

Research Department
Federal Reserve
Bank of
San Francisco

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Spending and Borrowing

The budget deficit this fiscal year will probably be close to \$55 billion, as estimated by both the Carter and Reagan Administrations. However, that figure represents only a part of the total amount which the Federal government will have to finance this year. In addition to the budget deficit (sometimes called the on-budget deficit), financing will be needed to cover the government's "off-budget" deficit of roughly \$20 billion. The Treasury may finance a small part of this combined \$75-billion deficit by reducing its cash balance, but the bulk—about \$70 billion—will have to be obtained from public borrowings.

The Federal presence in the credit markets is even greater, however, than the figures represented in the budget and off-budget deficits. Also operating in the markets are government-sponsored enterprises and mortgage pools, whose borrowings could boost total Federally-related borrowings to about \$112 billion in the current fiscal year.

Off-budget entities

In the early 1970's, Congress excluded the transactions of certain Federally owned and controlled entities from the on-budget totals. The total net loans, or outlays, of these lending agencies represent the off-budget deficit, which rose from \$1.4 billion in fiscal 1974 to \$14.0 billion in fiscal 1980. In May 1974, the Treasury created the Federal Financing Bank (FFB) to coordinate the borrowing needs of a growing number of off-budget programs. The FFB now finances virtually 100 percent of the off-budget deficit, either by offering its own securities to the public or by borrowing directly from the Treasury. In either case, the off-budget debt is part of the gross federal debt.

Most of the FFB's financing involves the Farmers Home Administration, which will be responsible for probably half of the expected \$20-billion off-budget deficit in fiscal 1981.

Most of the remaining off-budget deficit involves foreign military-sales credits, student loans, and the Rural Electrification and Telephone Revolving Funds.

The government, in addition, becomes involved in credit markets by providing assistance to certain borrowing by the public. That assistance includes both borrowing by government-sponsored enterprises and government-guaranteed borrowing by non-Federal borrowers. Federally assisted borrowing is now substantially higher than a decade ago, rising from a \$21-billion annual average in the 1971-74 period to a \$40-billion average in the 1977-80 period.

Government-sponsored enterprises

Over the years, the Federal government has chartered seven government-sponsored enterprises to perform specific credit functions, but all are now entirely privately owned. Consequently, the transactions of these enterprises are not included within the Federal budget, although they are still subject to Federal supervision. Three of these entities support the housing market—the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Banks, and the Federal Home Loan Mortgage Corporation (Freddie Mac)—and generally account for half of total sponsored-agency borrowing. Three enterprises are regulated by the Farm Credit Administration—Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks—and account for another 45 percent of total borrowing. The remaining 5 percent represents loans to support higher education through the Student Loan Marketing Association.

The seven sponsored agencies borrow funds in private capital markets and lend these funds for the specific purposes for which they were established. Their total borrowing rose from about \$1 billion to a record \$24 billion between fiscal 1971 and fiscal 1980. Partly

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because of continued weakness in the housing market this year, total sponsored-agency borrowing could remain high, at about \$20 billion, in fiscal 1981.

Federally guaranteed loans

Three Federally-guaranteed mortgage pools—the Government National Mortgage Association (Ginnie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Farmers Home Administration—provide further support for the housing market. Through Ginnie Mae, the Federal government guarantees the payment of principal and interest on securities issued by private mortgage institutions and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Veteran's Administration. These pass-through securities are designed to appeal to pension funds and other institutional investors that don't wish to originate and service mortgage loans themselves.

As a major counterpart, Freddie Mac's mortgage-backed securities finance conventional loans, which account for four-fifths of all home mortgages. Congress created Freddie Mac to develop a national secondary market in conventional mortgage loans originated by thrift institutions and other mortgage-lending institutions. The agency is wholly owned by the Federal Home Loan Banks. Similarly, in the rural area, Congress created the Farmers Home Administration to provide direct and guaranteed loans for low- and moderate-income families in communities of less than 20,000 population.

Federally guaranteed mortgage pools have increased their borrowings substantially, from a \$4-billion annual average to a \$22-billion average between 1971-74 and 1977-80. These entities again could borrow close to \$22 billion this fiscal year.

Total borrowing

We can obtain a measure of total Federal and Federally-assisted borrowing in credit markets by adding the net borrowing needed to

finance the budget deficit (\$59.6 billion in fiscal 1980), the off-budget deficit (\$14.2 billion), government-sponsored enterprises (\$23.9 billion), and government-guaranteed mortgage pools (\$24.7 billion). Of the total \$122.4 billion in net borrowing last year, \$119.1 billion was financed by borrowing from the public and \$3.3 billion by a decrease in the Treasury's cash balances.

The government's participation in credit markets—the proportion of funds raised by the Federal government and its assisted entities—has trended upwards over the past decade. That proportion increased from a 15.9-percent average during the 1971-74 period to 25.6 percent during 1977-80. This fiscal year, the government might again account for more than one-fourth of total borrowings.

By some estimates, the Federal participation rate is even higher than the figure cited here, because we include only mortgage-pool securities in the guaranteed-loan category. In addition, the government guarantees certain other types of loans, such as those made to Chrysler Corporation and New York City, as well as loans made through the Small Business Administration. A number of these other loans, unlike the mortgage pools, provide for less than 100-percent guarantees of principal and/or interest. The Office of Management and Budget estimates that total Federal and Federally-assisted borrowing would have averaged 26.3 percent, rather than 25.6 percent, of the 1977-80 period's total borrowing if all guaranteed loans were included in the total (assuming 100-percent loan guarantees).

On the other hand, some analysts argue that both these estimates are on the high side. According to this argument, some part of the loans provided by government-sponsored enterprises and through mortgage pools would have been made regardless of the government's assistance—so that only that amount resulting from Federal assistance should be included in an estimate of the

government's influence on credit markets. The amount to be included represents a subsidy to the borrower, resulting from the fact that the Federal government can obtain more favorable credit terms and lower interest costs than other borrowers. Although the subsidy provided by Federal assistance is not an observable quantity, we might still conclude that the government's involvement in credit markets is somewhat less than the estimates provided above.

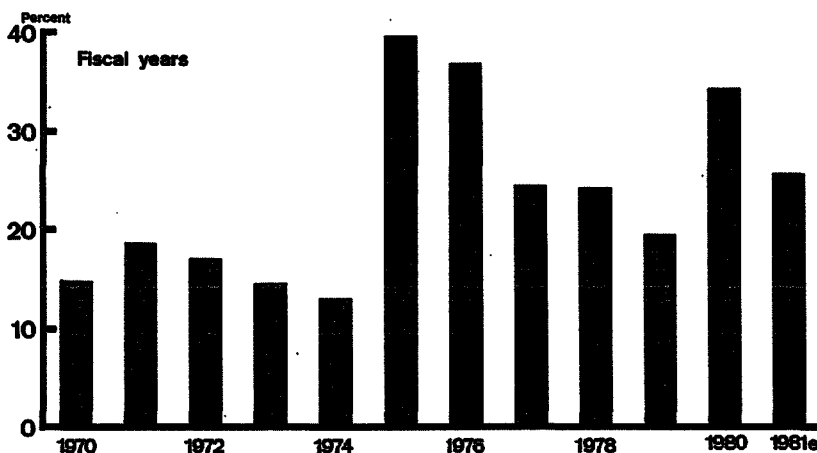
Nonetheless, it remains true that Federal and Federally-assisted borrowing has increased over time as a proportion of total funds raised

in credit markets (see chart). Consequently, we have witnessed an increasing allocation of these funds toward Federal and Federally-related programs, and thus away from private demands.

According to the new Administration's estimates, the budget deficit in fiscal 1982 will again be quite high, while off-budget and Federally-assisted borrowing will continue close to 1981 levels. Consequently, credit markets may remain under pressure as public and private demands compete for available funds.

Rose McElhattan

Federal and Federally-Assisted Borrowing as a Percent of Total Funds Raised



Publication—Monetary Policy Objectives

Copies are now available of the publication, *Monetary Policy Objectives for 1981*—a summary of the report made by Federal Reserve Chairman Volcker to Congress on February 25-26, 1981. Free

copies of this publication can be obtained by calling or writing the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
 (Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 2/18/81	Change from 2/11/81	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	146,762	497	8,177	5.9
Loans (gross, adjusted) — total#	124,373	698	8,216	7.1
Commercial and industrial	36,711	167	2,509	7.3
Real estate	51,066	107	6,509	14.6
Loans to individuals	23,564	22	855	- 3.5
Securities loans	1,492	101	272	22.3
U.S. Treasury securities*	6,699	- 205	- 223	- 3.2
Other securities*	15,690	4	184	1.2
Demand deposits — total#	42,776	513	- 2,312	- 5.1
Demand deposits — adjusted	28,469	-1,671	- 2,337	- 7.6
Savings deposits — total	29,501	94	1,370	4.9
Time deposits — total#	76,898	401	17,902	30.3
Individuals, part. & corp.	67,416	395	17,076	33.9
(Large negotiable CD's)	30,086	259	9,180	43.9
Weekly Averages of Daily Figures	Week ended 2/18/81	Week ended 2/11/81	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves (+)/Deficiency (-)	n.a.	n.a.		79
Borrowings	119	28		291
Net free reserves (+)/Net borrowed(-)	n.a.	n.a.		- 212

* Excludes trading account securities.

Includes items not shown separately.

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