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HEADLINE: Treasury to Increase Sales of U.S. Securities; Agency Must Finance Growing Budget Deficit

BYLINE: John M. Berry, Washington Post Staff Writer

BODY:
With federal budget deficits soaring, the Treasury Department yesterday announced a major expansion of its sales of securities to finance the shortfall.

The budget outlook has been deteriorating so rapidly that Treasury plans to borrow $ 79 billion more money in the April-June period, a quarter in which a flood of tax receipts arrives. That figure is a swing of more than $ 100 billion in Treasury borrowing plans from just three months ago, when officials expected to pay down $ 25 billion of debt.

Treasury also said it expects to borrow another $ 76 billion in the third quarter. Neither quarterly figure includes the money that would have to be raised if President Bush's jobs and growth package of tax cuts is passed, even in a reduced form. With the budget already deeply in the red, any reduction in taxes will have to be financed with borrowed money.

Analysts' predictions of the deficit in fiscal 2003, which ends Sept. 30, range up to $ 425 billion, including the cost of additional military spending in Iraq and a large income tax cut. The largest deficit in history was $ 290 billion in fiscal 1992, which was equal to 4.7 percent of the gross domestic product. With GDP likely to top $ 10.7 trillion this year, the 1992 percentage won't be topped -- nor would be the record percentages of the mid-1980s, which reached 6 percent of GDP.

Next week Treasury officials will sell $ 58 billion worth of three-, five-, and 10-year notes, the most ever in a quarterly refunding. In the process, they will be resurrecting the three-year note, which was dropped in 1998 when the government began running annual budget surpluses and Treasury began paying down the national debt.

The bond market took yesterday's announcements in stride. That's because, while details were not known, analysts understood that Treasury would not be able to raise the money necessary without increasing the frequency of auctions.

Treasury officials also have taken numerous steps in recent months to increase its contacts with dealers that buy the bulk of its securities for resale to the public. By delaying implementation of the expanded auction schedule until August, the dealers have time to adjust, assign traders to handle the new and additional securities and prepare customers for a large increase in the volume of new issues.

Not long ago, the surpluses had allowed Treasury to sell its five-year notes only four times a year, and the 10-year note auction were down to two a year. In February, Treasury said it would double the five-year-note auctions to eight, and yesterday it bumped that up to one a month beginning in August. Also starting that month will be a 10-year-note sale that will be held two months out of every three. In addition, there will be four rather than three sales of 10-year inflation-indexed notes in the future.

"While these changes have been made in response to larger financing needs, they will benefit Treasury by creating additional flexibility in meeting unexpected swings in borrowing needs," Brian C. Roseboro, assistant secretary for financial markets, told reporters.

Peter R. Fisher, undersecretary for domestic finance, said the new auction schedule should give Treasury enough options for at least the next year. "I don't see any other instruments" being added to the lineup, he said.

"Frankly, the budget projections of a clairvoyant could have been massively off the mark in recent years, and there is no reason to expect that forecasting the budget will get any easier," said F. Ward McCarthy of Stone & McCarthy Research Associates, a financial markets research firm.

"What the Treasury has done is give itself a lot of flexibility to address these budgetary uncertainties. If the deficit is larger than expected, it will be easy to increase auction sizes, and because there are so many auctions, the changes in auction size need not be excessively abrupt. Should the deficits begin to decline again, then the Treasury could respond by cutting auction sizes, rather than eliminating issues" McCarthy said.

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