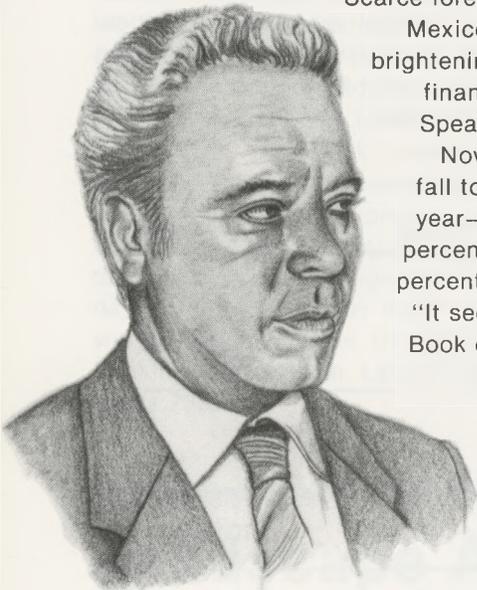


Federal Reserve Bank of Dallas November 1984

Finance Minister Addresses Directors



Scarce foreign exchange and 100 percent inflation battered Mexico's economy in 1982, but this year the picture is brightening somewhat, according to Mexico's minister of finance and public credit, Jesus Silva-Herzog Flores. Speaking at the Dallas Fed's Directors' Luncheon on November 8, Silva-Herzog predicted inflation would fall to 55 percent in 1984—down from 80 percent last year—and the federal deficit would be reduced to 6.5 percent of gross domestic product, as compared to 18 percent of the GDP in 1982.

"It seems that I have been registered in the Guinness Book of Records," Silva-Herzog began, "because I am the only finance minister that, in a period of 12 months, had three devaluations of the national currency, nationalization of the private banking system, establishment of an exchange control system, appointment by two presidents and two surgeries."

"I am the only finance minister that, in a period of 12 months, had three devaluations of the national currency, nationalization of the private banking system, establishment of an exchange control system, appointment by two presidents and two surgeries."

"I think that gives you a very clear picture of what happened in 1982 in Mexico."

Silva-Herzog said he will never forget an August 1982 meeting at the Federal Reserve Bank of New York when Mexico had \$120 million in liquid reserves and had to make payments of \$280 million the following Monday.

"But that didn't even include the amount we had to pay on Tuesday, Wednesday, Thursday...," Silva-Herzog said.

In order to bring down expenditures, Mexico reduced imports—which came mainly from the U.S.—to \$8 billion in 1983 from \$24 billion in 1981. Silva-Herzog said that Mexico's crisis

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Silva-Herzog's Views on Other Issues

Q. Has floating the peso against the dollar the past few years worked out and will the 13 centavo per day slide in the peso be continued?

A. We feel the daily slippage of 13 centavos has been working fine. It has given stability to the exchange markets. The positive results of our trade balance and our current account balance and the overall behavior of the balance of payments, I think, is the best expression of how the exchange policy is working. We intend to maintain the same exchange policy in the coming months, but, of course, we are completely flexible. (We have our) eyes open to any change in circumstances that will (make) a change necessary in the exchange policy. What we are not going to accept anymore is the same mistake that we made a couple of years ago when we had the peso overvalued, and when we had a run against the peso, and when we had a situation where the cheapest commodity in Mexico was precisely the U.S. dollar. That is not going to happen because we have too fresh a memory of what can happen when you make that type of late reaction to something that called for a change in policy.

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Regulation E Expanded

The Federal Reserve Board of Governors has voted to extend the protection accorded EFT payments to include all debit card transactions, even those that are processed manually. In amending Regulation E, which governs electronic funds transfers, the Board also modified its error resolution requirements and provided additional flexibility in the disclosure of charges for EFT services.

Debit cards are used somewhat like checking accounts: a consumer can purchase goods or services and have the amount automatically debited to his transaction account. (Debit cards are distinguished from credit cards, which result in a promise by the consumer to pay for a purchase at a future time.) Debit card transactions are usually conducted at a point-of-sale location. If the card is run through an electronic computer terminal, the consumer is protected by the Electronic Fund Transfer Act—Regulation E—which, for example, limits consumer liability for unauthorized transfers.

However, many retailers do not have computer terminals and process the cards manually, using them to imprint sales slips. These transactions, which do not involve electronic terminals, were not previously covered by Regulation E.

Last year debit cards were used in over 50 million point-of-sale transactions with a value in excess of \$2.4 billion.

Board Amends Regulation D

Effective January 1, 1985, the amount of net transaction accounts to which the lowest reserve requirement (3 percent) applies will be raised to \$29.8 million from \$28.9 million. The amount of reservable liabilities in depository institutions that are subject to a zero percent reserve requirement also will increase—to \$2.4 million from \$2.2 million.

The Federal Reserve Board made these changes in accordance with the Monetary Control Act of 1980 and the Garn-St Germain Depository Institutions Act of 1982. The Monetary Control Act requires the Board to make annual amendments to Regulation D—which governs reserve requirements of depository institutions—to increase the amount of transaction accounts

subject to the 3 percent reserve requirement in the next calendar year to 80 percent of the annual percentage increase in transaction accounts held by all depository institutions. The growth in total net transaction accounts of all depository institutions from June 30, 1983, to June 30, 1984, was 3.8 percent, thus requiring an increase of \$900 million.

Under the Garn-St Germain Act, the Board must amend Regulation D to adjust the amount exempt from reserve requirements for the upcoming year by 80 percent of the annual percentage increase in total reservable liabilities. Growth in total reservable liabilities was 9.1 percent from June 30, 1983, to June 30, 1984.

Type of deposit and deposit interval	Percent	Effective date
Net transaction accounts ¹		
\$0-\$29.8 million	3	1/1/85
Over \$29.8 million	12	1/1/85
Nonpersonal time deposits ²		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

¹Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, MMDAs and similar accounts offered by institutions not subject to the rules of the Depository Institutions Deregulation Committee that permit no more than six preauthorized, automatic or other transfers per month of which no more than three can be checks—are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements).

²In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons and certain obligations issued to depository institution offices located outside the United States.

Holiday Schedule for 1985 Explained

Bank holidays affect everyone—consumers, borrowers, bank employees.

The Dallas Fed does not set banking holidays. That is done by each of the 50 state legislatures. Because the Dallas Fed and all its branches in El Paso, Houston and San Antonio are located in Texas, we observe the bank holiday schedule mandated by the Texas Legislature. The schedule is similar to other lists of legal and federal holidays—although not identical (see table).

Texas banks do have the option to close on other days as well by following a statutory procedure. The bank's board of directors must pass a resolution designating the additional day or days it will close. The resolution must be certified by the bank's president or cashier. A copy of the resolution must be posted in a conspicuous place within the bank at least 15 calendar days prior to the designated day or days, and another copy must be filed with the Commissioner, Department of Banking, 2601 North Lamar, Austin, Texas 78705.

Texas banks wishing to close this year on Monday, December 24, or Monday, December 31, must use this procedure. If they close on either Monday, they must be open during normal hours for all banking services on the Saturday succeeding each additional day observed.

Martin Luther King Jr.'s Birthday, January 15, has been designated by the United States Congress as a new federal holiday in 1985 and will be observed on the third Monday of January beginning in 1986. The Dallas Fed will observe this occasion only when it is designated by the Texas Legislature as a banking holiday. Texas banks may observe the day as an optional holiday in accordance with the statutory procedure.

Banks in Louisiana and New Mexico follow the banking holidays set by their state legislatures. Savings and loan associations and credit unions in all three states have no statute specifically listing holidays they must observe.

If a financial institution in this District notifies the Dallas office or a branch office checks department of its

holiday schedule, it will not be charged for the Fed's cash letter presented on the day it is closed and the Dallas Fed is open. The charge will be made on the next day both are open. The notice can be on the Fed's form TR-385, by letter or by sending a copy of its board's resolution.

HOLIDAY SCHEDULE FOR 1985

The Federal Reserve Bank of Dallas and its branches in El Paso, Houston and San Antonio will observe the following holidays in 1985 by being closed on the dates listed below.

January 1	New Year's Day
February 18	Presidents' Day
May 27	Memorial Day
July 4	Independence Day
September 2	Labor Day
October 14	Columbus Day
November 11	Veterans Day
November 28	Thanksgiving Day
December 25	Christmas Day

In accordance with the Texas statutes relating to bank holidays, should July 4, November 11 or December 25 occur on a Saturday, this Bank will be closed the preceding Friday. Should January 1, July 4, November 11 or December 25 occur on a Sunday, this Bank will be closed the following Monday.

Landscape Adorns Dallas Fed Lobby

"Silhouetted Trees" by Dallas artist Roger Winter graces the lobby of the Federal Reserve Bank of Dallas. The 10-by-20-foot landscape, commissioned by the Bank in 1982, depicts a large cedar elm in the foreground with smaller mesquite and cedar trees in the background. Winter uses an abstract style of brushwork which, at a distance, forms the trees, grass and cloud-filled sky.

Winter, a prominent member of the Dallas art community, is a professor of art at Southern Methodist University. Born in 1934 in Denison, Texas, Winter received a B.F.A. from the University of Texas at Austin, an M.F.A. from State University of Iowa in Iowa City and studied at the Brooklyn Museum School as a recipient of the Max Beckmann Memorial Scholarship.



Directors, continued

should create a greater awareness of the economic relationship between the U.S. and Mexico.

"There have been a number of estimates that that drop in Mexican imports from the United States affected the unemployment rate in a significant number of different sectors in the American economy—a very clear sign of that high degree of interdependence that exists between our two countries," Silva-Herzog said.

The finance minister called on the U.S. to open its borders to more Mexican goods. He noted that despite being 7,000 miles further away, South Korea exports to the U.S. three times what Mexico does.

"The only way that you can pay your debt is to earn the foreign exchange that is needed to fulfill your financial obligation, and the only way you can do that is to export more," Herzog said.

"We have a long way to go and a lot of things to do together."

Silva-Herzog, continued

Q. How do you view the current immigration problem?

A. I think we are going to be faced with a growing number of people trying to look for a job across the border. The other day I went to some of the border towns. There is a fence made of steel, and it's incredible to see the number of holes. (We must)

respond to this problem by improving the Mexican economy so it is able to absorb the growing population of the country.

Q. Does Mexico feel threatened by the situation in Central America?

A. Not as much as you do.



Jesus Silva-Herzog Flores was the guest speaker at the Directors' Luncheon.

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