Monetary policy and banking business

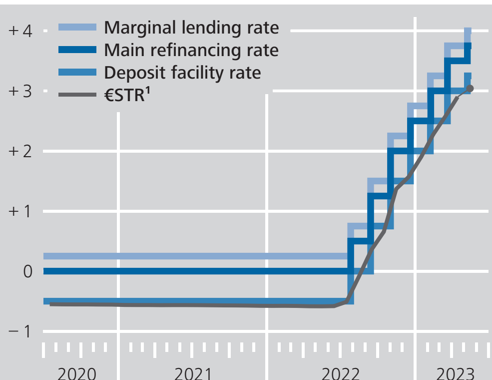
Monetary policy and money market developments

ECB Governing Council decides to increase key interest rates by 50 basis points in March …

At its monetary policy meeting in March 2023, the Governing Council of the ECB decided to increase the three key ECB interest rates by another 50 basis points each, in line with its determination to ensure the timely return of inflation to the 2% medium-term target. According to the new ECB staff macroeconomic projections finalised in March, inflation is projected to remain too high for too long. ECB staff revised down the baseline path for headline inflation, but this was mainly owing to a smaller contribution from energy prices than previously expected, whilst underlying price pressures remained strong. Even so, ECB staff saw headline inflation averaging 5.3% in 2023, 2.9% in 2024 and 2.1% in 2025. Financial market tensions surrounding the March meeting led to an elevated level of uncertainty, which, in the Governing Council's view, reinforced the importance of a data-dependent approach to policy rate decisions. Future policy rate decisions will also be based on the assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

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

% p.a.



Source: ECB. **1** Monthly averages. • = Average 1 to 19 May 2023.

Deutsche Bundesbank

… and a further 25 basis points in May

In May 2023, the ECB Governing Council raised the key interest rates yet again, but reduced the size of the step to 25 basis points. The two key interest rate hikes brought the interest rate on the deposit facility – currently the most important rate for money market rates – to 3.25%, and the interest rates on the main refinancing operations and the marginal lending facility to their present levels of 3.75% and 4.0%, respectively. The key interest rate hike in May came against the backdrop of ongoing high inflationary pressures. Overall, the ECB Governing Council noted that the incoming information broadly supported the assessment of the medium-term inflation outlook that the Governing Council had formed at its March meeting. At the same time, the Governing Council observed that the past rate increases were being transmitted forcefully to euro area financing and monetary conditions, while stressing that the lags and strength of transmission to the real economy remained uncertain.

Future decisions aim to ensure sufficiently restrictive policy rate level

The ECB Governing Council stated that its future decisions will ensure that the policy rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary. The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction.

ECB Governing Council decides to completely discontinue APP reinvestments

The ECB Governing Council furthermore confirmed in May that the key ECB interest rates remained its primary tool for setting the monetary policy stance. In parallel, the Governing Council will keep reducing the Eurosystem's asset purchase programme (APP) portfolio at a measured and predictable pace. In line with these principles, the Governing Council expects

Money market management and liquidity needs

In the reporting period from 8 February 2023 to 9 May 2023,[1] excess liquidity in the Eurosystem decreased by a total of €66.2 billion to an average of €4,013.0 billion, though remained at a high level. The decline was mainly driven by early repayments and maturing securities under the third series of targeted longer-term refinancing operations (TLTRO III). Shrinkage in the outstanding volume under the asset purchase programmes also contributed to bringing liquidity down, albeit to a lesser extent.

Compared with the eighth reserve maintenance period of 2022, liquidity needs in the euro area stemming from autonomous factors (see the table below) fell by €153.6 billion to an average of €1,846.0 billion in the second reserve maintenance period of 2023. This had a liquidity-boosting effect and thus counteracted an even sharper decline in excess liquidity. Having climbed by €135.7 billion, the significant rise in the combined total of net foreign assets and other factors, which are considered together owing to liquidity-neutral valuation effects, was the main factor behind this development. The liquidity-providing effect was mainly the result of the drop in non-monetary policy deposits, which are counted among the other factors. This includes, in particular, deposits from foreign central banks, which fell by €96.6 billion, with a substantial portion attributable to the decline in deposits held in Germany. The €12.2 billion reduction in government deposits held with the Eurosystem (of which €4.4 billion in Germany) also had a liquidity-

1 The averages of the second reserve maintenance period of 2023 (March 2023-May 2023) are compared here with the averages of the eighth reserve maintenance period of 2022 (December 2022-February 2023).

Factors determining banks' liquidity*

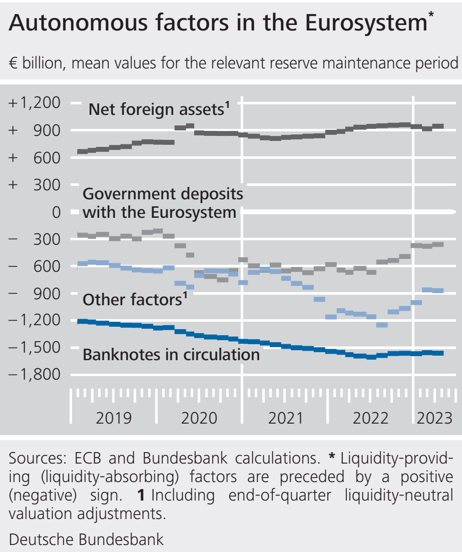
€ billion; changes in the daily averages of the reserve maintenance periods vis-à-vis the previous period

Item	2023	
	8 Feb. to 21 Mar.	22 Mar. to 9 May
I. Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1. Banknotes in circulation (increase: –)	+ 11.7	– 5.9
2. Government deposits with the Eurosystem (increase: –)	– 7.4	+ 19.6
3. Net foreign assets[1]	– 23.6	+ 28.2
4. Other factors[1]	+ 139.8	– 8.7
Total	+ 120.5	+ 33.2
II. Monetary policy operations of the Eurosystem		
1. Open market operations		
a) Main refinancing operations	– 0.3	+ 0.5
b) Longer-term refinancing operations	– 70.0	– 115.6
c) Other operations	– 3.1	– 33.4
2. Standing facilities		
a) Marginal lending facility	– 0.1	+ 0.1
b) Deposit facility (increase: –)	– 51.4	+ 107.0
Total	– 124.9	– 41.4
III. Change in credit institutions' current accounts (I. + II.)	– 4.5	– 8.3
IV. Change in the minimum reserve requirement (increase: –)	+ 3.4	– 1.2

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

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.

Deutsche Bundesbank

Eurosystem purchase programmes

€ billion

Programme	Change across the two reserve periods	Balance sheet holdings as at 12 May 2023
Active programmes[1]		
PSPP	− 21.8	2,559.0
CBPP3	− 3.5	299.1
CSPP	− 2.3	341.7
ABSPP	− 3.0	18.5
PEPP	− 5.9	1,678.8
Completed programmes		
SMP	+ 0.0	2.9
CBPP1	+ 0.0	0.0
CBPP2	+ 0.0	0.0

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

Deutsche Bundesbank

providing effect. Net banknote issuance in the Eurosystem declined somewhat overall by €5.7 billion to €1,559.8 billion, likewise expanding liquidity. In Germany, by contrast, a small increase of €2.2 billion took net issuance to €900.3 billion. Over the period under review, the minimum reserve requirement in the Eurosystem fell by €2.1 billion to €165.8 billion, which marginally decreased the need for central bank liquidity. In Germany, the reserve requirement went down by €1.0 billion to €45.5 billion.

In terms of the purchase programmes, the main influencing factor was the scaling down of the asset purchase programme (APP). Since 1 March 2023, the APP portfolio has been trimmed by an average of €15 billion per month, while reinvestment under the pandemic emergency purchase programme (PEPP) has remained unchanged. Overall, holdings of monetary policy assets decreased by €36.5 billion in the period under review. As at 12 May 2023, the balance sheet holdings of the asset purchase programmes amounted to €4,900.1 billion (see the adjacent table).[2]

The average outstanding tender volume in the euro area decreased by €185.4 billion to €1,119.2 billion during the period under review. One of the TLTRO III special redemption dates that were agreed upon in October 2022 fell within the period under review (value date: 22 February 2023) and saw repayments of €36.6 billion. In addition, €87.7 billion was voluntarily repaid ahead of schedule on a regular repayment date (value date: 29 March). At the same time, the outstanding tender volume decreased by a further €32.2 billion when the TLTRO III.3 operations matured in March. The volume under the regular main refinancing operations and three-month tenders remained at a very low level, though there was a slight uptick in demand for the main refinancing operations of late. In Germany, the average outstanding volume of all refinancing operations fell to an average of €200.9 billion in the period under review. Special repayments under the TLTRO III in February, which amounted to €13.9 billion, as well as the €9.4 billion stemming from scheduled maturing securities and early repayments in March, both played a role here. German banks' share in the outstanding volume of Eurosystem refinancing operations was around 18%, which was almost the same

2 In addition to the effects of reduced reinvestment under the APP, holdings were also shaped by revaluations and the smoothing of reinvestments under both programmes.

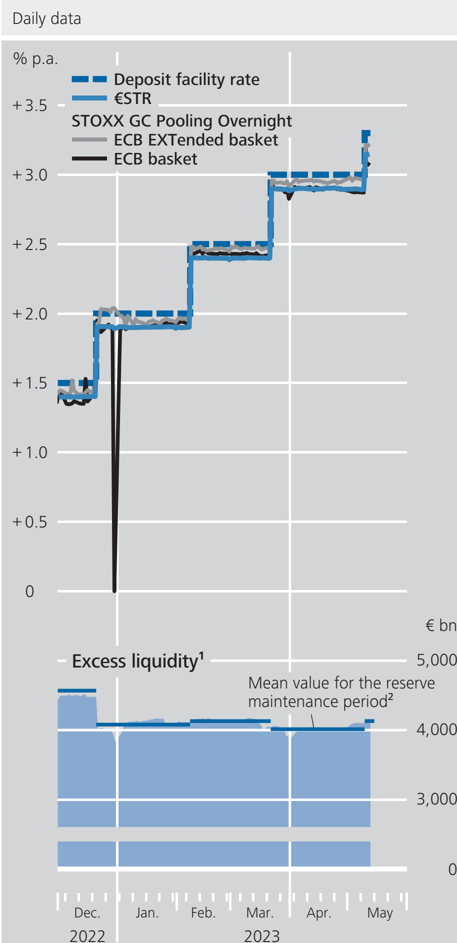
as in the eighth reserve maintenance period of 2022.

The Eurosystem’s policy rate hikes of 50 basis points each in February and March 2023 were passed on in the euro money market and led to a corresponding increase in overnight rates in the first and second reserve maintenance periods (see the adjacent chart).

Over the period under review, the unsecured euro short-term rate (€STR) mirrored the policy rate increases almost exactly, standing at 2.40% and 2.90% on average in the respective reserve maintenance periods. Accordingly, the spread between the €STR and the deposit facility rate remained constant at around 10 basis points. After declining in the eighth reserve maintenance period of 2022 due to year-end effects, money market turnover increased significantly again in the period under review. The €STR volume averaged €62.9 billion in the first reserve maintenance period of 2023 and went down slightly to €62.5 billion in the subsequent reserve maintenance period due to a number of public holidays and the end of the first quarter of 2023. In the secured money market, interest rates on the GC Pooling trading platform also rose following the policy rate hikes. Overnight transactions in the ECB basket were executed at an average of 2.43% in the first reserve maintenance period of 2023 and 2.89% in the subsequent reserve maintenance period. This meant that the spread over the deposit facility rate initially narrowed to 7 basis points and then grew to 11 basis points. In the ECB EXTended basket, which has a broader selection of securities with lower rating requirements for concluding repo transactions, overnight trading took place at rates of 2.47% and 2.95%, respectively, during the period under review. At the same time,

Deposit facility rate, money market rates and excess liquidity

Daily data

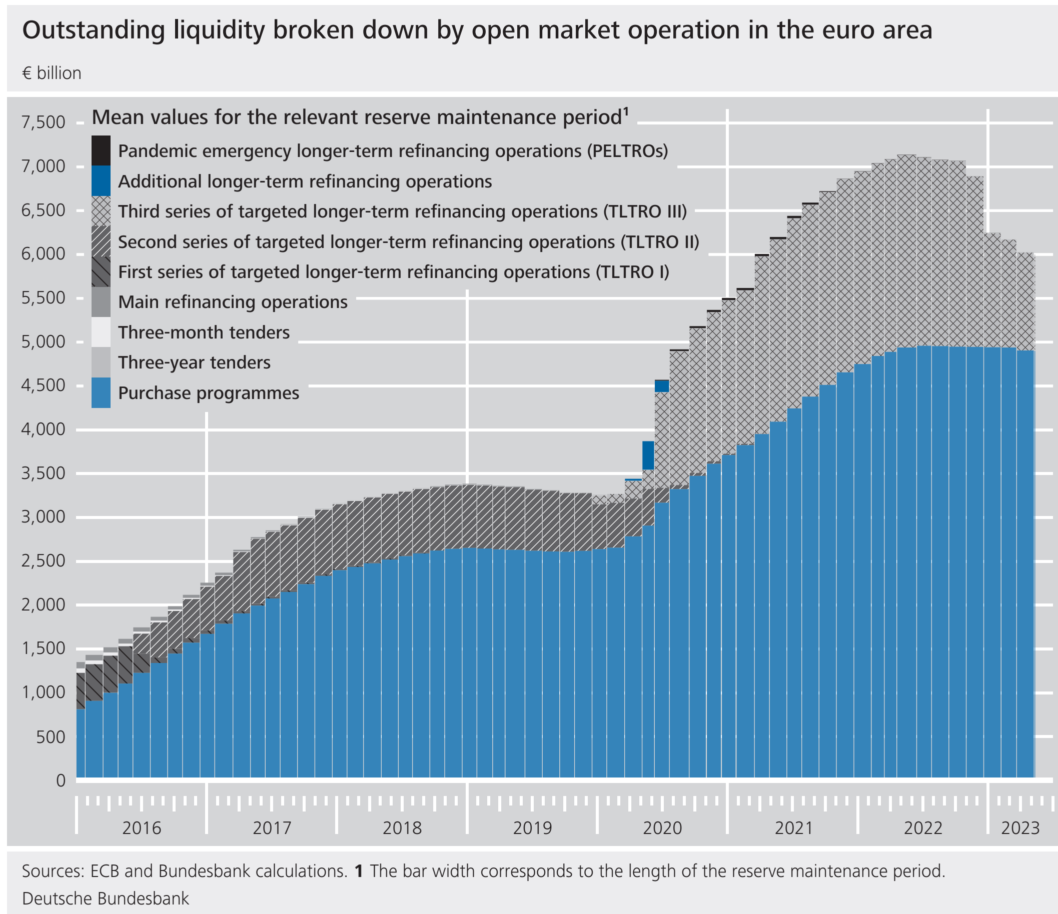


Sources: ECB, Eurex Repo and Bundesbank calculations. **1** Central bank balance minus the minimum reserve requirement plus the deposit facility. **2** The last period displayed is still ongoing.

Deutsche Bundesbank

the volumes traded in the ECB EXTended basket continued to rise, with the average volume exceeding turnover in the ECB basket in both reserve maintenance periods.

In the third reserve maintenance period of 2023, which is currently under way, it appears the interest rate increases are again being almost fully passed on to the €STR.



Sources: ECB and Bundesbank calculations. **1** The bar width corresponds to the length of the reserve maintenance period.
Deutsche Bundesbank

to discontinue the reinvestments under the APP as of July 2023.

Still significant upside risks to inflation outlook

The ECB Governing Council continues to see significant upside risks to the inflation outlook. These include existing pipeline pressures, for example. A lasting rise in inflation expectations to a level above 2%, or higher than anticipated increases in wages or profit margins if there is a continued mismatch between supply and demand, could also drive inflation higher, including over the medium term. The downside risks to inflation, meanwhile, include renewed financial market tensions or a weakening of demand. The latter could potentially arise due, for example, to a more marked slowing of bank lending or a stronger than projected transmission of monetary policy.

€STR moves in line with key interest rate hikes

The euro short-term rate (€STR) once again moved almost entirely in line with the two key interest rate hikes totalling 75 basis points during the reporting period, closing at 3.147%.

Money market forward rates pricing in another interest rate step

Following the May meeting of the Governing Council, money market forward rates are pricing in at least one more increase in key interest rates of 25 basis points. The money market forward curve is currently expected to peak in the second half of 2023 at around 3.6%, which is roughly 45 basis points up on the present level. Compared with mid-February, the forward curve has thus increased by around 10 basis points. However, it has fluctuated strongly at times since then, with the peak moving between 3.0% and 4.1%. This significant volatility was attributable mainly to bouts of financial market turbulence and mounting signs that inflation was becoming more entrenched.

More interest rate hikes expected, SMA shows

The ECB Survey of Monetary Analysts (SMA) conducted ahead of the May meeting showed that analysts were still expecting to see three further interest rate hikes. The 25 basis point hike in May matched expectations. SMA participants expected further hikes at both the June and July monetary policy meetings, also

by a median of 25 basis points each, which would then bring the deposit facility rate to 3.75%.

APP holdings in decline since March

Monetary policy securities holdings have been in slight decline since mid-February. Since the beginning of March, an average of €15 billion of the APP holdings has not been reinvested each month. On 12 May 2023, the Eurosystem was holding APP assets totalling €3,218.4 billion (see the remarks on p. 24 for a breakdown of the holdings by individual programme). Asset holdings reported under the pandemic emergency purchase programme (PEPP) came to €1,678.9 billion on the same day. The ECB Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic. The aggregate holdings reported under both purchase programmes continued to be influenced by the smoothing over time of reinvestments and by the use of amortised cost accounting.[1]

Excess liquidity down again

Excess liquidity has continued to contract since mid-February, falling by around €60 billion. At last count, it came to €4,097 billion. This decline was mainly attributable to maturing securities and further voluntary repayments under the third series of targeted longer-term refinancing operations (TLTRO III). Reduced reinvestments of APP holdings also caused excess liquidity to shrink. Developments in autonomous factors had a counter-effect, however (see the box on pp. 23 ff.).

Monetary developments in the euro area

Monetary growth weakens sharply

As the monetary policy stance tightened, growth in the broad monetary aggregate M3 continued to weaken sharply in the first quarter of 2023. The annual growth rate fell to 2½% at the end of March (see the chart on p. 28). The increase in money and capital market yields brought about by the tightening triggered substantial portfolio shifts by money-holding sectors into higher-yielding forms of investment, such as longer-term bank debt securities, which are not included in the money supply. On the supply side, the ongoing reduction of the Eurosystem's balance sheet combined with weak bank lending caused monetary growth to slow. The subdued economic outlook and increased financing costs weakened demand for loans to non-financial corporations and households. Tighter lending policies are also likely to have dampened loan growth. Banks responding to the latest Bank Lending Survey (BLS) mainly attributed the further tightening of credit standards in the reporting quarter to their perception of greater credit risk. By contrast, the turmoil in the US and Swiss banking sectors in March had no discernible impact on credit and deposit growth in the first quarter.

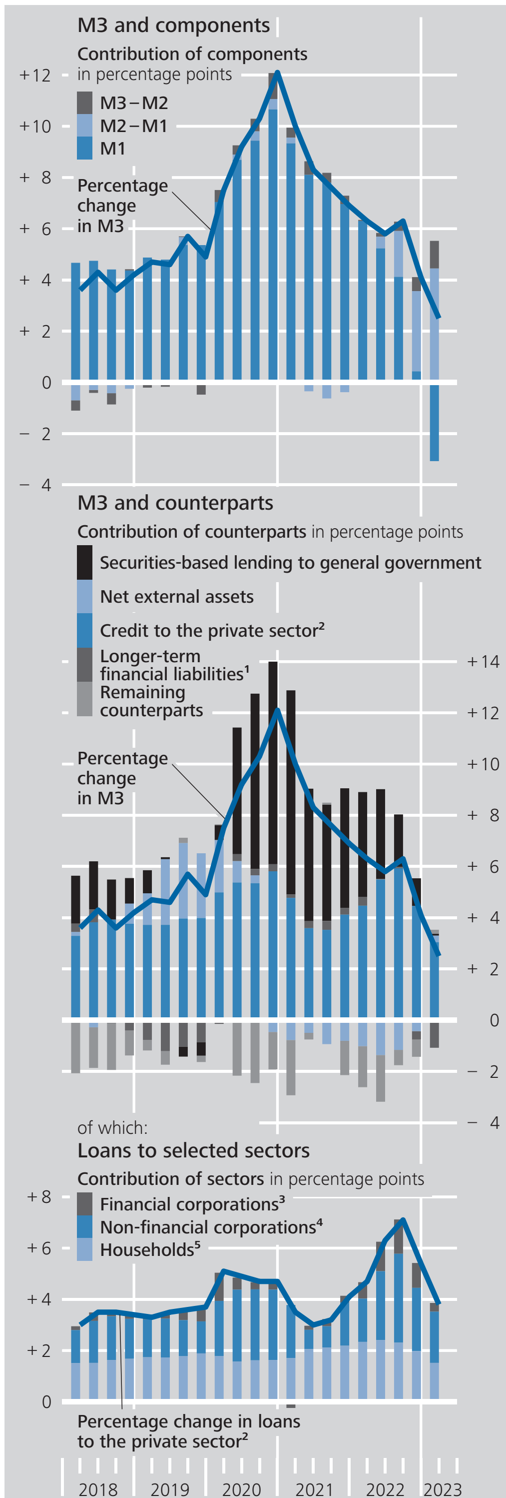
Shifts out of overnight deposits in particular into short-term time deposits

Deposit growth was driven instead by differences in the yields offered by various forms of investment, which widened further as Eurosystem key interest rates continued to be raised. Against this backdrop, money-holding sectors continued to shift their portfolios out of highly liquid, low-interest deposits into higher-yielding forms of investment with somewhat longer investment horizons (see the table on p. 29). Overnight deposits in particular were once again reduced sharply, with investors – primarily non-financial corporations and households – preferring to carry on adding substantially to their stocks of short-term time deposits. Short-term bank debt securities and money market fund shares, too, attracted increased demand. Overall, however, the strong build-up of other short-term assets was unable to offset the sharp decline in overnight deposits, with the result that the monetary aggregate M3 contracted on balance in the reporting quarter for the second time in succession.

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.

Deutsche Bundesbank

Longer-term assets offered by banks also highly sought after by investors

Investors shifting funds into longer-term bank deposits and bank bonds, which do not count towards the money supply, was one reason for the decline in money holdings. The superior yields compared to deposits offered by longer-term bank debt securities in particular meant that these assets attracted more demand than ever since the financial crisis. In arithmetical terms, the increase in these items (which count towards longer-term financial liabilities) offset the decline in M3, which meant that the money-holding sectors did not withdraw any funds on balance from the MFI sector in the first quarter.

Securitised lending reduced fairly substantially

Alongside investors' preference for longer-term investments, the main reason for the drop in M3 was the net reduction of credit. On balance, lending to non-banks in the euro area was negative in the quarter under review for the first time since 2014. This was primarily because the MFI sector scaled back its securitised lending to domestic non-banks on a fairly substantial scale. Since the beginning of March, the Eurosystem has downsized its APP portfolio by an average of €15 billion every month. In addition, commercial banks' bond holdings also fell on balance. This was possibly due to fairly low net issuance volumes in the corporate sector of late combined with an uptick in demand for corporate and government bonds in other sectors.

Net loans to non-financial corporations came to a standstill …

Inflows to loans to the domestic private sector, having slumped in the previous quarter, recorded a further decline in the first quarter, though they did remain slightly positive. One particularly striking development was the turnaround in loans to non-financial corporations, where the brisk net lending activity observed into the third quarter of 2022 came to an almost complete standstill. The slowdown in this loan category played out across the entire euro area. Despite the slowdown, banks in Germany and France were still reporting net inflows in the first quarter, but credit institutions in Spain and Italy, where lending had already been weaker of late, registered minor outflows on

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

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

Assets	Q4 2022	**Q1 2023**	Liabilities	Q4 2022	**Q1 2023**
Credit to private non-MFIs in the euro area	3.6	– 11.9	Holdings against central government[2]	41.0	– 110.1
Loans	– 31.6	6.2	Monetary aggregate M3	– 78.8	– 64.3
Loans, adjusted[1]	10.1	2.9	Components:		
Securities	35.2	– 18.1	Currency in circulation and overnight deposits (M1)	– 360.9	– 367.3
Credit to general government in the euro area	45.1	– 78.2	Other short-term deposits (M2-M1)	226.3	246.8
Loans	4.2	– 18.2	Marketable instruments (M3-M2)	55.8	56.2
Securities	41.0	– 60.0			
			Longer-term financial liabilities	63.6	89.2
Net external assets	51.8	75.3	Capital and reserves	20.7	9.4
Other counterparts of M3	– 74.6	– 70.4	Other longer-term financial liabilities	42.9	79.8

***** 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.

Deutsche Bundesbank

aggregate (see the chart on p. 30). The annual growth rate for the euro area fell from just under 9% at the end of September 2022 to 5¼% at the end of March.

… as a result of demand-side and supply-side factors

One major factor behind the weak lending activity was the substantial redemptions of the short-term loans that firms had taken out in 2022 to cover their high liquidity needs stemming from supply chain issues and tension in energy markets. Inflows to long-term loans were low as well, just as they had been in the previous quarter. This would suggest than demand for investment financing was weak in light of the uncertain economic situation and increased interest rates. The continued tightening of credit standards reported by BLS banks is also likely to have put a damper on lending activity. Another contributory factor was a one-off effect from Germany. The first quarter saw the redemption of another portion of the large-volume, government-guaranteed loans that the KfW Group had granted to enterprises from the energy sector in the second and third quarters of 2022.

Responses by banks participating in the BLS substantiate this view. The surveyed institutions reported a decline in demand in this loan category in the first quarter that was again greater than the one they had observed in the previous quarter. BLS banks regarded the increase in the general level of interest rates and the decreasing financing needs related to fixed investment as the main factors behind the decline. Unlike in the previous quarters, financing needs related to inventories and working capital, meanwhile, stopped buoying demand.

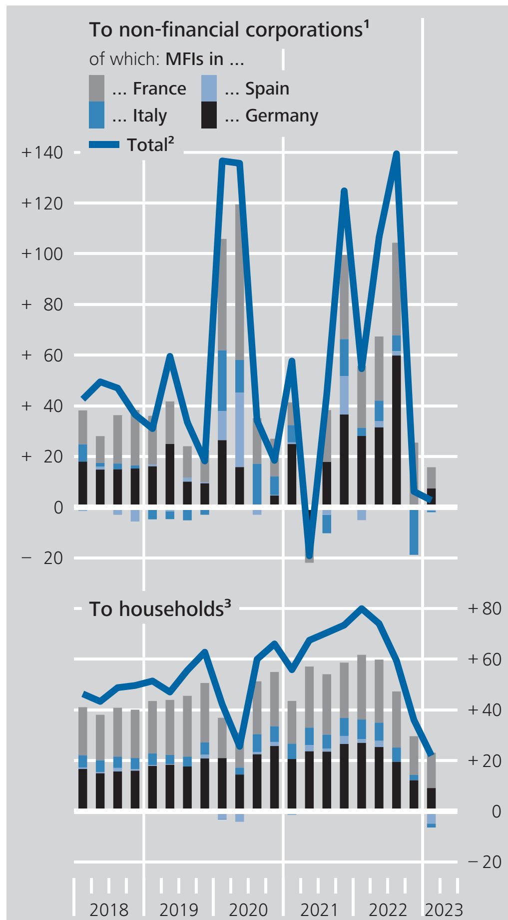
BLS banks attribute decrease in demand to higher interest rates and lower financing needs for fixed investment …

… and tightened their credit standards again for loans to enterprises

BLS data indicate that euro area banks once again substantially tightened their credit standards for loans to enterprises in the first quarter. The surveyed banks yet again cited elevated credit risk as the most important reason for their adjustments. In particular, the BLS banks highlighted the perceived deterioration in the economic situation, the economic outlook, as well as sector-specific and firm-specific factors. Regarding their own behaviour, the banks reported that their risk tolerance had decreased further and reiterated that the deteriorations in their liquidity positions were another factor on the bank side. The rejection rate for loans to enterprises rose further in the first quarter. The BLS provided no indication either for the euro area as a whole or for Germany that the turmoil experienced by the banking sector in March had impacted negatively on banks' lending policies, thereby reinforcing the transmission of monetary policy.

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

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



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

Lending to households for house purchase weakened significantly …

Lending to households weakened for the fourth consecutive quarter. Net inflows into consumer credit eased moderately in the first quarter and other lending decreased on balance. The main factor, however, was the considerable slowdown in housing loans, which are the most significant component in terms of volume. Net inflows into this loan category shrank in the four largest euro area countries. Annual growth in loans for house purchase contracted to 3¼% at the end of March, which represents a drop of just over 2 percentage points on the year. One key factor behind the decline in loan demand was the change in lending rates for loans for house purchase, which rose by 2 percentage points over the same period. Another was that the uptick in construction prices fuelled by the high inflation combined with persistently high housing prices in the euro area dragged on loan demand. The BLS banks, too, observed another strong drop in demand for housing loans, which they attributed to the increased level of interest rates, the gloomy outlook in the housing market, and the decline in consumer confidence.

… and credit standards tightened again, BLS banks report

BLS data indicate that euro area banks also tightened their credit standards for housing loans once again. This is another loan category in which the surveyed banks reported tightening their credit standards primarily on account of their perceptions of higher credit risk. This assessment was based not just on the deterioration in the general economic situation and the bleaker outlook in the housing market, but also the decline in borrowers' creditworthiness. Reduced risk tolerance and deteriorations in their liquidity positions were other reasons cited by the banks.

German banks' deposit and lending business with domestic customers

Deposit business characterised by rebalancing as a result of rising interest rates …

German banks' deposit business with domestic customers continued to weaken in the first quarter of 2023. Whilst investors' interest in short-term time deposits increased significantly once again, the strong growth in this market segment was almost entirely offset by a corresponding reduction in overnight deposits and short-term savings deposits. These shifts represent investors' – especially households' and non-financial corporations' – response to a further widening of the yield spread between short-term time deposits remunerating at close-to-market rates and other short-term bank deposits (see the chart on p. 31). Against this backdrop, the overnight deposits and short-term savings deposits held by domestic private sectors fell steeply overall.

… with a slight pick-up in interest in long-term bank deposits

As part of the yield-driven portfolio rebalancing, domestic investors likewise showed slightly more interest in long-term bank deposits – for the first time in more than eight years. On the one hand, households upped their long-term time deposits and savings deposits. On the other hand, financial corporations, which are generally more yield-conscious than households and non-financial corporations, continued to reduce their long-term time deposits, as they have been doing for more than 13 years now, but to a considerably lesser degree. Overall, this development suggests that, in the current environment of rising interest rates, longer-term bank deposits are also gradually benefiting from the higher opportunity costs of holding liquid funds. In addition to these shifts within deposits, funds also flowed into other forms of investment, particularly bank debt securities, amongst others, motivated by considerations of yield.

Lending business with non-banks again weaker

German banks' lending business with domestic customers also weakened further in the first quarter of 2023, but, unlike in the euro area, remained in positive territory overall. Lending to both the domestic private sector and to domestic general government was down. The slight increase in loans granted to general government was offset on balance by a similar decrease in securities-based lending to this sector.

Lending to non-financial corporations sees divergent developments in individual maturities

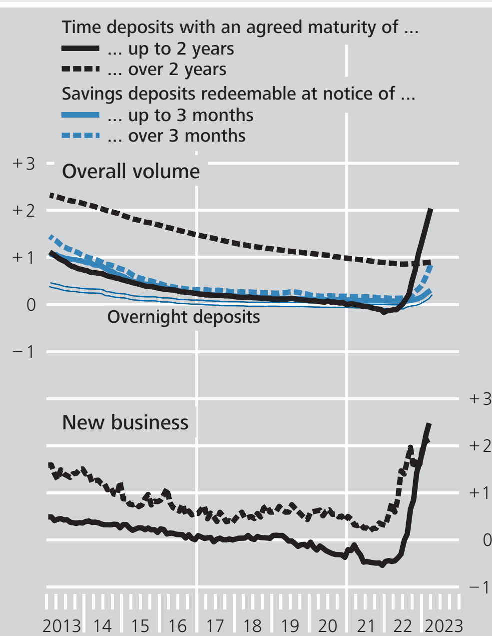
The subdued lending to the domestic private sector stemmed primarily from relatively weak lending to non-financial corporations. As in the previous quarter, this was chiefly due to enterprises stepping up their repayments of short-term loans. This included ongoing repayments of large-volume, government-guaranteed assistance loans that had been granted to enterprises from the energy sector. By contrast, long-term loans to non-financial corporations once again increased markedly and were thus able to offset the substantial decline in short-term maturities.

On aggregate, it is likely that the current developments in loans to non-financial corporations are a reflection of several factors and are driven by both demand-side and supply-side factors. In addition to lower energy prices and easing supply bottlenecks, demand for loans is currently also being dampened by the now significantly higher lending rates as well as the uncertainty surrounding the economic outlook. Moreover, the banks in Germany surveyed by the BLS have been reporting tighter credit standards since the summer of 2022 and this is also likely to be gradually having an impact on lending.

Slowdown in loans to non-financial corporations driven by demand-side and supply-side factors

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

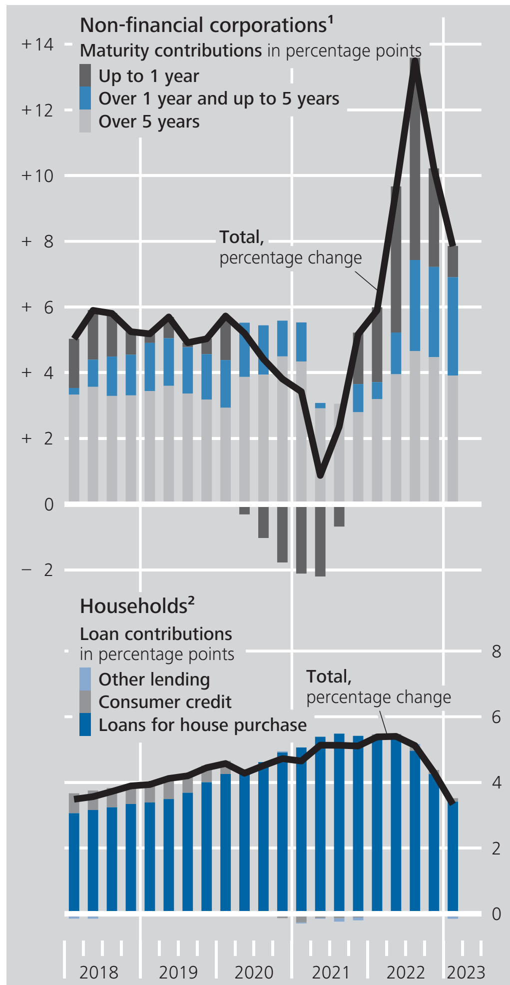
Higher lending rates and lower financing needs for fixed investment key to declining demand

The banks responding to the BLS cited higher interest rates and lower financing needs related to fixed investment as the main reasons for the decline in loan demand. By contrast, financing needs related to inventories and working capital continued to provide positive stimulus for demand.

At the same time, the BLS data suggest that banks in Germany tightened their credit stand-

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

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



* Adjusted for loan sales and securitisation. **1** Non-financial corporations and quasi-corporations. **2** Including non-profit institutions serving households.
Deutsche Bundesbank

Credit standards tightened to lesser extent than in previous quarter

ards for corporate lending again on balance – albeit to a lesser extent than in the previous quarter – and reported stricter credit terms and conditions overall. Similarly to the euro area as a whole, the German BLS banks attributed the restrictive nature of their lending policies primarily to the deterioration in the general economic situation and outlook as well as to industry-specific and firm-specific factors. Equity costs or banks' costs related to their capital positions, which still had a restrictive impact on the standards in the previous survey, have ceased to contribute to the tightening of standards in the past three months.

Growth in loans for house purchase continued to weaken

While the previously booming corporate lending business abruptly collapsed in the autumn of 2022, the slowdown in lending to households started earlier – in the spring of 2022 – and was much more gradual. Lending business with domestic households continued to lose momentum in the reporting quarter, too. In this context, households again exhibited lower demand for loans for house purchase than in the previous quarters. High inflation, a significant rise in construction prices and further increases in the costs of funds dampened household demand for construction and bank loans. According to the MFI interest rate statistics, interest rates on loans for house purchase continued to rise in the first quarter, reaching 3.8% at the end of the period under review.

Credit standards for loans for house purchase more restrictive

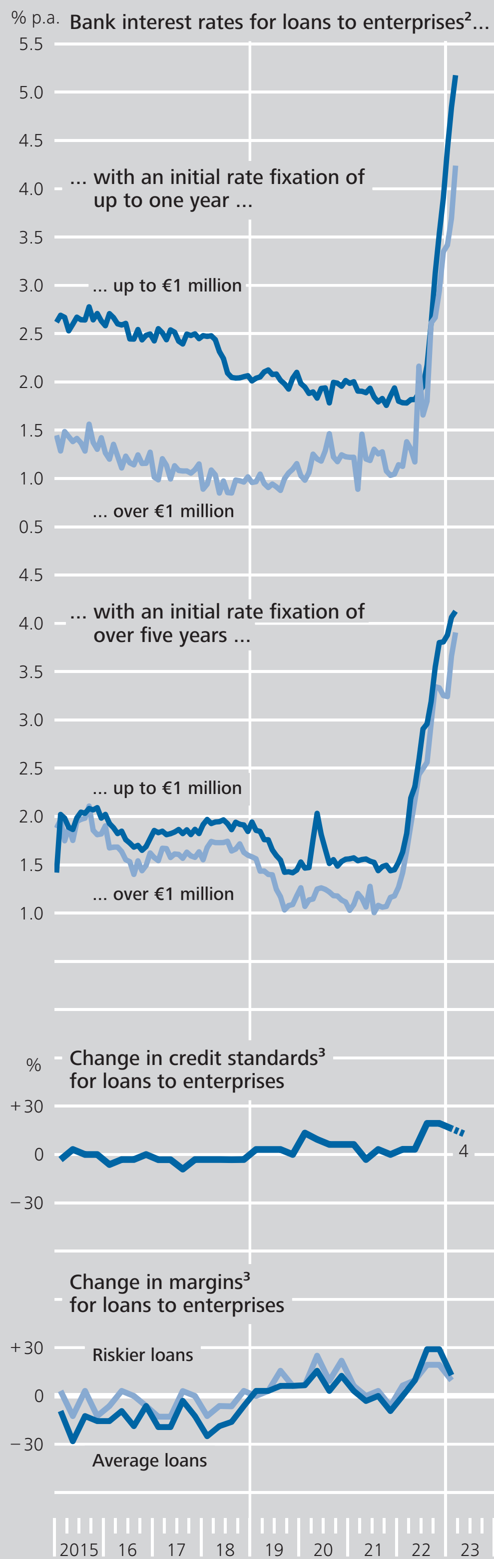
The bank supply side also had a restrictive impact on loans for house purchase in the first quarter. The BLS data suggest that banks in Germany tightened their credit standards in the area of loans to households for house purchase on balance again in the first quarter. Compared to the tightening in the previous three quarters, the current tightening of standards was less pronounced, as was the case for loans to enterprises. In this loan category, too, banks justified more stringent requirements primarily based on their perception of elevated credit risk.

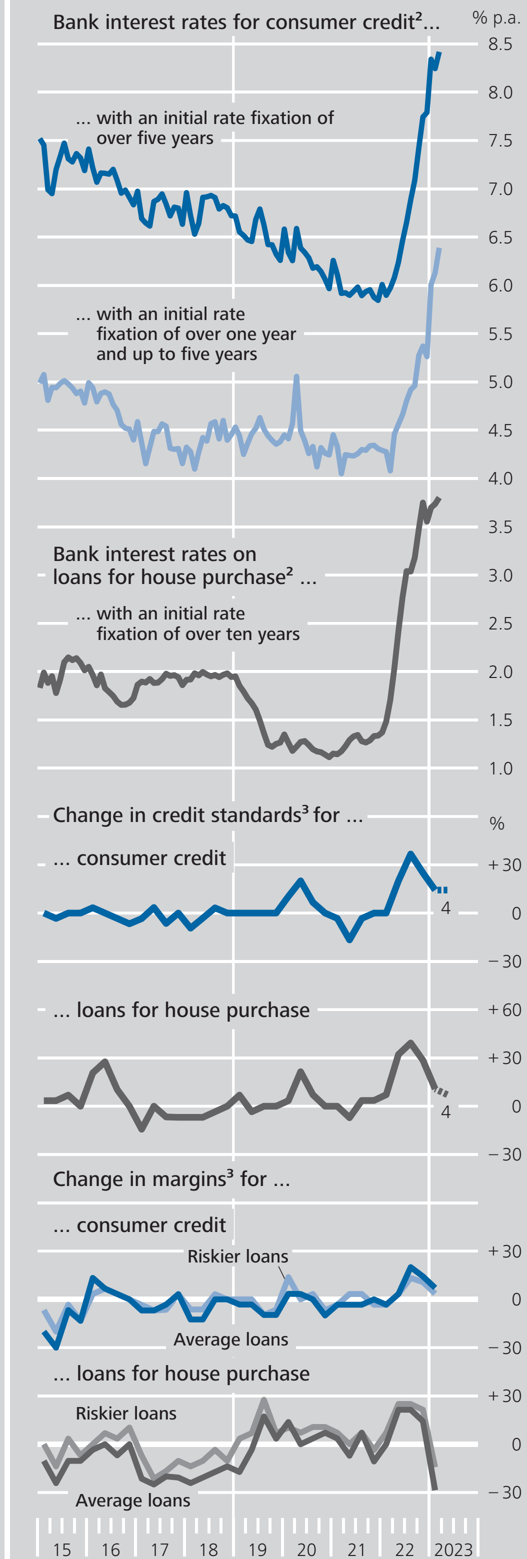
By contrast, credit terms and conditions in the area of loans to households for house purchase were eased again for the first time since the start of the war against Ukraine. Banks cited heightened competition in particular as the reason for easing credit terms and conditions overall and narrowing margins.

Demand for consumer credit and other lending also in decline overall

According to the BLS, banks' lending policies for consumer credit and other lending to households were also tightened again in the first quarter of 2023. Moreover, as the cost of funds for consumer credit and other lending to households continued to rise, their demand for these products declined noticeably overall.

Banking conditions in Germany





1 Including non-profit institutions serving households. **2** New business. According to the harmonised MFI interest rate statistics. **3** According to the Bank Lending Survey; for credit standards: difference between the number of respondents reporting "tightened considerably" and "tightened somewhat" and the number of respondents reporting "eased somewhat" and "eased considerably" as a percentage of the responses given; for margins: difference between the number of respondents reporting "widened considerably" and "widened somewhat" and the number of respondents reporting "narrowed somewhat" and "narrowed considerably" as a percentage of the responses given. **4** Expectations for Q2 2023.

Deutsche Bundesbank

MFI* lending and deposits in Germany

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

Item	2022 Q4	2023 Q1
Deposits of domestic non-MFIs[1]		
Overnight	− 28.9	− 84.0
With an agreed maturity of		
up to 2 years	52.3	104.2
over 2 years	− 4.4	2.7
Redeemable at notice of		
up to 3 months	− 13.7	− 24.9
over 3 months	0.8	4.0
Lending		
to domestic general government		
Loans	1.9	0.9
Securities	1.8	− 0.6
to domestic enterprises and households		
Loans[2]	21.8	18.7
of which: to households[3]	12.0	8.8
to non-financial corporations[4]	0.8	1.9
Securities	2.5	0.3

* As well as banks (including building and loan associations, but excluding the Bundesbank), monetary financial institutions (MFIs) here also include money market funds. 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.

Deutsche Bundesbank

Funding environment deteriorated slightly for German banks

In light of the conditions in financial markets, the surveyed German banks reported that their funding situations had deteriorated slightly compared with the previous quarter, including as regards the issuance of medium-term to long-term debt securities.

Securities held for monetary policy purposes impacted negatively on banks' market financing conditions

The changes in the stocks of securities held by the Eurosystem for monetary policy purposes that arise as a result of net purchases or incomplete reinvestments barely impacted on banks' liquidity positions and their profitability over the past six months. By contrast, the effect on banks' market financing conditions was negative. This is likely to reflect the discontinuation of net asset purchases as of July 2022 and the reduction in reinvestments since March 2023. The changes in the monetary policy portfolios did not lead to any changes in banks' credit standards and credit terms and conditions for loans to the private sector, though. They did, however, contribute to a decline in the volumes of loans for house purchase as well as consumer credit and other lending.

Continued positive effects of TLTRO III on banks' financial situations

According to the banks, TLTRO III again had a positive impact on their financial situations in the winter half-year (October 2022 to March 2023), despite the fact that no further operations have been conducted since December 2021. The operations contributed directly or indirectly to more comfortable liquidity positions and increases in profitability. They also helped improve banks' ability to fulfil regulatory and supervisory requirements. Compared with the summer half-year (April to September 2022), these influences diminished significantly, however. Banks reported that the TLTRO III operations have not had any noteworthy impact on their credit standards, credit terms and conditions, or lending volumes over the past six months.

Positive impact of Eurosystem key interest rate decisions on banks' profitability

The Eurosystem's key interest rate hikes have had, overall, a positive impact on banks' profitability over the past six months. While they strained net non-interest income, this was more than offset by a marked improvement in net interest income.