

# Decontrol Progressing

The financial market liberalization Japan has pledged to pursue since 1984 made further progress in 1989. In terms of interest rates, decontrol was implemented gradually, starting with large-denomination deposits, and has spread to small-denomination deposits within the reach of ordinary households.

Following progress in the liberalization of interest rates on the fund-raising front, rate decontrol also proceeded in terms of fund management. An example was the introduction of a new short-term prime lending rate tied to freely moving short-term money market rates. In addition, the relaxation of regulations that divide business areas of banks, brokerages and other financial institutions is being considered.

But financial institutions have yet to feel the full effect of such liberalization. Financial liberalization in Japan has progressed with little confusion so far, because financial institutions, coupled with their own efforts to cope with it, have enjoyed a favorable climate of continued easy credit. It remains to be seen, however, what impact the ongoing decontrol will have on financial institutions, corporations and households in the event of full-fledged interest rate rises and a credit squeeze.

Has the liberalization been sufficient to help strengthen the foundations of Japanese financial institutions? This question is expected to emerge as a real issue in the future following the imminent full application of the capital-to-assets ratio

and other international standards on banking laid down by the Bank for International Settlements.

The financial industry in 1990 faces the task of liberalizing its business system, which is lagging behind interest rate decontrol. It is necessary to aim at establishing a system that will enable financial institutions to meet exactly the diversifying and increasingly sophisticated financial needs of corporations and households. Specific problems involved in this connection include the proposed reform of legal and administrative fire walls that separate the banking and securities businesses, and a review of the postal savings system. It is also necessary to harmonize Japan's financial system with those of foreign countries in line with the tide of financial globalization.

In the securities industry, on the other hand, Japan's stock market has become the largest in the world in terms of the combined market value of outstanding shares. One of the remarkable developments in 1989 was a sharp increase of up-and-coming firms newly listed on the over-the-counter market. Behind the trend was a better understanding of the market on the part of such companies.

Various problems exist, however, in the present system of stock offerings on the over-the-counter market and related regulations. It is important to allow promising medium-sized businesses access to direct financing through the market. Reform of the system is being currently discussed.

Photo: Nihon Keizai Shimbun



Liberalization of interest rates on the fund-raising front has encouraged the introduction of various new financial market instruments.

The securitization of finance is making headway, with such new markets as commercial paper and mortgage-backed securities expanding. The next step will be fundamental discussions on how to protect investors' interests. Debate is expected to continue on pending issues, including the question of who should be allowed to handle the emerging new securities areas.

In 1990, Japan's securities market must tackle several tasks in order to be a market of international caliber. Among these are improvements of both primary and secondary markets, including a better trading system, relaxation of trading controls and diversification of instruments available to investors. In this connection, the revitalization of the domestic primary market for corporate bonds should be given priority. Main points to be considered in this regard include revision of related statutes such as the commercial law (focused on a review of both limits to the amount of bond offerings, and the system of trustee banks which handle subscription procedures and protect the rights of bond holders), wider acceptance of the bond rating system and diversification of types of bonds.

## Growth of Financial Businesses

(¥ trillion)

		End of FY 1977	End of FY 1987	Growth (times)
Banking	Deposits and bonds	145.1	396.1	2.7
	Loans	114.1	304.5	2.7
Trust	Trust accounts	20.4	94.9	4.7
	Corporate pensions	4.3	27.4	6.4
Securities	Domestic and overseas bond issue amount	1.0	10.3	10.0
	Stock turnover	25.5	296.1	11.6

Notes: 1. Banking = all banks including bank accounts at trust banks

2. Domestic and overseas bond issue amount = nonfinancial bonds excluding those issued by electric power firms; converted into yen at prevailing exchange rate on date of payment.

Source: *Financial and Fiscal Affairs*, May 1989 issue

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