous year, the average turnover in the ECBEXTended basket, which contains a broader pool of collateral, was higher than in the ECB basket. The interest rate in the

ECBEXTended basket in the period under review was, on average, around half a basis point higher than the rate in the ECB basket.

The new reserve period (January-March 2017) began with excess liquidity of around €1,260 billion, matching the level of the final days of the preceding period, with continued very low secured overnight rates on GC Pooling (amounting to -0.45% in the ECB basket at the end of January 2017). This suggests that as a whole, banks affiliated to GC Pooling continue to show little interest in taking on additional liquidity, particularly on reporting dates.

### Outstanding liquidity following open market operations in the euro area



Sources: ECB and Bundesbank calculations. <sup>1</sup> The bar width corresponds to the length of the reserve periods. The last period displayed is still ongoing.

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and to permit, to the extent necessary, purchases of securities under the APP with a yield to maturity below the interest rate on the deposit facility. The Governing Council fleshed out this decision in greater detail following its January meeting by making clear that purchases of assets with yields below the deposit facility rate will only be conducted under the PSPP and not as part of the other programmes making up the overarching APP programme.<sup>1</sup>

200 banks  
 borrow  
 €62.2 billion  
 in third TLTRO II

On 21 December 2016, the third out of a total of four in the second series of targeted longer-term refinancing operations (TLTRO II) adopted in March 2016 was conducted. This operation saw 200 institutions taking up an overall volume of €62.2 billion, which was slightly higher than market expectations. At the same time, voluntary repayments of funds provided under the first series of targeted longer-term refinancing operations (TLTRO I) amounted to €14.2 billion in total, thus producing a net liquidity effect of €48 billion. The fourth and final oper-

ation in the TLTRO II series will be conducted in March of this year.

On 10 February 2017, the Eurosystem's asset holdings under the PSPP came to €1,354.2 billion. The average residual maturity of the PSPP portfolio declined again slightly to 8.3 years at last count. Assets purchased to date under the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP) came to €211 billion and €23.3 billion, respectively. As for the corporate sector purchase programme (CSPP), asset purchases totalled €62.9 billion by 10 February. In sum, the volume of assets purchased under the APP is thus in line with the targeted average monthly volume of €80 billion.

*Purchase volumes still in line with announced target*

<sup>1</sup> See also the ECB press release dated 19 January 2017: [https://www.ecb.europa.eu/press/pr/date/2017/html/pr170119\\_1.en.html](https://www.ecb.europa.eu/press/pr/date/2017/html/pr170119_1.en.html)

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

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

Assets	2016 Q4	2016 Q3	Liabilities	2016 Q4	2016 Q3
Credit to private non-MFIs in the euro area	82.7	112.6	Central government deposits	7.6	- 9.6
Loans	61.3	69.6	Monetary aggregate M3	116.6	134.5
Loans, adjusted <sup>1</sup>	63.4	71.5	of which Components		
Securities	21.4	43.0	Currency in circulation and overnight deposits (M1)	159.8	140.1
Credit to general government in the euro area	154.9	69.2	Other shorter-term bank deposits (M2-M1)	- 57.7	- 13.4
Loans	- 20.2	- 7.3	Marketable instruments (M3-M2)	14.6	7.8
Securities	175.3	76.3	MFI longer-term financial liabilities	- 28.6	- 53.9
Net external assets	- 44.7	- 107.3	of which		
Other counterparts of M3	- 97.5	- 3.3	Capital and reserves	14.1	15.6
			Other longer-term financial liabilities	- 42.7	- 69.5

\* Adjusted for statistical changes and revaluations. <sup>1</sup> Adjusted for loan sales and securitisation as well as for positions arising from notional cash pooling services provided by MFIs.

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*Excess liquidity continues upward trend*

Excess liquidity during the period under review continued the upward trend observed since the APP was launched, climbing by €176 billion to €1,324 billion. This increase was mainly propelled as hitherto by the continued asset purchases and given a further boost by the positive net liquidity effect stemming from the TLTROs, while volumes in the standard tender operations eased again slightly. Excess liquidity should carry on increasing for the rest of this year on account of the monthly APP purchases.

*Market participants expecting no further interest rate cuts*

The unsecured overnight rate in the money market (Eonia) once again hovered in a narrow range of between -0.32% and -0.35% during the period under review, which was not far off the deposit facility rate, while the secured overnight rate (Stoxx GC Pooling) was still less than the Eonia rate and slightly below, but close to, the deposit facility rate. The three-month Euribor hit a fresh all-time low of -0.33% during the period, which was roughly 2 basis points down on the rate observed at the end of the prior period. Money market forward rates rose distinctly across the entire maturity spectrum in the autumn quarter, but this has given way to a sideways movement of late. Judging by this, market participants are not anticipating any further drop in the deposit facility rate, but increasingly expect this rate to be lifted for the first time towards the end of 2018.

## Monetary developments in the euro area

The broad monetary aggregate M3 continued to grow considerably in the fourth quarter of 2016, the annual growth rate of 5.0% observed at the end of December matching the pace recorded since back in April 2015. The sustained expansion of the money stock can be explained by 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 – including the Eurosystem – to non-banks has emerged as the major driver of monetary growth. The fairly robust economic upswing and the very low level of interest rates helped keep loans to the private sector in the euro area, in particular, on an upward trajectory. At the same time, securitised lending to general government continued to grow substantially on the back of the Eurosystem's asset purchases.

*Accommodative monetary policy shapes monetary dynamics*

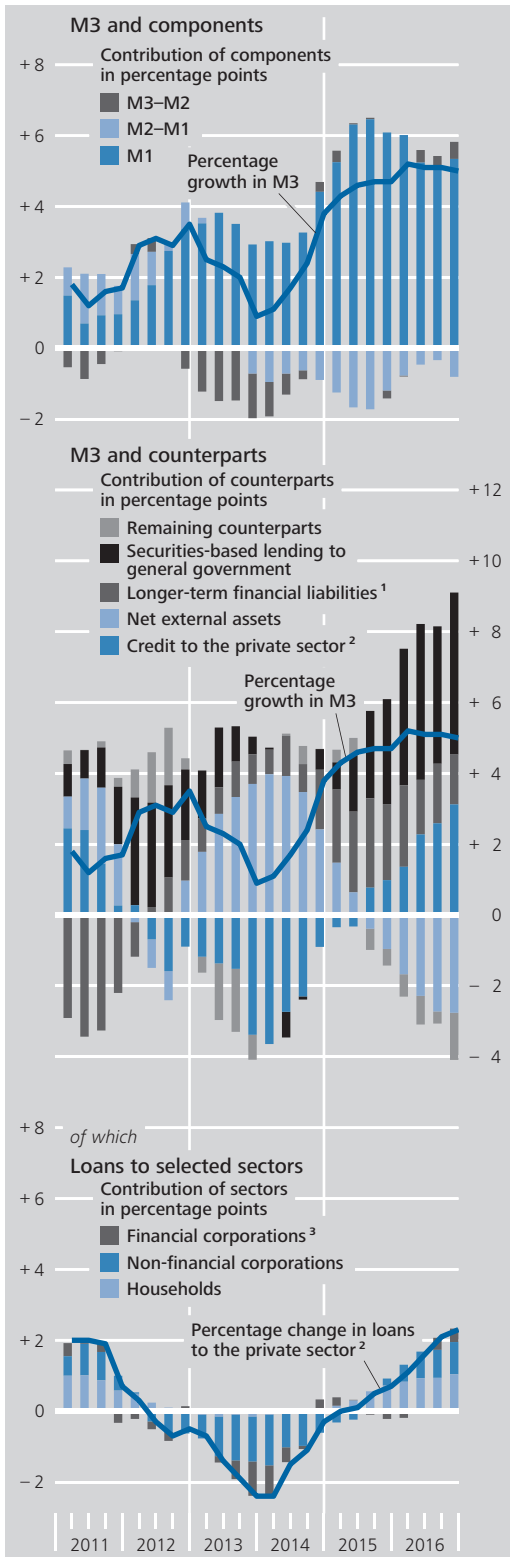
Strong inflows into overnight deposits once again had a major bearing on the expansion of the monetary aggregate M3 in the fourth quarter. As in the preceding quarters, much of these inflows originated from households and non-financial corporations. By contrast, other short-term deposits held by the non-financial private

*Overnight deposits still main driver of M3 growth*



### Monetary aggregates and counterparts in the euro area

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



Source: ECB. <sup>1</sup> Denoted with a negative sign because, per se, an increase curbs M3 growth. <sup>2</sup> Adjusted for loan sales and securitisation as well as for positions arising from notional cash pooling services provided by MFIs. <sup>3</sup> Non-monetary financial corporations.

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sector – an item which comprises short-term time deposits and savings deposits – suffered stronger declines than in previous quarters. The increase in overnight deposits has accounted for the lion's share of monetary growth for five years running now. This is probably mainly down to the constellation of interest rates – the very narrow yield spread offered by long-term government bonds over the rate of interest on the monetary components makes it attractive *per se* to hold money. Besides that, interest rates on other short-term deposits have moved less favourably than those on overnight deposits, spurring shifts within M3 into the highly liquid monetary component.

Turning to the supply of credit to the private sector, one notable development in the quarter under review was the ongoing recovery in loans to private non-MFIs (adjusted for securitisation and other one-off effects), which saw the annual growth rate climb to 2.3% at the end of the year. This narrowed the gap between money and credit growth to 2¾ percentage points, though this is still a high level by historical standards.

*Loans to private non-MFIs recover further*

One factor behind this credit growth in the quarter under review, besides lending to households, was the substantial upturn in the volume of loans to non-financial corporations; loans to financial corporations, on the other hand, stagnated (see the adjacent chart). Following a lull in the previous quarter, they continued to trend higher in the autumn quarter, with medium and long-term lending accounting for the bulk of growth, on balance. All in all, the year-on-year growth rate of loans to non-financial corporations at the end of December came in at 2.3%, which was almost two percentage points higher than at the end of 2015. This is consistent with evidence from the Bank Lending Survey (BLS) that demand for bank credit among non-financial corporations picked up markedly in the fourth quarter – primarily on account of the low general level of interest rates and brisker demand for funding for mergers, acquisitions and corporate restructuring – and that

*Loans to non-financial corporations continue to rise after weaker previous quarter*

the surveyed institutions had left their lending standards for corporate customers largely unchanged.

*Discernible country-specific differences in credit dynamics*

As in the preceding quarters, it was chiefly the contributions by the two largest member states which drove the positive development shown by loans to non-financial corporations in the euro area in the autumn months (see the adjacent chart). In Germany, this was primarily accompanied by the acquisition of financial assets (see page 33), while in France, it was particularly channelled into funding investment, given the comparatively low level of internal financing in that country. Italy and Spain, on the other hand, once again did very little to stimulate the growth of loans.

*Moderate growth in loans to households; upward trend in housing loans reinforced*

The other key pillar of lending to the private sector in the quarter under review was loans to households, the annual growth rate of which (adjusted for securitisation and other one-off effects) increased slightly to 2.0% at the end of December. In particular, the upward trend in loans for house purchase further consolidated and was once again driven by Germany and France. However, at an annual rate of 2.7% at year-end, it is still moderate by historical standards. The bank managers surveyed in the BLS again reported lively household demand for loans for house purchase in the fourth quarter, which they attributed mainly to the low general level of interest rates, the outlook on the housing market and the anticipated house price trend as well as sound consumer confidence. Credit standards were not adjusted.

*Considerable increase in consumer credit*

Consistent with the expansionary underlying trend in private consumption, consumer credit saw a renewed significant increase in the fourth quarter. According to the banks surveyed as part of the BLS, demand for consumer credit increased perceptibly. The respondents reported that this increase was mainly due to the low general level of interest rates and the high propensity to purchase. Standards in this segment were eased somewhat.

### 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 Additionally adjusted for positions arising from notional cash pooling services provided by MFIs.

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Taken in isolation, the most significant contribution to monetary growth again came from securitised lending to general government, reflecting the continued purchases under the PSPP. Since Eurosystem purchases of assets from commercial banks' portfolios do not affect the MFI sector's consolidated balance sheet, the persistent rise in this counterpart suggests that a sizeable share of the monetary policy-related purchases of government bonds continued to be from holders outside the domestic banking sector (see the chart on page 30).

*Securitised lending to general government still dominated by Eurosystem government bond purchases*

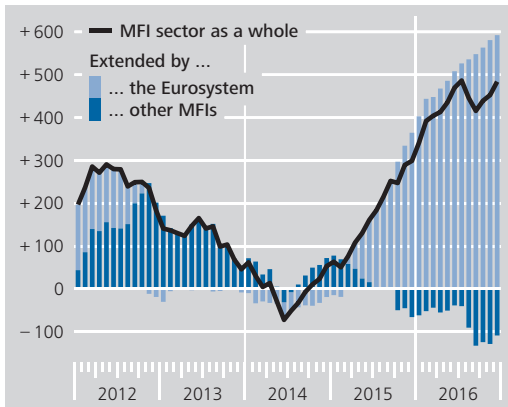
Unlike securitised lending to general government, securitised lending to the private sector recorded only moderate inflows on balance in the reporting quarter. These inflows were driven by the Eurosystem's continued bond purchases, while credit institutions – as in the previous quarter – saw a smaller volume of net corporate bond sales. However, the purchase volume recorded for the CSPP, which became operational in June 2016, was considerably

*Securitised lending to the private sector records moderate inflows*



### Securities-based lending to general government in the euro area

€ billion, 12-month accumulated flows



Sources: ECB and Bundesbank calculations.  
 Deutsche Bundesbank

below that of the PSPP; correspondingly, the CSPP has a weaker impact on the growth of the broad monetary aggregate M3. Added to this is the fact that the CSPP *per se* exerts pressure on bond yields, which means that there is an incentive for non-financial corporations with capital market access to substitute loans with bond-based forms of financing. Evidence of such effects potentially playing a role is that the euro area as a whole experienced something of a recovery in issuing activity in the market for these corporate bonds in the fourth quarter.

*Continued outflows in longer-term financial liabilities*

The positive impact of longer-term financial liabilities on the monetary aggregate, which has been observed since the end of 2011, continued in the reporting quarter. The money-holding sector further significantly reduced its stock of longer-term time deposits and savings deposits as well as longer-term bank debt securities. Both of these developments are likely to have been boosted largely by the interest rate constellation and the Eurosystem's TLTRO II series, which represents an attractive form of funding to the banking sector.

*Contribution from net external asset position still negative*

On the other hand, the continued reduction in the MFI sector's net external asset position *per se* again put a damper on monetary growth. Despite persistently high current account surpluses, this counterpart has been diminishing

since mid-2015, mainly due to capital exports. The balance of payments data for October and November 2016 available to date suggest that non-resident investors sold a discernible volume of euro-area government bonds to the Eurosystem under the PSPP; the impact of the PSPP on the monetary aggregate is therefore not as substantial as the increase in securitised lending to general government might suggest.<sup>2</sup> However, unlike previous quarters, demand for foreign securities on the part of domestic non-banks appears to have receded in the fourth quarter.

### German banks' deposit and lending business with domestic customers

Once again, there was a rise in banks' deposit business in Germany in the fourth quarter of 2016. However, the increase was not quite as dynamic overall as it had been in the previous quarters since the renewed strong expansion in overnight deposits was offset by net outflows in all other types of deposit. The distinct preference for highly liquid deposit types continued to be supported by the interest rate environment.

*Deposit growth driven solely by increase in overnight deposits*

From a sectoral perspective, it was once again chiefly households that built up these deposits, which, in addition to the interest rate constellation, was supported by their currently relatively high disposable income. By contrast, the increase in overnight deposits of non-financial corporations was only marginal. Although non-financial corporations benefited from the currently favourable earnings position, they used the funds received less for building up bank deposits than for investment in tangible assets and the acquisition of shares and other equity.

*Expansion in overnight deposits almost exclusively attributable to households*

<sup>2</sup> See Deutsche Bundesbank, How asset purchase programmes affect the consolidated balance sheet of the MFI sector, Monthly Report, November 2016, pp 28-31.

*Decline in deposits in the financial sector dominated by insurers*

Financial corporations whose investment behaviour is characterised more strongly by return considerations once again had a negative impact on deposits. At the end of the year, this development was mainly attributable to insurers and pension funds, which experienced substantial net declines in their overnight and time deposits across all maturities.

*Further expansion in lending to domestic non-banks*

Banks' lending to the domestic non-bank sector, too, further expanded at the end of the year. However, this expansion was comparatively moderate owing to the significant reduction in business with general government – not least due to the favourable budgetary situation. Conversely, lending to private non-banks saw an increase of a similar magnitude to that of the preceding quarters. In particular, banks also markedly increased their holdings of securities issued by the private sector in the reporting quarter, acquiring mainly shares and other variable-yield securities.

*Lending to the private sector continues to be driven by loans for house purchase*

After a strong third quarter, lending to the private sector expanded moderately in the final quarter. The driving force behind this increase again took the form of loans to households, especially for house purchase. Net quarterly growth in loans to households has been relatively constant since the summer of 2015; as a result, the year-on-year growth rate also remained static at 3.7%. The demand for loans for house purchase continued to be supported by stable consumer confidence and the exceptionally low interest rate level; at 1.7%, the interest rate for long-term loans for house purchase at the end of the final quarter stood only slightly above its all-time low since the introduction of the harmonised MFI interest rate statistics in 2003. In addition, the bank managers surveyed in the BLS cited households' continued positive assessment of the outlook for the housing market and residential property price developments as factors boosting demand. By contrast, households' increased use of savings for housing loans, amongst other things, had a slightly dampening effect. Overall, demand for loans for house purchase rose

### Lending and deposits of monetary financial institutions in Germany<sup>†</sup>

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

Item	2016	
	Q3	Q4
Deposits of domestic non-MFIs <sup>1</sup>		
Overnight	28.4	30.7
With an agreed maturity of		
up to 2 years	6.4	-5.7
over 2 years	-3.6	-2.9
Redeemable at notice of		
up to 3 months	0.5	-0.6
over 3 months	-2.3	-2.2
Lending		
to domestic general government		
Loans	-1.5	-8.2
Securities	-5.3	-5.9
to domestic enterprises and households		
Loans <sup>2</sup>	22.1	15.4
of which to households <sup>3</sup>	10.7	9.5
to non-financial corporations <sup>4</sup>	7.8	4.0
Securities	0.8	5.3

\* 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. <sup>1</sup> Enterprises, households and general government excluding central government. <sup>2</sup> Adjusted for loan sales and securitisation. <sup>3</sup> Including non-profit institutions serving households. <sup>4</sup> Non-financial corporations and quasi-corporations.  
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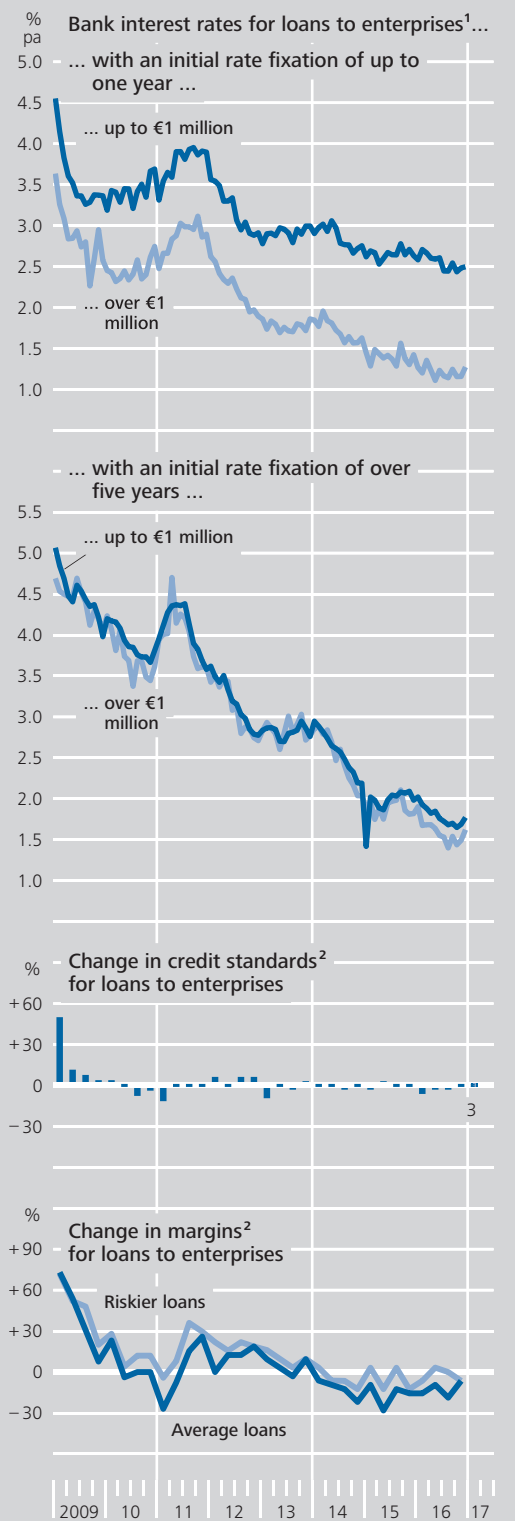
slightly in the fourth quarter, according to BLS data. The surveyed institutions left their credit standards unchanged on balance.

Consumer credit granted to households recorded slight inflows in the reporting quarter, as it has since the beginning of 2015. This is consistent with the fact that, according to the BLS, demand for these loans edged up marginally in the fourth quarter on balance. According to the bank managers surveyed, demand, taken in isolation, was supported by households' stable propensity to purchase, continued robust consumer confidence and low general interest rate levels. Although the banks also

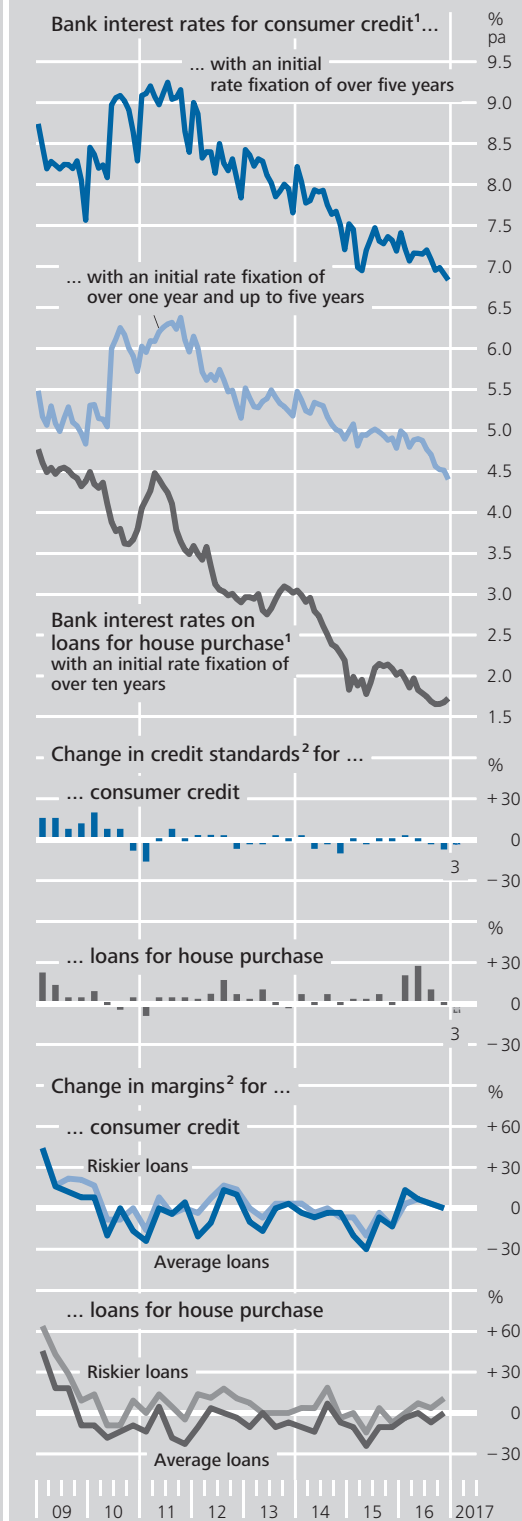
*Consumer credit records slight inflows*

## Banking conditions in Germany

### Credit to non-financial corporations



### Credit to households



**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 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. **3** Expectations for 2017 Q1.

reported several factors with a dampening effect on demand, the actual impact on demand appears to have been minor. The standards for consumer credit were eased slightly.

*Perceptible increase in lending to non-financial corporations with unchanged credit standards*

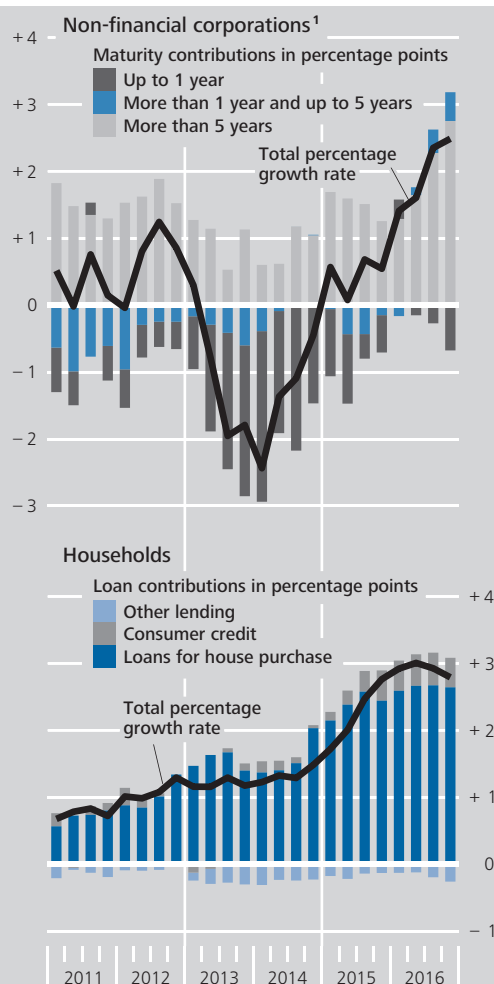
Lending business with domestic non-financial corporations, too, saw a marked expansion at the end of the year. Once again, long-term loans experienced the largest growth, thus continuing their positive underlying trend. The data available on corporate financing indicate that enterprises are currently using their financial resources not only to invest in fixed capital but also to build up financial assets, including the acquisition of equity in other companies. This is consistent with bank managers surveyed in the BLS reporting that the marked increase in demand on the part of enterprises – alongside other factors – was also spurred by the financing needs for mergers, takeovers and corporate restructuring. Furthermore, the BLS data suggest that demand continued to be primarily supported by the low general level of interest rates. For example, at the end of December, domestic enterprises paid interest amounting to 2.5% for small-volume and 1.3% for large-volume loans in the short-term segment, while interest on long-term loans stood at 1.8% and 1.6% respectively of late. Credit standards for lending to enterprises remained unchanged.

*German BLS banks show moderate interest in TLTRO II*

The January BLS round contained *ad hoc* questions on the banks' funding conditions, the impact of the new regulatory and supervisory activities (including the capital adequacy requirements defined in the Capital Requirements Directive IV/Capital Requirements Regulation and the requirements resulting from the ECB's comprehensive assessment), as well as the banks' participation in the TLTRO I and TLTRO II series. The German banks reported that, given the situation in the financial markets, their funding situation showed little change compared with the preceding quarter. As for regulatory and supervisory activities, the second half of 2016 saw the banks making a further

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

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



\* Adjusted for loan sales and securitisation. 1 Non-financial corporations and quasi-corporations.  
 Deutsche Bundesbank

reduction in their risk-weighted assets on balance and further strengthening their capital position. The TLTRO II in December 2016 was met with moderate interest by the surveyed institutions, which cited the attractive TLTRO conditions as their reason for participating. According to the information they provided, the borrowed funds were to be used chiefly for lending, in keeping with the objective of the monetary policy measure. Overall, the participating banks' financial situation improved slightly, although institutions are expecting only a minimal impact on their credit standards.