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Barry Potter Esq
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Dear Barry

with CDP.

GERMAN RESTRICTIONS ON THE ISSUE OF FOREIGN CURRENCY BONDS

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Your letter of 30 April asked about German restrictions on the issue of foreign currency bonds. I attach a note on the subject. As you will see the restrictions served no useful monetary control purpose and were abolished in January of this year.

Yours

Jsg

JOHN GIEVE
Principal Private Secretary

GERMAN RESTRICTIONS ON DOMESTIC ISSUES FOREIGN CURRENCY BONDS

These restrictions were lifted, in January 1990, and the Bundesbank now say they were serving no useful monetary policy purpose.

2. Between 1949 and 1961 there was an absolute prohibition on German residents holding or issuing foreign currency bonds. The purpose was to protect the deutschemark since there was a fear that German residents would wish to switch into dollars.

3. From 1961, however, German entities have been able to issue foreign currency bonds, providing they were issued through offshore subsidiaries. The Treasury note of 4 June 1989 suggested, on advice from the German IMF alternative director, that the restriction had been maintained for monetary policy reasons, to discourage the use of foreign currency by domestic residents. The Bundesbank now deny there was any monetary policy reason other than the original reason of external monetary policy, to help support the exchange rate. Once the prohibition on residents' holdings of foreign currency bonds was removed in 1961, and offshore issues were permitted, this effect will have been lost, and the Bundesbank say the restriction was only maintained because there was no pressure to lift it. It helped to direct business to London, but the effect was small: only DM6 billion equivalent of foreign currency bond issues were made by German companies abroad last year.

4. In January 1990, the Bundesbank liberalised the arrangements for domestic bond issues by giving a general consent for banks and corporations to issue foreign currency bonds direct to German investors. The move came after pressure from some German issuers who wanted the flexibility of being able to make domestic issues in foreign currency. The Bundesbank said that the liberalisation has been made in recognition of the globalisation of financial markets. There have been only a few issues of foreign currency bonds by resident issuers in Germany this year.

EURO POL : EMS.

