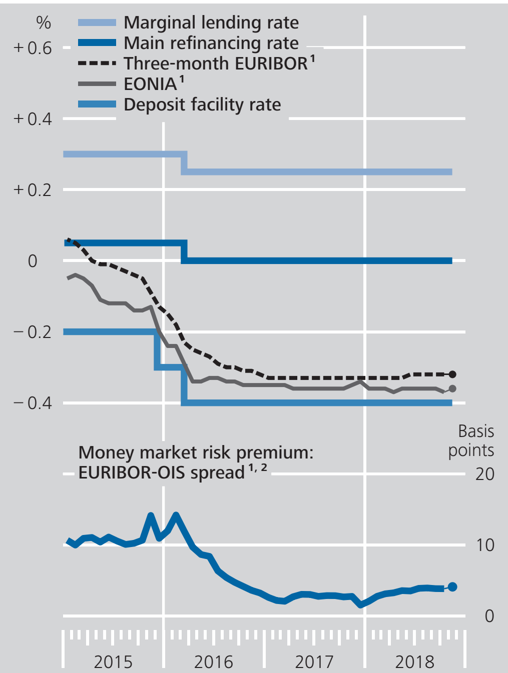
Monetary policy and banking business

Monetary policy and money market developments

ECB Governing Council decides to reduce monthly securities purchases

As envisaged in June 2018, the Governing Council of the ECB decided at its September meeting to reduce the net purchases under the expanded asset purchase programme (APP) to €15 billion per month after September 2018. It anticipates discontinuing net purchases after the end of December 2018 subject to incoming data confirming its medium-term inflation outlook. The Governing Council reiterated this after its monetary policy meeting in October. It also still intends to reinvest the principal payments from maturing securities for an extended period of time after the end of the net asset purchases, and in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

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 14 November 2018.

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ECB Governing Council leaves policy rates and forward guidance unchanged

The ECB Governing Council kept the key 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%. With regard to how policy rates will develop in the future (forward guidance), the Governing Council continues to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Confidence in sustained rise in inflation intact

Incoming information, including the projections made by ECB experts in September 2018, largely confirmed the Governing Council's previous assessment of an ongoing, broad-based expansion of the euro area economy and gradually rising inflationary pressures. Although the Governing Council stated after the October meeting that these figures were somewhat weaker than expected, it did not amend its previous assessment. The underlying strength of the euro area economy and rising domestic cost pressure continue to provide reason to be confident that the convergence of inflation towards levels below, but close to, 2% over the medium term will continue in the near future as well as after the reduction and discontinuation of net asset purchases. In the view of the Governing Council, although uncertainties regarding global factors and volatility on the financial markets continue to play a role, the risks surrounding the euro area growth outlook can still be assessed as balanced. Moreover, it should be noted that any downward risks for economic growth need not necessarily be reflected in corresponding risks for inflation.

Monthly purchase volume reduced to €15 billion as of October

As at 9 November, the Eurosystem held assets totalling €2,553.0 billion within the scope of the APP, with the growth in stocks slowing further due to monthly purchases being reduced to €15 billion. At €2,089.2 billion, the largest

Money market management and liquidity needs

During the two reserve periods from 1 August 2018 to 30 October 2018, euro area liquidity needs stemming from autonomous factors increased slightly (see table below). At an average of €1,356.7 billion in the September-October 2018 reserve period, they exceeded the average of the most recent period before the reporting period (June-July 2018) by €10.9 billion. Within the two periods considered, the sum of the autonomous factors was between €1,279.5 billion and €1,395.8 billion. The higher liquidity needs were driven chiefly by two factors: first, by an increase in government deposits with the Eurosystem, which amounted to an average of €283.1 billion in the September-October 2018 period, and were thus €19.7 billion up on the average of the June-July 2018 period, and, second, by the increase of €10.7 billion in banknotes in circulation. A contrary movement was shown, however, by the sum of net foreign assets and other factors, which are considered together because of liquidity-neutral valuation effects; liquidity was provided by their aggregate increase of €19.5 billion. The minimum reserve requirement in the reserve period of September-October amounted to €126.7 billion, representing an overall increase of €2.0 billion.

There was slight reduction in the outstanding tender volume during the reporting period. During the reserve period of September-October 2018, it averaged around €735 billion, and was thus nearly €12 billion below the corresponding figure in the June-July 2018 period (see chart on p. 26). The main reason for the decline was the targeted longer-term refinancing operations (TLTROs). First, at end-September, all eight TLTRO-I matured for a total of as much as €8.9 billion. Originally, around €432 billion had been allotted in these operations, but this amount decreased significantly due to early repayments. In addition, voluntary early repayments from the first and second TLTRO-II were settled on the same

Factors determining banks' liquidity*

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

Item	2018: 1 August to 18 September	2018: 19 September to 30 October
I Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1 Banknotes in circulation (increase: –)	– 8.6	– 2.1
2 Government deposits with the Eurosystem (increase: –)	+ 24.3	– 44.0
3 Net foreign assets[1]	+ 2.4	– 12.3
4 Other factors[1]	+ 14.7	+ 14.7
Total	+ 32.8	– 43.7
II Monetary policy operations of the Eurosystem		
1 Open market operations		
(a) Main refinancing operations	+ 0.9	+ 3.9
(b) Longer-term refinancing operations	– 4.3	– 12.1
(c) Other operations	+ 31.3	+ 33.1
2 Standing facilities		
(a) Marginal lending facility	+ 0.0	+ 0.0
(b) Deposit facility (increase: –)	– 19.0	+ 39.4
Total	+ 8.9	+ 64.3
III Change in credit institutions' current accounts (I + II)	+ 41.8	+ 20.3
IV Change in the minimum reserve requirement (increase: –)	– 2.0	+ 0.0

* 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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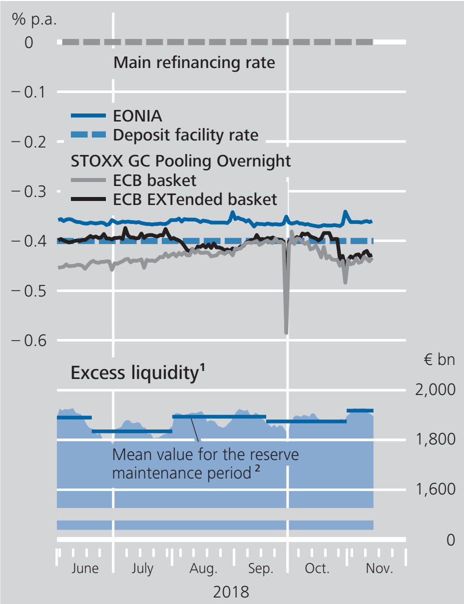
Central bank interest rates, money market rates and excess liquidity

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

Programme	Change across the two reserve periods	Balance sheet holdings as at 9 November 2018
Active programmes		
PSPP	+ 53.5	2,089.2
CBPP3	+ 4.7	261.5
CSPP	+ 8.7	175.0
ABSPP	1 − 0.4	27.4
Completed programmes		
SMP	− 5.5	73.0
CBPP1	− 0.2	4.3
CBPP2	− 0.0	4.0

1 Decline mainly due to maturities that were higher than the purchases with value date in this period.

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day. However, as in June 2018, scarcely any use was made of this possibility of repayment, as only €3.6 billion of the possible €430.2 billion was repaid in advance. This represents a total of around €722 billion still outstanding in the four TLTRO-II. The overall volume of standard tenders showed little change at a very low level during the period under consideration, albeit with appreciable shifts between the main refinancing operation and the three-month tenders. Demand in the main refinancing operation rose to an average of €6.9 billion in the September-October 2018 period (+€4.8 billion compared with the June-July 2018 period), while the outstanding amount of the three-month tenders fell by €3.5 billion to €3.7 billion during the same period.

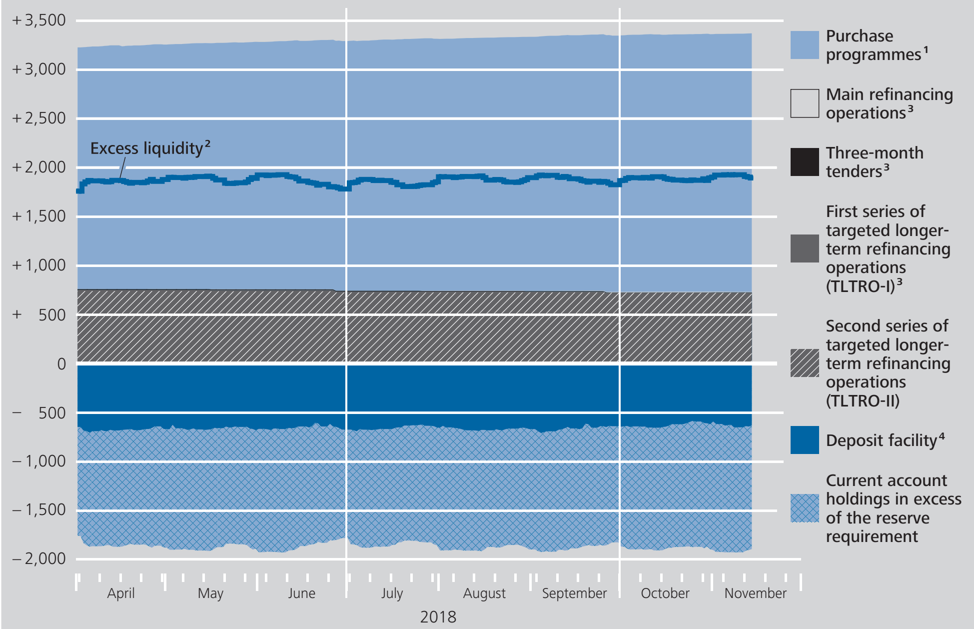
Most of the central bank liquidity continued to be provided by the Eurosystem through the monetary policy asset purchase programmes, which accounted for around 78% of the total liquidity made available through the Eurosystem's open market operations in the reporting period. The average balance sheet holdings of all purchase programmes in the September-October 2018 period were €2,623 billion, representing an increase of €64 billion compared to the corresponding average holdings during the June-July 2018 reserve period (see also the adjacent table).

Excess liquidity again showed fluctuations within the context of existing bandwidths during the reporting period (see chart on p. 25). It reached an average value of €1,874 billion during the September-October 2018 reserve period, thus increasing by €40 billion compared to the June-July 2018 period. In the August-September 2018 period, excess liquidity was even higher for a time at an average of €1,893 billion, before falling back due mainly to the increased liquidity needs from autonomous factors.

In view of the very comfortable liquidity conditions, overnight rates continued to be geared to the rate on the deposit facility (see the chart above). During the reserve period of September-October 2018, EONIA stood at -0.37% on average, which was 1 basis point below the average of the previous period. The underlying turnover of €4.0 billion and €3.2 billion respectively in the preceding period meant sustained low volumes of unsecured overnight money. Secured overnight money, on the other hand, was mainly traded below the deposit facility rate. On the GC Pooling platform, overnight trades in the ECB basket were executed at -0.42% on average in the two periods considered, which was 2 basis

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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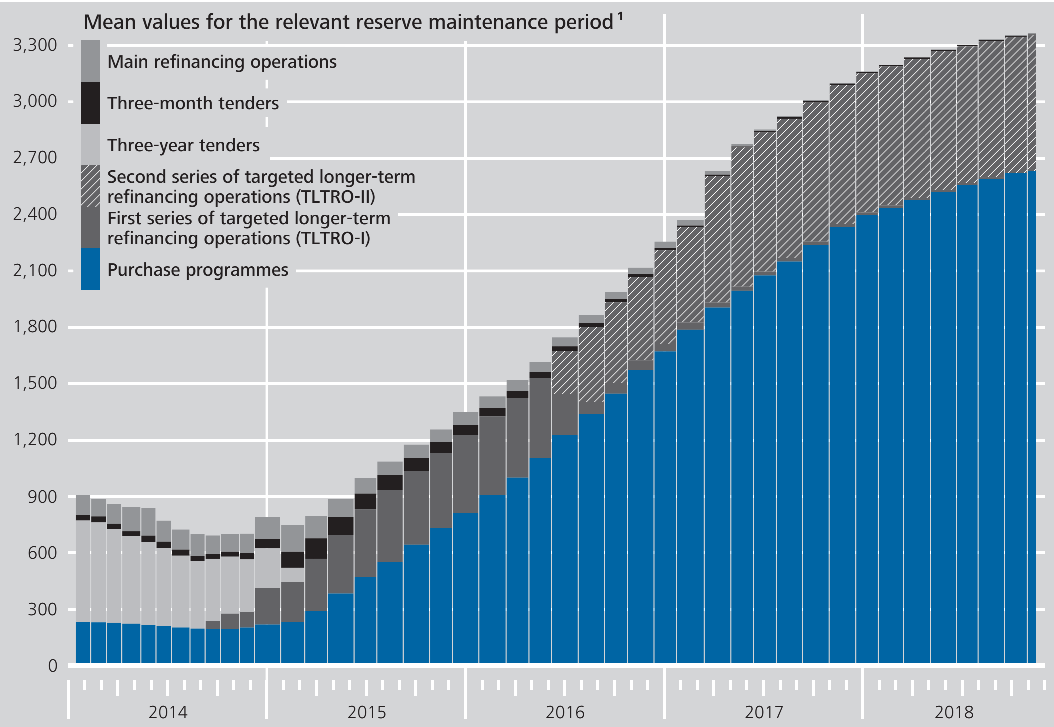
points higher than in the previous reporting period. Overnight money in the ECB EXTended basket, with its larger set of eligible securities, traded at -0.40% on average in the September-October 2018 period, compared with -0.41% in the previous period. During the September-October 2018 period, aggregate turnover across both baskets amounted to €5.8 billion on average, which was well below the €8.8 billion of the previous period. The end of the quarter in September 2018 had a particular impact on secured overnight money rates in the ECB basket, which were traded at -0.59% – 18 basis points lower than the previous day – although there was also a fall of 7 basis points to -0.47% in the ECB EXTended basket. EONIA, on the other hand, was traded 1 basis point higher at -0.35% at the end of the quarter.

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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proportion of these securities holdings were attributable to the public sector purchase programme (PSPP). The average remaining maturity of the PSPP portfolio has now fallen slightly to 7.5 years. The outstanding amounts acquired to date under the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP) came to €261.5 billion and €27.4 billion respectively. Purchases made under the corporate sector purchase programme (CSPP) totalled €175.0 billion as at 9 November.

First series of TLTROs expired in September

On 26 September the first series of targeted longer-term refinancing operations (TLTRO-I) expired as scheduled, with €8.9 billion still outstanding at last report. At the same time, there was another voluntary repayment option for two operations in the second series of targeted longer-term refinancing operations (TLTRO-II). In total, institutions paid back loans amounting to around €3.6 billion to the Eurosystem, with the second voluntary repayment coming in even lower than the first voluntary repayment one quarter earlier. The low repayments highlighted the fact that these operations continue to offer attractive conditions. Higher repayments would be expected when the residual maturity of each operation is less than one year, which will be the case for the first TLTRO-II in June 2019. At these points in time, the volume of each TLTRO-II applicable for the net stable funding ratio (NSFR) will be halved. Accordingly, institutions will have to source longer-term refinancing increasingly on the market as required.

Level of excess liquidity remains stable

Although the level of excess liquidity rose and fell in line with fluctuations in the autonomous factors, it ultimately remained stable overall, as has been the ongoing trend since the end of last year. It was last recorded at €1,869 billion. As a result of the renewed reduction in net purchases of securities under the APP as of October, it is not anticipated that excess liquidity will rise by any significant amount in the future.

Money market rates remain largely unchanged

During the reporting period, the unsecured overnight money market rate (EONIA) again remained largely within a narrow range of between -0.36% and -0.37%, with small rises up to a maximum value of -0.34% at the end of the months. Although the secured overnight rate (STOXX GC Pooling) kept within a range below the -0.40% deposit facility rate, it grew noticeably close to that rate over an extended period before declining again at the current end. The three-month EURIBOR was essentially unchanged in the reporting period, standing at -0.32% at last report.

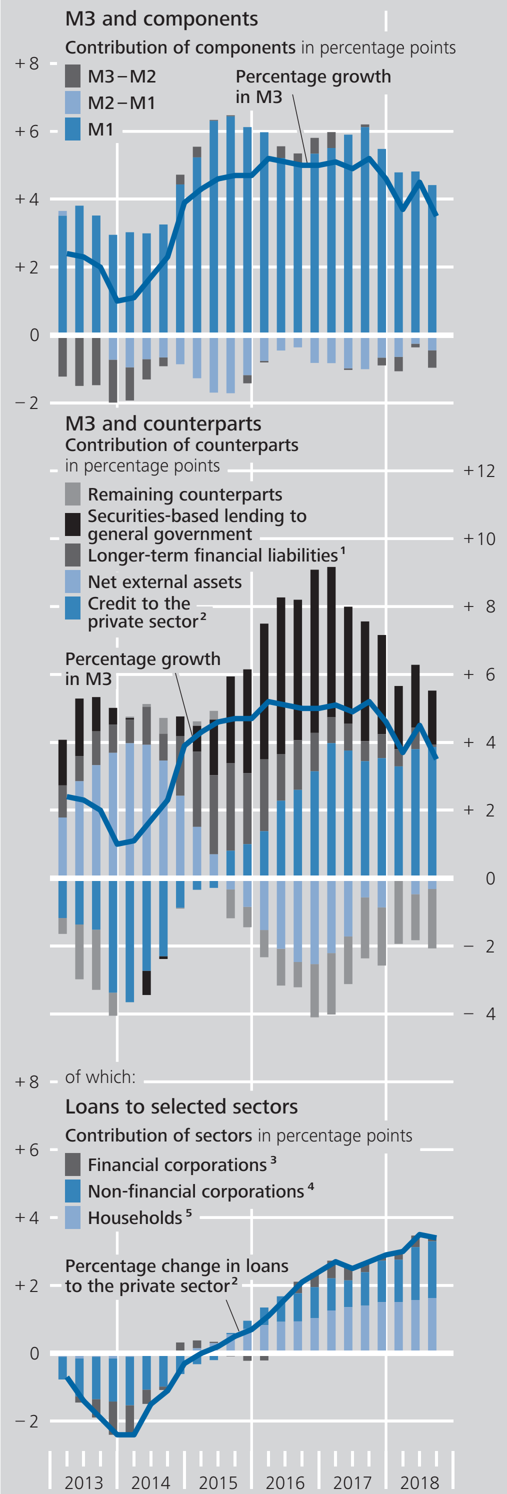
Money market forward rates rise due to international interest rate linkages

For a time, the money market forward rates derived from the EONIA swap curve recorded a marked rise – particularly in longer maturities – which, to some extent, has since reversed. At the same time, the monetary policy meetings in September and October had little impact on the situation of forward rates. The temporary rise is likely to have been driven primarily by developments in longer-term yields in the United States transmitted via international interest rate linkages. At present, forward rates are again below the level that was observed following the ECB Governing Council monetary policy meeting in June. As before, an increase in the deposit facility rate – depending on the assumed size of the first interest rate hike – is factored into forward rates in the period from the fourth quarter of 2019 to the second quarter of 2020, which still implies a later point in time than the interest rate expectations indicated in surveys.[1]

1 Estimates as to how large the first interest rate hike might plausibly be can be derived from surveys on interest rate expectations and range from 10 to 25 basis points. For more information on the discrepancy between the time frame for the first interest rate hike derived from money market forward rates and interest rate surveys respectively, see Deutsche Bundesbank, Monetary policy and banking business, Monthly Report, August 2018, p. 26.

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 and quasi-corporations. 4 Non-financial corporations and quasi-corporations. 5 Including non-profit institutions serving households.

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

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

Assets	2018 Q3	2018 Q2	Liabilities	2018 Q3	2018 Q2
Credit to private non-MFIs in the euro area	100.5	88.6	Holdings against central government[2]	101.8	− 21.5
Loans	86.3	52.7	Monetary aggregate M3	51.9	182.9
Loans, adjusted[1]	83.4	105.7	of which components:		
Securities	14.2	35.9	Currency in circulation and overnight deposits (M1)	126.5	169.5
Credit to general government in the euro area	58.3	35.9	Other short-term deposits (M2-M1)	− 45.3	19.2
Loans	− 12.8	− 4.3	Marketable instruments (M3-M2)	− 29.3	− 5.8
Securities	71.4	39.8	Longer-term financial liabilities	41.5	− 26.0
			of which:		
Net external assets	41.8	− 65.8	Capital and reserves	34.6	5.1
Other counterparts of M3	− 5.8	77.1	Other longer-term financial liabilities	6.9	− 31.1

* 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. 2 Including central government deposits with the MFI sector and securities issued by the MFI sector held by central governments.

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Monetary developments in the euro area

Monetary dynamics weaker than in previous year; lending growth remains main driver

Growth in the broad monetary aggregate M3 tailed off significantly in the third quarter of 2018. At the end of the quarter, the annual M3 growth rate fell to 3.5% and was thus distinctly below the 5% mark around which it had hovered in 2016 and 2017. The main reason for this was ultimately the further reduction in monthly net asset purchases by the Eurosystem at the beginning of the year, which contributed to lower growth in deposits held by enterprises. By contrast, the granting of loans to the private non-financial sector maintained its momentum, which had a positive effect. Against the background of high capacity utilisation and sound levels of consumer confidence in the euro area, loans to non-financial corporations and households again recorded considerable inflows. The lively demand for credit was bolstered by the still favourable financing conditions for households and enterprises in the euro area.

M3 growth still dominated by increasing overnight deposits, but build-up of deposits from business sector on the decline

In the third quarter of 2018, monetary growth was once again driven primarily by growth in overnight deposits. However, in recent quarters, these inflows were significantly lower than in the previous year. Furthermore, an unusually high outflow of short-term time deposits – especially those of other financial corporations – caused M3 growth to slow in the reporting quarter. With regard to all of the deposits included in M3, households remained the largest source of growth (see chart on p. 29). In light of their pronounced aversion to risk and the narrow interest rate spread between the different forms of deposit, households maintained their strong preference for highly liquid overnight deposits and short-term savings deposits. By contrast, growth in deposits from financial and non-financial corporations weakened overall in recent quarters. Against the backdrop of weaker overall acquisition of financial assets in these sectors, there was no discernible evidence of major shifts into other domestic and foreign assets by the middle of the year.[2]

Loans to private non-financial sector continue to see significant growth

Among the counterparts, the granting of loans to the euro area private sector again made the largest contribution to monetary growth. As in the previous quarters, the rise in lending was driven by considerable net growth in loans to non-financial corporations and households. This continued the upward trend in these two credit segments. Year-on-year growth in lending to non-financial corporations – adjusted for sales and securitisation – thus rose further over

2 Financial accounts data for the third quarter of 2018 are not yet available.

the course of the reporting quarter, from 4.0% at the end of June to 4.3% at the end of September. Once again, lending growth in the non-financial corporate sector was driven mainly by banks in Germany and France, but Italy and some smaller core countries also made contributions (see chart on p. 30).

Demand for corporate loans supported by further easing of supply-side policies

Demand for loans amongst enterprises was bolstered by the fact that interest rates for corporate loans in the euro area as a whole hovered close to their record lows again in the reporting quarter. In addition, the banks reporting to the Bank Lending Survey (BLS) stated that, in the reporting quarter, their credit standards and credit terms and conditions for corporate loans had been further eased in net terms. Besides citing the low general level of interest rates as the main factor, bank managers also attributed the observed increase in demand to a rise in financing needs for fixed investment, inventories and working capital, as well as mergers, acquisitions and restructuring. Conversely, as indicated in previous surveys, the responding banks believed that internal financing resources, when viewed in isolation, had a dampening effect on demand.

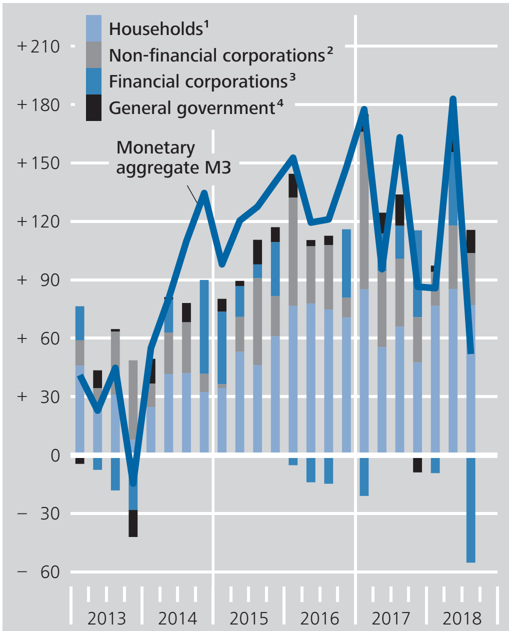
Loans to households record stable inflows

In the reporting quarter, inflows also continued to be recorded for loans to households, the annual growth rate of which rose to 3.1% at the end of the quarter. Growth was driven by both housing and consumer loans, although the contribution to growth from consumer loans waned slightly in the third quarter. Compared with a year earlier, it was again loans for house purchase which made the largest contribution to aggregate credit growth (2.4 percentage points), one that was even somewhat higher than the previous quarter's. Similar to the corporate sector, net inflows to housing loans were recorded mainly by banks in Germany and France; Italy and some other core countries, too, contributed to the increase in net lending, albeit to a lesser extent.

According to the assessment made by the banks surveyed as part of the BLS, the demand

M3 deposits by money-holding sector in the euro area

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



1 Including non-profit institutions serving households. **2** Non-financial corporations and quasi-corporations. **3** Non-monetary financial corporations and quasi-corporations. **4** Excluding central government.

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Demand for housing loans supported by persistently low interest rates

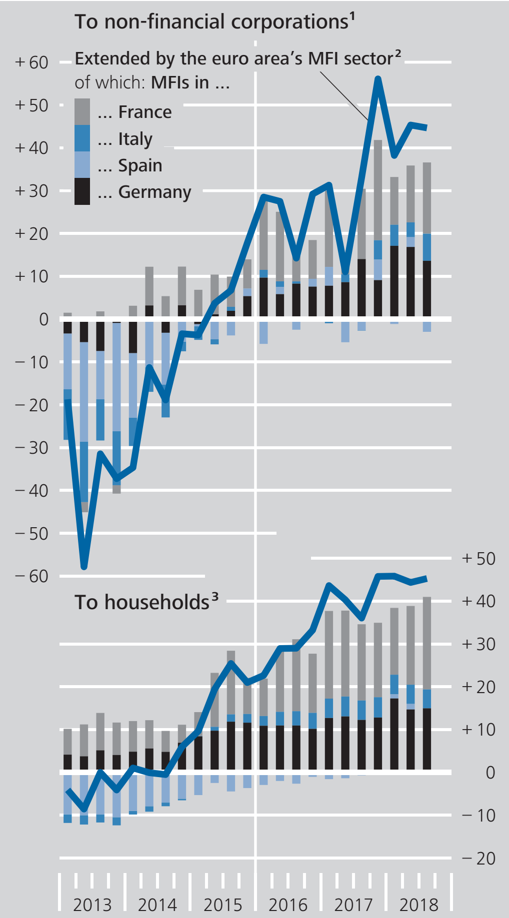
for loans for house purchase in the reporting quarter was supported not only by the persistently low general level of interest rates but also by housing market prospects and price developments in this segment. In addition, demand in the housing market is likely to have been stimulated by the continued increase in employment and households' disposable income. In the third quarter of 2018, the lending policies for loans for house purchase remained almost unchanged for the euro area banks participating in the survey.

Securities remain important pillar for M3 growth despite Eurosystem monthly net purchases under APP being halved

Besides loans, securities contributed to monetary growth in the reporting quarter; these went mainly to the euro area general government sector and, to a lesser extent, also to companies in the private sector. Both balance sheet items continued to be supported substantially by the Eurosystem's monthly net asset purchases under the APP, despite the fact that they were more than halved compared with a year earlier as a result of the APP being scaled back

Lending to the euro area's non-financial private sector*

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



Sources: ECB and Bundesbank calculations. * Adjusted for loan sales and securitisation. 1 Non-financial corporations and quasi-corporations. 2 Also adjusted for positions arising from notional cash pooling services provided by MFIs. 3 Including non-profit institutions serving households.
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as from January this year. In addition to the Eurosystem, credit institutions expanded their holdings of government bonds in seasonally adjusted terms as well. In contrast to the previous quarter, during which credit institutions in Italy acquired Italian government debt securities on a large scale, the overall net build-up of debt securities by commercial banks was spread more broadly across the euro area again in the reporting quarter.

Net external assets supported monetary growth in the reporting quarter, too

The MFI sector's net external asset position, too, supported monetary growth in the quarter under review. However, as in the last few quarters, the impact of this counterpart remained volatile. Overall, the further reduction in purchases under the APP at the beginning of the year has not yet led to a reversal of the capital flows from cross-border securities investment. Although domestic investors' interest in foreign securities has declined noticeably since the beginning of the year, there has been no material strengthening of foreign investors' demand for euro area securities to date. One of the reasons for this is likely to have been the persistent negative yield spreads between the euro area and the majority of other economic areas, as well as the heightened level of political uncertainty in some parts of the euro area.

Build-up of capital and reserves as well as of long-term bank bonds supports monetary capital

For the first time since the summer of 2011, the MFI sector's longer-term financial liabilities started recording clear net inflows again, which, per se, had a dampening effect on monetary growth. On the one hand, the increase in monetary capital was due to an intensified build-up of capital and reserves; on the other hand, the increase was attributable to a net rise in longer-term bank debt securities in the hands of the money-holding sector. It is likely that banks' interest in this form of financing is gradually picking up again for two reasons; first, for the purpose of locking in interest rates, and second, against the backdrop of declining maturities for the Eurosystem's longterm refinancing operations.

German banks' deposit and lending business with domestic customers

Deposit growth still dominated by build-up of overnight deposits

German banks' deposit business with domestic customers in the third quarter of 2018 was again dominated by sustained inflows into overnight deposits. Once again, mainly households and – to a much lesser extent – non-financial corporations expanded their stock of overnight deposits. In addition to the persistently low level of interest rates (see the chart on p. 31), this is likely to have been attributable to the sustained increase in disposable income and the continued good business situation of German enterprises.

Financial corporations' investment behaviour increasingly driven by yields

Besides overnight deposits, only short-term savings recorded inflows; however, these were low. All other types of deposit were scaled back markedly in some cases. For example, in the quarter under review, domestic banks on balance recorded a negative flow of deposits from financial corporations, one reason being that other financial institutions heavily reduced their time deposits in order to invest in other, sometimes higher-yielding instruments. Moreover, insurance and pension funds continued to reduce their longer-term time deposits, shifting to higher-yielding forms of investment – a development which began in 2010.[3]

Lending business with non-banks weaker on balance

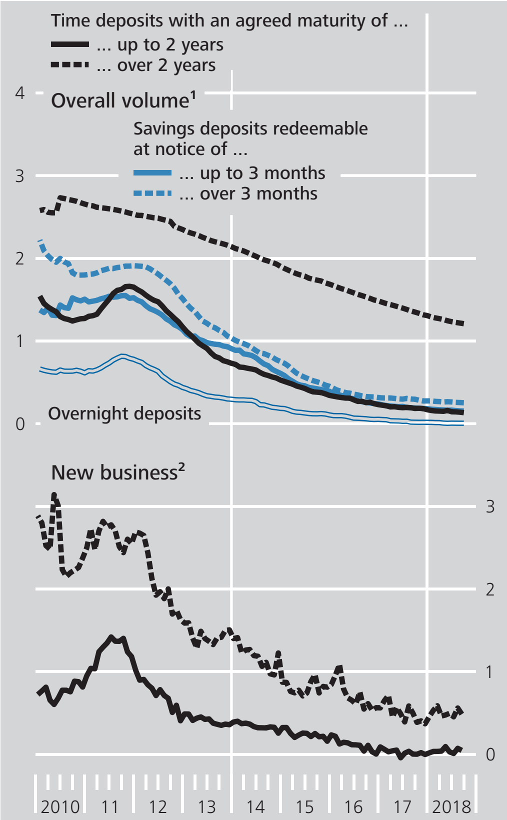
Banks' lending business with the domestic non-bank sector was less dynamic in the reporting quarter than one quarter earlier. On the one hand, this was the result of the continued decline in loans and securities-based lending to the public sector. On the other hand, there was also a significant reduction in securities-based lending to the domestic private sector, with banks both scaling back their stocks of corporate bonds and selling shares and other variable-yield securities from domestic enterprises. This development is likely to have been attributable, not least, to price losses and the temporary high level of uncertainty in the European capital markets.

Lending to private sector positive; households record largest inflows

Conversely, lending to the domestic private sector saw an increase of a similar magnitude to that of previous quarters. The main contribution came from loans to households, the annual growth rate of which increased slightly to 3.7% at the end of the quarter. The growth of this credit aggregate was sustained by the robust expansion of loans for house purchase and consumer credit. Furthermore, although less relevant in quantitative terms, there were also significant inflows to other loans to households in the reporting quarter for the first time since early 2012; these consisted mainly of loans to self-employed persons.

Interest rates on bank deposits in Germany*

% p.a., 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 (i.e. deposit contracts on the balance sheet at the end of the month), the volume of new business (i.e. all contracts concluded in the course of a month) is explicitly recorded for time deposits only.

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Funding conditions remain favourable

In addition to the favourable income and asset situation of German households, the persistently high demand for bank loans in the quarter under review was also spurred on by the still advantageous funding conditions. According to MFI interest rate statistics, the interest rate on long-term housing loans stood at 1.9% at the end of the third quarter, remaining close to its historical low of September 2016. At the same time, banks' lending policies supported household demand for loans for house purchase in the quarter under review. Although

3 See Deutsche Bundesbank, Acquisition of financial assets and the search for yield in Germany, May 2018, pp. 30 ff.

Lending and deposits of monetary financial institutions in Germany*

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

Item	2018 Q2	2018 Q3
Deposits of domestic non-MFIs1		
Overnight	36.7	26.9
With an agreed maturity of		
up to 2 years	5.9	– 7.1
over 2 years	– 1.0	– 6.0
Redeemable at notice of		
up to 3 months	1.2	0.3
over 3 months	– 1.0	– 1.2
Lending		
to domestic general government		
Loans	– 4.7	– 5.6
Securities	– 6.9	– 5.7
to domestic enterprises and households		
Loans2	33.5	29.1
of which: to households3	14.7	15.0
to non-financial corporations4	16.7	10.3
Securities	5.3	– 6.7

* As well as banks (including building and loan associations, but excluding the Bundesbank), monetary financial institutions (MFIs) here also include money market funds. End-of-quarter data, adjusted for statistical changes 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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the banks taking part in the BLS hardly lowered their credit standards for housing loans at all in the third quarter, they narrowed their margins notably in some cases. By contrast, the surveyed banks reported that they had slightly tightened credit terms and conditions for consumer credit and other loans on the whole.

Renewed noteworthy increase in lending to non-financial corporations

The other mainstay of lending business with the domestic private sector came in the form of loans to non-financial corporations. Once again, the latest expansion covered all maturities but was less dynamic overall compared with the previous quarter. However, the slowdown is likely to represent, at least in part, a countermovement to the exceptionally strong growth witnessed in the second quarter. At 5.8% at the end of the quarter, year-on-year growth in this credit aggregate was largely stable and remained well above the long-term average.

Further decline in interest rates on short-term loans

According to the BLS banks, demand for loans to enterprises in the reporting quarter was driven primarily by financing needs for fixed investment and the low general level of interest rates. In Germany, interest rates on short-term loans to enterprises tended to decline further in the reporting quarter, while interest rates on longer-term loans moved sideways. This had the effect that, at the end of September, domestic enterprises paid interest amounting to 2.1% for small-volume and 1.0% for large-volume loans in the short-term segment, while interest on long-term loans stood at 1.9% and 1.7% respectively of late.

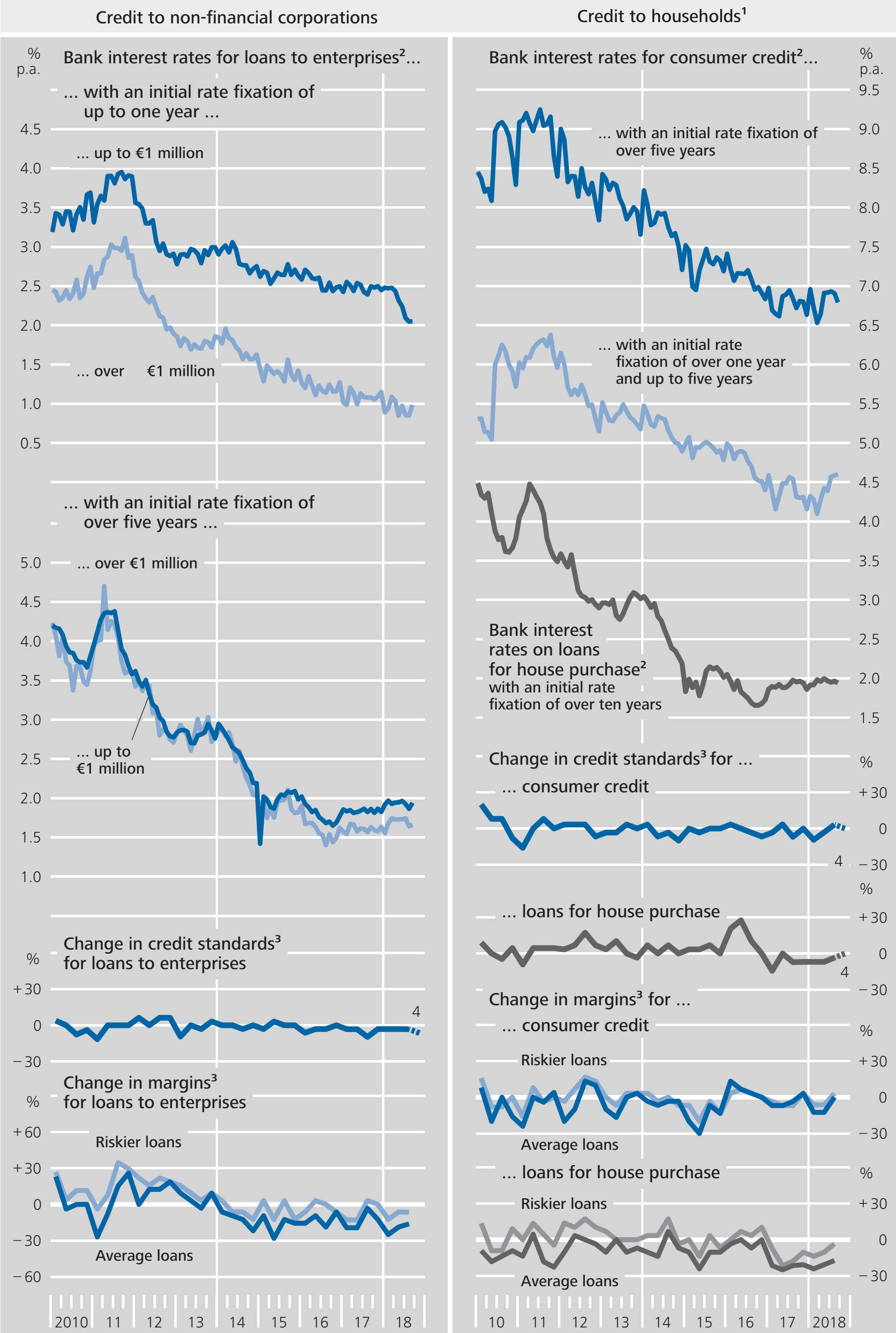
Lending policies advantageous on the whole

In the reporting quarter, enterprises' demand for bank loans was also supported by banks' lending policies. According to the data from the BLS banks, the requirements for potential borrowers were relaxed marginally again on balance. Banks made somewhat stronger adjustments to credit terms and conditions, which, according to the respondents, were relaxed moderately overall. For instance, the surveyed credit institutions again tightened their margins on average-risk loans markedly on balance, while slightly tightening their margins on riskier loans. Moreover, the banks accommodated their corporate customers somewhat with regard to non-interest rate charges. Banks again cited the highly competitive environment as the reason for imposing less restrictive credit terms and conditions.

Funding conditions largely unchanged

The BLS for October contained additional questions on participating banks' funding conditions, the impact of the Eurosystem's expanded APP, and the impact of the Eurosystem's negative deposit facility rate on lending. The German banks reported that, given the situation in the financial markets, their funding situation

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 2018 Q4.

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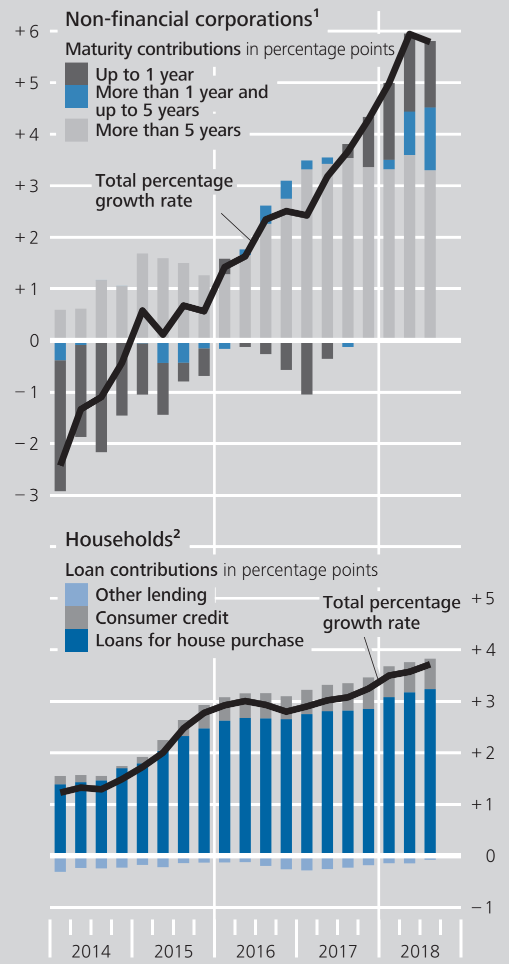
Loans* by German banks to the domestic private non-financial sector

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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had hardly changed compared with the preceding quarter. With regard to the Eurosystem's expanded APP, the banks reported, on the one hand, further improvements in their financing conditions. On the other hand, however, the programme continued to place a strain on their profitability. Unlike in previous survey rounds, the questioned banks no longer reported that the programme had made a noteworthy contribution to improving their liquidity position. In the upcoming six months, no net purchases of assets are to be made under the APP from January 2019 onwards as per the ECB Governing Council's decision of 14 June 2018. The surveyed banks expect to see their funding conditions deteriorate in this period for the first time since the question was introduced. The negative interest rate on the deposit facility was another key factor in banks' net interest income shrinking over the past six months. At the same time, the negative deposit rate per se brought about a slight increase in the volume of loans to enterprises and to households.