

Zest to Invest

The advance of Japanese financial institutions into overseas markets continued in 1987. Foreign subsidiaries of Japanese banks and securities firms boosted their presence remarkably, climbing into the upper ranks of Euro-bond underwriters.

Rapid progress in market liberalization was the keynote on the domestic front. Particularly striking was the deregulation of large amount time deposits, whose minimum sum was halved to ¥10 million on October 1. Deposits with officially controlled interest rates ceased to grow, while those tied to market rates surged, helping expand total deposits not only at major banks but at smaller financial institutions as well. Some measures toward decontrol were also taken in the securities field, including sharp cuts in commissions paid in stock and convertible bond trading. And finally, commercial paper (CP) offerings were given the go-ahead effective November 20. The businesses eligible to issue CPs are still limited, but CP flotation has drawn attention as a new tool for raising short-term funds that could radically change corporate finance in Japan.

Surplus funds in the domestic sector remained at a high level, mirroring Japan's massive current account surplus and the Bank of Japan's continued easy credit policy. The excess liquidity in the hands of institutional investors and cor-



日立	三菱電	安川電	明電舎	タパソ	沖電興	シャープ	三洋電	日電池	カシオ計	三井
1260	555	502	660	545	2020	761	985	472	440	1180
280	567		660	560	040	751	982	475		180
270	568		653	563	050	756	983	474		190
280	569	522	651	560	040	765	984	475		180
270	566	515	650	563	050	770	983	474		190
1280	569	524	660	560	2040	774	980	475	440	1180
東芝	富士電	神鋼電	高島興	日新電	富士通	ソニー	カシオ	日立	パナソ	三菱
671	486	404	938	658	1230	2220	4880	791	455	
687	498	405		679	780					
688	496	406								

Observers of the Tokyo Stock Exchange will see an increase in the number of foreign members in the year ahead.

porations was diverted mainly to financial assets such as stocks and bonds.

The result was a sustained stock market surge through the summer and a massive flow of funds into money trusts and mutual funds.

Banks and securities companies enjoyed brisk earnings, thanks in part to expanded international business. Banks also benefited from improved interest margins – the difference between lending and deposit interest rates – as the cost of raising funds declined in 1986, while brokerages were supported by booming stock and bond markets.

Another feature of the year in Japan's capital and financial markets was that despite their rapid profit growth, financial institutions became more conscious of

the rising risk of their operations than ever before. One factor was the increasingly evident gaps in the capability of different financial institutions, thrown into relief by financial liberalization. Another was the abrupt downturns in both stock and bond markets in the fall.

In 1988, attention will continue to focus on the impact of further liberalization on banks and brokerages. Changes on the financial front could well prove sizable given the strong possibility that financial authorities will begin considering a timetable for liberalizing interest rates on time deposits of less ¥10 million and relaxing institutional regulations.

The pace of growth in domestic surplus funds is expected to slow in 1988. Japan's current account surplus is declining gradually, while the central bank may tighten credit somewhat out of concern over a possible rekindling of inflation. If these developments alter the flow of funds into portfolio investment, banking and securities businesses will be certain to feel the impact.

Foreign financial institutions are fast expanding their presence in the Tokyo market. In 1988, the number of foreign members in the Tokyo Stock Exchange will be increased from six to more than 20. This, coupled with the expanding overseas operations of Japanese financial institutions, will offer further evidence of progress with regard to mutual participation in financial markets.

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Interest and Stock Price Swings in 1987

