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December 8, 1944

To: Chairman Eccles

Subject: Reserve position of banks

From: L. M. Piser

Between July 12, the reporting date immediately following the end of the Fifth War Loan, and November 15, the reporting date immediately preceding the beginning of the Sixth War Loan, both the outflow of currency into circulation and the increase in required reserves amounted to 2.2 billion dollars. The total reserve needs of member banks, including other factors, were 3.9 billion dollars. Of this total, they supplied about 500 million dollars by reducing their excess reserves from the high level reached at the close of the Fifth War Loan to the more normal level of 1.1 billion. They also supplied about 300 million dollars by borrowing from the Reserve Banks.

The remaining 3.1 billion dollars was supplied by an increase in Federal Reserve holdings of Government securities. The increase in holdings included 2.9 billion dollars of Treasury bills, divided between 1.3 billion in the option accounts and 1.6 billion in the System Account. About 600 million dollars consisted of certificates and 0.90 per cent Treasury notes. On the other hand, the Federal Reserve sold about 400 million dollars of other Treasury notes and of Treasury bonds.

Between November 15 and December 6, required reserves declined by about 700 million dollars. The influence of this factor was more than offset, however, by other developments, including a continued outflow of currency in circulation. Member banks also built up their excess reserves by about 300 million dollars. As a result, Federal Reserve holdings of Government securities increased by an additional 400 million dollars. This increase was accounted for by certificates and 0.90 per cent notes, while an increase in bills in the System Account was about offset by a decline in bills in the option accounts.

Between December 20, the reporting date immediately following the end of the Sixth War Loan, and April 18, which may be about the beginning of the Seventh War Loan, it is estimated that the reserve needs of member banks will be between 2.4 and 2.9 billion dollars. The range in the estimate is based on different assumptions as to the end of the war in Europe, the lower figure assuming that the war will be over at the end of December and the higher figure assuming that it will be continuing at the end of the period. If 500 million dollars of these reserve needs are supplied by a decline in excess reserves and 300 million by borrowing from the Reserve Banks, the increase in Federal Reserve holdings of Government securities will be between 1.6 and 2.1 billion dollars.

Holdings of Government securities by all commercial banks increased during June and July by 9 billion dollars, compared with an increase of 5 billion during the Fourth War Loan. Between the end of July and the end of October, commercial banks reduced their holdings by 2 billion dollars. It is too early

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as yet to make a definite estimate of the increase in commercial bank holdings during November and December, but on the basis of developments to date it seems likely that the increase will be in the neighborhood of 6 or 7 billion dollars, or between the results of the Fifth War Loan and the Sixth War Loan. If this result is actually achieved, the total increase in holdings by the banking system for the calendar year will amount to 23 billion dollars, compared with an estimate made at the beginning of the year of an increase of 22 billion. Of this total, 7 billion dollars will be in holdings by the Federal Reserve and 16 billion in holdings by commercial banks.