

FEDERAL RESERVE statistical release



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SPECIAL NOTICE

Aggregate data for reserves and the monetary base have been revised to incorporate new "break adjustments" for changes in reserve requirements and for annual re-estimates of seasonal factors. Break adjustments in general eliminate discontinuities such as those caused by the reduction in the required reserve ratio against net transactions deposits from 12 percent to 10 percent on April 2, 1992 and the January 1992 indexations of the low reserve tranche and the reserve requirement exemption levels.¹

The new break adjustments involve estimating the level of required reserves that would have prevailed in past reserve maintenance periods had current reserve requirements been in effect. Thus, the break-adjustment for the reduction in the required reserve ratio from 12 percent to 10 percent substantially reduces required reserves against net transactions deposits, total reserves, nonborrowed reserves, and the monetary base back to the beginning of these series in January 1959.

1. The Monetary Control Act of 1980 established a reserve ratio of 3 percent against the first \$25 million in transaction deposits (low reserve tranche) at each depository institution. Since 1982, the low reserve tranche has been indexed each January by 80 percent of the previous year's (June 30 to June 30) growth rate of net transaction deposits at all depository institutions.

Under the Garn-St Germain Depository Institution Act of 1982, the first \$2 million of reservable liabilities of each depository institution are exempted from reserve requirements. Since 1983, this exemption amount has been indexed each year by 80 percent of the rate of increase of total reservable liabilities at all depository institutions over the preceding year (June 30 to June 30).

Both of these indexations take effect each year in the reserve computation periods containing January 1.

The break adjustment for the indexations of the low reserve tranche and exemption levels in January 1992 employs the procedure used in the last three years.² Small revisions were made in reserves and the monetary base between January and December 1991 as a result of differences between the estimated and actual low reserve tranche and between the estimated and actual exemption amount for January 1992. In order to make 1992 data comparable with historical data, the 1992 data are adjusted using estimates of the low reserve tranche and reserve requirement exemption that will take effect next January. The 1993 low reserve tranche and exemption levels are estimated, respectively, by extrapolation of the growth of seasonally adjusted net transactions deposits and reservable liabilities from June 1991 to April 1992. This exercise indicated that the estimated 1993 low reserve tranche and exemption levels are \$46.2 million and \$3.7 million, respectively, which are used to break-adjust reserves and the monetary base in 1992. Because these estimates are slightly higher than those incorporated in the previous reserves series, break-adjustments for these indexations resulted in small downward revisions to reserves and the monetary base in 1992.

Because of the reduction in required reserves on transactions deposits, the seasonal factors for reserves series and some components of the monetary base were re-estimated for the entire series. Prior to contemporaneous reserve requirements (CRR), weekly seasonal factors were estimated from time series models, using weekly break-adjusted data. After CRR, bi-weekly seasonal factors were estimated using bi-weekly

2. For details, see the H.3 released on May 4, 1989.

break-adjusted data. The monthly series (both seasonally adjusted and not seasonally adjusted) of reserves and the monetary base are derived as pro rata averages of their weekly or bi-weekly counterparts.

Seasonally adjusted, break-adjusted total reserves were revised downward by about 15 percent or \$7.6 billion on average in 1991, primarily as a result of the reduction in the reserve requirements on transactions deposits. The seasonally adjusted, break-adjusted monetary base was also revised downward, by about 2-1/2 percent or \$7.5 billion on average in 1991. For the base, the upward revisions in surplus vault cash partly offset the downward revisions in total reserves. The revisions lowered the growth rate of seasonally adjusted, break-adjusted total reserves for the first half of 1991 but raised the growth rate for the second half of the year. The growth rate for the year was reduced by about 0.2 percentage points. The revisions also lowered the growth rate of the monetary base by about 0.1 percentage point in 1991.

Revised historical data will be available in July from the Money and Reserves Projection Section, Division of Monetary Affairs, Stop 75, Board of Governors of the Federal Reserve System, Washington, D.C. 20051, (202) 452-3062.