

## Press release

### **Financial industry: Only structural reforms can stimulate bank lending**

*Survey: The ECB's ABS purchasing program, purchases of sovereign bonds or further ECB interest rate reductions will not be able to stimulate credit market*

FRANKFURT, 20 October 2014. Bank lending in EU crisis countries can only be stimulated by structural reforms. This view was shared by 95 percent of participants of a survey carried out by the Center for Financial Studies among German financial institutions and service providers. On the contrary, nearly all participants (99%) consider a further reduction of interest rates by the European Central Bank (ECB) inefficient. A purchase of asset-backed securities (ABS) by the ECB is only deemed important to stimulate bank lending under certain conditions. Especially the quality of the securitized loans and their diversification matters. On 2 October, the ECB had published details for the planned ABS purchasing program. The objective of this monetary policy measure is to improve the monetary transmission mechanism and to stimulate bank lending.

#### **Only structural reforms are effective**

When asked which instruments or actions could help to enhance bank lending, a large majority (95%) of survey participants says that structural reforms in euro countries are important or very important. A direct support of certain borrowers or groups of borrowers through state subsidy programs (e.g. infrastructure programs) is considered important or very important by 62% of survey participants. In contrast, a large majority of participants state that purchases of government bonds (87%) or a further interest rate reduction by the ECB (99%) is less or not at all effective to enhance bank lending.

“The ECB has already exhausted its possibilities to stimulate bank lending,” Jan Pieter Krahen, Director of the Center for Financial Studies and academic head of the survey, said. “Therefore, the financial industry calls for political action to increase bank lending by implementing structural reforms and taking fiscal measures.”

### **Quality of securitized loans matters**

When asked which characteristics the ABS program should have to enhance bank lending, more than three-quarters of survey participants (78%) stated that a high diversification of credits in the ABS portfolios would be important or very important. 71% consider it important or very important that the securitized individual loans are of high quality (have low default risk). 62% of survey participants say, it is important or very important that the issuing bank retains a large share of the securitized loans. Especially service providers take this view (74%) while financial institutions are less convinced (51%). A long duration of the ABS program or ABS security is judged important or very important by 51% of survey participants.

The ABS program is planned for the duration of at least two years. 64% of the surveyed financial institutions consider a shorter duration of the program appropriate, while only 46.7% of service providers take this view.

“A purchase program meeting the requirements of survey participants would decrease risks for the ECB but would not release a large amount of equity that could then be used to cover new credits,” Krahn said.

The results are based on a quarterly survey, carried out by the Center for Financial Studies, among 400 decision makers in the German financial industry (return about 50% on average).

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