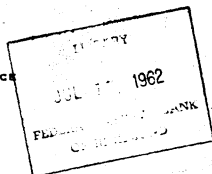


H. 13

No. 67



July 13, 1962

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Japan
II. Nine Charts on Financial Markets Abroad

I. Japan: Money and Capital Markets in May

During Japan's recent balance of payments difficulties, foreign borrowing through May continued to rise substantially, more than offsetting the deficits on current account. Since the Japanese do not release information on their aggregate foreign liabilities, it is difficult to report accurately on this subject. However, data are available on most of the major elements of Japanese borrowing and the table below is of some assistance in indicating the general trends in Japanese borrowing. These data reveal that in the year ending March 1962, Japanese borrowing rose almost \$800 million or from \$1.9 to \$2.7 billion.

Major Elements of Japanese Borrowings in United States' Currency
(End of quarter data in millions of U.S. dollars)

	1959	1960	1961				1962
	I	II	I	II	III	IV	I
Short-term							
1. U.S. Bank Claims	204	497	1,069	1,272	1,288	1,445	1,681
2. Euro-dollar deposits	n.a.	114	286	n.a.	n.a.	n.a.	300(est.)
Total	n.a.	611	1,355	n.a.	n.a.	n.a.	1,981
Long-term							
1. IBRD Loans							
(Disbursed portion)	135.4	230.5	266.0	265.8	284.3	298.8	314.3
2. U.S. Ex-Im Bank 1/							
(loans outstanding)	122.7	131.8	172.2	183.5	190.7	186.9	208.8
3. Private	150.0 ^{2/}	150.0	159.5	183.0	183.0	207.4	222.7
Total	408.1	512.3	597.7	632.3	658.0	693.1	745.8
GRAND TOTAL	n.a.	1,123.3	1,952.7	n.a.	n.a.	n.a.	2,726.8

1/ Includes short-term cotton credits.

2/ Volume of private long-term borrowing for March 1959 estimated. Subsequent data based on table contained in "Summary of Foreign Capital Investment in Japan."

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

The rather sharp expansion in short-term U.S. bank claims on Japan in 1960-61 represented primarily an increase in the volume of import acceptance credits. During 1961 there was also a sizable increase in private long-term borrowing. (Details are provided on page 6 in a subsequent section entitled, "Summary of Foreign Capital Investment in Japan.") Borrowing from the World Bank and the Export-Import Bank of Washington more than doubled between March 1959 and March 1962.

Concerned about the rise in foreign borrowing, the Japanese government took five steps in April and May to discourage foreign borrowing. (See Capital Market Developments Abroad, June 1, 1962.) If the substantial improvement in the trade balance in the second quarter of 1962 continues, Japan should be able to reduce her dependence on foreign borrowing.

Money Market. Money market conditions continued to remain tight in May as commercial banks repurchased securities taken up earlier by the Bank of Japan. Contractionary developments included a ¥64 billion decrease in Bank of Japan loans and discounts, a ¥59 billion Treasury surplus, and a ¥77 billion reduction in Bank of Japan bond holdings. Only partly offsetting these developments was a ¥47 billion decrease in bank notes in circulation.

As tight money market conditions continued in June, the volume of call loans outstanding in Tokyo hit an all-time high on June 7 of ¥421 billion, compared to the monthly average in May of ¥386 billion. On June 12, the Bank of Japan informed the nine major city banks that the June increase in their loans outstanding should be held to ¥53 billion in contrast to the ¥75 billion desired by banks.

Interest Rates. The average interest rate for bank loans and discounts rose only slightly in March to 8.216 per cent per annum from 8.213 per cent in February. The average interest rate thus remained relatively unchanged in the four months ending March 1962. As indicated in the table below, rates had risen substantially following increases in the Bank of Japan's basic discount rate last July and September.

Average Monthly Interest Rates on
Bank Loans and Discounts

	1959	1960	1961	1962
March	8.18	8.21	7.92	8.22
June	8.08	8.22	7.88	
September	8.06	8.14	8.00	
December	8.11	8.08	8.20	

Call loan rates have remained relatively stable since last January — when the Government warned the financial community that they had become excessively high. In April and May, the unconditional call loan rate for Tokyo remained at 10.95 per cent per annum, as indicated in the table below. Rates did rise somewhat in March, however, as banks improved their cash position in preparation for the semi-annual public issue of their balance sheets.

Tokyo Call Loan Interest Rates
(In per cent per annum)

	<u>Unconditional^{1/}</u>	<u>Over Month-end</u>
<u>1961</u> April	8.76	10.95
Sept.	11.68	13.87
Dec.	13.87	20.81
<u>1962</u> Jan.	10.22	13.14
Feb.	10.22	13.87
Mar.	12.05	16.42
Apr.	10.95	12.78
May	10.95	n.a.

^{1/} Loans callable at a day's notice.

Bank Loans and Discounts. Bank credit in April rose 1.6 per cent compared to 0.8 per cent a year earlier. Most of this rise reflected increased holdings of securities as indicated in the table below. Loans outstanding declined seasonally, but the volume of bills discounted increased. Deposits dropped 1 per cent in April as contrasted with almost no decline a year earlier.

Commercial Banks: Quarterly Changes in Deposits and Principal Assets
(In billions of yen)

M A I N A S S E T S								
	Deposits	Per cent Change	Loans	Per cent Change	Bills Discounted	Per cent Change	Securities	Per cent Change
1960 I	+249	3.4	+176	3.8	+ 54	2.5	+ 78	6.5
II	+ 96	1.3	+167	3.5	+ 87	3.9	+ 75	5.8
III	+506	6.5	+244	4.9	+172	7.5	+ 35	2.6
IV	+607	7.3	+347	6.7	+185	7.5	+127	9.1
1961 I	+502	5.7	+326	5.9	+ 48	1.8	+103	6.8
Apr.	- 3	-	- 21	-0.3	+ 68	2.5	+ 35	2.2
II	+169	1.8	+206	3.5	+133	4.9	+104	6.4
III	+359	3.8	+216	3.6	+206	7.3	+ 43	2.5
IV	+430	4.3	+232	3.7	+220	7.2	+122	6.9
1962 I	+128	1.2	+256	3.9	+ 14	0.4	- 64	-3.4
Apr.	-109	-1.0	- 2	-	+ 31	0.9	+160	8.7

The proportion of bank loans and discounts extended for purchases of equipment rose to 17.4 per cent in April, compared to 17.2 and 17.3 per cent in February and March, respectively.

Bond Market. New issues of debentures totaled only ¥86 billion in April following the seasonally high level of ¥129 billion in March. New issues of public corporate debentures were down to ¥17 billion in April from the ¥38 billion level in March. New issues of bank and industrial debentures were also lower in April.

Average yields on government bonds and debentures were unchanged in April from the March level, but yields on industrial debentures eased slightly in April.

The Ministry of Finance has announced that during the June-September quarter this year it will purchase ¥30 billion in bonds, half from the city banks and half from government financial institutions, with the aim of easing somewhat the shortage of funds for smaller businesses.

Stock Market. In May and June the stock market showed signs of reversing the general downtrend that followed a peak for the year last February. Stocks declined 2.6 per cent between May 11 and May 30, but the May 30 low was above an earlier low on April 25. The Dow Jones stock average rose slowly, but steadily, in June, and on July 9 was 9.2 per cent above the May 30 low. In the next two days heavy liquidations contributed to a 1.3 per cent decline in the average.

Dow Jones Average of 225 Stocks

Tokyo Stock Exchange

April 25	¥1,342	June 6	¥1,417	1961 High	¥1,830
		13	1,435	Low	¥1,250
May 2	1,367	20	1,433		
9	1,414	27	1,430	1962 High	¥1,590
16	1,436			Low	¥1,342
23	1,400	July 4	1,474		
30	1,362	11	1,468		

Foreign Trade. Japan's deficit on trade account, seasonally adjusted, narrowed substantially in May and June, as indicated in the table below. In the second quarter, the trade deficit, at a seasonally adjusted annual rate, was \$0.7 billion compared to \$1.5 billion in the first quarter of 1962. If this favorable trend continues, balance of payments equilibrium could be restored in the near future. The seasonally adjusted trade figures (monthly or monthly averages on a customs basis in millions of dollars) in the table below are based on seasonal adjustment factors computed by the Bank of Japan under the U.S. census method.

		<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
1960	Year	338	374	- 36
	IV	355	395	- 40
1961	Year	353	484	-131
	I	343	427	- 84
	II	351	464	-113
	III	357	506	-149
	IV	364	546	-182
1962	I	471	492	-121
	Jan.	354	497	-143
	Feb.	382	498	-116
	Mar.	378	481	-103
	II	409	466	- 57
	Apr.	361	482	-121
	May	447	477	- 30
	June	420	439	- 19

Exchange Reserves and Capital Flows. Japan's international reserves rose \$27 million in May to \$1,586 million. The current account deficit, as measured on an exchange transactions basis, was \$45 million, about the same as in April. Net long-term capital receipts were \$31 million, (largely reflecting the \$17.5 million Japan Development Bank bond issue in May), up \$24 million from the April level; but net short-term capital receipts fell to \$44 million from \$67 million in April. The short-term receipts in May reflected a further drawing of \$27 million on the \$125 million credit from seven U.S. banks, and a further rise in Euro-dollar and free yen account liabilities. In June, Japanese reserves rose \$37 million to \$1,623 million, as \$24 million was drawn on the \$125 million credit mentioned above. Of the \$237 million rise in reserves during the first half of 1962, \$205 million reflected drawings on the \$200 million credit arranged with U.S. banks last November and the \$125 million credit arranged last January.

Total Japanese short-term liabilities to the United States as reported by U.S. banks, fell \$17 million in April to \$1,664 million. This constitutes a reversal of the general uptrend since last November as indicated in the following data on short-term claims on Japan reported by U.S. banks in millions of U.S. dollars:

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>		<u>1959</u>	<u>1960</u>	<u>1961</u>
Jan.	148	362	875	1,511	July	256	586	1,341
Feb.	175	372	952	a/1,598	Aug.	269	628	1,335
Mar.	204	420	1,069	a/1,681	Sept.	262	660	1,288
Apr.	224	456	1,159	a/1,664	Oct.	262	693	1,281
May	242	488	1,196		Nov.	275	711	1,292
June	260	497	1,272		Dec.	324	806	1,445

a/ Preliminary estimate.

The Japanese have announced that the Ministry of Finance is studying a revision of the minimum two-year waiting period required for remittance of capital by foreign investors in Japan. It is expected that the minimum period may be reduced in the near future to one year.

Summary of Foreign Capital Investment in Japan. The rate of foreign capital investment in Japan rose sharply in fiscal 1961 (i.e. in the year ending March 31, 1962) to a level of \$576 million. This is considerably above the level in fiscal 1960 of \$221 million and is equivalent to more than one-third of the total foreign capital investment in Japan since 1950. (See the table below on "Foreign Capital Investment in Japan.") Over two-thirds of this investment, both in fiscal 1961 and since 1950, has consisted of loans, primarily from U.S. banks and the World Bank, and of stock purchases. Only a small proportion of the total borrowing has resulted from foreign bond issues, though in fiscal 1961 the volume of foreign bond issues rose sharply.

Foreign Capital Investment in Japan
(In millions of U.S. dollars)

	<u>Fiscal 1960</u>	<u>Fiscal 1961</u>	<u>Cumulative total since 1950</u>
1. <u>Loans</u>	<u>\$136</u>	<u>\$387</u>	<u>\$1,242</u>
a. I.B.R.D.	40	120	488
b. Ex.-Im. Bank of Washington	46	98	274
c. Others	50	169 2/	480
2. <u>Stock Purchases</u>	<u>74</u>	<u>116</u>	<u>290</u>
a. Through the market	22	56	107
b. Other	52	60	183
3. <u>Foreign Bond Issues</u> ^{3/}	<u>10</u>	<u>72</u>	<u>82</u>
4. <u>Purchases of Beneficiary <u>Certificates & Debentures</u></u>	<u>1</u>	<u>1</u>	<u>3</u>
<u>TOTAL</u>	<u>\$221</u>	<u>\$576</u>	<u>\$1,617</u>

(footnotes on page 9.)

From 1950 through March 1962, the World Bank extended about 40 per cent of the loans made to Japan, and U.S. banks, including the Export-Import Bank of Washington, extended about 50 per cent. A major portion of Japanese stock purchases has been direct investments in Japanese companies rather than purchases in the market. Of these direct investments, 80 per cent have been made in connection with technical-aid agreements.

The volume of foreign loans extended to Japan in recent years has been sizable, even compared to some European countries. During the three-year period 1958-60, foreign loans obtained by Japan came to \$854 million, slightly more than West Germany's \$846 million and far more than Italy's \$571 million.

The first postwar placement of a Japanese bond issue overseas was in January 1959 when the central government floated a \$30 million bond issue in the United States. (See table below). Only \$10 million of bond flotations were issued in fiscal 1960, but in fiscal 1961 the total rose sharply to \$72 million. The Japanese expect to continue to raise capital by foreign bond flotations, particularly since the World Bank indicated in 1961 that Japanese industry was now capable of obtaining adequate financing from non-World Bank Sources.

Long-Term Foreign Investment in Japan^{1/}

1. From the United States:

<u>Month</u>	<u>Borrower</u>	<u>Amount in millions of U.S. dollars</u>	<u>Purpose</u>	<u>Comment</u>
<u>1959</u>				
Jan.	Gov't of Japan	\$30	Bond issue to finance electric power development.	Bonds guaranteed by Gov't of Japan.
<u>1961</u>				
Jan.	Kawasaki Steel	\$4	Improvement and expansion of facilities.	Bond issue privately placed.
Jan.	Sumitomo Metals	\$5.8	Improvement and expansion of facilities.	Bond issue privately placed.
Apr.	National Telephone and Telegraph	\$20	Improve and extend telephone facilities.	Government-guaranteed bonds.
June	SONY	\$3.5	Development of plant and equipment for producing electric products.	First stock issue in U.S. under American Depositary Receipts (ADR) System.

<u>Month</u>	<u>Borrower</u>	Amount in millions of <u>U.S. dollars</u>	<u>Purpose</u>	<u>Comment</u>
Oct.	Japan Development Bank	\$20	For loans to leading private electric power companies.	Guaranteed external loan bonds.
Nov.	Mitsubishi Chemical	\$4.4	Improvement and expansion of facilities.	Bond issue privately placed.
1962 Feb.	Tokyo Shibaura Electric Co.	\$9.3	Improvement and expansion of manufacturing facilities.	Second ADR issue.
Feb.	Kawasaki Steamship Company	\$3.0	To finance about half the cost of a 53,000 ton tanker.	Borrowed via Manufacturers Hanover Trust Co. on 5-year term at 6 per cent interest.
Mar.	Nippon Light Metal Company	\$3	Improvement and expansion of facilities.	15 year 7.5 per cent bond issue placed privately through Dillon-Reed Co.
Apr.	The Japan Fund, Inc.	\$15.6	Finance new closed-end diversified investment company.	Issue of 1,250,000 shares of common stock in American capital market.
Apr.	Nippon Gaishi Kaishi Ltd.	\$3.0	Finance equipment.	From National City Bank for one year at 5.5 per cent.
May	Japan Development Bank	\$17.5	For construction loans to leading private electric power companies.	Guaranteed external loan bonds.

2. From European Countries:

<u>Month</u>	<u>Borrower</u>	<u>Amount in millions of U.S. dollars</u>	<u>Purpose</u>	<u>Comment</u>
<u>1962</u>				
Jan.	Bank of Tokyo	\$7.0	Finance Swiss machinery imports and licensing agreement expenses.	Two five-year credits from three Swiss banks at $5\frac{1}{2}$ to 5-3/4 per cent interest.
Feb.	Osaka City and Prefecture	\$25	Reclamation and development of port facilities.	Bond issue floated in German capital market.

1/ This list of foreign loans, bond and stock issues is intended to be complete, however, it is possible that some borrowing has not been included due to lack of information.

Foreign Exchange. During May and the first half of June, the yen-dollar spot rate continued to remain at the official support level. The rate for the yen against the dollar in the forward market in May remained at a discount of 0.17 per cent per annum, but on June 5 strengthened to even par with the spot rate and remained at that level through mid-June.

Customer's T. T. Exchange Rates of Bank of Tokyo in Tokyo

<u>Date</u>	<u>Yen-dollar spot middle rate</u>	<u>Three-month forward middle rate</u>	<u>Forward discount in per cent per annum</u>
April 27	361.10	361.35	.28
May 4	361.10	361.25	.17
11	361.10	361.25	.17
18	361.10	361.25	.17
25	361.10	361.25	.17
June 1	361.10	361.25	.17
8	361.10	361.10	-
15	361.10	361.10	-

(Footnotes to table on page 6.)

1/ Japanese fiscal years 1960-61 and 1961-62 ended March 31, 1961 and March 31, 1962, respectively.

2/ Excludes \$233 million in U.S. bank loans extended directly to Bank of Japan in fiscal 1961.

3/ Direct central government bond issues excluded.

SOURCE: Japanese Ministry of Finance.

Chart 1

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

THREE-MONTH TREASURY BILL RATES

Per cent per annum

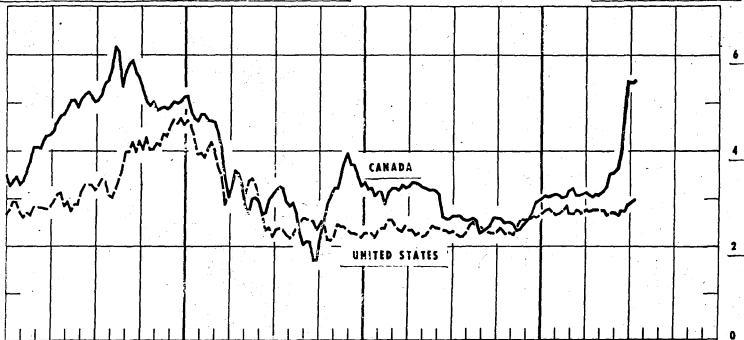
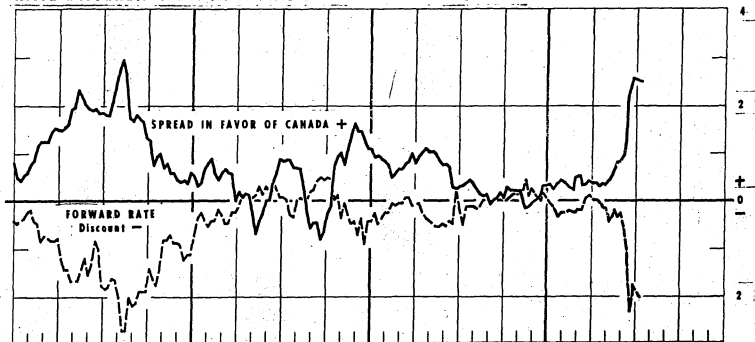
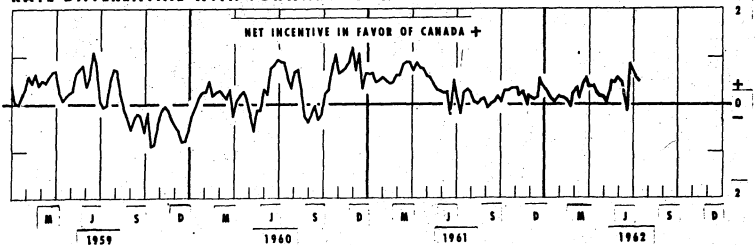
**RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR****RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER**

Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

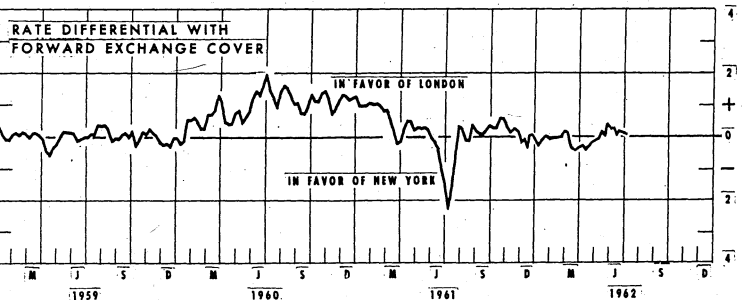
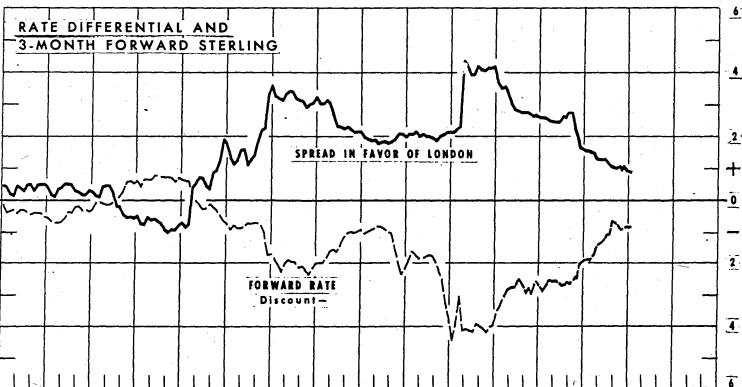
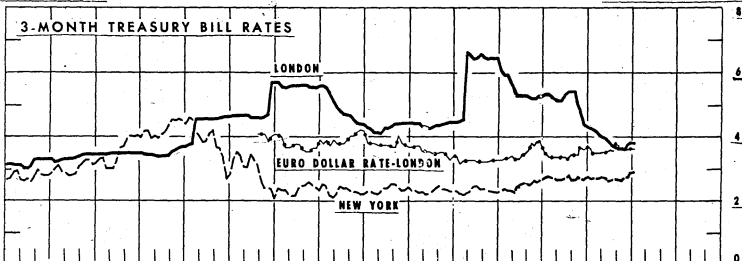
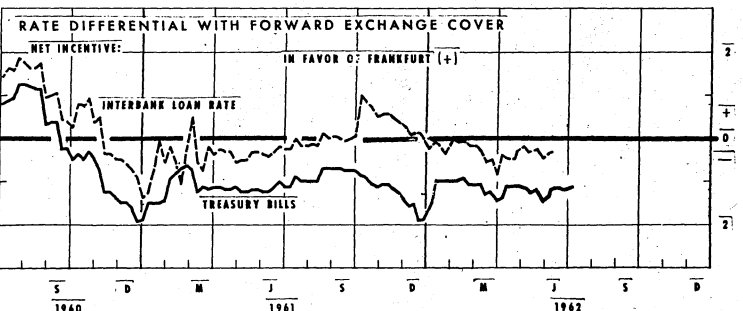
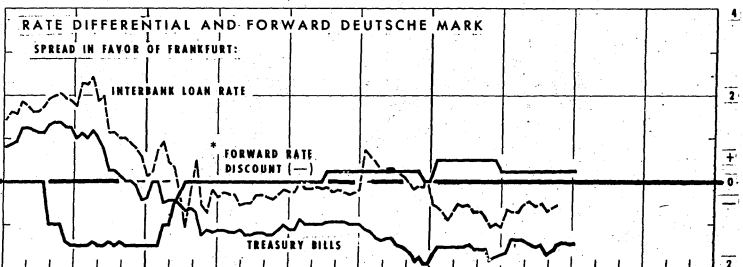
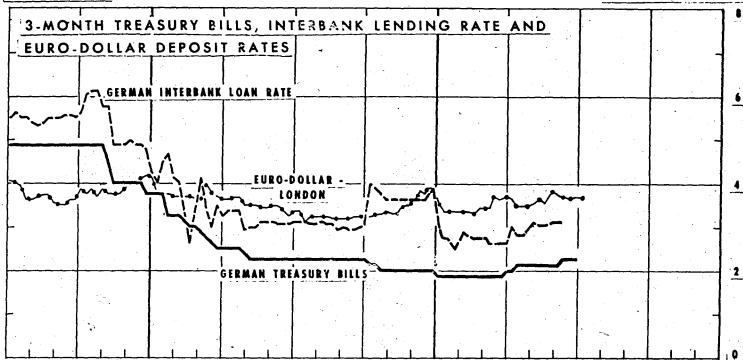


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



Notes: Special forward rate available to German commercial banks.

Chart 4

INTEREST ARBITRAGE, FRANKFURT/LONDON

Friday figures

Per cent per annum

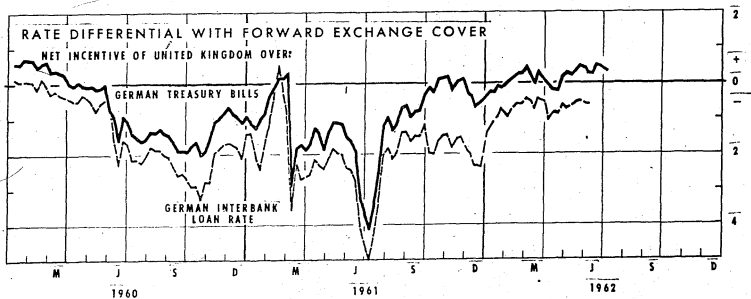
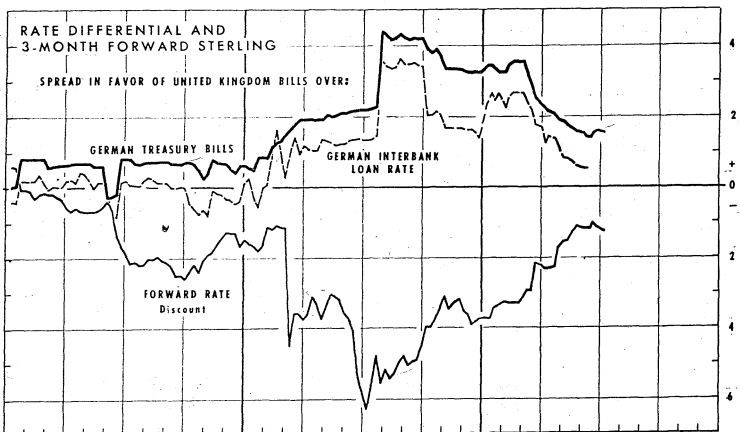
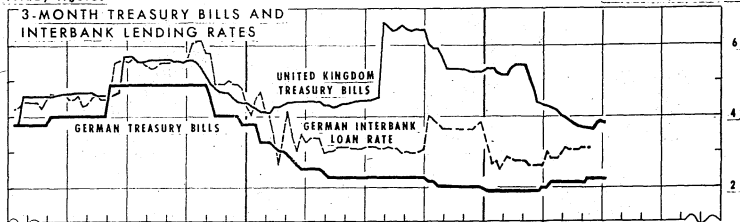
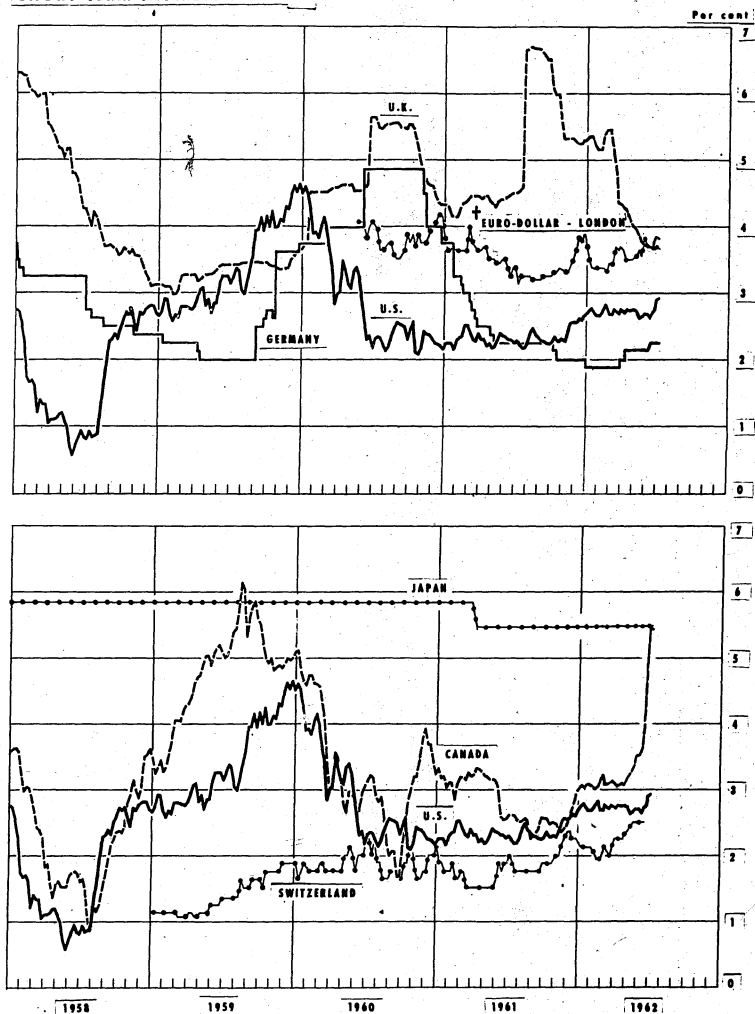


Chart 5

SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).

† 3-month rate for U. S. dollar deposits in London.

Chart 6

LONG-TERM BOND YIELDS

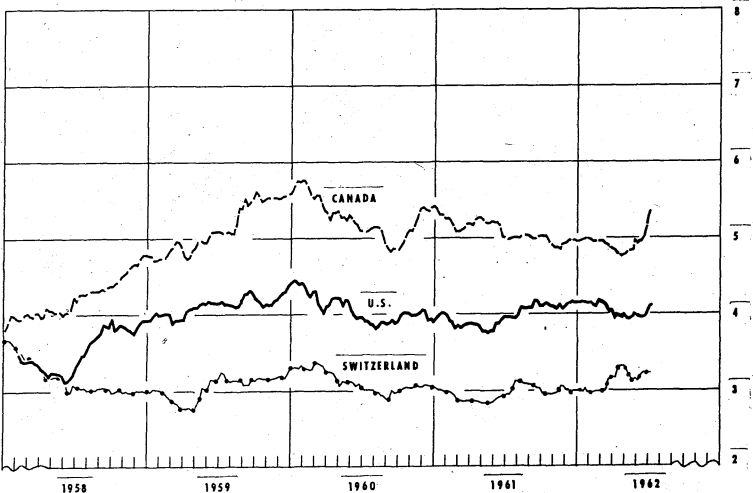
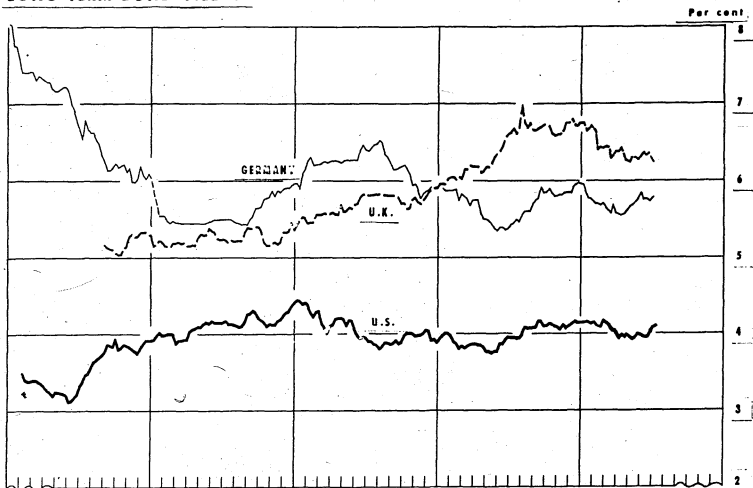
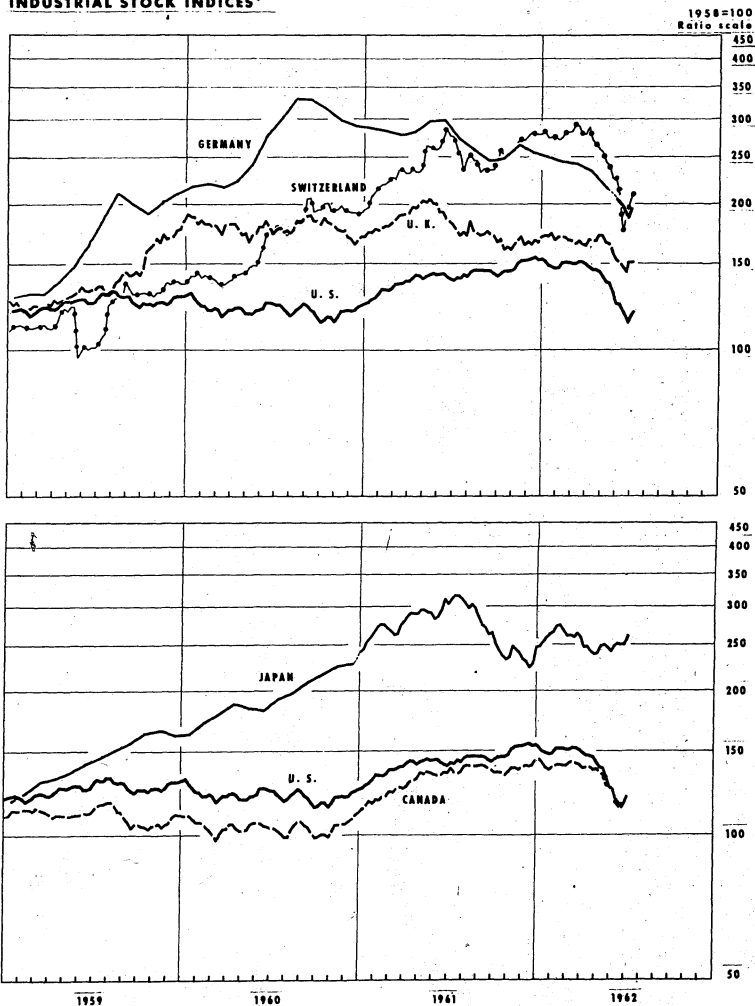


Chart 7

INDUSTRIAL STOCK INDICES*

* Note: Japan: Index of all stocks traded on Tokyo exchange.

Chart 8

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

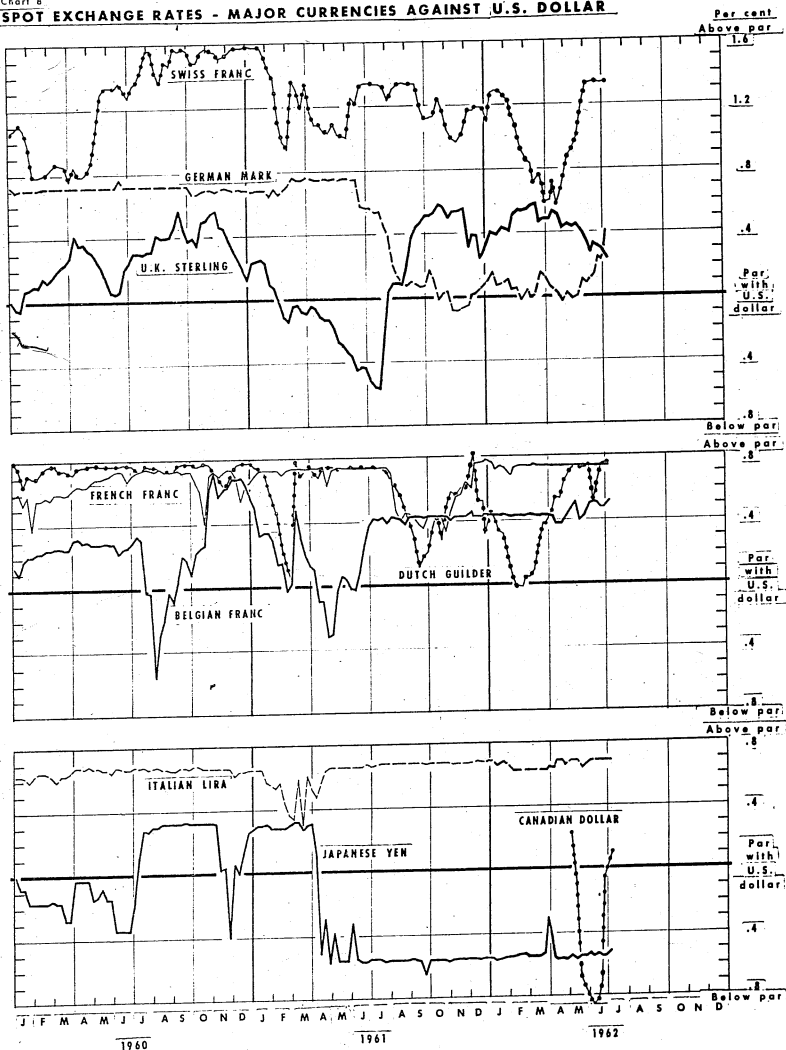


Chart 9

3-MONTH FORWARD EXCHANGE RATES

