

savings deposits lost to higher yielding marketable investments last year and thus is a "one shot" windfall. Banks have used this windfall principally to add to their holdings of short-term, tax-exempt bonds and other relatively liquid investments.

My own guess is that bank credit this year will grow by about \$25 billion, of which perhaps \$14 billion will be in loans of various types and the balance in investments. Time and savings deposits may be up by about \$20 billion and demand deposits by \$5 billion.

It might be worth noting in passing that the available data suggest that the larger commercial banks have thus far not made too much progress in building their true liquidity to guard against another credit squeeze such as that of last year. Based on data for the banks that report weekly to the Federal Reserve System, including all the larger banks and accounting for about half of all commercial bank assets, the liquidity position at the end of May was little changed from a year earlier. Total deposits had grown by nearly \$10 billion, while loans were up by only \$3.5 billion. However, \$1 billion of the deposit growth was in large negotiable certificates of deposit and \$8 billion was in "other" time deposits, principally savings certificates issued to individuals. While the deposits represented by the savings certificates should not be considered quite as "hot" as the negotiable certificates of deposit, they certainly are "hotter" than passbook savings deposits and demand deposits. In large part, this growth in savings certificates represents the interest-sensitive money that was transferred out of savings accounts and savings and loan shares last year when market rates of interest became irresistibly attractive and which could move promptly out of the banking system and into marketable investments if rates of interest were again to offer the same inducement.

The largest imponderable in assessing the financial outlook for the balance of this year is Treasury financing. For purposes of arriving at an estimate of the Treasury's cash requirements, it has been assumed that the administrative budget deficit for 1968 might be \$14 billion, with a surcharge of 6 percent on individual and corporate income effective as of January 1, 1968. If this rather modest assumption should prove to be correct, it appears that the Treasury will have to sell approximately \$18 billion of direct debt obligations between July and December and \$2 billion of participation certificates, for total Treasury cash financing in the last half of 1967 of about \$20 billion. Assuming that the Federal Reserve System and the Treasury trust funds in combination purchase \$4 billion, the residual amount to be absorbed by other investors will be about \$16 billion. The cash flow of non-financial corporations may permit them to purchase \$8 billion of the total increase in the debt, and commercial banks might add \$3 billion or so to their holdings of Government securities. The balance of \$5 billion will have to be absorbed by other investors.

Given the anticipated size of Treasury financing in the balance of this year and the expected pressures on the bond market, it seems inevitable that the bulk of the financing will be in short-term obligations such as tax anticipation bills and other bills or notes in the 1- to 2-year maturity range. The Treasury will no doubt make every effort to place as much as possible of the direct debt and the participation certificates in intermediate or long maturities, but it does not seem