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Introduction

This report describes the budgeted expenses of the Federal Reserve System for 1990 and compares them with expenses for 1988 and 1989. Net spending for 1990 is expected to total approximately $626 million, based on budgeted expenditures of $1,524 million and offsetting revenues of $898 million from priced services, reimbursements, and other operating revenues. This report also discusses a new system being introduced nationwide by the Treasury and the Federal Reserve for the sale of over-the-counter savings bonds, a system expected to save U.S. taxpayers more than $18 million per year by 1994.

On January 11, 1990, the Board of Governors reduced the approved 1990 Federal Reserve budget by $4.4 million to conform with the spirit of the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings). The reduction will be prorated to each Federal Reserve Bank and the Board based on the relative size and rate of increase of their respective budgets over the past three years.

The Federal Reserve System consists of the Board of Governors in Washington, D.C., the twelve Federal Reserve Banks with their twenty-five Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council.

The System was created by the Federal Reserve Act, passed by the Congress in 1913 to establish a safer and more flexible monetary and banking system. After the inception of the Federal Reserve System, it became clear that these original purposes were part of broader national economic and financial objectives. Stability and growth of the economy, stability in the purchasing power of the dollar, and reasonable balance in transactions with foreign countries have come to be recognized as primary objectives of governmental economic policy. Over the years, such objectives have been articulated by the Congress in legislation giving the Federal Reserve more authority and responsibility.

As the nation's central bank, the Federal Reserve, through its ability to influence financial conditions, attempts to ensure growth of the economy consistent with price stability. As the nation's lender of last resort, the Federal Reserve also has the responsibility to forestall national liquidity crises.

Because a sound financial structure is essential to an effective monetary policy and a growing and prosperous economy, the Congress has entrusted the Federal Reserve with a variety of bank supervisory and regulatory functions. Among other things, the Federal Reserve administers the laws that regulate all bank holding companies; it supervises state-chartered banks that are members of the Federal Reserve System; it regulates the foreign activities of U.S. banks and the U.S. activities of foreign banks; and it establishes rules to ensure that consumers are informed adequately and treated fairly in credit transactions.

The Federal Reserve System also plays a major role in the nation's payments mechanism. Federal Reserve Banks distribute currency and coin, provide both wire and automated clearinghouse transfers of funds and securities, and process 35 percent of all domestic checks. The Federal Reserve serves as the fiscal agent

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for the U.S. Treasury and provides a variety of other financial services for the Treasury and other government agencies.

To carry out these responsibilities in 1989, the Federal Reserve System spent an estimated $1,438 million and earned an estimated $836 million in revenue from priced services, reimbursements, and other income, for a 1989 total of $602 million in net operating expenses. The major source of Federal Reserve income, estimated at $20,064 million in 1989, is earnings on the portfolio of U.S. government securities in the System Open Market Account. The System uses purchases and sales from this portfolio to implement monetary policy. Gains on foreign exchange transactions approximated $1,300 million.

Each year the Federal Reserve returns to the U.S. Treasury its earnings in excess of expenses, dividends, and surplus – in 1989, an estimated $21,646 million. These earnings are treated as receipts in the U.S. budget accounting system; projections of these earnings by the Office of Management and Budget appear in the U.S. budget.

Part I of this report discusses Federal Reserve budgeted expenses for 1990 for the System as a whole and for the Board of Governors and the Reserve Banks taken separately. Part II describes the new delivery system for over-the-counter savings bonds. Appendixes provide additional information on System operations, budget processes, special categories of System expense, sources and uses of funds, Federal Reserve System audits, trends in Bank expenses and employment, and budget reductions in conjunction with Gramm–Rudman–Hollings.

This report, a complete discussion of the System's budget, is a companion to the Board's *76th Annual Report, 1989*. That document covers all activities and initiatives of the Federal Reserve System during the year. ■

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Introduction

This report describes the budgeted expenses of the Federal Reserve System for 1991 and compares them with expenses for 1989 and 1990. For 1991, the Federal Reserve System has budgeted net operating expenses of $675.4 million. During this year, the System expects to realize $779.4 million, or 48 percent of its total operating expenses, from its priced services. Total operating expenses are budgeted at $1,613.6 million, an increase of 6.2 percent over 1990 estimated expenses.

This report discusses the System's Banking and Supervision Enhancement Program, which was initiated in 1985. The goals of this program have been to help identify banking problems early at state member banks and bank holding companies through examinations and inspections; to help correct these problems; and to aid in preventing further problems by strengthening prudential standards. Besides these basic objectives, the goals of the program have been to augment the size and improve the training of supervisory staff and to promote greater coordination with other federal and state supervisory agencies. The special analysis in part II outlines this program in greater detail.

The Federal Reserve System consists of the Board of Governors in Washington, D.C., the twelve Federal Reserve Banks with their twenty-five Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council.

The System was created by the Federal Reserve Act, passed by the Congress in 1913 to establish a safer and more flexible monetary and banking system. After the inception of the Federal Reserve System, it became clear that these original purposes were part of broader national economic and financial objectives. Stability and growth of the economy, stability in the purchasing power of the dollar, and reasonable balance in transactions with foreign countries have come to be recognized as primary objectives of governmental economic policy. Over the years, such objectives have been articulated by the Congress in legislation giving the Federal Reserve more authority and responsibility.

As the nation's central bank, the Federal Reserve, through its conduct of monetary policy, attempts to ensure growth of the economy consistent with price stability. As the nation's lender of last resort, the Federal Reserve also has the responsibility to forestall national liquidity crises.

Because a sound financial structure is essential to an effective monetary policy and a growing and prosperous economy, the Congress has entrusted the Federal Reserve with a variety of bank supervisory and regulatory functions. Among other things, the Federal Reserve administers the laws that regulate all bank holding companies; it supervises state-chartered banks that are members of the Federal Reserve System; it regulates the foreign activities of U.S. banks and the U.S. activities of foreign banks; and it establishes rules to ensure that consumers are informed adequately and treated fairly in credit transactions.

The Federal Reserve System also plays a major role in the nation's payments mechanism. Federal Reserve Banks distribute currency and coin, provide both

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wire and automated clearinghouse transfers of funds and securities, and process 32 percent of all domestic checks. The Federal Reserve serves as the fiscal agent for the U.S. Treasury and provides a variety of other financial services for the Treasury and other government agencies.

To carry out these responsibilities in 1990, the Federal Reserve System spent an estimated $1.5 billion and earned an estimated $905 million in revenue from priced services, reimbursements, and other income, for a 1990 total of $614 million in net operating expenses. The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities in the System Open Market Account, estimated at $20 billion in 1990. The System uses purchases and sales from this portfolio to implement monetary policy. Gains on foreign exchange transactions approximated $2.2 billion.

Each year the Federal Reserve returns to the U.S. Treasury its earnings in excess of expenses, dividends, and surplus—in 1990, an estimated $23.6 billion. These earnings are treated as receipts in the U.S. budget accounting system; projections of these earnings by the Office of Management and Budget appear in the U.S. budget.

Part I of this report discusses Federal Reserve budgeted expenses for 1991 for the System as a whole and for the Board of Governors and the Reserve Banks taken separately. Part II is a special analysis of changes in the Federal Reserve's supervision and regulation program. Appendixes provide additional information on System operations, budget processes, special categories of System expense, sources and uses of funds, Federal Reserve System audits, and trends in Bank expenses and employment.

This report, a complete discussion of the System's budget, is a companion to the Board's *77th Annual Report, 1990.* That document covers activities and initiatives of the Federal Reserve System during the year. ■

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Introduction

This report describes the budgeted expenses of the Federal Reserve System for 1992 and compares them with expenses for 1990 and 1991. For 1992, the Federal Reserve System has budgeted net operating expenses of $776.2 million. During this year, the System expects to realize $786.1 million, or 45.6 percent of its total operating expenses, from its priced services. Total operating expenses are budgeted at $1,725.2 million, an increase of 6.9 percent over 1991 estimated expenses.

The Federal Reserve System consists of the Board of Governors in Washington, D.C., the twelve Federal Reserve Banks with their twenty-five Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council.

The System was created by the Federal Reserve Act, passed by the Congress in 1913 to establish a safer and more flexible monetary and banking system. After the inception of the Federal Reserve System, it became clear that these original purposes were part of broader national economic and financial objectives. Stability and growth of the economy, stability in the purchasing power of the dollar, and reasonable balance in transactions with foreign countries have come to be recognized as primary objectives of governmental economic policy. Over the years, such objectives have been articulated by the Congress in legislation giving the Federal Reserve more authority and responsibility.

As the nation's central bank, the Federal Reserve, through its conduct of monetary policy, attempts to ensure growth of the economy consistent with price stability. As the nation's lender of last resort, the Federal Reserve also has the responsibility to forestall national liquidity crises.

Because a sound financial structure is essential to an effective monetary policy and a growing and prosperous economy, the Congress has entrusted the Federal Reserve with a variety of bank supervisory and regulatory functions. Among other things, the Federal Reserve administers the laws that regulate all bank holding companies; it supervises state-chartered banks that are members of the Federal Reserve System; it regulates the foreign activities of U.S. banks and the U.S. activities of foreign banks; and it establishes rules to ensure that consumers are informed adequately and treated fairly in credit transactions.

The Federal Reserve System also plays a major role in the nation's payments mechanism. Federal Reserve Banks distribute currency and coin, provide both wire and automated clearinghouse transfers of funds and securities, and process 32 percent of all domestic checks. The Federal Reserve serves as the fiscal agent for the U.S. Treasury and provides a variety of other financial services for the Treasury and other government agencies.

To carry out these responsibilities in 1991, the Federal Reserve System spent an estimated $1.6 billion and earned an estimated $928 million in revenue from priced services, reimbursements,

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and other income, for a 1991 total of $687 million in net operating expenses. The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities in the System Open Market Account, estimated at $21.3 billion in 1991. The System uses purchases and sales from this portfolio to implement monetary policy. Gains on foreign exchange transactions approximated $2.5 billion.

Each year the Federal Reserve returns to the U.S. Treasury its earnings in excess of expenses, dividends, and surplus—in 1991, an estimated $20.8 billion. These earnings are treated as receipts in the U.S. budget accounting system; projections of these earnings by the Office of Management and Budget appear in the U.S. budget. ■

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