

H. 13

APR 10 1963
FEDERAL RESERVE BANK
OF ST. LOUIS

No. 100

CAPITAL MARKET DEVELOPMENTS ABROAD

April 5, 1963.

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

I. Japan: Money and Capital Markets in February

There was a general increase in Japanese foreign borrowing during 1962 and early 1963 with the exception of short-term U.S. bank claims on Japan, which declined slightly from the March 1962 peak. This general rise in liabilities reflected primarily an increase in long-term liabilities to the United States and in short-term debt to Europe. The Japanese do not publish information on their aggregate foreign liabilities, but it is believed that these increased about \$500 million in the Japanese fiscal year ending March 31, 1963. Foreign borrowing was particularly heavy in January of this year when the balance of payments, as measured on an exchange transactions basis, registered \$109 million in net capital receipts.

In the January-March period this year, Japan floated \$66 million in security issues in the United States. During the fiscal year beginning April 1, 1963, Japan expects to borrow on a long-term basis about \$200 million in the United States and \$35 million in Germany and Switzerland.

In January and February, Japan took several steps to discourage foreign short-term borrowing. The reserve requirements that foreign exchange banks must maintain against specified short-term foreign liabilities were increased and the recommended maximum rates of interest payable on short-term foreign exchange deposits were reduced.

Despite a widening in the seasonally adjusted trade deficit since October, the Bank of Japan reduced its basic discount rate on March 20 from 6.57 to 6.205 per cent. This represented the third cut in the rate since the tight money policy was relaxed last October 27.

Several additional actions were also taken on April 1. Restrictions were lifted on the repatriation of financial capital by foreign investors. Previously a six-month waiting period had been required. Also, the Bank of Japan established reserve requirements for mutual loan and savings banks and credit associations. While this expansion of the application of the reserve requirement system represented basically a tightening measure, its overall impact on the credit situation is likely to be negligible.

OFFICIAL USE ONLY

DECONTROLLED AFTER SIX MONTHS

Despite an increasing rate of credit expansion, money market conditions remained tight in February and call loan rates increased. Stock market prices rose in March and early April, reaching the highest level since August 1961. International reserves fell \$28 million in February, but rose \$6 million in March.

Money market. Money market conditions continued to remain relatively tight in February. An expansionary increase in Bank of Japan loans and discounts of ¥81 billion was more than offset by net Treasury receipts of ¥104 billion, a reduction in Bank of Japan government bond holdings of ¥69 billion and an increase in bank notes in circulation of ¥16 billion. Reflecting these developments, call loan rates firmed in February.

Interest rates. The average interest rate for loans and discounts dropped significantly in the November-December period from 8.24 to 8.09 per cent. (See table below). The decline reflected the reduction by 0.72 percentage points in the Bank of Japan's basic discount rate in October and November. With another cut in the bank's basic discount rate of 0.365 percentage points on March 20, further declines in the average interest rate are likely.

Average Monthly Interest Rates on Bank Loans and Discounts

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
March	8.18	7.21	7.92	8.22
June	8.28	8.22	7.88	8.23
September	8.66	8.14	8.00	8.21
December	8.11	8.08	8.20	8.09

Call loan rates firmed slightly in February, but still remained substantially below the levels in 1962. The rate for loans callable at 30 days' notice rose from 8.02 per cent in January to 8.40 per cent in February. This reflected the net contractionary impact of developments in the money market during the month.

Bank loans and discounts. In January, as in the previous two months, credit continued to rise at a faster rate than a year earlier. The rise in total bank credit in January was 1.8 per cent against 0.4 per cent a year earlier. Loans were up 3.1 per cent and security holdings 1.5 per cent, but bills discounted dropped 0.5 per cent. Deposits fell 0.9 per cent in January compared to a 3.1 per cent decline a year earlier.

In the three months ending January 31, total bank credit outstanding rose 7 per cent compared to 5 per cent in the same period a year earlier. In the same period wholesale prices rose 1.3 per cent.

The proportion of bank loans and discounts extended for purchases of equipment, which had reached a peak of 17.4 per cent in the second quarter of 1962, fell to 16.9 per cent in January, the lowest level since July of 1961.

Bond market. New issues of bonds totaled ¥115 billion in January, down somewhat from the fourth quarter level but higher than in the third quarter. New issues of bank debentures were down ¥6 billion to ¥72 billion, and public corporation and industrial debentures were off slightly to ¥24 and ¥19 billion, respectively.

Average yields on bonds and debentures remained unchanged in January from the 1962 levels except for a slight rise in the yields on industrial bonds.

Stock market. After a slight dip in mid-February, stock prices rose steadily through April 1 when a new high for the year was reached. Between the mid-February low and the April 1 high, stock prices increased 10 per cent. The new peak for the year is the highest level since August 29, 1961, and only 11 per cent below the post-war peak on July 18, 1961.

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

Jan. 30	¥1,452	March 6	¥1,511	1962 High	¥1,590
		13	1,522	Low	1,216
Feb. 6	1,495	20	1,554		
13	1,497	27	1,565	1963 High	1,624
20	1,494			Low	1,391
27	1,490	April 3	1,613		

Foreign trade. Japan's seasonally adjusted trade deficit, which worsened during the fourth quarter last year, widened even more during January and February. Exports fell 3 per cent in February from the January level and imports rose 3 per cent. The seasonally adjusted trade deficit at an annual rate rose from \$156 million in the third quarter of last year to \$648 million in the fourth quarter and \$954 million in the January-February period. Since Japan can normally expect to cover with invisible earnings a trade deficit of about \$600 million a year, these data suggest that the Japanese current account has again moved into deficit in recent months. 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>
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	435	468	- 37
	1963	January	409	474
February		395	489	- 94

Exchange reserves and capital flows. International reserves fell \$28 million in February to \$1,856 million. This reflected not only the widening gap on trade account but also a repayment of \$63 million in short-term debt to U.S. banks. The Bank of Japan has now repaid the full \$200 million borrowed between November 1961 and February 1962 from these American banks.

In March, international reserves rose \$6 million to \$1,862 million and Japan repaid \$20 million of a \$125 million credit obtained in January 1962 from seven U.S. banks. During the April-July period, Japan is scheduled to repay an additional \$92 million in settlement of this debt.

The balance of payments, as measured on an exchange transactions basis, registered a deficit on current account (not seasonally adjusted) of \$25 million in February. Net capital outpayments were \$7 million and with net receipts of \$8 million under the errors and omissions item, the overall balance registered a deficit of \$28 million. This contrasts with net capital receipts of \$109 million in January and an overall surplus of \$43 million.

Effective April 1, Japan abolished the six-month waiting period for repatriation of capital by foreign investors. Under the present arrangements, foreign investors will be able to withdraw without delay capital invested in securities in Japan. This action constitutes one more step toward convertibility of the yen tentatively scheduled for the fall of 1964. On April 1, 25 additional import items were liberalized bringing Japan's total liberalization level to 89 per cent relative to the base year of 1959.

Japanese short-term liabilities to the United States fell \$41 million in January, according to preliminary reports. (See table below).

	1959	1960	1961	1962	1963		1959	1960	1961	1962
Jan.	168	362	875	1,601	a/1,690	July	256	586	1,341	1,758
Feb.	175	372	952	1,685		Aug.	269	628	1,335	1,766
Mar.	204	420	1,069	1,777		Sept.	262	660	1,421	1,710
Apr.	224	456	1,159	1,773		Oct.	262	693	1,281	1,709
May	242	488	1,196	1,761		Nov.	275	711	1,292	1,660
June	260	497	1,272	1,757		Dec.	324	806	1,528	a/1,731

a/ Preliminary estimate.

NOTE: Data since December 1961 include reports of certain banks not previously included. The inclusion of these banks increased the report for January in December 1961 by \$52 million.

During the first quarter of 1963, Japan placed \$66 million in security issues in the United States. These included a \$22.4 million issue by the Japan Development Bank, a \$6.7 million issue of American Depository Receipts shares by the Nippon Electric Co., Ltd., and a \$21.8 million A.D.R. issue by Kansai Electric Power Company.

Foreign exchange. The exchange rate in the spot market remained unchanged at the official support level during February and the first half of March. The yen continued to weaken, however, in the forward market as the discount rose from 2.17 per cent early in February to 2.28 per cent in March. During the third week of February there was a temporary strengthening of the yen in the forward market, but this was short-lived. (See table below). It is likely that the continued weakening of the yen in the forward market reflects in part the widening trade deficit.

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

	Yen-dollar Spot Middle Rate	Three-month Forward middle Rate	Forward Discount in per cent per annum
January 25	358.90	360.45	1.73
February 1	358.90	360.85	2.17
8	358.90	360.85	2.17
15	358.90	360.85	2.17
22	358.90	360.75	2.06
March 1	358.90	360.95	2.28
8	358.90	360.95	2.28
15	358.90	360.95	2.28

II. India: Money and Capital Markets during February 1963

The most significant financial development in February was the presentation of the central Government's budget for 1963/64 on the last day of the month. The budget called for a more than doubling of defense expenditures, from an originally budgeted sum of Rs. 3.76 billion (\$790 million) in 1962/63 to Rs. 7.67 billion (\$1,821 million). Budgeted development expenditures have also been increased, by \$250 million. Total expenditures are expected to reach Rs. 26,790 million (\$5,626 million).

Part of the enlarged expenditures will be met by additional taxes, which are expected to yield Rs. 2.76 billion (\$580 million). These added taxes include much higher income, customs and sales taxes, and a new excess profits tax. This new tax has been set at 50 per cent of a company's net income after taxes in excess of 6 per cent of its capital and reserves, and 60 per cent of income in excess of 10 per cent of capital and reserves. In addition, a compulsory savings scheme is expected to yield Rs. 0.65 - 0.70 billion. The increased revenues are not sufficient to cover the added expenditures, and a budgetary deficit of Rs. 8,276 million (R 738 million) is projected. This deficit, representing 30.9 per cent of total expenditures, is expected to be covered by new foreign loans (\$970 million), new PL-480 deposits in the Reserve Bank (\$189 million), and net Government domestic borrowing (\$579 million).

During the month of February, the market for short-term money became extremely tight, and banks sold large amounts of government securities to obtain funds to accommodate the growing demand for bank credit. The stock markets had been returning to normal trading operations in the period prior to the budget speech, but the new budget precipitated widespread price declines.

Money market. The rate for day-to-day money increased very markedly in February. (See Table 1). This rise in the rate for short-term money began during the week ending January 4, and by mid-March, the rate had reached a very high level of 6.28 per cent. This is partly due to seasonal factors, but since the February rate is more than 1 per cent higher than in February 1962, other factors also appear to be involved. Among these are the measures introduced since the latter half of 1962 to limit borrowing from the Reserve Bank and to increase its cost. The failure of aggregate deposits at the scheduled banks to expand as they did in the previous year is also a factor in the rate rise. (See Table 4).

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

Monthly average

Dec. 1962	5.00	Dec. 1961	4.07
Jan. 1963	4.86	Jan. 1962	4.49
Feb. 1963	5.80 a/	Feb. 1962	4.62

Selected dates - 1963

Feb. 1	5.32	March 1	6.02
8	5.82	8	6.17
15	6.01	15	6.28
22	6.03		

a/ Average of Fridays.

Gold market. The Indian gold market continued to be disorganized throughout February, as a result of previous governmental measures to control the gold trade. Available price quotations in the Bombay market indicate the Government's actions have caused a sharp price decline. (See Table 2). The price of gold on March 1 was 8.5 per cent less than that at the end of 1962 and 23.8 per cent less than the record high at the end of August 1962. It was the lowest price in over 4 years.

The Finance Minister, Mr. Morarji Desai, is reported to have said that if the present gold control measures failed, the Government would take other steps to bring down gold prices and prevent smuggling. He revealed that the final objective of the Government was to concentrate all holdings in Government hands, but that this did not mean that confiscation or compulsion would be used to achieve this.

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

Monthly average

Dec. 1962	69.28	Dec. 1961	78.25
Jan. 1963	68.69	Jan. 1962	76.94

Selected dates - 1963

Feb. 22	67.60
March 1	64.66

a/ Average spot quotations, converted into dollars at par value.

OFFICIAL USE ONLY

Stock market. Indian stock prices continued to decline in February, the price index being 2.6 per cent lower than in January and 12.4 per cent lower than in February 1962 (See Table 3). In mid-February the remaining floor price restrictions on stocks in the Bombay market were eliminated.

The stock markets reacted sharply to the Finance Minister's budget speech of February 28. The prospect of substantially increased taxes and the fear of reduced profits resulting therefrom precipitated a larger selling wave. Prices of individual shares on the Bombay stock exchange are reported to have fallen by 4 to 10 per cent. On March 5, the exchange authorities closed the market and reimposed floor price restrictions. These regulations have since been partially relaxed.

It appears that the tax measure most disliked by Indian businessmen is the proposed excess profits tax which, it is feared, will discourage private investment in new enterprises and inhibit the expansion of existing facilities.

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

Monthly average

Dec. 1962	171.4	Dec. 1961	184.3
Jan. 1963	171.1	Jan. 1962	187.4
Feb. 1963	166.7	Feb. 1962	190.3

Selected dates - 1963

Feb. 2	166.9	March 2	169.3
9	165.4	9	164.5 a/
16	166.6		
23	167.7		

a/ Provisional.

Banking developments. Bank credit continued to expand in February, and at a higher rate than a year earlier (See Table 4). However, bank deposits fell by Rs. 26 million as compared with an increase of Rs. 224 million in February 1962. This is partly due to the fact that the State Bank is now transferring PL-480 deposits to the Reserve Bank, at the rate of Rs. 100 million a month. The expansion of bank credit in the face of the drop in deposits has been met in substantial part by a reduction in scheduled banks' holdings of government securities, as well as by heavy borrowing from the Reserve Bank, a reduction in liquidity, and by an increase in demand and time liabilities other than deposits. It is reported that by mid-March most of the banks had borrowed up to 100 per cent of their quotas with the Reserve Bank.

OFFICIAL USE ONLY

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

	Deposits		M A I N A S S E T S				Per cent Cash and Balances with Reserve Bank	Per cent Change
	Per cent Change	Bank Credit	Per cent Change	Gov't Securities	Per cent Change			
1962 Feb.	+222	+1.2	+389	+3.0	- 86	-1.4	- 20	- 1.6
Dec.	- 5	0.0	+484	+3.5	-466	-6.6	+157	+13.5
1963 Jan.	+113	+0.5	+495	+3.5	- 39	-0.6	- 81	- 6.1
Feb.	- 26	-0.1	+540	+3.7	-332	-5.1	- 4	- 0.3

On March 13, 1963, the Reserve Bank of India announced a new "Export Bills Credit Scheme," designed to create an export bill market in India and thus encourage exports. Under the scheme, scheduled banks will be enabled to borrow from the Reserve Bank against export bills in Indian currency at the bank rate of $4\frac{1}{2}$ per cent, provided the scheduled bank does not charge the exporter more than 6 per cent. Advances against export bills will be in addition to each bank's borrowing quota from the Reserve Bank, except for those banks whose quotas include borrowings at a penal rate of interest ($6\frac{1}{2}$ per cent).

Exchange reserves. The international monetary assets of the Reserve Bank of India rose significantly in February and early March, after a six-month period of relative stability at very low levels. (See Table 5). The delayed seasonal increase in reserves is partially the result of the shipping strike which hindered the internal movement of Indian tea to ports for export.

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

Month

December 1962	451	December 1961	563
January 1963	448	January 1962	537
February 1963	472	February 1962	533

Selected dates - 1963

February 1	447	March 1	474
8	455	8	483
15	468	15	491
22	472		

At the end of February, the Reserve Bank announced that travelers to India may no longer bring with them up to Rs. 75 per person in Indian currency. This move is designed to supplement previous measures for checking smuggling financed with Indian currency.

Asia, Africa and Latin America Section

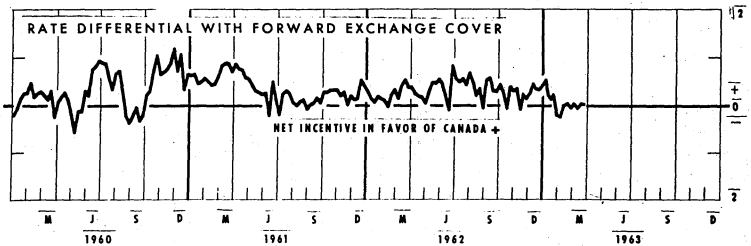
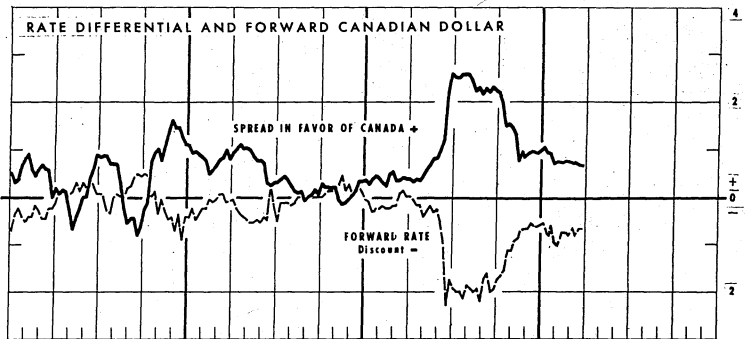
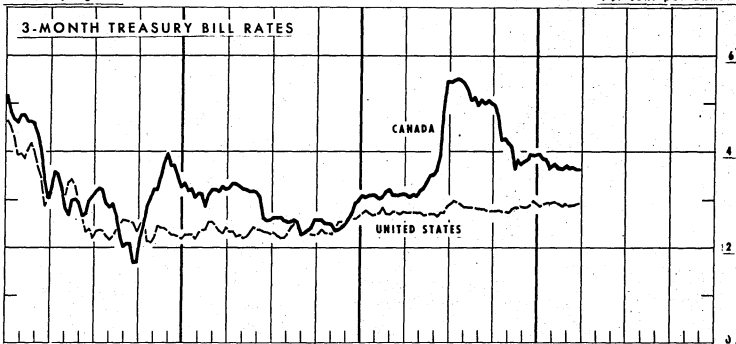
III. Nine Charts on Financial Markets Abroad

- 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

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum



12

Chart 2
INTEREST ARBITRAGE, NEW YORK/LONDON

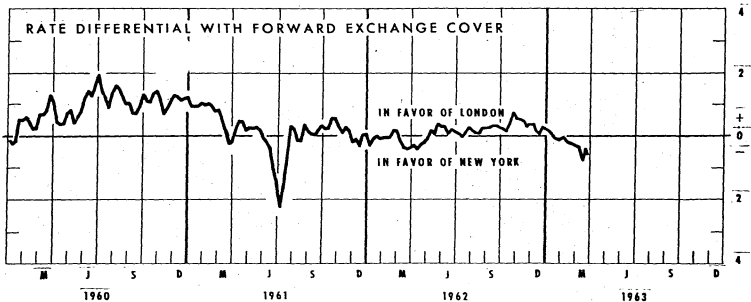
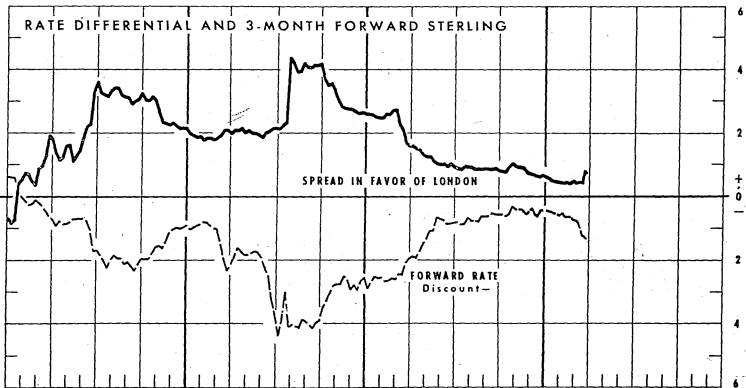
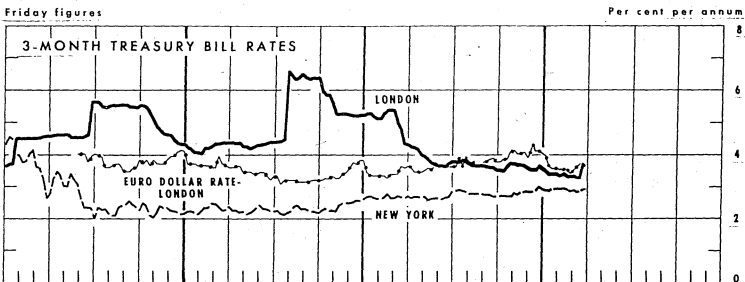
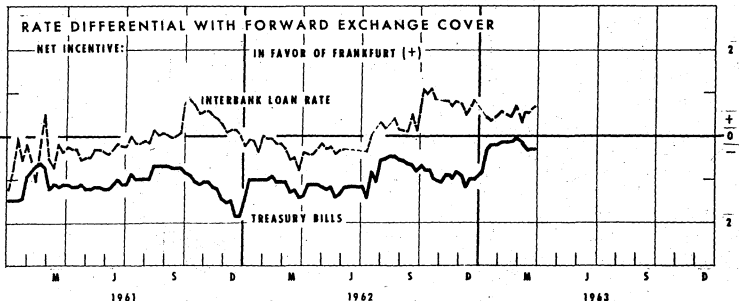
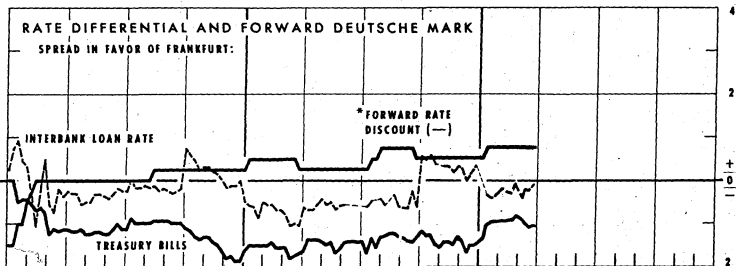
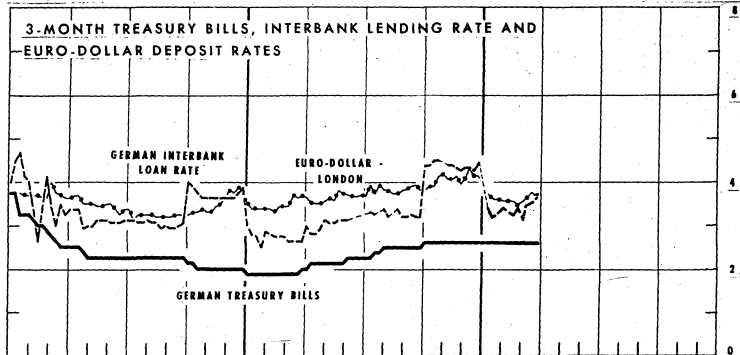


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures x Per cent per annum



*Note: Special forward rate available to German commercial banks.

14

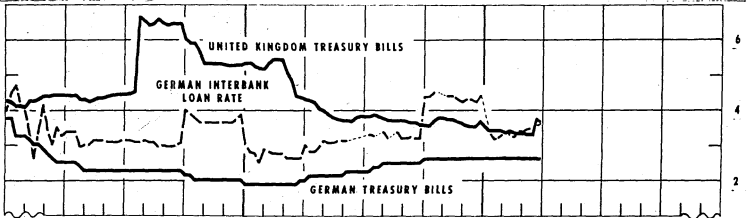
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

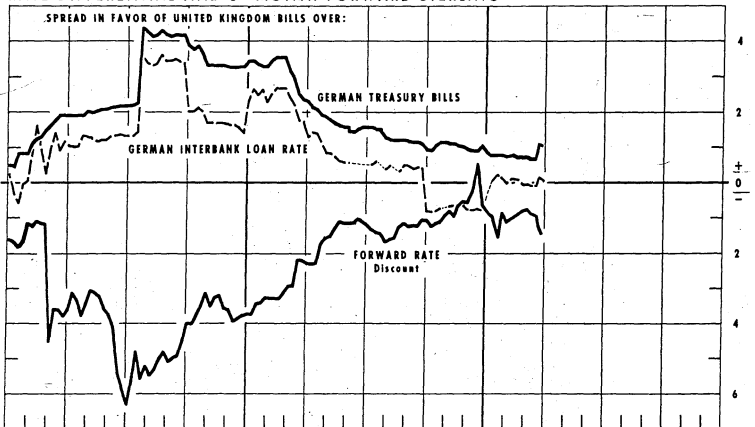
3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND 3-MONTH FORWARD STERLING

SPREAD IN FAVOR OF UNITED KINGDOM BILLS OVER:



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

NET INCENTIVE OF UNITED KINGDOM OVER:

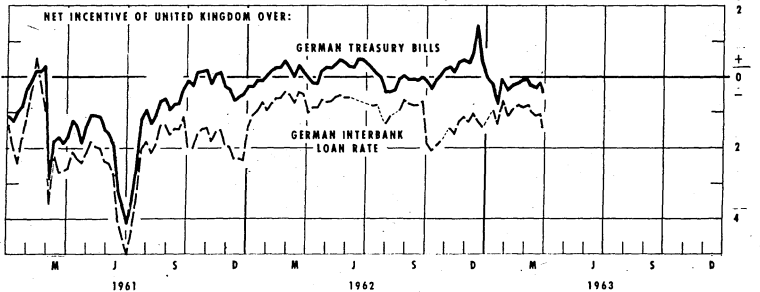
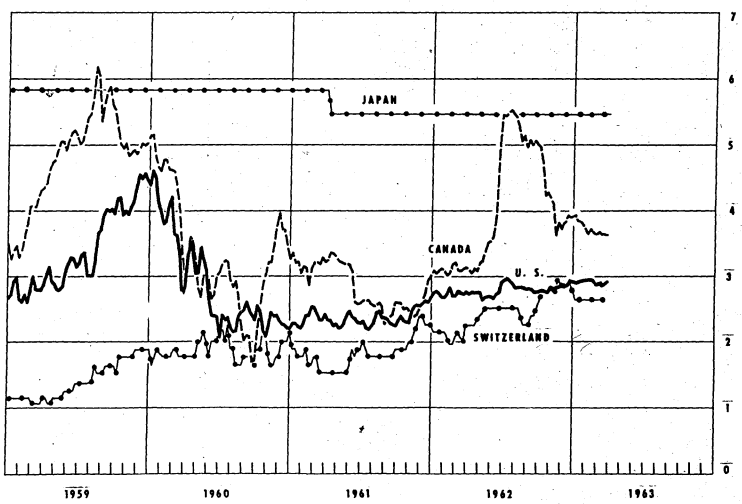
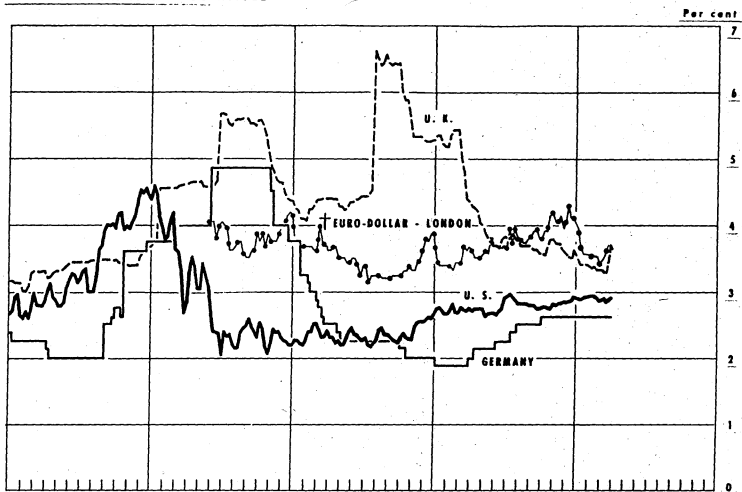


Chart 5
SHORT-TERM INTEREST RATES *



* 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.

16

Chart 6

LONG-TERM BOND YIELDS

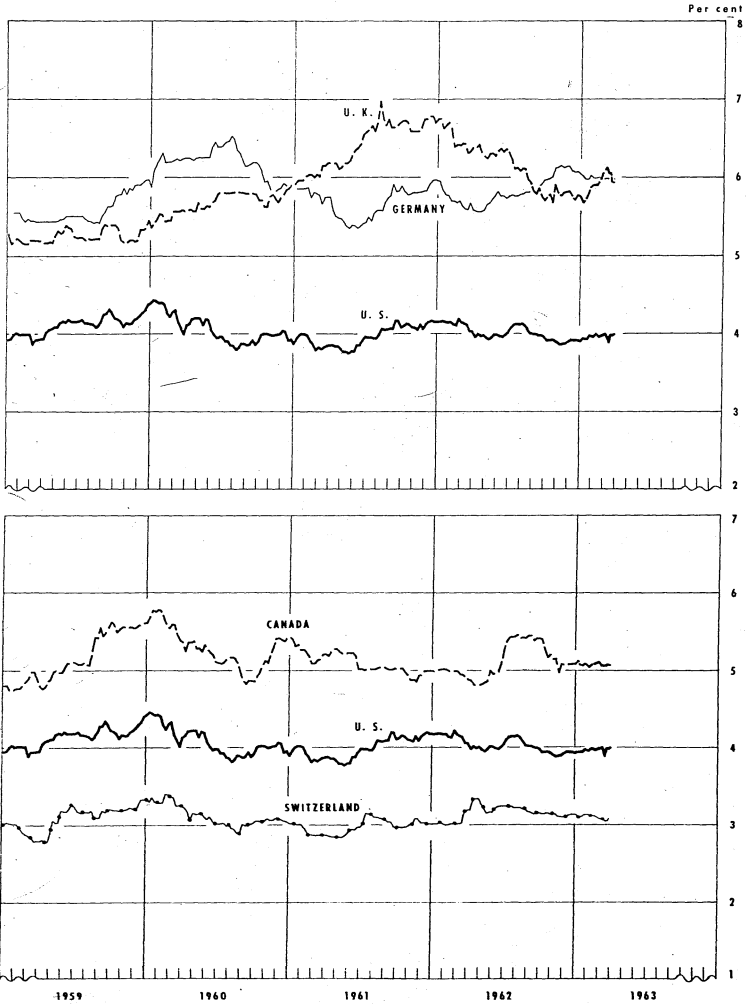
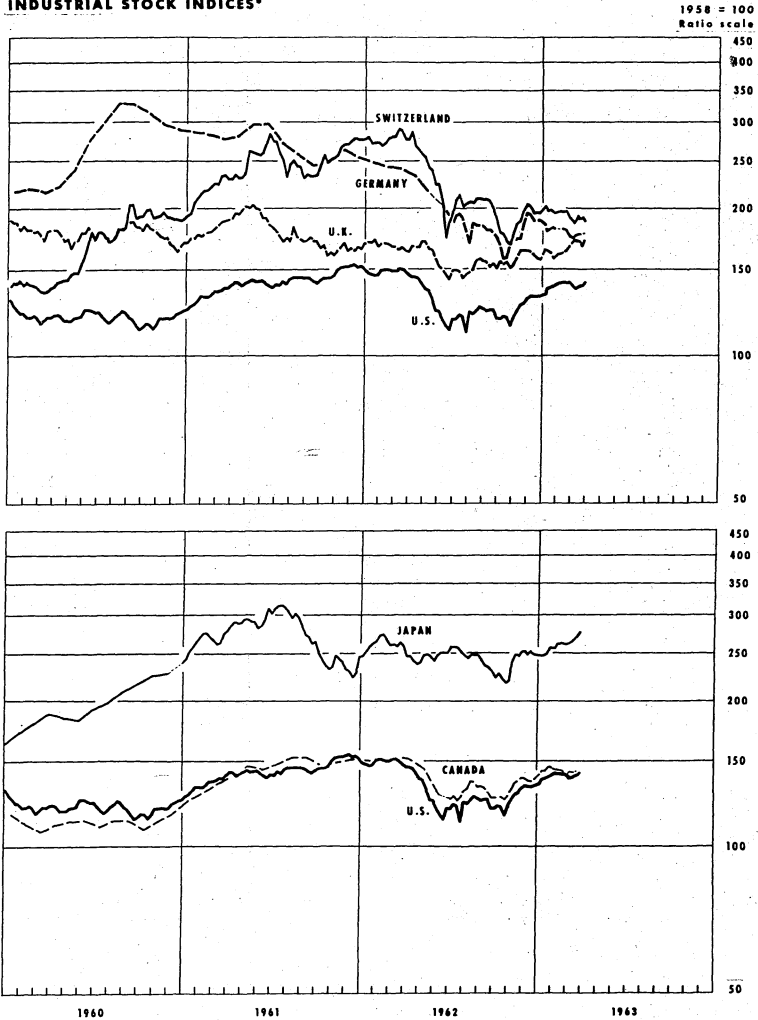


Chart 7
INDUSTRIAL STOCK INDICES*



*Note: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

18

Chart 8

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

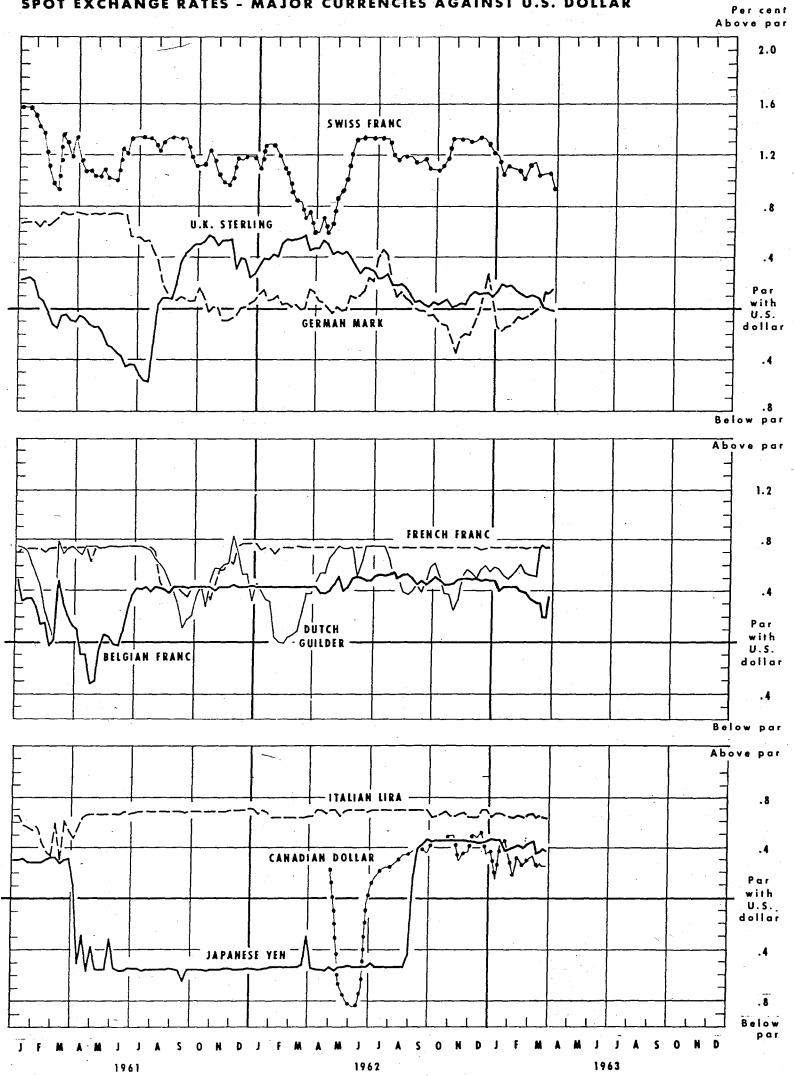
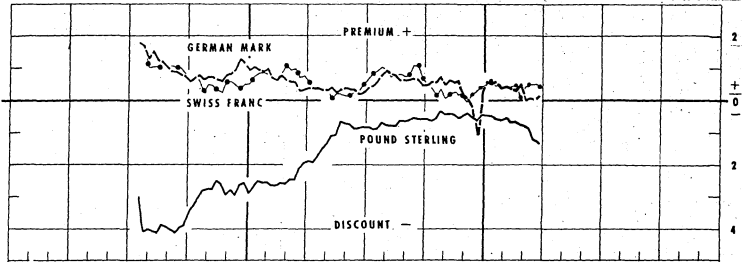


Chart 9

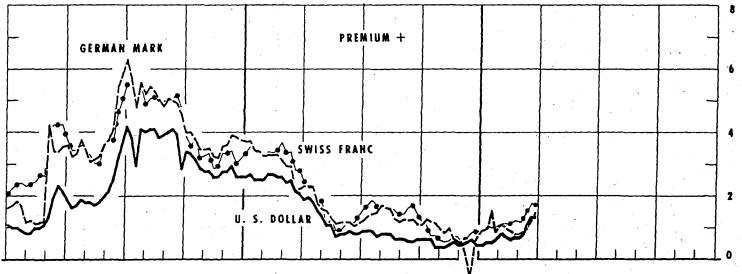
3-MONTH FORWARD EXCHANGE RATE

Friday figures
AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

