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August 16, 1991

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

The Secretary has received the following memorandum dated August 15, 1991 from Mr. Esdar:

I received the following communication from the Deutsche Bundesbank which I would like to ask you to kindly circulate to the members of the Executive Board for information:

At its meeting on August 15, 1991 the Central Bank Council of the Deutsche Bundesbank took the following decisions:

1. With effect from August 16, 1991 the discount rate of the Deutsche Bundesbank will be raised from 6.50 to 7.50 percent.
2. With effect from August 16, 1991 the Lombard rate of the Deutsche Bundesbank will be raised from 9.00 to 9.25 percent.

The increase in the discount rate narrows the widened gap between it and both other central bank interest rates and market interest rates. At the same time, it reduces the subsidy nature of this interest rate whose monetary policy effectiveness had been diminished.

The increase in the Lombard rate is intended to set it off somewhat more from interest rates in open market operations, and thus to help facilitate flexible money market management.

On the one hand, the decisions adopted today take account of "technical" adjustment requirements. On the other hand, a further tightening of monetary policy is also intended. The Bundesbank thus makes clear that it continues to adhere to its stability-oriented policy stance, and that it intends to safeguard the value of the D-Mark both domestically and externally.

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Department Heads