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July 2, 1984

To: Members of the Executive Board
From: The Acting Secretary
Subject: Federal Republic of Germany - Monetary Measures

The Secretary has received the following memorandum dated June 28, 1984 from Mr. Grosche:

At its meeting on June 28, 1984, the Central Bank Council of the Deutsche Bundesbank took the following decisions:

1. The banks' rediscount quotas will be increased by DM 8 billion with effect from July 6, 1984.
2. The discount rate will be raised from 4 percent to 4.5 percent with effect from June 29, 1984; the Lombard rate will remain unchanged at 5.5 percent.
3. Following the maturing of a security transaction under repurchase agreement on July 2, 1984, the Bundesbank will offer the banks another transaction of this type (running from July 2 to August 2); the minimum bidding rate will be 5.3 percent as with the maturing transaction.

These measures are designed to bring about a technical change in liquidity policy; this is necessary because of the large amount of central bank money currently supplied at very short term. The increase in rediscount quotas will enable banks to obtain additional funds totaling DM 8 billion on a durable basis from the Bundesbank and to run down their present very short-term and more expensive refinancing (e.g., via Lombard loans). The raising of the discount rate does not imply any tightening of the monetary policy; its purpose is, rather, to bring this central bank interest rate somewhat closer to the (unchanged) money market rates. This is also indicated by the fact that the *minimum bidding rate* of the new security transaction under repurchase agreement is to be the same as the old one, before the increase in the discount rate.

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