

FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 7280]
December 3, 1973]

TREASURY'S ACTIONS UNDER CURRENT DEBT CEILING

*To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued December 1 by the Treasury Department:

Secretary of the Treasury George P. Shultz expressed his deep concern today over the failure to achieve a timely extension of the temporary debt limit. As a result, the limit reverted last night to its permanent level of \$400 billion, well below the actual outstanding debt of almost \$465 billion.

The immediate practical effect is to prohibit new debt issues by the Treasury. If further prolonged, this situation will rapidly impair the ability of the Federal government to maintain normal and necessary expenditures. However, all indebtedness incurred earlier under the authority provided by the temporary ceiling is unaffected.

Secretary Shultz announced a series of emergency steps by the Treasury to enable it to continue to finance Government operations without the issuance of new Treasury debt over the next few days.

Notice has been sent to 30,000 issuing agents for Series E and H savings bonds instructing them to suspend temporarily the sale of such bonds, pending extension of the temporary debt ceiling. A short delay in the issuance of these bonds will not cause loss to purchasers or disruption of payroll savings plans because all bonds issued in the month of December will earn interest from December 1, 1973.

A total of \$3 billion of tax anticipation bills maturing in April and June of 1974 are scheduled for delivery on Monday, December 3, to successful bidders in an auction held on November 28. Bills in the same amount and the same maturity were issued by the Treasury on Friday, November 30, when the temporary ceiling was still in effect, to be exchanged for an equivalent amount of special Treasury issues held by the Exchange Stabilization Fund. If necessary, the bills will, in turn, be delivered on Monday, December 3, to the successful bidders in the November 28 auction, permitting the completion of the scheduled financing.

Certain special Treasury securities held by foreign monetary authorities and scheduled to mature in coming days were advance-refunded into new special issues on Friday, November 30, thus avoiding a potential cash drain.

If an adequate temporary debt ceiling is not approved by Monday morning, the regular weekly auction of \$4.3 billion of Treasury bills scheduled for Monday will be postponed. If feasible that auction will be held on Tuesday, December 4.

In the absence of a Treasury bill auction, the Export-Import Bank will auction \$1.8 billion of 3-month Export-Import Bank notes on Tuesday, December 4, for payment on Thursday, December 6. Proceeds of this sale will be used to pay outstanding Export-Import Bank indebtedness to the Treasury.

Issuance of special obligations of the United States to Government trust funds (such as the Social Security trust funds) as a means of investing their receipts will be suspended until debt ceiling legislation is enacted.

(over)

Secretary Schultz added that lack of debt-limit legislation is also forcing the Treasury to intensively review prospective expenditures to determine the priorities among them. These actions, in combination, will enable the Treasury to avoid issuing new debt while also assuring the flow of cash necessary to maintain governmental operations for several days. Further delay in restoration of an adequate debt ceiling will require more drastic action, including delays in expenditures, to assure the continuing ability of the Treasury to meet maturing obligations and to maintain the credit of the United States unimpaired.

In addition, the following statement was issued today by the Treasury Department:

WEEKLY TREASURY BILL AUCTION POSTPONED

The regular weekly auction of Treasury bills scheduled for 1:30 p.m. (EST) today will not be held due to the failure of the Congress to extend the temporary debt ceiling. A further announcement concerning the possibility of holding the auction tomorrow will be made later today. The Export-Import Bank will, as indicated in a separate release, hold an auction tomorrow for \$1.8 billion of 3-month discount notes, enabling the Bank to repay its outstanding indebtedness to the Treasury and thus providing some cash for maintaining governmental operations.

The \$3 billion of April and June tax anticipation bills auctioned on November 28 will be delivered to successful bidders today, as scheduled. These bills were issued on Friday, November 30, to the Exchange Stabilization Fund for its temporary holding in exchange for special issues held by the Fund.

ALFRED HAYES,
President.