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

Existing rate and formulas approved.
June 4, 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 and San Francisco had voted on May 24, 2018, and the directors of the Federal Reserve Banks of New York, Philadelphia, Chicago, and St. Louis had voted on May 31, to establish the primary credit rate at the existing level (2-1/4 percent). The directors of the Federal Reserve Banks of Cleveland, Kansas City, and Dallas had voted on May 24, and the directors of the Federal Reserve Banks of Boston, Richmond, and Minneapolis had voted on May 31, to establish a rate of 2-1/2 percent (an increase from 2-1/4 percent).

Overall, Federal Reserve Bank directors were positive about the economic outlook. Many directors reported solid economic activity in their Districts, including increased inventory and capital investment by businesses. Directors commented on still-tight labor markets, and some directors noted increasing pressures on wages, particularly for certain types of skilled workers. Some directors expressed concerns about potential risks associated with international developments and trade policy. Inflation was at or near the Federal Open Market Committee's 2 percent objective.

The directors of six Reserve Banks favored establishing the primary credit rate at the current level of 2-1/4 percent, in light of current and expected economic conditions. The directors of six Reserve Banks favored increasing the primary credit rate to 2-1/2 percent. These directors judged that an increase in short-term interest rates was warranted at this time in light of solid economic growth, tight labor markets, and inflation at or near the FOMC's target rate of 2 percent.

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 2-1/4 percent. (NOTE: At the joint Board-FOMC meeting on May 2, 2018, the Board had approved the establishment of the primary credit rate at its existing level of 2-1/4 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 for Supervision Quarles, and Governor Brainard.

Background: Office of the Secretary memorandum, June 1, 2018.

Implementation: Transmissions from Ms. Misback to the Reserve Banks, June 4, 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.
June 13, 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 1-3/4 to 2 percent, effective June 14, 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 to 1.95 percent, effective June 14, 2018. Setting the interest rate paid on required and excess reserve balances 5 basis points below the top of the target range for the federal funds rate is intended to foster trading in the federal funds market at rates well within the FOMC's target range.

Subject to review and determination by the Board of Governors, the directors of eleven 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 Minneapolis had voted on May 31, 2018, and the directors of the Federal Reserve Banks of Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco had voted on June 7, to establish a primary credit rate of 2-1/2 percent (an increase from 2-1/4 percent). (NOTE: At its meeting on June 4, 2018, the Board had approved the establishment of the primary credit rate at its existing level of 2-1/4 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 2-1/4 percent to 2-1/2 percent, effective June 14, 2018, for the eleven 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 Bank of New York, on its establishment of a primary credit rate of 2-1/2 percent, of the Board's approval and determination, effective on the later of June 14, 2018, or the date the Reserve Bank informed the Secretary of its request. (NOTE: Subsequently, the Secretary informed the New York Reserve Bank of the Board's approval of its establishment of a primary credit rate of 2-1/2 percent, effective June 14, 2018.)

Voting for these actions: Chairman Powell, Vice Chairman for Supervision Quarles, and Governor Brainard.

Background: Office of the Secretary memorandum, June 8, 2018.

Implementation: FOMC Statement (with attached Implementation Note), June 13; press release, June 14; transmissions from Ms. Misback to the Reserve Banks, June 13 and 14; and Federal Register documents (Docket Nos. R-1611 and R-1610, RINs 7100-AF07 and 7100-AF08), June 15, 2018.