

## Monetary policy and banking business

### Monetary policy and money market developments

*ECB Governing Council decides to discontinue PEPP net purchases and boost APP envelope*

In December 2021, the Governing Council of the ECB approved a step-by-step reduction in the pace of asset purchases for the coming quarters, with net purchases under the pandemic emergency purchase programme (PEPP) being discontinued at the end of March 2022. Furthermore, the Governing Council expects to conduct net purchases under the PEPP in the first quarter of 2022 at a lower pace than in the previous quarter. At the same time, it decided to temporarily step up net purchases under the asset purchase programme (APP) as of April 2022. These are set at €40 billion per month in the second quarter and €30 billion per month in the third quarter. As of October 2022, net purchases under the APP are to resume a monthly pace of €20 billion. This will apply for as long as necessary to reinforce the accommodative impact of the key interest rates. The Governing Council still expects net purchases to end shortly before it starts raising the key ECB interest rates.

*ECB Governing Council extends reinvestment horizon for PEPP*

Moreover, the ECB Governing Council decided to extend the reinvestment horizon for the PEPP. It now intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. It previously expected to do so until the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. In the event of renewed market fragmentation related to the pandemic, these reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions.

The ECB Governing Council left its policy rates and the associated forward guidance un-

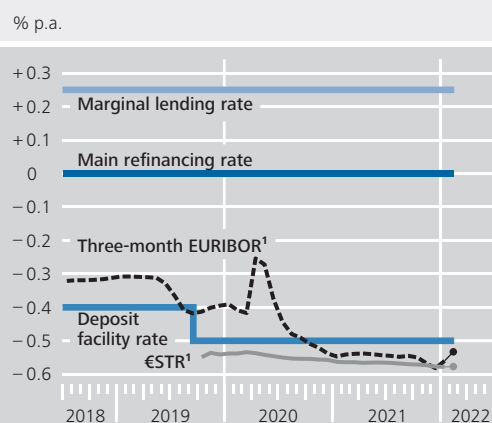
changed. It also expects the special terms and conditions under the third series of targeted longer-term refinancing operations (TLTRO-III) to come to an end in June 2022. Nevertheless, the ECB Governing Council will continue to monitor bank funding conditions and ensure that the maturing of TLTRO-III operations does not hamper the smooth transmission of monetary policy.

*Key interest rates and forward guidance unchanged*

The decisions in December were taken against the backdrop of increased uncertainty surrounding the inflation outlook. In the December forecast, Eurosystem staff had revised their inflation forecast for 2022 strongly upwards again. At the same time, they still projected that inflation would settle below the 2% target over the projection horizon. The ECB Governing Council believes that monetary accommodation was still needed for inflation to stabilise at 2% over the medium term. However, in light of this uncertainty, it stressed the importance of flexibility and optionality in the conduct of monetary policy. The ECB Governing Council signalled its readiness to adjust all of its instruments as appropriate and in either direction.

*ECB Governing Council stresses flexibility and optionality*

#### Money market interest rates in the euro area



Sources: ECB and Bloomberg. 1 Monthly averages. • Average 1 to 17 February 2022.  
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## Money market management and liquidity needs

In the period under review from November 2021 to February 2022,<sup>1</sup> excess liquidity in the Eurosystem fell by a total of €0.2 billion to an average of €4,391.1 billion. Excess liquidity initially rose in the seventh reserve maintenance period of 2021 (November-December) by €42.8 billion to €4,434.1 billion. However, the subsequent decline of €43.0 billion in the eighth reserve maintenance period of 2021 (December 2021-February 2022) fully reversed the previous increase. This development was due, on the one hand, to lower volumes of liquidity-providing asset purchases and, on the other hand, to a stronger increase in liquidity-absorbing autonomous factors in the eighth versus the seventh reserve maintenance period of 2021. Both developments are commonly observed at the turn of the year, which fell during the reporting period.

Additional central bank liquidity was provided primarily through a total of €237.9 billion worth of net asset purchases conducted as

part of the purchase programmes. The majority of these purchases were attributable to the pandemic emergency purchase programme (PEPP). As at 11 February 2022, the balance sheet holdings of the asset purchase programmes amounted to €4,820.2 billion (see the table on p. 27). By contrast, the average outstanding tender volume in the euro area decreased by €8.3 billion to €2,201.8 billion during the period under review. Although the allotment volume for the tenth operation in the third series of targeted longer-term refinancing operations (TLTRO-III) in December stood at €52.0 billion, a total of €60.2 billion was repaid from the first to the sixth TLTRO-III operations under the voluntary early repayment option, leading to a net absorption of liquidity for the TLTROs. At €1.1 billion in total,

<sup>1</sup> Here, the averages of the eighth reserve maintenance period of 2021 (December 2021-February 2022) are compared with the averages of the sixth reserve maintenance period of 2021 (September-November).

### Factors determining banks' liquidity\*

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

Item	2021/22	
	3 Nov. to 21 Dec.	22 Dec. to 8 Feb.
I. Provision (+) or absorption (–) of central bank balances due to changes in autonomous factors		
1. Banknotes in circulation (increase: –)	– 14.0	– 19.2
2. Government deposits with the Eurosystem (increase: –)	+ 43.0	+ 46.3
3. Net foreign assets <sup>1</sup>	+ 4.1	+ 38.5
4. Other factors <sup>1</sup>	– 132.0	– 194.8
<b>Total</b>	<b>– 98.9</b>	<b>– 129.2</b>
II. Monetary policy operations of the Eurosystem		
1. Open market operations		
a) Main refinancing operations	+ 0.0	+ 0.1
b) Longer-term refinancing operations	– 1.1	– 7.3
c) Other operations	+ 143.3	+ 94.6
2. Standing facilities		
a) Marginal lending facility	+ 0.0	+ 0.0
b) Deposit facility (increase: –)	– 6.5	+ 10.8
<b>Total</b>	<b>+ 135.7</b>	<b>+ 98.2</b>
III. Change in credit institutions' current accounts (I. + II.)	+ 36.8	– 31.0
IV. Change in the minimum reserve requirement (increase: –)	– 1.4	– 1.2

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

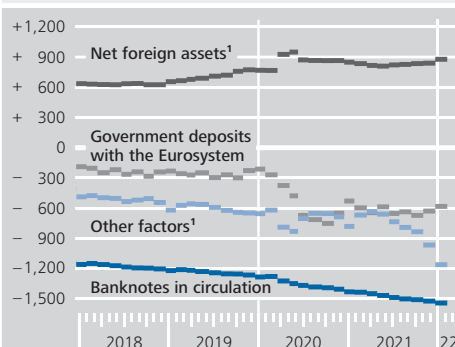
there was little demand for the eleventh pandemic emergency longer-term refinancing operation (PELTRO) in December 2021 (previous operation in September 2021: €1.3 billion). Uptake of the regular main refinancing operations and three-month tenders likewise remained very subdued. In Germany, the outstanding volume of all refinancing operations fell by €17.3 billion to an average of €421.9 billion. As a result, German banks' share of the outstanding tender volume in the Eurosystem came to around 19.2%.

In the eighth reserve maintenance period of 2021, liquidity needs stemming from autonomous factors rose by €228.1 billion compared with the sixth reserve maintenance period of 2021, reaching a new record high of €2,405.5 billion (see the table on p. 26).<sup>2</sup> This was primarily attributable to the usual increases in the balances of non-euro area central banks at the end of the year. Another liquidity-absorbing effect was caused by the volume of banknotes in circulation rising by €33.2 billion to €1,540.6 billion. By contrast, a decrease in government deposits of €89.3 billion to €582.0 billion provided more liquidity. Germany accounted for 59% of the total increase in the balances of non-euro area central banks, which had a liquidity-absorbing effect in the other factors category. Net banknote issuance in Germany went up by €19.9 billion to €883.7 billion. The decrease in government deposits of €12.1 billion to €205.6 billion provided more liquidity in Germany, too. Over the reporting period, the minimum reserve requirement in the Eurosystem climbed by €2.6 billion to €155.4 billion in the December 2021-February 2022 maintenance period, which led to an additional need for central bank liquidity. In Germany the reserve requirement went up by €0.8 billion to €42.5 billion.

At over 99%, 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. While excess liquidity remained roughly the same at €4,400 billion and the absolute exemption al-

### 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. <sup>1</sup> 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 11 Feb. 2022
<b>Active programmes<sup>1</sup></b>		
PSPP	+ 39.9	2,512.0
CBPP3	+ 0.2	295.6
CSPP	+ 14.3	319.4
ABSPP	+ 1.4	27.0
PEPP	+ 182.7	1,658.5
<b>Completed programmes</b>		
SMP	+ 0.0	6.5
CBPP1	- 0.1	0.1
CBPP2	- 0.6	1.1

<sup>1</sup> Changes due to net purchases, maturities, reinvestments and amortisation adjustments.

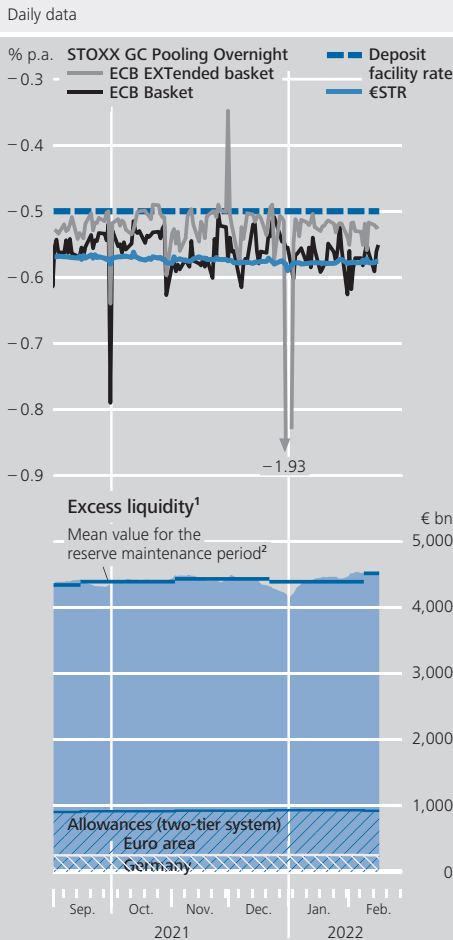
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lowance increased, there was a decline in excess liquidity holdings remunerated at -0.50% (see the chart on p. 28). As a result, 21.1% of the excess liquidity in the Eurosystem was exempt from negative remuneration on average in the eighth reserve maintenance period of 2021, which was 0.4 percentage point more than in the previous maintenance period (in Germany: 20.9%, previous period: 20.3%).

During the period under review, overnight rates in the euro money market remained

<sup>2</sup> Average of the eighth reserve maintenance period of 2021 (December 2021-February 2022) compared with the average of the sixth reserve maintenance period of 2021 (September-November).

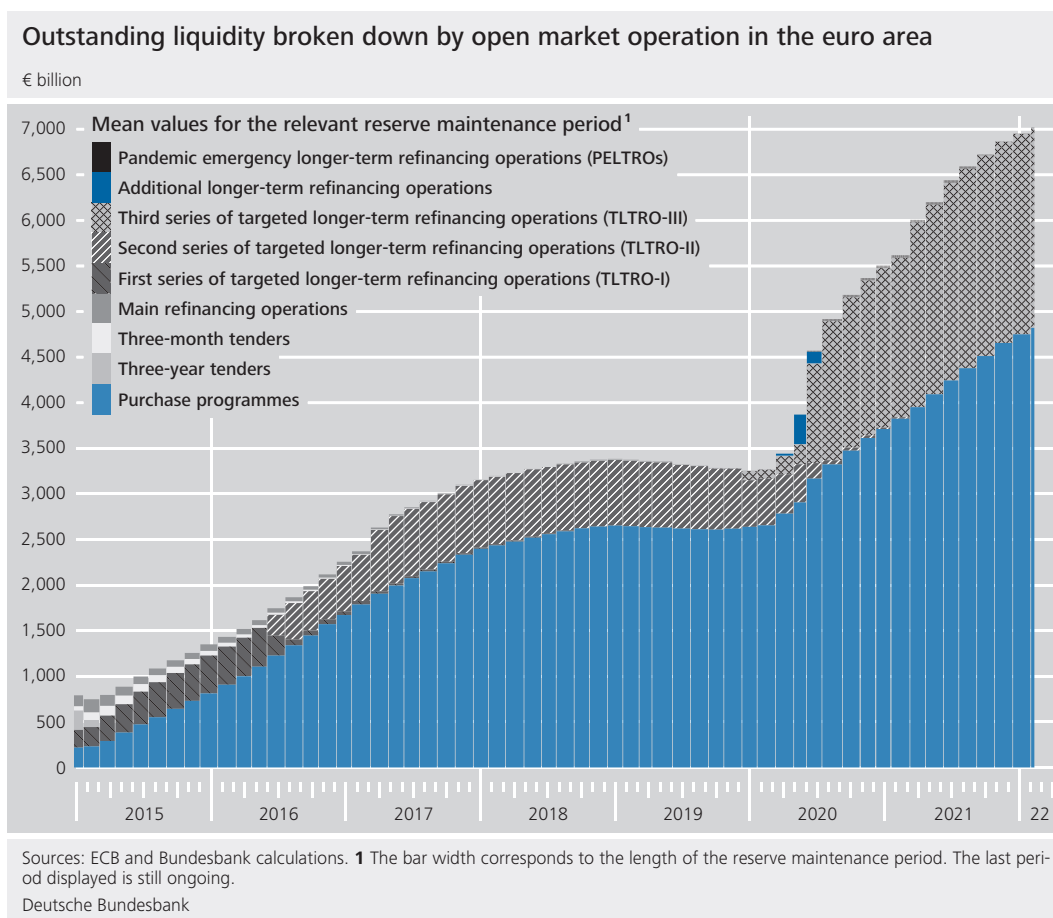
### Deposit facility rate, money market rates and excess liquidity



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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close to the deposit facility rate of -0.50% (see the adjacent chart), except as at 31 December 2021. However, the high level of excess liquidity led to a further drop in overnight rates. In the eighth reserve maintenance period of 2021, the unsecured euro short-term rate (€STR) was set at -0.58% on average and was therefore 1 basis point lower than in the previous period. The €STR fell by 1 basis point to -0.59% as at 31 December 2021. On the following day, the €STR returned to its previous level, which it maintained until the end of the reserve maintenance period on 8 February 2022 without any major fluctuations. Average daily turnover dropped from €51.2 billion to €49.6 billion compared with the previous period, influenced by lower levels

of liquidity on public holidays and the last day of the year. However, the volumes recorded in the reporting period were higher than the volume from the sixth reserve maintenance period (September-November 2021) of €48.5 billion. On the GC Pooling trading platform, overnight trades in the ECB basket were executed at -0.56% on average in the eighth reserve maintenance period of 2021, compared with -0.57% (seventh period) and -0.55% (sixth period). At the end of 2021, no trades were executed in the ECB basket on the trading days of 29 and 31 December. 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 a rate of -0.56% on average in the eighth reserve maintenance period of 2021 and thus 5 basis points below the rate of the previous period. The clear difference between the interest rate levels in the current and previous periods stemmed from the sharp decline of 137 basis points to -1.93% on 31 December. Without this year-end effect, the average interest rate in the ECB EXTended basket would have been -0.52% and thus only 1 basis point lower than in the seventh reserve maintenance period of 2021. As in the preceding period, the vast majority of overnight transactions were also accounted for by the ECB EXTended basket in the eighth reserve maintenance period of 2021, with an average turnover of €2.3 billion per day compared with €0.7 billion in the ECB basket. Liquidity-driven secured turnover on the GC Pooling platform therefore remained very low. This meant that providers of liquidity continued to refrain from using higher-quality collateral from the ECB basket in transactions, which reflected the generally limited availability of this type of collateral in the market during the period under review.



*ECB Governing Council sees risks to inflation outlook tilted to upside in February*

In February 2022, the ECB Governing Council confirmed the decisions it had made in December 2021. However, it did make various changes to its communication. For instance, the need for monetary policy accommodation was no longer mentioned, nor was inflation projected to settle below its target. Instead, the Governing Council stressed that inflation had risen steeply over the last few months and had also been higher than expected in January. In contrast to December, it explicitly spoke of risks to the inflation outlook being tilted to the upside, particularly in the near term. In view of the current uncertainty, flexibility and optionality in conducting monetary policy need to be maintained more than ever. Moreover, monetary policy communication did not repeat the statement that key interest rates are unlikely to be raised this year.

The APP holdings recorded on the balance sheet have risen by €53.6 billion since mid-November. On 11 February, the stock of APP

assets held by the Eurosystem reached a total of €3,154.0 billion (a breakdown of these holdings by individual asset purchase programme can be found on pp. 26 ff.). The reported holdings continue to be influenced by the smoothing over time of reinvestments in line with the technical parameters agreed upon in December 2018 and by the use of amortised cost accounting.<sup>1</sup> Securities holdings reported under the PEPP amounted to €1,658.5 billion on 11 February, up by €157.1 billion.

The tenth and last operation of the TLTRO-III series was settled on 22 December 2021, with 159 banks taking up a total of €52.0 billion. At the same time, there were voluntary repayments of funds provided under earlier TLTRO-III operations in the amount of €60.2 billion. Overall, a combined volume of €2,198.0 billion

*APP and PEPP securities holdings recorded on balance sheet continue to grow*

*Final TLTRO-III sees banks take up €52 billion*

<sup>1</sup> In particular, the difference between the acquisition and redemption value is amortised over the security's residual maturity, treated as part of interest income and measured at amortised cost.

is thus outstanding for all TLTRO-III operations. In December, uptake of the pandemic emergency longer-term refinancing operation (PELTRO), which was also the last operation of its kind, was once again very low at €1.1 billion.

*Further rise in excess liquidity*

Excess liquidity saw a temporary marked decline at the end of December on account of the usual year-end effects. Overall, however, it continued to rise owing to the ongoing net asset purchases under the APP and PEPP (see the box on pp. 26 ff.). As this report went to press, the volume of excess liquidity stood at €4,530.6 billion, which corresponds to an increase of around €82.1 billion since mid-November.

*Short-term market interest rates fluctuate at year-end*

On 3 January 2022, the publication of EONIA was discontinued as planned following a transition period. Since October 2019, EONIA had only been computed by applying a fixed spread to the euro short-term rate (€STR). In future, €STR will thus be the unsecured benchmark interest rate for the short-term money market in the euro area. Short-term money market interest rates fluctuated somewhat more strongly in December and at the turn of the year than is usually the case for that time of year. €STR fell to -0.59% at the end of the year and stood at -0.58% as this report went to press. The three-month EURIBOR declined much more sharply as early as mid-December and fell to as low as -0.61% for a time. As this report went to press, it was at -0.53% and thus slightly above its level in November.

*Money market forward rates up sharply once again*

Money market forward rates have risen sharply again in the wake of the monetary policy meeting in December. Using these rates as a basis, it appears that market participants most recently priced in an initial interest rate hike of 10 basis points for as early as July 2022. In addition, the futures curve became considerably steeper, meaning that a faster pace of rate hikes is also priced in. Although it can still be assumed that the rise in forward rates is in large part attributable to risk premia and not to expectations of higher interest rates, market participants will probably expect rate hikes significantly earlier

than they had anticipated back in December. This was also backed up by the Eurosystem's monetary policy survey (Survey of Monetary Analysts) conducted prior to the February meeting. Compared with the December survey, respondents' predictions regarding when the first interest rate hike would take place moved forwards again. It is now expected in the third quarter of 2023. One reason for the change in market participants' expectations was the waning concerns about the economic impact of the wave of infections with the Omicron variant of the coronavirus. Another reason was that some large central banks began to tighten their monetary policy stance or announced that they would soon tighten their stance. The significant unexpected upside developments in euro area inflation again as well as the change in the ECB Governing Council's communication led to further rises in forward rates recently.

## Monetary developments in the euro area

The broad monetary aggregate M3 also recorded considerable net inflows in the fourth quarter of 2021, which, on the whole, were slightly above the inflows in the three preceding quarters. Nevertheless, it remained significantly below the high build-up caused by the coronavirus pandemic in 2020. The annual growth rate of M3 decreased again as a result and stood at 6.9% at the end of the year. One reason behind this monetary growth was the Eurosystem's ongoing asset purchases. Another was that banks' lending to the domestic private sector also accelerated significantly, which was mainly attributable to the sharp rise in lending to non-financial corporations. In this respect, the TLTRO-III requirements for obtaining the special interest rate conditions granted by the Eurosystem, which are coupled to lending growth, resulted in considerable frontloading effects. At the same time, households' demand for loans for house purchase remained high, bolstered by the persistently low general level of interest rates.

*Further normalisation of monetary growth*

*Accumulation of overnight deposits slackened*

Among the components of M3, overnight deposits once again contributed the most to the build-up in the monetary aggregate in the fourth quarter. That said, its expansion slowed significantly compared with the preceding quarters, reaching its lowest value since the outbreak of the coronavirus pandemic. Other forms of short-term deposits increased somewhat in importance, especially time deposits, as did money market fund shares in certain countries.

*Households recorded lower inflows to short-term deposits ...*

The contrasting developments that occurred in individual sectors were striking again. For example, the inflow to households' short-term deposits diminished again considerably. This continued slowdown is probably attributable to the generally improved consumption options that, on the whole, led to a decline in the savings ratio despite the pandemic wave that flared up at the beginning of the first quarter. Furthermore, the increase in the real opportunity costs of holding money following the rise in the inflation rate is likely to have boosted this development.

*... whilst enterprises saw considerable increase, especially in overnight deposits*

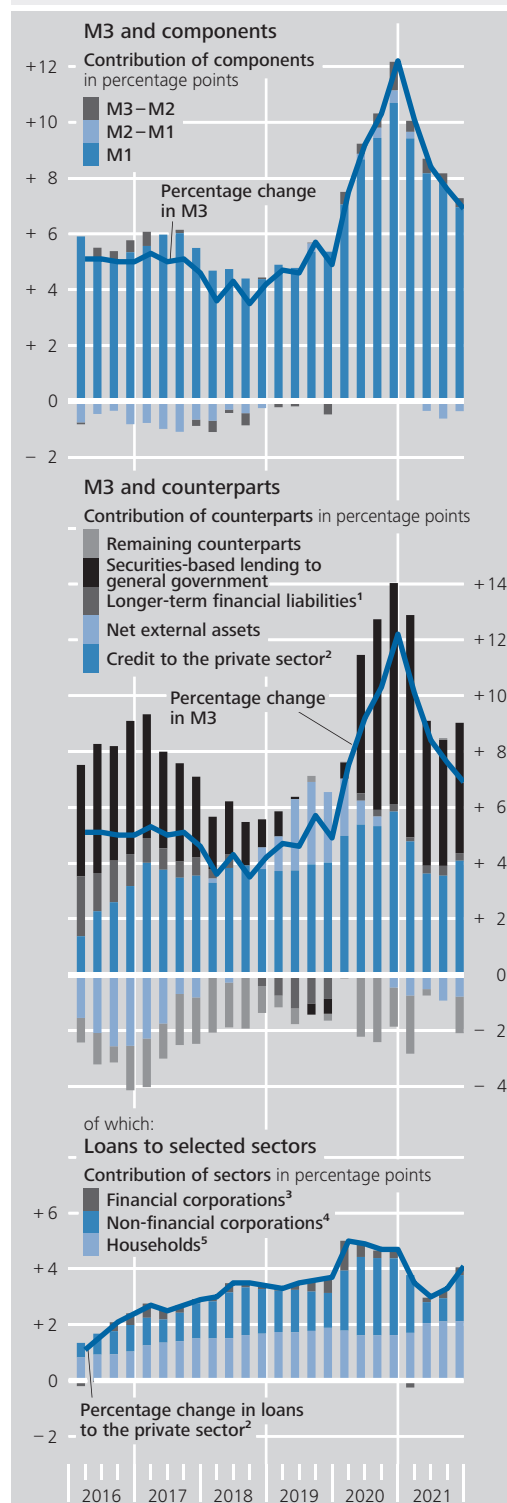
By contrast, non-financial corporations expanded their deposits considerably again in the fourth quarter, especially their overnight deposits. This development first reflects the continued high profit margins in parts of the corporate sector. Second, enterprises have had to postpone investment on account of persistent bottlenecks in the supply of intermediate goods, which means that the outflow of funds was again lower in parts of the corporate sector, as it had been in the preceding quarter.

*Build-up of securitised lending mainly driven by Eurosystem net purchases*

On the counterparts side, monetary growth was driven by the sharp increase in lending to domestic non-banks. Inflows to securities-based lending to general government were again high (see the upper chart on p. 33). These are primarily due to the monthly net purchases of government bonds by the Eurosystem under the PEPP and APP. Moreover, commercial banks also upped their holdings of bonds issued by the public sector. In addition,

## Monetary aggregates and counterparts in the euro area

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



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

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

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

Assets	Q3 2021	Q4 2021	Liabilities	Q3 2021	Q4 2021
Credit to private non-MFIs in the euro area	132.0	222.6	Holdings against central government <sup>2</sup>	10.8	106.6
of which:			Monetary aggregate M3	259.5	269.8
Loans	117.5	169.1	of which components:		
Loans, adjusted <sup>1</sup>	120.5	218.3	Currency in circulation and overnight deposits (M1)	279.4	211.5
Securities	14.5	53.6	Other short-term deposits (M2-M1)	- 22.6	31.2
Credit to general government in the euro area	150.6	201.0	Marketable instruments (M3-M2)	2.7	27.1
of which:			Longer-term financial liabilities of which:	0.0	7.3
Loans	- 4.7	- 1.2	Capital and reserves	11.8	14.6
Securities	155.2	202.2	Other longer-term financial liabilities	- 11.8	- 7.3
Net external assets	- 40.8	- 67.9			
Other counterparts of M3	28.5	28.0			

\* 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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lending to the domestic private sector increased sharply in the fourth quarter.<sup>2</sup>

*Strong growth in lending to non-financial corporations at year-end ...*

After adjustment for loan sales and securitisation, banks' lending to non-financial corporations was unusually high, having risen in the fourth quarter of 2021 at a similar rate as at the beginning of the coronavirus pandemic on balance (see the lower chart on p. 33). This rise was spread broadly across Member States and maturities, although growth was especially strong for short-term loans. The annual growth rate, which had fallen to 1.9% at the end of June 2021 on account of a strong coronavirus baseline effect, thus returned to a level of 4.2% as at the end of the year.

*... underpinned by TLTRO-III provisions*

Although bank lending to enterprises had already regained momentum since mid-2021, the very strong inflow at the end of the year was attributable to a one-off factor linked to TLTRO-III, which was that one of the reference periods for credit growth connected to these operations expired at the end of December. It was this reference period that determined whether banks participating in the TLTRO-III series would have access to extremely favourable refinancing conditions in the period between June 2021 and June 2022. For this reason, banks with previously weak lending records were particularly interested in frontloading their lending

into the fourth quarter of 2021 or in granting more short-term loans. One indication of this is the fact that the (already very low) short-term lending rates clearly dropped at the same time in some euro area countries. Correspondingly, lending business is likely to be lower in the first quarter of 2022. A similar pattern could also be observed in March 2021, when the last reference period came to a close.

The high demand for short-term loans from non-financial corporations can be explained by shortages in materials and labour, especially in construction and industry, which are currently driving up enterprises' inventory and operating costs. Long-term loans, too, continued to be in demand, albeit to a considerably weaker extent than in the first half of 2021. This stems from the fact that aggregate supply bottlenecks continued to cloud the investment climate in the fourth quarter.

*Aggregate supply bottlenecks affect demand for credit*

In the context of the Bank Lending Survey (BLS), the responding bank managers likewise noted an increase in loan demand. According

<sup>2</sup> In the quarter under review, some of these loans were securitised by banks and removed from the banks' balance sheets. The banks acquired larger volumes of securitised loans at the same time, which was reflected by the rise in their securities-based lending to financial vehicle corporations engaged in the securitisation sector.



*BLS banks left credit standards on loans to enterprises virtually unchanged*

to them, the increased need for funds resulted chiefly from greater financing requirements for inventories and working capital as well as fixed investment. In addition, banks believed that mergers and acquisitions, debt refinancing and restructuring as well as the low general level of interest rates contributed to the uptick in demand. As in the preceding two quarters, the banks surveyed in the BLS left credit standards for corporate loans virtually unchanged on balance.

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

Loans to households likewise showed further robust expansion in the fourth quarter of 2021. However, housing loans, which make up the most significant portion of household lending, recorded somewhat smaller inflows at year-end compared with previous quarters. As a result, the annual growth rate for housing loans shrank slightly to 5.4%. Contributing factors are likely to have been the noteworthy materials shortages in construction and other supply-side bottlenecks, which led to a widening discrepancy between orders and production in the fourth quarter.

*... while credit standards remain unchanged according to BLS*

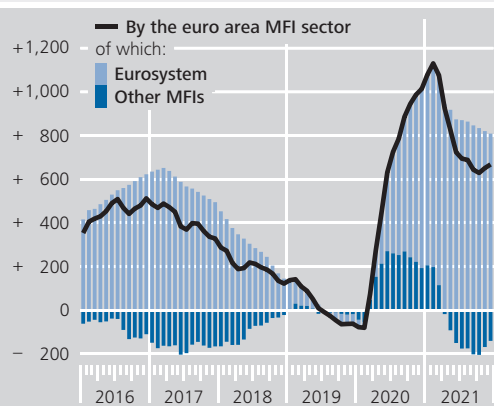
The BLS banks once again cited strengthened consumer confidence and the low general level of interest rates as major factors behind the lively demand for housing loans. Demand was also stimulated by the positive outlook on the residential real estate market. On the supply side, the banks participating in the BLS left their credit standards for loans for house purchase unchanged in the fourth quarter. Banks thereby continued on the path of essentially unchanged credit standards upon which they had embarked in the first quarter of 2021, after having tightened them in 2020, the first year of the pandemic.

*Perceptible inflows in consumer credit, too*

Consumer loans to households increased for the third consecutive quarter, although growth still fell significantly short of the rates recorded before the outbreak of the pandemic. Amongst other factors, the stricter containment measures introduced at the end of the year are likely to have put a fresh damper on activity in the

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

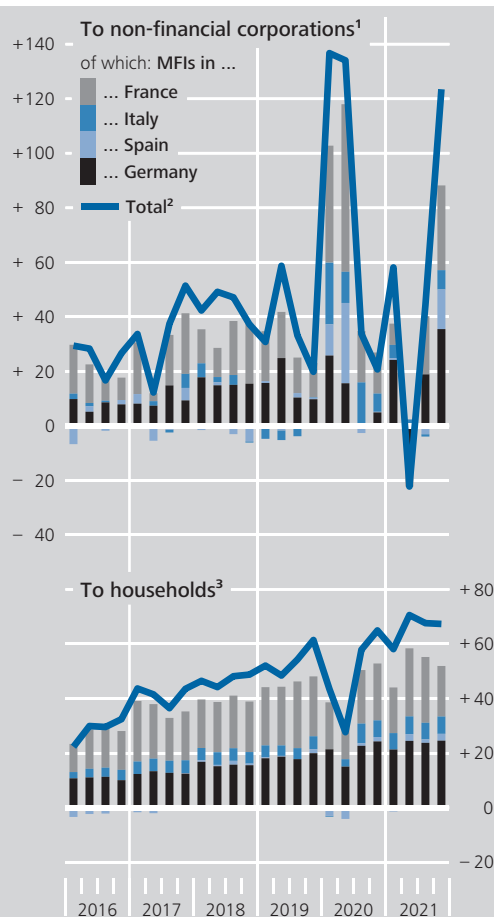
€ billion, 12-month accumulated flows



Sources: ECB and Bundesbank calculations.  
 Deutsche Bundesbank

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

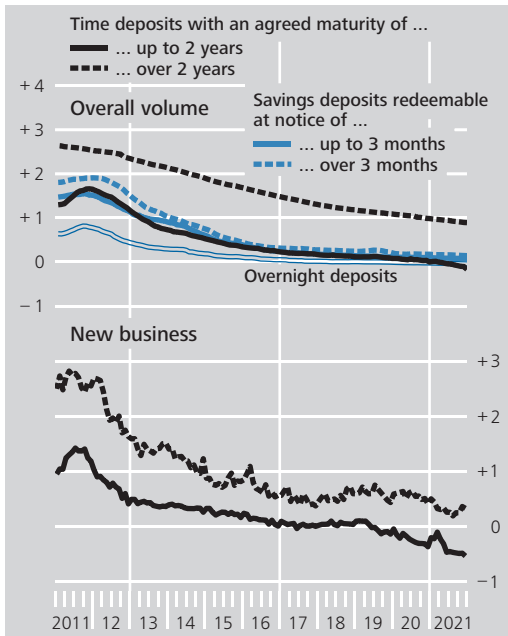
€ billion, 3-month accumulated flows, end-of-quarter data, seasonally adjusted



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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### 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	
	Q3	Q4
Deposits of domestic non-MFIs <sup>1</sup>		
Overnight	37.1	0.7
With an agreed maturity of		
up to 2 years	-5.7	10.4
over 2 years	-5.0	-2.0
Redeemable at notice of		
up to 3 months	0.1	-0.5
over 3 months	-0.8	-0.5
Lending		
to domestic general government		
Loans	-0.7	-2.4
Securities	0.3	-4.7
to domestic enterprises and households		
Loans <sup>2</sup>	40.1	58.0
of which: to households <sup>3</sup>	23.6	24.3
to non-financial corporations <sup>4</sup>	15.3	31.0
Securities	4.1	3.6

\* 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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high-contact services sector in particular. The banks responding to the BLS reported only a marginal rise in demand for consumer and other loans. The main reasons they gave for this rise were improved consumer confidence and the low general level of interest rates. Furthermore, the banks surveyed as part of the BLS indicated that they had again marginally eased their credit standards for consumer and other loans.

Unlike the dynamic lending business, the MFI sector's net external asset position had a considerable dampening effect on monetary growth in the fourth quarter of 2021. As usual, the euro area's persistent current account surplus did lead to an inflow of capital when viewed in isolation. However, other balance of payments items brought about a larger negative effect overall. This manifested, in particular, in the form of the negative balance in cross-border securities transactions, which was most likely caused primarily by the higher yields outside the euro area, chiefly in the United States and the United Kingdom.

*Net external asset position has considerable dampening effect on monetary growth*

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

The deposit business among banks in Germany continued to lose momentum in the fourth quarter of 2021. This was mainly due to overnight deposits, where inflows weakened significantly over the course of 2021 amid fluctuations, reaching only a slightly positive build-up in the final quarter.

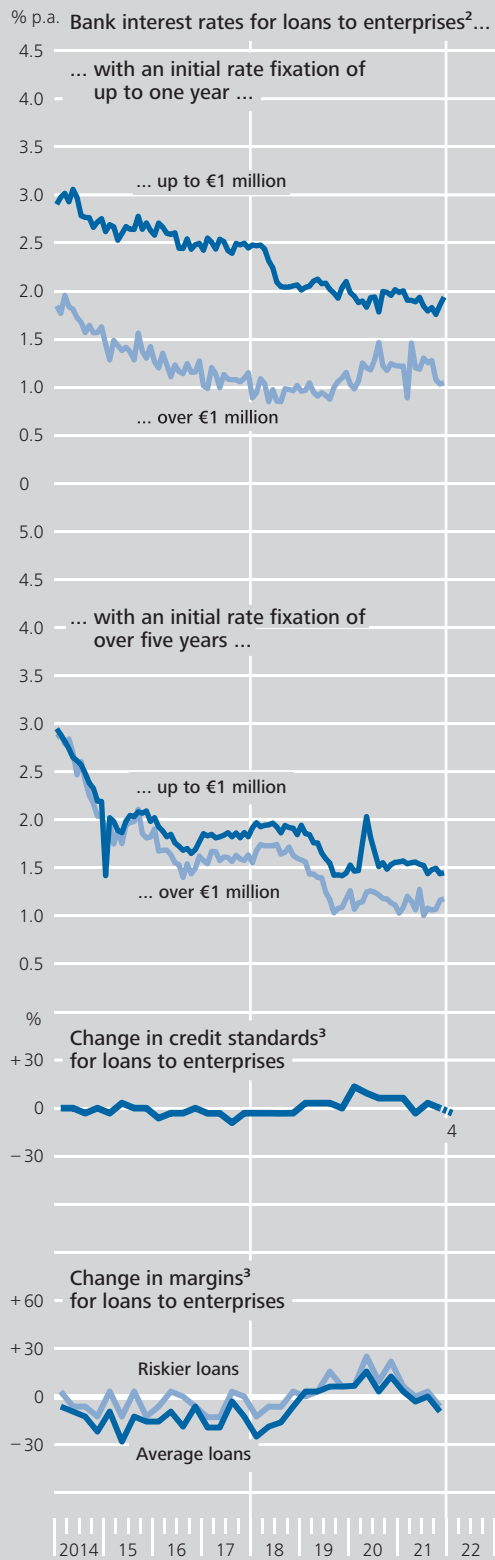
*Build-up of deposits continues to slow*

The overall slowdown in the accumulation of deposits in Germany was, above all, the result of a change in the investment behaviour of households, which continued to lose interest in building up overnight bank deposits. The increase in the opportunity costs of holding money over the year is likely to have played a key role in this adjustment. First, average interest on this type of deposit fell further into

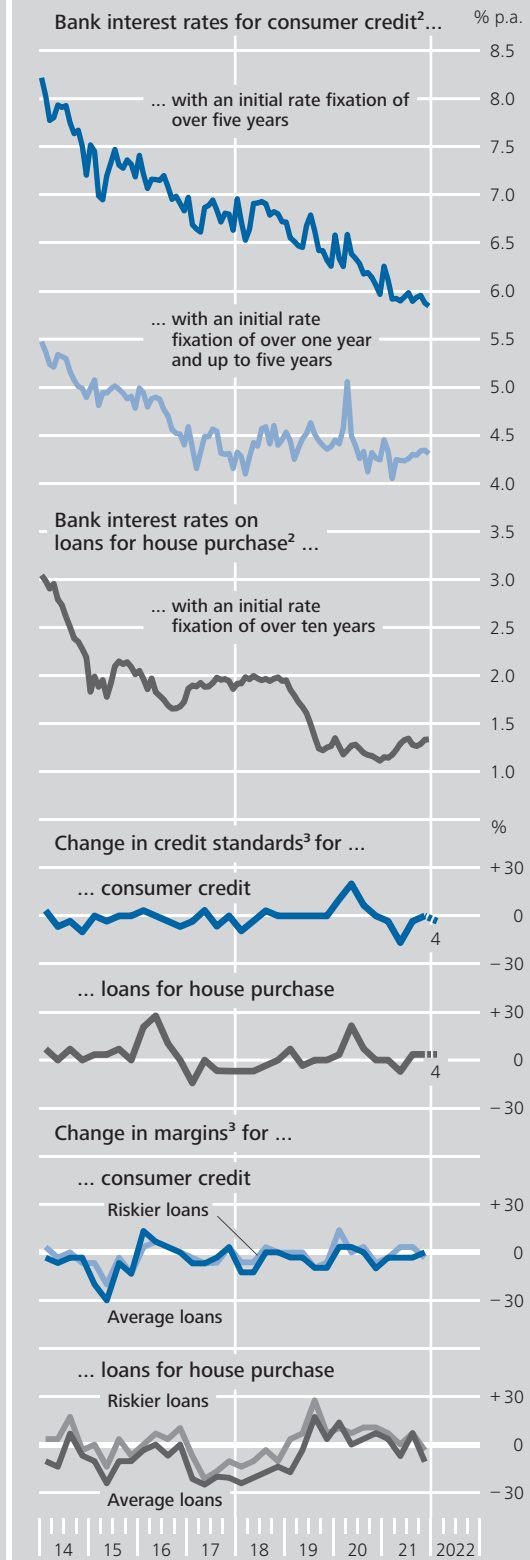
*Households' accumulation of deposits considerably weaker than usual*

## Banking conditions in Germany

### Credit to non-financial corporations



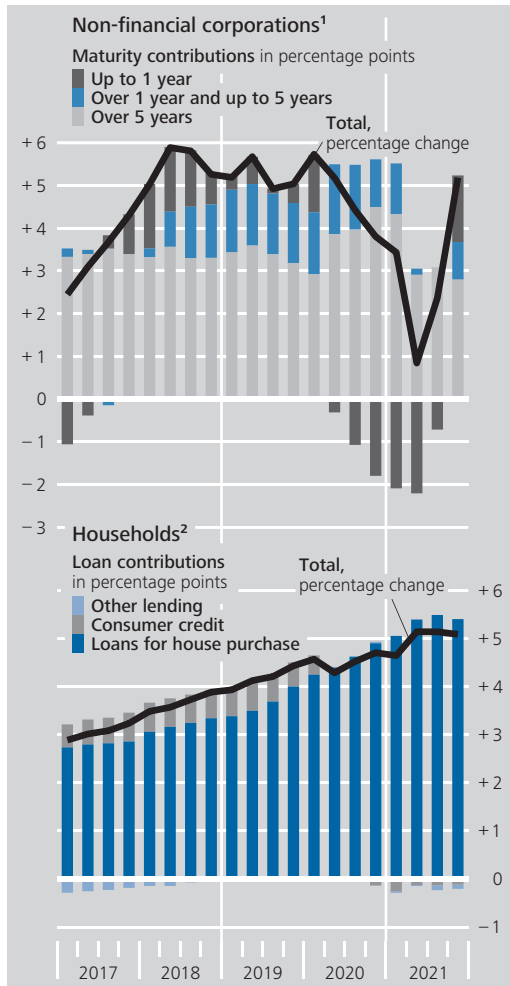
### Credit to households<sup>1</sup>



**1** Including non-profit institutions serving households. **2** New business. According to the harmonised MFI interest rate statistics. **3** According to the Bank Lending Survey; for credit standards: difference between the number of respondents reporting "tightened considerably" and "tightened somewhat" and the number of respondents reporting "eased somewhat" and "eased considerably" as a percentage of the responses given; for margins: difference between the number of respondents reporting "widened considerably" and "widened somewhat" and the number of respondents reporting "narrowed somewhat" and "narrowed considerably" as a percentage of the responses given. **4** Expectations for Q1 2022.

### 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.

Deutsche Bundesbank

negative territory in the final quarter of 2021. Second, the high rates of inflation are likely to have raised households' awareness of the real cost involved in holding money.

By contrast, banks' lending business with the domestic non-bank sector grew sharply in the fourth quarter of 2021. This was mainly due to the strong expansion in lending to the domestic private sector. Lending to the public sector, on the other hand, contracted distinctly once again.

One of the main reasons for lending being so robust was the fact that non-financial corpor-

*Credit business with non-banks very buoyant owing to loans to the private sector*

ations took out a noticeably large amount of loans with domestic banks. In addition to funds needed for inventories and working capital, the banks surveyed in the BLS cited the funding of fixed investment as a key reason for the rise in demand. Although this meant that financing needs for fixed investment did recover, they continued to remain below the figures recorded before the outbreak of the pandemic.

While the increase in loans occurred across all maturities, it was particularly pronounced in the short-term segment. As in the euro area as a whole, the end of the reference period for obtaining special interest rate conditions in the context of the TLTRO-III series is likely to have played a role here. The end of this reference period encouraged some banks to push ahead with granting, in particular, short-term loans to non-financial corporations in the final quarter of 2021. Some of these loans were granted at very favourable interest rate conditions.

This is consistent with banks easing their credit terms and conditions on the whole in the fourth quarter. In this vein, banks narrowed their margins on average-risk and riskier loans. The last time this happened was in the final quarter of 2018. By contrast, according to the BLS, credit standards in corporate banking were left unchanged on balance in the quarter under review for the third time in a row.

Besides a flourishing corporate banking business, banks also saw robust net growth in lending to domestic households in the reporting quarter. This was on account of the consistently high inflows to housing loans. Households' persistently high demand for loans for house purchase is likely to have been fuelled by the expansion in government grants for energy-efficient buildings in the third quarter of 2021, which included not only low interest rate loans but also extensive subsidies towards new buildings and refurbishments. However, overall, the annual growth of loans taken out for house purchase did not accelerate further in the final quarter of 2021; at 7.1% at the end of Decem-

*Substantial lending to non-financial corporations due to combination of various demand factors ...*

*... and banks' TLTRO-III motives*

*Lending policies in corporate banking support demand overall*

*Loans granted for house purchase see consistently high growth*

ber, it came close to its all-time high of 7.2%, which it had reached in the preceding quarter.

*Credit standards for loans for house purchase marginally tighter; slight easing of credit terms and conditions on the whole*

Credit standards for loans to households for house purchase were again tightened marginally in net terms in the fourth quarter. The rejection rate was somewhat higher again compared with the preceding quarter. Following the rises in 2020, this means that the rejection rate is likely persisting at an elevated level. On balance, overall credit terms and conditions were eased marginally.

*Lending policies on consumer and other credit friendly overall, but no notable increases in net lending*

According to the BLS, the policies applicable to consumer loans and other loans to households were not adjusted in the final quarter of 2021, after they had been slightly eased on balance in the preceding three quarters. At the same time, the interest rates banks offered on consumer and other loans were favourable to demand in the fourth quarter. Nevertheless, there was no notable growth in current net lending in this segment. This development is likely attributable not least to a re-intensification of the pandemic at the end of the year.

*Funding environment somewhat improved for German banks*

In response to the ad hoc questions asked in January's BLS, German banks reported that their funding situation had improved again on the quarter, especially with regard to raising funding through medium to long-term debt securities and short-term deposits.

Banks responded to regulatory and supervisory activities by continuing to strengthen their capital positions last year. In the second half of

2021, consistent with banks' expectations, the level of the NPL ratio (percentage share of (gross) NPL stocks to the gross book value of loans) had only a marginal impact, or none whatsoever, on lending policy. For the first half of 2022, too, banks are not expecting the NPL ratio to exert any meaningful influence on their lending policies.

In the second half of 2021, German banks left credit standards largely unchanged in nearly all surveyed sectors of the economy. Only in the commercial real estate sector did they report a discernible tightening. For the first half of 2022, banks are planning to ease their credit standards for commercial real estate lending and to tighten standards for loans for house purchase.

In the second half of 2021, banks made no changes to their lending guidelines for coronavirus assistance loans guaranteed in whole or in part by the government. They had relaxed these standards in the first half of the year. Banks reported a continued decline in demand for loans to enterprises with pandemic-related government guarantees among large enterprises in the second half of 2021. The reason given for this was a reduction in the need for funds for fixed investment as well as the fact that fewer guaranteed loans were taken out to substitute non-guaranteed loans. Demand among small and medium-sized enterprises rose marginally because more funding was once again requested in order to meet acute liquidity needs.

*Level of NPL ratio has no noteworthy impact on changes in German banks' lending policies in second half of 2021*

*Credit standards in commercial real estate tightened in second half of 2021*

*Credit standards for government-guaranteed loans unchanged in second half of 2021*