

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

March 15, 1983

## CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Normand Bernard ( 5

Attached is a copy of a memorandum from Mr. Truman dated March 11, 1983, entitled "Renewal of Agreement to Warehouse Foreign Currencies for the ESF and the Treasury." This memorandum will be considered at the forthcoming meeting of the Committee.

Attachment

CONFIDENTIAL (FR)
Class II - FOMC

March 11, 1983

TO: Federal Open Market Committee

FROM: Edwin M. Truman

SUBJECT: Renewal of Agreement to Warehouse Foreign Currencies for the ESF

and the Treasury

At its meeting on January 17-18, 1977, the Committee agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies held by the Exchange Stabilization Fund (ESF) -- that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies to the ESF -- if that should prove necessary to enable the ESF to deal with potential liquidity strains. It was also agreed that the agreement would be reviewed periodically, with reconsideration normally at the March organizational meetings.

On December 14, 1978, the Committee agreed to provide for the ware-housing of currencies held directly by the Treasury as well as by the ESF. At its December 19, 1978 meeting the Committee agreed to raise the amount of eligible foreign currencies that the Federal Reserve would be prepared to warehouse for the ESF and the Treasury to \$5 billion equivalent. At its meeting on March 18, 1980, the Committee agreed to drop all time limits on such operations.

At present the amount of foreign currencies warehoused for the ESF and the Treasury totals \$1,093.8 million equivalent of Deutschemarks, exactly the amount needed to redeem the final two Carter notes maturing in May and July of this year. Over the past 12 months the total amount warehoused has

been reduced by about \$900 million equivalent, as the foreign currencies were used to redeem Carter notes.

The Treasury has indicated that it would find it useful to continue the warehousing agreement even after the Carter notes are repaid, particularly in view of possible future demands on ESF dollar resources to finance bridge loans to countries with short-term liquidity problems. In addition to the amount presently warehoused, the ESF holds \$3.4 billion equivalent of foreign currencies which are eligible for warehousing under the FOMC Authorization (marks, yen, Swiss francs, and Mexican pesos).

The staff recommends that the \$5 billion warehousing agreement be renewed. The basic agreement will continue to be reviewed annually, normally at the March organizational meetings. Mr. Cross concurs in this recommendation.