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December 16, 1988

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 December 15, 1988 from Mr. Grosche:

At its meeting on December 15, 1988, which was attended by Dr. Schlecht, State Secretary in the Federal Ministry of Economics, and Dr. Tietmeyer, State Secretary in the Federal Ministry of Finance, the Central Bank Council of the Deutsche Bundesbank discussed the underlying stance of monetary policy in 1989. It took the following decision in this connection:

In 1989 the Deutsche Bundesbank will endeavor, through its monetary policy, to maintain the degree of price stability currently achieved and to preserve a satisfactory rate of economic growth. Increasing the money stock by about 5 percent between the fourth quarter of 1988 and the fourth quarter of 1989 is consistent with this objective. The money stock is defined in this context in the same way as for 1988, i.e., it comprises domestic non-banks' currency and sight deposits, time deposits for less than four years and savings deposits at statutory notice.

In addition, the Central Bank Council decided to raise the Bundesbank's lombard rate from 5 percent to 5 1/2 percent with effect from December 16, 1988. In this way the Bundesbank intends to regain greater scope for money market management at the higher level which money market rates have meanwhile reached, without the banks being obliged to have heavier recourse to lombard loans.

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Department Heads