Monetary policy and banking business

Monetary policy and money market developments

ECB Governing Council leaves key interest rates unchanged

At its monetary policy meetings in December 2023 and January 2024, the ECB Governing Council decided to keep its three key interest rates unchanged. The interest rate on the deposit facility, which is currently the most significant for money market rates, thus remains at 4%. The interest rates on the main refinancing operations and the marginal lending facility stand at 4.5% and 4.75%, respectively. In December, the Governing Council noted that, whilst inflation had fallen in the preceding months, it would be likely to pick up again temporarily in the near term. According to the December projections for the euro area, inflation is expected to decline gradually over the course of 2024 before approaching the 2% target in 2025. Overall, the projections now see headline inflation averaging 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026. Compared with the projections from September 2023, this represents a downward revision for 2024. Underlying inflation also continued to decline. However, domestic price pressures remained elevated, primarily owing to strong growth in unit labour costs. At its meeting in January, the ECB Governing Council noted that the incoming data since December broadly confirmed its assessment of the medium-term inflation outlook.

Future interest rate decisions continue to follow data-dependent approach

On the basis of its assessments from December and January, the ECB Governing Council continued to hold that the key interest rates are at levels that would make a substantial contribution to the timely return of inflation to the target. For this to happen, however, the key interest rate levels would have be maintained for a sufficiently long duration. The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, interest rate decisions will continue to be based on assessments of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission.

ECB Governing Council announces reduction in PEPP reinvestments

In December 2023, the ECB Governing Council also decided to advance the normalisation of the Eurosystem's balance sheet. It intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP) during the first half of 2024. Over the second half of the year, it plans to reduce the PEPP portfolio by €7.5 billion per month on average and to fully discontinue the reinvestment of redemptions by the end of 2024.

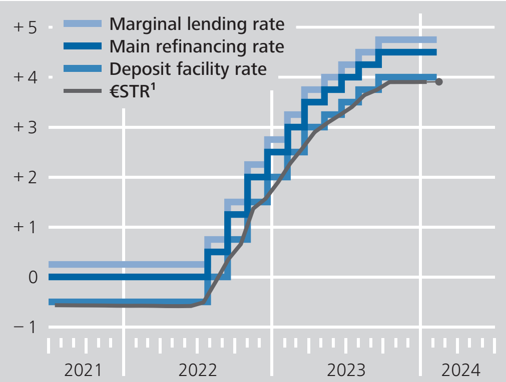
€STR unchanged overall

The euro short-term rate (€STR) has remained unchanged overall in the reporting period since mid-November, as no further interest rate hikes have been agreed. It stood most recently at 3.907% and thus remained around 10 basis points below the deposit facility rate.

Across the board, market participants continue to believe that the interest rate on the deposit facility has peaked at 4%. The Eurosystem's Survey of Monetary Analysts conducted ahead

Key ECB interest rates and money market interest rates in the euro area

% p.a.



Source: ECB. 1 Monthly averages. • = Average 1 to 9 February 2024.
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Money market management and liquidity needs

In the reporting period from 1 November 2023 to 30 January 2024,[1] excess liquidity in the Eurosystem decreased by a total of €91.9 billion to an average of €3,495.5 billion, though it remained at a high level. The decline was driven mainly by voluntary early repayments and maturing securities under the third series of targeted longer-term refinancing operations (TLTRO III) as well as the decrease in the outstanding volume under the asset purchase programmes.

Compared with the sixth reserve maintenance period of 2023 (September-October 2023), liquidity needs in the euro area stemming from autonomous factors (see the table below) fell by €106.4 billion to an average of €1,433.1 billion in the eighth reserve maintenance period of 2023 (December 2023-January 2024). Without this liquidity-providing effect, excess liquidity would have contracted even more sharply. On the one hand, the decline in government deposits of €54.3 billion (of which €8.8 billion in Germany) was the main factor behind the drop in liquidity needs. On the other hand, the combined total of net foreign assets and other factors, which are considered together owing to liquidity-neutral valuation effects, rose by €54.1 billion. In this context, the liquidity-absorbing effect stemming from other factors decreased as a result of a decline in the non-monetary policy deposits contained within these factors (-€18.1 billion) in the Eurosystem over the entire period under review. However, in Germany in particular, there

1 Here, the averages of the eighth reserve maintenance period of 2023 (December 2023-January 2024) are compared with the averages of the sixth reserve maintenance period of 2023 (September-October 2023).

Factors determining banks' liquidity*

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

Item	2023 1 Nov. to 19 Dec.	2023/24 20 Dec. to 30 Jan.
I. Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1. Banknotes in circulation (increase: –)	+ 3.6	– 5.6
2. Government deposits with the Eurosystem (increase: –)	+ 28.6	+ 25.7
3. Net foreign assets[1]	+ 2.1	+ 25.0
4. Other factors[1]	+ 8.0	+ 19.0
Total	+ 42.3	+ 64.1
II. Monetary policy operations of the Eurosystem		
1. Open market operations		
a) Main refinancing operations	– 0.8	+ 0.6
b) Longer-term refinancing operations	– 19.5	– 99.7
c) Other operations	– 52.9	– 28.2
2. Standing facilities		
a) Marginal lending facility	– 0.1	+ 0.1
b) Deposit facility (increase: –)	+ 28.6	+ 61.4
Total	– 44.7	– 65.8
III. Change in credit institutions' current accounts (I. + II.)	– 2.6	– 1.5
IV. Change in the minimum reserve requirement (increase: –)	+ 0.7	+ 1.6

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

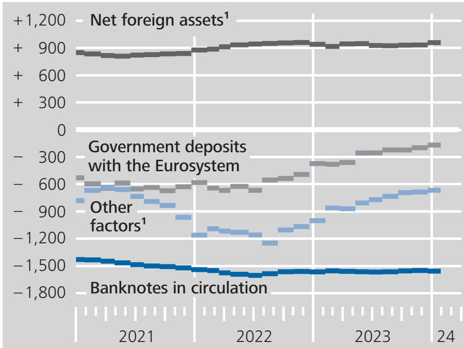
was an increase in deposits held by foreign central banks in December 2023, which is common at the end of the year. On account of seasonal factors, the volume of banknotes in circulation in the Eurosystem rose slightly by €2.0 billion to €1,556.8 billion, absorbing liquidity. In Germany, net banknote issuance increased by €5.4 billion to €918.2 billion. Over the period under review, the minimum reserve requirement in the Eurosystem fell by €2.2 billion to €162.3 billion, marginally decreasing the need for central bank liquidity. Since 20 September 2023, minimum reserves held with the Eurosystem have been remunerated at 0.00% instead of at the deposit facility rate. In Germany, the reserve requirement remained almost unchanged at €44.7 billion. Of the central bank liquidity of euro area banks, 95% (96% in Germany) was held in the deposit facility.

The average outstanding tender volume in the euro area decreased by €119.4 billion to €404.2 billion during the reporting period. The maturity date for TLTRO III.6 and a voluntary early repayment option for TLTRO III.7-10 fell within the period under review, on 20 December 2023. A total of €98.9 billion matured and was repaid on that date. The volume under the regular main refinancing operations and three-month tenders remained low overall. However, there were temporary rises in the volume under the main tender at the end of TLTRO III.6 and, in particular, at the turn of the year. In Germany, the average outstanding volume of all refinancing operations fell by €27.1 billion to €70.5 billion in the period under review. This was partly due to maturities and voluntary early repayments under the TLTRO III operations in December, amounting to €19.4 billion. German banks' share in the outstanding volume of Eurosystem refinancing operations thus came to around 17%, which was roughly 2 percentage points lower than in the sixth reserve maintenance period of 2023.

The decrease in the asset purchase programme (APP) portfolio had the greatest impact on the overall amount of securities held for monetary policy purposes. Since 1 July 2023, reinvestments under the APP have been discontinued, while reinvestment in the pandemic emergency purchase programme (PEPP) has remained unchanged. Overall, holdings of monetary policy assets decreased by €81.1 billion in the period under review. As at 9 February 2024, the balance sheet holdings of the asset pur-

Autonomous factors in the Eurosystem*

€ billion, mean values for the relevant reserve maintenance period



Sources: ECB and Bundesbank calculations. * Liquidity-providing factors are preceded by a positive sign. Liquidity-absorbing factors are preceded by a negative sign. **1** Including end-of-quarter liquidity-neutral valuation adjustments.

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Eurosystem purchase programmes

€ billion

Programme	Change across the two reserve periods	Balance sheet holdings as at 9 Feb. 2024
Programmes with ongoing reinvestments[1]		
PEPP	− 1.7	1,671.6
Completed programmes		
APP	− 79.0	2,989.9
PSPP	− 63.9	2,376.6
CBPP3	− 6.4	280.1
CSPP	− 6.8	320.3
ABSPP	− 1.9	12.9
SMP	− 0.4	2.4

1 Changes due to maturities, reinvestments and amortisation adjustments.

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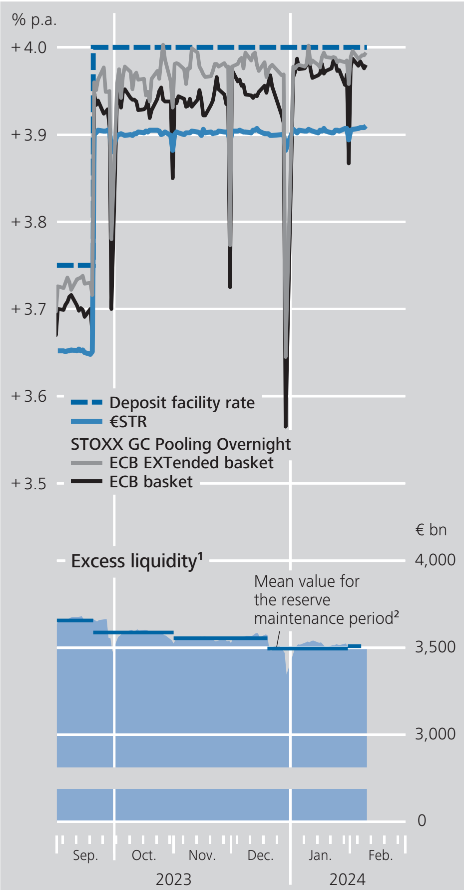
Deposit facility rate, money market rates and excess liquidity

Daily data



Sources: ECB, Eurex Repo and Bundesbank calculations. **1** Central bank balance minus the minimum reserve requirement plus the deposit facility. **2** The last period displayed is still ongoing.
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chase programmes amounted to €4,663.9 billion (see the table on p. 27) and thus maintained a high level.[2] 92% of the liquidity provided by monetary policy instruments stemmed from purchase programmes and only 8% from refinancing operations.

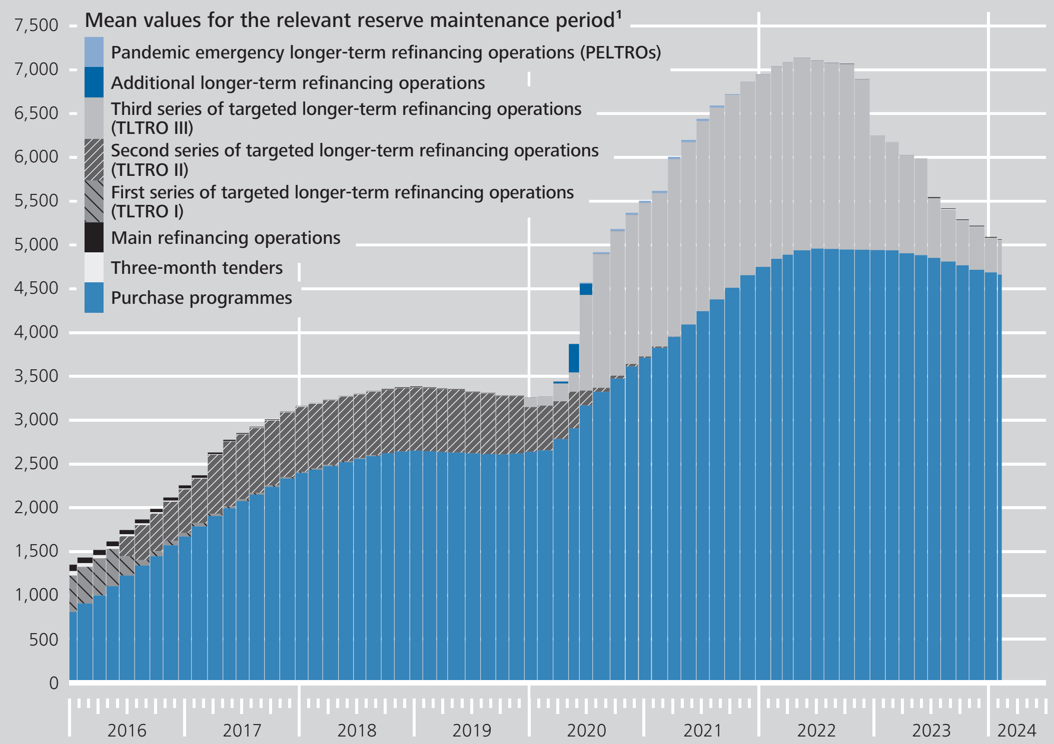
As in the sixth reserve maintenance period of 2023, the unsecured euro short-term rate (€STR) recorded an average of 3.90%. The average volume of €STR was equally stable, at €59.9 billion in the seventh reserve maintenance period of 2023 (November-December 2023) and at €58.3 billion in the eighth, breaking the slight downward trend observed in the previous reference periods. With a decline of 1.1 basis points at end-November, the impact on the €STR fixing was weaker than at the end of previous months. At 1.8 basis points, the end-of-year effect on €STR was comparable to previous years. Transaction volumes were comparatively high for the end of a year, at €44.0 billion, despite a marked day-on-day decline of €13.7 billion.

During the period under review, the spread over the deposit facility rate continued to decline for secured overnight transactions on Eurex Repo's GC Pooling trading platform amid increasing transaction volumes. ECB basket transactions were traded at averages of 3.94% and 3.95%, respectively, in the seventh and eighth reserve maintenance periods of 2023. In the ECB EXTended basket, which has a broader selection of securities with lower rating requirements for concluding repo transactions, trading took place at an average rate of 3.97% during the period under review. The gap between the two rates thus narrowed from 3 basis points to 2 basis points in the eighth reserve maintenance period of 2023. Once again, turnover in both collateral baskets was up on the previous reporting period (ECB basket: €6.6 billion, ECB EXTended basket: €5.6 billion). Both the increase in rates and in trading volumes took place in the eighth reserve maintenance period of 2023, despite the usual decline in turnover and interest rates during public holidays and at year-end.

2 In addition to the termination of reinvestments under the APP, holdings were also shaped by revaluations and the smoothing of reinvestments under the PEPP.

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

€ billion



Sources: ECB and Bundesbank calculations. **1** The bar width corresponds to the length of the reserve maintenance period.
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Money market forward rates and surveys indicate expected interest rate cuts in 2024

of the January meeting, showed that participants expected to see a median initial rate cut of 25 basis points in June. For 2024 as a whole, they expect interest rate cuts totalling 100 basis points. Money market forward rates, too, are pricing in significant interest rate cuts and go beyond the expectations indicated in the survey: an initial cut of 25 basis points is partly priced in for April at present, and, for 2024, the money market forward curve shows expected interest rate cuts of more than 100 basis points.

Decline in asset holdings continues

Monetary policy asset holdings have continued to decline overall during the reporting period since mid-November 2023. This development is attributable to assets under the asset purchase programme (APP) that are maturing and not being reinvested. On 9 February, the stock of APP assets held by the Eurosystem amounted to €2,989.9 billion (a breakdown of these holdings by individual asset purchase programme can be found on pp. 26 ff.). Asset holdings reported under the pandemic emergency purchase programme (PEPP) came to €1,671.6 billion on the same day.

Renewed decline in excess liquidity

Excess liquidity has contracted since mid-November, falling by around €37 billion. At last count, it came to €3,511 billion. Additional final maturities and voluntary repayments under the third series of targeted longer-term refinancing operations (TLTRO III) contributed to this decline. Maturing assets under the APP also caused excess liquidity to shrink further. In addition, excess liquidity was influenced by the development of the autonomous factors, too, which fluctuated particularly over the turn of the year (see the box on pp. 26 ff.).

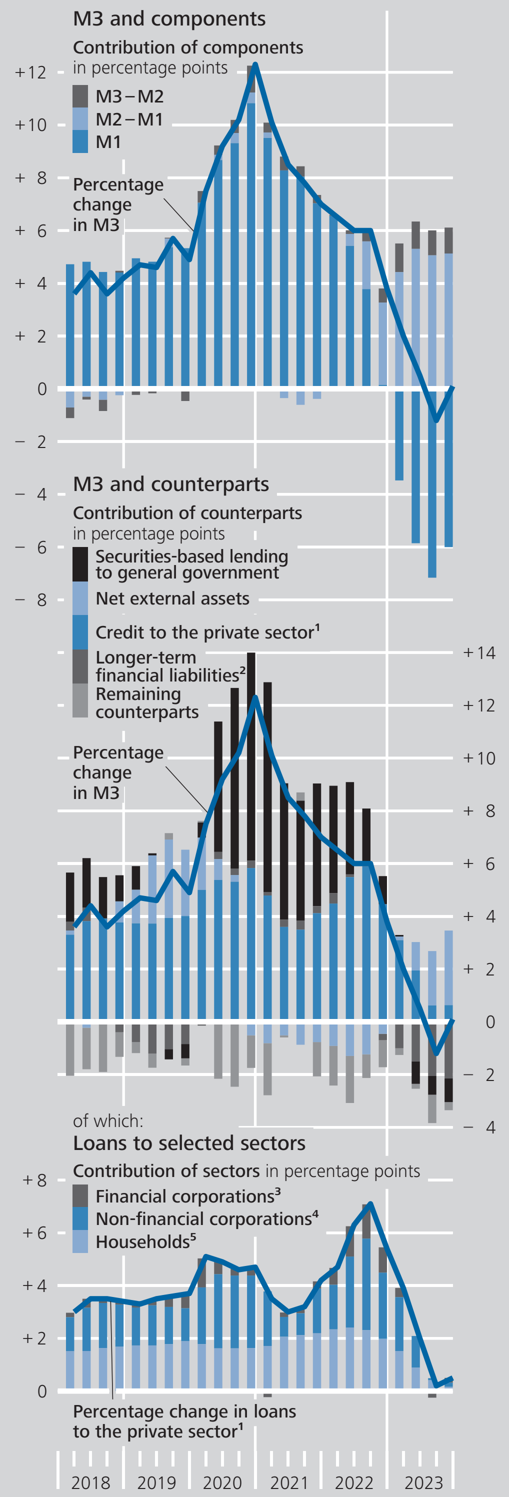
Monetary developments in the euro area

Annual M3 growth positive again

The broad monetary aggregate M3 grew slightly again in the final quarter of 2023, following four consecutive quarters of contraction

Monetary aggregates and counterparts in the euro area

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



Source: ECB. **1** Adjusted for loan sales and securitisation as well as for positions arising from notional cash pooling services provided by MFIs. **2** Denoted with a negative sign because, per se, an increase curbs M3 growth. **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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in the wake of monetary policy tightening. Its annual growth rate, which had stood at -1.2% at the end of September, increased to 0.1% by the end of 2023 (see the adjacent chart). In view of the persistently high interest rate differential between highly liquid deposits and other forms of investment, the money-holding sectors continued to shift funds into higher-yielding investments. In contrast to the previous quarters, however, beyond this pure shifting of financial assets, funds were channelled into higher-interest-bearing M3 holdings in the fourth quarter of 2023, which had a positive impact on monetary growth. On the output side, a marked recovery in lending to the domestic private sector and a significant increase in the net external assets of the monetary financial institutions (MFI) sector contributed to the increase in monetary growth. The anticipated end of the monetary policy tightening cycle and the expectation of falling lending rates boosted non-financial corporations' demand for short-term loans, in particular. At the same time, the banks participating in the latest round of the Bank Lending Survey (BLS) reported having barely tightened their lending policies any further in the final quarter of 2023.

Ongoing reduction of overnight deposits in favour of short-term time deposits

In terms of money holdings, the shifts towards higher-interest-bearing M3 holdings continued during the fourth quarter of 2023 (see the table on p. 31). Households in particular and, to a lesser extent, non-financial corporations further reduced their stocks of overnight deposits in view of their continued very low interest rates. At the same time, however, they expanded their short-term time deposits to an even greater extent. In addition, demand also increased for marketable instruments included in M3, which are held primarily by financial corporations. Overall, these adjustments resulted in M3 recording a net inflow for the first time since the summer of 2022. This was partly due to the fact that the yield spread between assets outside of M3 and the higher-interest-bearing M3 holdings narrowed as a result of the decline in capital market yields.

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

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

Assets	Q3 2023	**Q4 2023**	Liabilities	Q3 2023	**Q4 2023**
Credit to private non-MFIs in the euro area	7.9	60.4	Holdings against central government[2]	– 29.1	5.4
Loans	– 0.2	68.9	Monetary aggregate M3	– 5.3	141.4
Loans, adjusted[1]	– 11.7	75.3	Components:		
Securities	8.1	– 8.5	Currency in circulation and overnight deposits (M1)	– 202.5	– 134.3
Credit to general government in the euro area	– 19.1	7.1	Other short-term deposits (M2-M1)	171.9	220.7
Loans	1.6	8.0	Marketable instruments (M3-M2)	25.3	55.0
Securities	– 20.7	– 0.9	Longer-term financial liabilities	90.5	70.4
Net external assets	128.1	169.7	Capital and reserves	23.4	– 10.1
Other counterparts of M3	– 60.8	– 20.0	Other longer-term financial liabilities	67.1	80.5

***** 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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Investment also in non-M3 assets

In addition to the increase in stocks of higher-interest-bearing M3 investments, the money-holding sector also continued to invest in non-M3 forms of investment. Alongside long-term savings deposits, demand was particularly strong for long-term bank debt securities, the yields of which declined somewhat, but nevertheless remained attractive. Both forms of financing gained in importance for banks in the course of the gradual repayment of TLTRO III loans.

Monetary growth supported by continued rise in current account balance

On the counterparts side, the largest contribution to monetary growth in the fourth quarter of 2023 was made by the net external position. According to the information currently available from the balance of payments statistics, this was mainly due to a further increase in the positive euro area current account balance. On the one hand, exports continued to grow, particularly to the United States and the United Kingdom. On the other hand, lower commodity prices led to a decline in imports in nominal terms. By contrast, non-banks' securities transactions with non-residents had a slight dampening effect on monetary growth on balance.

Marked recovery in lending overall, particularly due to a significant increase in loans to enterprises

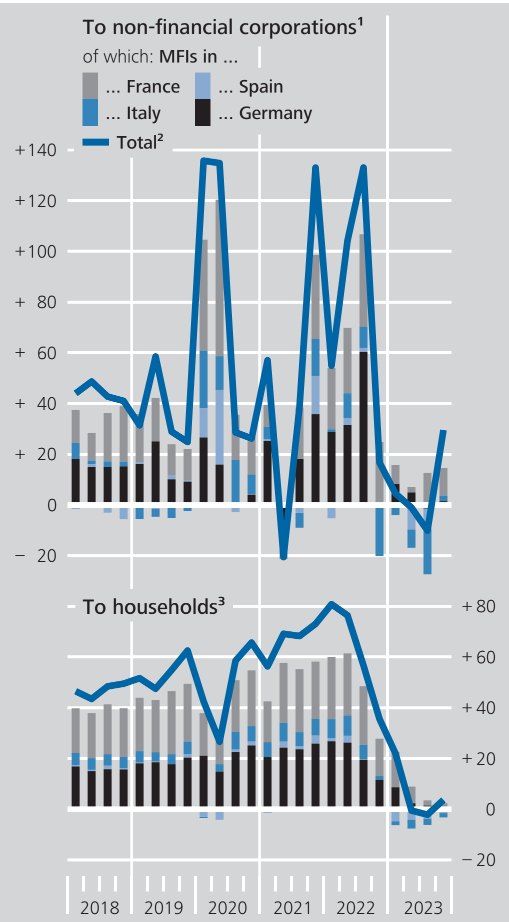
In the fourth quarter, the MFI sector's lending to domestic non-banks also showed a marked recovery over the weak preceding quarters. This was also especially true of banks' lending business with non-financial corporations, which grew moderately on balance. Among the four largest euro area Member States, banks in France once again recorded the strongest net growth, while the contribution made by German banks was only marginally positive. Lending by banks in Italy and Spain stagnated as well. In both countries, however, loans to non-financial corporations had declined during the preceding quarters – sharply, in some cases – meaning that credit growth appeared to recover in net terms here, too. For the euro area as a whole, the annual growth rate of loans to enterprises, which had stood at 0.2% in the previous quarter, rose to 0.4% by the end of the year.

Focus on short-term loans due to expectations of interest rate cuts

The expansion in lending mainly affected short-term loans with maturities of up to one year. Longer-term loans recorded significantly smaller inflows. The shift in demand towards short-term loans was probably enterprises' response to the mounting signs of a turning point in euro area financing conditions. Against the backdrop of waning inflation dynamics, lending rates declined slightly in November and December for the first time since the start of the rate hiking cycle. Yields in the capital market even declined markedly as expectations of rate cuts in 2024 grew. Given the expectation of lending rates falling further, it thus seemed at-

MFI loans to the private non-financial sector in the euro area*

€ 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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tractive for enterprises to borrow additional funds initially for just a shorter period of time.

Barely any further tightening of credit standards for loans to enterprises

This is consistent with the fact that the euro area banks surveyed by the BLS reported a further net decline in demand for loans to enterprises in the fourth quarter of 2023, particularly for longer-term loans. However, the decrease in demand was smaller than it had been in the three previous rounds of the survey. For the first quarter of 2024, the surveyed banks are not expecting a further fall in credit demand for the first time since mid-2022. According to the BLS, credit standards for loans to enterprises were tightened on balance by only a few banks in the fourth quarter. This tightening was the weakest seen in two years and was also less than banks had planned in the previous quarter. Over the last two rounds of the survey, tightening particularly affected the real estate sector and primarily loans for commercial real estate. However, it can be assumed that the significant tightening of credit standards seen in some cases over the preceding quarters will continue to dampen lending overall.

Stagnating lending to households, especially in the case of loans for house purchase

Bank lending to households continued to stagnate in the fourth quarter. Among the four largest euro area Member States, bank lending to households increased in both Germany and France, but was once again weaker than in the previous quarter. Banks in Italy and Spain again recorded net outflows from their loan portfolios, albeit to a lesser extent compared with the previous quarter. On balance, the euro area saw a marginal increase in lending, which was largely attributable to consumer credit. By contrast, the segment of loans for house purchase, which is much more significant in terms of holdings, made virtually no contribution to the aggregate in the reporting quarter.[1] Loans categorised as "other lending" (including loans to sole proprietorships) also decreased markedly again. On aggregate, the annual growth rate of loans to households fell further to 0.3% by the end of the year.

BLS indicates demand for housing loans down again …

The weak development of loans for house purchase is consistent with the fact that the banks surveyed by the BLS reported a further decline in demand for this loan category in the fourth quarter. However, this decline was smaller than in the five previous quarters. According to the surveyed banks, the main reasons for the lower funding needs among households were the rise

1 For the components of loans to households (loans for house purchase, consumer credit, and other lending), data adjusted for loan sales and securitisation (as has been the case for the aggregate since January 2003) are available since January 2022. The seasonally adjusted original series of loans for house purchase, which rose significantly in the quarter under review, recorded a very small outflow after adjustment for such securitisation effects (however, these effects have not been seasonally adjusted).

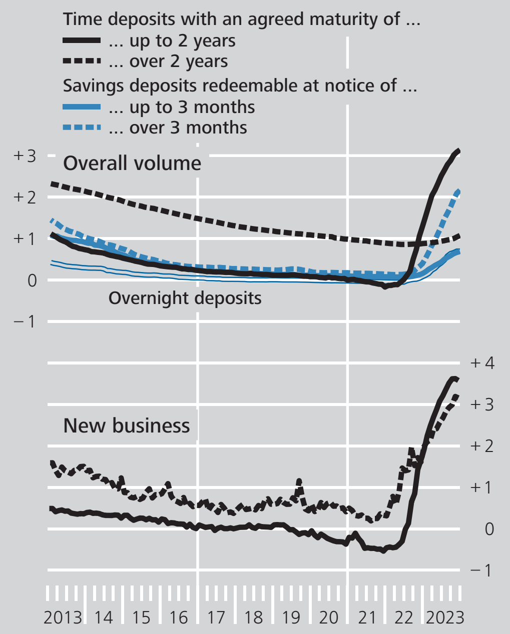
in interest rates, the decline in consumer confidence, the bleaker outlook in the housing market, and the prospective development of house prices.

… and credit standards barely tightened further

Banks' lending policies are also likely to have further dampened credit growth. According to banks, credit standards for loans for house purchase were barely tightened any further on balance. However, as in all loan categories, the restrictive adjustments over the past one and a half years probably continued to have an impact on lending. As in previous rounds of the survey, banks cited increased credit risk, particularly with regard to economic conditions, as well as the subdued economic outlook, the bleaker outlook in the housing market, and the prospective development of house prices as the key reasons for the tightening.

Interest rates on bank deposits in Germany*

% p.a., monthly data



* Deposits of households and non-financial corporations according to the harmonised MFI interest rate statistics (volume-weighted interest rates). Interest rate levels for overnight and savings deposits may also be interpreted as new business due to potential daily changes in interest rates.

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German banks' deposit and lending business with domestic customers

Deposit business up noticeably

Amid declining capital market yields, German banks' deposit business with domestic customers increased markedly in the fourth quarter of 2023, much like in the euro area as a whole. In Germany, too, mainly short-term time deposits were built up, with the largest contribution coming from households, which increased their balances to an even greater extent than in the previous quarters. At the same time, households continued to reduce their holdings of overnight deposits and short-term savings deposits. The main reason behind this development is likely to have been the persistently high yield spread between these types of deposit and short-term time deposits remunerated at close to market rates (see the chart above). In addition, households also increased their holdings of longer-term bank deposits, the remuneration of which became somewhat more attractive than that of other forms of investment. Non-financial corporations likewise continued to build up short-term time deposits in the fourth quarter of 2023, albeit to a lesser extent than in the previous quarter.

Lending business with non-banks weakens again

In contrast to the developments in the euro area as a whole, German banks' lending business with domestic customers weakened markedly again in the final quarter of 2023. This was due, first, to the fact that lending to the domestic private sector recorded a net outflow, which was mainly attributable to financial corporations distinctly scaling back their debt with domestic banks. Second, loans to the public sector recorded weaker inflows than in the previous quarter.

Lending to enterprises negative, but different developments in individual maturities

By contrast, lending to non-financial corporations moved almost sideways in the final quarter of 2023. Developments in the individual maturity segments were once again heterogeneous. Unlike in the euro area, non-financial corporations further reduced their short-term bank loans on balance. By contrast, longer-term loans increased markedly in net terms.

MFI* lending and deposits in Germany

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

Item	2023 Q3	2023 Q4
Deposits of domestic non-MFIs[1]		
Overnight	− 46.3	− 10.4
With an agreed maturity of		
up to 2 years	72.7	83.0
over 2 years	− 0.7	4.5
Redeemable at notice of		
up to 3 months	− 29.0	− 26.6
over 3 months	8.3	9.1
Lending		
to domestic general government		
Loans	3.3	2.0
Securities	0.3	0.0
to domestic enterprises and households		
Loans[2]	3.7	− 2.9
of which: to households[3]	1.3	0.7
to non-financial corporations[4]	− 2.1	− 0.1
Securities	− 2.5	− 0.7

* In addition to 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 shift in loans demand towards longer maturities was encouraged by banks' rate-setting behaviour: banks in Germany lowered their interest rates on longer-term loans perceptibly over the course of the quarter and raised interest rates on short-term loans again slightly.

Declining financing needs for fixed investment and higher lending rates as factors behind weakening demand

The overall weak growth in loans to non-financial corporations is likely to be a reflection of several factors. First, relatively high financing costs as well as subdued industrial and construction activity in addition to the uncertain economic outlook continued to dampen credit demand. The banks surveyed as part of the BLS thus reported that credit demand had declined again in net terms in the fourth quarter of 2023, albeit less sharply than in the previous quarter. The banks mainly attributed this fall in demand to the decline in financing needs for fixed investment and to the rise in the interest rate level.

Credit standards barely tightened, but credit terms and conditions more restrictive

At the same time, banks' tighter lending policies are also likely to be having a dampening impact on lending. Although the banks surveyed by the BLS barely tightened their credit standards for corporate lending any further in net terms during the reporting quarter, the overall considerable tightening from the previous quarters is likely to be continuing to have a dampening effect on lending. In addition, the surveyed banks once again made their credit terms and conditions more restrictive overall. They mainly attributed the restrictive nature of their lending policies to their perception of elevated credit risk, given the subdued economic situation and economic outlook, as well as to industry-specific and firm-specific factors.

Growth in loans for house purchase continued to weaken

Banks' lending business with domestic households also stagnated in the fourth quarter. This was because households once again slightly reduced their demand for loans for house purchase on balance and, at the same time, made noticeable repayments on their consumer credit and other borrowing. The weak demand in this loan category continues to be driven by high financing costs and elevated construction prices. However, according to the MFI interest rate statistics, interest rates on long-term loans for house purchase fell again for the first time at the end of the year and stood at 3.65% at the end of December.

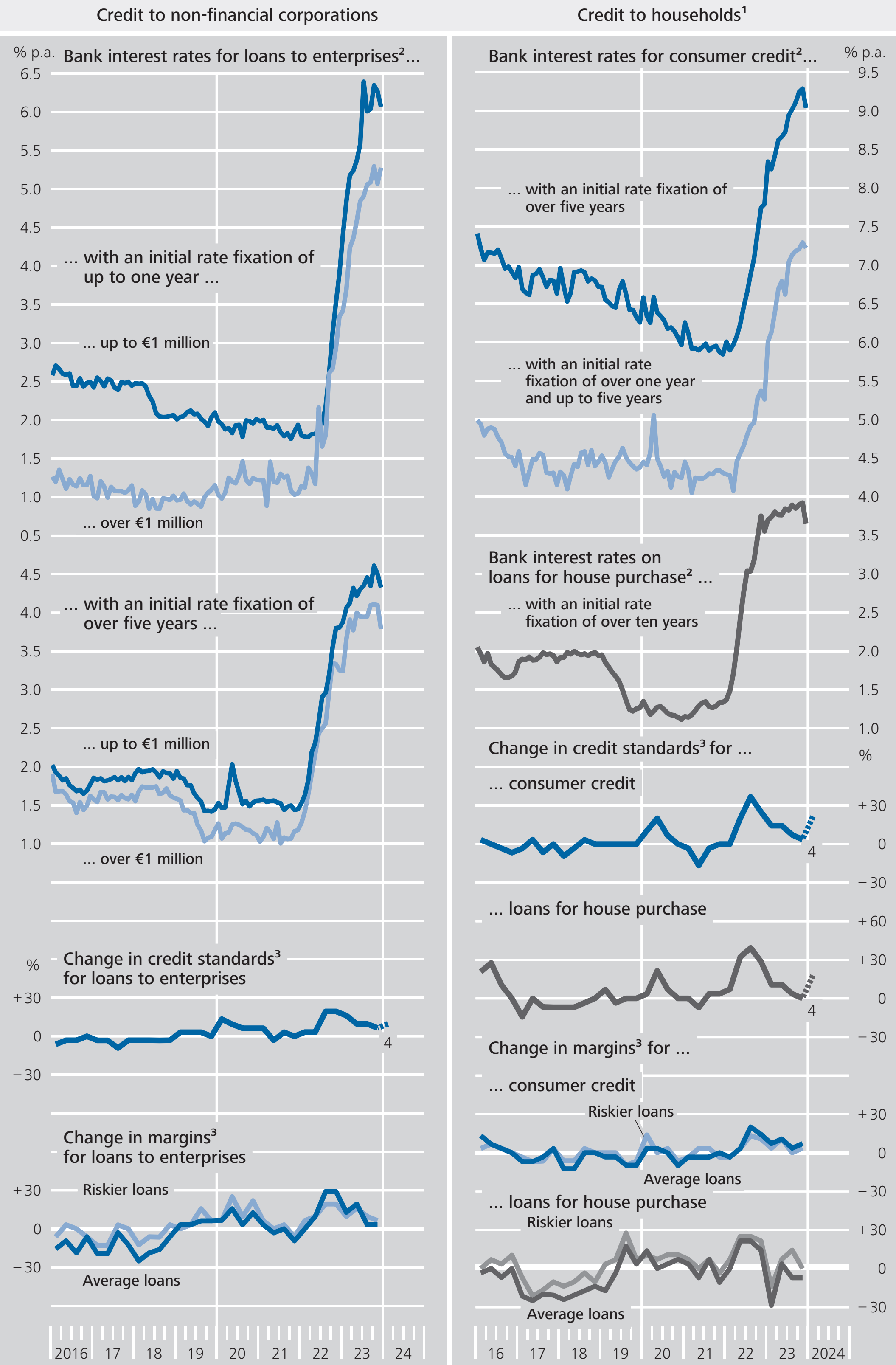
Financing conditions for housing loans less restrictive overall

By contrast, banks' lending policies did not have any additional restrictive effect in the fourth quarter. Contrary to what banks had planned, credit standards for loans to households for house purchase remained unchanged, and credit terms and conditions were even eased somewhat. Banks attributed the easing of terms and conditions primarily to the intense competition.

Demand for consumer credit and other lending once again in decline

By contrast, according to the BLS, credit standards for consumer credit and other lending to households were tightened slightly in the fourth quarter of 2023. At the same time, the banks surveyed by the BLS reported a slight reduction in demand, mainly on account of a de-

Bank conditions in Germany



1 Including non-profit institutions serving households. 2 New business. According to the harmonised MFI interest rate statistics. 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 Q1 2024.

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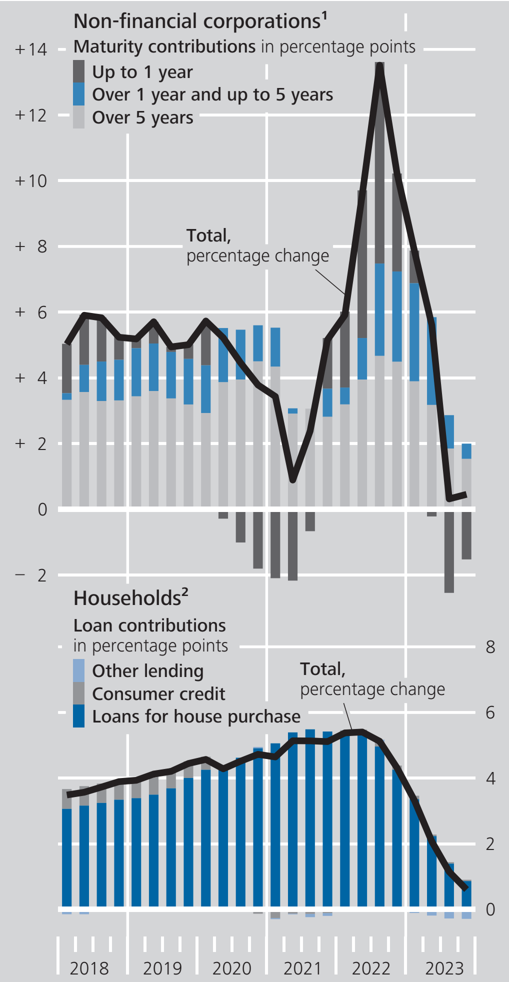
Loans[*] by German banks to the domestic private non-financial sector

Year-on-year change, 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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cline in households' propensity to purchase. The upward trend in financing costs for consumer credit, which was already comparatively expensive, came to an end.

Given the conditions in financial markets, German banks reported virtually no change in their funding situations compared with the previous quarter. Only their access to deposits deteriorated.

Deterioration in German banks' access to deposits

Banks expect to tighten their credit standards due to supervisory and regulatory requirements

The Eurosystem's key interest rate hikes have had, overall, a positive impact on banks' profitability over the past six months. They were a drag on non-interest income, but net interest income improved markedly. For the next six months, banks expect the key interest rate decisions to have a far smaller impact on their profitability than in the previous six months. Banks responded to new regulatory and supervisory activities by continuing to strengthen their capital positions in 2023. Over the next 12 months, banks expect risk-weighted assets to increase, especially for average-risk loans. In addition, they anticipate that changes in supervisory and regulatory requirements will necessitate a tightening of their credit standards across all loan categories. For banks under national supervision in Germany, this will probably reflect the implementation of the seventh amendment to the Minimum Requirements for Risk Management (MaRisk). Since 1 January 2024, this has required mandatory compliance with additional and, in some cases, stricter requirements for loan origination and monitoring. It also includes guidelines on sustainability. For banks supervised by the Single Supervisory Mechanism (SSM), the ECB has set out equivalent guidelines.

Developments in excess liquidity have no meaningful impact on lending

The banks do not see developments in excess liquidity held with the Eurosystem as having had any meaningful impact on their lending over the past six months. By their account, that is also unlikely to change in the next six months.