BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 30, 1946

To Chairman Eccles

Subject: Debt Retirement

From Richard A. Musgrave RAM
David M. Kennedy

The Treasury cash balance, after allowing for the announced cash retirement of 2 billion dollars of certificates on October 1, is estimated at somewhat below 7 billion dollars as of the end of October. A further issue of certificates totaling 3.8 billion is maturing on November 1, and it is recommended that 2 billion dollars of this issue be redeemed for cash, which will leave the Treasury balance at the end of November at about 5 billion.

Maturing during December are 3.8 billion dollars of certificates on December 1, and 3.3 billion dollars of 1 1/2 per cent notes on December 15. On the assumption that the balance should not be reduced below 2 billion, it will be possible to retire approximately 3.5 billion of these issues for cash. Cash retirements should be concentrated as much as possible upon the note issue, since it is held largely by the banking system, whereas the maturing certificate issue, which was sold in the Victory Loan, is held largely by nonbank investors. An exchange offer, therefore, for the entire amount of the maturing certificate issue should be made, and the December 15 notes should be redeemed for cash. If it should develop that the cash balance is not large enough to redeem the entire note issue which may be the case if a substantial part of the certificate exchange offer is not taken up, part of the note issue could be paid off in cash and the balance refunded into the December 1 certificates.

Assuming a Treasury balance of 2.5 billion dollars at the close of the year, a substantial continuation of the retirement program should be possible during the first quarter of 1947, since the balance is estimated to increase by approximately 4 billion dollars out of budget surplus and the sale of nonmarketable issues. Maturities during this quarter include 11.4 billion of certificates and 1.9 billion dollars of notes. Conditional upon the continuation of inflationary pressures, cash retirements should approximately total 4 billion dollars.

PROJECTED
DEBT RETIREMENT PROGRAM, SEPTEMBER-DECEMBER 1946

I - Treasury Cash Position
(In millions of dollars)

	1946 Sept.	1946 Oct.	1946 Nov.	1946 Dec.	1947 Jan.-March
Treasury balance, beginning of period	10,723	9,500	6,873	4,995	2,498
Surplus or deficit	+ 1,216	-1,076	- 572	-1,046	+2,873
Change in nonmarketable debt	- 443	+ 449	+ 694	+1,810	+1,149
Treasury balance before debt retirement	11,496	8,873	6,995	5,759	6,520
Retirement of marketable debt	- 1,996	-2,000	-2,000	-3,261	
Treasury balance, end of period	9,500	6,873	4,995	2,498	

II - Retirement by Type of Issue

Issue Maturing	Total Outstanding	Held by 1/ Comm. Banks	Held by 1/ F. R. Banks	Held by 1/ Other	Redeemed for Cash
Sept. 1, 7/8% certificates	4,336	1,771	1,681	884	1,996
Oct. 1, 7/8% certificates	3,440	1,921	861	658	2,000*
Nov. 1, 7/8% certificates	3,778	2,049	571	1,158	2,000*
Dec. 1, 7/8% certificates	3,768	629	40	3,099	-- *
Dec. 15, 1 1/2% notes	3,261	2,262	275	724	3,261*

1/ Commercial bank figures taken from Treasury Survey for June 30, 1946. Federal Reserve Bank figures are for August 31, 1946.

* Estimated. Probably there will be some voluntary cash redemption of the Dec. 1 certificate issue.

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