

**MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
July 29 and 30, 1997**

July 29

The Committee convened at 11:45 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Messrs. Kessenich and Stark. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. John Auten, Director, Office of Financial Analysis, summarized the current state of the U.S. economy. Paul Malvey, Associate Director, Office of Market Finance, presented the chart show, which had been released to the public on July 28, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 12:15 p.m.

The Committee reconvened in closed session at the Madison Hotel at 2:30 p.m. The members were present who had attended the public briefing. Deputy Assistant Secretary Anderson gave the Committee its Charge, which is also attached.

August refunding

The Committee began by considering the attached pro forma financing plan for the July-September quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on July 28. (See attached table 1.) The committee voted unanimously to recommend that the Treasury issue \$16.0 billion 3-year notes, \$12.0 billion 10-year notes, and \$10 billion 30-year bonds. This recommendation represents a \$1.0 billion reduction in the 3-year note size from the May refunding (although it's a \$.2 billion increase relative to the attached pro forma); a maintaining of the 10-year note size relative to the February and May refunding; and a maintaining of the 30-year bond relative to the last time it was offered, at the February refunding.

The Committee also voted unanimously against recommending that Treasury reopen the May 10-year note, given that there are no signs of persistent market dislocations in either the cash or RP markets. In addition, the Committee voted unanimously that Treasury maintain the current sizes of coupon offerings for the balance of the current quarter.

Ongoing Financing Plans

Instead of proceeding directly to its recommendation for the October-December quarter, the Committee decided to address the issue of how best to proceed with Treasury's financing program in light of smaller forecasted deficits. To open the discussion, the Chairman outlined the net cash raising potential of Treasury coupon auctions when all auctions are at their peak amounts of the last year, at their recent auction amounts, and a hypothetical offering schedule for the next year holding auction amounts constant. (See attached tables 2 and 3.) The Chairman pointed out that the reductions in auction sizes that have already been implemented have had a substantial impact on cash raised, of about \$75 billion. And if current or recommended coupon auction sizes are maintained for the next twelve months, this will result in raising only \$1.6 billion in net new cash.

The Chairman also noted that it has been the recommendation of the Committee, most recently at the February and May Committee meetings, that given the appearance of a downward trend in deficits, it is the consensus of the Committee that the Treasury should maintain flexibility in the size of coupon issues, with modest downward adjustments when appropriate. Given the changes that have already been made, and given also the uncertainties with respect to the impacts of the new budget agreement and to the uncertainties of the business cycle, it was suggested that Treasury should be wary about making any changes in auction cycles and that it should continue to make small adjustments to auction sizes at the margin. Along this line, another member observed that when the Committee looked at the financing plans at this time last year, the Administration's estimate for the FY97 deficit was \$125 billion, or substantially higher than the current forecast for FY97.

It was the consensus of the Committee that Treasury make modest downward adjustments in auction sizes across the maturity spectrum where appropriate, but concentrating on the 2- to 5-year sector as well as Treasury bills.

Stripping

The Treasury made the July issuance of 5-year inflation-indexed notes available for stripping, and it is now asking the Committee's views on the advisability and usefulness of extending this policy to all fixed-rate notes. Previously, only coupon securities with ten or more years of original maturity had been eligible for stripping. It was noted that there is little or no cost to the Treasury to provide this option, and that at the margin it will enhance demand for the notes. It was noted by another member, however, that there is not much demand for stripping existing longer term notes or bonds that only have a few years left to maturity. It was the consensus of the Committee that providing the option to strip shorter term notes is an enhancement to the securities that may create new demands, and market itself will determine the level of activity.

Marketable financing for the October-December quarter

For the October-December quarter, given the Treasury's forecasted funding needs, the Committee recommended keeping the sizes of coupon offerings the same as recommended for the third quarter. (See attached table 1a.)

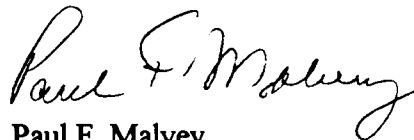
The meeting adjourned at 3:35 p.m.

July 30

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Messrs. Kessenich, Stark, and Lodge.

The Chairman presented the Committee report (copy attached) to Deputy Assistant Secretary Anderson. Given that the recommendations were very straight forward and understood by all, there was no discussion. Mr. Anderson expressed appreciation for the Committee's efforts and dedication to their responsibilities.

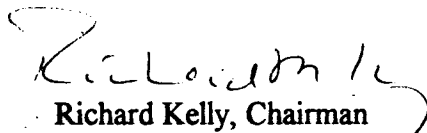
The meeting adjourned at 8:45 a.m.



Paul F. Malvey
Associate Director
Office of Market Finance
Domestic Finance
July 30, 1997

Attachments

Certified by:



Richard Kelly, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
July 30, 1997