

MASTER FILES

EBD/86/62

ROOM C-120

01

March 6, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Federal Republic of Germany - Monetary Measures

The Secretary has received the following memorandum dated March 6, 1986 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 March 6, 1986, which was attended by Dr. Gerhard Stoltenberg, the Federal Minister of Finance, the Central Bank Council of the Deutsche Bundesbank took the following decisions:

1. the discount rate will be lowered from 4 percent to 3 1/2 percent with effect from March 7, 1986.
2. the banks' rediscount quotas will be reduced by DM 5 billion with effect from May 1, 1986.

By lowering the discount rate the Bundesbank is taking due account of the tendency toward relaxation already evident on the domestic financial markets, which reflects the current calm price conditions and the changed external situation. The reduction in the rediscount quotas will offset the major part of the release of liquidity which will result from the cut in the required minimum reserves--by approximately DM 8 billion--as from May 1, 1986. (See the press release of the Deutsche Bundesbank on the decisions of the Central Bank Council of December 19, 1985.) The aim of the minimum reserve policy changes, which were decided upon in the past, is to strengthen the international competitiveness of German financial centers. By means of liquidity-absorbing measures the Bundesbank must prevent bank liquidity from expanding too much as a result of the release of minimum reserves.

Other Distribution:
Department Heads