EBD/85/42

February 1, 1985

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 31, 1985 from Mr. Grosche:

> I received the following communication from the Governor of 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 31, 1985, the Central Bank Council of the Deutsche Bundesbank decided to raise the lombard rate from 5 1/2 percent to 6 percent with effect from February 1, 1985. At the same time the Bundesbank is offering the banks an initial security transaction under repurchase agreement for February at a fixed interest rate of 5.7 percent. In addition, the Bundesbank is willing until further notice to sell treasury bills (mobilization and liquidity paper) to domestic banks at a rate of 5 1/2 percent and with a fixed maturity of three days as a rule.
>>
>> By offering a new security transaction under repurchase agreement, the Bundesbank is responding to the signs of a need for liquidity on the domestic money market. The interest rate chosen for providing the liquidity is no higher than that used for the security transactions under repurchase agreement conducted up to mid-November last year. Raising the lombard rate enables the banks to be supplied with liquidity, by means of security transactions under repurchase agreement, at an interest rate below the lombard rate. The increased use of security transactions under repurchase agreement for providing liquidity underlines the Bundesbank's efforts to grant lombard loans in future only for the purpose of very short-term refinancing. To prevent the day-to-day money rate from slipping below 5 1/2 percent, as it might do in the event of unplanned liquidity inflows on the money market, the Bundesbank is offering the Banks a short-term investment facility in treasury bills. All the measures adopted serve the technical refinement of money market management through the Bundesbank's instruments of open market policy.

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