

Fund Procurement and Management

By Masaki Hidenō

Procurement of funds

In the first two decades after World War II, the funds raised by Japanese companies were overwhelmingly in the form of loans from financial institutions. The securities market, and particularly the bond market, were not yet fully developed, and there were limits to how much funding could be raised through issues of stock or corporate bonds.

As Japan's economic growth slowed in the second half of the 1970s, the public sector suffered from shortfalls in tax revenues. In order to meet the demand for public works investment intended to stimulate business and to fund improvements in public welfare, the government sharply increased its issues of national and local government bonds through the securities market. Over the 20 years from 1966 to 1986, the funds raised through the securities market, primarily through flotation of public bonds, reached a staggering ¥500 trillion.

Only a small amount of government bonds and corporate debentures was issued in the Japanese market by foreign governments and corporations in the second half of the 1970s. Since then it has increased year by year, until in fiscal 1985 foreign government and public bonds issued through public subscription and private placement reached an enormous ¥1.4 trillion. In fiscal 1986, however, the amount plunged to less than half that of the year before, or ¥560 billion. The turnaround reflected a dramatic floating of Euroyen bonds as the deregulation instigated by the Japan-U.S. Yen-Dollar Committee in April 1984 took effect.

It is now even possible for nonresidents to float foreign-currency-denominated bonds (popularly known as Shogun bonds) in Tokyo through public subscription. Between May 1985 and early March this year, a total of 19 Shogun bonds were floated, raising a cumulative \$2,225 million. Although still a relatively small

amount, it was clear evidence of the Tokyo market's growing importance in the international capital market.

Fund management

Japanese corporations today are investing vigorously in securities as they manage their funds. Having held back on capital investment because of the only moderate growth in the economy to make up for dwindling profits from their main business lines, these companies find themselves loaded with excess money. A look at corporate fund management up to 1985 reveals that most investments were in time deposits, followed by money in trust, bonds, credit extended to others (mostly investment in securities) and interbusiness credit (sales credit). However, the money in trust and investment trusts increased sharply early in 1986. This was due to a dramatic increase in specified money in trust and fund trusts. A breakdown of stock trading by investor reveals that the share of trading by corporate investors has also leaped in the past few years.

Despite occasional slight ups and downs, the volume of transactions both in stocks and bonds by foreigners has increased markedly. Trading in both stocks and bonds increased particularly sharply in 1986, when the steep appreciation of the yen provided more trading opportunities. Yet while the value of both selling and buying is increasing, the balance is not necessarily one-sided, and sometimes fluctuates wildly.

There have been three phases in trading in Japanese stocks by foreigners: the 1975-1979 period of net selling, the 1980-1983 period of net buying and the period of huge net selling since 1984. The net buying in 1980-1983 was mostly by Middle East oil-producing nations that were wallowing in surplus oil money. The big net selling after 1984 was mostly due to profit taking following the rise of Japanese stock prices and the appreciation

of the yen. Another factor was the exercise of selling rights in connection with the mass issue overseas of convertible and warrant bonds.

There are two main reasons for the recent vigorous procurement and management of funds in the Japanese market. One, the progress of deregulation, is institutional. The other, the glut of money at home and Japan's ballooning trade surplus, is economic.

Future trends

Fund procurement by Japanese companies is expected to remain at high levels for the foreseeable future. There will not be that much new need for funds as economic slowdown triggered by the strong yen continues to dampen plant and equipment investment. Companies, however, are increasingly keen to engage in *zai-tech* (assets management) to make up for shrinking profits from their main lines of business. As business firms turn to raising funds at low costs and managing them at high rates, overall fund procurement will tend to be even higher.

Foreign companies and others, meanwhile, are already shifting from yen-denominated foreign bonds to Euroyen bonds when seeking to procure yen funds. This tendency could reverse itself should the yen weaken again against foreign currencies.

With all the surplus money available in Japan, the snowballing trade surplus and the sharp appreciation of the yen, Japanese corporations will engage in *zai-tech* more than ever before. The behavior of foreign investors in Japan is harder to predict. Yet, depending on future exchange rate trends, the recent huge net selling of Japanese stocks can be expected to slow. Many individual investors have begun to realize that the percentage of Japanese stock in their personal portfolios is too small compared with that in the world portfolio. Some are already starting to rectify the imbalance. ●

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