

Kansas City and Denver FRBanks

Last November the Federal Reserve System adopted a policy of easy money designed to promote credit expansion that would contribute to economic recovery. From the last week of November 1957 to the last week of June 1958, the Federal Reserve System, by a series of actions, made available a total of about \$3.5 billion of additional reserves to the banking system--\$2.0 billion through additions to Federal Reserve holdings of U. S. Government securities and \$1.5 billion through a reduction in reserve requirements at member banks.

In the same period, bank reserves were reduced by about \$1.4 billion as foreign countries used dollar funds accruing to them to purchase gold. In addition, member banks reduced their borrowings at the Federal Reserve Banks by nearly \$700 million, to a negligible figure of about \$100 million, and have added over \$200 million to their excess reserves. The remainder of the reserves--or about \$1.2 billion--have been added to required reserves, which supplied the basis for an unprecedented expansion in bank credit.

Total loans and investments of all commercial banks increased by an estimated \$12 billion in this seven-month period--a larger increase than has occurred in any one recent year taken as a whole, notwithstanding that bank credit usually decreases for seasonal reasons in the first half of the year. Although demands for loans by businesses and consumers have been light, banks increased their loans on securities and their holdings of securities--both U. S. Government and other securities--by very large amounts. About a third of the growth occurred in June in connection with tax payments and other liquidity needs in that month.

Total deposits at banks have shown a corresponding increase. The growth in deposits has been mostly in time deposits and in United States Government deposits. Time deposits have grown sharply, reflecting both individual and business savings, as well as a shifting of funds from Government securities, demand deposits, and other assets, that was induced by the higher rates paid by banks on savings and time deposits. The high level of United States Government deposits, amounting to over \$9 billion at the end of June, reflects tax receipts and the sale of a Treasury long-term bond in that month, without any maturing tax anticipation security to retire this year as in June of other recent years. The Government's deposit balances will be rapidly drawn down this month, and the funds returned to the public to add to their cash balances or reduce bank credit.

Demand deposits of businesses and individuals, which usually decline by about \$3 billion from November to June, in the past seven months have decreased by less than \$2 billion. After adjustment for seasonal variations, this represents an annual rate of increase of about 2 per cent. Since the end of January, the seasonally adjusted increase has been at an annual rate of 5-1/2 per cent. This represents a substantial growth for a period of slackened economic activity.

It is evident from this survey that action by the Federal Reserve has been vigorous and massive. The banks of the country have responded promptly

in expanding credit. The result has been not only the absence of forced liquidation of credit that often occurs in periods of recession, but, instead, an unprecedented increase in the liquidity of the economy. Thereby, a basis for increased investment and the promotion of recovery has been provided.

---O---