

# A RUDIMENTARY OVERVIEW OF THE DEUTSCHE BUNDESBANK OF THE FEDERATION OF GERMAN STATES

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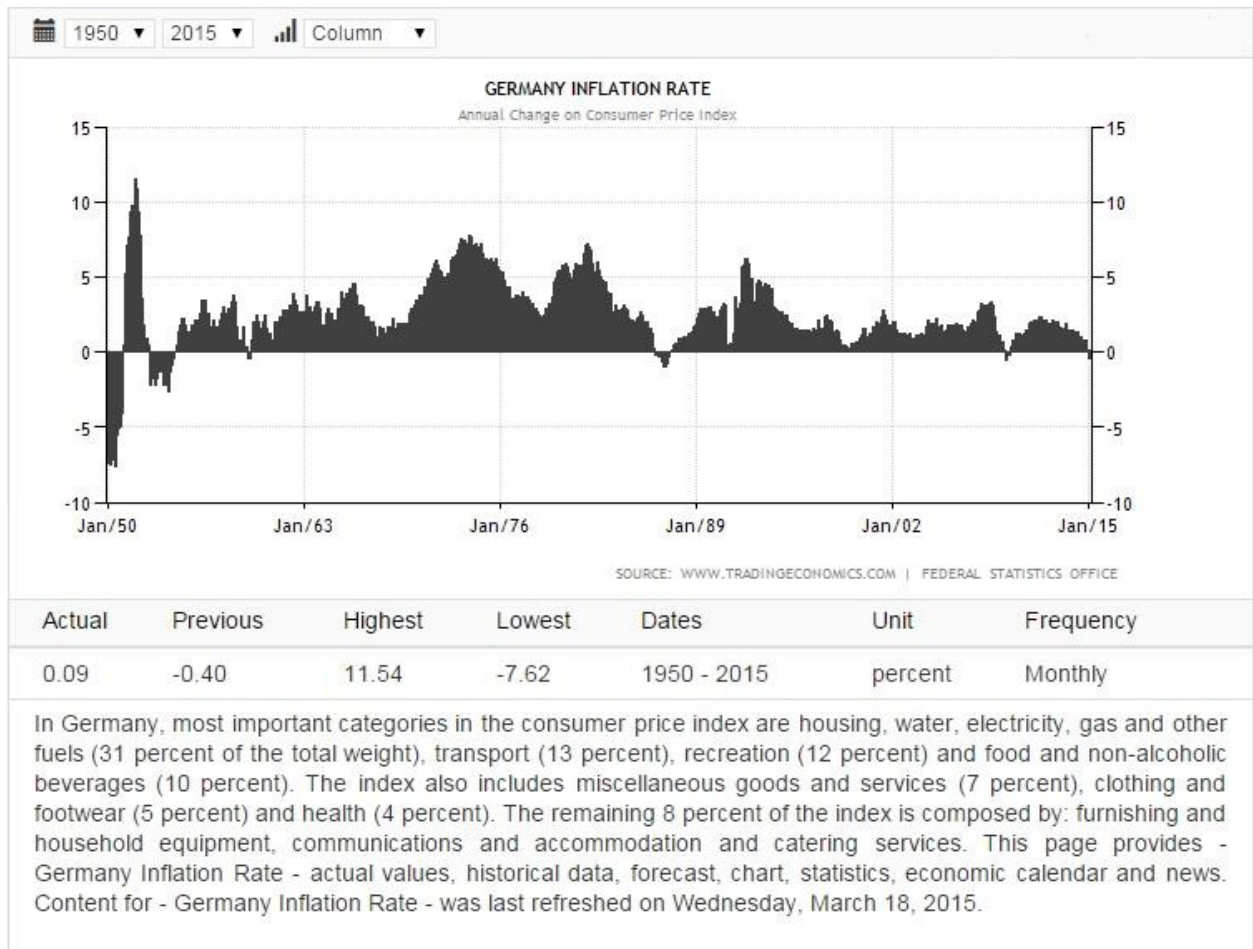
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## HISTORY

Through the passing of the Bundesbank Act of 1957, the German National Bank, known as the Bundesbank, was established in 1948 after the fall of the Third Reich. The predecessor of the Bundesbank was the Reichsbank established in 1876 and disbanded shortly after the siege of Berlin in 1945. “The legislation enshrined the newly developed central bank's independence by giving it complete control over German monetary policy..., leaving fiscal policymaking to elected officials. Largely free from political interference, the Bundesbank's primary task through the 1990s was to control inflation and ensure the stability of the deutsche mark, the country's postwar currency”<sup>i</sup>. The Bundesbank was similar to the American banking system upheld by the Federal Reserve, however the Bundesbank had a greater task during its conception. The German currency from 1948 to 1990 was split between the Deutsche Mark of West Germany and the Ostmark of East Germany. The Bundesbank had to maintain enough control over the Deutsche Mark while keeping close relations with the Staatsbank der DDR – issuer of the Ostmark – to monitor the past, present, and future decisions of the East German currency. The following figure examines the change in inflation rate across 65 years – from 1950 to 2015.

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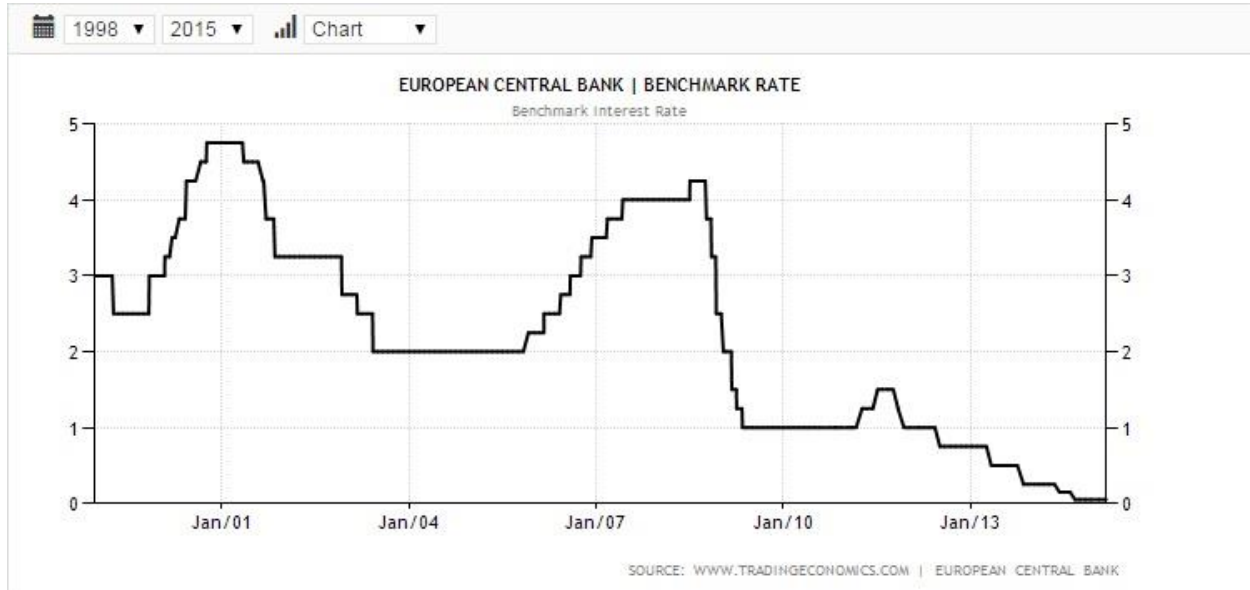


As suspected, the inflation change of Germany's Consumer Price Index in the conception of the Bundesbank is staggering. Now, however, seen globally as the beacon of economic and financial stability, the Deutsche Bundesbank has an immense role to play in maintaining the stability of the euro.

## STRUCTURE

The Executive Board of the Bundesbank, comparable with the Federal Reserve Board of Governors and the Governing Council of the European Central Bank is the decision-making entity of the Deutsche Bundesbank. Individuals on the Board as of the year 2015 are Dr. Jens Weidmann, Claudia M. Buch, Carl-Ludwig Thiele, Dr. Andreas Dombret, Dr. Joachim Nagel, and Dr. Johannes Beermann<sup>ii</sup>. These individuals assumed position by nomination by the Federal Government or the Bundesrat, the Federal Council of Germany, alongside the Bundestag<sup>iii</sup>. The goal of the Bundesbank, as set forth and maintained by the Executive Board is to "safeguard the stability of the general price level [of the Euro within the Eurozone]...impartiality towards individual interests... [and] perform other important tasks, both nationally and internationally,

which are not directly associated with its monetary policy functions. In particular, such tasks relate to the fields of banking supervision, financial and monetary stability as well as cash and payments<sup>iv</sup>. Within the Eurosystem the Bundesbank is in control of maintaining price stability, drawing on experts within the Bundesbank staff of chief economists, statisticians, and monetary



experts. “The Governing Council of the ECB defines price stability as a year-on-year increase in the euro’s average price level of below, but close to, 2%”<sup>v</sup>. The following supplementary graph shows the historical benchmark interest rate of the Bundesbank over the years.

Open market operations, as used within the Federal Reserve System in the United States to influence the monetary base or M1 levels, similar techniques are used in the Bundesbank. In order to maintain a successful relationship with the ECB in sustaining this target, the Bundesbank responds to the Bank for International Settlements (BIS), Deutsche Bundesbank and Federal Financial Supervisory Authority (BaFin), and the Financial Stability Board (FSB), publishing a yearly review made public for all to examine, evaluating the robustness of the German financial system, analyzing risks of continued stability given methods in practice, and providing reliable recommendations to market participants and national and international policy makers to further the market’s efficiency. “The Bundesbank continuously monitors the books of 2,000 credit institutions and 1,600 financial services institutions throughout Germany to assess their solvency and liquidity. Besides meeting the balance sheet guidelines, banks must fulfill a range of requirements regarding their organization and management...[as recommended by] the Basel Committee on Banking Supervision...adjustments (“Basel III”) in 2010”<sup>vi</sup>. The Bundesbank, as most other national central banks within the European System of Central Banks (ESCB) uses the Single European Payments Area (SEPA) created in 2008 in order to exponentially improve efficiency in their local market transactions<sup>vii</sup>. In Germany, the

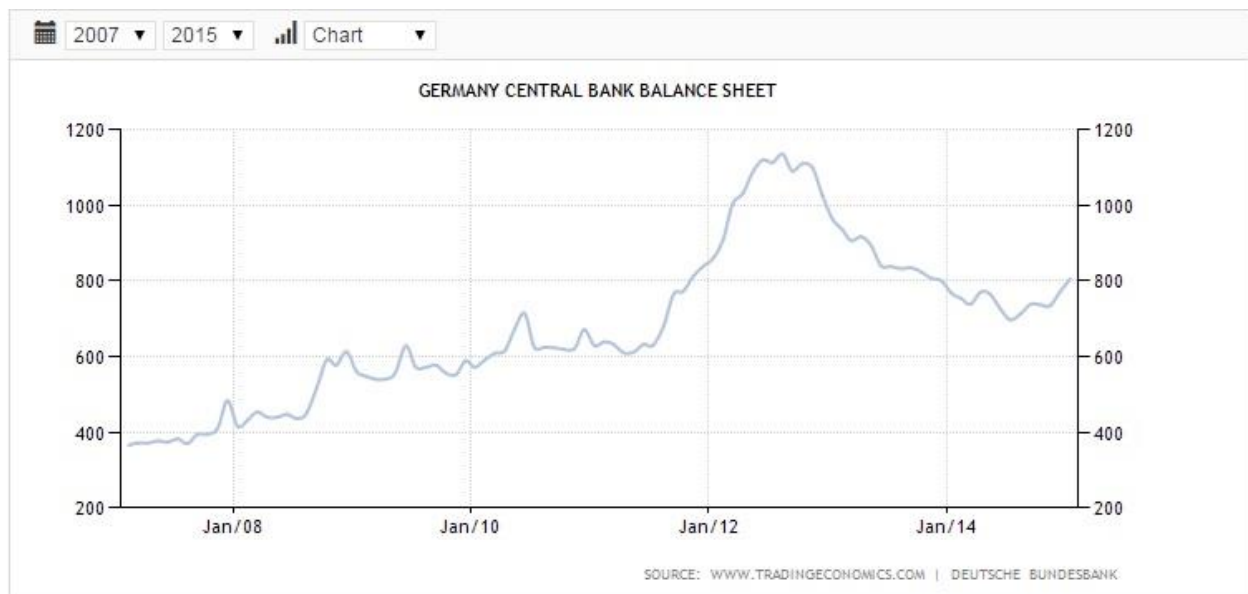
Bundesbank has the exclusive right to issue and print banknotes, using specialist printers which themselves are subject to strict regulation.

In an overview of the Deutsche Bundesbank Annual Reports of both 2014 and 2005<sup>viii</sup>, the overall total assets of the Bundesbank increased approximately 300% from 293.272 billion euros in 2005 to 801.033 billion euros in 2014. Gold and gold receivables have increased over 100%, increasing from 35.495 billion euros to 94.876 billion euros. The only major difference in balances sheets between the Bundesbank and the Federal Reserve is that the Federal Reserve has an ever-increasing stake in the commercial financial market, with trillions of dollars involved in

Securities held for monetary policy purposes								
Item	31.12.2014		31.12.2013		Year-on-year change			
	Balance sheet value	Market value	Balance sheet value	Market value	Balance sheet value		Market value	
	€ million	€ million	€ million	€ million	€ million	%	€ million	%
SMP portfolio								
Greece	3,885	3,523	5,658	5,483	- 1,774	- 31.3	- 1,960	- 35.8
Ireland	1,761	2,115	1,748	2,010	13	0.7	105	5.2
Portugal	3,099	3,485	4,060	4,175	- 961	- 23.7	- 689	- 16.5
Italy	17,994	20,529	21,558	23,382	- 3,564	- 16.5	- 2,852	- 12.2
Spain	6,884	7,770	9,376	9,955	- 2,491	- 26.6	- 2,185	- 21.9

mortgage backed securities, collateralized debt obligations, and even student debt loan packages. As the accounting principle states, the Bundesbank liabilities also increased over 300%, with a majority of the increase accredited to the increase in loans to euro-area credit institutions related to monetary policy operations, other intra-Eurosystem loans, and capital and reserves. The balance sheets will be provided as an addendum to this paper for further shrewd scrutiny. In a comparison of fixed assets between the years 2005 and 2014, the only notable change is the decrease in book value of assets. This could be due to a greater involvement in heavily indebted countries within the Eurozone, such as Greece, Portugal, Ireland, and Spain. In fact, as was expected, the following chart shows the securities held for monetary policy purposes overseas, and all aforementioned countries are involved with German loans as of 31/12/2014.

The following supplementary graph plots the exact markings of the Deutsche Bundesbank Balance Sheet net worth in billions of euros.



The currency of Germany, used by the Bundesbank in local transactions, is the euro which is intrinsically pegged to the euro-exchange rate. The management of the euro is more directly concerned with the sights of the ECB, however the Bundesbank does reserve the unique ability to print and issue euros. The exchange rate appendix attached to this paper indicates that across countries the exchange rate is incredibly stable, indicating successful management by the collaborative effort of the ECB and the Bundesbank.

## PRESENT DAY

In the present day, the Bundesbank posted a 2.95 billion euro profit in the end of the 2014 fiscal year, as compared with the almost double 4.59 billion euro profit of 2013. It is currently in the process of transferring metric tonnes of its gold reserves from banks across countries back to the headquarters in Frankfurt am Main for storage. On March 27, 2015, the Bundesbank is hosting a high-level conference on financial stability and debt in Frankfurt am Main – fitting, as the Bundesbank is the fore-runner in banking transparency, oversight, management, and regulation. President Jens Weidmann of the Bundesbank claimed in Zurich that the recovery in Europe must be expedited, stating “If inflation remains below this level for a long time, it will become more difficult for them to service their debt and that could have implications for price developments and the credibility of monetary policy<sup>ix</sup>”. As the general leader of the Eurozone economic power, the Bundesbank has a greater influence in matters regarding debt amongst Eurozone nations; President Jens Weidmann was recently quoted in regards to Grecian debt “That is what the rescue funds are there for, and they have to see whether the conditions are met for the funding to continue or be disbursed. This is not the job of monetary policy”, indicating that as almost always is the case the ECB and the Bundesbank are aligned in purpose and philosophy.

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<sup>i</sup> <http://www.cfr.org/world/germanys-central-bank-eurozone/p29934>

<sup>ii</sup> [http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks\\_and\\_organisation/Executive\\_Board/executive\\_board.html](http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks_and_organisation/Executive_Board/executive_board.html)

<sup>iii</sup> [http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks\\_and\\_organisation/Tasks/tasks.html](http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks_and_organisation/Tasks/tasks.html)

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[http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks\\_and\\_organisation/Archives/55\\_years\\_Bundesbank/Bundesbank\\_in\\_brief/the\\_bundesbank\\_in\\_brief.html?view=render%5BDruckversion%5D](http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks_and_organisation/Archives/55_years_Bundesbank/Bundesbank_in_brief/the_bundesbank_in_brief.html?view=render%5BDruckversion%5D)

<sup>v</sup> Ibid.

<sup>vi</sup> Ibid.

<sup>vii</sup> Ibid.

<sup>viii</sup> [http://www.bundesbank.de/Navigation/EN/Publications/Annual\\_reports/annual\\_reports.html](http://www.bundesbank.de/Navigation/EN/Publications/Annual_reports/annual_reports.html)

<sup>ix</sup> [http://www.bundesbank.de/Redaktion/EN/Reden/2015/2015\\_03\\_09\\_weidmann.html?startpageId=Startseite-EN&startpageAreald=Teaserbereich&startpageLinkName=2015\\_03\\_09\\_weidmann+332108](http://www.bundesbank.de/Redaktion/EN/Reden/2015/2015_03_09_weidmann.html?startpageId=Startseite-EN&startpageAreald=Teaserbereich&startpageLinkName=2015_03_09_weidmann+332108)