

OUTLOOK FOR BANK RESERVES AND TREASURY FINANCING

Estimated changes in bank reserves, in Reserve Bank holdings of Government securities, and in Treasury deposits for the rest of this fiscal year are presented by weeks through March and by months in the attached tables.

In addition, alternate estimates of Treasury cash transactions and balances are shown by quarters for the fiscal year 1950 in separate tables assuming (I) a low level of budget expenditures, 45 billion dollars, and (II) a high level of budget expenditures, 52 billion dollars.

The estimates for the fiscal year 1949 are based on the following principal assumptions:

- (1) Except for the expected retirement of 400 million dollars of bills in December, no provision is made for cash retirements or Treasury purchases of Government securities other than the voluntary redemptions of maturing issues.
- (2) Treasury deposits with Federal Reserve Banks will be maintained at a relatively stable level so as to neutralize the effect of Treasury transactions on bank reserves, except in months of large tax receipts (Mar., June, Sept.) when balances are permitted to decline in the first half and to rise in the second half of the month.
- (3) Bank loans show a moderate further expansion.
- (4) No Reserve Bank purchases from nonbank investors are assumed. Actually, resumption of net sales by nonbank investors (whether to the Federal Reserve or to commercial banks) may be expected, although in considerably smaller volume than in the past, unless a recession occurs sooner than expected.
- (5) Purchases or sales of Government securities between Reserve Banks and commercial banks will be such as to provide banks with reserves needed or to absorb all excess reserves.

Estimates for the first quarter of 1949 are subject to a particularly wide margin of error because of the uncertainty as to final individual income tax payments which contain all adjustments for over- or under-estimates of taxes in 1948, and also as to the corporate tax liability on 1948 incomes, the first instalment of which is due in March. Figures for later periods are also subject to possible wide variations in both income and expenditures.

On the basis of the above assumptions Treasury operations will supply additional reserves during the early parts of January and March, and drain reserves during the latter parts of those months. The holiday currency outflow and Treasury calls for retirement of bills will absorb reserve funds in December,

and banks may need to sell substantial amounts of securities to the Federal Reserve to maintain their reserve positions.

Early in January the return flow of currency and some decrease in Treasury balances at the Reserve Banks will supply banks with a substantial amount of funds and enable them to purchase securities from the System, but this situation will be sharply reversed in the latter part of the month.

On balance during the first quarter of 1949, the banks will have a small amount of reserve funds which they can use to purchase securities from the Federal Reserve or to expand other credit. The Treasury could easily offset this increase by making additional calls on war loan accounts, and using the proceeds to retire securities held by the Federal Reserve. The total of Treasury balances (including a billion dollars of free gold) will probably increase from 4.1 billion at the end of December to 7.3 billion at the end of March, and then decline to 5.1 billion at the end of May. Two billion dollars or more of these funds could be used to retire debt without unduly reducing the Treasury's cash balance during this fiscal year, although it might necessitate some borrowing during the following October - December quarter.

Fiscal year 1950

In the last six months of calendar year 1949 the Treasury will have a substantial cash deficit even on the basis of the low estimate of expenditures. Its cash balances will be reduced by about 2 billion dollars in this period, and most of this reduction will come in the last quarter. As a result, if a substantial amount of funds were used for debt retirement in the first half of the calendar year, the Treasury might have difficulty in meeting the deficit in the last half of the year without drawing its balances to too low a level. An increase in corporate taxes on 1949 incomes would not solve this problem, as the taxes would not be payable until 1950. The Treasury, however, could borrow in the market or it could hold back on debt retirement sufficiently in the first half of the year to keep enough funds to meet its last quarter obligations.

In the first quarter of 1950 there would be the usual seasonal surplus. For the fiscal year as a whole, on the basis of the lower estimate of expenditures, the cash surplus would be about a billion dollars compared with about 3 billions in fiscal year 1949 and 9 billions in fiscal year 1948. On the basis of the very large estimate of expenditures, indicated in Projection II, there would be a cash deficit of nearly 4 billions for the entire fiscal year. A substantial increase in taxes would be needed to eliminate this deficit.

(In millions of dollars)

Period	Factors affecting reserves 1/				Member bank reserves			Reserve Bank credit						
	Gold stock (+)	Currency in circulation (-)	Treasury deposits with F.R. Banks (-) 2/	Other (-) 3/	Re-quired	Excess	Total	Borrow-ings and float	U. S. Government securities					
									Total	Retired	Net market transactions			
											Total	Purchases from (+) or sales to (-)		
Banks	Nonbank holders													
Week ended:														
Nov. 24*	+ 40	+ 90	+ 51	+ 24	- 48	+ 29	- 19	+ 44	+ 63	100	+163	+ 250	- 87	
Dec. 1	+ 15	+125	- 70	--	- 5	--	- 5	--	+ 35	100	+135	**	**	
8	+ 20	+ 25	+120	--	- 19	--	- 19	--	+106	100	+206	**	**	
15	+ 20	+ 50	-140	--	+ 24	--	+ 24	+100	-186	100	- 86	**	**	
22	+ 20	+100	+290	--	- 59	--	- 59	+300	+ 11	100	+111	**	**	
29	+ 15	-100	- 50	--	- 5	--	- 5	-200	+ 30	100	+130	**	**	
Jan. 5	+ 10	-200	-420	--	+ 76	--	+ 76	-100	-454	--	-454	**	**	
12	+ 10	-300	-305	--	+122	--	+122	- 50	-443	--	-443	**	**	
19	+ 10	-150	-190	--	+ 75	--	+ 75	+ 50	-325	--	-325	**	**	
26	+ 10	-100	+620	--	- 81	--	- 81	- 50	+479	--	+479	**	**	
Feb. 2	+ 15	+ 25	+ 70	--	- 2	--	- 2	--	+ 78	--	+ 78	**	**	
9	+ 10	- 25	+ 30	--	+ 12	--	+ 12	--	+ 7	--	+ 7	**	**	
16	+ 10	- 50	+ 10	--	+ 23	--	+ 23	+100	-127	--	-127	**	**	
23	+ 10	- 25	- 20	--	+ 21	--	+ 21	-150	+116	--	+116	**	**	
Mar. 2	+ 15	+ 25	-265	--	+ 56	--	+ 56	--	-199	--	-199	**	**	
9	+ 10	- 50	-520	--	+106	--	+106	--	-474	--	-474	**	**	
16	+ 10	- 75	-450	--	+110	--	+110	+100	-525	--	-525	**	**	
23	+ 10	- 75	+960	--	-146	--	-146	-100	+829	--	+829	**	**	
30	+ 10	--	+690	--	-265	--	-265	--	+415	--	+415	**	**	
Month: 1948: Oct.	+132	+ 58	- 59	+188	+ 46	-296	-250	+175	-371	--	-371	-1,000	+629	
Nov.	+165	+229	+ 86	-141	+ 50	+163	+213	+203	+ 19	200	+219	+ 519	-300	
Dec.	+ 75	+100	--	--	- 17	--	- 17	+100	- 92	400	+308	**	**	
1949 Jan.	+ 50	-750	--	--	+169	--	+169	-100	-531	--	-531	**	**	
Feb.	+ 50	- 50	--	--	+ 66	--	+ 66	- 50	+ 16	--	+ 16	**	**	
Mar.	+ 50	-200	+285	--	-130	--	-130	--	- 95	--	- 95	**	**	
Apr.	+ 50	-100	-285	+200	+185	--	+185	+200	-250	--	-250	**	**	
May	+ 50	+100	--	-200	+ 92	--	+ 92	-200	+142	--	+142	**	**	
June	+ 50	+100	--	--	+ 34	--	+ 34	--	+ 84	--	+ 84	**	**	

1/ Other than Reserve Bank credit. Signs at head of columns indicate effect of increase in factor on supply of reserves; signs before figures indicate direction of change in factor.

2/ Total of change in Treasury deposits with F. R. Banks and Treasury cash minus change in Treasury currency outstanding.

3/ Nonmember deposits at Federal Reserve and other Federal Reserve accounts.

* Actual. ** For November 25, 1948 - June 1949, no allowance has been made for net purchases or sales of marketable Government securities by

Table 2
ESTIMATED TREASURY DEPOSITS AND RELATED ITEMS, NOVEMBER 1948 - JUNE 1949
(In millions of dollars)

Period	Treasury deposits with Federal Reserve Banks						War loan deposits				Total Treasury deposits ^{1/} (end of period)
	Amount (end of period)	Change					Amount (end of period)	Change			
		Calls	Redemptions		Income taxes	Other		Withheld taxes	New securities	Calls	
		Treasury bills	Other mktb. issues ^{2/}								
Statement week ended 1948:											
Nov. 24	1,650*	+ 407	-100	--	+ 180	- 427	1,814*	+100	+ 90	- 407	3,464
Dec. 1	1,580	+ 524	-100	--	+ 40	- 530	1,615	+ 55	+270	- 524	3,195
8	1,700	+ 720	-100	--	+ 100	- 600	1,100	+ 80	+125	- 720	2,800
15	1,560	+ 774	-100	- 60	+ 370	-1,120	670	+260	+ 80	- 774	2,230
22	1,850	--	-100	- 10	+1,180	- 780	1,000	+250	+ 80	--	2,850
29	1,800	--	-100	--	+ 430	- 380	1,160	+ 50	+110	--	2,960
1949: Jan. 5	1,380	+ 380	--	-375	+ 240	- 665	1,050	+ 60	+210	- 380	2,430
12	1,075	--	--	- 25	+ 320	- 600	1,270	+ 80	+145	--	2,345
19	885	--	--	--	+ 510	- 700	1,560	+150	+140	--	2,445
26	1,505	--	--	--	+1,040	- 420	1,770	+ 60	+150	--	3,275
Feb. 2	1,575	--	--	- 80	+ 790	- 640	2,130	+ 90	+265	--	3,705
9	1,605	--	--	- 20	+ 620	- 570	2,340	+ 90	+120	--	3,945
16	1,615	--	--	--	+ 420	- 410	2,780	+350	+ 95	--	4,395
23	1,595	--	--	--	+ 410	- 430	3,050	+170	+100	--	4,645
Mar. 2	1,330	+ 155	--	-170	+ 230	- 480	3,170	+ 80	+200	- 155	4,500
9	810	--	--	- 30	+ 270	- 760	3,350	+ 90	+ 90	--	4,160
16	360	--	--	--	+ 880	-1,330	3,800	+370	+ 75	--	4,160
23	1,320	--	--	--	+1,620	- 660	4,020	+140	+ 75	--	5,340
30	2,010	--	--	--	+1,070	- 380	4,140	+ 40	+ 85	--	6,150
Month 1948:											
Oct.*	1,616						2,011				
Nov.	1,700	+1,570	-200	--	+ 720	-2,000	1,700	+635	+625	-1,570	3,400
Dec.	1,700	+1,615	-400	- 70	+2,180	-3,325	1,300	+670	+545	-1,615	3,000
1949: Jan.	1,700	+ 380	--	-400	+2,540	-2,520	2,000	+390	+690	- 380	3,700
Feb.	1,700	+ 155	--	-100	+1,870	-1,925	3,100	+700	+555	- 155	4,800
Mar.	1,965	--	--	-200	+3,990	-3,525	4,235	+690	+445	--	6,200
Apr.	1,700	+2,070	--	-100	+1,250	-3,485	3,000	+390	+445	-2,070	4,700
May	1,700	+1,895	--	--	+ 830	-2,725	2,300	+750	+445	-1,895	4,000
June	1,700	+ 765	--	-300	+3,190	-3,655	2,600	+620	+445	- 765	4,300

* Actual.

^{1/} Total Treasury deposits at Federal Reserve Banks and war loan deposits; total does not include free gold, which amounts to a little more than 1 billion dollars, and other small items in the General Fund balance.

^{2/} Held outside Federal Reserve Banks.

TABLE 3.

ESTIMATED TREASURY CASH TRANSACTIONS AND BALANCES
FISCAL YEARS ENDING JUNE 30, 1948 and 1949
(In billions of dollars)

R&S 100-2863

(Figures for 1948-49 differ from the President's budget estimates as of August 15 by allowances for higher estimated receipts of 1.8 billion dollars, for additional agricultural price support expenditures of 1.1 billion, lower miscellaneous expenditures by 400 million, and smaller cashing of International securities by 300 million.)

Item	July- Dec. 1947*	Jan.- June 1948*	1948				1949						Summary	
			Sept. *	Oct.*	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	1947- 1948*	1948- 1949
Cash operating budget														
Income	20.5	27.2	10.3	2.3	3.1	4.3	4.0	4.4	6.2	2.8	3.2	5.3	47.7	45.9
Outgo	19.2	19.5	9.0	2.8	3.2	4.0	3.3	3.5	4.4	4.2	4.0	4.6	38.7	43.0
Net cash surplus or deficit (-)	+1.3	+7.6	+1.3	-.5	-.1	+.3	+.7	+.9	+1.8	-1.4	-.8	+.7	+9.0	+2.9
Cash debt transactions														
Nonmarketable 1/	+1.4	-.4	+1.4	+.1	+.1	-.2	+.4	+.3	-.2	--	+.1	-.1	+1.0	+1.9
Marketable 2/														
Federal Reserve Banks	-1.0	-4.0	-1.1	--	-.2	-.4	--	--	--	--	--	--	-5.0	-1.7
Other	-1.9	-1.4	-.9	-.4	--	-.1	-.4	-.1	-.2	-.1	--	-.3	-3.3	-2.5
Net cash borrowing or repayment (-)	-1.5	-5.8	-.6	-.3	-.1	-.7	--	+.2	-.4	-.1	+.1	-.4	-7.3	-2.3
Change in Treasury cash balances 3/														
Federal Reserve Banks	+.1	+1.1	-.3	**	+.1	--	--	--	+.3	-.3	--	--	+1.2	-.2
War loan	--	+.8	+.9	-.7	-.3	-.4	+.7	+1.1	+1.1	-1.2	-.7	+.3	+.8	+.8
Total change	+.2	+1.9	+.7	-.7	-.2	-.4	+.7	+1.1	+1.4	-1.5	-.7	+.3	+2.0	+.6
Treasury cash balance (end of period)														
Federal Reserve Banks	.9	1.9	1.7	1.6	1.7	1.7	1.7	1.7	2.0	1.7	1.7	1.7	1.9	1.7
War loan	1.0	1.8	2.7	2.0	1.7	1.3	2.0	3.1	4.2	3.0	2.3	2.6	1.8	2.6
Total outstanding 4/	2.9	4.8	5.4	4.7	4.5	4.1	4.8	5.9	7.3	5.8	5.1	5.4	4.8	5.4
Effect on bank reserves 5/	-1.1	-5.1	-.8	--	-.3	-.4	--	--	-.3	+.3	--	--	-6.2	-1.5

* Actual. ** Less than 50 million dollars.

1/ Including Treasury purchases of marketable securities.

2/ Change in amount outstanding.

3/ Net cash surplus or deficit plus net cash borrowing or repayment of borrowing will not necessarily add to change in.

4/ Treasury cash balance due primarily to timing adjustments between changes in General Fund balance & the cash balance.

5/ Including sold of about 1.1 billion dollars in the General Fund balance.

5/ Decrease in Treasury balance with Federal Reserve minus retirement of debt held by Federal Reserve.

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TABLE 4.

ESTIMATED TREASURY CASH TRANSACTIONS AND BALANCES, PROJECTION I
FISCAL YEARS ENDING JUNE, 1948, 1949, 1950
(In billions of dollars)

R&S 100-2863

(Figures for 1948-49 differ from the President's budget estimates as of August 15 by allowances for higher estimated receipts of 1.8 billion dollars, for expected additional agricultural price support expenditures of 1.1 billion, smaller cashing of International securities by 300 million, and lower miscellaneous expenditures by 400 million.)

Item	Fiscal 1949				Fiscal 1950				Summary		
	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	1947- 1948*	1948- 1949	1949- 1950
<u>Cash operating budget</u>											
Income	10.3	9.7	14.6	11.3	10.5	10.1	15.5	11.2	47.7	45.9	47.3
Outgo	9.0	10.0	11.2	12.8	10.6	11.7	12.6	11.5	38.7	43.0	46.4
Net cash surplus or deficit (-)	+1.3	-.3	+3.4	-1.5	-.1	-1.6	+2.9	-.3	+9.0	+2.9	+9.9
<u>Cash debt transactions</u>											
Nonmarketable 1/	+1.4	--	+5	--	+3	+4	+5	+1	+1.0	+1.9	+1.3
Marketable 2/											
Federal Reserve Banks	-1.1	-.6	--	--	--	--	--	--	-5.0	-1.7	--
Other	-.9	-.5	-.7	-.4	-.3	-.9	-.9	-.7	-3.3	-2.5	-2.8
Net cash borrowing or re- payment (-)	-.6	-1.1	-.2	-.4	--	-.5	-.4	-.6	-7.3	-2.3	-1.5
<u>Change in Treasury cash balances 3/</u>											
Federal Reserve Banks	-.3	+1	+3	-.3	--	-.1	+1	--	+1.2	-.2	--
War loan	+9	-1.4	+2.9	-1.6	-.1	-2.0	+2.4	-.9	+8	+8	-.6
Total change	+7	-1.3	+3.2	-1.9	-.1	-2.1	+2.5	-.9	+2.0	+6	-.6
<u>Treasury cash balance (end of period)</u>											
Federal Reserve Banks	1.7	1.7	2.0	1.7	1.7	1.6	1.7	1.7	1.9	1.7	1.7
War loan	2.7	1.3	4.2	2.6	2.5	.5	2.9	2.0	1.8	2.6	2.0
Total outstanding 4/	5.4	4.1	7.3	5.4	5.3	3.2	5.7	4.8	4.8	5.4	4.8
<u>Effect on bank reserves 5/</u>											
	-.8	-.7	-.3	+3	--	+1	-.1	--	-6.2	-1.5	--

* Actual.

1/ Including Treasury purchases of marketable securities.

2/ Change in amount outstanding.

3/ Net cash surplus or deficit plus net cash borrowing or repayment of borrowing will not necessarily add to change in Treasury cash balance due primarily to timing adjustments between changes in General Fund balance and cash balance.

4/ Including gold of about 1.1 billion dollars in the General Fund balance.

5/ Decrease in Treasury balance with Federal Reserve minus retirement of debt held by Federal Reserve.

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TABLE 5.

ESTIMATED TREASURY CASH TRANSACTIONS AND BALANCES, PROJECTION II
 FISCAL YEARS ENDING JUNE 30, 1948, 1949, 1950
 (In billions of dollars)

R&S 100-2863

Figures for 1948-49 differ from the President's budget estimates of August 15 by allowances for higher estimated receipts of 1.8 billion dollars, for expected additional agricultural price support expenditures of 1.1 billion, smaller cashing of International securities by 300 million, and lower miscellaneous expenditures by 400 million.

Item	Fiscal 1949				Fiscal 1950				Summary		
	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	1947- 1948*	1948- 1949	1949- 1950
Cash operating budget											
Income	10.3	9.7	14.6	11.3	10.6	10.4	16.2	12.2	47.7	45.9	49.4
Outgo	9.0	10.0	11.2	12.8	11.4	13.6	14.4	13.8	38.7	43.0	53.2
Net cash surplus or deficit(-)	+1.3	-.3	+3.4	-1.5	-.8	-3.2	+1.8	-1.6	+9.0	+2.9	-3.8
Cash debt transactions											
Nonmarketable 1/	+1.4	--	+5	--	+5	+4	+1.0	+6	+1.0	+1.9	+2.5
Marketable 2/											
Federal Reserve Banks	-1.1	-.6	--	--	--	--	--	--	-5.0	-1.7	--
Other	-.9	-.5	-.7	-.4	-.3	-.9	-.9	-.7	-3.3	-2.5	-2.8
Net cash borrowing or repayment (-)	-.6	-1.1	-.2	-.4	+2	-.5	+1	-.1	-7.3	-2.3	-.3
Change in Treasury cash balances^{3/}											
Federal Reserve Banks	-.3	+1	+3	-.3	--	--	--	--	+1.2	-.2	--
War loan	+9	-1.4	+2.9	-1.6	-.6	--	--	--	+8	+8	--
Total change	+7	-1.3	+3.2	-1.9	-.6	-3.7	+1.9	-1.7	+2.0	+6	-4.1
Treasury cash balance(end of period)											
Federal Reserve Banks	1.7	1.7	2.0	1.7	1.7	--	--	--	1.9	1.7	--
War loan	2.7	1.3	4.2	2.6	2.0	--	--	--	1.8	2.6	--
Total outstanding 4/	5.4	4.1	7.3	5.4	4.8	1.1	3.0	1.3	4.8	5.4	1.3
Effect on bank reserves	-.8	-.7	-.3	+3	--	--	--	--	-6.2	-1.5	--

* Actual

1/ Including Treasury purchases of marketable securities.

2/ Change in amount outstanding.

3/ Net cash surplus or deficit plus net cash borrowing or repayment of borrowing will not necessarily add to change in Treasury cash balance due primarily to timing adjustments between changes in General Fund balance and the cash balance.

4/ Including gold of about 1.1 billion dollars in the General Fund balance.

5/ Decrease in Treasury balance with Federal Reserve minus retirement of debt held by Federal Reserve.

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