

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8446
November 1, 1978

TREASURY AND FEDERAL RESERVE
ACTIONS TO STRENGTHEN U.S. DOLLAR

- Increases in Discount Rate and Reserve Requirements
- Program of Intervention in Foreign Exchange Markets

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a press statement announcing actions by the Treasury and the Federal Reserve to strengthen the dollar and thereby counter continuing domestic inflationary pressures:

The Treasury Department and the Federal Reserve today announced measures to strengthen the dollar and thereby counter continuing domestic inflationary pressures.

The Federal Reserve Board announced the following specific actions:

- Approval of a one percentage point increase in the discount rate at the Federal Reserve Bank of New York from 8½ to 9½ percent, effective immediately. The discount rate is the rate that is charged member banks when they borrow from their district Federal Reserve Bank.
- Establishment of a supplementary reserve requirement—in addition to present member bank reserve requirements—equal to 2 per cent of time deposits in denominations of \$100,000 or more.
- Increases in the Federal Reserve's reciprocal currency (swap) arrangements with the central banks of Germany, Japan, and Switzerland by \$7.6 billion to \$15 billion, and activation of the swap arrangement with the Bank of Japan. Foreign currencies available under these expanded arrangements will be used along with foreign currencies available to the Treasury in a program of forceful exchange market intervention in coordination with foreign central banks to correct recent excessive exchange rate movements.

The supplementary reserve requirement will apply to all outstanding large-denomination time deposits beginning Thursday, November 2, with reserves maintained two weeks later. Existing reserve requirements on such deposits range from 1 per cent for longer-term deposits to 6 per cent on deposits maturing in less than 6 months. The supplementary requirement of 2 per cent will apply to all large-denomination time deposits regardless of maturity, and will increase required reserves by about \$3 billion.

The reserve requirement action will help to moderate the recent relatively rapid expansion in bank credit. It will also increase the incentive for member banks to borrow funds from abroad and thereby strengthen the dollar by improving the demand in Euro-markets for dollar-denominated assets.

A swap arrangement is a renewable, short-term facility under which a central bank agrees to exchange its own currency for the currency of the other party up to a specified amount. In all reciprocal currency arrangements the Federal Reserve Bank of New York acts on behalf of the Federal Reserve System under the direction of the Federal Open Market Committee. The Federal Reserve's reciprocal currency arrangements with the central banks of Germany, Japan, and Switzerland are now as follows:

German Federal Bank	\$6 billion
Bank of Japan	\$5 billion
Swiss National Bank	\$4 billion

Enclosed is a copy of our Operating Circular No. 13, reflecting the increases in this Bank's discount rates, effective today. A new Supplement to Regulation D, "Reserves of Member Banks," of the Board of Governors of the Federal Reserve System, reflecting the new supplementary reserve requirement, will be sent to you shortly, together with related instructions.

PAUL A. VOLCKER,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

[**Operating Circular No. 13**]
Revised November 1, 1978

DISCOUNT RATES

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

1. This Bank has established the following new rates, effective November 1, 1978:

A rate of $9\frac{1}{2}$ percent per annum on advances to, and discounts for, member banks under sections 13 and 13a of the Federal Reserve Act, and on advances under section 10(b) of the Act if secured by mortgage loans on one-family to four-family residences.

A rate of 10 percent per annum on advances to member banks under section 10(b) of the Federal Reserve Act, except as otherwise indicated herein.

A rate of $10\frac{1}{2}$ percent per annum on advances to member banks for prolonged periods and in significant amounts under section 10(b) of the Federal Reserve Act, except advances secured by mortgage loans on one-family to four-family residences.

A rate of $12\frac{1}{2}$ percent per annum on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13 of the Federal Reserve Act.

Shown on the reverse side is the schedule of rates now in effect at this Bank on advances and discounts made under the Federal Reserve Act.

2. This circular supersedes our Operating Circular No. 13, Revised October 16, 1978.

PAUL A. VOLCKER,
President.

(OVER)

Rate Schedule, Effective November 1, 1978

*Percent
Per Annum*

Advances to and discounts for member banks:

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| (a) Advances and discounts under sections 13 and 13a of the Federal Reserve Act, and advances under section 10(b) of the Act if secured by mortgage loans on one-family to four-family residences | 9½ |
| (b) Advances under section 10(b) of the Federal Reserve Act, except as otherwise provided in this schedule | 10 |
| (c) Advances for prolonged periods and in significant amounts under section 10(b) of the Federal Reserve Act, except advances secured by mortgage loans on one-family to four-family residences | 10½ |

Advances to individuals, partnerships, and corporations other than member banks:

- | | |
|------------------------------------------------------------------------------|-----|
| Advances under last paragraph of section 13 of the Federal Reserve Act | 12½ |
|------------------------------------------------------------------------------|-----|