

H. 13

February 1, 1963.

No. 93

CAPITAL MARKET DEVELOPMENTS ABROAD

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

I. Japan: Money and Capital Markets During the  
Fourth Quarter of 1962

During the fourth quarter the Japanese authorities found themselves able to relax the policy of monetary restraint which had been introduced in July and September of 1961 to restore equilibrium in the balance of payments and to curb excessive domestic demand. In late October the Bank of Japan decreased its basic discount rate from 7.3 to 6.935 per cent, changed its system of penalty discount rates, and lowered commercial bank reserve requirements. On November 27 the basic discount rate was lowered again to 6.57 per cent.

Money market conditions eased somewhat in October and November but firmed in December. Short-term interest rates leveled off in October, and bank credit, reversing the previous trend, rose at a faster rate in October and November than a year earlier. New issues of bonds and debentures in October and November were at moderately higher levels than earlier in the year. Following a two-year low at the end of October, the stock market by the end of January had recovered to the mid-1962 level.

In December, the Bank of Japan introduced a new policy which alters its credit accommodation arrangements for commercial banks. Under the new program the Bank will provide a larger proportion of its credit through open market operations rather than through direct loans and advances.

During the fourth quarter, official reserves rose by \$121 million despite a \$100 million repayment to three American banks. In January, the authorities took steps to discourage Japanese borrowing abroad.

Money market. Money market conditions generally eased during the fourth quarter as net Treasury disbursements and Bank of Japan purchases of government securities more than offset an expansion in bank notes in circulation and a reduction in Bank of Japan loans and discounts. In addition, the relaxation of monetary restraints, including reductions in the Bank of Japan's basic discount rate in October and November, contributed to an easing in the money market.

OFFICIAL USE ONLY

DECONTROLLED AFTER SIX MONTHS

In December, the contractionary impact of a ¥363 billion rise in bank notes in circulation was more than offset by net Treasury disbursements of ¥258 billion and an increase in Bank of Japan government security holdings of ¥233 billion. The level of Bank of Japan loans and discounts at the end of December was the same as a month earlier.

Interest rates. The steady rise in the general level of interest rates was halted in October when the average interest rate for bank loans and discounts remained at the same level as in September. (See table below) This reflected the easing of monetary restraints in October. With a second cut in the Bank of Japan's basic discount rate in November, a further leveling off or decline in the rate appears likely. The average interest rate had been rising since a low in June 1961 with the increase during the first nine months of 1962 being very slight.

Average Monthly Interest Rates on Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
March	8.18	8.21	7.92	8.22
June	8.08	8.22	7.88	8.23
September	8.06	8.14	8.00	8.24
December	8.11	8.08	8.20	8.24 <sup>1/</sup>

<sup>1/</sup> October.

Call loan rates eased in October and November, but firmed in December. The rate for loans callable at a day's notice fell to 10.22 per cent in October and 9.49 per cent in November, but in December rose to 11.68 per cent, the same level that prevailed during August and September.

Bank loans and discounts. Bank credit rose 3.6 per cent in October-November compared to a 2.7 per cent increase a year earlier. This represented a reversal of the trend prior to October when bank credit tended to increase at a rate slower than a year earlier. This change is due in part to the easing of credit restraints in October and November.

Contributing to the recent rise in bank credit was a substantial increase in bank loans. Securities holdings also increased at a faster rate in October-November than a year earlier. (See table below). Deposits also continued to expand at a more rapid pace than a year earlier.

The proportion of bank loans and discounts extended for purchases of equipment averaged 17.37 per cent in October-November, about the same level as at mid-year.

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

	Deposits	Per cent Change	M A I N A S S E T S					Per cent Change
			Loans	Per cent Change	Bills Discounted	Per cent Change	Securities	
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
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
Oct.-	+ 41	0.4	+107	1.7	+ 93	3.1	+ 94	5.3
Nov.								
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
II	+ 61	0.6	+181	2.7	+108	3.3	+258	14.1
III	+678	6.4	+223	3.2	+213	6.3	+ 41	2.0
Oct.-	+245	2.2	+298	4.2	+ 39	1.1	+129	6.1
Nov.								

Bond market. New issues of bonds and debentures of all types continued to rise moderately in October and November over earlier levels. Total new issues were ¥116 billion in October and ¥118 billion in November compared to ¥109 billion in September and a monthly average for the third quarter of ¥98 billion. New issues of bank debentures in October-November averaged ¥74 billion, up ¥12 billion from the third quarter average.

Average yields on most bonds and debentures in October and November remained unchanged from the levels since the first of the year, but the yield on industrial bonds declined slightly.

Stock market. During the fourth quarter stock prices recovered much of the ground lost during the third quarter. (See Chart 7). After reaching a two-year low on October 29, stock prices advanced substantially in November. Following some easing in December, prices advanced again in January as indicated in the table below.

Dow Jones Average of 225 Stocks  
First Section of Tokyo Stock Exchange

Oct. 3	¥1,240	Nov. 14	¥1,413	Dec. 26	¥1,432	1961 High	¥1,830
10	1,302	21	1,393	Jan. 4	1,418	Low	¥1,250
17	1,246	28	1,440	9	1,421		
24	1,244	Dec. 5	1,436	16	1,414	1962 High	¥1,590
31	1,260	12	1,420	23	1,454	Low	¥1,216
Nov. 7	1,372	19	1,432	30	1,452		

An important factor in the market recovery was the extension of special loans to the major security companies. During the fourth quarter at least ¥15 billion in special financing was made available as a result of actions taken by the Minister of Finance and 14 leading Japanese banks.

Foreign trade. The trade balance worsened in the fourth quarter, with exports down 3 per cent from the third quarter level and imports up 6 per cent. (See table below). The average monthly deficit in the fourth quarter was \$54 million, or \$648 million at a seasonally adjusted annual rate, compared to an annual rate of \$156 million in the third quarter. In October and December the Japanese authorities reduced substantially the advance import deposit requirements imposed in 1961 during the period of balance-of-payments difficulties. 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
1961	Year	353	484	-131
	I	343	427	- 84
	II	351	464	-113
	III	357	506	-149
	IV	364	546	-182
1962	I	371	492	-121
	II	409	466	- 57
	III	434	447	- 13
	IV	421	475	- 54
	October	424	492	- 68
	November	405	464	- 59
	December	434	470	- 36

Exchange reserves and capital flows

Japanese international reserves rose \$121 million during the fourth quarter to \$1,841 million in spite of \$100 million in debt repayment to three American banks. On a monthly basis, reserves rose \$85 million in October, fell

\$12 million in November, and increased \$48 million in December. The gain in reserves reflected primarily seasonally high earnings from commodity exports. Japan is scheduled to repay an additional \$100 million in January and February to the above banks, as well as \$125 million to seven U. S. banks between February and July of this year.

The balance of payments, as measured on an exchange transactions basis, registered a surplus on current account (not seasonally adjusted) in the fourth quarter of \$169 million compared to \$128 million in the third quarter. Net long-term capital receipts were down from \$101 million in the third quarter to \$67 million in the fourth quarter, and net short-term capital payments similarly dropped from \$126 to \$76 million. With a net outflow under the errors and omissions item, the over-all balance of payments surplus was \$121 million in the fourth quarter against \$97 million in the third quarter.

The Japanese authorities took several actions in January to discourage foreign short-term borrowing. Overseas branches of Japanese foreign exchange banks were requested to lower by 5/8's of a percentage point the rate of interest paid on short-term dollar denominated deposits. If observed, this would mean a cut in the rate for three-months deposits from 5-1/4 to 4-5/8 per cent. Also, on January 11 foreign exchange banks were required to maintain a reserve of 35 per cent in liquid foreign assets against specified short-term foreign liabilities.

Japanese short-term liabilities to the United States fell \$50 million during October and November according to preliminary reports. (See table below). Since March of 1962 these liabilities have been generally declining, though there is some indication that short-term liabilities to Europe have been rising.

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Jan.	168	362	875	1,515	July	256	586	1,341
Feb.	175	372	952	1,605	Aug.	269	628	1,335
Mar.	204	420	1,069	1,698	Sept.	262	660	1,288
Apr.	224	456	1,159	1,688	Oct.	262	693	1,281
May	242	488	1,196	1,678	Nov.	275	711	1,292
June	260	497	1,272	1,728	Dec.	324	806	1,445
								a/1,712
								a/1,660

a/ Preliminary estimate.

Not: Data since June 1962 include reports of certain banks not previously included. The inclusion of these banks increased the reported figure in June 1962 by \$48 million.

During the fourth quarter Japan raised at least \$27 million in long-term capital in the U. S. In December a \$20 million issue of Tokyo Shibaura Electric Co. convertible debentures was placed privately and \$7 million in Honda Motor Company common stock shares were issued. During the first quarter of this year, Japan is expected to place about \$50 million in long-term capital issues in the U. S.

OFFICIAL USE ONLY

Foreign exchange. During the fourth quarter the exchange rate in the spot market remained unchanged at the official support level. (See table below). In the forward market, the yen strengthened during October and the first ten days of November, narrowing the discount from 1.44 to 0.89 per cent per annum. On November 12, the yen weakened suddenly and the discount widened to 1.06 per cent. During the rest of November, December and the first eight days of January, the yen strengthened in the forward market, declining to 0.78 per cent, but by mid-January was back to a discount of 1.00 per cent.

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>
October 5	358.90	360.20	1.44
12	358.90	360.20	1.44
19	358.90	360.20	1.44
26	358.90	359.75	.95
31	358.90	359.70	.89
November 2	358.90	359.70	.89
9	358.90	359.70	.89
16	358.90	359.85	1.06
23	358.90	359.80	1.00
30	358.90	359.80	1.00
December 7	358.90	359.80	1.00
14	358.90	359.80	1.00
21	358.90	359.70	.89
28	358.90	359.60	.78
January 4	358.90	359.60	.78
11	358.90	359.80	1.00

## II. India: Money and Capital Markets During the

### Fourth Quarter 1962

Effective January 3, 1963, the Reserve Bank of India increased its basic discount rate to  $4\frac{1}{2}$  per cent from 4 per cent, which had been in effect since May 16, 1957. In addition, the three-tier structure of discount rates has been replaced by a two-tier structure.

The Chinese invasion of October 20 greatly influenced financial developments in India during the last quarter of 1962. The Government's efforts to mobilize private gold hoards and restrict the gold trade caused much uneasiness and large price fluctuations in the Indian gold markets. The stock markets were in a depressed state by the end of the quarter, with reduced volume and prices at the minimum levels set by the authorities. To restore business confidence, Parliament approved on December 17 the introduction of compulsory war insurance. The maximum premium rate is 3 per cent, and the Government's liability is limited to 80 per cent of the insured value of goods and factories. On December 24, the Government announced its import policy for the period October 1962 - March 1963. The policy shows little change from the preceding half-year policy of tight restrictions on imports, although some import quotas have been reduced.

It is reported that by the end of the year, there were deposited in the National Defense Fund (established for receiving free contributions of rupees and gold) Rs. 270 million in cash and about 30,000 ounces of gold, valued in international prices at about \$1 million.

Money market. In October and November, the rate for day-to-day money increased gradually, in line with seasonal trends, but was still below the level of the preceding year. (See Table 1). However, in December, the call money rate rose significantly. On December 14, it reached 5.45 per cent. The limitations and increased cost of borrowing from the Reserve Bank of India were encouraging bank borrowing in the call money market. In addition, the nationalized State Bank of India, a large lender in the call money market, began transferring the PL-480 deposits remaining with it to the Reserve Bank in monthly instalments of Rs. 100 million (\$21 million). The total of such deposits to be transferred is about Rs. 1,550 million (\$326 million).

Table 1 Inter-bank Call Money Rates in Bombay  
(in per cent per annum)

<u>Average of period</u>	<u>1961</u>	<u>1962</u>
I	5.23	4.72
II	4.86	3.59
III	3.19	2.72
Oct.	4.23	3.14
Nov.	4.03	3.20
Dec.	4.07	5.01 <u>a/</u>

a/ average of Fridays

OFFICIAL USE ONLY

Gold market. During the last quarter of 1962, the Indian gold market has been characterized by extreme instability, induced in large part by official actions and statements. (See Table 2).

Table 2 Price of Gold Bullion in Bombay: 1962  
(in dollars per fine ounce) a/

<u>Average of Quarter</u>		<u>Selected Dates</u>					
I	78.38	Oct. 5	78.12	Nov. 2	77.54	Dec. 7	66.08
II	80.60	12	76.06	9	71.47	14	67.79
III	82.06	19	77.90	16	68.67	21	73.32
		26	78.66	23	64.85	28	70.68
				30	60.58	Jan. 4	68.13

a/ average spot quotation, converted into dollars at par value

Following the Chinese invasion of October 20, the Indian Government announced plans to issue 6½ per cent gold bonds, redeemable in rupees at the international price of gold, which was less than half the price in the Indian market. This precipitated a selling wave and reduced the price of gold in the first part of November. In mid-November, the Government suspended forward trading in gold, and Mr. Desai, the Minister of Finance, announced that the Government was planning further steps to reduce the price of gold in order to deter gold smuggling into India and to increase the attractiveness of the gold bonds. Mr. Desai mentioned that he expected the price to fall to around \$39 per ounce. As a result of this announcement, the price decline was accelerated in the second half of November.

On December 2, the Finance Minister revealed that gold bond sales had not been satisfactory. Also the Indian press reported that the low gold prices were attracting new buyers of gold. During the first three weeks of December, the price of gold began to rise. On December 26, Mr. Desai said that the Government did not intend to reduce the price of gold in order that people could buy more of it and that further governmental action was planned. As a result, prices again fell.

On January 10, the Government announced the Gold Control Rules which placed severe restrictions on the free market of gold in India. All gold holdings ( in the form of bars, coins, plates, vessels, etc.) must be declared, except ornaments and amounts of less than 50 grams. Only licensed dealers may buy non-ornamental gold, and they must submit returns to the newly constituted gold control board on all gold purchases, and must account for the origin of all the gold they handle. All future ornaments must have a purity not in excess of 14 carats, in contrast to the traditional 22-23 carats of ornaments in India. The manufacture of any gold article other than ornaments of the prescribed purity is prohibited, except with special authorization.



The Government revealed that the purpose of these measures was to reduce smuggling and reduce the internal demand for gold. Since the Gold Control Rules were put into effect, no quotations are available on the market price of gold in India. It has been estimated that 80 per cent of the gold in India is held in the form of ornaments.

Stock market. Indian stock prices continued to decline in the fourth quarter of 1962. The new credit restrictions, the prospect of heavier taxes in the forthcoming Government budget in order to finance enlarged defense expenditures, and general uncertainty about the intentions of the Chinese communists contributed to this downward trend. Since the first week in November, stock prices have fluctuated in a very narrow range around their yearly lows. (See table 3).

Table 3 Price Index of Variable Dividend Industrial Securities: All India  
(1952-53 = 100)

<u>Average of period</u>	<u>1961</u>	<u>1962</u>
I	173.2	190.0
II	181.2	192.6
III	179.7	185.0
Oct.	180.9	178.9
Nov.	186.9	170.5 a/
Dec.	184.3	171.4 a/

a/ average of Saturdays.

In November and December, the trading volume was small and most transactions took place at the floor prices set by the various stock exchanges. Effective November 30, the Indian Government banned forward security trading on all stock markets. This action reinforced measures adopted by various individual exchanges and was taken, according to the Government, to prevent undue speculation.

One noticeable effect of the depressed stock markets has been a sharp curtailment of new equity issues. Plans to float new issues have been postponed and previously announced stock offerings have been withdrawn. Before the Chinese invasion, new issues averaged 5 per month, but between the invasion and the end of the year, there has been only one new issue. It is reported that some companies have turned to commercial banks for short and medium term capital, and that others have shifted from issuing equities to issuing debentures.

Banking developments. The Reserve Bank of India raised its basic discount rate from 4 to 4½ per cent, effective January 3, 1963, and also altered the structure of discount rates. Previously each scheduled bank was permitted to borrow at the basic rate of 4 per cent on amounts up to 25 per cent of its required reserves, at 5 per cent (basic rate plus 1 per cent penalty rate) on the next 25 per cent of

reserves, and at 6 per cent (2 per cent penalty rate) on the remaining 50 per cent of reserves. Now each bank may borrow at the basic rate of  $4\frac{1}{2}$  per cent on amounts up to 50 per cent of required reserves, and at 6 per cent ( $1\frac{1}{2}$  per cent penalty rate) on the remaining 50 per cent. Thus the increased cost of borrowing on the first 25 per cent of reserves is partially offset by an equivalent cost reduction on the next 25 per cent of reserves. A bank which borrows at least up to 50 per cent of required reserves will be subject to the same cost under the present as under the previous arrangement. In announcing the new rate structure, the Reserve Bank stated that the change "formalizes the existing pattern of interest rates and simplifies the system of the Reserve Bank's lending rates."

In the last quarter of 1962, the volume of deposits in scheduled banks declined slightly, in contrast to an expansion in the last quarter of 1961. (See Table 4). However, deposits rose by 11.5 per cent over the year as a whole. Demand deposits rose by 12.0 per cent, and time deposits by 11.2 per cent.

Table 4 Scheduled Banks: Quarterly Changes in Deposits and Principal Assets  
(in millions of rupees)

	Deposits		Bank Credit		M A I N A S S E T S		Cash and Balances with Reserve Bank	Per cent Change
	Per cent Change	Bank Credit	Per cent Change	Gov't. Securities	Per cent Change			
1961								
IV	+260	+1.4	+ 519	+4.2	-381	-6.2	+395	+31.1
1962								
I	+915	+5.0	+1314	+10.3	+217	+3.7	-321	-20.6
II	+972	+5.1	+ 97	+ 0.7	+ 63	+1.0	+273	+22.1
III	+219	+1.1	- 381	- 2.7	+827	+13.6	-262	-17.4
IV	- 5	0.0	+ 418	+ 3.0	-367	-5.3	+ 73	+ 5.9

Seasonal factors influenced the composition of bank assets during the last quarter of 1962. As the harvest and transport of cash and food crops began, the banks were called upon to supply an enlarged volume of credits. The extension of new credit was somewhat less than in the last quarter of 1961, and at the end of the year, total bank credit represented 69.81 per cent of deposits, slightly lower than the 69.94 per cent achieved at the end of 1961. Most of the funds for extending these credits were accounted for by the banks' selling part of their holdings of government securities. The banks' cash and balances with the Reserve Bank rose slightly in the fourth quarter of 1962, but by a much smaller amount than in the corresponding period of 1961, and at the end of the year such reserves represented 6.48 per cent of deposits as compared to 8.30 per cent at the end of 1961.

Exchange reserves. The international assets of the Reserve Bank of India have been stable at around the record low of \$445 million during the last half of 1962 (See Table 5). The statutory minimum is \$420 million. The fourth quarter is generally the time when the Reserve Bank begins to accumulate reserves as exports of India's major products get underway.

Table 5 International Monetary Reserves  
(in millions of dollars - last Friday of month)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>	<u>Change from preceding month</u>
1962 July	247	217	464	
Aug.	247	198	445	- 19
Sept.	247	197	445	0
Oct.	247	194	442	- 3
Nov.	247	196	444	+ 2
Dec.	247	204	451	+ 7

Asia, Africa and Latin America Section.

### III. Nine Charts on Financial Markets Abroad

- Chart 1 - Interest Arbitrage, United States/Canada
- Chart 2 - Interest Arbitrage, New York/London
- Chart 3 - Interest Arbitrage for German Commercial Banks
- Chart 4 - Interest Arbitrage, Frankfurt/London
- Chart 5 - Short-term Interest Rates
- Chart 6 - Long-term Bond Yields
- Chart 7 - Industrial Stock Indices
- Chart 8 - Spot Exchange Rates -- Major Currencies  
Against U.S. Dollar
- Chart 9 - 3-month Forward Exchange Rates

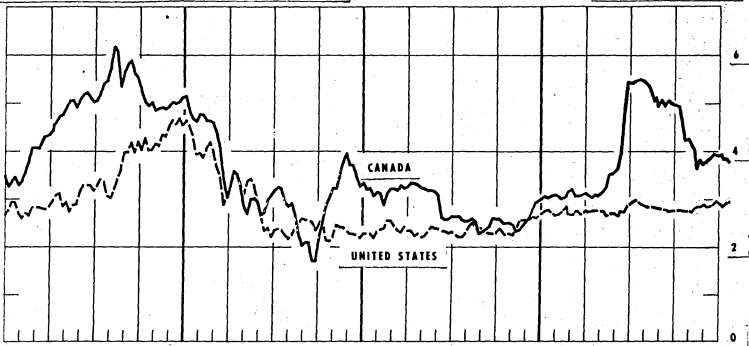
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

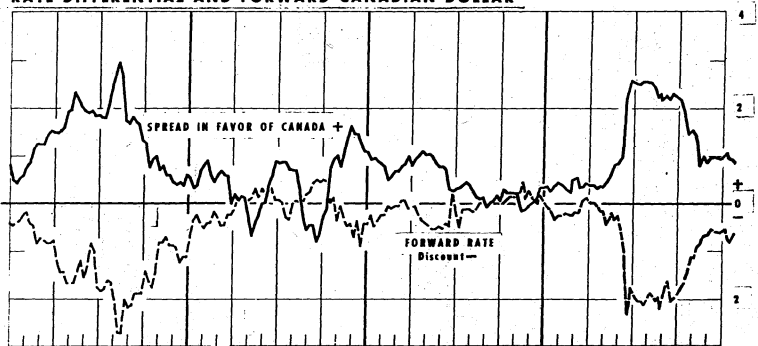
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

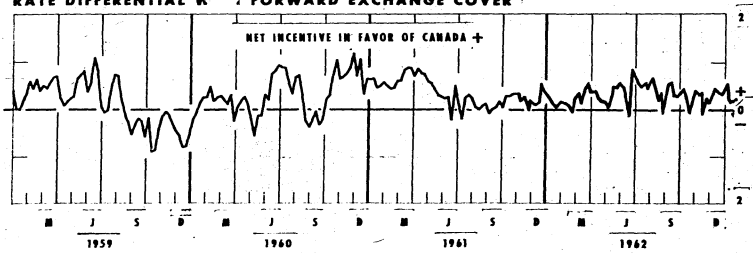
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL W / FORWARD EXCHANGE COVER



13

Chart 2

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

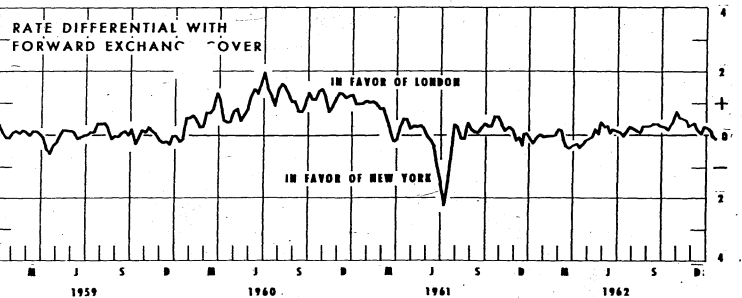
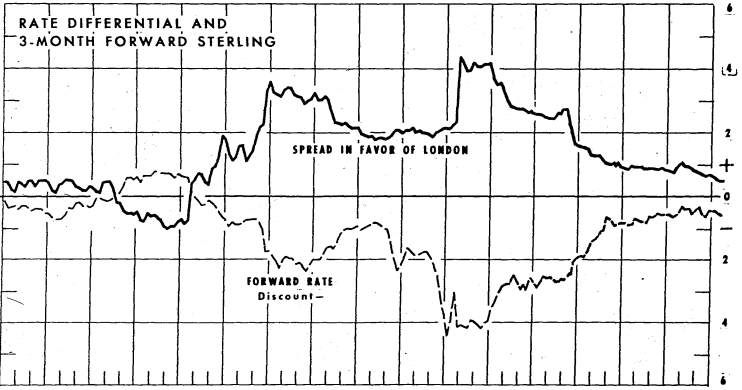
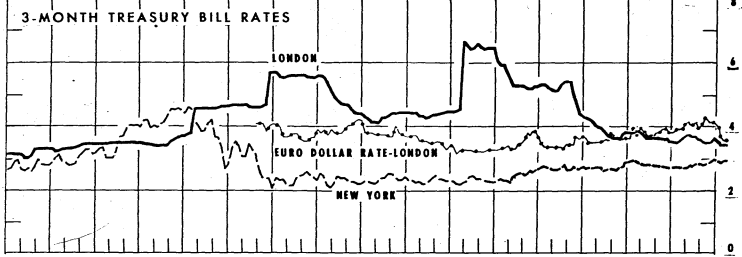
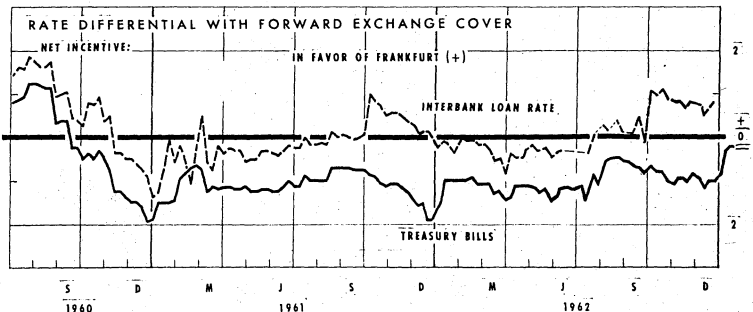
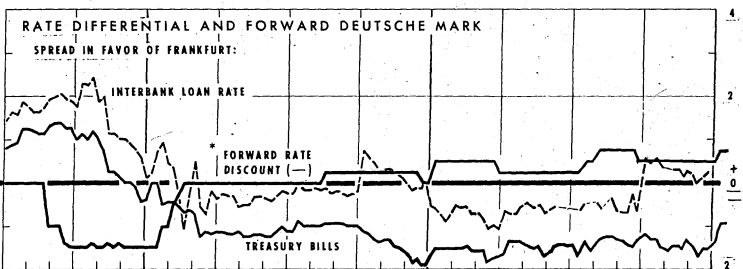
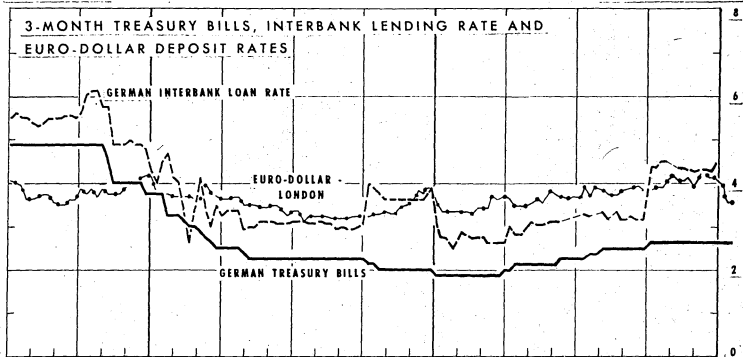


Chart 3

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

15

Chart 4  
**INTEREST ARBITRAGE, FRANKFURT / LONDON**

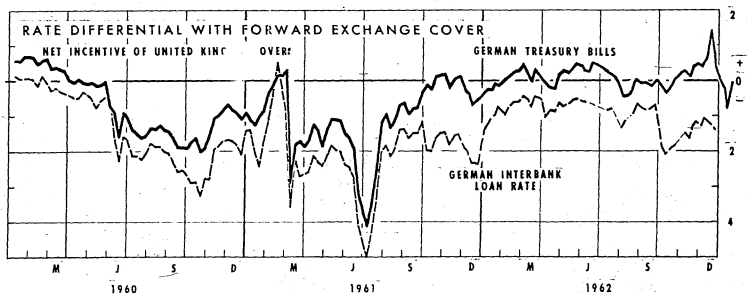
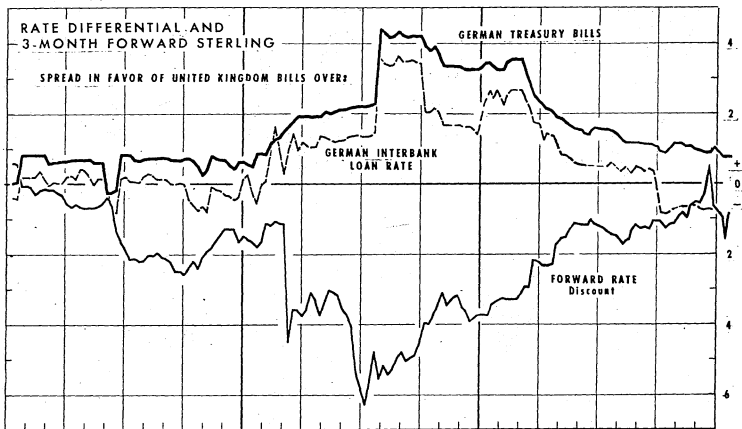
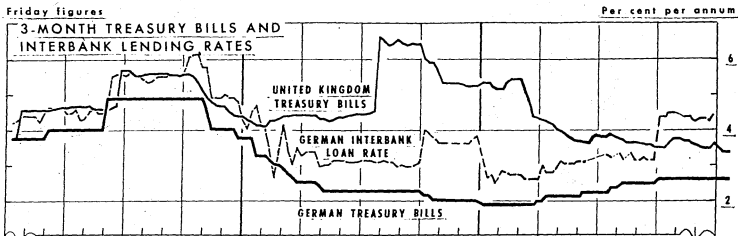
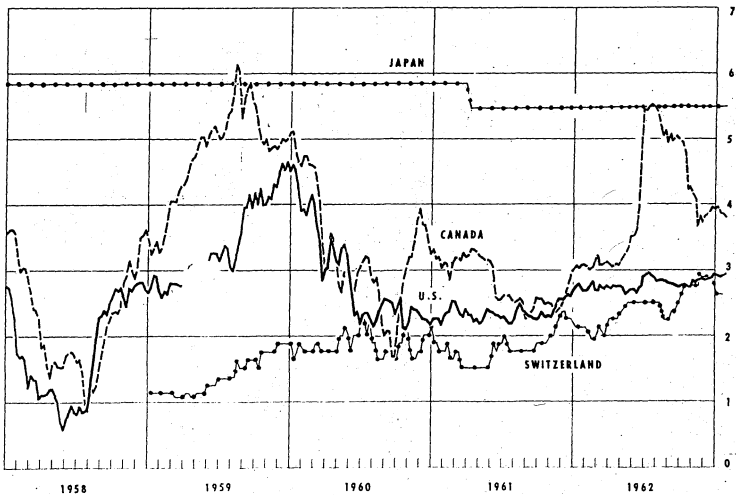
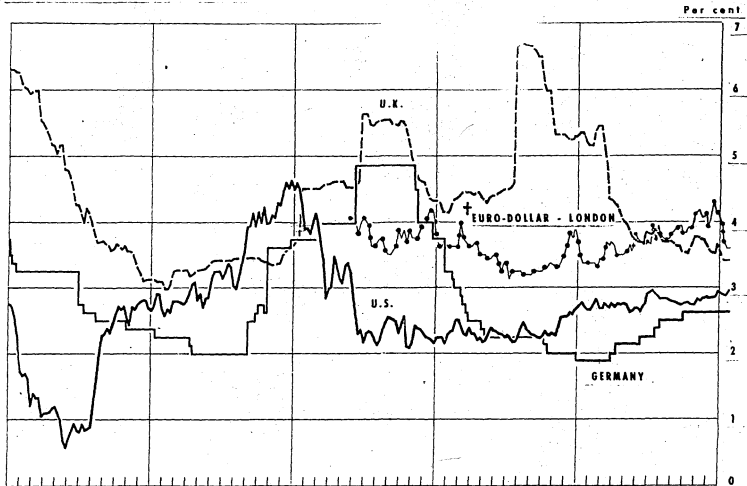


Chart 5  
**SHORT-TERM INTEREST RATES** \*



\* 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



17

Chart 6

**LONG-TERM BOND YIELDS**

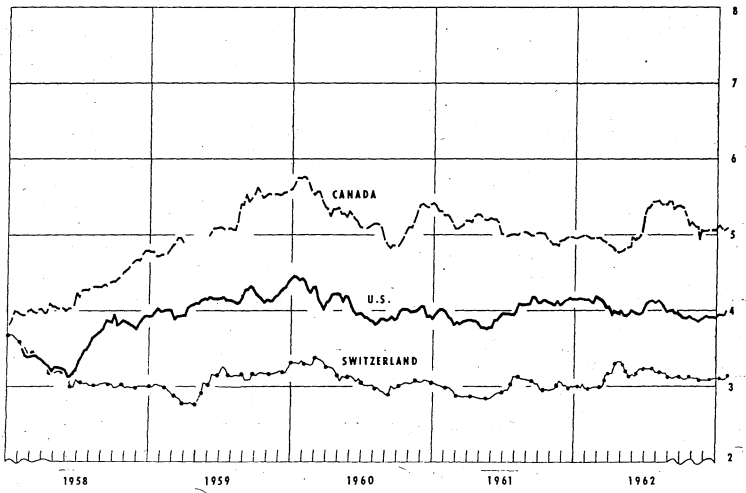
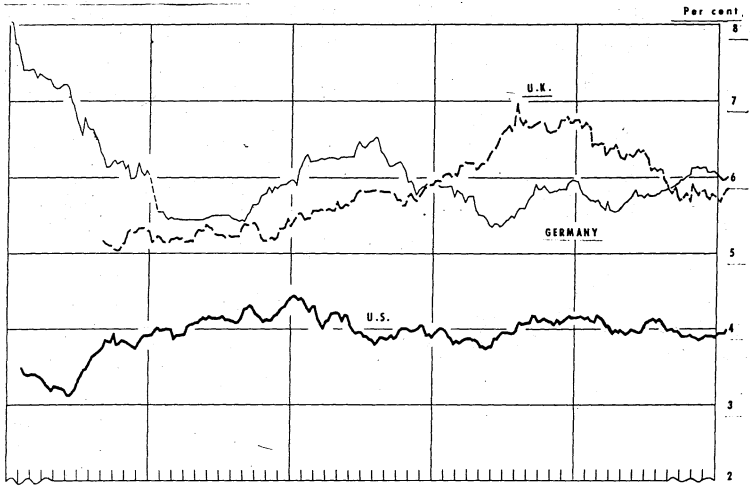
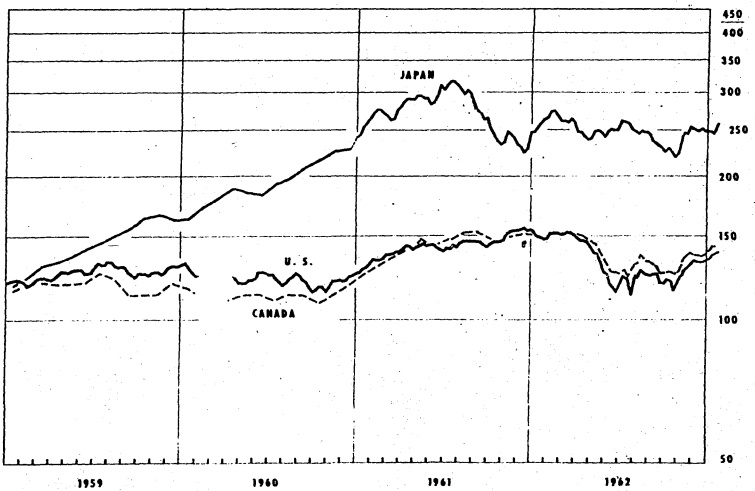
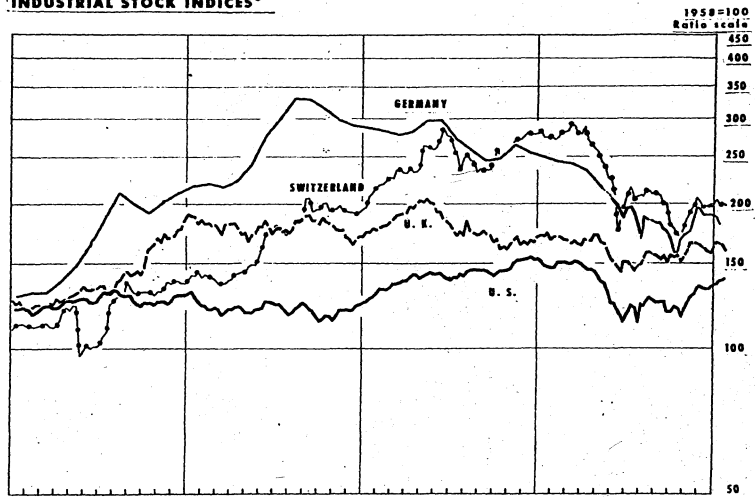


Chart 7

**INDUSTRIAL STOCK INDICES\***



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

19

Chart 8

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

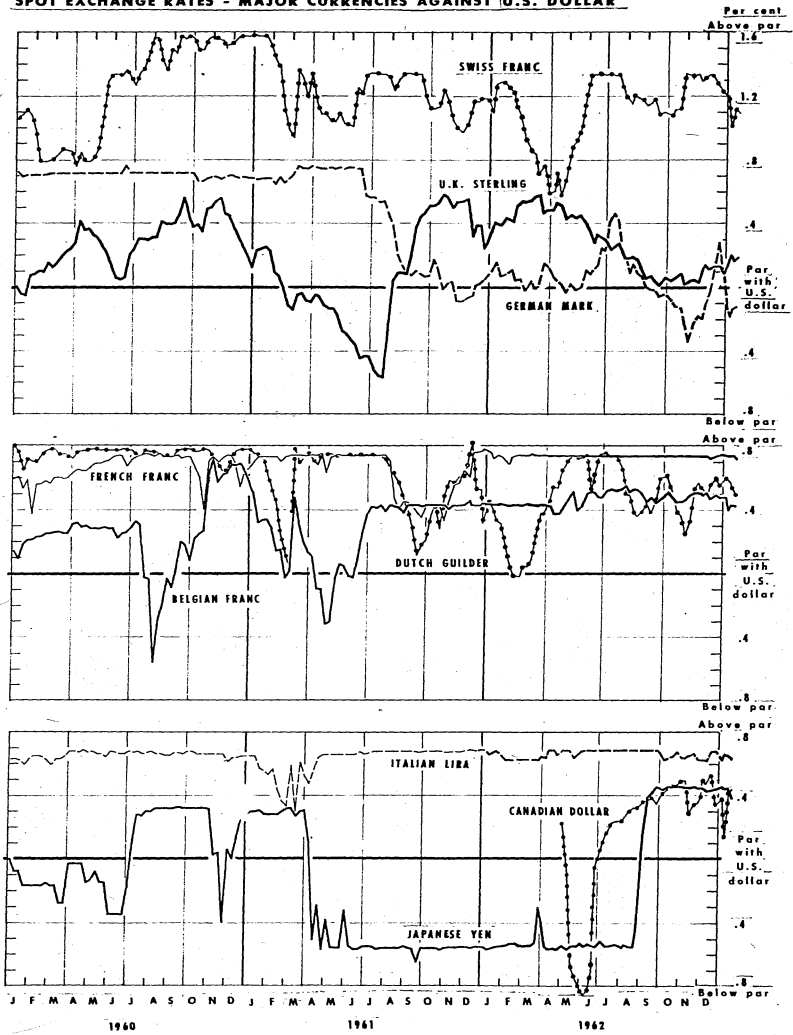


Chart 9  
**3-MONTH FORWARD EXCHANGE RATES**

