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FRG ECONOMY: INTEREST RATES

SUMMARY

1. MOUNTING DOMESTIC PRESSURE FOR A REDUCTION IN THE DISCOUNT AND LOMBARD RATES. SOME SIGNS OF A SPLIT BETWEEN THE GOVERNMENT AND THE BUNDESBANK OVER POLICY. A POSSIBILITY THAT ACTION WILL BE ANNOUNCED AFTER THE MEETING OF THE CENTRAL BANK COUNCIL ON 22 JANUARY.

DETAIL

2. PRESSURE IS MOUNTING ON THE GOVERNMENT FOR ACTION TO REDUCE INTEREST RATES (CURRENTLY STANDING AT 3.5 PERCENT DISCOUNT AND 5.5 PERCENT LOMBARD) IN THE FACE OF THE CONTINUED DEPRECIATION OF THE US DOLLAR AGAINST THE D-MARK. FOR THE FIRST TIME THERE ARE SIGNS OF A DIFFERENCE OF OPINION BETWEEN THE GOVERNMENT AND THE BUNDESBANK WHICH UNTIL NOW HAVE BEEN SOLIDLY OPPOSED TO INTEREST RATES CUTS.

3. ON A DAY WHICH SAW ANOTHER LARGE FALL, PARTICULARLY IN EXPORT-ORIENTATED SHARES, ON THE FRANKFURT EXCHANGE, ONE OF THE MOST IMPORTANT INDUSTRIAL ORGANISATIONS, THE BDW, YESTERDAY RENEWED ITS CALL FOR INTEREST RATES TO BE REDUCED TO EASE THE PRESSURE ON GERMAN EXPORTERS. IN AN INTERVIEW WITH A FRANKFURT NEWSPAPER THE SAME DAY, THE FEDERAL ECONOMICS MINISTER, BANGEMANN, SAID THAT THERE WAS A CASE FOR REDUCING RATES AND IN AN INTERVIEW WITH ANOTHER LEADING DAILY THE GOVERNMENT SPOKESMAN, OST, SAID THAT THE RECENT EMS REALIGNMENT HAD INCREASED THE SCOPE FOR THE BUNDESBANK'S MONETARY POLICY. THE FEDERAL FINANCE MINISTER, STOLTENBERG, ALSO SAID YESTERDAY THAT THE REGULAR BI-WEEKLY MEETING OF THE CENTRAL BANK COUNCIL ON 22 JANUARY, WHICH HE WILL ATTEND, WILL DISCUSS OPTIONS FOR ACTION.

4. ANALYSTS AND DEALERS IN FRANKFURT ARE NOW CONFIDENT THAT THE BUNDESBANK WILL HAVE TO REDUCE BOTH THE LOMBARD AND DISCOUNT RATES, THOUGH MOST FAVOUR ACTION AFTER THE ELECTIONS. THEY BELIEVE THAT THE AMOUNTS OF INTERNATIONAL MONEY FLOWING INTO THE D-MARK ARE DEFEATING OPEN MARKET OPERATIONS BY THE BUNDESBANK TO EASE LIQUIDITY. THE BUNDESBANK ITSELF SEEMS AT LEAST TEMPORARILY TO HAVE REVERTED TO ITS PREVIOUS POLICY OF NOT INTERVENING ON THE FOREIGN EXCHANGES AGAINST A FIRM TREND. THE DEALERS ARGUE THAT THERE IS THEREFORE NO OTHER TOOL AVAILABLE TO THE BUNDESBANK TO MAKE THE D-MARK LESS ATTRACTIVE TO INVESTORS.

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COMMENT

5. THERE MUST NOW BE A POSSIBILITY THAT THE BUNDESBANK WILL BE FORCED TO TAKE ACTION BEFORE THE ELECTIONS ON 25 JANUARY, DESPITE RECENT FIRM STATEMENTS TO THE CONTRARY FROM THE PRESIDENT, POEHL. THE ARGUMENTS WILL NO DOUBT BE REPEATED AT THURSDAY'S MEETING IN FRONT OF STOLTENBERG (WHO HAS NO VOTING RIGHT IN THE COUNCIL BUT HAS THE POWER TO ASK FOR A DECISION TO BE DEFERRED FOR TWO WEEKS). AS THE STOCK MARKET HAS SHOWN, INDUSTRY AND INVESTORS HAVE NOW LOST ALL CONFIDENCE IN EXPORT POTENTIAL AT CURRENT RATES OF EXCHANGE. A SIDE EFFECT OF THIS HAS BEEN THE INITIAL UNCERTAIN REACTION TO THE GOVERNMENT'S PLANS FOR FURTHER PRIVATISATION OF STATE-OWNED ASSETS ANNOUNCED YESTERDAY WHEN THE SHARES OF BOTH COMPANIES INVOLVED, VEGA AND VOLKSWAGEN, WERE MARKED DOWN FOLLOWING THE ANNOUNCEMENT. WHICHEVER WAY THE DECISION GOES, HOWEVER, WE DO NOT EXPECT IT TO HAVE A SIGNIFICANT BEARING ON THE OUTCOME OF THE FEDERAL ELECTIONS.

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