

# Starting Over

The year 1991 marked a watershed for Japan's finance and securities industries. After several years of debate, the authorities set a clear direction for the reform of the industries and a timetable for the deregulation of interest rates. In addition, top managers at several major banks and securities companies resigned over scandals.

In June, the Financial System Research Committee and the Securities and Exchange Council, both advisory organs to the Ministry of Finance, released reports recommending reforms to the financial system. Both committees proposed scrapping the barriers between banks and securities companies by allowing them to participate in each other's industries via subsidiaries (allowing banks to set up securities subsidiaries and vice versa). On the basis of their recommendations, the Ministry of Finance will submit the Finance and Securities Reform Bill to the Diet. The 1990s will thus be a decade in which reforms are enacted and become established.

For banks, the deregulation of interest rates represents a major change in the way they will be doing business, and in July the Ministry of Finance finally firmed up the timetable for how deregulation would take place. The first move came in November with the deregulation of time deposits of ¥3 million (\$23,080) or more. This is the first time deregulated

interest rates have been available on a level accessible to individuals. Interest on all time deposits will be completely deregulated by early 1993, with interest on all deposits other than current (checking) accounts deregulated in or around 1994.

One of the most startling things about 1991 was the large number of mergers between financial institutions driven together by common worries about their chances for survival in the reformed and deregulated environment that is taking shape. In April Kyowa Bank and Saitama Bank, both medium-sized commercial banks, merged to form the Kyowa Saitama Bank. Another commercial bank, Tokai, merged with a Tokyo-based credit association. There are also two mergers among regional banks and any number of mergers among credit associations that have already gone through or will be approved shortly.

It has been push and pull for Japanese stock prices since the market collapsed in 1990. Both individual investors and domestic institutions suffered losses during the 1990 nosedive, and are holding back on their equity investments as a result. Trading volumes on the Tokyo Stock Exchange (TSE) are now roughly half what they were during their 1988-1989 peak. And with prices stagnant, companies have been unable to raise money from the market, either. Flotations of new shares on the market, convertible bonds and



A traditional New Year ritual for the securities industry, which was buffeted by scandals in 1991.

warrant bonds have virtually dried up.

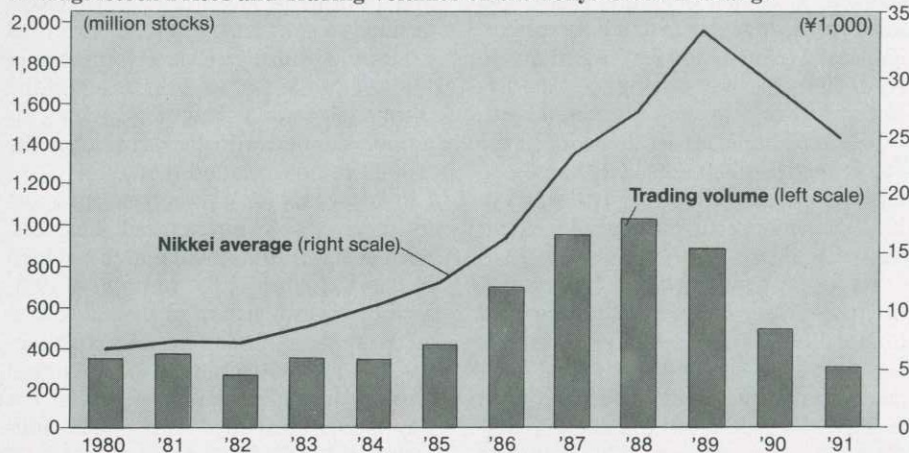
These trends have had a major impact on the earnings of securities companies, which make most of their money from trading commissions and underwriting fees. During the boom, brokerages splurged on new offices and fancy computer systems, which leaves them with high overheads in the midst of a declining market. Most securities firms posted steep drops in profits at the fiscal 1991 mid-term, and many of the smaller brokerages were in the red. The slowdown in economic growth will mean a decline in interest rates, which some analysts say will help equity prices recover. Others, however, point to slumping corporate profits as a reason for prices to remain stagnant. Regardless of which side they stand on, no one is expecting a quick recovery.

Spring and summer 1991 witnessed a number of scandals in the financial services industries. Several major banks were found to be lending against fictitious deposits, while the "Big Four" in the securities industry were caught making up losses for their larger corporate clients. This resulted in a flurry of resignations as top managers at banks and securities houses stepped down to take responsibility for their firms' misdeeds.

Thus, for Japan's finance and securities industries, 1991 was a watershed, and 1992, in more ways than one, represents a new beginning.

(Takuya Mizukami, senior economist)

## Average Stock Prices and Trading Volumes on the Tokyo Stock Exchange



Notes: 1. Average daily trading volume for the First Section of the TSE.

2. Figures for 1991 are through August only.

Source: Annual securities statistics, TSE