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FEDERAL RESERVE statistical release



**FEDERAL RESERVE BANK
OF PHILADELPHIA**

H.3 (502)

For release at
4:30 PM EST
May 4, 1989

SPECIAL NOTICE

Aggregate data for reserves and the monetary base have been revised to reflect the latest annual indexations of the low reserve tranche and the reserve requirement exemption, and new estimates of seasonal factors.¹ In addition, a change has been made in the break-adjustment method for these indexations.

In the past, the break adjustment for each indexation of the low reserve tranche or the exemption has been carried out in the same manner as adjustments for regulatory changes in reserve requirements. A separate break-adjustment ratio, defined as required reserves measured using the post-indexation values of the tranche and exemption divided by required reserves measured using the pre-indexation values, was estimated for the first affected maintenance period of each year since 1982 for required reserves against each of transaction and nontransaction deposits for each of five entity types: member banks,

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.

nonmember banks, Edge Act Corporations, U.S. branches and agencies of foreign banks, and thrift institutions. In addition, similar break-adjustment ratios were computed for applied vault cash at bound and nonbound depository institutions separately.^{2,3} These ratios were then each applied to the associated required reserves and applied vault cash data for all maintenance periods back to 1959. The result was break-adjusted series that, going back in time, fell increasingly short of actual reserves and the monetary base.

The new break-adjustment method adjusts required reserves and applied vault cash **only** for the maintenance periods between each annual indexation and the previous indexation. Actual and break-adjusted series are then essentially equal for all maintenance periods in which the indexation has occurred over past years.⁴ For maintenance periods **between** any two annual indexation dates, the new procedure assumes, in effect, that the indexation is phased in at a constant rate throughout the year. Thus, for maintenance periods during the year preceding each indexation date, the break-adjustment ratios follow constant growth paths from 1.0 in the maintenance period of the year-earlier indexation to (usually smaller) break-adjustment ratios for the more recent

2. These break adjustments of applied vault cash also are used to compute the break-adjustment series for surplus vault cash, a component of the monetary base.

3. A depository institution is bound (nonbound) if its required reserves equal or exceed (are less than) its total vault cash that can be used to satisfy reserve requirements.

4. The break-adjusted and unadjusted required reserve series do still differ because the former excludes reserves held against net Eurocurrency liabilities. This exclusion has been made because of technical difficulties in constructing break-adjusted reserves against this particular item.

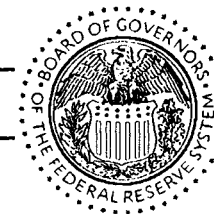
indexation date.⁵ This is done for each set of ratios, namely, for required reserves against both transaction and nontransaction deposits for each of the five entity types noted above, as well as for applied vault cash.

Under this technique, in order to put current-year data on a comparable basis with the historical data, it is also necessary for the data in the current year to be adjusted, using estimates of the low reserve tranche and reserve requirement exemption to take effect next January. Based on data for net transactions deposits and total reservable liabilities from June 1988 through March 1989, and extrapolated through June 1989, the break-adjusted data for 1989 will be constructed assuming the levels of the low reserve tranche and the reserve requirement exemption do not change at the start of next year.

Revised historical data will be available shortly 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.

5. For the more recent indexation date, the break-adjustment ratios would be the ratios of, for example, required reserves on the new basis (that is, post-indexation) to required reserves on the old basis (that is, pre-indexation).

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Table 1

For Release at 4:30 p.m. Eastern Time

AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND THE MONETARY BASE

Adjusted for changes in reserve requirements¹
Averages of daily figures, seasonally adjusted unless noted otherwise
Millions of dollars

MAY 4, 1989

Date	Reserves of depository institutions					Monetary base ⁶	Borrowings of depository institutions from the Federal Reserve, NSA		
	total ²	nonborrowed ³	nonborrowed plus extended credit ⁴	required	excess NSA ⁵		total	seasonal	extended credit ⁴
1988-APR.	60363	57369	59993	59503	859	265631	2993	146	2624
MAY	60422	57845	59951	59382	1040	266761	2578	246	2107
JUNE	60576	57493	60047	59688	888	268205	3083	311	2554
JULY	61058	57618	60157	60051	1007	270308	3440	376	2538
AUG.	60903	57663	60316	59950	953	270979	3241	423	2653
SEP.	60824	57985	60043	59852	972	272420	2839	421	2059
OCT.	60862	58562	60343	59800	1062	273659	2299	332	1781
NOV.	60853	57991	60314	59733	1119	274380	2861	186	2322
DEC.	60706	58990	60234	59666	1040	275501	1716	130	1244
1989-JAN.	60370	58708	59754	59226	1145	276784	1662	76	1046
FEB.	60260	58773	59822	59106	1154	277553	1487	97	1050
MAR.	59854	58041	59376	58896	957	278615	1813	139	1334
APR. pe	59484	57195	58902	58687	797	278862	2289	213	1707
Two weeks ending									
1989-MAR. 8	60333	58533	59783	59376	957	278481	1800	116	1250
22	59557	57971	59135	58822	735	278285	1586	136	1164
APR. 5	59890	57714	59389	58585	1305	279249	2177	167	1675
19p	58600	56018	57988	58380	220	277437	2582	190	1970
MAY 3pe	60426	58457	59844	59124	1301	280500	1969	265	1387

p--preliminary

pe--preliminary estimate

1. Reserves and monetary base figures incorporate adjustments for discontinuities, or "breaks", associated with regulatory changes in reserve requirements. (For more information, see Table 3.)
2. Seasonally adjusted, break-adjusted total reserves equal seasonally adjusted, break-adjusted required reserves plus unadjusted excess reserves. (Also, see footnote 2 on Table 2 and footnote 2 on Table 3.)
3. Seasonally adjusted, break-adjusted nonborrowed reserves equal seasonally adjusted, break-adjusted total reserves less unadjusted total borrowings of depository institutions from the Federal Reserve.
4. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as with traditional short-term adjustments, it is not included in the monetary base.

Date	Reserves of depository institutions				Reserve balances with F.R. Banks ⁴	Vault cash ⁵			Net carryover of reserve balances ⁸
	total ²	nonborrowed	required	Monetary base ³		total	used to satisfy required reserves ⁶	surplus ⁷	
1988-APR.	62064	59071	61205	268127	38429	25208	23636	1573	
MAY	60681	58103	59641	268899	36509	25882	24172	1710	
JUNE	61991	58908	61103	272654	37907	25730	24084	1646	
JULY	62756	59316	61749	275591	37992	26459	24763	1696	
AUG.	61965	58724	61012	275033	36911	26895	25054	1841	
SEP.	62153	59314	61181	274874	37213	26727	24940	1787	
OCT.	61915	59616	60853	275775	36421	27198	25494	1705	
NOV.	62407	59546	61287	278653	36997	26745	25410	1335	
DEC.	63739	62023	62699	283176	37830	27197	25909	1288	
1989-JAN.	63468	61806	62323	281312	36475	28376	26993	1383	
FEB.	60693	59206	59539	277655	32834	29776	27859	1917	
MAR.	60212	58400	59255	278943	34623	27059	25589	1470	
APR. pe	61309	59020	60512	281699	35851	26746	25458	1288	
Two weeks ending									
1989-MAR. 8	60446	58647	59490	277715	34485	27581	25962	1620	48
22	60034	58448	59299	279336	34702	26738	25332	1406	85
APR. 5	60282	58106	58977	279427	34623	27095	25659	1436	15
19p	61416	58834	61196	282592	36243	26339	25173	1167	307
MAY 3pe	61641	59672	60339	281597	35910	27106	25731	1375	-163

p--preliminary

pe--preliminary estimate

- Reflects actual required reserves, with no adjustments to eliminate the effects of discontinuities, or "breaks", associated with regulatory changes in reserve requirements.
- Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements.
- The monetary base, not break-adjusted and not seasonally adjusted, consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks plus the currency component of the money stock plus, for institutions whose vault cash exceeds their required reserves, the excess of current vault cash over the amount applied to satisfy current reserve requirements. After the introduction of CRR, currency and vault cash figures are measured over computation periods ending on Mondays.
- Excludes required clearing balances and adjustments to compensate for float and includes other off-balance sheet "as-of" adjustments.
- Dates refer to the maintenance periods in which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end 30 days after the lagged computation periods in which the balances are held.
- All vault cash held during the lagged computation period by "bound" institutions (i.e., those whose required reserves exceed their vault cash) plus the amount of vault cash applied during the maintenance period by "nonbound" institutions (i.e., those whose vault cash exceeds their required reserves) to satisfy current reserve requirements.
- Total vault cash held by depository institutions minus the amount applied to satisfy reserve requirements.
- Consists of carryover only at depository institutions maintaining reserves on the basis of two-week maintenance periods. Reflects excess (+) or deficit (-) reserves eligible to be carried forward into the two-week reserve maintenance period ending on the date shown.

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Table 3

AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND THE MONETARY BASE

Adjusted for changes in reserve requirements¹
 Averages of daily figures, not seasonally adjusted
 Millions of dollars

Date	Reserves of depository institutions			Monetary base ⁴
	total ²	nonborrowed	required ³	
1988-APR.	60889	57896	60030	264958
MAY	59381	56803	58340	265668
JUNE	60585	57503	59698	269362
JULY	61353	57914	60346	272314
AUG.	60461	57220	59508	271620
SEP.	60506	57666	59534	271439
OCT.	60372	58073	59310	272293
NOV.	60963	58102	59844	275317
DEC.	62213	60497	61173	279710
1989-JAN.	62067	60405	60922	277923
FEB.	59371	57884	58217	274363
MAR.	58938	57125	57980	275625
APR. pe	60033	57743	59235	278302
Two weeks ending				
1989-MAR. 8	59205	57406	58249	274599
22	58714	57128	57979	275879
APR. 5	59048	56872	57743	276143
19p	60200	57618	59980	279095
MAY 3pe	60267	58299	58966	278276

p--preliminary

pe--preliminary estimate

- Figures reflect adjustments for discontinuities, or "breaks", associated with regulatory changes in reserve requirements.
- Break-adjusted total reserves equal break-adjusted required reserves (Table 3, column 3) plus excess reserves NSA (Table 1, column 5).
- To adjust required reserves for discontinuities due to regulatory changes in reserve requirements, a multiplicative procedure is used to estimate what required reserves would have been in past periods had current reserve requirements been in effect. Break-adjusted required reserves includes required reserves against transactions deposits and nonpersonal time and savings deposits (but not reservable nondeposit liabilities.)
- Break-adjusted monetary base equals (1) break-adjusted total reserves plus (2) the (unadjusted) currency component of the money stock plus (3), for institutions whose vault cash exceeds their required reserves, the break-adjusted excess of current vault cash over the amount applied to satisfy current reserve requirements.

Note: Historical data are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of The Federal Reserve System, Washington, D.C. 20551