

## Monetary policy and banking business

### Monetary policy and money market developments

*ECB Governing Council adopts extensive monetary policy measures*

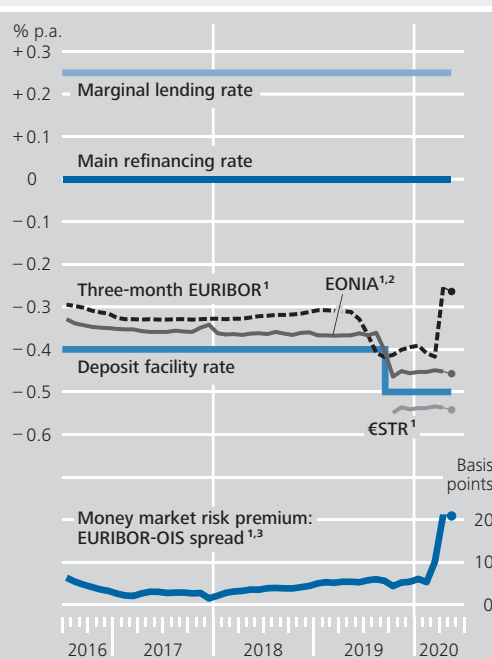
In response to the severe deterioration in the outlook for euro area growth and inflation induced by the spread of COVID-19, the Governing Council of the ECB in March and April 2020 adopted a raft of comprehensive monetary policy measures. These include additional net asset purchases under the existing asset purchase programme (APP) and a new pandemic emergency purchase programme (PEPP). As regards refinancing operations, the Governing Council twice eased the terms of the third series of targeted longer-term refinancing operations (TLTRO-III) and adopted two new series of non-targeted operations. It also agreed on temporary changes to the Eurosystem's collateral framework and announced the Eurosystem's participation in a coordinated central bank action to enhance the provision of US dollar liquidity to the banking system. No action was taken at any of the monetary policy meetings, however, to adjust the Eurosystem's key interest rates and the associated forward guidance, which means that the main refinancing rate remains at 0.0%, while the rate of the marginal lending facility stands at 0.25% and the deposit facility rate at -0.5%. All in all, the measures adopted improve the liquidity situation in particular and help ensure favourable financing terms and promote lending to households and enterprises.

*Temporary APP expansion and more favourable refinancing terms*

At its regular monetary policy meeting on 12 March, the Governing Council decided to add a temporary envelope of additional net asset purchases totalling €120 billion until the end of the year, ensuring a strong contribution from the private sector purchase programmes. In combination with the existing net asset purchases under the APP at a monthly volume of €20 billion, this is intended to support favourable financing conditions for the real economy in times of heightened uncertainty.

At the same meeting, the Governing Council additionally resolved to ease conditions on the TLTRO-III, raising the maximum total amount that TLTRO-III counterparties are entitled to borrow from 30% to 50% of their stock of eligible loans as at 28 February 2019. Furthermore, the interest rate on these operations was lowered by 25 basis points for the period from June 2020 to July 2021. These modifications were accompanied by a series of additional longer-term refinancing operations (LTROs) designed to immediately bridge the euro area financial system's liquidity needs until the fourth TLTRO-III operation is settled on 24 June 2020. These operations, which began on 18 March, are allotted on a weekly basis and all mature on 24 June, which means that their residual maturity will diminish. The operations are conducted as fixed rate tenders with full allot-

Money market interest rates in the euro area



Sources: ECB and Bloomberg. **1** Monthly averages. **2** From 1 October 2019, EONIA calculated as €STR + 8.5 basis points. **3** Three-month EURIBOR less three-month EONIA swap rate. • Average 1 to 14 May 2020.

## Money market management and liquidity needs

The two reserve maintenance periods under review between 29 January 2020 and 5 May 2020 saw euro area liquidity needs stemming from autonomous factors increase significantly by €178.9 billion to €1,558.5 billion in the context of the COVID-19 pandemic (see the table below).<sup>1</sup> This was mainly attributable to the sharp rise in government deposits and strong growth in banknote demand (see the chart on p. 28). Public sector deposits averaged €374.4 billion in the March-May 2020 period, rising by €162.6 billion, or around 77%, compared with the average for the December 2019-January 2020 period. The Bundesbank likewise recorded an increase in these deposits, which grew by €49.3 billion to €102.9 billion (+94%). Owing to the crisis, the volume of banknotes in circulation also rose sharply in the period under review, climbing by €39.7 billion to an aver-

age of €1,321.9 billion in the March-May 2020 period. Net banknote demand at the Bundesbank accounted for €30.3 billion of the increase, which caused cumulative net banknote issuance in Germany to climb to an average of €776.2 billion in the March-May 2020 period. The combined total of net foreign assets and other factors, which are considered together owing to liquidity-neutral valuation effects, went up by €23.4 billion and reduced liquidity needs accordingly. The minimum reserve requirement stood at €135.7 billion in the March-May 2020 reserve period, an increase that boosted the calculated liquidity needs of

<sup>1</sup> Average of the second reserve maintenance period of 2020 (March-May 2020) as compared to the average of the eighth reserve maintenance period of 2019 (December 2019-January 2020), which was reported on in the February 2020 issue of the Monthly Report.

### Factors determining banks' liquidity\*

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

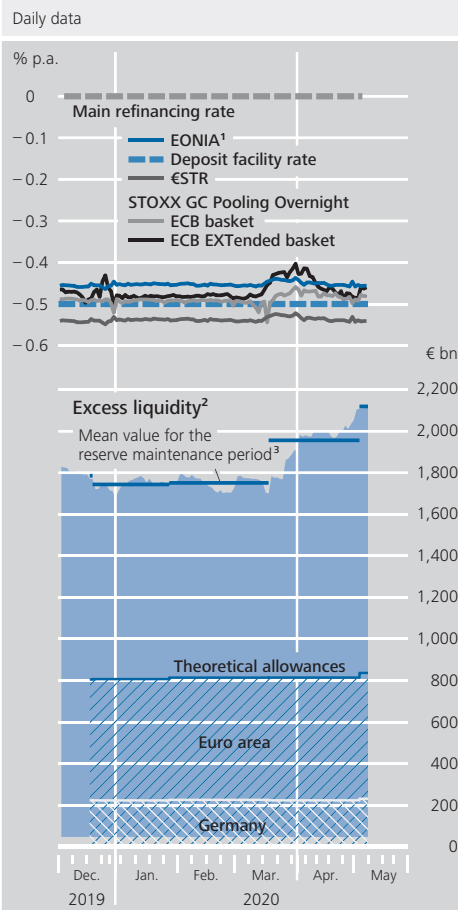
Item	2020	
	29 January to 17 March	18 March to 5 May
I. Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1. Banknotes in circulation (increase: –)	+ 5.1	– 44.8
2. Government deposits with the Eurosystem (increase: –)	– 56.8	– 105.8
3. Net foreign assets <sup>1</sup>	– 1.5	+ 159.2
4. Other factors <sup>1</sup>	+ 35.9	– 170.2
<b>Total</b>		
II. Monetary policy operations of the Eurosystem		
1. Open market operations		
a) Main refinancing operations	– 1.5	– 0.8
b) Longer-term refinancing operations	– 0.2	+ 249.8
c) Other operations	+ 27.6	+ 117.5
2. Standing facilities		
a) Marginal lending facility	+ 0.0	+ 0.0
b) Deposit facility (increase: –)	+ 10.0	– 27.2
<b>Total</b>		
III. Change in credit institutions' current accounts (I. + II.)	+ 18.6	+ 177.9
IV. Change in the minimum reserve requirement (increase: –)	– 1.2	– 0.1

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

the banking system in the Eurosystem by an additional €1.3 billion.

The outstanding tender volume expanded significantly in the period under review. Compared with the average of the December 2019-January 2020 period, it grew by €247 billion to an average of €866 billion in the March-May 2020 period, with the increase solely due to higher demand in the latter reserve period (see the lower chart on p. 28). In Germany, too, comparing averages for the same periods, the volume grew considerably by €32 billion to €107 billion. The higher volume is mainly due to the additional longer-term refinancing operations (LTROs), see pp. 25 and 30), of which one of a total of 13 operations was settled for the first time on 18 March 2020 (€109 billion). Even though – alongside continued strong demand in the second and third additional LTROs – bids for subsequent weekly operations have been lower so far, outstanding liquidity in these tenders added up to around €312 billion at the end of the March-May 2020 period. These operations are likely to benefit from their role as bridge operations, as they will all mature on 24 June 2020, allowing banks to seamlessly transfer outstanding liquidity to the fourth operation of the third series of targeted longer-term refinancing operations (TLTRO-III), which will be settled on the same day and whose terms have meanwhile been significantly improved again. Ultimately, the temporary expansion of the collateral framework is also likely to have helped push up the overall volume of the additional LTROs. In addition to these operations, the allotment of the third TLTRO-III operation also enlarged the outstanding tender volume in the March-May 2020 period. At the same time, however, the demand of €115.0 billion was offset by voluntary early repayments totalling €92.6 billion in the TLTRO-II series, resulting in a net liquidity effect of

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



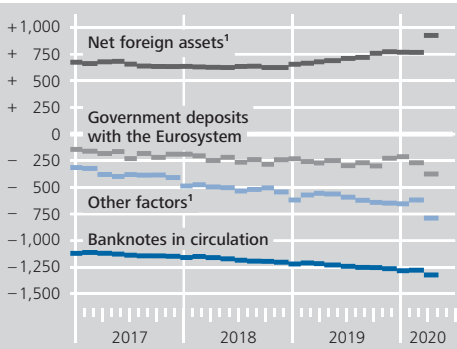
Sources: ECB, Eurex Repo and Bundesbank calculations.  
<sup>1</sup> From 1 October 2019, EONIA is calculated as €STR + 8.5 basis points. <sup>2</sup> Current account holdings minus the minimum reserve requirement plus the deposit facility. <sup>3</sup> The last period displayed is still ongoing.  
 Deutsche Bundesbank

just €22.4 billion. The current outstanding volume in the TLTRO-III series is €216 billion; for TLTRO-II, this figure stands at €418 billion. Demand in the regular tender operations, i.e. the main refinancing operations and three-month tenders, remained extremely low over the period under review.

Owing to the higher refinancing volume, the share of purchase programmes in the total liquidity provided decreased – despite the new purchases under the PEPP and the extension of the APP – to around 76% on average in the March-May 2020 period, compared with 81% in the previous period.

### Autonomous factors in the Eurosystem\*

€ billion, mean values for the relevant reserve maintenance period



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

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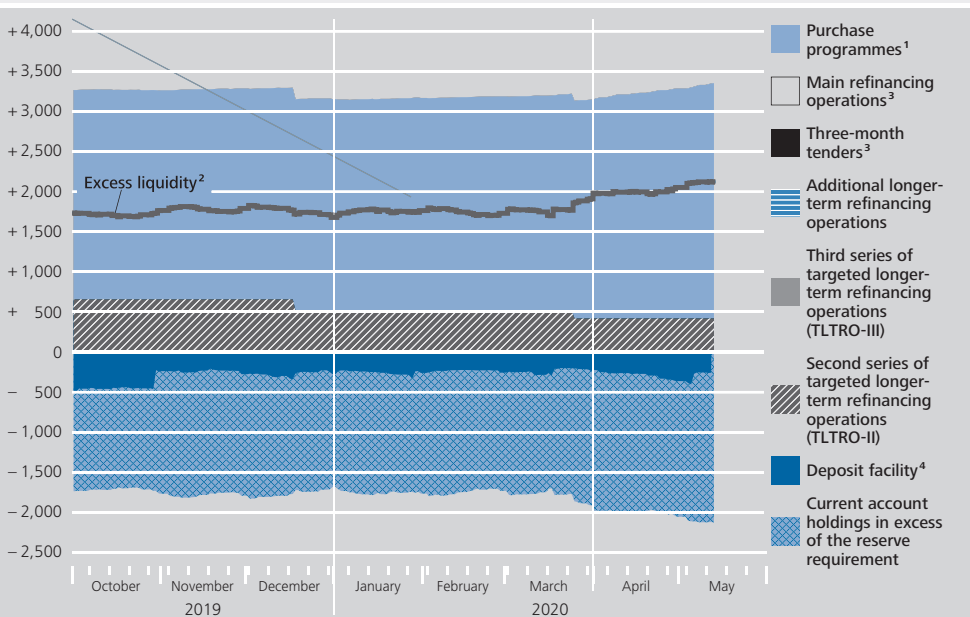
The average balance sheet holdings of all purchase programmes in the March-May 2020 period stood at €2,784 billion, representing an increase of around €145 billion compared to the corresponding average holdings in the December 2019-January 2020 reserve period. During the period

under review, volumes increased by €73.0 billion in the PSPP, €19.8 billion in the CSPP, €10.0 billion in the CBPP3 and €2.6 billion in the ABSPP. As at 8 May 2020, the active programmes recorded balance sheet holdings totalling €2,868.6 billion, of which PSPP: €2,196.4 billion, CBPP3: €278.7 billion, CSPP: €209.6 billion, PEPP: €152.9 billion and ABSPP: €31.0 billion. In addition to the purchases, maturities, reinvestments and the use of amortised cost accounting may also continue to influence the level of holdings.

As a result of the sharp increase in liquidity provision, excess liquidity rose substantially in the period under review, averaging €1,956 billion in the March-May 2020 period, €212 billion higher than in the December 2019-January 2020 period. However, most of the increase was recorded in the March-May 2020 period, after there was barely any growth in excess liquidity in

### Liquidity provision and use

€ billion, daily data



Sources: ECB and Bundesbank calculations. <sup>1</sup> Securities markets programme (SMP), covered bond purchase programmes (CBPP1, CBPP2 and CBPP3), asset-backed securities purchase programme (ABSPP), public sector purchase programme (PSPP), corporate sector purchase programme (CSPP) and pandemic emergency purchase programme (PEPP). <sup>2</sup> Current account holdings in excess of the minimum reserve requirement plus the deposit facility. <sup>3</sup> Volume so small it is hardly visible. <sup>4</sup> The marginal lending facility is not shown in this chart owing to its very low volume.

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the January-March 2020 period. It should be noted that the increase in autonomous factors – partly as a result of the crisis and partly as a side-effect of the high liquidity provision itself – curbed the rise in excess liquidity in some cases. These developments also had an impact on the two-tier system for remunerating excess reserve holdings. As the corresponding allowances remunerated at 0% increased only slightly in the period under review, the share of excess liquidity remunerated at -0.50% rose significantly (see the chart on p. 27). Overall, in the March-May 2020 period, the allowance in the Eurosystem amounted to €814.2 billion, 97.6% of which was used by the banks on average, which was somewhat up on the figure for the December 2019-January 2020 period (96.3%). In Germany, the allowance in the March-May 2020 period, at €223.2 billion, was broadly unchanged from that of the December 2019-January 2020 period, although respective average use increased to 96.9%, compared with 94.6%.

In the money market, the crisis caused by the COVID-19 pandemic led to higher turnover in the very short maturities and, at times, also to higher interest rates (see the chart on p. 27). This was compounded by the movements around the end of the quarter in March. Unsecured €STR turnover reached new highs of up to €60 billion (6 April 2020). However, the €STR remained broadly stable at -0.54% in most cases. There was one exception at the end of the quarter, when the €STR rose by 1 basis point to -0.53%. In GC Pooling, turnover in the ON, TN and SN maturities increased significantly in both baskets (ECB basket and ECB EXTended basket), the interest rates of which are combined in the Deferred Funding Rate. In the first two weeks of April prior to Easter, this turnover climbed to up to €29 billion (9 April 2020). At the same time, repo rates for the overnight maturity

rose to -0.45% in the days leading up to Easter, after standing at -0.49% in mid-March. The highest rate was in the ECB EXTended basket at -0.40% at the end of the quarter. In GC Pooling, it was evident that, from March 2020 onwards, there was hardly any turnover in maturities of six months or more, which are, however, usually very low in any case (i.e. in less eventful times). After Easter, there appeared to be somewhat more demand again for operations with maturities of three months, but, in general, the attractive terms of the additional LTROs (maturities of up to three months) probably also led to a certain crowding-out of market activities.

ment at an interest rate equivalent to the deposit facility rate.

*Coordinated central bank action to enhance the provision of US dollar liquidity*

On 15 March, the ECB, along with other major central banks, announced a coordinated action to enhance the provision of liquidity through standing US dollar liquidity swap line arrangements. From 16 March, the ECB has been offering weekly US dollar operations with 84-day maturity in addition to its existing one-week operations. The interest rate on all US dollar operations was lowered to the US dollar overnight index swap (OIS) rate plus 25 basis points, which represents a reduction of 25 basis points. These changes are to remain in place for as long as appropriate to support the smooth functioning of US dollar funding markets.

*Decision to launch additional temporary purchase programme with an envelope of €750 billion*

Following a teleconference on 18 March, the Governing Council announced its decision to launch the PEPP – a new temporary purchase programme with an overall envelope of €750 billion. The aim of the PEPP is to counter the risks to the monetary policy transmission mechanism and the Eurosystem's objective of price stability posed by the outbreak and escalating diffusion of the coronavirus. Purchases under the PEPP comprise all asset categories eligible under the APP. For the purchases of public sector securities, the benchmark allocation of the cumulative net purchases across jurisdictions will continue to be the capital key of the national central banks. At the same time, however, purchases under the PEPP will be conducted in a flexible manner. This allows for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions. Securities issued by the Greek government may likewise be purchased under the PEPP due to a waiver of the eligibility requirements. The Governing Council will terminate net asset purchases under the PEPP once it judges that the coronavirus crisis phase is over, but in any case not before the end of the year.

In addition, the Governing Council decided to expand the range of eligible assets under the corporate sector purchase programme (CSPP)

to include non-financial commercial paper. It also announced an easing of the collateral standards by adjusting the main risk parameters of the collateral framework.

On 7 April, the Governing Council elaborated on this announcement by introducing temporary collateral easing measures.<sup>1</sup> First, it eased various requirements under the additional credit claim (ACC) frameworks, amongst other things by reducing loan-level reporting requirements and by accommodating the requirements for government guarantees on such loans. Second, it adopted general easing measures on the conditions for using credit claims as collateral and a waiver of the minimum credit quality requirements for Greek government bonds to be accepted as collateral in Eurosystem credit operations. Third, the Governing Council decided to temporarily increase its risk tolerance level in credit operations through a general reduction of collateral valuation haircuts by a fixed factor of 20%.

On 22 April, the Governing Council reinforced collateral framework measures to mitigate the impact of possible rating downgrades on collateral availability.<sup>2</sup> To this end, it will grandfather the eligibility of marketable assets used as collateral in Eurosystem credit operations until September 2021. Marketable assets (with the exception of asset-backed securities (ABSs)) and issuers of these assets that met the minimum credit quality requirements for collateral eligibility (i.e. BBB-) on 7 April 2020 will continue to be eligible in case of rating downgrades as long as their rating remains at or above credit quality step 5 (CQS5, equivalent to a rating of BB) on the Eurosystem harmonised rating scale. These measures, including the decisions taken on 7 April, shall apply until September 2021.

Following its regular meeting on 30 April, the Governing Council announced its decision to

*Collateral requirements eased temporarily*

*Grandfathering of marketable assets used in credit operations in the event of rating downgrades*

<sup>1</sup> See European Central Bank (2020a).

<sup>2</sup> See European Central Bank (2020b).

*Further easing of TLTRO-III and series of new PELTROs*

recalibrate the TLTRO-III in order to support further the provision of credit to households and firms in the face of the current economic disruption and heightened uncertainty. In this context, it lowered the interest rate on all TLTRO-III operations by an additional 25 basis points for the period from June 2020 to June 2021. The interest rate for all participating banks in this period will thus be a maximum of 50 basis points below the average main refinancing rate (i.e. currently -0.5%). For banks whose eligible net lending exceeds the lending performance threshold of 0% in the newly defined lending assessment period (1 March 2020 to 31 March 2021), the interest rate applied from June 2020 to June 2021 will be 50 basis points below the average interest rate on the deposit facility (i.e. currently -1.0%). Outside the June 2020 to June 2021 window, the applicable interest rate will be the average interest rate on the deposit facility (currently -0.5%), without the additional need to reach the original net lending threshold, which was reduced from 2.5% to 1.15%, in the original lending assessment period from 1 April 2019 to 31 March 2021. For detailed information about other scenarios, see the ECB press release of 30 April.<sup>3</sup>

Moreover, the Governing Council decided to conduct a new series of pandemic emergency longer-term refinancing operations (PELTROs). These operations will provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets after the expiry of the additional longer-term refinancing operations announced on 12 March 2020. The PELTROs are being conducted as fixed rate tender procedures with full allotment. The interest rate will be 25 basis points below the average main refinancing rate applicable over the life of the respective PELTRO (i.e. currently -0.25%). The first of the seven operations was settled on 21 May. The maturity of the operations will become increasingly shorter and the maturity dates will be staggered. For example, the first operation has a maturity of 16 months, the last just 8 months.<sup>4</sup>

In the reporting period, the APP holdings recorded on the balance sheet rose by €109.7 billion. On 8 May, the Eurosystem held assets totalling €2,715.7 billion as part of the APP (see the box on pp. 26-29 for a breakdown of the holdings by individual programme). The holdings are furthermore also being influenced by the smoothing over time of reinvestments in line with the technical parameters agreed upon in December 2018 and by the use of amortised cost accounting.<sup>5</sup> The Eurosystem's PEPP asset holdings came to €152.9 billion on 8 May.

The third operation of the TLTRO-III series was settled on 25 March 2020. At around €115 billion in total, demand was even higher than in the second operation. At the same time, the monetary policy counterparties voluntarily repaid funds from the second series of targeted longer-term refinancing operations (TLTRO-II) to the tune of €92.6 billion, resulting in a positive net liquidity effect of €22.4 billion. Together, the TLTRO-II and TLTRO-III series currently have an outstanding volume of around €634 billion. Owing to the further easing of conditions, demand looks set to be even stronger for the operation settled in June.

Bank demand was also strong for the additional longer-term refinancing operations announced on 12 March, especially for the first operations. On 8 May, the amount outstanding in these operations was €326.4 billion. Banks also made substantial use of low-price and longer-term US dollar liquidity operations, where the outstanding volume on 8 May came to US\$141.4 billion.

Increased purchase activity and demand for refinancing operations added significantly to excess liquidity levels, which came to €2,123 billion at the end of the period under review,

*APP and PEPP considerably push up securities holdings recorded on balance sheet*

*Demand sharply higher in third TLTRO-III*

*Demand also brisk for additional longer-term refinancing operations and US dollar operations*

*Clear increase in excess liquidity*

<sup>3</sup> See European Central Bank (2020c).

<sup>4</sup> For further details on the modalities of and calendar for these operations, see European Central Bank (2020d).

<sup>5</sup> In particular, the difference between the acquisition and redemption value is amortised over the security's residual maturity, treated as part of interest income and measured at amortised cost.

more than €300 billion higher than in February 2020. The increase would have been stronger still were it not for the counterbalancing effect of liquidity-absorbing factors (particularly cash in circulation and government deposits), which likewise rose significantly (see the box on pp. 26-29).

*Short-term money market rates follow different paths*

Short-term money market rates saw mixed developments during the reporting period. The unsecured EONIA overnight rate, which is computed by applying a fixed spread to the euro short-term rate (€STR), remained broadly unchanged overall, hovering within a range of -0.46% and -0.44%. Another unsecured rate, the three-month EURIBOR, followed a different path, rising markedly from mid-March onwards. To begin with, this upturn corrected the decline in EURIBOR rates observed since the end of February, as earlier expectations of rate cuts were priced out after the Governing Council meeting on 12 March. However, the EURIBOR later shot well above its original level to peak at -0.16%. Market participants' greater preference for shorter maturities in response to the uncertainty surrounding the coronavirus was probably a major factor behind this increase. However, interest rate hikes in neighbouring market segments may also have contributed to the rise in the EURIBOR. Interest rates of this kind are included in the contributions reported by the individual panel banks if an insufficient number of transactions directly corresponding to the definition of EURIBOR have been executed. As this report went to press, though, the EURIBOR was already noticeably lower again.

The secured STOXX GC Pooling interest rate also went up occasionally, albeit to a much lesser extent than the EURIBOR. At last count, however, it was trading back at -0.49% – the same level as in February.

Mounting uncertainty at the end of February initially sent money market forward rates noticeably lower as the novel coronavirus began to spread worldwide. Another 10-bp cut in the

deposit facility rate was almost fully priced into rates prior to the ECB Governing Council's March meeting. After the Governing Council decided not to lower the deposit facility rate on 12 March, these rate cut expectations were priced out, pushing short-term money market forward rates higher again. Forward rates in the money market later experienced some volatility, reflecting the distinct uncertainty surrounding the economic and monetary policy outlook for the euro area. As this report went to press, markets were again pricing in at least one further 10-bp cut in the deposit facility rate by the middle of next year.

*Money market forward rates reflect uncertainty about euro area outlook*

On 5 May 2020, the Federal Constitutional Court pronounced its judgement on the Eurosystem's public sector purchase programme (PSPP). It found that the Court of Justice of the European Union's ruling on this matter in December 2018 and the PSPP decisions of the Governing Council of the ECB were "ultra vires" acts, meaning that the Court and the ECB Governing Council had exceeded their powers; in the first case, this was due to an insufficient assessment of proportionality, and in the second, an insufficiently substantiated assessment of proportionality. The Federal Constitutional Court found no evidence as to whether the Governing Council of the ECB, in its assessment of proportionality, had sufficiently weighed and balanced the expected benefits for achieving the monetary policy objective against the economic policy effects arising from the PSPP. In the absence of documentation demonstrating that such balancing took place, it is not possible to carry out a judicial review as to whether the Eurosystem stayed within its mandate. The court ruled that the Bundesbank's continued full participation in the PSPP is contingent on the Governing Council of the ECB presenting its considerations on the proportionality of the programme within three months.

*Federal Constitutional Court delivers verdict on PSPP*



## Monetary developments in the euro area

*Strong M3 expansion in Q1, especially in March*

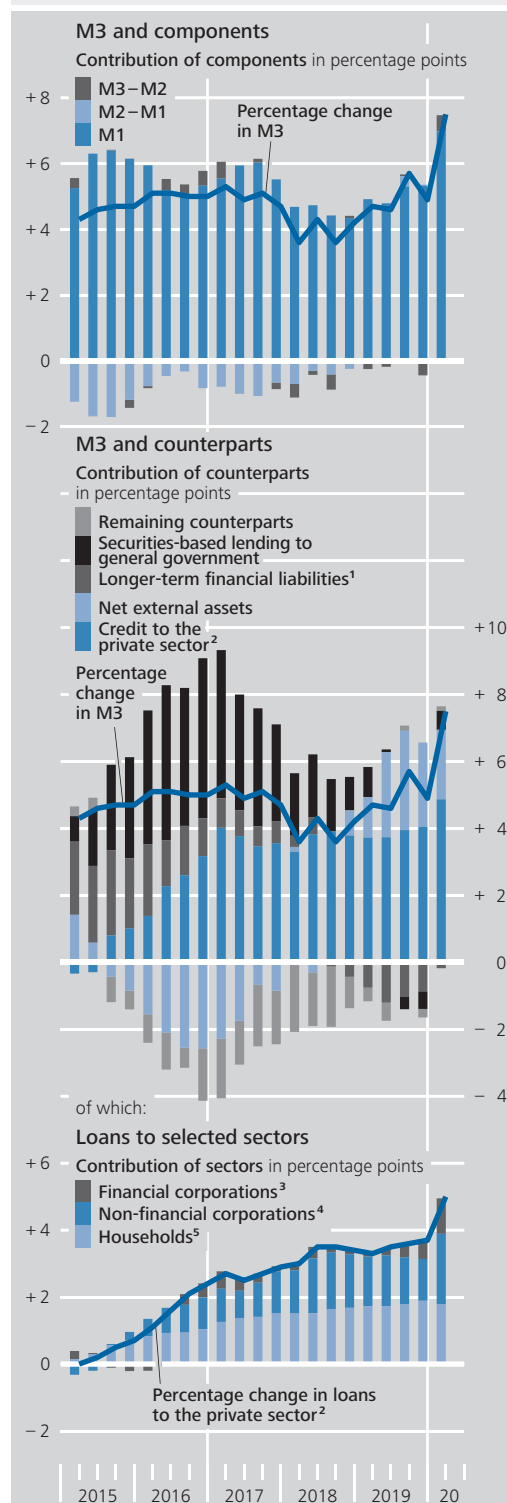
The broad monetary aggregate M3 grew exceptionally strongly in the first quarter of 2020, particularly in March, when the evolution of almost all the components and counterparts was dominated by the effects of the coronavirus pandemic. This drove the annual growth rate of M3 up to 7.5%, 2 percentage points higher than at the end of 2019. Monetary growth was mainly propelled by a surge in loans to the private sector on the back of large-scale draw-downs of existing credit lines and new borrowing by enterprises, in particular. However, financing investments was less of a concern than the need to compensate for revenue shortfalls and avoid future liquidity shortages. The sharp acceleration in borrowing was facilitated by the various state support schemes for loans to enterprises which governments rolled out as an immediate response to the crisis. Loans to households, on the other hand, which until then had recorded stable growth, weakened significantly, particularly in the countries that were especially affected by the pandemic. Another key factor driving monetary growth was the increase in securities-based lending, with both banks and the Eurosystem adding substantially to their stocks of government bonds on balance in the first quarter.

*Sharp increase in overnight deposits in particular*

As regards the components of the money supply, the strong growth in M3 was driven mainly by overnight deposits. Net inflows into this deposit category in March were almost five times as high as the average over the previous 12 months. Non-financial corporations increased their holdings particularly sharply, but households and financial corporations also stepped up their stocks significantly. Two factors are likely to have played a key role here – first, the increased preference for large holdings of liquid funds in times of crisis, and second, the high level of uncertainty surrounding the longer-term impact of the coronavirus pandemic on financial markets, which caused market participants to hold back, to a degree, on

### 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.

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

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

Assets	Q4 2019	Q1 2020	Liabilities	Q4 2019	Q1 2020
Credit to private non-MFIs in the euro area	90.5	224.7	Holdings against central government <sup>2</sup>	- 37.5	63.5
Loans	78.8	244.1	Monetary aggregate M3	89.2	467.8
Loans, adjusted <sup>1</sup>	104.9	236.3	of which components:		
Securities	11.7	- 19.5	Currency in circulation and overnight deposits (M1)	138.5	386.7
Credit to general government in the euro area	- 5.2	132.0	Other short-term deposits (M2-M1)	- 29.3	4.0
Loans	- 15.6	21.7	Marketable instruments (M3-M2)	- 20.0	77.1
Securities	10.2	110.3	Longer-term financial liabilities of which:	4.4	- 41.1
Net external assets	0.6	66.2	Capital and reserves	24.2	17.0
Other counterparts of M3	- 29.7	67.4	Other longer-term financial liabilities	- 19.8	- 58.1

\* 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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making longer-term and riskier investments, pushing up the volume of funds “parked” in the form of liquid deposits. Another typical hallmark of a crisis situation is the increased demand for cash. The strict lockdowns in some countries, and the problems involved in getting hold of cash, may have increased the desire to stockpile physical currency. In addition, the increase in marketable financing instruments, particularly short-term bank debt securities held by the euro area non-monetary sector, was remarkably strong in the first quarter.

*Inflows into loans to non-financial corporations accelerated sharply following outbreak of coronavirus pandemic, ...*

Developments in the counterparts were also heavily influenced by the outbreak of the coronavirus pandemic. The quicker rate of increase in loans to the private sector, which accounted for around 50% of the net inflows into M3 in the first quarter of 2020, was particularly striking. The strong credit growth stemmed from developments in loans to enterprises in March – on the one hand, loans to insurance corporations, pension funds and other financial intermediaries recorded very high net inflows, particularly in the short-term segment. On the other, loans to non-financial corporations surged across all maturities, but most noticeably in the area of short-term credit. This development saw the annual growth rate in this business segment, which has been diminishing since the end of 2018,

bounce back to 5.4% at the end of March, its highest level since 2009.

The sharp increase in lending to non-financial corporations in March was evident across the euro area, chiefly in the four large Member States – especially France (see the top chart on p. 35). It also affected Italy and Spain, whose banks had barely recorded any positive stimuli in corporate business in the last few quarters. The sudden increase in credit growth was probably caused by enterprises aiming to boost their liquid funds given the significant decline in economic activity in the first quarter of 2020 and expectations of further revenue shortfalls. In some cases, they did this by drawing down existing credit lines and applying for the government-backed loans which began to be rolled out in March and are primarily aimed at supporting lending to small and medium-sized enterprises during the coronavirus crisis. The surge in the cost of market-based debt in March might have been another factor which drove enterprises to take out loans, whose interest rates were hovering close to historical lows in March in the euro area.

*... with the likely aim of boosting liquidity during period of declining economic activity*

The Bank Lending Survey (BLS) also confirmed that the increase in credit growth was driven

*Steep rise in demand for credit by non-financial corporations, particularly in the short-term segment*

primarily by demand-side factors.<sup>6</sup> The surveyed bank managers reported that corporate demand for loans rebounded sharply on the quarter in the first three months of 2020, mainly climbing on the back of an unusually strong uptick in demand for short-term loans. BLS respondents primarily put this down to increased financing needs for inventories and working capital, but also cited debt restructuring, refinancing and renegotiations, as well as the low general level of interest rates. By contrast, reduced funding requirements for fixed investment and a declining need for funds for mergers, acquisitions and corporate restructuring had a diminishing effect on demand per se. On balance, the banks surveyed as part of the BLS expect to see a further sharp increase in demand, especially for short-term loans, in the quarter ahead.

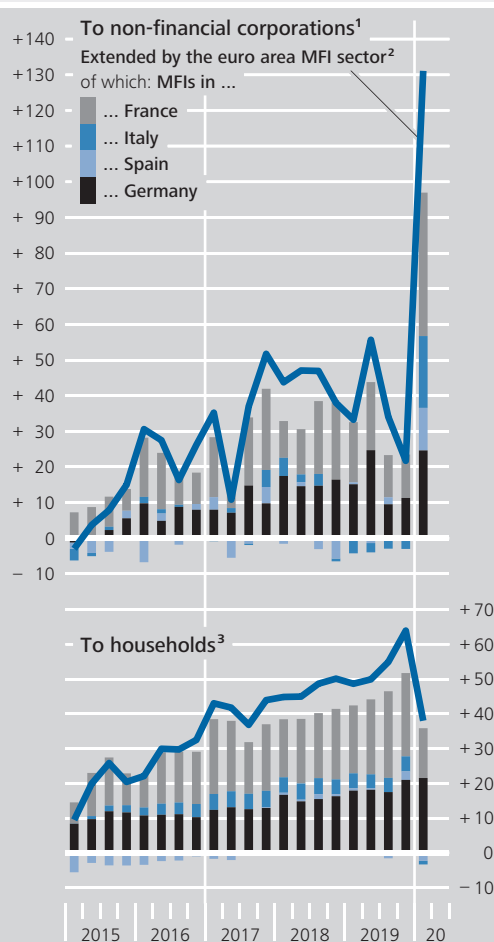
*Loans to households slowed down discernibly, by contrast*

Unlike corporate lending, loans to households in the euro area were adversely affected by the coronavirus pandemic. This credit segment saw the strong net inflows registered in the previous months switch to a slight outflow in March 2020, the first since 2014. This was driven by an abrupt decline in consumer credit and significantly slower growth in loans for house purchase. Overall, however, the annual growth rate in this credit segment decreased only moderately, dropping to 3.4% at the end of the quarter. Banks in Italy, Spain and France accounted for the bulk of the net outflow in March, while their counterparts in Germany continued to report net inflows on balance (see the adjacent top chart and the section beginning on p. 42). The lockdown measures and business constraints introduced to contain the pandemic will presumably have had a strong dampening impact on private consumption and consumer confidence, and therefore also on credit demand – particularly in the countries that were affected early on by the pandemic.

<sup>6</sup> BLS interviews for the first quarter of 2020 took place between 19 March and 3 April.

### Loans to the private non-financial sector in the euro area\*

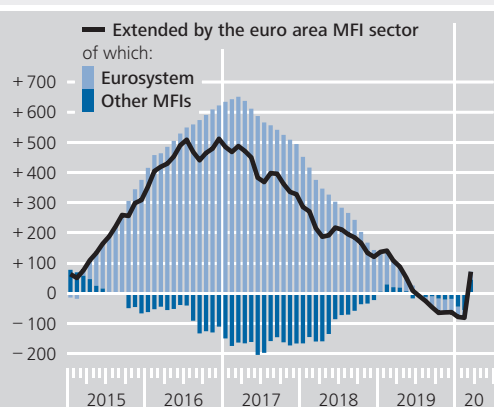
€ billion, 3-month accumulated flows, seasonally adjusted



Sources: ECB and Bundesbank calculations. \* Adjusted for loan sales and securitisation. <sup>1</sup> Non-financial corporations and quasi-corporations. <sup>2</sup> Also adjusted for positions arising from notional cash pooling services provided by MFIs. <sup>3</sup> Including non-profit institutions serving households.  
 Deutsche Bundesbank

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

€ billion, 12-month accumulated flows



Sources: ECB and Bundesbank calculations.  
 Deutsche Bundesbank

*Growth in household credit demand significantly weaker for loans for house purchase and negative for consumer credit and other loans*

Here, too, the picture is consistent with what the bank managers surveyed as part of the BLS reported. According to the survey data, the first quarter of 2020 saw demand for consumer credit and other loans fall for the first time since the second quarter of 2013. Additionally, growth in demand for housing loans was considerably weaker than in the preceding quarter. The respondent banks mainly attributed the slowdown to lower consumer confidence and reduced spending on consumer durables. Overall, in the second quarter of 2020, euro area banks anticipate a sharp decline in demand, especially for loans for house purchase. One major reason for this is probably households' uncertainty about the impact of the coronavirus pandemic on their future income and employment situation.

*Tightening of banks' lending policies*

The coronavirus crisis also affected the lending policies of the banks surveyed in the BLS, which reported that they had tightened their credit standards across all loan segments in the first quarter of 2020. However, standards were tightened far less sharply than during the financial and sovereign debt crisis. The main reasons for the tightening of standards in the reporting quarter were a deterioration in the perception of risk as well as a lower risk tolerance among banks, especially in the area of loans for house purchase, consumer credit and other loans. In corporate business, lending standards were tightened, as were the credit terms and conditions in their entirety. Lending rates for loans to enterprises and in business with households still declined overall in the first quarter, though. This would suggest that the greater risk of default introduced by the coronavirus crisis has not yet fed into higher interest rates. For the second quarter, euro area banks on balance are planning to ease their standards for loans to enterprises and tighten them for business with households.

Besides loans, securities-based lending by the MFI sector also contributed perceptibly to monetary growth on the back of brisk net purchases by both commercial banks and the Eu-

rosystem, especially in March. Buyers focused almost exclusively on paper issued by the public sector. The same can be said for the net purchases by the Eurosystem, which significantly expanded its asset purchases under the APP and the PEPP in response to the economic repercussions of the pandemic. By contrast, banks strongly reduced their holdings of shares and investment fund shares amid sharply receding equity prices in the first quarter and elevated uncertainty surrounding future price developments.

Besides the factors mentioned above, another component which buoyed monetary growth in the reporting quarter was the MFI sector's net external assets. Once again, this was largely due to the strong net inflows from the continued current account surpluses registered in the euro area. Portfolio transactions with non-residents also strengthened the net external asset position overall, partly because – on balance – non-resident investors withdrew capital from emerging market economies and re-invested it in regions including the euro area. The impact of the coronavirus is difficult to quantify here because the granular balance of payments data for March are not yet available. In particular, it remains to be seen whether a global environment of risk aversion will trigger the repatriation of capital by resident and non-resident investors alike.

*Bonds register significant net inflows, shares and investment fund shares record outflows*

*Inflows of funds from abroad continue to provide support*

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

German banks' deposit business with domestic customers saw a huge increase in the first quarter of 2020, mainly owing to extraordinarily strong inflows in March (for more information about general developments in deposit business, see also the box on pp. 38-41). Domestic investors showed a very strong preference for overnight bank deposits. In contrast to the usual pattern, it was mainly the corporate sector which drove the accumulation of deposits

*Huge increase in deposit business, particularly overnight deposits*

in the reporting quarter, with both financial institutions and non-financial corporations building up far more overnight deposits than usual. Given the considerable uncertainty which the coronavirus-related restrictions caused for the German economy, many enterprises apparently considered it necessary to strengthen their liquidity reserves by deferring investment projects or taking out loans. In addition, it is likely that the high levels of uncertainty in financial markets prompted financial institutions, in particular, to “park” inflows of funds in overnight deposits. Households likewise showed a distinct preference for bank deposits, which they built up to a similar extent as in the preceding quarters, partially at the expense of other, less liquid bank deposits. The very low interest rate disadvantage of overnight deposits compared to other types of bank deposits probably favoured this decision (see the adjacent chart).

*Sharp expansion in lending business with non-banks*

Banks’ credit business with domestic non-banks in the reporting quarter was likewise influenced by the immediate and likely future fallout of the pandemic. Unsurprisingly, the households and enterprises affected by the crisis showed strong demand for loans, which was reflected by the robust growth in loans to the domestic private sector. The reporting quarter also saw lending to the public sector rebound distinctly for the first time since summer 2015, with banks expanding their holdings of both loans and securities.

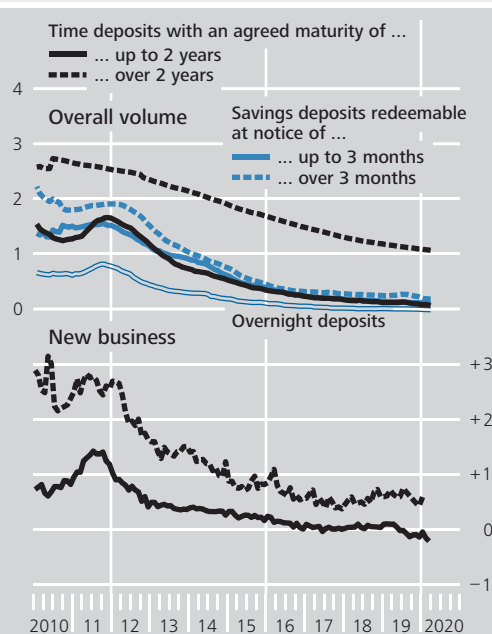
*Crisis sends demand for loans to enterprises sharply higher, ...*

Loans to both households and non-financial corporations recorded strong net growth, with demand among NFCs for short-term loans rising extremely sharply in the wake of the coronavirus crisis. NFCs continued to step up their longer-term loans as well during the reporting quarter, but at much the same pace as in the preceding quarters.

The high financing needs which enterprises are showing at the current end are being met by large-scale assistance loans from the Federal Government and additional funding from state governments. Since mid-March, enterprises

### 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.

Deutsche Bundesbank

### MFI\* lending and deposits in Germany

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

Item	2019	2020
	Q4	Q1
Deposits of domestic non-MFIs <sup>1</sup>		
Overnight	40.1	90.8
With an agreed maturity of		
up to 2 years	-8.5	1.3
over 2 years	-4.6	-8.9
Redeemable at notice of		
up to 3 months	-3.0	-9.0
over 3 months	-2.6	-2.5
Lending		
to domestic general government		
Loans	-0.7	3.1
Securities	-4.3	7.1
to domestic enterprises and households		
Loans <sup>2</sup>	33.3	48.2
of which: to households <sup>3</sup>	20.9	21.3
to non-financial corporations <sup>4</sup>	10.2	18.7
Securities	1.2	-1.1

\* 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.

Deutsche Bundesbank

## Acquisition of financial assets and the search for yield in Germany

As last discussed in the May 2019 edition of this report, the persistent low interest rate environment has had various effects on the structure of financial investment by the individual money-holding sectors in Germany over the past few years.<sup>1</sup> Despite rising gradually between 2014 and 2018, households' search for yield continued to play a subordinate role. Risk aversion and preference for liquidity instead remained the predominant factors. By contrast, financial corporations<sup>2</sup> exhibited a more pronounced search for yield.<sup>3</sup>

According to the latest data from monetary statistics and financial accounts, these developments generally continued in 2019. It is not yet possible to comment on the initial impact of the coronavirus pandemic as the financial accounts data are only available up to the end of 2019.

Households' acquisition of financial assets in the form of bank deposits reached a new record high in 2019. Bank deposits were therefore, once again, by far the most important form of investment for this sector (see the chart on p. 39). On balance, the inflows stemmed solely from the ongoing dynamic growth in overnight deposits, as all other forms of deposit recorded minor net outflows. The same was true of savings deposits redeemable at notice of up to three months, which had been built up slightly in recent years. Households' preference for overnight deposits, which are particularly liquid, is also likely to be attributable to the fact that the interest rate differential between these deposits and other forms of deposit reached a historically low level.

In addition to deposits, the acquisition of claims on insurance corporations was also a

major form of investment for households in 2019. However, the related inflows weakened slightly again compared with the previous year. By contrast, the acquisition of financial assets in the form of investment fund shares regained importance against the background of a positive capital market environment. On balance, households invested twice as much in investment fund shares as in direct equity holdings. However, the relatively high level of stock purchases recorded in the previous year was almost maintained. Debt securities were sold off to a limited extent in net terms. In the previous year, this asset class had experienced slight inflows again for the first time since 2007. On the whole, the increased importance of investment fund shares for households' acquisition of financial assets indicates that awareness of risk and return has risen slightly once again. However, the continued large share of deposits and insurance claims is evidence that there is still a pronounced aversion to risk.

In 2019, non-financial corporations again built up more bank deposits compared with the relatively weak figures in the previous year (see the chart on p. 39). On balance, this sector also increased only its overnight deposits. This development occurred even though the corresponding interest rates on short-term deposits were broadly in negative territory, which was not the case for

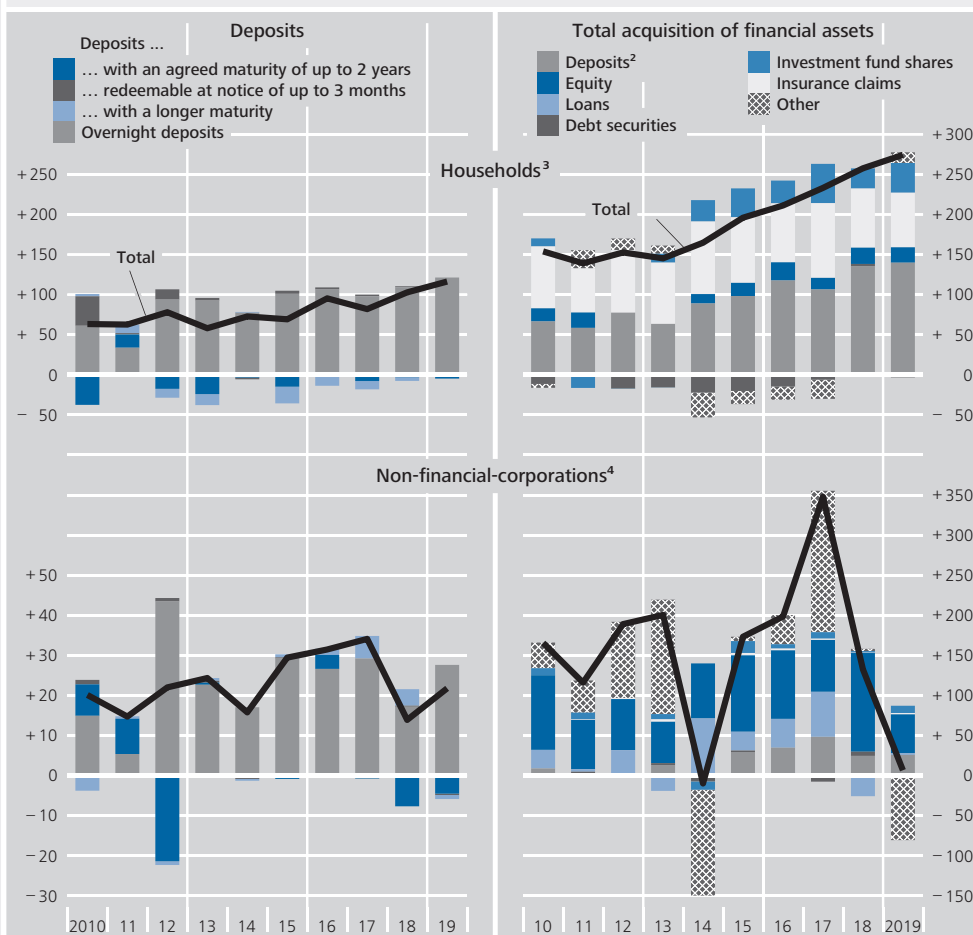
<sup>1</sup> See Deutsche Bundesbank (2019b).

<sup>2</sup> For the purpose of this box, financial corporations exclude monetary financial institutions (central bank, credit institutions and money market funds), as the analysis relates to the money-holding sectors. In addition, the following sectoral analysis disregards the general government sector, as its acquisition of financial assets is comparatively modest and volatile.

<sup>3</sup> See Deutsche Bundesbank (2020) for an analysis of the acquisition of financial assets and search for yield in the euro area.

### Build-up of deposits and total acquisition of financial assets in the private non-financial sector in Germany

€ billion, cumulated transactions within the year<sup>1</sup>



<sup>1</sup> Adjusted for statistical changes and revaluations. Deposits figures seasonally adjusted. <sup>2</sup> Including cash. <sup>3</sup> Households including non-profit institutions serving households. <sup>4</sup> Non-financial corporations and quasi-corporations.

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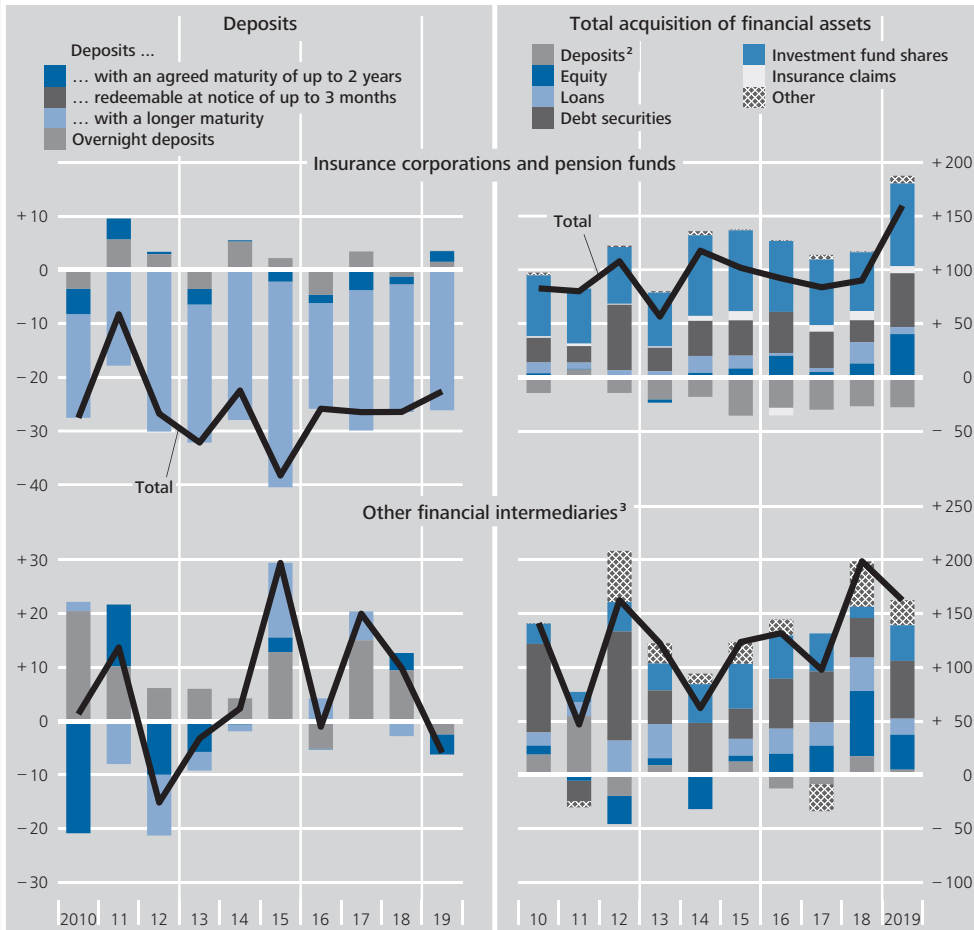
households' deposits.<sup>4</sup> It appears that these deposits have not become less attractive to non-financial corporations to any noteworthy degree. Against the backdrop of weaker internal financing, the total acquisition of financial assets by non-financial corporations in 2019 was, once again, significantly lower on the year and was only just above zero. In addition to the build-up of deposits, high inflows were only recorded in the case of equity. A significant part of the funds was invested in equity investments, above all in the form of other equity (e.g. equity in private limited companies). Lending was very weak overall. In this con-

text, there was a shift from long-term to short-term loans as well as from loans to domestic borrowers to loans to non-financial corporations in the rest of the euro area. As in previous years, strategic participations thus appear to be the main driver of investment decisions made by German non-financial corporations. However, their preference for liquid and safe financial investments increased again slightly in relative terms.

<sup>4</sup> See Deutsche Bundesbank (2019a).

### Build-up of deposits and total acquisition of financial assets in the money-holding financial sector in Germany

€ billion, cumulated transactions within the year<sup>1</sup>



<sup>1</sup> Adjusted for statistical changes and revaluations. Deposits figures seasonally adjusted. <sup>2</sup> Including cash. <sup>3</sup> Non-monetary financial corporations (corporations and quasi-corporations).

Deutsche Bundesbank

Within the financial sector, insurance corporations and pension funds significantly increased their acquisition of financial assets in 2019, in an environment of persistently high inflows from households (see the chart above). In particular, they boosted their holdings of debt securities, equity, and investment fund shares. Once again, investment fund shares recorded the strongest inflows. In terms of volume, these accounted for almost half of the total acquisition of financial assets in this sector. In addition, insurance corporations and pension funds also increased their holdings of listed and unlisted shares as well as their holdings

of other equity in net terms. In the case of debt securities, long-term securities issued by foreign issuers were topped up in particular. By contrast, the relatively strong lending activity experienced last year weakened again considerably. Furthermore, insurance corporations and pension funds continued their sharp reduction of longer-term bank deposits in particular, which has been taking place since 2010. Overall, this reinforced the shift in financial investment in this sector from low-risk deposits to relatively riskier securities that had already been observed in previous years.



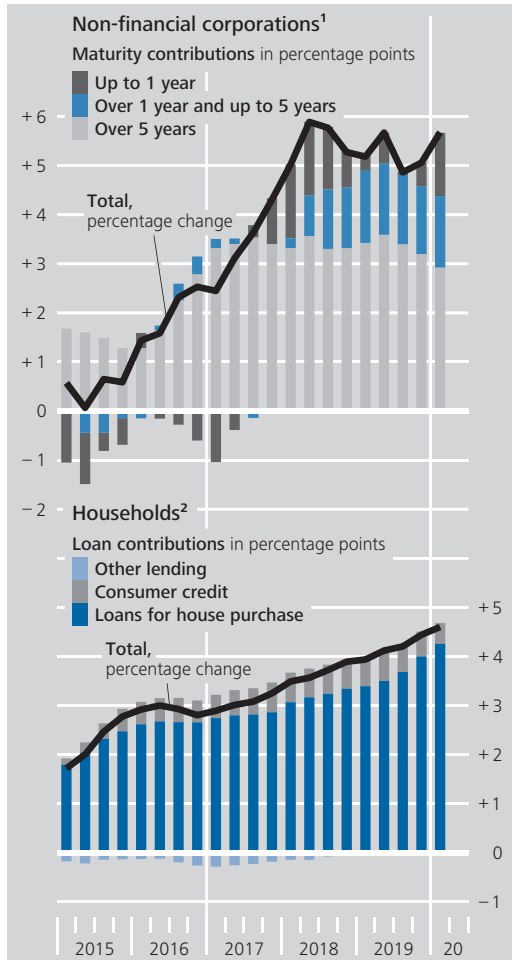
The acquisition of financial assets by other financial institutions (including investment funds) weakened somewhat in 2019, following strong inflows in the previous year (see the chart on p. 40). This was mainly due to the fact that this sector acquired equity on a significantly smaller scale than in previous years. There was a pronounced shift within this asset class from listed shares to other equity, which is significantly less liquid. Within the share portfolio, securities issued by domestic non-financial corporations were replaced by foreign securities. While the diminished interest in equity reduced the riskiness of financial investment per se, the shifts within this asset class, when viewed in isolation, resulted in an increase in riskiness. The acquisition of financial assets in the form of investment fund shares recorded considerable growth. In this context, investment funds invest in a diversified portfolio of securities rather than purchasing individual shares and debt securities directly. Net purchases of debt securities also increased noticeably, with the focus mainly on long-term foreign securities. On the other hand, deposits were slightly scaled back, meaning that their role was reduced again compared with last year. This development was driven especially by investment funds, which primarily reduced their overnight deposits. Based on these observations, it is not possible to make definitive statements about developments in the riskiness of other financial institutions' financial investment.

Across all sectors, the developments seen in the previous years thus largely continued in 2019. In the case of households, investment decisions were again shaped by risk aversion and a preference for liquidity. However, yield aspects gained somewhat in importance again in this sector against the backdrop of rising equity prices worldwide and persistently low interest rates. The acquisi-

tion of strategic stakes continued to be the main driver of financial investment among non-financial corporations. The continued shift in financial investment from deposits to riskier securities – compared with deposits – amongst insurance and pension funds is indicative of a higher degree of riskiness. However, no clear conclusions can be drawn from the opposing shifts with regard to riskiness in the case of other financial institutions.

### 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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... owing to advance financing of assistance loans, increased take-up of credit lines, and payment deferrals

have been able to file an application through their principal banks for corona assistance loans from the Kreditanstalt für Wiederaufbau (KfW) and other business development banks. Disbursements of approved loan applications then commenced at the beginning of April 2020.<sup>7</sup> However, anecdotal evidence suggests that, in some cases, banks were already financing corona assistance loans in advance in the form of bridge loans as early as March. As well as this, many enterprises apparently also drew down their existing credit lines (irrevocable lending commitments) to overcome short-term liquidity shortfalls. One indication of this is the significant dip in the stock of irrevocable lend-

ing commitments during the reporting quarter, combined with a stronger than usual rise in short-term lending (see the chart on p. 43).

The latest BLS suggests that other factors were at play as well.<sup>8</sup> The banks surveyed reported that they had experienced the sharpest rise (by historical standards) in demand for loans to enterprises since the BLS began at the end of 2002. This is consistent with the development of lending volumes described above. The respondents primarily put this down to the high financing needs for inventories and working capital. Other factors driving up demand for bank loans included the drop in the use of internal financing for the first time since the start of 2010, the decline in other institutions' willingness to provide credit, and a reduction in enterprises obtaining funding via the capital market. Taken together, this suggests that German enterprises are currently more dependent on bank loans as a source of liquidity than was previously the case. Over the next three months, banks expect an even sharper rise in demand for credit, especially from smaller and medium-sized enterprises for short-term loans. This probably indicates that firms are expected to experience increasing liquidity problems.

*BLS indicates increased demand from enterprises is primarily the result of financing needs for fixed, short-term spending*

At the same time, the banks surveyed restricted their lending policies for loans to enterprises in response to the economic repercussions of the coronavirus pandemic. During the reporting quarter, credit standards in the corporate financing sector were tightened on balance to an extent last seen in 2009. The overall picture was very mixed, however, with the majority of institutions leaving their credit standards unchanged in the reporting quarter. According to the bank managers surveyed, standards were tightened mainly in response to the significantly negative assessment of the situation in

*Lending policies more restrictive overall*

<sup>7</sup> For more detailed information about the assistance loans issued by the Federal Government and grants issued by the state governments, see <https://www.kfw.de/inlandsfoerderung/Companies/KfW-Corona-Hilfe/>

<sup>8</sup> This survey round was conducted between 19 March and 3 April.

specific industries or for particular firms and the decline in borrowers' creditworthiness. Respondent banks also took a dimmer view of the risks surrounding the general state of the economy, the economic prospects and the recoverability of collateral. For the first time since 2012, a significant number of BLS banks cited higher capital costs as an additional tightening factor.

The banks surveyed also further tightened their credit terms and conditions as a whole. According to BLS data, the banks made both their collateral requirements and loan covenants considerably stricter. Margins were also expanded further, regardless of credit ratings.

*Further discernible increase in loans to households*

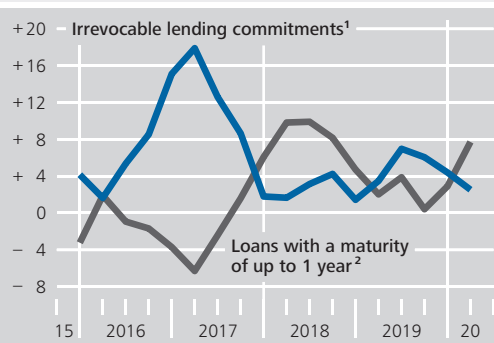
Banks' lending business in the reporting quarter was supported not only by corporate customers, but also by another slight uptick in loans to households. This was again attributable to loans for house purchase, which recorded high inflows, particularly in January and February. On balance, at 5.7% on the year, the growth rate of loans for house purchase rose to its highest level since 2000.

These data are backed up by reports from BLS respondent banks that demand for loans to households for house purchase continued to increase in the reporting quarter. The low general level of interest rates and, to a lesser extent, the financing needs for refinancing, debt restructuring and renegotiation, were again cited as the main reasons for the increase in demand. The influence of the outlook in the housing market and expected developments in house prices also remained positive, but decreased compared to the previous quarters. Over the next three months, though, the BLS banks are expecting a sharp decline in housing loans, probably on account of the pronounced uncertainty regarding the duration of the coronavirus crisis, its impact on the labour market, and households' income situation.

The pandemic did not yet have a significant impact on standards for loans for house purchase

### Irrevocable lending commitments and loans to domestic non-financial corporations\*

Year-on-year percentage change, end-of-quarter data



\* Non-financial corporations and quasi-corporations. **1** Not seasonally adjusted. **2** Seasonally adjusted and adjusted for loan sales and securitisation.

Deutsche Bundesbank

in the reporting quarter. These were tightened only marginally in the first quarter of 2020. On balance, however, the BLS banks are planning to tighten standards more sharply in the second quarter. In the first quarter, BLS banks made credit terms and conditions agreed in loan contracts more restrictive overall, mainly by narrowing margins irrespective of creditworthiness.

*BLS standards tightened only marginally, credit conditions tightened somewhat more strongly*

Unlike loans for house purchase, growth in consumer credit in the reporting quarter was significantly lower than in the previous quarter. This is mainly because the inflows in January and February were offset by a net reduction in March. This would suggest that the economic consequences of the corona pandemic were already having a stronger impact on this credit segment than on loans for house purchase in March.

*Crisis dampens growth in consumer credit*

Credit standards in the consumer credit segment were tightened again more sharply in the reporting quarter for the first time since 2011. Here, too, this was due to a more downbeat risk assessment of the general economic situation and outlook, the decline in borrowers' creditworthiness and the reduced recoverability of collateral. The credit terms and conditions agreed in loan contracts, on the other hand,

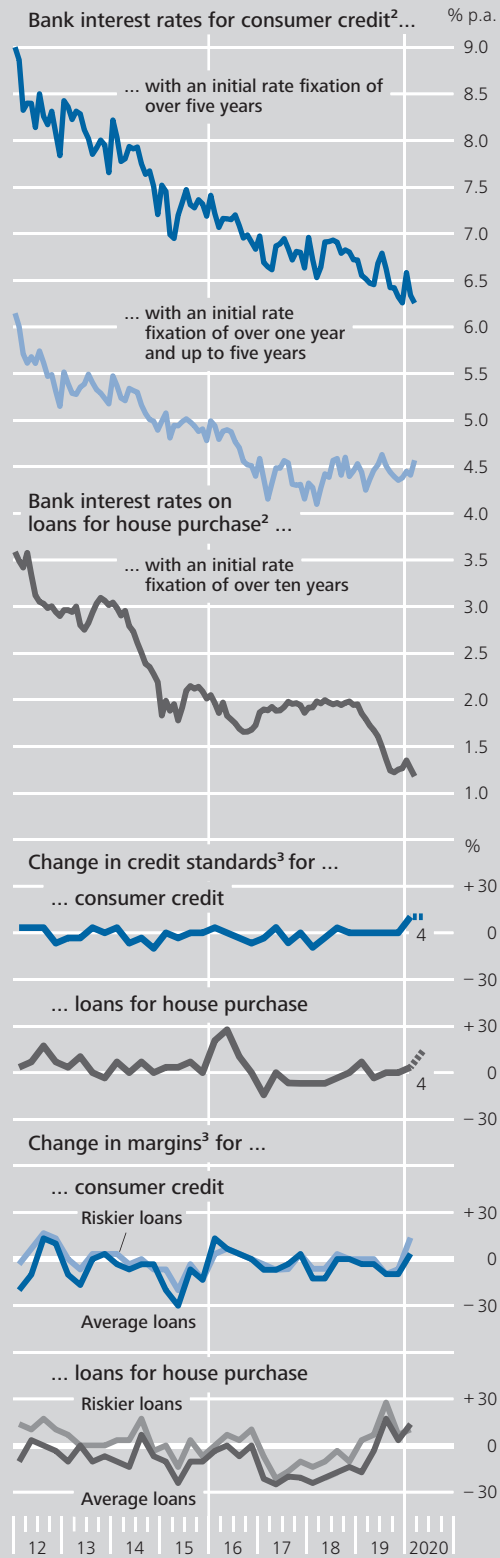
*Lending policies more restrictive in consumer credit business*

## Banking conditions in Germany

### Credit to non-financial corporations



### Credit to households¹



**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 Q2 2020.

were tightened only marginally in the reporting quarter.

*Deterioration in German banks' funding environment*

Against the backdrop of the situation in financial markets, German banks responded to the ad hoc questions in the April BLS with reports of a deterioration in their funding situation compared with the previous quarter.

*German banks expect their liquidity position and financing conditions to improve*

The Eurosystem's expanded APP continued to weigh on banks' earnings through weaker net interest income. However, in the banks' assessment, the burden was less heavy than in the previous survey round. On balance, the purchase programme had a positive impact only on the credit volume for loans for house purchase. The banks are expecting the APP and PEPP to significantly improve their liquidity position and market financing conditions in the coming six months.

The negative deposit facility rate once again contributed to a decline in banks' net interest

income, in part through lower lending rates. The negative earnings effect was tempered by the two-tier system of remunerating excess liquidity holdings, however. At the same time, viewed in isolation, the negative deposit rate once again led to an expansion of the credit volume in all business areas.

*Two-tier system for excess liquidity eases burden*

Only a few banks from the German sample took part in the TLTRO-III in March 2020, mainly out of profitability considerations. They reported that the uptake in funds was used primarily for lending to the non-financial sector and liquidity holding in the Eurosystem, adding that they would participate in future operations mainly because of the attractive design of the TLTRO-III operations and in order to avoid future funding constraints. The TLTRO-III operations had no impact on banks' lending policies.

*Use of TLTRO-III funds mainly for lending and liquidity management*

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