DISCOUNT AND ADVANCE RATES -- Requests by nine Reserve Banks to maintain the existing primary credit rate and requests by three Reserve Banks to increase the rate; requests to renew the secondary and seasonal credit formulas.

Existing rate and formulas approved.
December 10, 2018.

Today, Board members discussed economic and financial developments and issues related to possible policy actions. In connection with this discussion, Board members considered discounts and advances under the primary credit program (the primary credit rate) and discussed, on a preliminary basis, their individual assessments of the appropriate rate and its communication, which would be discussed at the joint meeting of the Board and the Federal Open Market Committee (FOMC) next week.

Subject to review and determination by the Board of Governors, the directors of the Federal Reserve Banks of Atlanta, Kansas City, and Dallas had voted on November 29, 2018, and the directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, St. Louis, Minneapolis, and San Francisco had voted on December 6, to establish the primary credit rate at the existing level (2.75 percent). The directors of the Federal Reserve Banks of Boston, Richmond, and Chicago had voted on December 6 to establish a rate of 3 percent (an increase from 2.75 percent).

Overall, Federal Reserve Bank directors reported mostly strong economic conditions in various sectors across their Districts. Labor markets remained strong, and directors noted that businesses in their Districts reported continued difficulties in filling a broad range of low- and high-skilled positions. Several directors also cited heightened wage pressures. Most directors commented that downside risks to the economic outlook had increased somewhat, primarily reflecting increased uncertainty about trade policy and international developments. Inflation remained at or near the FOMC's 2 percent objective.

The directors of nine Reserve Banks judged that establishing the primary credit rate at the current level of 2.75 percent was appropriate for now. The directors of three Reserve Banks judged that it would be appropriate to raise the primary credit rate to 3 percent, in light of the outlook for continued above-trend economic growth, further tightening of labor markets, and inflation remaining near the FOMC's 2 percent objective.

No sentiment was expressed by the Board at today's meeting for changing the primary credit rate at this time, and the Board approved the establishment of the primary credit rate at the existing level of 2.75 percent. (NOTE: At the joint Board-FOMC meeting on November 8, 2018, the Board had approved the establishment of the primary credit rate at 2.75 percent.)

The Board's action today on the primary credit rate also included renewal of the existing formulas for calculating the rates applicable to discounts and advances under the secondary and seasonal credit programs. As specified by the formula for the secondary credit rate, this rate would be set 50 basis points above the primary credit rate. As specified by the formula for the seasonal credit rate, this rate would be reset every two weeks as the average of the daily effective federal funds rate and the rate on three-month CDs over the previous 14 days, rounded to the nearest 5 basis points.

Voting for this action: Chairman Powell, Vice Chairman Clarida,
Vice Chairman for Supervision Quarles,
and Governors Brainard and Bowman.

Background: Office of the Secretary memorandum, December 7, 2018.

Implementation: Transmissions from Ms. Misback to the Reserve Banks, December 10, 2018.

MONETARY POLICY IMPLEMENTATION -- Increase in the interest rate on reserve balances and in the primary credit rate; renewal of secondary and seasonal credit formulas.

Approved.
December 19, 2018.

In a joint meeting of the Federal Open Market Committee (FOMC) and the Board today, the FOMC decided to raise the target range for the federal funds rate by 25 basis points, to 2-1/4 to 2-1/2 percent, effective December 20, 2018. To support the Committee's decision to raise the target range for the federal funds rate, the Board approved raising the interest rate paid on required and excess reserve balances from 2.20 percent to 2.40 percent, effective December 20, 2018.

Subject to review and determination by the Board of Governors, the directors of six Federal Reserve Banks had voted to establish an increase in the rate for discounts and advances under the primary credit program (the primary credit rate). The directors of the Federal Reserve Banks of Boston, Richmond, and Chicago had voted on December 6, 2018, and the directors of the Federal Reserve Banks of Cleveland, Atlanta, and San Francisco had voted on December 13, to establish a primary credit rate of 3 percent (an increase from 2.75 percent). The directors of the Federal Reserve Banks of Kansas City and Dallas had voted on December 13 to establish the primary credit rate at the existing level of 2.75 percent. (NOTE: At its meeting on December 10, 2018, the Board had approved the establishment of the primary credit rate at 2.75 percent.)

At today's meeting, there was consensus for a 25-basis-point increase, and the Board approved an increase in the primary credit rate from 2.75 percent to 3 percent, effective December 20, 2018, for the six Reserve Banks that had voted for such an increase. The Board's action today on the primary credit rate also included renewal of the existing formulas for calculating the rates applicable to discounts and advances under the secondary and seasonal credit programs. As specified by the formula for the secondary credit rate, this rate would be set 50 basis points above the primary credit rate. As specified by the formula for the seasonal credit rate, this rate would continue to be reset every two weeks as the average of the daily effective federal funds rate and the rate on three-month CDs over the previous 14 days, rounded to the nearest 5 basis points.

It was understood that a press release and an accompanying document on monetary policy implementation would be issued to announce the increases in the interest rate on reserve balances and the primary credit rate. In addition, the Secretary was authorized to inform the Federal Reserve Banks of New York, Philadelphia, St. Louis, Minneapolis, Kansas City, and Dallas, on their establishment of a primary credit rate of 3 percent, of the Board's approval and determination, effective on the later of December 20, 2018, or the date the Reserve Bank informed the Secretary of its request. (NOTE: Subsequently, the Secretary informed the New York, Philadelphia, St. Louis, Minneapolis, Kansas City, and Dallas Reserve Banks of the Board's approval of their establishment of a primary credit rate of 3 percent, effective December 20, 2018.)

Voting for these actions: Chairman Powell, Vice Chairman Clarida,
Vice Chairman for Supervision Quarles,
and Governors Brainard and Bowman.

Background: Office of the Secretary memorandum, December 14, 2018.

Implementation: FOMC Statement (with attached Implementation Note), December 19; press releases, December 19 and 20; transmissions from Ms. Misback to the Reserve Banks, December 19 and 20; and Federal Register documents, December 19, 2018.