

Federal Reserve Raises Discount Rate by Quarter-Point to 0.75%

Feb 18--- The Federal Reserve Board raised the discount rate charged to banks for direct loans to 0.75 percent from 0.50 percent and said the move will encourage financial institutions to rely more on money markets rather than the central bank for short-term liquidity needs.

"These changes are intended as a further normalization of the Federal Reserve's lending facilities," the Federal Reserve Board said today in a statement. "The modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy."

The discount rate action is effective on Feb. 19. The Board also said that effective March 18 "the typical maximum maturity for primary credit loans will be shortened to overnight."

The discount-rate increase is another step in the Fed's gradual retreat from its unprecedented actions to halt the deepest financial crisis since the Great Depression. The Fed has provided hundreds of billions of dollars in backstop credit to banks, bond dealers, commercial paper borrowers and troubled financial institutions such as American International Group Inc.

The Fed Board said the outlook for policy remains "about as it was at the January meeting of the Federal Open Market Committee." The central bank also cited last month's statement, which said economic conditions are likely to warrant "exceptionally low" levels of the federal funds rate "for an extended period."

It was the first increase in the **discount rate** in more than three years

