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January 26, 1987

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

The Secretary has received the following memorandum dated January 23, 1987 from Mr. Grosche:

I received the following press release 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 January 22, 1987, which was attended by Dr. Gerhard Stoltenberg, the Federal Minister of Finance, the Central Bank Council of the Deutsche Bundesbank took the following interest rate and liquidity policy decisions:

1. The rediscount quotas granted to banks (including a number of minor special credit lines) will be reduced by approximately DM 8 billion with effect from February 2, 1987.
2. The minimum reserve ratios on banks' liabilities to residents and nonresidents will be raised across the board by 10 percent of their present level with effect from February 1, 1987.
3. The discount rate and lombard rate of the Deutsche Bundesbank will be lowered by 1/2 percent each to 3 percent and 5 percent, respectively, with effect from January 23, 1987.

These measures will neutralize the greater part of the funds amounting to DM 17 billion which accrued in January on account of interventions in the foreign exchange market, especially those resulting from obligations under the EMS. At the same time they will restore the conditions required for the continued control of the money market through securities repurchase agreements. By lowering its discount and lombard rates and the money market rates, the Bundesbank is hoping to contribute to calming down the foreign exchange markets and stabilizing the European monetary system.

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