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FEDERAL RESERVE BANK OF NEW YORK



ANNUAL REPORT 1984




FEDERAL RESERVE BANK OF NEW YORK

April 12, 1985

To the Depository Institutions in the
Second Federal Reserve District

I am pleased to present the seventieth Annual Report of the Federal Reserve Bank of New York, the first since I assumed the presidency of this Bank in January of this year. As such, it provides me with a convenient opportunity to stress my strong commitment to work closely with the banking and financial community here in the Second Federal Reserve District. The challenges we face in terms of the performance of our economy, the pace of change and innovation in our institutions and financial markets, and the changing nature of our economic and financial relations with the rest of the world were never greater. In seeking to meet these challenges with maximum effectiveness, it is clear to me that we in the New York Fed can only benefit from a free flow of dialogue with the financial community. Dialogue does not guarantee consensus, but it does help to ensure that as we go about discharging our public responsibilities with the sense of purpose and integrity which should be expected of the central bank, we will have the most informed judgments possible.

We look forward to our continuing association with you in the period ahead.


E. Gerald Corrigan
President

*Federal Reserve Bank
of New York*

**SEVENTIETH
ANNUAL REPORT**

*For the Year
Ended
December 31, 1984*



Second Federal Reserve District

THE WORLD ECONOMY IN 1984 PROGRESS BUT MAJOR PROBLEMS REMAIN

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UNEVEN ECONOMIC PERFORMANCE

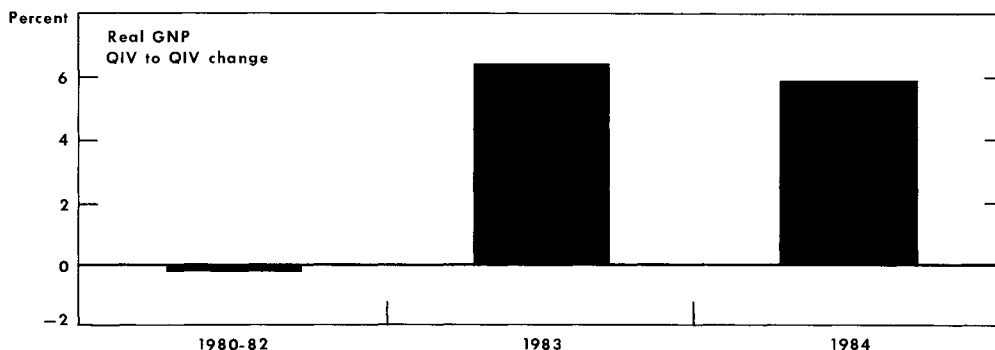
Overall, 1984 was an encouraging year for the world economy. In the United States, strong economic growth continued and inflation remained moderate. Inflation stayed low in most other industrial countries as well. The pace of economic activity was uneven, however. Japan and Canada experienced substantial expansion, while Europe recovered only modestly. Increased exports to the United States and other industrial countries helped the developing countries as a group to reduce their current account deficits. Many of them were also able to move toward resuming growth and rescheduling their debts over longer periods.

But as the year ended, optimism about the world economy was tempered by the fact that significant imbalances remained, and these posed serious problems for the future. The international debt situation was far from resolved. Large deficits, both budgetary and external, were a threat to longer run growth without inflation in the United States. The soaring dollar made for an uneven recovery at home, depressing import competing and exporting industries alike. Abroad, its counterpart—weakening foreign currencies—limited the scope for expansionary policies in the other industrial countries. Not surprisingly pressures for protectionist measures intensified around the world. The achievement of a sustainable pattern of world trade and economic growth clearly requires a resolution of these issues in 1985 and beyond.

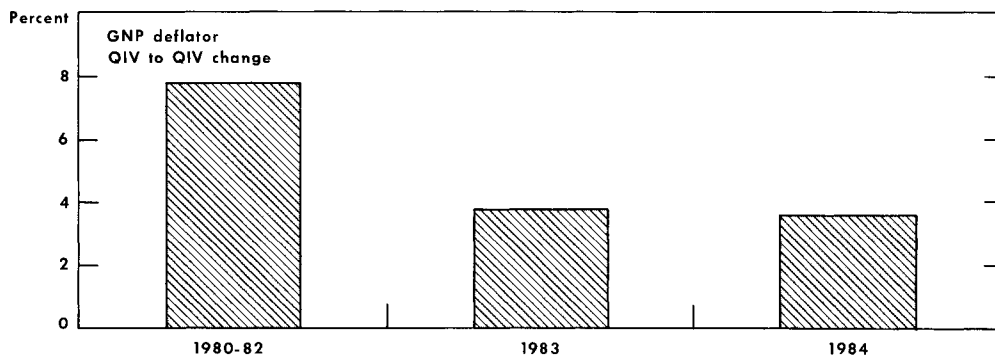
The U.S. Economy

For 1984 as a whole, output growth exceeded most expectations. Over the four quarters of the year, real GNP rose nearly 6 percent, more than a percentage point above the average for the second year of expansion in postwar cycles. The expansion of domestic demand was even faster—about 6¾ percent. The bulk of the advance occurred in the first half of the year, when a surge in inventory investment coincided with large gains in consumer spending, business fixed investment, and

Chart 1. In 1984, the U.S. economy continued to grow rapidly . . .



while inflation remained moderate .



residential construction. The economy slowed sharply in the third quarter, reflecting in particular a near leveling off in consumer spending, but in the fourth quarter economic activity strengthened.

Although the pattern of economic growth was uneven, the expansion in 1984 was strong enough to create more than 3 million new jobs and to reduce unemployment substantially. Over the course of the year, the unemployment rate fell by one percentage point, to 7.2 percent. The decline was widespread, though not uniform, among industries and population groups by age, sex, and race. Nevertheless, as 1984 ended, unemployment remained at a historically high level and the economy still appeared to have ample room to grow.

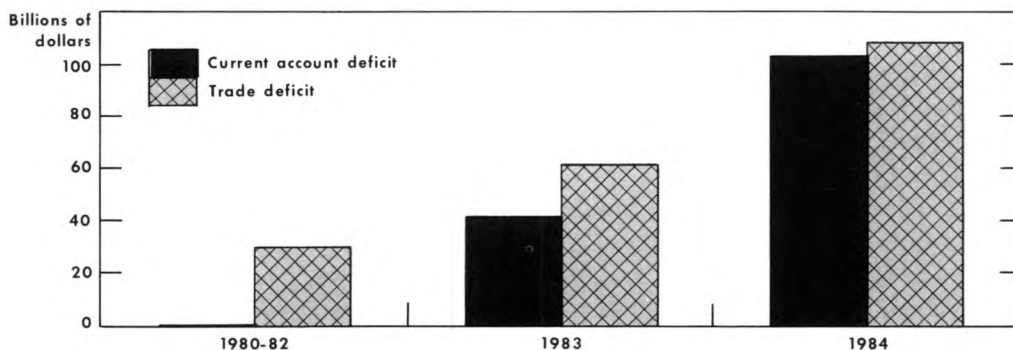
As imports cushioned a good part of the steep rise in aggregate domestic demand, inflation continued to be moderate. Over the four quarters of 1984, the implicit GNP deflator rose 3.6 percent, about the same as in the previous two years. Intensified competitive pressures stemming from the appreciating foreign exchange value of the dollar, restraint in wage demands, weak oil markets, and bumper crops all contributed to this relatively favorable inflation performance.

As to the future, a prolonged period of good growth and relatively low inflation would seem to be within the country's reach. Prospects for achieving that will be best if the expansion does not become overly exuberant and thus rekindle inflationary expectations. At the same time, a start must be made without any further delay in bringing down the twin deficits—budgetary and external.

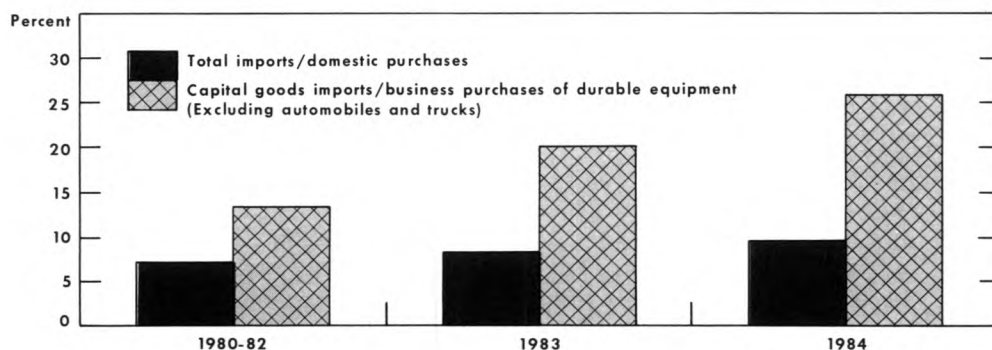
The already large external deficit widened dramatically last year, as U.S. expansion surpassed growth abroad and as the dollar continued to move up—with investors being attracted to the dollar by U.S. interest rates and general economic strength. The value of merchandise exports rose 10 percent, but with an increasing share of U.S. demand shifting to foreign suppliers, the value of imports surged 26 percent. Import penetration was particularly deep in the capital goods sector. The share of imports in total business spending on durable equipment jumped nearly 30 percent to reach almost a quarter of the total. Foreign producers of all types of business equipment, including high technology goods, participated in this expansion. While the merchandise trade deficit climbed rapidly, the surplus on so-called invisibles—services, grants and remittances—disappeared by the end of the year, as payments on the growing indebtedness to foreigners outpaced income received on U.S. investments abroad.

Increased flows of capital from abroad absorbed much of the pressures on the credit markets from the growing demands of both the private and public sectors. Last year, net capital inflows represented about a quarter of the pool of savings

Chart 2. The external deficit widened sharply further . . .



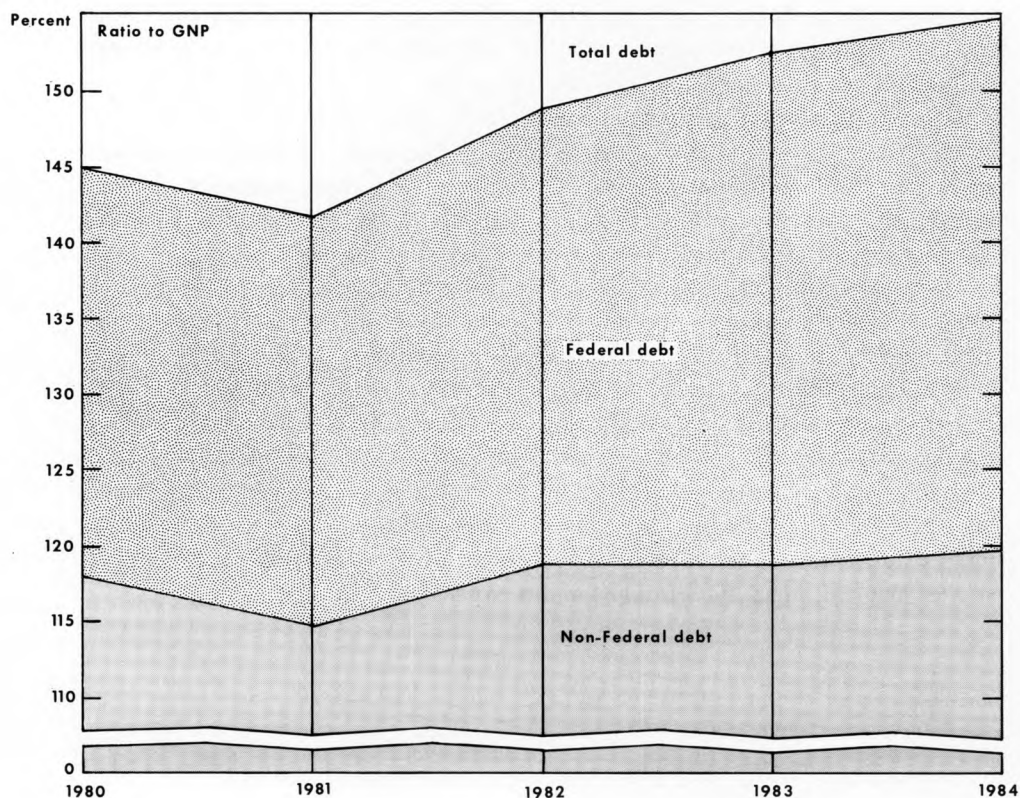
and foreign goods increased their share of domestic markets.



available to finance net investment and the government deficit. Since the Federal government, with its \$175 billion budget deficit (about 5 percent of GNP), claimed about 70 percent of net domestic private savings, investment would have been crowded out significantly were it not for these savings from abroad.

In the event, domestic credit demands climbed steeply last year, with the debt-to-GNP ratio rising to its highest level in the postwar period. Total non-financial sector debt expanded about 13½ percent, over two percentage points in excess of the Federal Reserve's monitoring range, spurred in part by heavy merger activity in

Chart 3. As the Federal Government debt continued to mount, the total debt to GNP ratio reached the highest level since World War II.



the oil industry and elsewhere. To finance their extensions of credit, banks expanded their issuance of large CDs. This, in turn, contributed to a 10.5 percent growth in M3, about one percentage point above the upper bound of its target range. The narrower aggregates, M1 and M2, rose 5.2 percent and 7.7 percent, respectively, comfortably inside their ranges.

In the financial markets, interest rates moved in response to the changing pace of economic growth, concomitant demands for credit, and efforts of the Federal

Reserve to achieve sustainable non-inflationary growth. In the first part of the year as the economy advanced at an extraordinary pace, the money supply grew rapidly and the Federal Reserve adopted a somewhat more restrictive posture toward supplying bank reserves. Both short- and long-term interest rates rose substantially, between one and a half and two percentage points. Upward pressures on private short-term interest rates intensified in May in reaction to the well-publicized liquidity problems of Continental Illinois Bank. Market concerns were aggravated by uncertainties about the international debt situation. In this environment, quality differentials between yields on private money market instruments and Treasury securities widened considerably.

As the economy slowed down in the third quarter, there was some easing in the stance of Federal Reserve policy and a marked improvement in inflationary expectations. Interest rates fell markedly. Moreover, as the problems of Continental Illinois Bank were contained and progress was made in Latin American debt negotiations, quality spreads on short-term instruments narrowed to normal levels. The markets were also reassured by progress that was being made in strengthening bank balance sheets. That strengthening is visible, for example, in higher capital positions and larger reserves and charge-offs. By the end of 1984, interest rates were down to their lowest levels of the year, with those on many shorter maturities near their troughs in this expansion.

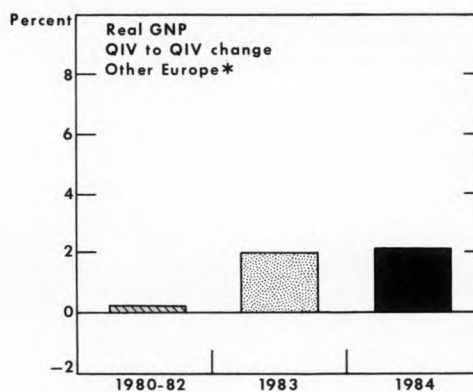
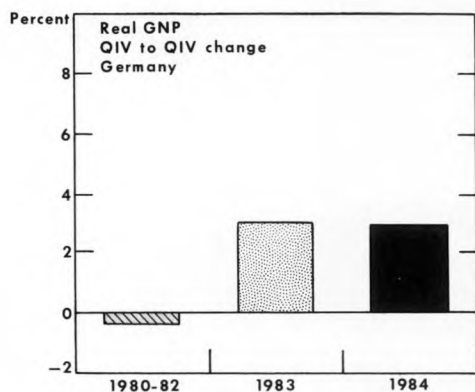
Industrial Countries

Europe continued to move out of the longest recession in its postwar history, but at a slow pace. Economic expansion gathered strength in late 1983 and early 1984, but activity slumped in the second quarter, mostly due to labor disputes in Germany and the United Kingdom. Despite a strong rebound in the third quarter, 1984 growth in Europe as a whole is estimated at only about 2½ percent. This growth rate was not enough to stop the unemployment rate from going up to an average of around 11 percent.

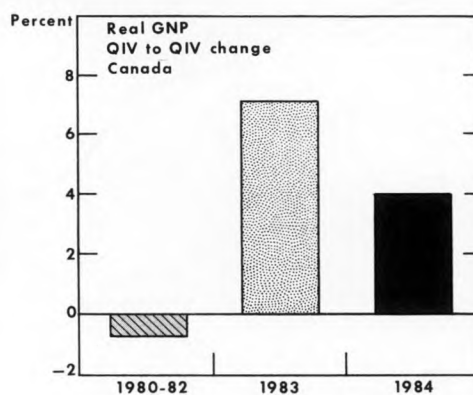
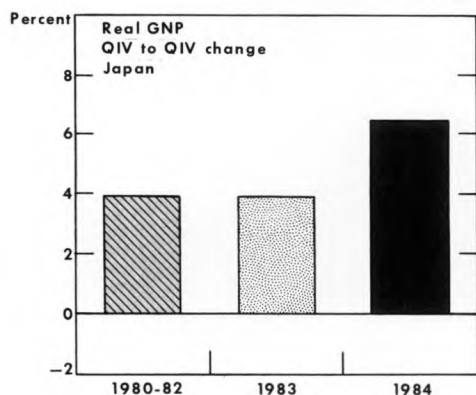
The decline in European inflation that began in late 1981 continued through 1984. Persistently high levels of unemployment and excess capacity, as well as weakness in oil and other commodity markets, more than offset the upward pressure on

inflation from the widespread and continued depreciation of European currencies against the dollar. Over the year consumer price inflation declined from 7 to around 5½ percent on average. Although inflation performance within Europe converged further, important differences among countries remained.

Chart 4. Europe continued to grow slowly . . .



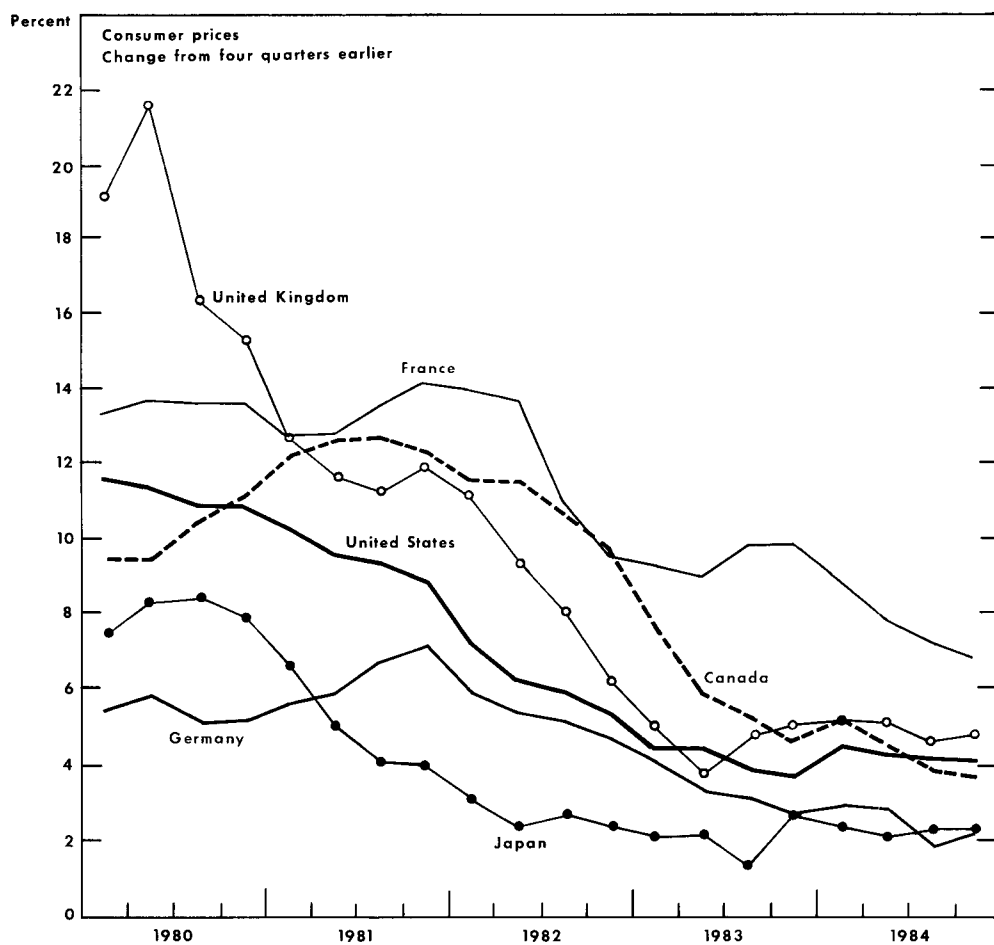
but Japan and Canada expanded more rapidly.



* United Kingdom, France, and Italy.

European trade recovered strongly in 1984, largely due to a surge in exports to the United States. European exports to the U.S. rose by more than 30 percent, in dollar terms, during the year. After steadily improving since 1980, the current account of European countries, as a group, changed little in 1984 and remained near balance. There was considerable variation, however, among individual

Chart 5. In the industrial world as a whole, inflation slowed down further in 1984.

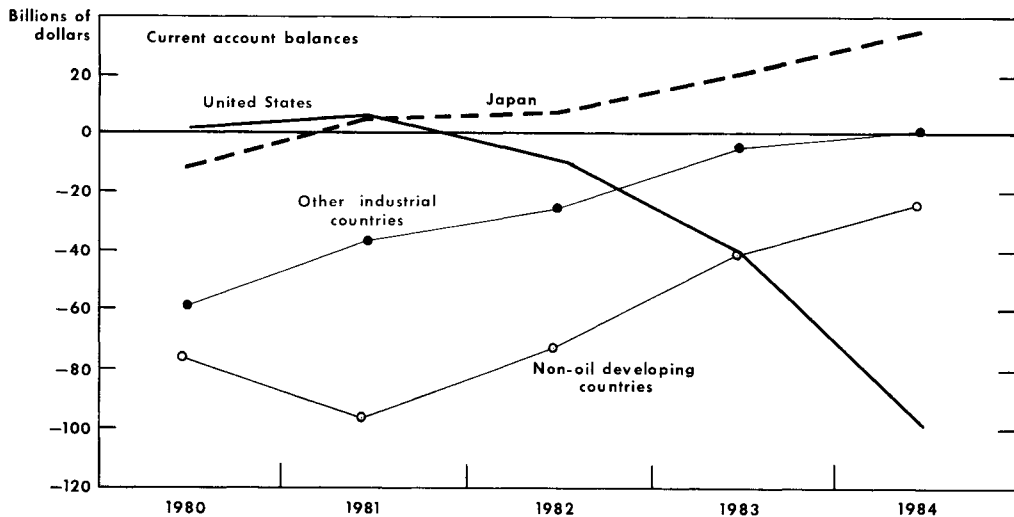


countries. While Germany's surplus increased and France's deficit disappeared, the external positions of the United Kingdom and Italy deteriorated somewhat.

Economic expansion in Japan and Canada was more rapid than in Europe. Real GNP grew nearly 6½ percent in Japan, while inflation remained a little over 2 percent. Growth continued to be export-led, with net exports directly providing at least one-third of the increase in GNP. Despite a boost from private non-residential investment, aggregate domestic demand is estimated to have grown only about 4 percent.

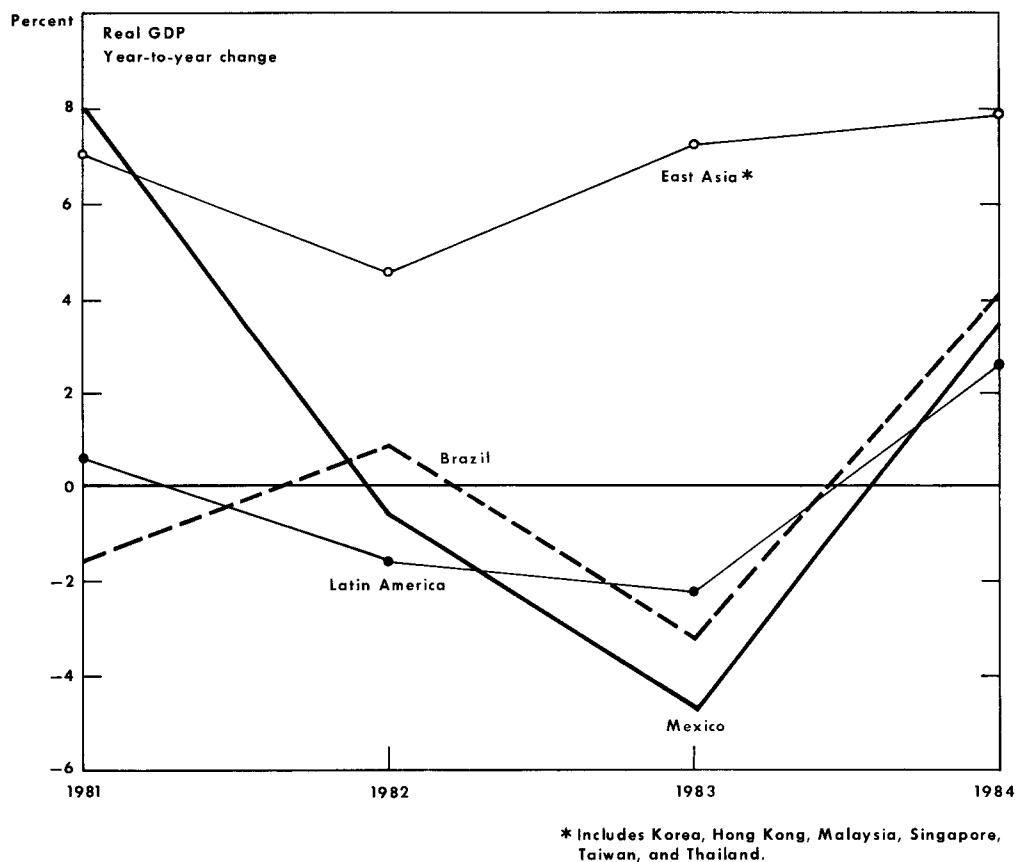
Japan's large trade and current account surpluses widened further in 1984. The current account surplus rose to \$35 billion, mainly reflecting a rise in the trade surplus, and reached \$44 billion at an annual rate in the fourth quarter. These increases in Japan's external payments surpluses were closely linked with the sharp deterioration in the U.S. external deficits. This connection was evidenced by further widening of Japan's large bilateral trade surplus with the United States, from \$20 billion in 1983 to \$35 billion in 1984.

Chart 6. In 1984, as the U.S. external deficit more than doubled, Japan's surplus increased sharply and the deficits of other countries narrowed further.



Economic expansion slowed in Canada. Growth declined from 7 percent in 1983 to slightly over 4 percent in 1984. Inflation continued to moderate in the second year of recovery—CPI inflation fell nearly a point to about 3½ percent in 1984, the lowest since 1971. The unemployment rate, however, remained unusually high, averaging around 11 percent. The trade surplus widened further in 1984, and the current account remained in small surplus.

Chart 7. The developing countries' growth performance improved in 1984.

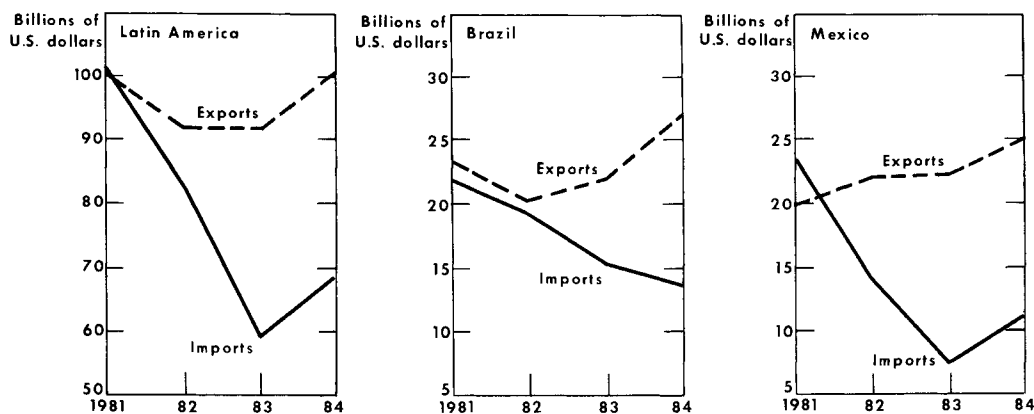


Developing Countries

The developing countries made considerable progress in 1984 toward restoring economic expansion and resolving their financial difficulties. Growth picked up to an average of nearly 4 percent from less than 1 percent in 1983. East Asia once again showed the strongest advance, with output in Korea, Taiwan, and Singapore all growing over 7 percent. However, per capita income failed to improve significantly in many countries and remained below the levels achieved during the late 1970s. Excessively high and accelerating inflation remained a major disappointment for some countries in Latin America and the Middle East, severely constraining their economic performance.

The combined current account deficit of the non-oil developing countries narrowed further in 1984 to an estimated \$25 billion, compared with a peak deficit of nearly \$100 billion in 1981. The current account improvement last year was

Chart 8. Latin American countries resumed their export growth in 1984, and some recorded large trade surpluses.
Merchandise trade



particularly encouraging as in most countries it came from export growth rather than import cuts. The improvement was widely spread among developing countries, but some countries dependent on exports of commodities with particularly weak prices, such as copper and sugar, did not share in the trade gains.

Exports of the non-oil developing countries as a group rose 10 percent in volume, while their imports increased about 6 percent. Export growth was strong in Latin America, where some countries, including Brazil and Colombia, experienced significant improvement in their current account positions. Mexico's external balance remained in substantial surplus.

The external debt restructuring process also achieved positive results last year. In September, Mexico reached an agreement in principle with its advisory banks on a multi-year rescheduling covering debt falling due between 1985 and 1989. Venezuela and Ecuador reached preliminary understandings on their debts. By late 1984 Brazil had also begun discussions for multi-year restructuring of its debt. Some progress in negotiating financing arrangements with the creditor banks was also made by other countries, including Argentina and the Philippines.

PRESENT PROBLEMS AND FUTURE RISKS

Given that steady, moderate growth without resurgent inflation is the goal, the world economy at first glance appears in general to be moving along the right path. In some places, growth is too slow or inflation too high, but the general direction looks favorable at this point. A closer view, however, reveals some areas where troublesome imbalances have evolved. Left unattended, these distortions could undermine progress, and prospects for progress, throughout the world.

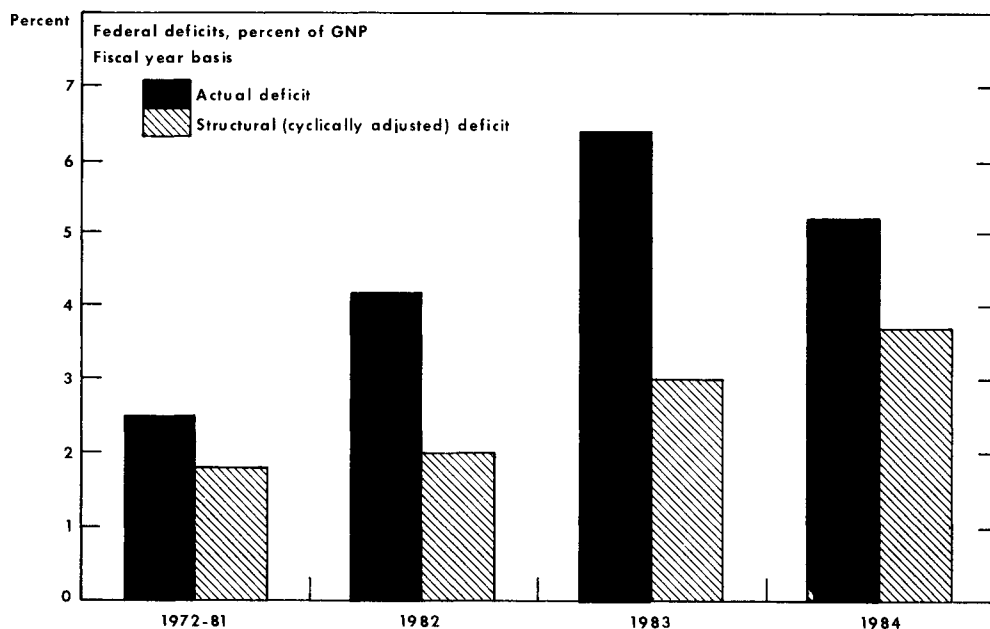
Two major snags are the interconnected U.S. deficits—budgetary as well as external—and Europe's slow growth, with its attendant high unemployment. In large measure, these situations worsen two other troublesome factors: increased pressures for protectionism and the continued vulnerability of the less developed countries. All four of these constitute problems in and of themselves now. More importantly, all are problems that interact and if allowed to fester could escalate and thus be harder to rectify in the future.

Deficits in the United States

Fundamental imbalances in the U.S. economy, reflected in the large budgetary and external deficits, pose a serious danger to healthy growth and further progress on inflation.

The Federal budget deficit in fiscal 1984 was slightly above 5 percent of GNP, about the same as the average over the previous two years. Without legislative actions to reduce the deficit, the deficits from 1985 to 1990 would continue to be in the range of 5 to 5½ percent of GNP. The structural or cyclically adjusted (so called full employment) budget deficit—the part of the deficit that would remain even if the economy were operating at full capacity—is estimated to rise from about 3½ percent of GNP last year to about 5 percent in 1990.

Chart 9. The Federal budget deficit remained above 5 percent of GNP.

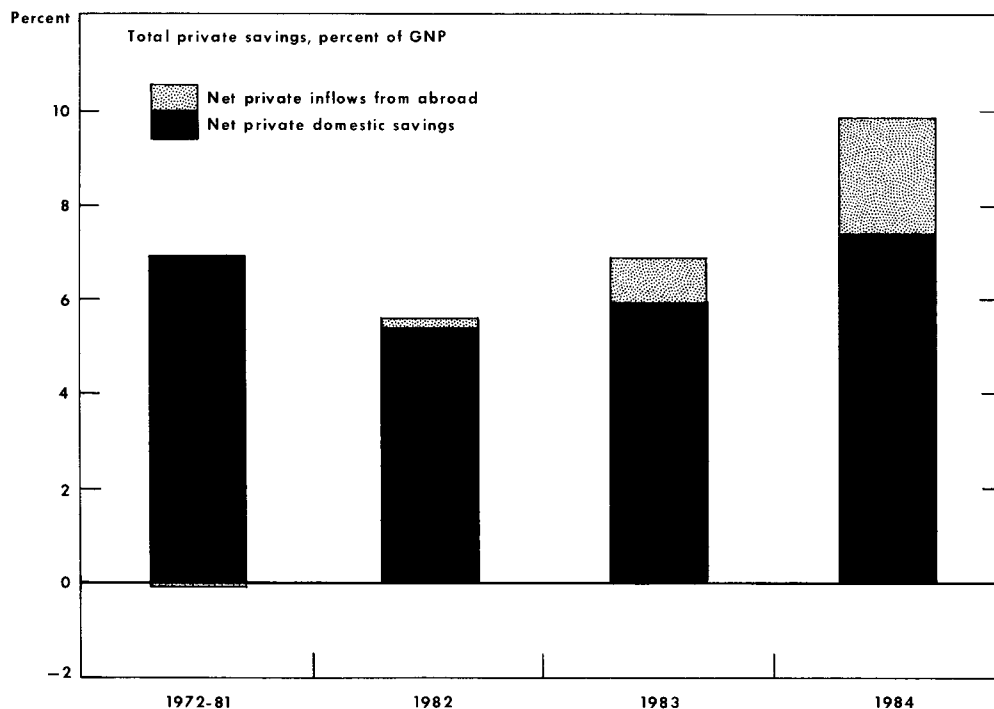


In the short run the budget deficits have benefited the United States and the entire world economy by providing a stimulus that strengthened the pace of economic recovery. But for the longer term the underlying pressures created by the deficits will inevitably harm the economy. The Federal government has already been consuming unprecedented amounts of available financial resources. Deficit levels exceeded net private savings of the domestic economy in 1983 and came to about 70 percent of savings in 1984. Over the same period, these deficits pushed up the volume of outstanding Federal government debt by nearly \$400 billion. Without legislative changes, Federal government debt could, according to estimates of the Congressional Budget Office, accumulate to nearly $2\frac{3}{4}$ trillion dollars (about 50 percent of GNP) at the end of the decade, up from 715 billion dollars (28 percent of GNP) in 1980. The interest payments required for a debt of this size could absorb 15 to 20 percent of all government spending.

Given the size of the Federal government's borrowing needs, the balance in the credit markets is very delicate. A marked increase in domestic private credit demands could exert significant upward pressure on interest rates. Continuing along the present path could thus damage prospects for capital formation and productivity, and make it increasingly difficult to sustain meaningful economic growth. Relying on monetary accommodation and thus on inflation to alleviate pressures on credit markets from growing budget deficits is obviously not a desirable solution. For the U.S. economy to continue to grow without reigniting inflation requires a substantial reduction of budget deficits. Substantial progress toward eliminating structural budget deficits would create an environment in which interest rates would be lower than they would be otherwise. And such a development would clearly benefit not just the United States but the entire world economy.

The large and growing foreign trade and external payments deficits are also unsustainable. But unfortunately there is no easy and simple way to effect a smooth transition to a more manageable position. U.S. current account deficits have gone up from \$9 billion in 1982, to \$102 billion in 1984, and could well exceed \$130 billion in 1985. The financing required for these growing deficits is fast eroding the U.S. net foreign asset position, which has dropped from about \$150 billion in 1982 to an estimated \$30 billion in 1984, on the basis of recorded data. It is all but certain that U.S. indebtedness to foreigners will grow very sharply over the next few years. And with the United States being in a net foreign debtor position (with foreign claims exceeding our assets abroad), net outpayments representing earnings on the growing foreign wealth in this country will add to the burden.

Chart 10. Capital inflows from abroad represented about a quarter of the pool of savings.



In some ways, of course, the strong dollar and the current account deficits have been helpful. The appreciation of the dollar has been important in dampening inflation in the United States and in spurring productivity improvements. Other countries have benefited through greater export orders from the United States and the resulting stimulus to their economies. Capital inflows associated with the current account deficit have supplemented our internal savings, thereby making it much easier to finance the budget deficit on top of the private investment needed to support growth and productivity.

As against this, the costs of the strong dollar have been growing apace: the disruption of our export and import competing industries; the burden on the

developing countries whose debts are primarily denominated in dollars but whose foreign exchange income is more diversified; the restraint exerted on other industrial countries' domestic policies by their depreciating exchange rates. Moreover, at some point in the future, U.S. indebtedness to foreigners may reach a level at which investors may become less willing or able to absorb additional financial claims on the United States. Perceptions about the desirability of existing holdings of dollar-denominated assets by foreigners and domestic residents alike may also shift. If the perceived risk of holding U.S. assets begins to rise, further increases in real rates of return may be needed to persuade investors to continue accumulating those assets. Mounting U.S. interest rates, and hence a danger to growth, could be the result.

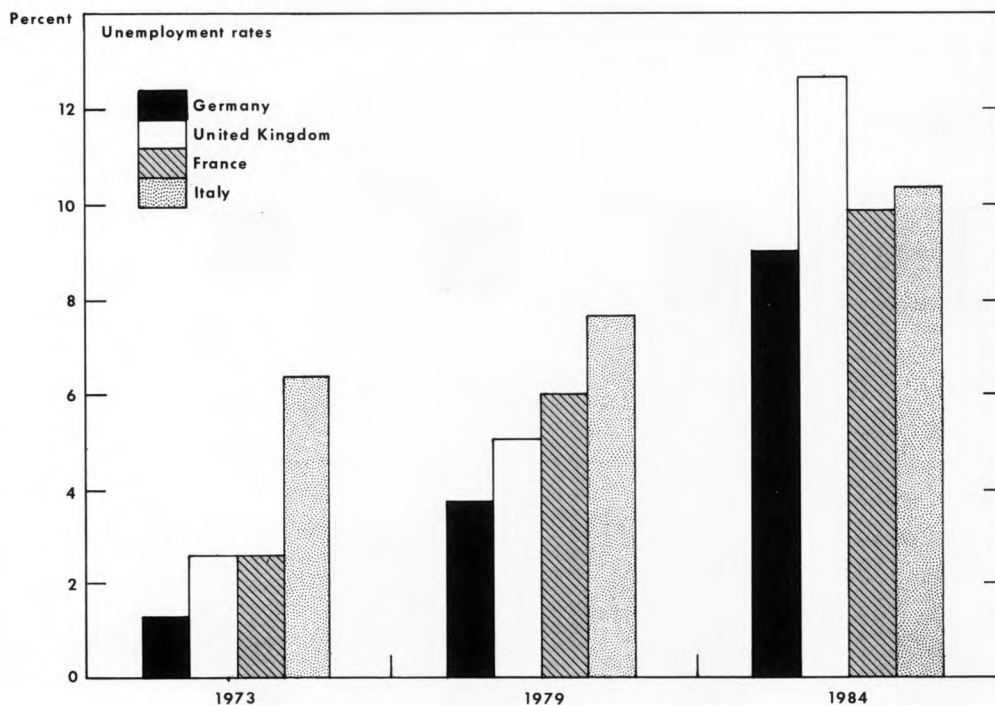
To avoid these costs and begin a gradual transition toward a more balanced world payments position would seem to require a combination of actions both by this country and by its leading trading partners. A substantive start on narrowing the Federal budget deficit is the most obvious move for the United States. More pronounced domestic demand growth in Japan and Europe would be most helpful for their part.

With these changes in place, lower U.S. interest rates would help reduce the attractiveness of investing in the United States, at least to some extent. Growing prosperity and profitability of investments abroad would further redirect the current, almost one-sided, international flow of capital. In these circumstances, the currencies of our major trading partners could gradually strengthen and, after a time, help reduce the U.S. trade deficit. The more equal pace of economic growth abroad and here would also contribute to this outcome by enlarging the markets for U.S. exports and slowing the flow of foreign goods to this country. Achieving a smooth adjustment in the present distorted exchange rate and world payments relationship may be difficult. But the changes suggested here are necessary to make a beginning in that direction.

Longer-term Growth in Europe

“Europessimism” and “Eurosclerosis” have become fashionable terms in recent discussions of Europe’s economic health. A closer analysis of some recent changes in Europe’s economic structure, however, suggests that the extreme gloom implied by such terms may not be justified.

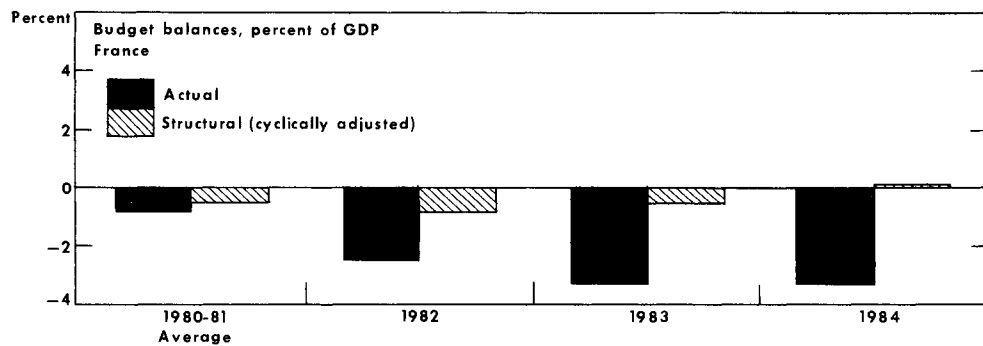
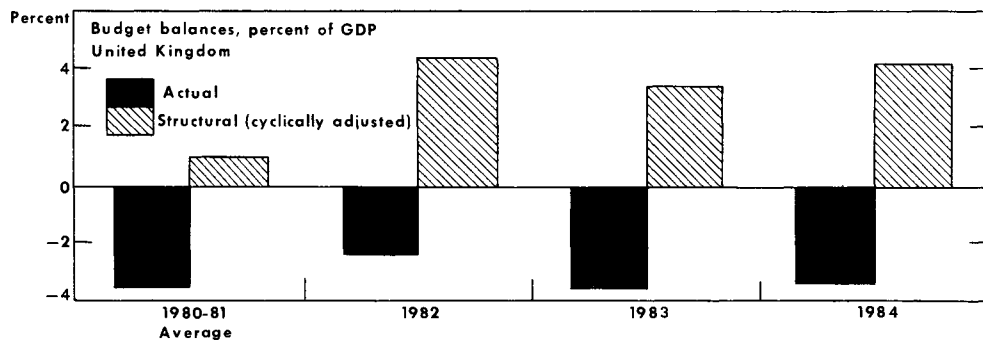
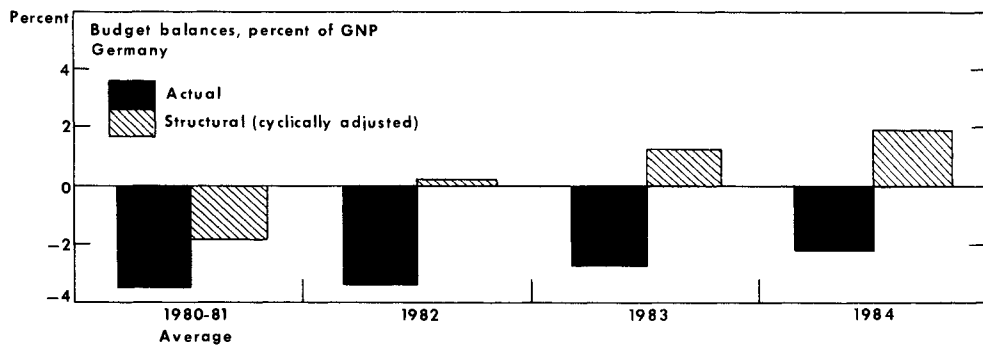
Chart 11. Unemployment continued to rise in Europe.



In contrast to the strong U.S. expansion that followed the 1981-82 recession, Europe has been recovering at the slow annual pace of $1\frac{1}{2}$ percent. This is only one-third of the rate during the decade before the first oil shock, and less than half the $3\frac{1}{2}$ percent annual growth in the latter part of the 1970s. More importantly, as a direct consequence of the slow growth, employment has been declining and unemployment has continued to go up during the current recovery. The average European unemployment rate, which had climbed from around $5\frac{1}{2}$ percent in the late 1970s to 9 percent in 1982, rose yet another two percentage points to 11 percent in 1984.

Nevertheless, a variety of concerns—about inflation and inflationary pressures, about exchange rates depreciating against the dollar, and about large government budget deficits and rapidly growing public debt—continued to limit the scope for

Chart 12. General government budget balances improved in the major European countries.



easier monetary and fiscal policies in many European countries. The strong and appreciating dollar constrained monetary policy by preventing domestic interest rates from falling to more accommodative levels and even led to some interest rate increases. At the same time, fiscal policy was constrained by the authorities' attempts to limit government spending and reduce budget deficits in the face of increases in public sector outlays induced by high interest rates and weak growth.

The scope for more flexible fiscal policy also appears to have been limited by various rigidities in European product and labor markets. These rigidities have long been regarded as an obstacle to faster growth without resurgent inflation, as well as an important element behind Europe's slow growth. Growing realization of the burden of excessive government interference with market mechanisms, however, has led to new initiatives emphasizing the private sector, and these augur well for the future. Of the measurable changes, the most hopeful perhaps has been an easing in the downward inflexibility of real wages.

Real wages in Europe increased about 1 percent a year over the last five years. This is less than one-third of the pace over the previous decade, and suggests that real wages have been significantly less rigid in recent years than before. Of course, the degree of wage flexibility has varied among countries within Europe, and among sectors within countries. In Germany, for example, real wages in the whole economy—which had risen, on average, more than 3 percent annually over 1973 to 1979—suffered absolute declines in 1981 and 1982, and rose less than one-half percent a year in the first half of the 1980s. The decline in real wage gains was less pronounced in the United Kingdom, but even so recent wage growth has been less than one half of the rate during the latter part of the 1970s.

The data available now also suggest a substantial improvement in profitability during the last few years in most major European countries. At the same time, the large degree of slack in labor and product markets has greatly reduced both actual inflation and inflationary expectations. External payments positions of European countries are also generally comfortable, either in surplus or close to balance. Finally, in a number of countries, including the major ones, restrictive fiscal policies have brought general government budgets after adjustment for cyclical effects into surplus or balance.

All these factors suggest some scope for more stimulative policies in Europe. If this could be achieved, in conjunction with a meaningful reduction of the U.S. budget deficit and stronger growth of domestic demand in Japan, the benefits would be substantial.

Protectionism in the World Marketplace

Europe's slow growth and high unemployment and the flood of imports into the United States, along with the continued appreciation of the dollar, have fostered a resurgence of protectionist pressures. Competition in manufacturing trade from Japan and some newly industrialized countries has served to intensify the drive to protect domestic markets. So did the apparent slow progress in widening access to the Japanese market and the debtor countries' need to buttress their external payments by compressing imports and stimulating exports.

While one can take comfort that restrictive international trading practices have not spread more widely, the imposition of new obstacles to trade has been significant. The umbrella of protectionism has been extended to previously less-affected or uncovered industries including motor vehicles, machine tools, and consumer electronics. As a result, over the last few years, the number of restricted items among manufactured imports has risen considerably in both the United States and Europe. And within the traditionally affected industries—such as steel, textiles, clothing and footwear—the scope of protection seems to have both deepened and widened.

The methods of implementing protectionist measures have become more diverse. Non-discriminatory tariffs and non-tariff barriers have been supplemented through bilateral or indirect techniques, such as voluntary export restraints and orderly marketing arrangements. Nuisance measures, including complicated customs procedures or special health and safety requirements to obstruct the entry of imports, appear to have become more pervasive. Complex arrays of subsidies have helped to promote exports.

The most effective way to lower protectionist pressures is to eliminate their causes. But it will take time to make progress toward better balanced economic policies and less disruptive exchange rates, and thus toward greater assurance of sustained real growth in the leading countries. President Reagan's call for new international initiatives to sustain the post-World War II momentum toward comprehensive free trade deserves full support from our trading partners. A new, expanded round of trade liberalization would help immeasurably in strengthening the global trading system.

Vulnerability in the Less Developed Countries

While the most difficult phase of the international debt problem appears to have ended and the crisis atmosphere has receded, the debt difficulties of the developing nations are far from over. True, many Latin American countries have already made painful economic adjustments and improved their net external positions considerably. Some have even succeeded in resuming growth and making a start toward rescheduling their debt under more stable multi-year agreements. But even where progress has been achieved in restoring growth and arranging for financing, pressing problems remain. The debt situation appears manageable, but it clearly is a long-term problem that will require close attention and appropriate action by all participants.

Balanced growth policies by the debtor countries with greater emphasis on the workings of the market are fundamental prerequisites, with control over inflation having prominent priority. The International Monetary Fund will have to continue its monitoring role even in periods when its resources are not needed. The Fund is not just the guardian of appropriate adjustment policies, but also a persuasive advocate of market solutions to the debtor countries' difficulties. At the same time, there is room for refining and expanding the role of the World Bank and of the other multilateral lending agencies. The commercial banks have to continue to exhibit patience and work with the debtors to assure uninterrupted servicing of their loans. All this will help to restore growth and confidence in the debtor countries, in turn providing a better environment for an increased flow of private direct investment.

Even with these changes in place, continued progress toward a durable resolution of the debt problem will be possible only if the United States and the other industrial countries keep their markets open and their economies growing robustly. The debtor countries need expanding markets if they are to export their way out of their debt problems.

Financial Statements

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1984 AND 1983 (in dollars)

	1984	1983
Total current earnings	5,795,629,347	5,141,341,063
Net expenses	211,272,339	196,785,846
Current net earnings	5,584,357,008	4,944,555,217
Additions to current net earnings:		
Profit on sales of United States Government securities and Federal agency obligations (net)	16,151,134	6,693,696
All other	30,694	20,850
Total additions	16,181,828	6,714,546
Deductions from current net earnings:		
Loss on foreign exchange (net)	110,974,967	111,336,562
All other	1,563,926	116,615
Total deductions	112,538,893	111,453,177
Net deductions	96,357,065	104,738,631
Assessments by the Board of Governors:		
Board expenditures	20,162,400	17,513,200
Federal Reserve currency costs	51,203,994	41,636,586
Total assessments	71,366,394	59,149,786
Net earnings available for distribution	5,416,633,549	4,780,666,800
Distribution of net earnings:		
Dividends paid	22,886,593	20,884,084
Transferred to surplus	39,073,250	25,823,850
Payments to United States Treasury (interest on Federal Reserve notes)	5,354,673,706	4,733,958,866
Net earnings distributed	5,416,633,549	4,780,666,800
SURPLUS ACCOUNT		
Surplus—beginning of year	357,436,550	331,612,700
Transferred from net earnings	39,073,250	25,823,850
Surplus—end of year	396,509,800	357,436,550

STATEMENT OF CONDITION

In dollars

Assets	DEC. 31, 1984	DEC. 31, 1983
Gold certificate account	3,356,584,828	3,058,029,344
Special Drawing Rights certificate account	1,335,000,000	1,335,000,000
Coin	17,788,603	24,192,328
Total	4,709,373,431	4,417,221,672
 Advances	 78,150,000	 124,125,000
*Acceptances held under repurchase agreements	—0—	418,160,108
United States Government securities:		
† Bought outright	53,453,237,996	49,294,020,471
Held under repurchase agreements	1,626,895,000	1,384,200,000
Federal agency obligations:		
Bought outright	2,816,403,197	2,830,462,845
Held under repurchase agreements	387,840,000	207,700,000
Total loans and securities	58,362,526,193	54,258,668,424
 Other assets:		
Cash items in process of collection	725,094,536	1,361,852,987
Bank premises	25,584,445	25,117,643
Due from Federal Deposit Insurance Corporation for indebtedness assumed	—0—	142,666,667
‡ All other	1,990,276,344	2,086,313,647
Total other assets	2,740,955,325	3,615,950,944
 Interdistrict settlement account	 (2,007,767,455)	 447,748,455
Total Assets	63,805,087,494	62,739,589,495

* Effective July 2, 1984 the Federal Open Market Committee discontinued the use of repurchase agreements on banker's acceptances in open market operations.

† Includes securities loaned—fully secured 1,092,275,000 743,870,000

‡ Includes assets denominated in foreign currencies revalued monthly at market rates.

STATEMENT OF CONDITION

In dollars

Liabilities	DEC. 31, 1984	DEC. 31, 1983
Federal Reserve notes (net)	51,096,394,262	49,474,467,588
Reserves and other deposits:		
Depository institutions	4,392,132,027	6,227,619,079
United States Treasury—general account	5,316,146,626	3,660,842,946
Foreign—official accounts	139,851,548	77,415,895
Other	479,787,646	513,168,084
Total deposits	10,327,917,847	10,479,046,004
Other liabilities:		
Deferred availability cash items	687,840,471	1,215,482,355
★All other	899,915,314	855,720,448
Total other liabilities	1,587,755,785	2,071,202,803
Total Liabilities	63,012,067,894	62,024,716,395
Capital Accounts		
Capital paid in	396,509,800	357,436,550
Surplus	396,509,800	357,436,550
Total Capital Accounts	793,019,600	714,873,100
Total Liabilities and Capital Accounts	63,805,087,494	62,739,589,495

★Includes exchange translation account balances reflecting the monthly revaluation of outstanding foreign exchange commitments.

Changes in Directors and Senior Officers

CHANGES IN DIRECTORS. In November 1984, the Board of Governors of the Federal Reserve System redesignated John Brademas *Chairman* of the board of directors and *Federal Reserve Agent* for the year 1985. Dr. Brademas, President of New York University, New York, N.Y., has been serving as a Class C director and as *Chairman* and *Federal Reserve Agent* since January 1983. Also in November, the Board of Governors appointed Clifton R. Wharton, Jr. *Deputy Chairman* for the year 1985. Dr. Wharton, Chancellor of the State University of New York System, Albany, N.Y., has been serving as a Class C director since January 1983. As *Deputy Chairman*, he succeeded Gertrude G. Michelson, Senior Vice President of R.H. Macy & Co., Inc., New York, N.Y., who had served as a Class C director since February 1978 and as *Deputy Chairman* since January 1983. At the same time, the Board of Governors appointed Virginia A. Dwyer a Class C director for the three-year term beginning January 1, 1985. Miss Dwyer, Senior Vice President-Finance of American Telephone and Telegraph Company, New York, N.Y., succeeded Mrs. Michelson as a Class C director.

In December 1984, member banks in Group 3 elected Robert W. Moyer a Class A director and John F. Welch, Jr. a Class B director, each for a three-year term beginning January 1, 1985. Mr. Moyer, President and Chief Executive Officer of Wilber National Bank, Oneonta, N.Y., succeeded Robert A. Rough, President of The National Bank of Sussex County, Branchville, N.J., who had served as a Class A director since January 1982. Mr. Welch, Chairman of the Board of General Electric Company, Fairfield, Conn., succeeded Edward L. Hennessy, Jr., Chairman of the Board of Allied Corporation, Morristown, N.J., who had served as a Class B director since March 1980.

Buffalo Branch. Effective July 1, 1984, the board of directors of this Bank appointed William Balderston III a director of the Buffalo Branch for the unexpired portion of a three-year term ending December 31, 1985. Mr. Balderston, President and Chief Executive Officer of Chase Lincoln First Bank, N.A., Rochester, N.Y., succeeded Frederick G. Ray, former Chairman of the Board of Rochester Community Savings Bank, Rochester, N.Y., who resigned as a director of the Buffalo Branch effective June 30, 1984. Mr. Ray had served as a Branch director since January 1983.

In October 1984, the board of directors of this Bank redesignated M. Jane Dickman *Chairman* of the Branch board for the year 1985. Miss Dickman, a partner in the accounting firm of Touche Ross & Co., Buffalo, N.Y., has been a director of the

Branch since January 1977 and has been serving as *Chairman* of the Branch board since January 1983. At the same time, the Bank's board appointed Ross B. Kenzie a director of the Buffalo Branch for a three-year term beginning January 1, 1985. Mr. Kenzie, Chairman of the Board of Goldome, Buffalo, N.Y., succeeded Edward W. Duffy, Chairman of the Executive Committee of Marine Midland Banks, Inc., Buffalo, N.Y., who had served as a Branch director since January 1982. In November 1984, the Board of Governors of the Federal Reserve System appointed Joseph Yantomasi a director of the Buffalo Branch for a three-year term beginning January 1, 1985. Mr. Yantomasi, UAW Consultant, United Auto Workers, Region No. 9, Buffalo, N.Y., succeeded George L. Wessel, President of the Buffalo AFL-CIO Council, Buffalo, N.Y., who had served as a Branch director since January 1979.

CHANGES IN SENIOR OFFICERS. The following changes in official staff at the level of Vice President and above have occurred since the publication of the previous *Annual Report*:

Anthony M. Solomon, President of this Bank, retired on January 1, 1985, having reached mandatory retirement age. Mr. Solomon joined the Bank as its sixth chief executive officer on April 1, 1980, having held positions of responsibility in both the public and private sectors in the United States and abroad. Immediately prior to joining the Bank, he had been Under Secretary of the Treasury for Monetary Affairs.

E. Gerald Corrigan was named to succeed Mr. Solomon as President, effective January 1, 1985. Mr. Corrigan had served as President of the Federal Reserve Bank of Minneapolis since August 1980. He joined the Federal Reserve Bank of New York in 1968 as an economist. Mr. Corrigan was appointed an officer of this Bank in 1972, becoming Senior Vice President in 1980. His assignments at this Bank involved a broad range of responsibilities, including economic research, open market operations, planning, and personnel.

Ronald B. Gray, Executive Vice President in charge of the Bank Supervision Function, died on June 16, 1984. Mr. Gray had joined the Bank's staff in 1956 and became an officer in 1965. He had served as the senior officer in charge of the Buffalo Branch and later as the senior officer in charge of the Management and Resource Planning Group at the Head Office.

Effective July 1, 1984:

Frederick C. Schadrack, formerly Vice President, was appointed Senior Vice President with responsibility for the Bank Supervision Function.

Mary R. Clarkin, formerly Assistant Vice President, was appointed Vice President and assigned to the Open Market Operations Function.

Effective January 1, 1985:

Stephen G. Thieke, formerly Vice President, was appointed Senior Vice President and assigned to the Bank Supervision Function.

Joseph P. Botta, formerly Assistant Vice President, was appointed Vice President and assigned to the Cash Processing Function.

Robert T. Falconer, formerly Assistant Vice President, was appointed Vice President and assigned to the Loans and Credits Function.

George W. Ryan, formerly Assistant Vice President, was appointed Vice President and assigned to the Foreign Relations Function.

Roger M. Kubarych, formerly Senior Vice President and Deputy Director of Research, resigned from the Bank effective February 1, 1985. Mr. Kubarych had joined the Bank's staff in 1971 and became an officer in 1974.

Paul Meek, Vice President and Monetary Adviser, will retire effective June 1, 1985. Mr. Meek joined the Bank's staff in 1956 and became an officer in 1960.

Directors of the Federal Reserve Bank of New York

DIRECTORS

Term expires Dec. 31 Class Group

ALFRED BRITTAIN III	1985	A	1
Chairman of the Board, Bankers Trust Company, New York, N.Y.			
T. JOSEPH SEMROD	1986	A	2
Chairman of the Board, United Jersey Bank, Hackensack, N.J.			
ROBERT W. MOYER	1987	A	3
President and Chief Executive Officer, Wilber National Bank, Oneonta, N.Y.			
WILLIAM S. COOK	1985	B	1
President and Chief Executive Officer, Union Pacific Corporation, New York, N.Y.			
JOHN R. OPEL	1986	B	2
Chairman of the Board, International Business Machines Corporation, Armonk, N.Y.			
JOHN F. WELCH, JR.	1987	B	3
Chairman of the Board, General Electric Company, Fairfield, Conn.			
JOHN BRADEMÁS, <i>Chairman and Federal Reserve Agent</i>	1985	C	
President, New York University, New York, N.Y.			
CLIFTON R. WHARTON, JR., <i>Deputy Chairman</i>	1986	C	
Chancellor, State University of New York System, Albany, N.Y.			
VIRGINIA A. DWYER	1987	C	
Senior Vice President-Finance, American Telephone and Telegraph Company, New York, N.Y.			

DIRECTORS—BUFFALO BRANCH

M. JANE DICKMAN, <i>Chairman</i>	1985
Partner, Touche Ross & Co., Buffalo, N.Y.	
WILLIAM BALDERSTON III	1985
President and Chief Executive Officer, Chase Lincoln First Bank, N.A., Rochester, N.Y.	
DONALD I. WICKHAM	1985
President, Tri-Way Farms, Inc., Stanley, N.Y.	
HERBERT FORT	1986
President, The Bath National Bank, Bath, N.Y.	
LAVAL S. WILSON	1986
Superintendent, Rochester City School District, Rochester, N.Y.	
ROSS B. KENZIE	1987
Chairman of the Board, Goldome, Buffalo, N.Y.	
JOSEPH YANTOMASI	1987
UAW Consultant, United Auto Workers, Region No. 9, Buffalo, N.Y.	

MEMBER OF FEDERAL ADVISORY COUNCIL—1985

LEWIS T. PRESTON	1985
Chairman of the Board, Morgan Guaranty Trust Company of New York, New York, N.Y.	

Officers of the Federal Reserve Bank of New York

E. GERALD CORRIGAN, *President*

THOMAS M. TIMLEN, *First Vice President*

SAM Y. CROSS, *Executive Vice President*
Foreign Group

PETER FOUSEK, *Executive Vice President*
and *Director of Research*
Research and Statistics

JAMES H. OLTMAN, *General Counsel*

PETER D. STERNLIGHT, *Executive Vice President*
Open Market Operations

AUDIT

JOHN E. FLANAGAN, *General Auditor*
ROBERT J. AMBROSE, *Assistant General Auditor*
LORETTA G. ANSBRO, *Audit Officer*
EDWARD J. CHURNEY, *Manager,*
Auditing Department
H. ALLAN VIRGINIA, *Manager,*
Audit Analysis Department

ADMINISTRATIVE SERVICES GROUP

EDWIN R. POWERS, *Vice President*
JEROME P. PERLONGO, *Manager (Night Officer)*

ACCOUNTING

CATHY E. MINEHAN, *Vice President*
LEON R. HOLMES, *Assistant Vice President*
DONALD R. ANDERSON, *Manager,*
Accounting Department
JOSEPH R. FRANCL, JR., *Manager,*
Accounting Department

SERVICE

JOHN M. EIGHMY, *Vice President*
RONALD E. LONG, *Assistant Vice President*
*MATTHEW C. DREXLER, *Manager,*
Building Planning Department
JOSEPH C. MEEHAN, *Manager,*
Building Operating Department
JASON M. STERN, *Manager,*
Records, Printing, and Postal Services Department
RUTH ANN TYLER, *Manager,*
Service Department

AUTOMATION GROUP

ISRAEL SENDROVIC, *Senior Vice President*

DATA PROCESSING

PETER J. FULLEN, *Vice President*
HOWARD F. CRUMB, *Assistant Vice President*
GEORGE LUKOWICZ, *Assistant Vice President*
RONALD J. CLARK, *Manager,*
Communications and Technical Services Department
JAMES H. GAVER, *Manager,*
Analytical Computer Department
PETER M. GORDON, *Manager,*
Computer Operations Support Department
JOHN C. HEIDELBERGER, *Manager,*
Telecommunications Operations Department
KENNETH M. LEFFLER, *Manager,*
General Purpose Computer Department

SYSTEMS DEVELOPMENT

SUSAN C. YOUNG, *Vice President*
BARBARA R. BUTLER, *Assistant Vice President*
OM P. BAGARIA, *Manager,*
Funds Transfer Systems Staff
VIERA A. CROUT, *Manager,*
Common Systems Department
PATRICIA Y. JUNG, *Manager,*
Operations Systems Department
IRA KAHNER, *Manager,*
Data Systems Department
HARRY Z. MELZER, *Manager,*
Data Systems Department
MONIKA K. NOVIK, *Manager,*
Data Systems Department

*Retires June 1, 1985.

Officers *(Continued)*

BANK SUPERVISION

FREDERICK C. SCHADRACK, *Senior Vice President*
STEPHEN G. THIEKE, *Senior Vice President*
A. MARSHALL PUCKETT, *Vice President*
GEORGE R. JUNCKER, *Chief Compliance Examiner*
LEON KOROBOW, *Assistant Vice President*
ROBERT A. O'SULLIVAN, *Chief Financial Examiner*
BENEDICT RAFANELLO, *Adviser*
WILLIAM L. RUTLEDGE, *Assistant Vice President*
JAMES P. BARRY, *Assistant Chief Examiner*
JOHN M. CASAZZA, *Assistant Chief Examiner*
EUGENE P. EMOND, *Manager,*
Supervision Support Department
A. JOHN MAHER, *Assistant Chief Examiner*
THOMAS P. MCQUEENEY,
Assistant Chief Examiner
GERALD P. MINEHAN, *Manager,*
Foreign Banking Applications Department
DONALD E. SCHMID, *Manager,*
Bank Analysis Department
DONALD T. VANGEL, *Manager,*
Domestic Banking Applications Department

ECONOMIC ADVISER

RICHARD G. DAVIS, *Senior Economic Adviser*

EQUAL EMPLOYMENT OPPORTUNITY

DONALD R. MOORE, *Equal Employment*
Opportunity Officer

FOREIGN GROUP

SAM Y. CROSS, *Executive Vice President*
TERRENCE J. CHECKI, *Adviser*

FOREIGN EXCHANGE

MARGARET L. GREENE, *Senior Vice President*
CHARLES M. LUCAS, *Vice President*
PATRICIA H. KUWAYAMA, *Assistant Vice President*
PETER S. HOLMES, *Foreign Exchange Trading Officer*

FOREIGN RELATIONS

IRWIN D. SANDBERG, *Senior Vice President*
GEORGE W. RYAN, *Vice President*
JOHN HOPKINS HEIRES, *Adviser*
GEORGE R. ARRINGTON, *Manager,*
Foreign Relations Department
GEORGE H. BOSSY, *Manager,*
Foreign Relations Department
FRANCIS J. REISCHACH, *Manager,*
Foreign Relations Department

LEGAL

JAMES H. OLTMAN, *General Counsel*
ERNEST T. PATRIKIS, *Deputy General Counsel*
DON N. RINGSMUTH, *Assistant General Counsel*
THOMAS C. BAXTER, JR., *Assistant Counsel*
DONALD L. BITTKER, *Assistant Counsel*
ROBERT N. DAVENPORT, JR., *Assistant Counsel*
JEFFREY F. INGBER, *Manager, Personnel Department,*
Assistant Counsel, and Assistant Secretary
JOYCE E. MOTYLEWSKI, *Assistant Counsel*
BRADLEY K. SABEL, *Secretary*
and Assistant Counsel
MINDY R. SILVERMAN, *Assistant Counsel*
MARYSUE SULLIVAN, *Assistant Counsel*
WALKER F. TODD, *Assistant Counsel*
RALEIGH M. TOZER, *Assistant Counsel*
WEBSTER B. WHITE, *Assistant Counsel*

LOANS AND CREDITS

CHESTER B. FELDBERG, *Senior Vice President*
ROBERT T. FALCONER, *Vice President*
FRANKLIN T. LOVE, *Manager,*
Credit and Discount Department
KATHLEEN A. O'NEIL, *Manager,*
Credit and Discount Department

Officers *(Continued)*

MANAGEMENT PLANNING GROUP

SUZANNE CUTLER, *Senior Vice President*

PERSONNEL

ROBERTA J. GREEN, *Vice President*

CARL W. TURNIPSEED, *Assistant Vice President*

JEFFREY F. INGBER, *Manager, Personnel Department,
Assistant Counsel, and Assistant Secretary*

ROBERT C. SCRIVANI, *Manager,
Personnel Department*

PLANNING AND CONTROL

ROBERT M. ABPLANALP, *Vice President*

AARON S. DRILLICK, *Manager,
Management Information Department*

NIRMAL V. MANERIKAR, *Manager,
Management Information Department*

PRICING AND PROMOTION

WHITNEY R. IRWIN, *Senior Bank Services Officer*

BETSY BUTTRILL WHITE, *Assistant Vice President*

BRUCE A. CASSELLA, *Bank Services Officer*

MICHELE S. GODFREY, *Bank Services Officer*

OPEN MARKET OPERATIONS

PETER D. STERNLIGHT, *Executive Vice President*

EDWARD J. GENG, *Senior Vice President*

MARY R. CLARKIN, *Vice President*

*PAUL MEEK, *Vice President
and Monetary Adviser*

JOAN E. LOVETT, *Assistant Vice President*

EDWARD J. OZOG, *Assistant Vice President*

BARBARA L. WALTER, *Adviser*

GARY HABERMAN, *Manager,
Dealer Surveillance Staff*

CHRISTOPHER J. MCCURDY,
Research Officer and Senior Economist

ANN-MARIE MEULENDYKE, *Manager,
Securities Department*

OPERATIONS GROUP

HENRY S. FUJARSKI, *Senior Vice President*

WILLIAM M. SCHULTZ, *Adviser*

CASH PROCESSING

JOSEPH P. BOTTA, *Vice President*

MARTIN P. CUSICK, *Manager,
Paying and Receiving Department*

**Retires June 1, 1985.*

THOMAS J. LAWLER, *Manager,
Currency Verification Department (Evening)*

CHARLES E. ROCKEY, *Manager,
Currency Services Department*

LILLIE S. WEBB, *Manager,
Currency Verification Department (Day)*

CHECK PROCESSING

JAMES O. ASTON, *Vice President*

HARRY A. CURTH, JR., *Regional Manager
(Utica Office)*

FRED A. DENESEVICH, *Regional Manager
(Cranford Office)*

ANTHONY N. SAGLIANO, *Regional Manager
(Jericho Office)*

JOHN F. SOBALA, *Assistant Vice President*

STEVEN J. GAROFALO, *Manager,
Check Processing Department*

PAUL L. MCEVILY, *Manager,
Check Services Department*

THOMAS E. NEVIUS, *Manager,
Check Adjustment Department*

ELECTRONIC SERVICES

JORGE A. BRATHWAITE, *Vice President*

HENRY F. WIENER, *Assistant Vice President*

JANET L. WYNN, *Assistant Vice President*

H. JOHN COSTALOS, *Manager,
Securities Transfer Department*

ROBERT W. DABBS, *Manager,
Funds Transfer Department*

ANDREW HEIKAUS, *Manager,
Funds Transfer Department*

FISCAL SERVICES

RALPH A. CANN, III, *Vice President*

CAROL W. BARRETT, *Assistant Vice President*

FRANK C. EISEMAN, *Assistant Vice President*

JOSEPH J. GRIMSHAW, *Manager,
Safekeeping Department*

ANGUS J. KENNEDY, *Manager,
Government Bond Department*

JOHN J. STRICK, *Manager,
Savings Bond Department*

PUBLIC INFORMATION

PETER BAKSTANSKY, *Vice President*

RICHARD H. HOENIG, *Assistant Vice President*

MARGARET E. BRUSH, *Manager,
Public Information Department*

Officers *(Continued)*

RESEARCH AND STATISTICS

PETER FOUSEK, *Executive Vice President
and Director of Research*

RICHARD J. GELSON, *Vice President*

†JEFFREY R. SHAFER, *Vice President*

M. AKBAR AKHTAR, *Assistant Director of Research*

EDWARD J. FRYDL, *Assistant Director of Research*

†WILLIAM J. GASSER, *Assistant Director of Research*

SUSAN F. MOORE, *Assistant Vice President*

JOHN WENNINGER, *Assistant Director of Research*

PAUL B. BENNETT,
Research Officer and Senior Economist

NANCY BERCOVICI, *Manager,
Statistics Department*

†EDNA E. EHRLICH,
Research Officer and Senior Economist

GERALD HAYDEN, *Manager,
Data Reporting Support Department*

MARCOS T. JONES, *Manager,
Statistics Department*

CARL J. PALASH,
Research Officer and Senior Economist

CHARLES A. PIGOTT,
Research Officer and Senior Economist

DAVID L. ROBERTS,
Research Officer and Senior Economist

†*On leave of absence.*

SECRETARY'S OFFICE

BRADLEY K. SABEL, *Secretary
and Assistant Counsel*

JEFFREY F. INGBER, *Manager, Personnel Department,
Assistant Counsel, and Assistant Secretary*

THEODORE N. OPPENHEIMER, *Assistant Secretary*

SECURITY CONTROL GROUP

HERBERT W. WHITEMAN, JR., *Vice President*

ELECTRONIC SECURITY

RICHARD P. PASSADIN, *Security Officer*

PROTECTION

ROBERT V. MURRAY, *Assistant Vice President*

WILLIAM J. KELLY, *Manager,
Protection Department*

SECURITY CONTROL

JOHN CHOWANSKY, *Security Control Adviser*

OFFICERS—BUFFALO BRANCH

JOHN T. KEANE, *Vice President and Branch Manager*

PETER D. LUCE, *Assistant Vice President*

ACCOUNTING; CASH; CREDIT, DISCOUNT, AND FISCAL AGENCY

GARY S. WEINTRAUB, *Cashier*

BANK SERVICES AND PUBLIC INFORMATION; PERSONNEL; PROTECTION

ROBERT J. McDONNELL, *Operations Officer*

BUILDING OPERATING; CHECK; SERVICE

DAVID P. SCHWARZMUELLER, *Operations Officer*

THE SECOND FEDERAL RESERVE DISTRICT

