

Monetary policy and banking business

Monetary policy and money market developments

ECB Governing Council decides to scale back net purchases under the APP more rapidly

In March, the Governing Council of the ECB decided to scale back net purchases under the asset purchase programme (APP) more rapidly than had been planned in December. As a result, monthly net purchases, which amounted to €40 billion in April, will be reduced to €30 billion in May and €20 billion in June. If the incoming data support the expectation that the medium-term inflation outlook will not fall below the 2% inflation target again, even after the end of net purchases under the APP, the Governing Council will discontinue net purchases in the third quarter. In April, the Governing Council judged that the incoming data since its March meeting reinforce its expectation that net asset purchases under the APP should be discontinued in the third quarter.

Adjustment of forward guidance on policy rates

The ECB Governing Council also adjusted the forward guidance on its key interest rates at its March meeting. According to the new wording, the Governing Council will make any adjustments to the key ECB interest rates “some time” after the end of the net purchases under the APP. Any adjustments that take place will

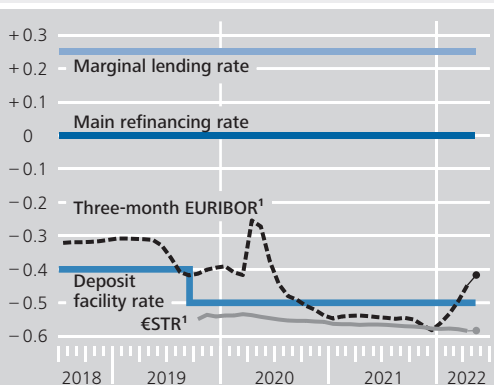
be gradual. With this new wording, the Governing Council is maintaining optionality in terms of the timing of the first interest rate moves.

The decisions in March and April were taken against the background of further increasing inflationary pressures. The published inflation data for January, February and March were also well above the previous expectations. Unexpectedly high energy costs are one major reason for this. Price increases have also become more broadly based. Measures of underlying inflation have risen to levels above 2% in recent months. The new ECB staff projections again revised the baseline scenario for inflation significantly upwards compared with December, to 5.1% in 2022, 2.1% in 2023 and 1.9% in 2024. However, the war against Ukraine is a substantial upside risk to inflation, especially for energy prices. If the resulting price pressures feed through into higher than anticipated wage rises or if there are persistent, adverse supply-side disruptions, inflation could turn out to be higher over the medium term than in the baseline scenario. In April, the ECB Governing Council noted that inflation had again increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. Inflation pressures have intensified across many sectors. The upside risks surrounding the inflation outlook have also increased, especially in the near term, and a correction of inflation expectations to levels above the inflation target is likewise among the current risk factors for persistently high inflation rates.

Inflation still higher than expected and with upside risks

Money market interest rates in the euro area

% p.a.



Sources: ECB and Bloomberg. ¹ Monthly averages. • Average 1 to 13 May 2022.

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The euro short-term rate (€STR) showed little change overall and was down slightly at -0.59% at the end of the period under review. The three-month EURIBOR, by contrast, continued to climb perceptibly as it had done since February. It recently stood at -0.38%, which was around 15 basis points higher than in mid-

Little change in the €STR; further increase in the EURIBOR

Money market management and liquidity needs

In the period under review from February to April 2022,¹ excess liquidity in the Eurosystem rose by a total of €94.3 billion to an average of €4,485.4 billion. It initially increased by €101.7 billion to €4,492.8 billion in the first reserve maintenance period of 2022 (February-March), before dipping slightly by €7.4 billion in the second reserve maintenance period (March-April). On the one hand, this was due to a reduction in liquidity-providing asset purchases owing to the discontinuation of the pandemic emergency purchase programme (PEPP) on 31 March 2022. On the other, liquidity-absorbing autonomous factors increased more strongly in the second maintenance period of the year than in the first.

In the period under review, additional central bank liquidity was provided primarily through €139.0 billion worth of net asset

purchases under the purchase programmes. The bulk of these purchases was attributable to the PEPP. As at 13 May 2022, the balance sheet holdings of the asset purchase programmes amounted to €4,940.6 billion (see the table on p. 26). By contrast, the average outstanding tender volume in the euro area fell slightly by €1.7 billion to €2,200.1 billion in the period under review, resulting in a low level of liquidity absorption. After the final targeted longer-term refinancing operation of the third series (TLTRO-III) had been allotted in December 2021, a total of €1.8 billion was voluntarily repaid on 30 March 2022 under TLTRO-III operations one to seven. Moreover, during the period under review, liquidity amount-

¹ The averages of the second reserve maintenance period of 2022 (March-April 2022) are compared here with the averages of the eighth reserve maintenance period of 2021 (December 2021-February 2022).

Factors determining banks' liquidity*

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

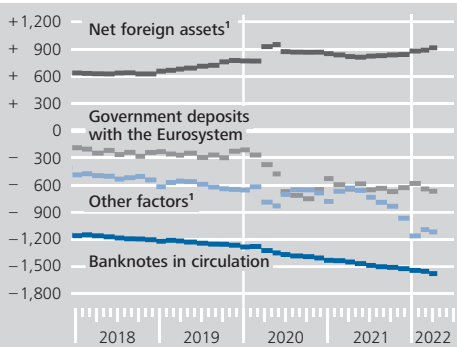
Item	2022	
	9 Feb. to 15 Mar.	16 Mar. to 19 Apr.
I. Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1. Banknotes in circulation (increase: –)	– 10.0	– 25.3
2. Government deposits with the Eurosystem (increase: –)	– 60.6	– 25.2
3. Net foreign assets ¹	+ 9.5	+ 26.0
4. Other factors ¹	+ 69.4	– 25.6
Total	+ 8.3	– 50.1
II. Monetary policy operations of the Eurosystem		
1. Open market operations		
a) Main refinancing operations	+ 0.0	+ 0.1
b) Longer-term refinancing operations	– 0.2	– 1.5
c) Other operations	+ 91.8	+ 47.2
2. Standing facilities		
a) Marginal lending facility	+ 0.0	+ 0.0
b) Deposit facility (increase: –)	– 11.8	+ 31.1
Total	+ 79.8	+ 76.9
III. Change in credit institutions' current accounts (I. + II.)	+ 88.5	+ 26.5
IV. Change in the minimum reserve requirement (increase: –)	+ 1.5	– 2.8

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

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Autonomous factors in the Eurosystem*

€ billion, mean values for the relevant reserve maintenance period



Sources: ECB and Bundesbank calculations. * Liquidity-providing (liquidity-absorbing) factors are preceded by a positive (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 13 May 2022
Active programmes¹		
PSPP	+ 37.3	2,572.3
CBPP3	- 0.8	297.9
CSPP	+ 17.4	338.2
ABSPP	- 0.9	26.9
PEPP	+ 90.5	1,701.1
Completed programmes		
SMP	- 3.2	3.3
CBPP1	- 0.4	0.0
CBPP2	- 1.0	0.8

¹ Changes due to net purchases, maturities, reinvestments and amortisation adjustments.

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ing to €0.4 billion was repaid at maturity under the pandemic emergency longer-term refinancing operations (PELTROs). Uptake of the regular main refinancing operations and three-month tenders likewise remained very subdued. In Germany, the outstanding volume of all refinancing operations fell by €1.1 billion to an average of €420.8 billion. As a result, German banks' share of the outstanding tender volume in the Eurosystem came to around 19.1%.

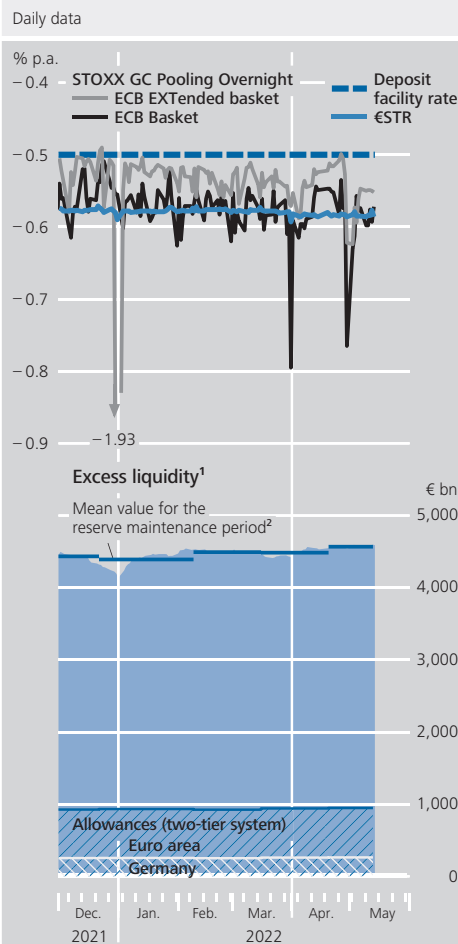
In the second reserve maintenance period of 2022, liquidity needs stemming from autonomous factors rose by €41.7 billion com-

pared to the eighth maintenance period of 2021, reaching a new record average high of €2,447.2 billion. This was mainly due to an increase in government deposits of €85.7 billion to €667.8 billion. Another liquidity-absorbing effect was caused by the volume of banknotes in circulation rising by €35.3 billion to €1,575.9 billion (see the table on p. 25). By contrast, the decline in the balances of non-euro area central banks, which is included under "other factors", had a liquidity-providing effect. A large part of these amounts was held in Germany. The €8.9 billion decline in government deposits with the Bundesbank likewise provided liquidity. Net banknote issuance, which absorbs liquidity, went up markedly by €18.6 billion to €902.4 billion in Germany. Over the reporting period, the minimum reserve requirement in the Eurosystem climbed by €1.4 billion to €156.8 billion in the March-April maintenance period, thus further increasing the need for central bank liquidity. In Germany, the reserve requirement went up by €0.8 billion to €43.3 billion.

At 99%, banks' utilisation of exemption allowances under the two-tier system for remunerating excess reserve holdings remained virtually unchanged for both the euro area and Germany in the period under review. As excess liquidity rose by €94.3 billion and the absolute exemption allowance increased less sharply, the share of excess liquidity remunerated at -0.50% expanded (see the chart on p. 27). As a result, an average of 20.7% of the excess liquidity in the Eurosystem was exempt from negative remuneration in the second reserve maintenance period of 2022, which was 0.4 percentage point less than in the previous maintenance period (in Germany: 20.1%, previous period: 20.9%).

Overnight rates in the euro money market continued to be based on the deposit facility rate of -0.50% (see the chart above). However, given the ongoing downward trend in overnight rates amidst high excess liquidity, the spread to the deposit facility rate widened slightly in the reporting period. By contrast, the increase in rate hike expectations did not affect the very short end of the money market. In both the first and the second maintenance periods of 2022, the unsecured euro short-term rate (€STR) was set at an average of -0.58%. At the end of the quarter in March, €STR fell by one basis point on the day to -0.59%. At €57.0 billion, turnover in the first maintenance period of 2022 was high on average, before falling to €51.8 billion in the following period. The decline was due to lower market liquidity on public holidays and at the end of the quarter. On the GC Pooling trading platform, the period under review saw overnight transactions in the ECB basket being conducted at an average of -0.57% in the first maintenance period of 2022 and -0.59% in the second, compared with the previous figure of -0.56% in the eighth maintenance period of 2021. By contrast, in the ECB EXTended basket, which has a broader selection of securities with lower rating requirements for concluding repo transactions, overnight trading was carried out at rates of -0.53% and -0.54% in the reporting period. This exceeded the average level of -0.56% in the preceding period (the eighth maintenance period of 2021), which was influenced by a sharp temporary decline at year-end. The usual pattern of lower overnight rates at the end of the quarter was visible at the end of March 2022, too. On this day, the price of secured overnight money in the ECB basket decreased significantly for low volumes, falling by around 20 basis points to -0.80%. In the ECB EXTended basket, however, there was only a marginal decline to -0.57%.

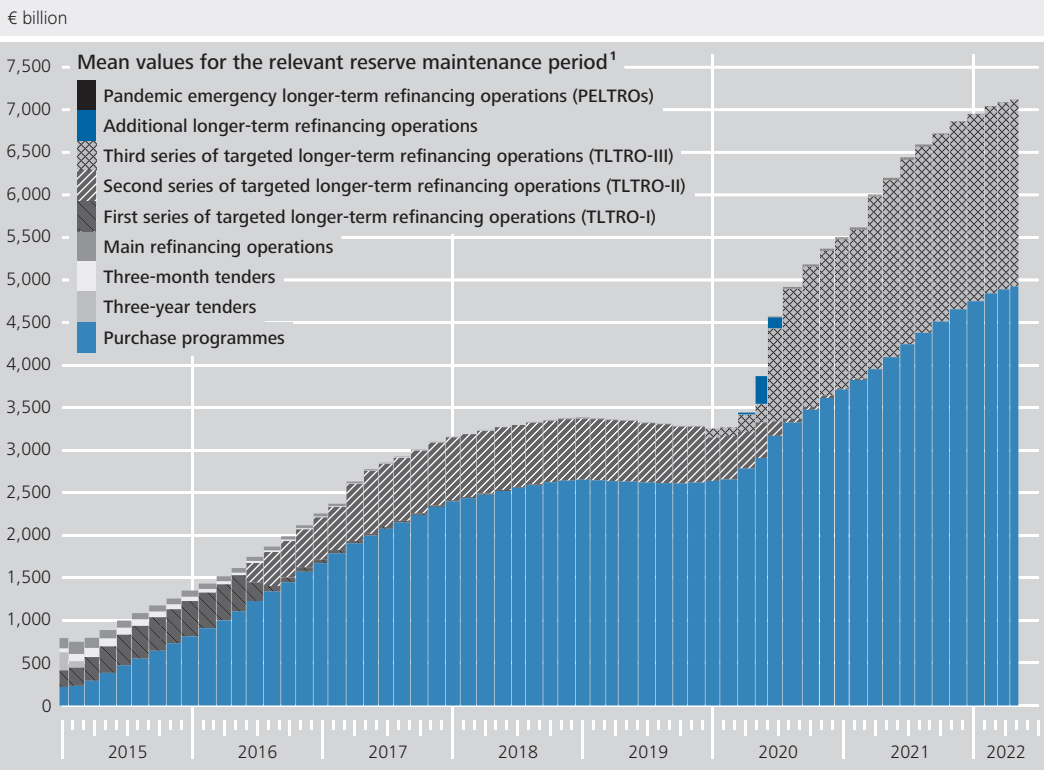
Deposit facility rate, money market rates and excess liquidity



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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Liquidity-driven secured turnover on the GC Pooling platform remained low in both baskets during the period under review (at around €1.0 billion in the ECB basket and around €2.0 billion in the EXTended basket). The low turnover volumes are likely to have contributed to the fact that GC Pooling overnight rates remained significantly more volatile than €STR in the period under review.

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



Sources: ECB and Bundesbank calculations. ¹ The bar width corresponds to the length of the reserve maintenance period. The last period displayed is still ongoing.
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February. The increase in the EURIBOR is probably mainly due to the stronger pricing-in of expectations of a rise in key monetary policy rates in the near future.

Money market forward rates reflect expectations of swifter normalisation of monetary policy

While short-term money market rates have shown mixed developments since mid-February, money market forward rates have continued to climb, thus reflecting market participants' expectations of an earlier and swifter normalisation of monetary policy. Market participants recently priced in an initial interest rate hike of 25 basis points in July 2022. The steeper path of the forward curve also suggests that market participants are pricing in three further interest rate increases of 25 basis points this year. The Eurosystem's Survey of Monetary Analysts (SMA), conducted prior to the March and April meetings, confirms expectations of an earlier first interest rate hike and a less gradual interest rate path. The period in time at which survey participants are expecting the first interest rate hike moved forward perceptibly to the fourth

quarter of 2022 according to both rounds of the survey (January round of the SMA: Q3 2023). The further increase in inflationary pressures and new upside surprises in euro area inflation are likely to be the root cause of the adjusted market expectations. Additionally, the more rapid path towards normalisation that other major central banks are taking could play a role. The difference in the timing of the first interest rate hike according to the forward curve and according to the surveys probably stems from two main factors. First, the forward curve still contains positive risk premia. Second, the last SMA was carried out before the April meeting¹, meaning that survey participants were able to factor in neither the most up-to-date information on inflation developments nor recent public statements by various members of the Governing Council.

The APP holdings recorded on the balance sheet have risen by €81.3 billion since mid-February. On 13 May, the Eurosystem held

Net purchases under the PEPP discontinued at end of March

assets totalling €3,235.3 billion as part of the APP (see the box on pp. 25 ff. for a breakdown of the holdings by individual programme). Securities holdings reported under the pandemic emergency purchase programme (PEPP) amounted to €1,701.1 billion on 13 May, up by €42.6 billion. Net purchases under the PEPP were discontinued at the end of March, as planned. The holdings reported under both purchase programmes continue to be influenced by the smoothing over time of reinvestments and by the use of amortised cost accounting.¹

Only slight change in excess liquidity

Excess liquidity has changed only marginally since mid-February on the whole. As this report went to press, its volume stood at €4,570 billion, which corresponds to an increase of around €39.4 billion since mid-February (see the box on pp. 25 ff.). The smaller increase compared with previous periods was due to the significant reduction in net asset purchases. Besides this, no more targeted longer-term refinancing operations (TLTROs) were conducted in the reporting period. Demand for standard operations was very subdued.

Monetary developments in the euro area

Monetary growth continued to lose momentum

The broad monetary aggregate M3 continued to expand considerably in the first quarter of 2022, but lost momentum compared to the sharp growth seen in the preceding quarters. The annual growth rate of M3 thus declined further. At the end of the quarter, it stood at 6.3%, which was only half as much as its pandemic-induced peak at the beginning of 2021. The continued slowdown in monetary growth was due to the scaling back of net asset purchases under the PEPP, which were discontinued in March, as planned. At the same time, lending to the domestic private sector continued to rise substantially in the first quarter, primarily in the form of loans to households for house purchase, but also as loans to non-financial corporations. The anticipated rise in

lending rates was an important driver of the buoyant demand for credit. Credit supply conditions remained favourable, although the banks responding to the Bank Lending Survey (BLS) reported that, for the first time in a year, they had tightened credit standards for loans to enterprises again somewhat in the first quarter.

Among the components of M3, overnight deposits continued to contribute the most to the build-up in the monetary aggregate in the first quarter. However, their growth declined significantly once more compared with the previous quarters. This was mainly because the non-financial corporate sector only built up a small volume of short-term deposits on balance. Although firms were able to push through price increases in many cases, thus increasing their revenue per se, their expenditure on intermediate goods and operating equipment also went up at the same time, not least off the back of the sharp rise in energy import prices. By contrast, despite interest rates showing very little change, households stepped up their accumulation of deposits again somewhat in the reporting quarter, following a very weak previous quarter. This was due, in particular, to increased uncertainty, first stemming from the unpredictable consequences of the Omicron variant of the coronavirus, and later on as a result of Russia's attack on Ukraine. As is often the case in a crisis, the latter also led to a significant rise in the demand for cash.

Accumulation of overnight deposits tailed off again

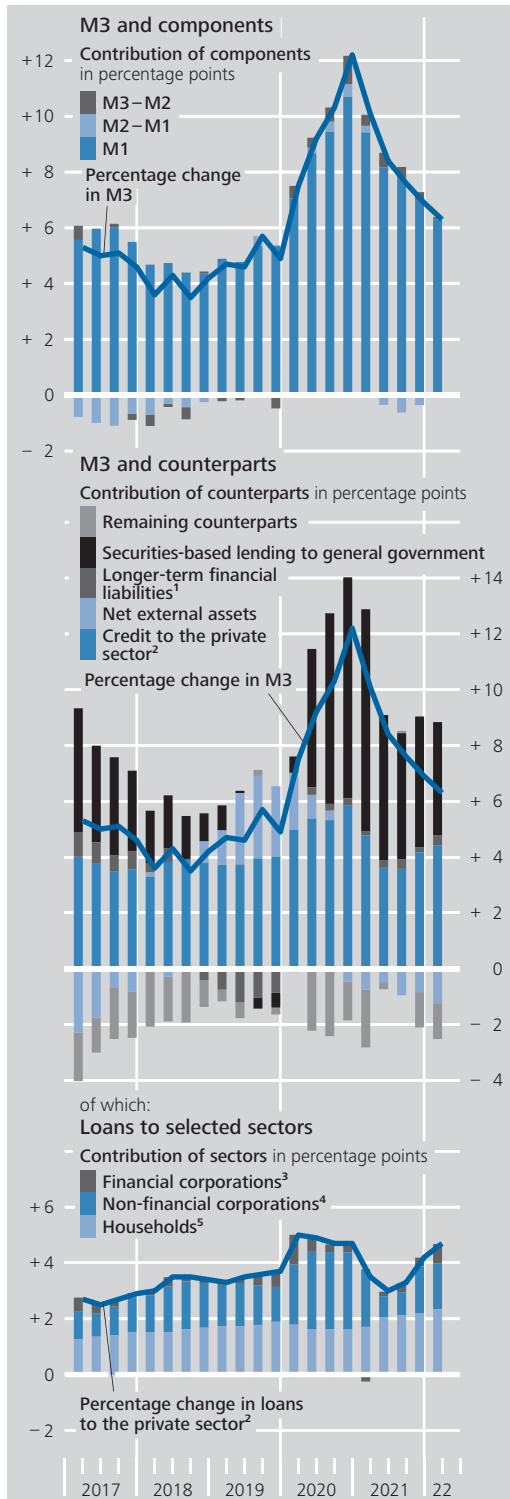
On the counterparts side, monetary growth continued to be driven by lending to domestic non-banks. Lending to the domestic private sector, in particular, continued to rise in the first quarter, with loans to households making the largest contribution (see the lower chart on p. 32). Demand for housing loans, especially, remained dynamic. On balance, despite the recent rise in lending rates, banks recorded large

Further substantial rise in loans to households for house purchase, ...

¹ 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.

Monetary aggregates and counterparts in the euro area

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



Source: ECB. **1** Denoted with a negative sign because, per se, an increase curbs M3 growth. **2** Adjusted for loan sales and securitisation as well as for positions arising from notional cash pooling services provided by MFIs. **3** Non-monetary financial corporations and quasi-corporations. **4** Non-financial corporations and quasi-corporations. **5** Including non-profit institutions serving households.

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inflows in this credit segment, spread across the majority of euro area countries, in all three months. At the end of March, annual growth in loans for house purchase held steady at 5.4%.

According to the banks responding to the BLS, demand for housing loans was primarily stimulated by the persistently low general level of interest rates. On the supply side, the banks participating in the BLS continued on the path of essentially unchanged credit standards, tightening their standards for loans for house purchase only marginally in the first quarter. This was attributable to conflicting factors. On the one hand, banks reported that borrowers' creditworthiness had declined and that the outlook in the housing market had deteriorated. On the other hand, however, they indicated that banks' liquidity position had improved.

... credit standards tightened marginally according to BLS

Despite the containment measures associated with the Omicron wave, banks also recorded perceptible inflows in consumer credit in the reporting quarter. This is consistent with the fact that the banks surveyed in the BLS reported a notable increase in demand for consumer and other loans in the first quarter. The main reasons they gave for this rise were household's greater propensity to purchase and improved consumer confidence. Furthermore, the banks responding to the BLS indicated that they had again marginally eased their credit standards for consumer and other loans. However, credit inflows in this segment ground to a halt in March due to the war in Ukraine and its economic fallout, which dampened consumer confidence and led households to postpone large purchases.

Perceptible inflows in consumer credit, too

Banks also recorded substantial inflows of loans to euro area enterprises in the first quarter. One reason for enterprises' buoyant demand for loans is likely to have been to secure comparatively low interest rates in light of an expected tightening of the monetary policy stance. This is consistent with the fact that non-financial corporations mainly sought long-term loans in

Strong recovery in lending to non-financial corporations ...

Consolidated balance sheet of the MFI sector in the euro area*					
Quarter-on-quarter change in € billion, seasonally adjusted					
Assets	Q4 2021	Q1 2022	Liabilities	Q4 2021	Q1 2022
Credit to private non-MFIs in the euro area	229.6	180.4	Holdings against central government ²	106.7	- 52.6
of which:			Monetary aggregate M3	267.8	186.9
Loans	175.1	183.5	of which components:		
Loans, adjusted ¹	225.5	173.9	Currency in circulation and overnight deposits (M1)	212.0	191.5
Securities	54.5	- 3.1	Other short-term deposits (M2-M1)	31.3	21.7
Credit to general government in the euro area	201.1	84.6	Marketable instruments (M3-M2)	24.4	- 26.3
of which:			Longer-term financial liabilities of which:	18.3	- 51.5
Loans	- 1.1	- 2.0	Capital and reserves	20.3	12.3
Securities	202.0	86.5	Other longer-term financial liabilities	- 2.0	- 63.7
Net external assets	- 71.7	- 50.1			
Other counterparts of M3	34.2	- 132.1			

* 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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the first quarter. In addition, the economic disruption caused by the coronavirus pandemic subsided, which bolstered demand for credit in this segment. The data provided by the banks participating in the BLS suggest that the borrowed funds were used to finance fixed investment and mergers and acquisitions as well as for refinancing.

that the bulk of lending in the first quarter was borne by banks in Germany and France. By contrast, Italy generated only weak stimulus; in Spain, banks recorded net outflows of loans.

... even after war broke out in Ukraine

In addition, BLS banks reported higher financing needs by non-financial corporations for inventories and working capital. This is in line with the significant net inflows recorded for short-term loans, especially in March, which are likely to be related to the outbreak of the war in Ukraine. On the one hand, it is possible that enterprises require more funds due to the sharp rise in the already high commodity prices, new massive trade restrictions and the considerable increase in uncertainty. On the other hand, enterprises may have brought forward their lending because banks – as reported in the BLS as well – are planning to tighten their credit supply.

For the first time in a year, the banks surveyed in the BLS tightened their credit standards in corporate lending somewhat at the aggregate level in the first quarter. The main reasons cited by banks were their perceived deterioration in the economic situation and outlook, sector-specific and firm-specific factors, and borrowers' creditworthiness. Banks also reported that their risk tolerance had declined. On balance, the surveyed banks in the euro area are planning to tighten their standards further in the second quarter. This is probably also linked to the feared negative impact of the war on the economy and on credit risk in corporate lending.

BLS banks tightened credit standards in corporate lending

In addition to loans to the private sector, inflows to securities-based lending to general government also boosted monetary growth (see the upper chart on p. 32). That said, they

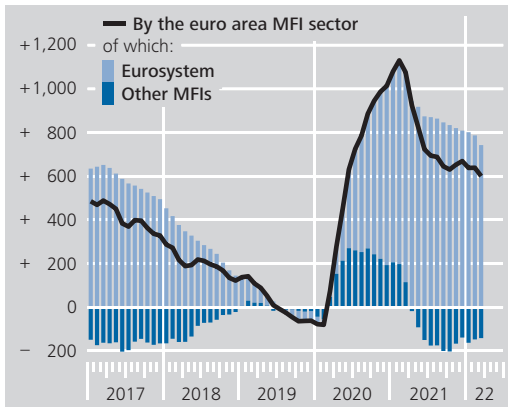
Heterogeneous lending in Member States

The annual growth rate of loans to non-financial corporations, which had risen significantly in the fourth quarter of 2021 due to a one-off effect linked to TLTRO-III,² was almost unchanged at 4.2% at the end of March. Looking at the largest Member States, it is striking

² A reference period for credit growth connected to these operations expired at the end of 2021. This determined whether a bank participating in the TLTRO-III series would receive the particularly favourable special interest rate conditions during the relevant period. For this reason, banks with previously weak lending records were particularly interested in strengthening their lending.

Securities-based lending to general government in the euro area

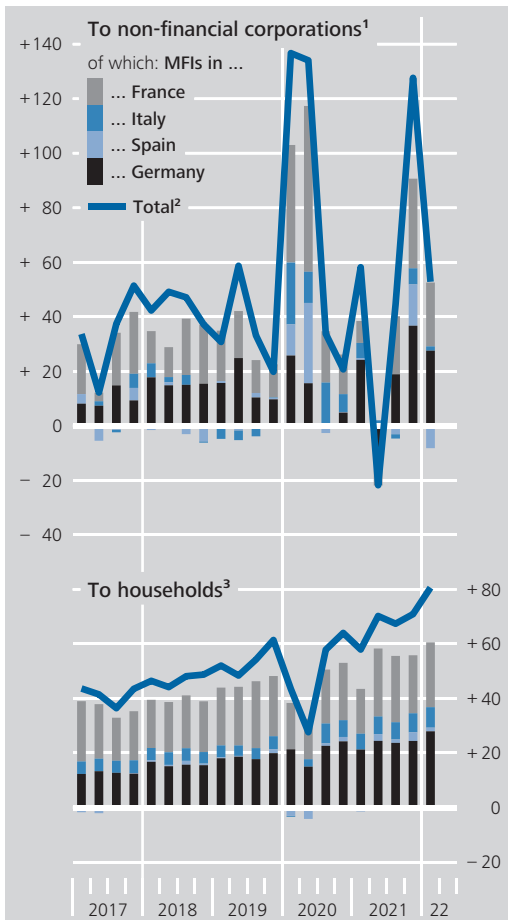
€ billion, 12-month accumulated flows



Sources: ECB and Bundesbank calculations.
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MFI loans to the non-financial private 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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were significantly lower in the quarter under review than in the preceding quarters, as the Eurosystem reduced the monthly net purchases of government bonds under the PEPP as scheduled and discontinued them in March. In April, the Governing Council reaffirmed its expectation that the remaining net purchases under the APP would likewise be discontinued in the third quarter. This counterpart's contribution to monetary growth is therefore likely to decline further over the coming months.

Declining Eurosystem net purchases dampened inflows to securitised lending

As in the preceding quarters, the MFI sector's net external asset position continued to have a dampening effect on monetary growth. This was due to the ongoing negative balance of the euro area's financial account with the rest of the world, driven partly by the fact that non-residents continued to sell euro area government bonds on balance. However, as the Governing Council is planning to reduce and eventually discontinue net purchases under the APP, this factor is likely to have less and less of an effect. Furthermore, the typical positive impact of the current account on monetary growth was also much smaller. Though the current account balance remained positive for January and February according to the non-seasonally adjusted figures available so far, the trade balance in particular narrowed significantly on the back of sharp rises in energy prices.

Net external asset position has further dampening effect on monetary growth

German banks' deposit and lending business with domestic customers

German banks' deposit business with domestic customers grew steeply in the first quarter of 2022. This was again driven by strong inflows to overnight deposits, which were broadly based across the money-holding sectors. In addition, however, short-term time deposits were also topped up much more strongly than usual, though these were exclusively the short-term time deposits of general government, which expanded these considerably as a result of high tax revenue. That said, the momentum

Steep increase in deposit business due primarily to overnight deposits

behind deposit business dwindled markedly during the quarter as individual money-holding sectors – including households – reduced their overnight deposits again on balance at the end of the first quarter. One reason for this could be the average interest rate on these deposits falling further into negative territory over the course of the quarter (see the adjacent chart). Moreover, the recent significant rise in inflation rates is also likely to have raised households' awareness of the opportunity costs of holding money.

Substantial rise in deposits of non-financial corporations

It was also striking that domestic enterprises topped up their overnight deposits substantially, despite the increased opportunity costs. It appears that uncertainty about the economic fallout of the war in Ukraine led enterprises to park freed-up funds and postpone planned investment.

Lending business with non-banks very dynamic again

Banks' lending business with domestic non-banks was also very dynamic in the first quarter of 2022. Lending to the domestic private sector, which grew steeply once again, was the main factor in this development. By contrast, lending to the public sector declined markedly for the fourth consecutive quarter in view of the improved budgetary situation, particularly in the case of state and local governments.

Financing needs of non-financial corporations remain high

In the case of banks' lending to domestic non-financial corporations, the expected counter-movement to the exceptionally strong growth in lending to this sector in the final quarter of 2021 was largely absent. Instead, firms' demand for both short-term and long-term loans was again high, indicating persistently elevated financing needs on the part of non-financial corporations. Hence, the annual growth rate of loans to non-financial corporations continued to rise and stood at just under 6% at the end of the quarter.

This is consistent with the fact that, as reported by the banks surveyed in the BLS, non-financial corporations' demand for credit continued to increase on the quarter. Once again, the sur-

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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MFI* lending and deposits in Germany

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

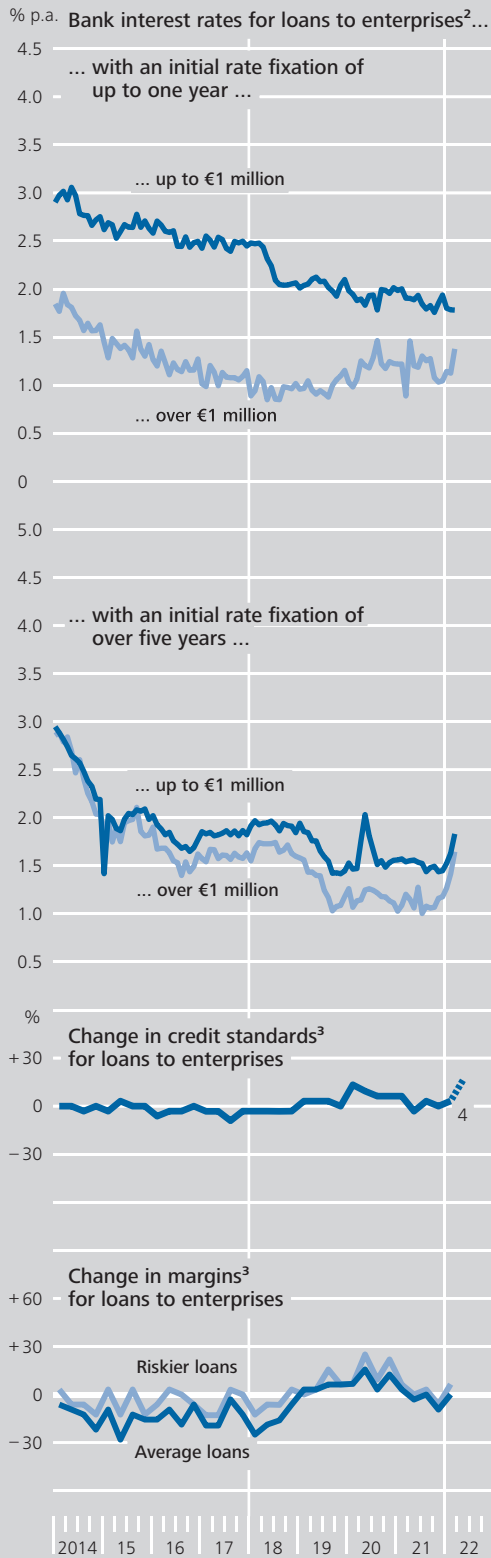
Item	2021	2022
	Q4	Q1
Deposits of domestic non-MFIs ¹		
Overnight	0.9	56.0
With an agreed maturity of		
up to 2 years	10.4	21.0
over 2 years	-2.1	-3.1
Redeemable at notice of		
up to 3 months	-0.5	-1.0
over 3 months	-0.5	-1.1
Lending		
to domestic general government		
Loans	-2.3	-0.2
Securities	-4.8	-1.9
to domestic enterprises and households		
Loans ²	57.7	57.7
of which: to households ³	24.3	27.6
to non-financial corporations ⁴	30.8	25.3
Securities	3.7	2.6

* As well as banks (including building and loan associations, but excluding the Bundesbank), monetary financial institutions (MFIs) here also include money market funds. Data adjusted for statistical changes and revaluations. ¹ Enterprises, households and general government excluding central government. ² Adjusted for loan sales and securitisation. ³ Including non-profit institutions serving households. ⁴ Non-financial corporations and quasi-corporations.

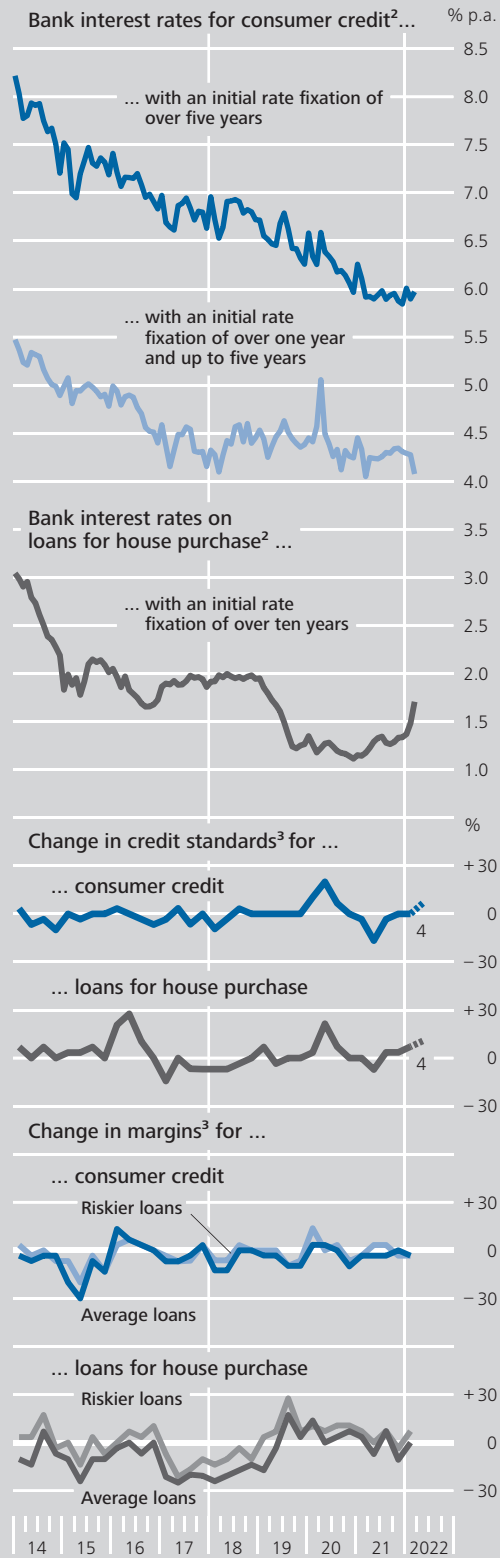
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Banking conditions in Germany

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 2022.

Credit demand driven chiefly by higher need for funds for inventories and working capital as well as interest rate hedging motives

veyed bank managers cited the need for funds for fixed investment as well as for inventories and working capital as the main reasons for this. According to the bank managers, short-term financing needs also increased as a result of firms boosting their inventories in the face of unstable supply chains and the heightened uncertainty caused by the Ukraine war. Furthermore, according to the BLS, the low general level of interest rates again played a greater role in demand growth than in the preceding quarters. The banks surveyed in the BLS also consider interest rate hedging motives, in anticipation of rising interest rates, as a factor in this regard. This could be one reason why long-term loans continued to increase in March, even though, when viewed in isolation, the high degree of uncertainty about the economic fallout of the war dampened enterprises' propensity to invest.

Lending policy in corporate banking slightly restrictive

At the same time, the surveyed banks tightened their credit standards for corporate lending slightly on balance, while leaving their credit terms and conditions unchanged on the whole. They justified these stricter standards by pointing to the heightened level of credit risk, chiefly citing sector-specific and firm-specific factors as well as the deterioration of the general economic situation and outlook as explanatory factors.

Demand for housing loans remains brisk

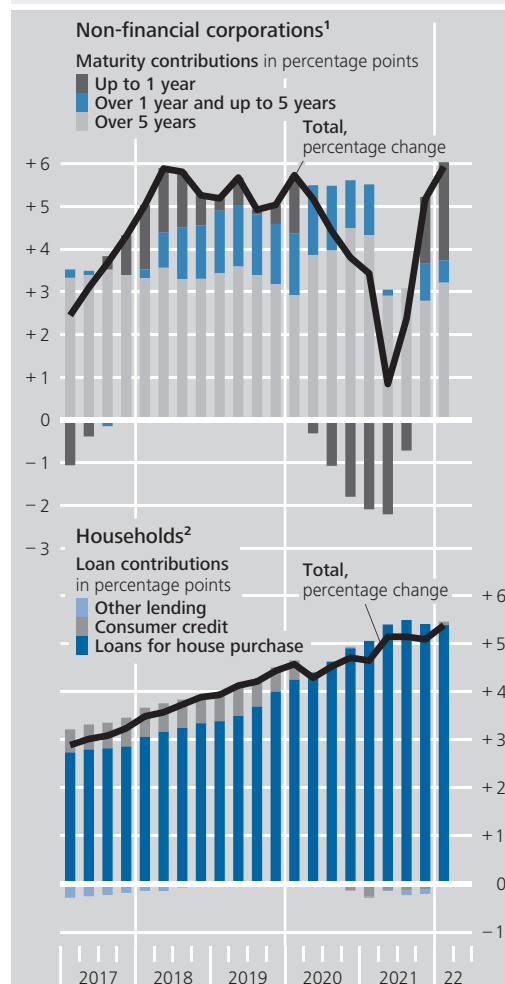
Growth in German banks' lending business was also shouldered to a significant extent by loans to households. Crucial for the most recent spell of growth were once again loans for house purchase, which also grew steeply in the first quarter. However, the annual growth rate of loans taken out for house purchase remained virtually unchanged at 7.0% at the end of March.

Recent marked inflows in consumer credit

The rise in loans to households was also driven by consumer credit, which recorded marked net inflows in the reporting quarter. Households' demand for bank loans has been boosted by the continued favourable income and asset situation and low financing costs,

Loans* by German banks to the domestic non-financial private 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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even though interest rates for individual segments, including loans for house purchase, have risen slightly at the current end.

The data provided by banks participating in the BLS are broadly in line with developments in lending. Banks saw the main reason for the high demand from households in the persistently low general level of interest rates, coupled with the expectation of rising interest rates. In addition, borrowers' belief that the outlook on the real estate market will remain bright and the anticipation of rising real estate prices stimulated demand.

Demand bolstered by continued favourable financing costs and bright outlook in real estate market

Restrictive lending policies for loans to households for house purchase

In the first quarter, the banks surveyed in the BLS tightened their lending policies for loans to households for house purchase on balance. Housing market prospects, which had deteriorated according to the banks' assessment, were the most commonly cited reason for this tightening. On balance, a decline in borrowers' creditworthiness and a deterioration in the general economic situation and outlook also contributed to the tightening of policies. Furthermore, a reduction in banks' risk tolerance and the restrictive effect of equity costs and funding conditions played a certain role.

Funding environment deteriorated somewhat for German banks

In response to the ad hoc questions in the April survey, German banks reported that their funding conditions had deteriorated somewhat compared with the previous quarter.

Purchase programmes improved banks' liquidity position and funding conditions

Over the last six months, the Eurosystem's purchase programmes (APP and PEPP) have helped improve the liquidity position of commercial banks and their market funding conditions, but they were still negatively impacting bank profit-

ability through net interest income. The purchase programmes did not contribute to credit growth over the past six months.

The negative interest rate on the deposit facility depressed lending and deposit rates and pushed up fees for deposits. Overall, it once again squeezed banks' net interest income. The two-tier system for remunerating excess liquidity holdings did, however, soften the adverse impact on profitability.

Ten out of 33 banks from the German BLS sample took part in the TLTRO-III operation in December 2021, mainly on account of the attractive design. Banks reported using the obtained funds primarily for lending and as a substitute for maturing debt securities and interbank loans. According to the banks participating in the survey, the TLTRO-III operations had an easing impact on their lending policies and contributed to a rise in lending, particularly to enterprises.

Two-tier system for excess liquidity supports profitability

TLTRO-III funds used for lending and substituting liabilities