

**Restricted**

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FM BONN

TO PRIORITY FCO

TELNO 1103

OF 191610Z DECEMBER 86

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**FRG MONETARY POLICY**

SUMMARY

1. NEW TARGET RANGE FOR CENTRAL BANK MONEY OF 3 PER CENT TO 5 PER CENT ANNOUNCED. NO CHANGE IN INTEREST RATES.

DETAIL:

2. FOLLOWING A MEETING OF THE CENTRAL BANK COUNCIL IN FRANKFURT THIS MORNING, THE BUNDESBANK HAS ANNOUNCED A NEW TARGET RANGE FOR 1987 OF 3 PER CENT TO 6 PER CENT FOR THE KEY MONETARY AGGREGATE, CENTRAL BANK MONEY. THE COUNCIL MEETING HAD BEEN ATTENDED, UNUSUALLY, BY THE FEDERAL ECONOMICS MINISTER, DR MARTIN BANGEMANN.

3. IN 1986 CENTRAL BANK MONEY HAS BEEN RUNNING CONSISTENTLY OVER ITS TARGET RANGE OF 3.5 PER CENT TO 5.5 PER CENT, THE FIRST TIME THE TARGET HAS BEEN MISSED SINCE THE CURRENT PRESIDENT OF THE BUNDESBANK TOOK UP HIS POSITION IN 1980. CENTRAL BANK MONEY IN NOVEMBER ROSE AT AN ANNUAL RATE OF 7.8 PER CENT. IN A STATEMENT ISSUED AFTER THE COUNCIL MEETING THE BUNDESBANK SAID THAT THE NEW TARGET ASSUMED A GROWTH IN GNP IN 1987 OF 2.5 PER CENT AND CALLED ON OTHER COUNTRIES TO PLAY THEIR PART IN THE RECOVERY IN THE WORLD ECONOMY.

COMMENT

4. THE NEW TARGET RANGE IS SOMETHING OF A COMPROMISE WHICH SHOULD MEET THE CONCERNS OF MOST SECTIONS OF THE GERMAN FINANCIAL COMMUNITY. SIGNIFICANTLY, IN ITS FORMAL STATEMENT THE BUNDESBANK CHOSE NOT TO MENTION THE CURRENT OVERSHOOT. THOUGH THEY WILL NO DOUBT BE PRESSED HARD BY THE MEDIA THEY ARE LIKELY TO STICK TO THE LINE THAT STRONG MONETARY GROWTH IS THE FRG'S CONTRIBUTION TO THE EXPANSION OF THE WORLD ECONOMY. THE FORECAST OF 2.5 PER CENT GROWTH IN GNP NEXT YEAR REFLECTS A GROWING ACKNOWLEDGEMENT THAT THE GOVERNMENT'S PREDICTIONS OF 3 PER CENT ARE OVERLY OPTIMISTIC.

BULLARD

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BONN WILL PASS SAVING TO CG'S IN FRG

FRAME - ECONOMIC

BPLNAN 3083

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