

H. 13

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No. 143

CAPITAL MARKET DEVELOPMENTS ABROADI. Japan  
II. Nine Charts on Financial Markets AbroadI. Japan: Money and Capital Markets in February-March

In a move primarily designed to reduce reserve losses, the Bank of Japan on March 18 raised its basic discount rate from 5.84 to 6.57 per cent. Import deposit requirements were also sharply raised: for raw materials and industrial machinery from 1 to 5 per cent, and for foodstuffs and specified non-essential imports from 5 to 35 per cent. Although these moves are designed to slow the pace of the domestic boom and curb import demand, it will probably be some time before the tighter policies are reflected in the balance of payments. In the interim, the Japanese may draw on various financial resources in order to bolster the level of reserves. These include a \$305 million stand-by arrangement approved by the IMF on March 11, 1964, use of the \$150 million Federal Reserve "swap" arrangement, or borrowing from U.S. commercial banks.

Japan has continued to increase both its short- and intermediate-term debt to U.S. banks, as well as float further securities issues in Europe. In January, Japan's short-term indebtedness to U.S. banks increased \$86 million, bringing the total increase since the end of last October to \$359 million. (See Table 1 below).

Table 1. Japan: Short- and Long-Term Borrowings in the U.S.

	<u>Change during year</u>				<u>Change during period</u>							
	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1963</u>				<u>1964</u>			
					<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>
Bank loans <sup>1/</sup>	480	722	212	a/397	11	118	- 7	a/275	14	119	a/154	a/86
Securities <sup>2/</sup>	30	58	141	a/200	51	84	60	5	5	0	0	0
	512	780	353	a/597	62	202	53	a/280	19	119	a/154	a/86

1/ Short-term liabilities to U.S. banks.

2/ New security flotations.

a/ Preliminary.

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(Decontrolled after 6 months)

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Intermediate-term loans from foreign countries have also remained at relatively high levels. The data below indicate the amount and range of maturities of foreign loans approved by the Foreign Investment Council in recent months:

<u>Date Approved</u>	<u>Amount</u>	<u>Range of Maturities</u>
Sept. 10, 1963	\$67.0 million	3 to 10 years.
Oct. 1, 1963	6.9 million	3 to 5 years.
Oct. 22, 1963	18.5 million	2 yrs. 10 months to 5 years.
Nov. 12, 1963	44.5 million	2 yrs. 10 months to 12 years.
Dec. 17, 1963	62.1 million	2 yrs. 10 months to 21 years.
Jan. 21, 1964	24.8 million	2 yrs. 10 months to 10 years.
Feb. 11, 1964	20.3 million	2 yrs. 11 months to 5 years.
March 10, 1964.	38.0 million	2 yrs. to 14 years.

During February and March, Japan also raised \$31.5 million through the sale of securities in European capital markets.

The Japanese balance of payments remained under heavy pressure in February. International reserves declined \$54 million to \$1,801 million, bringing the total decline since the peak last October to \$121 million. The seasonally adjusted foreign trade deficit in February was \$176 million, a level substantially above the monthly average of \$154 million in the fourth quarter last year.

Domestically, money market conditions continued to tighten in February and March. Bank credit expanded at a slower rate in January than a year earlier, and the stock market continued to be depressed.

Money market. Money market conditions have been tightening since the first of the year. The expansionary impact of a ¥147 billion increase in Bank of Japan loans, discounts, and securities holdings in February, was more than offset by the excess of Treasury receipts over payments of ¥148 billion and a ¥18 billion increase in bank notes in circulation.

Interest rates. Call loan rates continued to rise in February and March from a low for the year in early January. The rate (for unconditional (repayable at a day's notice) call loan money increased steadily from 7.665 per cent in early February to 8.760 per cent in early March. With the Bank of Japan's discount rate increase on March 18, the rate rose to 9.855 per cent. The rate for over-month-end money jumped from 9.49 per cent in early February to 12.41 per cent in early March, the highest rate in over a year. On March 18 the rate increased further to 13.14 per cent. With the increase in the discount rate and the general level of commercial bank interest rates, call loan rates are likely to remain firm, or possibly rise, in the coming months.

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The average interest rate for bank loans and discounts declined slightly to 7.67 per cent in December from 7.68 per cent in November. (See Table 2). With the recent measures of monetary restraint, the rate is likely to rise. On March 23 the Federation of Bankers' Association of Japan decided to increase by 0.73 percentage points the general structure of commercial bank interest rates except for export trade bills.

Table 2. Japan: Average Monthly Interest Rate on Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
March	8.18	8.21	7.92	8.22	7.92
June	8.28	8.22	7.88	8.23	7.75
September	8.06	8.14	8.00	8.24	7.68
December	8.11	8.08	8.20	8.09	7.67

Bank loans and discounts. Bank credit increased only 0.5 per cent in January, compared to 1.8 per cent a year earlier. The slower rate of increase apparently reflects the measures of monetary restraint taken in December and January. Loans and securities holdings increased in January, but discounts declined. There was also a seasonal decline of 3.3 per cent in bank deposits in January.

The proportion of bank loans and discounts extended for purchases of equipment rose to 16.8 per cent in January from 16.6 per cent in the previous month. This compares with a cyclical low of 16.3 per cent in March of 1963.

Bond market. New issues of domestic bonds totalled ¥130 billion in January, the lowest level since July 1963. New issues of public corporate debentures were ¥27 billion in January compared to the unusually high level of ¥46 billion in December. New issues of bank and industrial debentures were ¥75 billion and ¥27 billion, respectively, compared to ¥91 billion and ¥28 billion, respectively, in the previous month.

Average yields in January on local government securities, public corporation bonds, and one-year bank debentures remained unchanged from the levels in 1963 at 7.54, 7.053, and 6.224 per cent, respectively. Yields on longer-term bank debentures and industrial bonds were down slightly from the December level.

Stock market. Stock market prices continued to decline steadily in February and the first half of March from a high for the year on January 29 when the Dow Jones average reached ¥1,338. On March 18 the average reached ¥1,205, or only slightly above the low for the year of ¥1,204 on January 4. This represented a 10 per cent decline between January 29 and March 18. During the rest of March the average increased slightly, reaching ¥1,215 on March 30.

Table 3. Dow Jones Average of 225 Stocks, First Section of Tokyo Exchange

January	27	¥1,324	March	2	¥1,254	1963	High	¥1,634
February	3	1,305		9	1,263		Low	¥1,201
	10	1,286		16	1,221			
	17	1,280		23	1,214	1964	High	¥1,338
	24	1,264		30	1,215		Low	¥1,204

Foreign trade. The seasonally adjusted trade deficit narrowed in February from the usually large gap in January, but was still at a high level. Exports rose 9 per cent in February and imports fell 4 per cent. The average monthly deficit in January-February was \$210 million compared to \$120 and \$154 million in the third and fourth quarters of last year, respectively. The trade figures (monthly, or monthly averages, on a customs basis) in Table 4 below are based on seasonal adjustment factors computed by the Board of Governors of the Federal Reserve System.

Table 4. Japan: Seasonally Adjusted Foreign Trade  
(in millions of dollars)

	1962				1963				1964	
	I	II	III	IV	I	II	III	IV	Jan.	Feb.
Imports	494	468	452	464	488	545	582	643	689	660
Exports	378	408	428	419	415	442	462	489	445	484
Trade Balance	-116	-60	-24	-99	-73	-103	-120	-154	-244	-176

Japan is scheduled to further liberalize imports on April 1, 1964. Ten items will be decontrolled, which will increase the total liberalization by 1 percentage point to 93 per cent in relation to the base year of 1959.

Foreign reserves and capital flows. International reserves declined \$54 million in February to a level of \$1,801 million. Reserves have been declining since last October and at the end of February were down \$121 million from the October peak.

On an exchange transactions basis, the current account deficit of \$131 million in February was relatively large. This compares with the relatively high deficit of \$157 million in January and a monthly average deficit of \$51 million in the fourth quarter of last year. Net long-term and short-term capital receipts were \$30 and \$55 million, respectively, in February. Since reserves fell \$54 million, while recorded net payments totalled \$46 million, errors and omissions of \$8 million accounts for the difference.

According to preliminary data, Japanese short-term liabilities to U.S. banks increased \$86 million in January to \$2,223 million. (See Table 5 below). During the three-month period November-January, Japanese liabilities increased \$347 million. A substantial part of this increase represents a rise in commercial acceptances and short-term loans to banks.

Table 5. Short-term Claims by U.S. Banks on Japan  
(in millions of U.S. dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1959	168	175	204	224	242	250	256	269	262	262	275	324
1960	362	372	420	250	488	467	586	628	660	693	711	806
1961	875	952	1,069	1,159	1,196	1,272	1,341	1,335	1,288	1,281	1,292	1,528
1962	1,601	1,685	1,778	1,775	1,762	1,758	1,765	1,767	1,711	1,710	1,662	1,740
1963	1,677	1,691	1,751	1,876	1,896	1,869	1,872	1,793	1,862	1,876	1,995 <sup>a</sup>	2,137 <sup>a</sup>
1964	2,223 <sup>a</sup>											

NOTE: Data for 1962 and 1963 have been recently revised and include \$52 million reported by banks initially as of December 31, 1961.

<sup>a</sup>/ Preliminary.

Japan raised \$31.5 million in European security flotations in February and March. These included a \$11.5 million Government of Japan issue in Switzerland and two issues of \$10.0 million each by two Japanese companies in Luxembourg and London. (See Table 6).

Table 6. Japan: Long-term Borrowings in Europe Reported in Financial Press <sup>a</sup>/

Borrower	Amount	Month Floated	Terms	Capital Markets
Bank of Tokyo	\$ 7.0 m.	Jan. 1962	Two 5-yr. credits from 3 Swiss banks at 5-1/2 - 5-3/4% in Sw francs.	Switz.
Osaka City and Prefecture	\$25.0 m.	Feb. 1962	6-1/2%, DM bond issue.	Germany
Osaka City and Prefecture	\$25.0 m.	March 1963	6-1/2%, DM bond issue.	Germany
Gov't. of Japan	E 5 mill. (\$14.5 m.)	Aug. 1963	6%, US dollar, 20-25 yrs., conversion of 1899 bond issue.	U.K.
Takeda Chemical Co.	\$15.0 m.	Dec. 1963	6%, US dollar, 20 yr. convertible debentures.	Luxembourg
Canon Camera Co.	\$ 5.0 m.	Dec. 1963	6-1/4%, US dollar, 15 yr. convertible debentures.	U.K.
Osaka City and Prefecture	\$25.0 m.	Jan. 1964	6-1/2%, DM, 15 yr. bond issue.	Germany
Gov't. of Japan	\$11.5 m.	Feb. 1964	5.5%, Sw francs, 10-15 yrs.	Switz.
Teijin Ltd.	\$10.0 m.	March 1964	6-1/4%, US dollar, 20 yr. convertible debentures.	Luxembourg
C. Itoh & Co.	\$10.0 m.	March 1964	6-1/4%, US dollar, 20 yr. convertible debentures.	London

<sup>a</sup>/ Although this list is believed to be complete, some issues may have been omitted.

In order to avoid losing Euro-dollar funds, Japan increased the ceiling interest rates that Japanese foreign exchange banks can pay on these deposits in both February and March. The latest maximum rates, which in general are about 1/8 to 1/4 percentage points above the rates paid by non-Japanese banks, are indicated below.

Date Effective	Less than 1 month	1 month and over	3 months and over	6 months and over	1 year and over
January 11, 1964	3-3/4	3-7/8	4-1/8	4-5/8	4-7/8
February 27, 1964	3-3/4	4	4-3/8	4-5/8	4-7/8
March 10, 1964	4	4-1/4	4-5/8	4-3/4	4-7/8

In March the Ministry of Finance and the Bank of Japan announced that changes in the maximum rates would be made in accordance with changes in the generally prevailing rates in the market. However, the system is not completely automatic as some provision has still been made for discretionary changes.

Foreign exchange. The yen continued to weaken slightly in the spot market in February, but then strengthened during the last half of March. Since the rates in the three-month forward market remained relatively stable during this period, the forward discount declined from .28 per cent to .14 per cent. The discount tended to widen again during the last half of March as the rate in the spot market strengthened. The strengthening was primarily because of window dressing operations which led to an increased demand for yen.

Table 7. Japan: Customers' T.T. Exchange Rate of Bank of Tokyo, in Tokyo

	Yen-dollar spot middle rate	Three-month forward middle rate	Forward discount in per cent per annum
January 31	362.30	362.50	.22
February 7	362.30	362.50	.22
14	362.30	362.50	.22
21	362.30	362.48	.20
28	362.35	362.48	.14
March 6	362.35	362.40	.14
13	362.30	362.50	.22

Asia, Africa and Latin America Section.

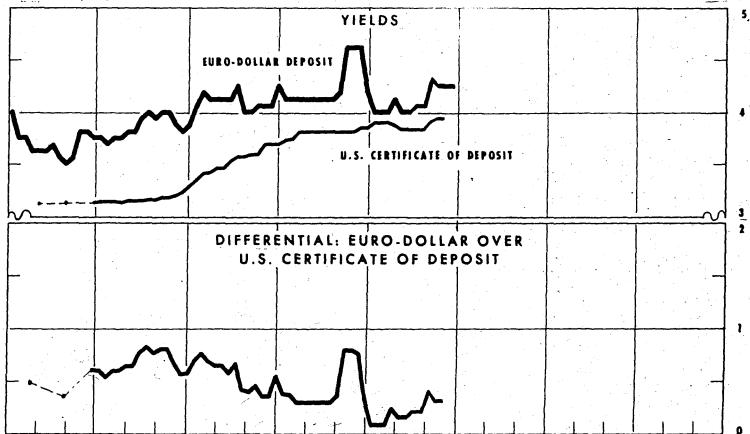
Chart 1

### INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS

#### 3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT

Wednesday figures

Per cent per annum



#### NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS

Friday figures

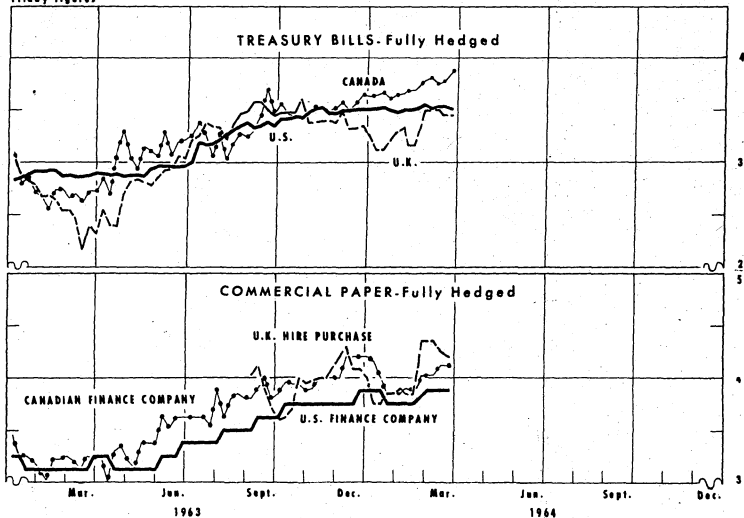


Chart 2

### INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

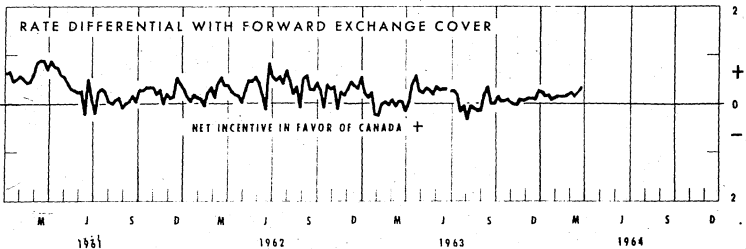
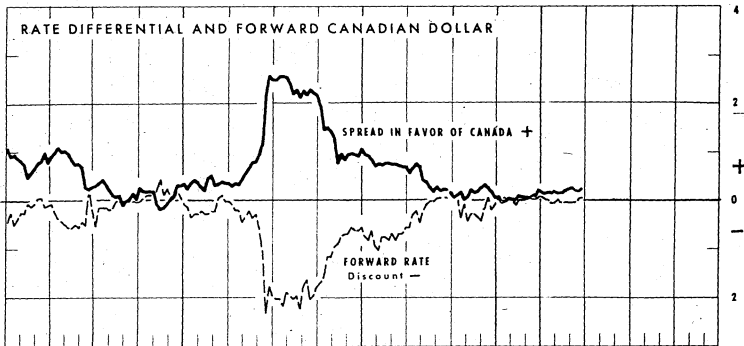
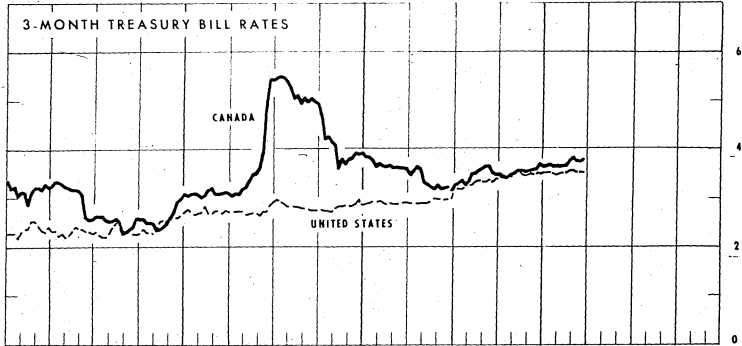




Chart 3  
**INTEREST ARBITRAGE, NEW YORK/LONDON**

Friday figures Per cent per annum

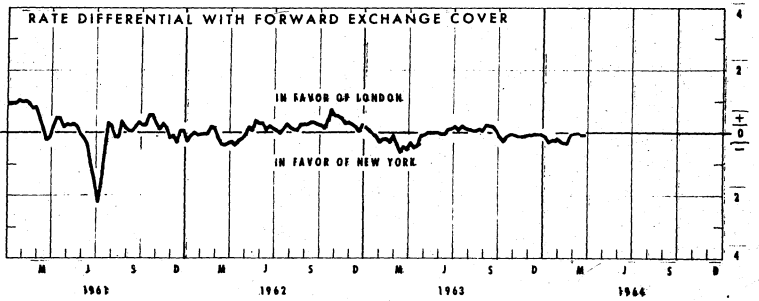
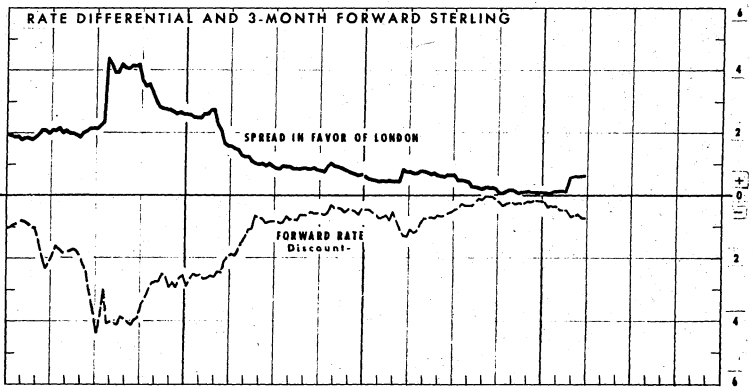
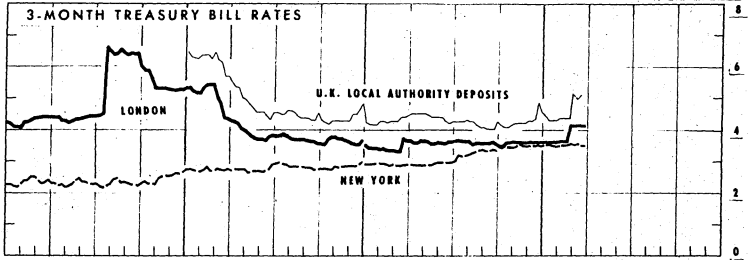


Chart 4

### INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

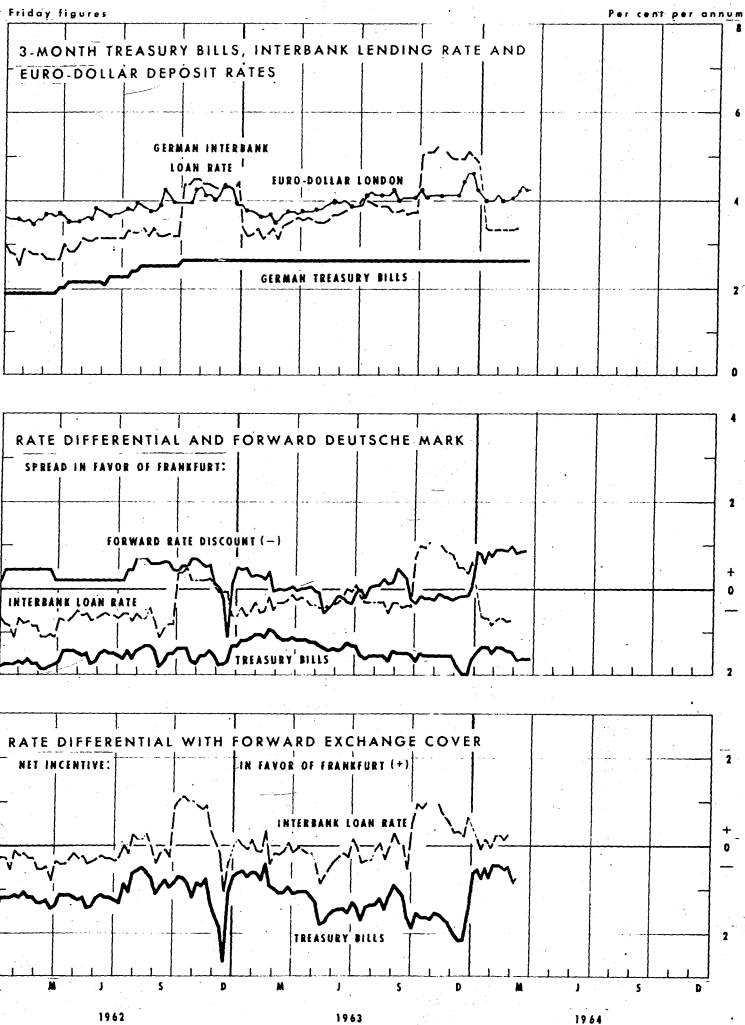
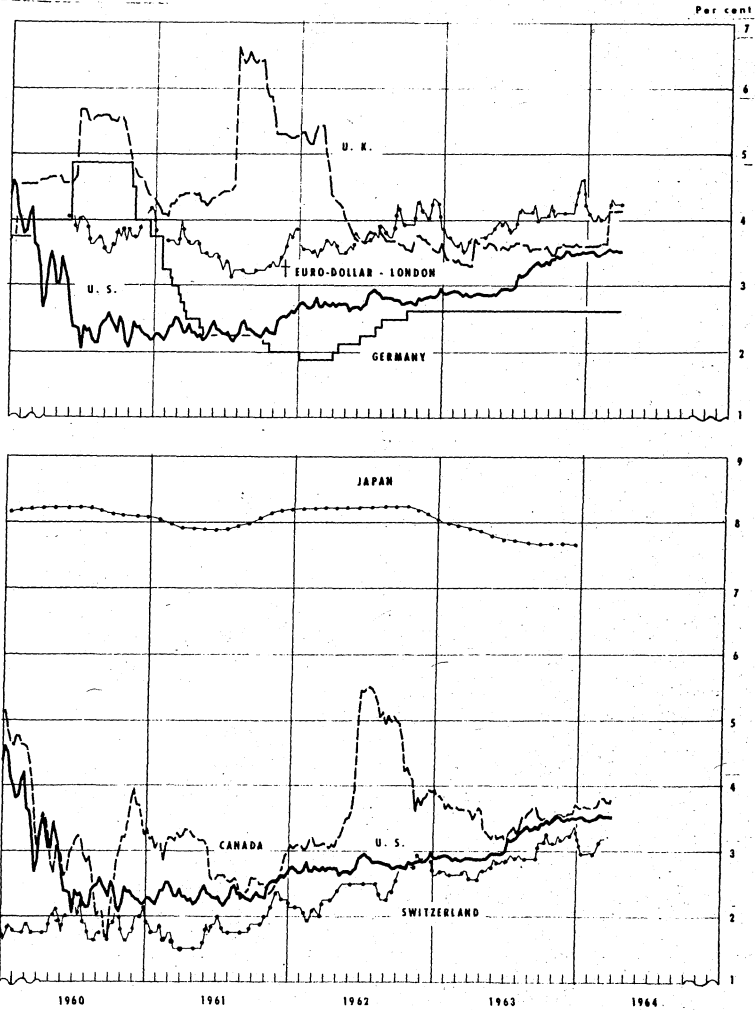


Chart 5

**SHORT-TERM INTEREST RATES \***



\* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts)  
† 3 month rate for U. S. dollar deposits in London

Chart 6

**LONG-TERM BOND YIELDS**

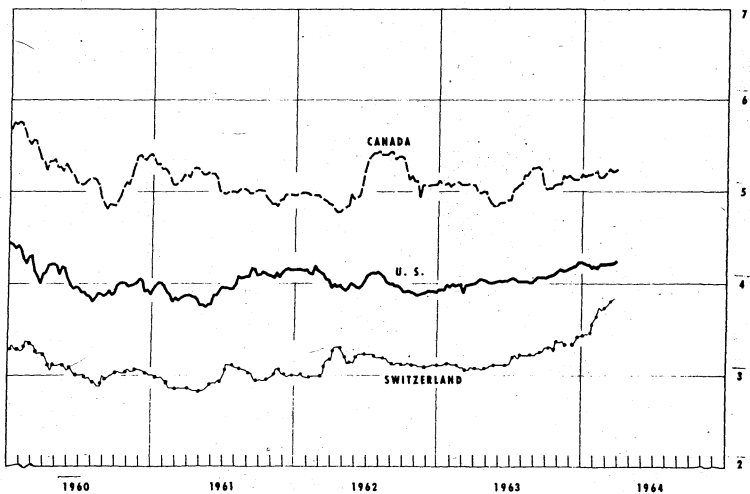
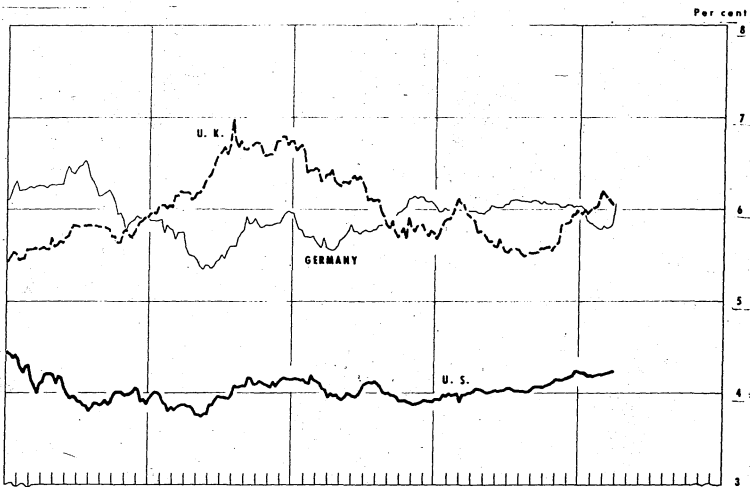
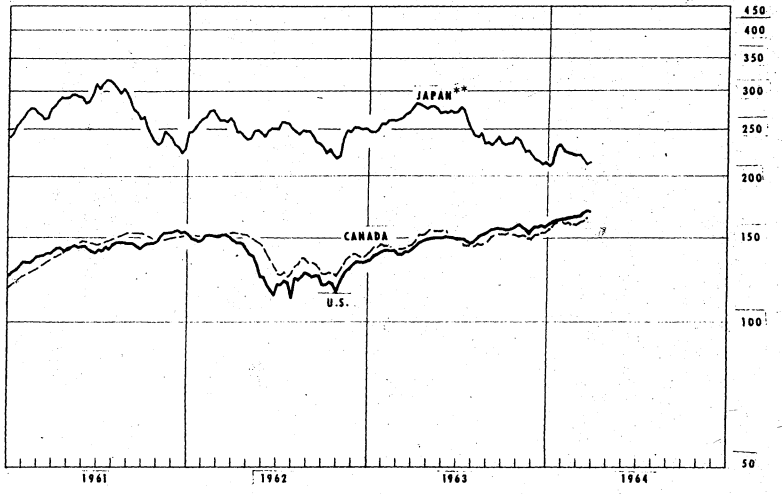
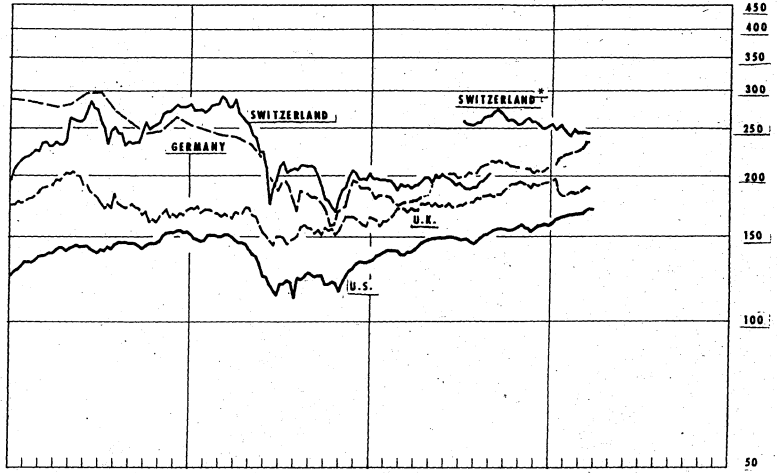


Chart 7

**INDUSTRIAL STOCK INDICES**

1958=100  
Ratio scale



\* New series Swiss Bank Corporation industrial stock index.  
 \*\* Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

**SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR**

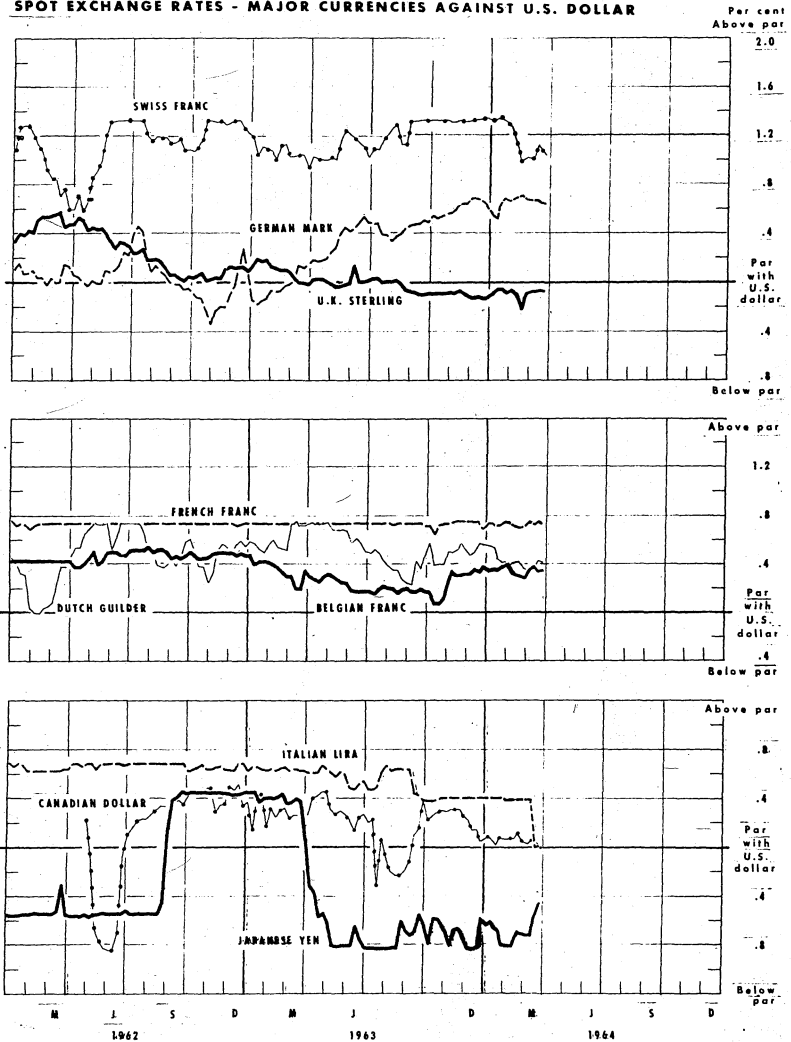
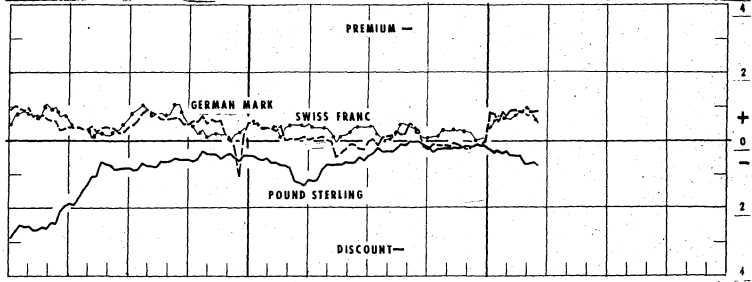


Chart 9  
**3-MONTH FORWARD EXCHANGE RATE**

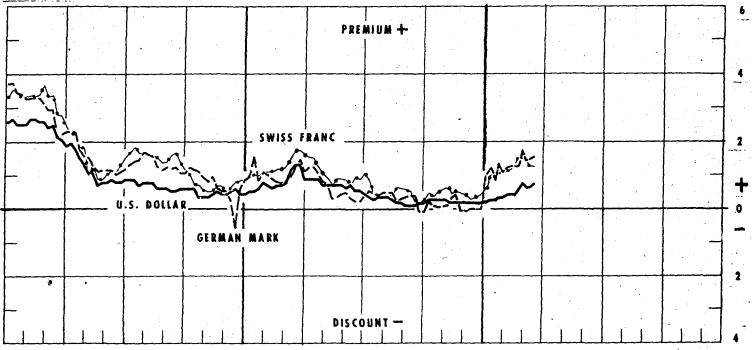
Friday figures

**AGAINST U.S. DOLLARS**

Per cent per annum



**AGAINST POUND STERLING - LONDON**



**AGAINST POUND STERLING - LONDON**

