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EBD/91/35

February 4, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Germany - Monetary Policy

The Secretary has received the following memorandum dated February 1, 1991 from Mr. Goos:

> I would be grateful if you could circulate the following communication from the Deutsche Bundesbank, which I received yesterday, to Executive Directors:
>
> > At its meeting on January 31, 1991, the Central Bank Council of the Deutsche Bundesbank took the following decision:
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> > 1. With effect from February 1, 1991, the discount rate of the Bundesbank will be raised from 6 percent to 6.5 percent.
> >
> > 2. With effect from February 1, 1991, the Lombard rate of the Bundesbank will be raised from 8.5 percent to 9 percent.
> >
> > 3. The next securities repurchase agreement will be offered today for crediting tomorrow, Friday, February 12, 1991, in the short-term tranche as a volume tender at a fixed interest rate of 8.5 percent.
> >
> > This decision was prompted by the desire of the Bundesbank to regain control over domestic monetary expansion. Prior to the decision, monetary market rates had been virtually identical with the Lombard rate or even surpassed that rate occasionally. Under these circumstances the Lombard window was no longer--as intended--a facility to meet exceptional liquidity needs of banks but had become a normal source for refinancing.
> >
> > In order not to widen the spread between the discount rate and the Lombard rate further and avoid undue subsidization of banks through the discount window, the Bundesbank also increased the discount rate.

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The security repurchase agreement also announced in the decision will be offered at a tender rate slightly below the latest comparable repos rates. Money market rates in Germany, therefore, should not be affected in any lasting manner by the increase in the Lombard and discount rates.

Governor Pöhl in explaining the Bundesbank Council's decision to the press expressed understanding that the increase in the official rates might not be fully appreciated abroad. However, he stressed that the decision was warranted to contain the risks for price stability arising from the significant acceleration of monetary growth, the high fiscal deficits, and double digit wage claims of German trade unions. Moreover, he pointed to the consistency of the decision with the emphasis placed in the recent G-7 communiqué on the implementation of sound fiscal policies and stability oriented monetary policies. Only an environment of financial stability offers the prospect for lower market interest rates.

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Department Heads