Decision on interest rate rise of October 9, 1997

At its meeting today, the Central Bank Council of the Deutsche Bundesbank decided to raise the fixed rate of interest for its securities repurchase agreements (repos) on October 15 and 22, 1997 from hitherto 3.00 % to 3.30 %.

The Central Bank Council gave the following explanation for the move:

The Bundesbank has been pursuing an expansionary monetary policy for a considerable time now. On balance, the central bank interest rates have been at historically low levels since the interest rate cuts in April and August 1996. Money balances grew sharply in 1996 and at the beginning of 1997. Owing to the weakening of the external value of the Deutsche Mark so far this year, monetary conditions have eased further.

A concurrent shift has occurred in the monetary policy setting. The price climate changed during the summer months. Import prices, producer prices and consumer prices have all risen. This was due in large part to exchange rate movements against the US dollar and to increases in administered prices.

To date, falling unit labour costs have acted as a counterweight to "imported" and administered price stimuli. Hence there is no cause to dramatise the current price trend. The risks to price stability have increased, however. Timely countermeasures improve the prospects of steadying the growth process and prevent the build-up of an inflation potential in the run-up to European monetary union.

In keeping with its statutory mandate and within the framework of its monetary policy options, the Bundesbank must endeavour to ensure, above all, that the provision of liquidity to the economy offers no leeway for an acceleration in the upward thrust of prices. In order to safeguard this for the future, a further deceleration of monetary growth is called for – as the Central Bank Council pointed out already in July in its review of the monetary target. The slight tightening of monetary policy associated with the raising of the repo rate is intended to serve that purpose.