

Monetary developments

Money market management and central bank money requirements

The Bundesbank, at the turn of 1996-7, continued its "steady-as-she-goes" approach in the money market, which it had adopted following the interest rate reductions in the spring and summer of 1996. It left the discount and lombard rates unchanged at 2½% and 4½%, respectively, and the rate for securities repurchase agreements at 3.0%. Moreover, in all cases the Bundesbank announced its terms for securities repurchase agreements (which continued to be offered in the form of fixed-rate tenders) in advance following the meetings of the Central Bank Council. This interest rate policy of keeping central bank rates – some of which are at an all-time low – on a steady course is in line with monetary policy requirements and overall economic conditions.

"Steady-as-she-goes" policy in the money market

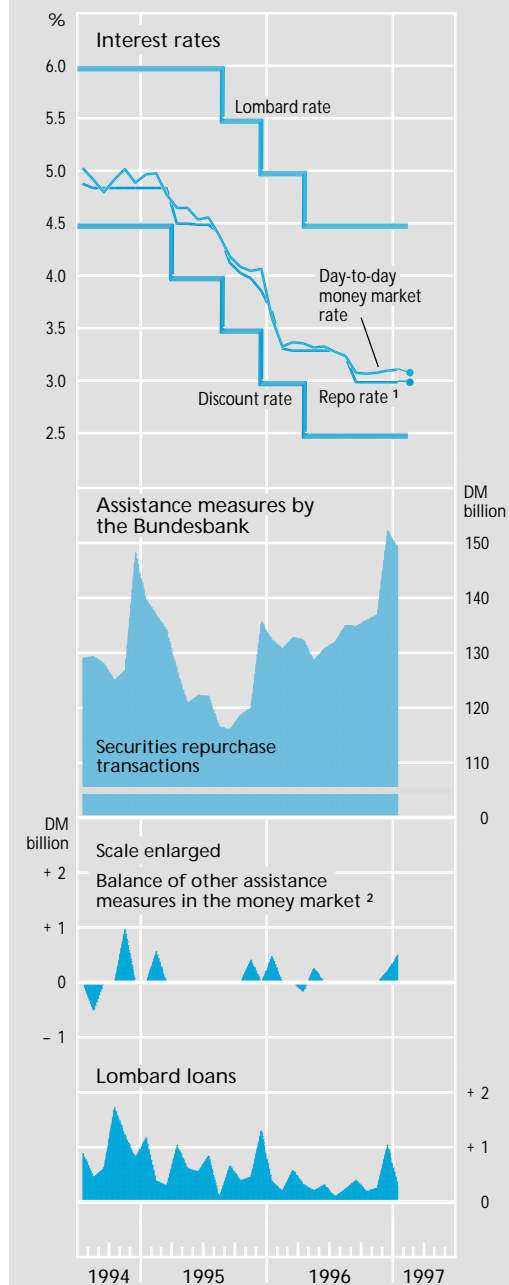
Money market rates tended to decline in the period under review; only the rate for one-month funds rose at the end of November owing to "end-of-year premiums" and fell again at the turn of 1996-7. The yield curve in the money market flattened somewhat; the rate for one-year funds is now only slightly higher than the time deposit rates in the very short-term maturity category. The position of German money market rates and yields in the capital market stayed largely unchanged within the international term spread.

Money market rates

There was a marked change in banks' liquidity requirements during December and January. This was mainly due to the very volatile trend

Banks' liquidity requirements

Operating variables in the money market



1 Average monthly interest rate for securities repurchase transactions with two-week maturities, uniform allotment rate (fixed-rate tenders) or marginal allotment rate (variable-rate tenders). — 2 Quick tenders, foreign exchange swap and repurchase transactions and short-term Treasury bill sales. — ● = Latest position: Feb. 12, 1997

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in currency in circulation at the turn of the year. It increased sharply and sometimes even shot up in the period leading up to the Christmas holiday, subsequently falling rapidly again by the end of January. Other market factors, too, showed major fluctuations. This applies both to the cash items in course of settlement in the Bundesbank system and to the Bundesbank's external position. Furthermore, the Bundesbank, in its provision of liquidity, had to take account of the credit institutions' temporary marked reduction in their rediscount borrowing at the end of the year and the mainly seasonal sharp growth in the required minimum reserves.

In early December, the Central Bank Council decided that liabilities arising from what are known as "genuine sale and repurchase transactions" (repo transactions) running for up to one year in marketable securities were to be exempted from minimum reserve requirements with effect from January 1, 1997. This measure will bolster the effectiveness and competitiveness of the German financial market. It appeared to be acceptable in monetary policy terms, as it does not impair the functional viability of the minimum reserve instrument owing to its negligible impact on credit institutions' required minimum reserves. The exemption of existing repo transactions led to a lowering of the required reserves by DM 0.2 billion in January. In the period under review, other effects on minimum reserves due to shifts of deposits previously subject to minimum reserve requirements into repo transactions exempt from minimum reserve requirements were observable only on a limited scale. No major impact

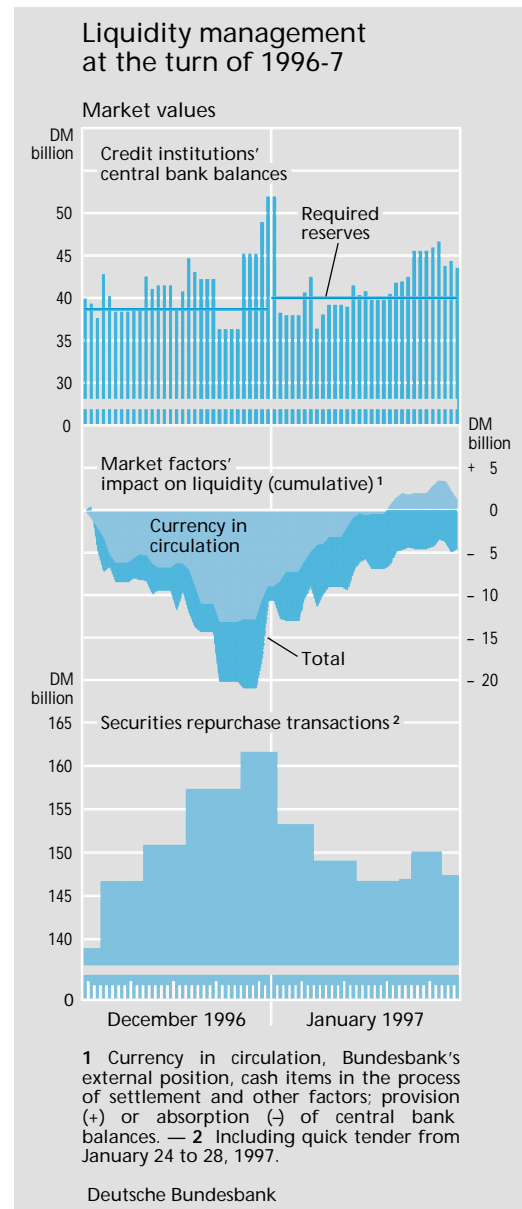
Exemption of repos from minimum reserve requirements

on required minimum reserves is to be expected as a result of this in future either; the buffer function of the minimum reserves and their stabilising effect on the demand for central bank money are hence unlikely to be affected by this measure.

Money market management through repurchase agreements ...

Against the backdrop of the credit institutions' heavily fluctuating liquidity requirements, ongoing money market management in December and January was not confined solely to the usual regular weekly conclusion of securities repurchase agreements. Above and beyond that, the Bundesbank applied very short-term assistance measures. At the beginning of December, when major temporary drains on liquidity were discernible, it provided additional funds prior to the first regular tender date by concluding two-day foreign exchange swap transactions in order to steady trends in the market for day-to-day money. In the further course of the month, the Bundesbank sharply increased the volume of repo transactions outstanding in line with the foreseeable expansion of currency. Nevertheless, in December it was not possible to gear credit institutions' central bank balances in a narrow margin around the required minimum reserves throughout the month, as is usually the case, and the course of compliance with reserve requirements was less steady. However, the market for day-to-day money presented a fairly balanced picture; it was only at the end of the year that the rate for day-to-day money temporarily went up to the lombard rate level in connection with the concluding fine-tuning of reserve holdings. In January, the rate for day-to-day money was initially close to the fixed-rate tender rate.

... foreign exchange swap transactions ...



Following the announcement of the actual, unexpectedly high required minimum reserves for that month, however, the banks' liquidity position appeared, if anything, to be somewhat tight. The Bundesbank countered the emerging tensions in the day-to-day money market by concluding a quick tender running for five days. In the period under review, credit institutions' lombard borrowing was concentrated on the end of the year; on a monthly average, it

... and quick tender

came to DM 1.1 billion in December and fell to DM 0.3 billion in January.

*Rise in central
bank money
requirements*

Trends in the principal factors determining bank liquidity between December and January are shown in detail in the adjacent table. As usual at the turn of the year, central bank money (currency in circulation in the hands of non-banks and minimum reserves on domestic liabilities at current reserve ratios) rose strongly (by DM 3.7 billion net). However, this increase was clearly not as sharp as in the previous years. This was due solely to the comparatively weak expansion of currency in circulation, which decreased slightly after elimination of seasonal factors if December and January are taken together. Required reserves, by contrast, grew strongly, especially at the beginning of 1997.

*Current
transactions*

On balance, credit institutions' current transactions with the Bundesbank also reduced bank liquidity in the period under review. This was largely attributable to the decline in the Bundesbank's external position, which led to a drain on credit institutions' liquidity of DM 4.6 billion. This was mainly caused by the Bundesbank's commercial transactions, in which foreign currency was sold that had previously accrued outside the market (purchases of dollars from US military agencies, in particular). Other factors also had a contractionary impact. Their decline reflects, firstly, the current entries to the Bundesbank's profit and loss account, and the increase in credit institutions' cash holdings which is typical of the turn of the year. Secondly, the large drop (of DM 4.7 billion) in December reflects the increased negative

Factors determining bank liquidity *

DM billion;
calculated on the basis of daily averages of the months

Item	1996		1997	
	Dec.	Jan. pe	Jan. pe	Dec. to Jan. pe
I. Provision (+) or absorption (-) of central bank balances by				
1. Change in central bank money (increase: -)	- 8.8	+ 5.1	- 3.7	
Currency in circulation	(- 8.4)	(+ 6.4)	(- 1.9)	
Minimum reserves on domestic liabilities	(- 0.5)	(- 1.3)	(- 1.8)	
Memo item				
Change in seasonally adjusted central bank money	(- 0.7)	(+ 0.9)	(+ 0.2)	
2. Change in the Bundesbank's external position 1	- 2.3	- 2.3	- 4.6	
3. Other factors	- 4.7	+ 1.0	- 3.8	
Total	-15.9	+ 3.7	-12.1	
II. Lasting provision (+) or absorption (-) of funds	- 0.6	+ 0.0	- 0.6	
1. Change in minimum reserve ratios	(-)	(+ 0.2)	(+ 0.2)	
2. Change in refinancing facilities	(+ 0.1)	(- 0.1)	(- 0.0)	
3. Recourse to unused refinancing facilities (reduction: +)	(- 0.7)	(- 0.1)	(- 0.8)	
III. Change in the short-term liquidity deficit (I plus II; increase: -)	- 16.5	+ 3.8	-12.7	
IV. Meeting of remaining deficit (+) or absorption of surplus (-) by				
1. Securities repurchase transactions	+ 15.5	- 3.3	+ 12.2	
2. Quick tenders	-	+ 0.5	+ 0.5	
3. Foreign exchange swap transactions	+ 0.2	- 0.2	± 0.0	
4. Lombard loans	+ 0.8	- 0.8	+ 0.0	
Memo items 2				
Unused refinancing facilities	4.0	4.1	4.1	
Securities repurchase transactions	152.4	149.1	149.1	
Balance of very short-term assistance measures 3	0.2	0.5	0.5	
Lombard loans	1.1	0.3	0.3	

* For longer-term trends see pages 12*/13* in the Statistical Section of this Report. — 1 Excluding foreign exchange swap transactions. — 2 Levels (in the current month or in the last month of the period). — 3 Quick tenders, foreign exchange swap and repurchase transactions and sales of short-term Treasury bills.

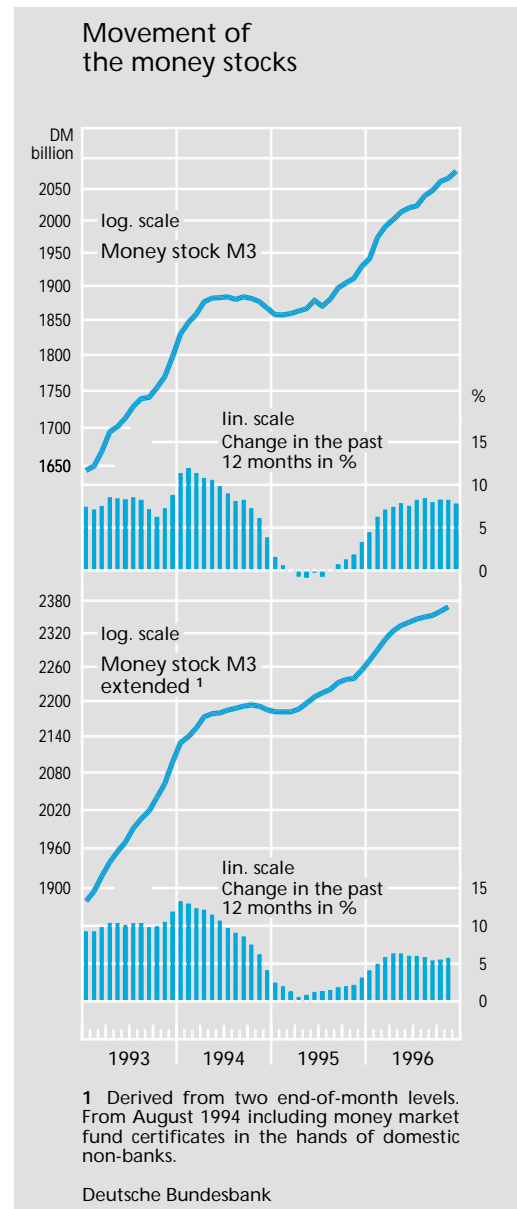
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float in the Bundesbank system which is likewise usual for that period, and the considerably higher overcompliance with minimum reserve requirements, which is always seen in that month. Altogether, banks' liquidity decreased by DM 12.1 billion on a monthly average in December and January owing to changes in central bank money and current transactions. The temporary reduction in the rediscounting of bills of exchange by credit institutions resulted in an additional need of funds. This was accompanied by a slightly reduced demand for central bank balances on account of the above-mentioned exemption of repo transactions from minimum reserve requirements, which led to the banks' short-term liquidity gap rising on balance by DM 12.7 billion. A sharp rise in December was followed by a fall in January. The Bundesbank met the increased shortfall largely by stepping up the volume of regular securities repurchase agreements to DM 149.1 on a monthly average of January.

Monetary developments

Monetary growth somewhat stronger

The slight increase in monetary expansion, which had begun in August last year, continued in the fourth quarter of 1996. The growth of the money stock M3¹ was subject to fairly marked disruptive influences and fluctuations from month to month, however. A sharp rise in October in connection with anticipatory holdings of liquidity for purchases of Deutsche Telekom shares was followed by a perceptible decrease in November and a renewed increase in December owing to tax changes applying to real estate pur-



chases effective from the beginning of 1997. In December, the money stock M3 was 7.9% (annualised rate) higher than in the fourth quarter of 1995. On an average of the fourth quarter of 1996, it exceeded its level in the fourth quarter of 1995 by 8.1%. The

¹ Currency in circulation and the sight deposits, time deposits for less than four years and savings deposits at three months' notice held by domestic non-banks – other than the Federal Government – at domestic credit institutions; calculated as a monthly average.

1996 monetary target, which envisaged an increase of 4% to 7% for that period, was thus overshoot. However, this result is mainly due to the strong growth of the money stock M3 in spring 1996; following this, it rose approximately in line with the potential.

“Overhang” at the end of the year

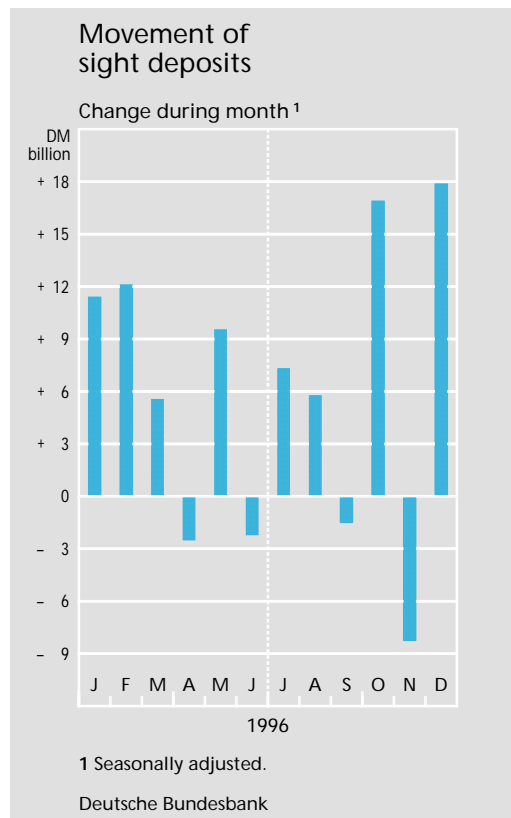
During December, the growth of the money stock M3 exceeded the monthly average, putting a considerable burden on “entry” to the 1997 monetary target period in the form of quite a large statistical overhang. Since the upsurge in the money stock at the end of the year probably largely reflects “anticipatory effects” in terms of credit expansion, however, it can scarcely be rated as an indication of a change in the trend of monetary growth. If anything, it must be interpreted as an “outlier”, which is likely to be followed by a slower monetary and credit expansion during the course of this year.

Determinants of monetary growth

Besides increased lending to enterprises and individuals, monetary expansion in the fourth quarter of 1996 was also fuelled by the public sector's cash transactions. Although monetary capital formation picked up in the period under review, it continued to represent only a minor counterweight to the expansionary stimuli behind the monetary creation process generated by the growth of the banks' total assets. As had been the case earlier in the year, domestic non-banks' purchases of money market fund certificates had no significant impact on monetary growth.

Components of the money stock

Of the individual (seasonally adjusted) components of the money stock, the sharpest increase between October and December



was in sight deposits. On the one hand, this is likely to have been encouraged by the low short-term interest rates and the persistently favourable price climate. On the other, the surge in sight deposits in October and December was also associated with special influences in the months in question. Investors' anticipatory holdings of liquidity for subsequent purchases of Deutsche Telekom shares is likely to have played a major role in October. Apart from the typical seasonal window-dressing operations at the end of the year, the rapid growth of sight deposits in December – particularly in the corporate sector – might also have owed something to the reduction in special depreciation facilities (in particular, for residential buildings in eastern Germany) from the beginning of 1997. This is suggested by the fact that enterprises dealing

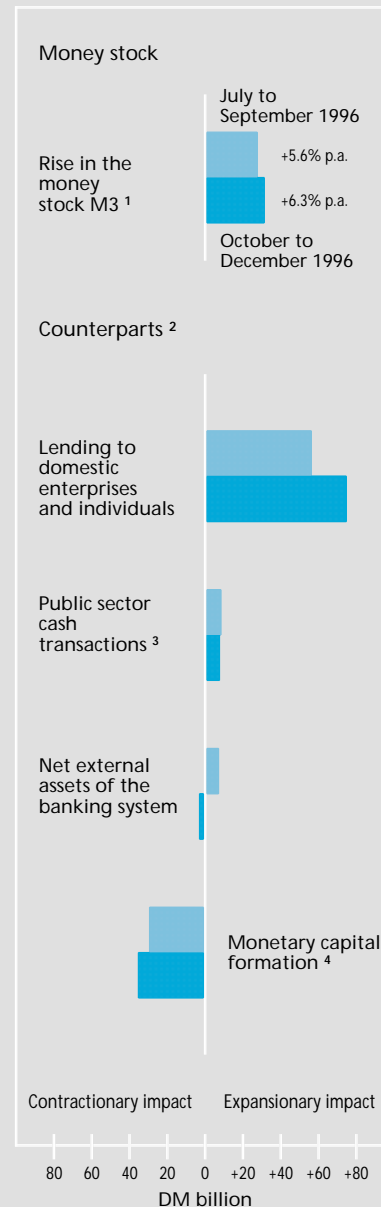
in east German real property obviously recorded high inflows of funds at the end of the year. In the fourth quarter of 1996, savings deposits at three months' notice again grew vigorously, albeit not as steeply as before; in the year as a whole, it was this component of the money stock – very largely the special savings schemes – which expanded most strongly. Currency in circulation stagnated between October and December. Shorter-term time deposits continued their decline in the fourth quarter as a whole, but rose again in December.

Renewed re-sales of money market fund certificates

Domestic non-banks continued to reduce their holdings of money market fund certificates in the period under review (– DM 2.2 billion). The particularly strong demand for such certificates in December in the previous two years failed to materialise this year, probably not least owing to the fact that property tax, which had favoured investments in fund certificates rather than directly held financial assets, was to be abolished from the beginning of 1997. In 1996 as a whole, domestic non-banks sold such paper to the tune of DM 10.6 billion net, which approximately equalled the amount they had invested in money market funds in December 1995 (DM 9.7 billion). Last year, purchases of money market fund certificates hence played no part in the trend monetary growth. Domestic money market funds increased their deposits at domestic banks between October and December by DM 0.5 billion, whereas they reduced their deposits at foreign subsidiaries and foreign branches of German credit institutions by DM 0.6 billion.

The money stock and its principal counterparts

DM billion, seasonally adjusted, change in the period mentioned



1 M3 as a monthly average. — 2 The changes in the counterparts as shown reflect their expansionary (+) or contractionary (–) impact on the money stock; end-of-month levels. — 3 Lending by the banking system to public authorities less the deposits of the Federal Government in the banking system. — 4 Monetary capital formation by domestic non-banks at domestic credit institutions.

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*Moderate
growth of the
money stock
M3 extended*

Domestic non-banks stepped up their money holdings in the Euro-market only slightly between September and November (figures for December are not yet available). The rise in the money stock M3 extended², which includes such deposits as well as domestic non-banks' investment in money market funds, hence continued to be moderate in that period. At present, its trend growth, too, is distinctly less rapid than that of the traditionally defined money stock M3; during the past twelve months, the money stock M3 extended has risen by just under 6% and hence by 2½ percentage points less than M3. The more moderate expansion of the money stock M3 extended puts the overshooting of the target by M3 into perspective. It bears out the notion that the total amount of money balances influencing expenditure rose less rapidly last year than the statistically recorded money stock M3. The fact that their growth was sustained mainly by special savings schemes, which sometimes represent monetary capital formation "in disguise", points in the same direction.

*Buoyant
lending to the
private sector*

Viewed in terms of balance sheet counterparts, the somewhat stronger growth of the money stock in the fourth quarter of 1996 was – as mentioned above – primarily attributable to more vigorous lending to the private sector. Between October and December, banks granted new loans to enterprises and

² Money stock M3, domestic non-banks' deposits with the foreign subsidiaries and foreign branches of German banks and the short-term bank debt securities and certificates of domestic and foreign money market funds in the hands of domestic non-banks, less the bank deposits and short-term bank debt securities of domestic money market funds.

The money stock and its counterparts *

DM billion; change during period

Item	Oct. to Dec. 1995	Oct. to Dec. 1996
I. Bank lending to domestic non-banks, total ¹	+ 126.6	+ 146.2
1. Lending by the Bundesbank	– 1.3	± 0.0
2. Lending by credit institutions to enterprises and individuals of which	+ 127.9	+ 146.2
Short-term lending	+ 80.0	+ 110.4
to public authorities	+ 5.7	+ 22.3
to public authorities	+ 47.9	+ 35.8
II. Net external assets of credit institutions and the Bundesbank	+ 2.9	+ 16.1
III. Monetary capital formation at credit institutions from domestic sources, total of which	+ 31.0	+ 34.4
Time deposits for four years and more	+ 15.1	+ 15.2
Savings deposits at more than three months' notice	+ 6.8	+ 1.0
Bank savings bonds	+ 1.0	+ 4.7
Bank debt securities outstanding ²	+ 2.5	+ 8.1
IV. Deposits of the Federal Government in the banking system ³	± 0.0	+ 6.2
V. Other factors	– 21.0	– 21.4
VI. Money stock M3 (Balance: I plus II less III less IV less V)	+ 119.5	+ 143.0
Currency in circulation	+ 10.8	+ 6.6
Sight deposits	+ 77.9	+ 100.5
Time deposits for less than four years	– 22.0	– 8.6
Savings deposits at three months' notice	+ 52.8	+ 44.5
Memo item		
M3 as a monthly average ⁴ 4th qtr of 1996 compared with the 4th qtr of 1995 in %		+ 8.1

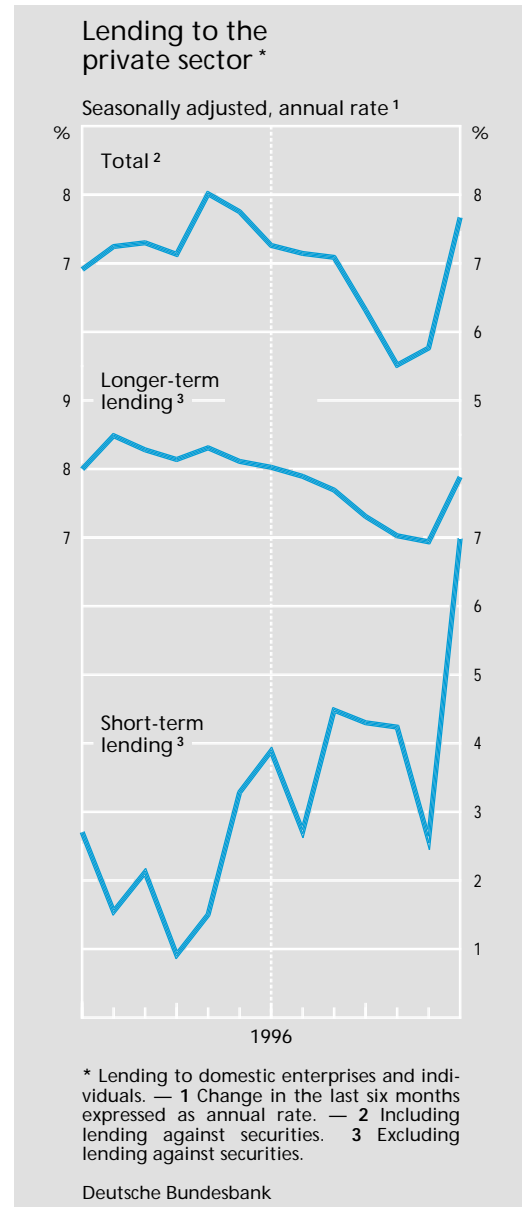
* The figures for the latest period are always to be regarded as provisional. — ¹ Including lending against Treasury bills and against securities. — ² Excluding banks' holdings. — ³ Sight deposits and time deposits for less than four years. — ⁴ Of five bank-week return days (end-of-month levels included with a weight of 50%); seasonally adjusted.

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individuals totalling DM 110.4 billion, compared with DM 80 billion in the same period of 1995. Seasonally adjusted and extrapolated to yield an annual rate, this corresponds to an increase of just under 9%, which is far more than in the third quarter (just over 6½%). However, the increase in borrowing was clearly concentrated on December. This indicates that the above-mentioned reduction in special depreciation facilities in eastern Germany from January 1997 onwards played a major contributory role. The special tax depreciation for the construction of new rented housing was reduced from 50% to 25%, and the tax depreciation rate (exceeding linear depreciation) for new commercial buildings not belonging to the manufacturing sector from 50% to 20%. Using the higher depreciation rates essentially meant that the actual payment had to be effected last year. The increase in the tax on the acquisition of land and buildings at the turn of the year is likely to have boosted the demand for credit, too. Viewed in terms of types of credit, lending was buoyant across the board in the fourth quarter of 1996. Short-term lending, which had previously increased at a fairly sluggish pace, surged ahead. Longer-term loans' pace of expansion likewise increased. At DM 6.8 billion, there was also a distinct increase in bank lending against securities.

*Lending, by
borrower*

According to the quarterly borrowers statistics, (direct) lending increased on a broad front in the fourth quarter of 1996. Not only lending to the enterprise sector (which includes self-employed persons), but also consumer credit and housing loans increased much more rapidly than in the preceding



three months. In the period under review, however, the breakdown by type of borrower is distorted as a result of self-employed persons and employed individuals having borrowed heavily at the end of the year in order still to be able to claim the higher special tax depreciation allowances applying to new rented housing in eastern Germany. Owing to the lack of time, it was probably not possible to collateralise and process some of the

amounts taken up as housing loans, although they do, in fact, serve that purpose. For that reason, they were temporarily entered and reported as loans to enterprises or as consumer credit. In specific terms, the enterprise sector increased its indebtedness in the fourth quarter of 1996 at a seasonally adjusted annual rate of 7%, compared with 4% in the third quarter. The services sector (including the professions), in particular, as well as financial institutions and insurance enterprises strongly increased their indebtedness to banks in the last quarter of 1996, whereas the manufacturing sector made a slight reduction in its debt to banks. Statistically recorded consumer credit rose by 10% between October and December, compared with just over 4½% between July and September. Housing loans grew at an annual rate of 11½%, which was just under 2½ percentage points faster than in the third quarter.

Increase in lending commitments

New commitments for medium and long-term loans grew quite strongly in the last quarter of 1996. The overall trends are likely to have been dominated by commitments for housing loans, which were encouraged by low long-term rates and the above-mentioned changes in tax regulations at the turn of the year. The overall amount of commitments outstanding, by contrast, continued to fall as a result of high out-payments of loans promised in December. This, too, bears out the assumption that the sharp credit expansion at the end of the year is an "outlier", which might be followed by a slowdown in credit expansion in the coming months.

Monetary capital formation, interest rates and volatility in the debt securities market



1 End-of-month levels, seasonally adjusted; change in the last six months expressed as an annual rate. — 2 Annualised standard deviation of the relative daily changes in yields on debt securities outstanding within one month.

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Public sector cash transactions continued to have an expansionary impact on monetary growth. Its debt to credit institutions grew by DM 35.8 billion between October and December. A DM 44.7 billion rise in direct borrowing was accompanied by a reduction in borrowing against securities of DM 8.8 billion, however. Seasonally adjusted and extrapolated to yield an annual rate, lending to the public sector expanded by 5½% in the

Expansionary impact of the public sector

fourth quarter, compared with only 2½% between July and September. At DM 6.2 billion there was, on the other hand, a fairly sharp rise in the Federal Government's deposits in the banking system, which are not included in the money stock.

*Only slight
increase in
monetary
capital
formation*

Investors' propensity to acquire longer-term financial assets picked up slightly in the fourth quarter. A part in this is likely to have been played by the fact that in November some of the funds which had been saved for purchases of Deutsche Telekom shares (but had not been needed due to oversubscription) were shifted to longer-term bank deposits. By contrast, persistently low capital market rates and, in all likelihood, uncertainties about European monetary union, too, again had a dampening effect on monetary capital formation. Throughout the period from October to December, credit institutions received DM 34.4 billion of longer-term funds from domestic sources, compared with DM 31.0 in the same period a year before. After the elimination of seasonal influences, monetary capital at banks grew at an annual rate of just under 5½% in the period under review, compared with 4½% in the three preceding months. The focus of monetary capital formation was on long-term time deposits (DM 15.2 billion), which also include registered bank debt securities carrying no price risk. Credit institutions received DM 8.1 billion from sales of bank debt securities to domestic non-banks. Sales of bank savings bonds yielded DM 4.7 billion. As a result of interest credited³ at the end of the year, savings deposits at over three months' notice, demand for which had been only sluggish for

some while, increased again in December for the first time that year; in the entire period under review, they rose by DM 1.0 billion. Banks' capital and reserves were stepped up by DM 5.3 billion.

Domestic non-banks' current and financial transactions with non-residents had scarcely any impact on domestic monetary developments in the fourth quarter of 1996 as a whole. The credit institutions' and the Bundesbank's net external assets, which reflect such transactions, rose by DM 16.1 billion in that period, and hence on a seasonally typical scale. They had increased by DM 11.1 billion in the third quarter and by DM 2.9 billion a year earlier. However, on a monthly analysis, the fluctuations in non-banks' external payment transactions played a considerable part in causing the volatile monetary growth in the fourth quarter. These transactions curbed monetary growth in November and, conversely, encouraged it strongly in December, when enterprises and individuals were evidently withdrawing sizeable balances from foreign banks.

*Net external
position*

Bank interest rates

Reorganisation of the interest rate statistics

Since June 1967, the Bundesbank has been collecting interest rates for major types of lending and deposits in order to monitor

³ Interest credited on all savings deposits (a breakdown by maturity is not possible) totalled DM 29.5 billion in December 1996.

interest trends and the term structure. The survey includes around 480 credit institutions⁴ of various sizes from all categories of banks and all parts of Germany (focussing on regional banking centres). The selection of credit institutions was based on macroeconomic considerations and does not permit a breakdown of the results by category of banks or Länder.

Objectives

Some parts of the interest rate statistics have been modified on several occasions during the last thirty years – most recently in 1986; the basic concept (most frequently applied interest rate in new transactions within a two-week reporting period)⁵, however, has always remained unchanged. The aim of the present reorganisation was to obtain better information for the purposes of the monetary analysis – in particular, on the rate of interest for savings deposits and loans to enterprises. In the previous survey programme it had proved to be a disadvantage that only the so-called “standard” savings rate pursuant to the price list was collected for savings deposits at three months' notice, resulting in the actual rate of interest being understated. Previously, the interest rate survey did not include any information on longer-term loans to enterprises (excluding mortgage loans secured by residential real estate). In addition, the survey programme has been extended to include “Personal credit lines” and “Retail sight deposits carrying a higher rate of interest”. Finally, the graduation by amount and/or maturity definition has been updated for three survey items (current account credit, instalment credit, time deposits).

The first results of the reorganised survey for the reporting months November and December 1996 and January 1997 are published in the (correspondingly modified) tables on pages 45* and 46* in the Statistical Section of this Monthly Report, and are explained in brief below.

In order to present interest rates on savings deposits in a manner that corresponds more closely to the reality than hitherto, the survey now assigns greater weight to the new forms of saving (bonus-carrying savings deposits, special savings schemes) for which credit institutions grant a “higher rate of interest”. Savings deposits at three months' notice receive the greatest attention – which is consistent with their importance for the monetary analysis. The monitoring of interest rate movements in traditional savings transactions with longer periods of notice, by contrast, appears to be dispensable since these forms of saving are now obviously of minor significance for new savings business. Other savings deposits – which are still relevant – are likely to be captured, at least to some degree, by the newly created items in the reporting form.

*Savings
deposits ...*

⁴ Some major branch banks submit branch reports instead of aggregate reports in order to capture regional differences.

⁵ The statistics cover the interest rate agreements concluded with the majority of the customers within the reporting period (including prolongations of and changes to previously concluded agreements). From the interest rates reported to be within the spread, an average rate is calculated as an unweighted arithmetic mean. The spread is ascertained by eliminating the reports in the top 5% and the bottom 5% of the interest rate range.

*... carrying a
higher rate of
interest*

For the purposes of these statistics, a higher rate of interest means the payment of a rate of interest above the minimum/basic rate of interest and/or of a premium or bonus. The figures have been broken down by period of notice – “three months” and “more than three months”. For savings deposits at three months' notice, a distinction is made between contracts without or with a duration of contract (term bonus) when surveying the terms and conditions. For contracts without a duration of contract, three amount categories (less than DM 10,000; DM 10,000 and more but less than DM 20,000; DM 20,000 and more but less than DM 50,000) have been established; for contracts with a duration of contract, the most frequent duration of contract and the associated interest rate are recorded for one amount category (DM 20,000 and more but less than DM 50,000). For savings deposits at more than three months' notice the most frequent duration of contract and the associated rate of interest are likewise recorded for one amount category (DM 20,000 and more, but less than DM 50,000).

A distinction must be made in the terms and conditions between the amount categories. If such size categories were not established, the most frequent rate of interest actually applied would be understated in the survey, as many small savings deposits carrying a comparatively low rate of interest would dominate the unweighted average interest rate. No distinction is to be made between variable interest rates and fixed interest rates.

In the case of products for which a graduated interest rate, a premium, a bonus pay-

ment, additional interest or a combination thereof has been agreed, the institutions are not to report the nominal interest rate applying on the transaction date but the overall interest rate which is paid when savings plans are held until maturity or when savings objectives are achieved. The interest rate would otherwise be understated in structural terms, if the forms of saving mentioned were covered only at the relatively low “initial interest rate”.

In respect of interest rates on retail sight deposits, i.e. employed individuals, those rates must be reported which are above the reporting institution's standard rate. That implies that a “higher rate of interest” may start at a different level at the individual credit institutions. Credit institutions required to report must cover accounts that are used for payment transaction purposes and those that do not have that function.

Loans to enterprises are far less standardised than the types of lending and deposits previously included in the interest rate statistics. They are granted with or without collateral, and the borrower's credit rating is a crucial factor for the rate of interest agreed. In order to make the survey as simple as possible, no requirements were stipulated with regard to collateral or creditworthiness.

In the field of long-term loans to enterprises, the information available indicates that fixed rates play a clearly dominant role. For that reason, we collect the most frequently applied effective rate of interest for loans to enterprises and self-employed persons (ex-

*Retail sight
deposits carry-
ing a higher
rate of interest*

*Long-term
loans to enter-
prises ...*

*... at fixed
rates*

cluding housing loans) with an agreed maturity of four years and over, with interest locked in for at least four years, for two size categories (DM 200,000 and more but less than DM 1 million; DM 1 million and more but less than DM 10 million).

*Personal
credit lines*

Additionally, the interest rates of the highly standardised personal credit lines are surveyed. The interest rate payable in the period under review for personal credit lines agreed must be reported. Higher rates payable for tolerated overdrawings or any agreed special terms and conditions are not to be reported.

*Time deposits,
current account
credit, instal-
ment credits*

As regards the other items of the present survey programme, three items have been slightly modified. For time deposits, the maturity definition "one month to three months inclusive" was unsatisfactory, especially with an inverse yield curve. The survey now concentrates on time deposits with an agreed maturity "of one month"; the graduation of the amounts (less than DM 100,000; DM 100,000 and more but less than DM 1 million; DM 1 million and more but less than DM 5 million) has been retained. For analytical purposes (comparison of three-month interbank rates and three-month rates in deposit business with non-banks), the interest rate paid for three-month time deposits is additionally collected for one size category (DM 100,000 and more but less than DM 1 million).

For current account credit, which covers short-term loans to enterprises, the definition of the lowest amount category "less than DM 1 million" was obviously too wide. It has now been split into "less than DM 200,000" and

Selected new items of the monthly interest rate statistics

Position: January 1997; % p. a.

Type of lending or deposit	Average rate of interest 1	Spread 2
Personal credit lines	11.25	9.75 – 12.25
Current account credit of less than DM 200,000	10.08	8.00 – 11.75
Long-term fixed-rate loans to enterprises and self-employed persons (excluding housing loans)		
DM 200,000 and more but less than DM 1 million	6.75	5.64 – 8.75
DM 1 million and more but less than DM 10 million	6.50	5.50 – 8.06
Higher-yielding retail sight deposits	1.97	0.50 – 3.00
Time deposits of DM 100,000 and more but less than DM 1 million		
maturity 1 month	2.66	2.25 – 3.00
maturity 3 months	2.69	2.30 – 3.00
Higher-yielding savings deposits		
1. at three months' notice		
without term bonus		
less than DM 10,000	2.54	2.00 – 3.50
DM 10,000 and more but less than DM 20,000	2.63	2.20 – 3.45
DM 20,000 and more but less than DM 50,000	2.76	2.25 – 3.50
with an agreed maturity		
DM 20,000 and more but less than DM 50,000		
up to 1 year	2.89	2.50 – 3.25
more than 4 years	4.84	3.25 – 5.22
2. at more than three months' notice		
with term bonus		
DM 20,000 and more but less than DM 50,000		
up to 1 year	2.99	2.70 – 3.50
more than 4 years	4.71	3.84 – 4.91

1, 2 See footnote 5 on page 26.

Deutsche Bundesbank

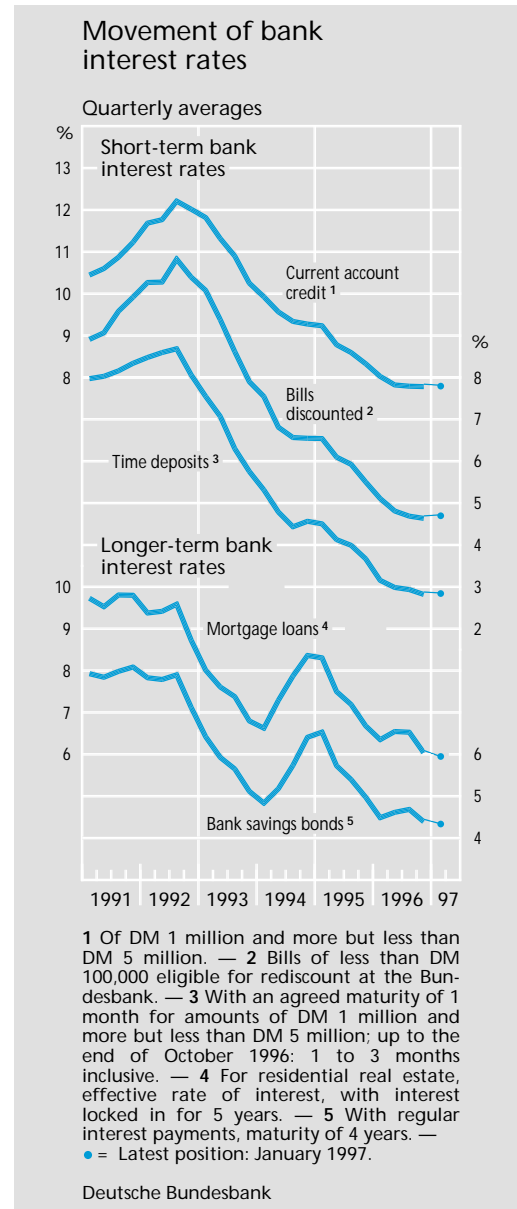
"DM 200,000 and more but less than DM 1 million".

The amount category "DM 5,000 and more but less than DM 15,000" previously used for instalment credits is no longer consistent with present circumstances; it has been increased to "DM 10,000 to DM 30,000". The associated maturity has likewise been adjusted, i. e. from "over 24 months but not more than 48 months" to "36 to 60 months".

Initial results

Attractive terms and conditions for special savings schemes and bonus-carrying savings deposits without ...

The new interest rate statistics which are now available for the months from November 1996 to January 1997 give a more detailed insight than hitherto into credit institutions' terms and conditions and hence allow a more informed explanation of certain developments, particularly in the area of deposits. For example, it is now possible to corroborate the assumption that the consistently high demand for savings deposits at three months' notice is mainly attributable to the comparatively high yield of bonus-carrying savings deposits and special savings schemes. At an average of just over 2 1/2%, their yield, even for amounts of less than DM 10,000 (and without a duration of contract), was more than 1/2 percentage point above the minimum rate of interest on smaller savings deposits. Compared with time deposits, the new forms of saving are quite attractive to private investors, too. By way of an example: for time deposits to yield a rate of interest which would be just as high as that for savings deposits of DM 10,000 and more but less than DM 20,000 at an agreed period of notice of three months (2 2/3%), a one-



month time deposit of at least DM 100,000 was required in January.

For higher-yielding savings deposits with a duration of contract, the interest rate offered largely depends on the agreed maturity, whereas the relationship between the period of notice and the interest rate level is less close. Latterly, an average rate of interest of just under 3% has been offered for savings

... and with an agreed duration of contract ...

deposits of DM 20,000 and more but less than DM 50,000 at three months' notice and an agreed maturity of up to one year (which are currently most in demand, measured by the number of reports); this rate of interest corresponded to the rate for one-month time deposits of DM 1 million and more but less than DM 5 million. For an average duration of contract of more than one year up to four years and, at the long end, for long-term deposits of more than four years, the average rate of interest of $3\frac{2}{3}\%$ and just over $4\frac{3}{4}\%$ was nearly 1 and 2 percentage points higher, respectively.

*... as a result
of keener com-
petition*

Seen from the supply side, the fact that interest paid on savings deposits is higher than that for shorter-term time deposits is likely to be attributable to the more favourable treatment of savings deposits (as long-term financial resources) for the purposes of Liquidity Principle II, the somewhat lower minimum reserve ratio of 1.5%, and the perhaps slightly lower administrative costs. However, the comparatively attractive yield on special savings schemes is also an indication of how vigorous competition is in banks' deposit business terms and conditions; it is likely to have become considerably keener as a result of the deregulation of savings, the admission of domestic money market funds and the introduction of new marketing channels.

*Rate of interest
for sight deposits*

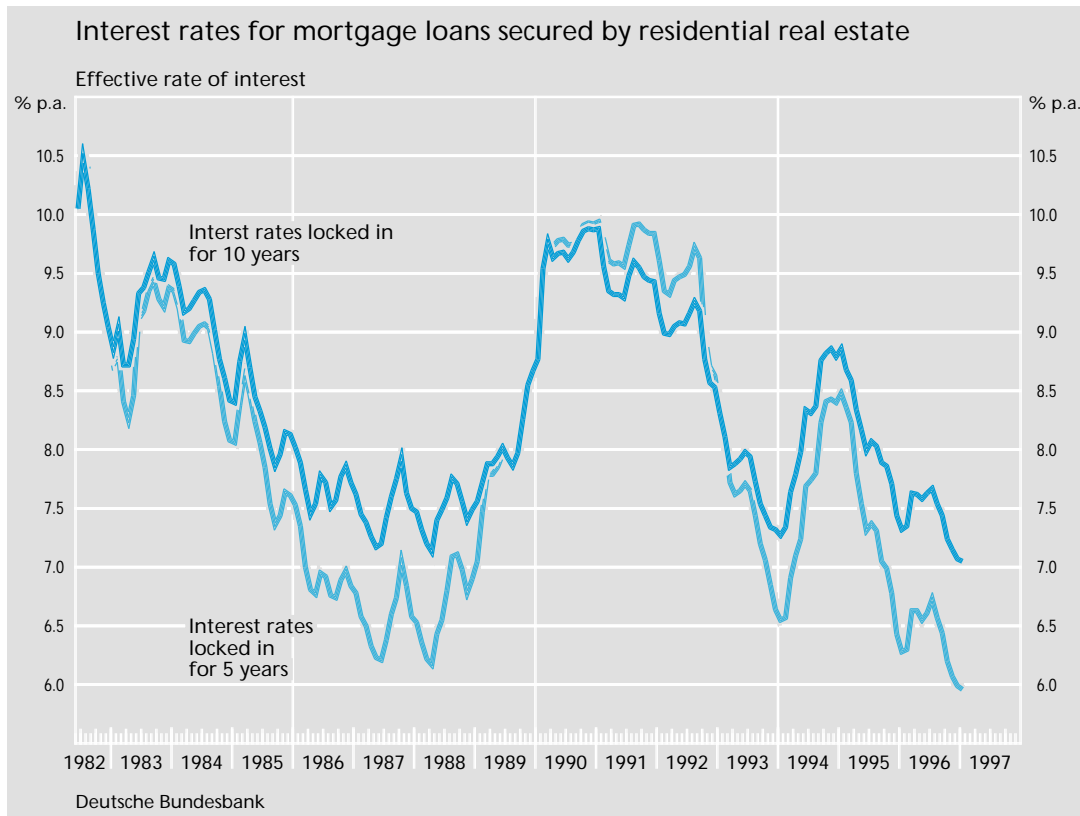
The new interest rate statistics additionally bear out the impression that interest paid on retail sight deposits is growing in significance – in particular, as a consequence of the keener competition from direct banks. In those cases where the interest paid for such sight

deposits was above the standard rates, an average rate of 2% was paid on them in January. This more or less equals the minimum rate of interest on savings deposits at three months' notice. When interpreting this result, it must be borne in mind, however, that such a rate of interest, which is often pegged to the placing of a minimum deposit or applies only to credit card accounts, is probably paid only on a limited percentage of total sight deposits.

According to the figures of the new interest rate statistics, fixed-rate loans to enterprises with an agreed maturity of four years and more cost between $6\frac{1}{2}\%$ (for amounts of DM 1 million and more but less than DM 10 million) and $6\frac{3}{4}\%$ (for amounts of DM 200,000 and more but less than DM 1 million). These rates were between $\frac{1}{2}$ and $\frac{3}{4}$ percentage point higher than the comparable rates for housing loans with interest locked in for five years. The "spread" is likely to be associated primarily with the higher risk on average of loans to enterprises.⁶ Of late, an average of $11\frac{1}{4}\%$ had to be paid for personal credit lines; this rate was consistent with the rate charged for instalment credits of DM 10,000 to DM 30,000. Given the differing maturities of both types of credit, it remains to be seen whether the rates will continue to match if the term structure of interest rates changes.

*Terms and con-
ditions for
long-term loans
to enterprises*

⁶ The interest statistics do not indicate, however, at which maturity (of more than four years) the majority of long-term fixed-rate loans are concluded.



Bank interest rates in a longer-term perspective

Besides this additional information, the interest rate statistics continue to permit an analysis of longer-term trends in bank interest rates.⁷ Some items of both lending and deposit rates have remained unaffected by the reorganisation of the interest rate statistics (current account credit of DM 1 million and more but less than DM 5 million, bills discounted, mortgage loans, return on savings bonds, "standard" savings rate), or the change has not had any perceptible impact on current rates (change in the maturity definition of time deposits). Short-term bank lending rates, which had again been reduced following the lowering of the discount and lombard rates by the Bundesbank in April 1996, fell only slightly in the past few months. In January, an average of 7³/₄ % was charged for current account credit of DM 1

million and more but less than DM 5 million, which was 4²/₃ percentage points below the most recent interest peak of summer 1992. In the same period, the rates for discount credit fell by 6¹/₃ percentage points; bills were discounted in January at an average rate of 4³/₄ %.

Rates for longer-term fixed-rate loans continued to fall in line with the most recent yield trend in the capital market. In January, an average of 6 % and 7 %, respectively, had to be paid for mortgage loans secured by residential real estate with interest rates locked in for five and for ten years; this is 4 or

Mortgage rates hit a low ...

⁷ For longer-term trends in short-term bank interest rates see Deutsche Bundesbank, The response of money market rates and short-term bank interest rates to changes in central bank rates, Monthly Report, October 1996, pages 31 to 45.

just under 3 percentage points less than six years ago, when long-term rates had last peaked. Variable-rate mortgage loans cost an effective $6\frac{1}{3}\%$ in January. Some mortgage loans were thus cheaper than they had been at any time since the beginning of 1978.⁸ Mortgage rates have decreased further in the meantime.

*... as did
deposits rates*

On the deposits side, interest rates were reduced somewhat more sharply following the lowering of the securities repurchase rate at the end of August than rates for short-term lending. In January, one-month time deposits

yielded between $2\frac{1}{3}\%$ (for amounts of less than DM 100,000) and just over $2\frac{3}{4}\%$ (for amounts of DM 1 million and more but less than DM 5 million); the yield on savings bonds came to $4\frac{1}{3}\%$. These deposit rates are thus running at their lowest level since the abolition of interest rate controls in 1967.

⁸ In the case of mortgage loans, however, a longer-term comparison is hampered by the fact that the Bundesbank's interest rate statistics up to May 1982 were based only on an average calculation of interest rate agreements of all kinds.