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FN BONN

TO IMMEDIATE FCO

TELNO 044 [COLLAR]
OF 22 JANUARY.

INFO ROUTINE BMB BERLIN, EAST BERLIN, WASHINGTON, MOSCOW
 INFO ROUTINE OTHER EUROPEAN COMMUNITY POSTS, UKDEL NATO
 INFO ROUTINE UKREP BRUSSELS, CHCC(G)
 INFO SAVING CONSULATES GENERAL IN THE FRG

MY TELNO 027: FRG ELECTION CAMPAIGN *ms*

SUMMARY

1. THE LAST LAP. COALITION SET TO WIN.

DETAIL:

2. WITH POLLING DAY ON 25 JANUARY NOW JUST ROUND THE CORNER, THIS LACKLUSTRE CAMPAIGN IS DRAWING TO A CLOSE. THERE HAVE BEEN NO BIG SURPRISES THIS WEEK. LATEST OPINION POLLS SHOW THE CDU/CSU ABOUT 10 PERCENTAGE POINTS AHEAD OF THE SPD, AND THE FDP SAFELY ABOVE THE 5 PER CENT HURDLE WHICH THEY MUST CLEAR IN ORDER TO STAY IN THE BUNDESTAG. THE COALITION'S RETURN TO POWER THUS SEEMS ASSURED.
3. IN BONN, TALK IS TURNING TO THE COALITION NEGOTIATIONS WHICH, ALL BEING WELL, WILL BEGIN NEXT WEEK. FOR THE GOVERNMENT AND THE MEDIA, THE MAIN CURRENT CONCERN IS THE KIDNAPPING OF TWO FRG CITIZENS IN BEIRUT, ON WHICH WE HAVE REPORTED SEPERATELY. SINCE EITHER THE DEATH OF A HOSTAGE OR WILLINGNESS TO DO A DEAL WITH THEIR CAPTORS WOULD BE LIKELY TO ALIENATE ONE OR OTHER SECTION OF THE ELECTORATE, THE GOVERNMENT WILL PROBABLY HOPE TO PLAY MATTERS LONG, UNTIL THE ELECTION IS OVER.
4. ON THE OPPOSITION SIDE, RAU HAS BEEN FIGHTING BACK, AND MAY DO SLIGHTLY BETTER ON THE DAY THAN THE POLLS PREDICT. BUT THE KNIVES ARE BEING SHARPENED AT SPD HQ FOR THE INTERNAL RECKONING TO FOLLOW THE ANTICIPATED DEFEAT. THE RESULT FOR THE GREENS, AFTER A SERIES OF CAMPAIGN RALLIES WHICH HAVE BEEN ALMOST ALL ENTERTAINMENT AND ALMOST NO POLITICS, IS HARDER TO PREDICT. THE POLLS HAVE THEM BETWEEN 7 AND 9 PERCENT.

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5. THE CAMPAIGN HAS THUS BEEN LIKE ONE OF THOSE BOAT RACES IN WHICH ONE CREW LEADS FROM THE START AND THE OTHER CLOSES THE GAP A BIT TOWARDS THE END, BUT NOT ENOUGH TO MAKE THE RACE INTERESTING.

BULLARD

YYYY

BONN WILL PASS TO BMG BERLIN AND CIVCC(G)

BONN WILL PASS SAYING TO CONSULATES GENERAL IN THE FRG

BPLNAN 3355

EUROPEAN POLITICAL

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TO IMMEDIATE FCO

TELNO 036

OF 201545Z JANUARY 87

INFO PRIORITY OTHER EUROPEAN COMMUNITY POSTS, WASHINGTON, TOKYO

INFO PRIORITY UKDEL OECD, UKDEL IMF WASHINGTON

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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