

Meeting of the Federal Open Market Committee

March 28-29, 1983

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., beginning on Monday, March 28, 1983, at 3:00 p.m. and continuing on Tuesday, March 29, 1983, at 9:00 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Gramley
Mr. Guffey
Mr. Keehn
Mr. Martin
Mr. Morris
Mr. Partee
Mr. Rice
Mr. Roberts
Mrs. Teeters
Mr. Wallich

Messrs. Boehne, Boykin, Corrigan, and Mrs. Horn, Alternate Members of the Federal Open Market Committee

Messrs. Black, and Ford, Presidents of the Federal Reserve Banks of Richmond, and Atlanta, respectively

Mr. Axilrod, Staff Director and Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Oltman, Deputy General Counsel
Mr. Truman, Economist (International)

Messrs. Balbach, R. Davis, T. Davis, Eisenmenger, Ettin, Prell, Scheld, Siegman, 1/ and Zeisel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Cross, Manager for Foreign Operations, System Open Market Account

1/ Attended Monday session only.

Mr. Coyne, Assistant to the Board of Governors
Mr. Gemmill, Senior Associate Director, Division of
International Finance, Board of Governors
Mr. Kohn, Associate Director, Division of Research
and Statistics, Board of Governors
Mr. Lindsey, Deputy Associate Director, Division of Research
and Statistics, Board of Governors
Mr. Promisel, 1/ Associate Director, Division of International
Finance, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Sims, Executive Vice President, Federal Reserve
Bank of San Francisco

Messrs. Burns, J. Davis, Keran, Koch, Mullineaux, and Stern,
Senior Vice Presidents, Federal Reserve Banks of
Dallas, Cleveland, San Francisco, Atlanta, Philadelphia,
and Minneapolis, respectively

Messrs. Broaddus and Soss, Vice Presidents, Federal Reserve Banks
of Richmond and New York

Ms. Joan Lovett, Manager, Securities Department, Federal
Reserve Bank of New York

In the agenda for this meeting, it was reported that advices of the
election of the following members and alternate members of the Federal Open
Market Committee for the year commencing March 1, 1983, had been received by
the Secretary and the named individuals had executed their oaths of office.

The elected members and alternate members were as follows:

Frank E. Morris, President of the Federal Reserve Bank of Boston, with
Edward G. Boehne, President of the Federal Reserve Bank of
Philadelphia, as alternate;

Anthony M. Solomon, President of the Federal Reserve Bank of New York, with
Thomas M. Timlen, First Vice President of the Federal Reserve Bank of
New York, as alternate;

1/ Attended Tuesday session only.

3/28-29/83

-3-

Silas Keehn, President of the Federal Reserve Bank of Chicago, with
Karen N. Horn, President of the Federal Reserve Bank of Cleveland,
as alternate;

Theodore H. Roberts, President of the Federal Reserve Bank of St. Louis, with
Robert H. Boykin, President of the Federal Reserve Bank of Dallas, as
alternate;

Roger Guffey, President of the Federal Reserve Bank of Kansas City, with
E. Gerald Corrigan, President of the Federal Reserve Bank of Minneapolis,
as alternate;

By unanimous vote, the following officers of the Federal Open Market
Committee were elected to serve until the election of their successors at the
first meeting of the Committee after February 29, 1984, with the understanding
that in the event of the discontinuance of their official connection with the
Board of Governors or with a Federal Reserve Bank, as the case might be, they
would cease to have any official connection with the Federal Open Market
Committee:

Paul A. Volcker
Anthony M. Solomon

Chairman
Vice Chairman

Stephen H. Axilrod
Normand R. V. Bernard
Nancy M. Steele
Michael Bradfield
James H. Oltman
James L. Kichline
Edwin M. Truman

Staff Director and Secretary
Assistant Secretary
Deputy Assistant Secretary
General Counsel
Deputy General Counsel
Economist
Economist (International)

Anatol Balbach, Richard G. Davis,
Thomas E. Davis, Robert Eisenmenger,
Edward C. Ettin, Michael J. Prell,
Charles J. Siegman, Karl A. Scheld,
Joseph S. Zeisel

Associate Economists

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Federal Open Market Committee after February 29, 1984.

By unanimous vote, Peter D. Sternlight and Sam Y. Cross were selected to serve at the pleasure of the Committee in the capacities of Manager for Domestic Operations, System Open Market Account, and Manager for Foreign Operations, System Open Market Account, respectively, on the understanding that their selection was subject to their being satisfactory to the Federal Reserve Bank of New York.

Secretary's note: Advice was subsequently received that the selections indicated above were satisfactory to the Federal Reserve Bank of New York.

Consideration was then given to the continuing authorizations of the Committee, in accordance with the customary practice of reviewing such matters at the first meeting in March of every year.

Secretary's note: On March 11, 1983, certain continuing authorizations of the Committee listed below had been distributed by the Assistant Secretary with the advice that, in accordance with procedures approved by the Committee, they were being called to the Committee's attention before the March organization meeting to give members an opportunity to raise any questions they had concerning them. It was noted that the Chairman planned to place on the agenda consideration of an amendment to the Authorization for Domestic Open Market Operations and conforming amendments to the Resolution of the FOMC authorizing certain actions by Federal Reserve Banks during an emergency and the Regulation relating to Open Market Operations of Federal Reserve Banks. Members were asked to indicate if they wished to have any of the other authorizations in question placed on the agenda for consideration at this meeting, and no such requests were received.

The authorizations in question were as follows:

1. Procedures for allocation of securities in the System Open Market Account.
2. List of Treasury Department officials to whom weekly reports on open market operations may be sent.
3. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function.
4. Resolution of FOMC to provide for the continued operation of the Committee during an emergency and Resolution of FOMC authorizing certain actions by Federal Reserve Banks during an emergency.
5. Resolution relating to examinations of the System Open Market Account.
6. Guidelines for the conduct of System operations in Federal agency issues.
7. Regulation relating to Open Market Operations of Federal Reserve Banks.
8. Rules of Organization, Rules Regarding Availability of Information, and Rules of Procedure.

By unanimous vote the Authorization for Foreign Currency Operations shown below was reaffirmed:

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS
Reaffirmed March 28, 1983

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U. S. Treasury, with the U. S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding \$8.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	
Regular	700
Special	325
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U. S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

By unanimous vote, the Foreign Currency Directive shown below was reaffirmed:

FOREIGN CURRENCY DIRECTIVE
Reaffirmed March 28, 1983

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U. S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities;
and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

By unanimous vote, the Procedural Instructions with respect to Foreign Currency Operations shown below were reaffirmed:

PROCEDURAL INSTRUCTIONS WITH RESPECT TO
FOREIGN CURRENCY OPERATIONS

Reaffirmed March 28, 1983

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager for Foreign Operations, System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager for Foreign Operations shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding \$300 million on any day or \$600 million since the most recent regular meeting of the Committee.

B. Any operation that would result in a change on any day in the System's net position in a single foreign currency exceeding \$150 million, or \$300 million when the operation is associated with repayment of swap drawings.

C. Any operation that might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1B.

D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) \$200 million or (ii) 15 percent of the size of the swap arrangement.

2. The Manager for Foreign Operations shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding \$1.5 billion since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) \$200 million or (ii) 15 percent of the size of the swap arrangement.

3. The Manager for Foreign Operations shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

By unanimous vote, the Committee reaffirmed the agreement of January 17, 1977, to "warehouse" foreign currencies for the Exchange Stabilization Fund and for the Treasury on the terms agreed upon by the Committee at its meeting on March 18, 1980, with the understanding that the agreement would be subject to annual review.

By unanimous vote, the Authorization for Domestic Open Market Operations was amended to read as follows:

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS
(As amended March 28, 1983)

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U. S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U. S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U. S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than \$4.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed \$100 million;

(c) To buy U. S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U. S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U. S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in

paragraph 1(c), repurchase agreements in U. S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

By unanimous vote, the Resolution of Federal Open Market Committee Authorizing Certain Actions by Federal Reserve Banks During an Emergency was amended to read as follows:

RESOLUTION OF FEDERAL OPEN MARKET COMMITTEE AUTHORIZING
CERTAIN ACTIONS BY FEDERAL RESERVE BANKS DURING AN EMERGENCY
Amended March 28, 1983

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers or other holders of such obligations.

(2) Such Federal Reserve Bank may engage in operations of the types specified in the Committee's authorization for System foreign currency operations when requested to do so by an authorized official of the U.S. Treasury Department; provided, however, that such Bank shall take all steps practicable at the time to insure as far as possible that, in light of the information available on other System foreign currency operations, its own operations do not result in the aggregate in breaching any of the several dollar limits specified in the authorization.

Authority to take the actions set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.

By unanimous vote, the Regulation Relating to Open Market Operations of Federal Reserve Banks was amended to read as follows:

REGULATION RELATING TO
OPEN MARKET OPERATIONS OF
FEDERAL RESERVE BANKS
Amended March 28, 1983

SECTION 270.1--AUTHORITY

This Part is issued by the Federal Open Market Committee (the "Committee") pursuant to authority conferred upon it by sections 12A and 14 of the Federal Reserve Act (12 U.S.C. Sections 263, 355).

SECTION 270.2--DEFINITIONS

(a) The term "obligations" means Government securities, U.S. agency securities, bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations that Federal Reserve Banks are authorized by law to purchase and sell.

(b) The term "Government securities" means direct obligations of the United States (i.e., U.S. bonds, notes, certificates of indebtedness, and Treasury bills) and obligations fully guaranteed as to principal and interest by the United States.

(c) The term "U.S. agency securities" means obligations that are direct obligations of, or are fully guaranteed as to principal and interest by, any agency of the United States.

(d) The term "System Open Market Account" means the obligation acquired pursuant to authorizations and directives issued by the Committee and held on behalf of all Federal Reserve Banks.

SECTION 270.3--GOVERNING PRINCIPLES

As required by section 12A of the Federal Reserve Act, the time, character, and volume of all purchases and sales of obligations in the open market by Federal Reserve Banks are governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 270.4--TRANSACTIONS IN OBLIGATIONS

(a) Each Federal Reserve Bank shall engage in open market operations under section 14 of the Federal Reserve Act only in accordance with this Part and with the authorizations and directives issued by the Committee from time to time, and no Reserve Bank shall decline to engage in open market operations as directed by the Committee.

(b) Transactions for the System Open Market Account shall be executed by a Federal Reserve Bank selected by the Committee. The participations of the several Federal Reserve Banks in such Account and in the profits and losses on transactions for the Account shall be allocated in accordance with principles determined by the Committee from time to time.

(c) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee is authorized and directed--

(1) To buy and sell Government securities and U.S. agency securities in the open market for the System Open Market Account, and to exchange maturing securities with the issuer;

(2) To buy and sell bankers' acceptances in the open market for its own account;

(3) To buy Government securities, U.S. agency securities, and bankers' acceptances of the kinds described above, under agreements for repurchase of such obligations, in the open market for its own account; and

(4) To buy and sell foreign currencies in the form of cable transfers in the open market for the System Open Market Account and to maintain for such Account reciprocal currency arrangements with foreign banks among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of this chapter [Regulation N].

(d) The Federal Reserve Banks are authorized and directed to engage in such other operations as the Committee may from time to time determine to be reasonably necessary to the effective conduct of open market operations and the effectuation of open market policies.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on February 8-9, 1983, were approved.

Renewal for further periods of three months of drawings on the System by the Bank of Mexico maturing April 9 through May 27, 1983, was noted without objection.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period February 9 through March 28, 1983, were ratified.

Secretary's Note: All of the above actions were taken on Monday, March 28, 1983.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real GNP rose moderately in the first quarter, after a decline in the fourth quarter; the turnaround reflects a considerable slowing in inventory liquidation. Private final sales apparently increased only slightly less than in the fourth quarter with housing activity strengthening further. Business fixed investment has remained weak. Nonfarm payroll employment rose on balance in January and February, after an extended period of declines; the civilian unemployment rate was unchanged in February at 10.4 percent. In early 1983 the rise in average prices and the advance in the index of average hourly earnings have slowed further.

The weighted average value of the dollar against major foreign currencies rose somewhat on balance between early February and late March. The U.S. merchandise trade deficit declined marginally in January.

M2 continued to grow at an exceptional rate in February and M3 also expanded at a rapid pace, but growth in both of the broader aggregates appears to be decelerating substantially in March. The deceleration reflects in part the marked slowing in growth of money market deposit accounts (MMDAs) in recent weeks and apparently also a moderation in the underlying

growth of these aggregates, abstracting from shifts from market instruments. M1 has expanded rapidly since late January, largely reflecting accelerated growth in NOW accounts. Growth in debt of domestic nonfinancial sectors appears to have been moderate in the first quarter. Short-term interest rates have risen somewhat since early February while long-term rates, including mortgage rates, have declined.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in February the Committee established growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives. The Committee recognized that the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the current impact of new deposit accounts on growth rates of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid build-up of money market deposit accounts, has distorted growth in that aggregate during the first quarter.

In establishing growth ranges for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts has subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges will be reviewed in the spring and altered, if appropriate, in the light of evidence at that time.

With these understandings, the Committee established the following growth ranges: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the

probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3, which appeared to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent was established for M1, assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances is not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8-1/2 to 11-1/2 percent.

In implementing monetary policy, the Committee agreed that substantial weight would be placed on behavior of the broader monetary aggregates, expecting that distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

For the short run, the Committee seeks to maintain generally the existing degree of restraint on reserve positions, anticipating that would be consistent with a slowing from March to June in growth of M2 and M3 to annual rates of about 9 and 8 percent, respectively. The Committee expects that M1 growth at an annual rate of about 6 to 7 percent would be consistent with its objectives for the broader aggregates. Lesser restraint would be acceptable in the context of more pronounced slowing of growth in the monetary aggregates relative to the paths implied by the long-term ranges (taking account of the distortions relating to the introduction of new accounts), or indications of a weakening in the pace of economic recovery. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

3/28-29/83

-19-

It was agreed that the next meeting of the Committee would be held on Tuesday, May 24, 1983.

The meeting adjourned.

Secretary's note: On May 9-10, 1983, by unanimous vote, with Mr. Timlen voting as alternate for Mr. Solomon, Committee members approved a temporary increase from \$4 billion to \$5 billion in the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations effective May 10 for the period ending with the close of business on May 24, 1983.

Secretary