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EBD/95/175

December 15, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Monetary Policy Decisions of the Deutsche Bundesbank
of December 14, 1995

The Secretary has received the following memorandum dated December 14, 1995, from Mr. Schoenberg:

I should be grateful if you would bring the attached Press Release of the Deutsche Bundesbank of December 14, 1995 to the attention of Executive Directors.

Att: (1)

Other Distribution:
Department Heads

Frankfurt am Main, December 14, 1995

At its meeting today, which was attended by Dr. Johannes Ludewig, State Secretary in the Federal Ministry of Economics, the Central Bank Council of the Deutsche Bundesbank addressed in depth the issues of the monetary policy stance and the monetary target for 1996. It took the following decisions on these issues:

I. 1996 monetary target

In 1996 the Deutsche Bundesbank will conduct its monetary policy in such a way as to ensure that the regained price stability can be safeguarded and, at the same time, that the monetary conditions for sustained economic growth remain in place. To this end, the Bank regards it as appropriate for the money stock M3 to expand by 4 % to 7 % between the fourth quarter of 1995 and the fourth quarter of 1996.

The Bundesbank is thus abiding by its proven strategy of monetary targeting, and also by the money stock M3 as its key benchmark variable for monetary policy. Although, in the recent past, monetary growth has been subject to marked fluctuations in the course of the year, the long-term correlation between monetary expansion and price movements has remained sufficiently stable.

The widening of the target corridor to three percentage points takes due account of the increased volatility of shorter-term monetary trends in the last few years. In the context of our medium-term-oriented monetary management strategy, this wider corridor provides leeway for a faster pace of monetary growth, given that this year's monetary target will be distinctly undershot.

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II. Interest rates

1. The discount rate of the Deutsche Bundesbank will be lowered from 3.5 % to 3 % with effect from December 1st.
2. The lombard rate of the Deutsche Bundesbank will be reduced from 5.5 % to 5 % with effect from the same date.
3. The next three securities repurchase transactions will be offered in the form of fixed rate tenders at a rate of 3.75 %.

The main reason for the interest rate reduction is the course of monetary growth. The expansion of the money stock M3, which quickened for a while in the summer, slowed down again thereafter. The further growth of the money stock will also be dampened by the sluggish pace of business activity. The interest rate reduction is designed to help durably to raise monetary growth on to a path consistent with the potential.

The cut in interest rates will be fostered by the monetary policy environment, too. That applies particularly to the favourable price outlook and the persistently strong external value of the Deutsche Mark.

By offering a fixed-rate tender, the Bundesbank intends to make end-of-year liquidity management, which is difficult, easier for the credit institutions.