

# THE "OVERLOAN" PROBLEM

—characteristic feature of the banking system in Japan—

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The Japanese economy has continued to grow rapidly since the end of World War II. The annual rate of growth in gross national products in real term during the period from 1952 to 1961 was about 8.8 per cent. Needless to say, this rapid growth is mainly due to the vigorous business investment. But the Japanese economy was so over-heated that the rise of prices and the deficit of the international balance of payments occurred in 1953, in 1957, and in 1961.

There are many factors which enabled the rapid economic growth and often caused the rising prices and the deficit of international balance of payments, but in this article one of those factors, namely the characteristic feature of monetay and banking system of Japan will be described. It is said that the banking system in Japan is in an "overloan" position. There may be three definitions of the term "overloan" as indicated in the table 1, but Japanese commercial banks are almost always heavily in debt with the Bank of Japan. Moreover, the loan-deposit ratio is quite close to the 100% mark.

Table 1 (A) *Indicators of "Overloan" in All Banks*

End of Year	A		B		C	
1950	110	(111)	102	(117)	14	(19)
1951	113	(117)	108	(124)	17	(25)
1952	105	(103)	104	(116)	12	(18)
1953	106	(103)	103	(114)	13	(19)
1954	107	(105)	97	(105)	8	(13)
1955	99	(94)	89	(93)	2	(3)
1956	101	(97)	91	(96)	3	(5)
1957	109	(108)	98	(107)	10	(16)
1958	106	(103)	94	(101)	5	(9)
1959	105	(100)	91	(98)	4	(7)
1960	106	(101)	91	(97)	5	(8)

Notes:  $A = \frac{\text{Loans}}{\text{Deposits}}$

$B = \frac{\text{Loans}}{\text{Deposits} + \text{Debentures Issued} + \text{Capital}}$

$C = \frac{\text{Borrowings from the Bank of Japan}}{\text{Deposits} + \text{Debentures Issued} + \text{Capital} + \text{Borrowings from B.O.J.}}$

Figures in parentheses refer to the 13 city banks. Deposits do not include bank-holdings of checks and bills.

Source: Bank of Japan, BOJ Special Paper (No. 1) April 1961.

Table 1 (B) *Principal Accounts of Commercial Banks of Main Countries (End of 1960)*  
( ) percentage to deposits

		Japan ¥ billion		U.S.A.	U. K.	West Germany	France	Italy
		All Banks	City Banks	\$billion	£ million	M. million	Fr. million	Lira billion
Liabilities	Deposits	8,872.2	5,580.4	229.8	7,523	44,429	46,505	10,176
	{Current Deposits	1,336.4	957.7	156.4	4,296	19,388	15,317	4,369
	{Others	7,535.8	4,622.7	73.4	3,227	25,041	31,188	5,807
	Borrowed Money	610.9 (6.9)	577.3 (10.3)	0.2 (—)	—	2,086 (4.7)	8,632 (18.6)	314 (3.1)
	Capital	588.1 (6.6)	305.4 (5.5)	21.0 (9.1)	278 (3.7)	3,187 (7.2)	2,610 (5.6)	377 (3.7)
	Miscellaneous	2,876.8 (32.4)	1,475.6 (26.4)	6.6 (2.9)	858 (11.4)	12,051 (27.1)	9,865 (21.2)	3,487 (34.3)
	Total	12,948.0	7,938.7	257.6	3,659	61,753	67,612	14,354
Assets	Cash, Checks & Bills	1,157.1 (13.0)	870.1 (15.6)	20.1 (8.7)	1,212 (16.1)	6,273 (14.1)	1,496 (3.2)	1,701 (16.7)
	{Checks & Bills	973.2 (11.0)	771.7 (13.8)		454 (6.0)			
	{Miscellaneous	244.4 (2.7)	115.2 (2.1)		758 (10.1)			
	Inter bank deposits, Call loans	205.5 (2.3)	18.1 (0.3)	13.7 (6.0)	623 (8.3)	4,522 (10.2)	9,032 (19.4)	677 (6.7)
	Securities	1,524.3 (17.2)	907.8 (16.3)	81.9 (35.6)	2,294 (30.5)	9,538 (21.5)	11,853 (25.5)	2,964 (29.1)
	{Short term Gov't Bills	0.1 (—)	—	8.1 (3.5)	1,006 (13.4)		10,277 (22.1)	1,564 (15.4)
	{Long term Gov't Bonds	45.5 (0.5)	34.7 (0.6)	52.9 (23.0)	1,159 (15.4)	3,423 (7.7)		544 (5.3)
	{Miscellaneous	1,478.7 (16.7)	873.1 (15.6)	20.9 (9.1)	129 (1.7)	6,115 (13.8)	1,576 (3.4)	856 (8.4)
	Loans	8,182.7 (92.2)	4,703.9 (84.3)	117.1 (51.2)	3,384 (45.0)	38,534 (86.7)	41,601 (89.5)	6,513 (64.0)
	Miscellaneous	1,878.4 (21.2)	1,438.7 (25.8)	24.8 (10.8)	1,146 (15.2)	2,886 (6.5)	3,630 (7.8)	2,499 (24.6)

Source: Compiled by the staffs of the Bank of Japan.

Original source U.S.A.: Federal Reserve Bulletin

Original source U.K.: Monthly Digest of Statistics

Original source West Germany: Monthly Report of the Deutsche Bundesbank

Original source France: Bulletin Mensuel de Statistique

Original source Italy: Supplemanto al Bollettio

Comparing with the banking business in Western countries, the above mentioned condition is extremely abnormal, and the cause of excess expansions is often attributed to the "overloan" position and the abnormal loan-deposit ratio in the banking system. Accordingly many excellent economists insist that the "overloan" should be corrected as quickly as possible, and the steady growth of Japanese economy would be impossible without this efforts. But we should analyze the cause of "overloan" position at first, because the reason, why the "overloan" position is permanent, may be attributed mainly to the method of money supply of the Bank of Japan.

As the economy grows and personal income rises, bank note issues—granted that income velocity is almost stable—increase nearly parallel to the rise in income. Here we

should point out also that transactions by the small business are settled more in cash than checks in Japan. In other words check system has not so developed in Japan as in the Western countries.

And as the whole volume of trading increases, the amount of bank note circulation increases also. In fact, bank note circulation has been rising each year of quite a steady pace as against national income, accompanying with cyclical fluctuations. (Table, 2)

Table 2 *Bank Notes Issue*

(Billion Yen)

Calender Year	Notes Issued at the End of Year (A)	Average Amounts (B)	National Income (C)	Monetary ratio	
				A/C	B/C
1930	1.4	1.1	11.7	0.119	0.094
1935	1.7	1.2	14.4	0.118	0.083
1944	17.7	12.0	56.9	0.311	0.201
1951	506.3	405.3	4,347.5	0.116	0.093
1952	576.4	453.2	4,959.0	0.116	0.091
1953	629.8	508.2	5,647.0	0.111	0.089
1954	622.0	519.6	5,984.4	0.103	0.086
1955	673.8	524.5	6,528.1	0.103	0.080
1956	784.8	569.7	7,352.3	0.106	0.077
1957	837.1	635.9	8,201.1	0.102	0.077
1958	891.0	660.2	8,341.0	0.106	0.079
1959	1,029.4	738.7	9,630.8	0.106	0.076
1960	1,234.1	859.2	11,229.0	0.109	0.076

Source: The Bank of Japan, the Economic Statistics of Japan 1960.

Of course, such increases of bank note circulation are found in all countries, but the "overloan" position did not arise in countries other than France, and West Germany of the early 1950s. This is because in the former countries, the central banks supply currency by means of other than loans to commercial banks, such as buying operations of government securities in U.K. and U.S.A., and buying gold and foreign exchange reserves in West Germany and Italy. (Table, 3)

Japan however has not been able to provide full coverage for the increase in bank notes through above mentioned channels. During the period from 1951 to 1960 the Bank of Japan has provided only about 41.4% of the increase in bank notes by buying gold and foreign exchange and 64.6% even if including the buying of the Foreign Exchange Fund Bill.

Secondly postwar inflation excessively depreciated the liquid assets issued before the end of the War such as government securities, and no medium and long term government bonds have been issued to cover shortages in the fiscal accounts since 1949, forbidden by the law, so it has not been possible to supply currency by means of buying operations on government securities.

Consequently, there was no way out but to supply cash by loans from the central bank. So we should recognize that the increase of the currency requirements has been able to be met only by the central bank loans. But this method of money supply caused the results

Table 3 *Factors for Money Supply (1951~55, 1956~60)*

	Japan (¥100 million)		U. S. A. (\$ million)		U. K. (£ million)	
	1951—55	1956—60	1951—55	1956—60	1951—55	1956—60
Increase or Decrease (△) of Bank Notes Issue	2,518 (100.0)	5,603 (100.0)	3,334 (100.0)	1,529 (100.0)	532 (100.0)	488 (100.0)
Increase or Decrease (△) of Gold & Foreign Exchange Reserves	1,847 (73.4)	1,489 (26.6)	△449 (△13.5)	△3,530 (△230.9)		
Increase or Decrease (△) of Claims on All Banks	△2,243 (△89.1)	4,556 (81.3)	67 (2.0)	30 (△2.0)	9 (1.7)	4 (0.8)
Increase (△) or Decrease of Financial Institutions Deposits	11 (0.4)	△336 (△6.0)	△1,324 (△39.7)	1,924 (125.8)	68 (12.8)	△119 (24.4)
Increase or Decrease (△) of Claims on Government	3,551 (141.0)	142 (2.5)	4,007 (120.2)	2,599 (170.0)	444 (83.5)	601 (123.2)
Increase (△) or Decrease of Government Deposits	△30 (1.2)	271 (4.8)	274 (8.2)	△91 (△6.0)	3 (0.6)	△4 (△0.8)
Miscellaneous	△619 (24.6)	△519 (△2.3)	759 (22.8)	657 (43.0)	8 (1.5)	6 (1.2)
	West Germany (Mark million)		France (Franc million)		Italy (Lira million)	
	1951—55	1956—60	1951—55	1956—60	1951—55	1956—60
Increase or Decrease (△) of Bank Notes Issue	6,228 (100.0)	6,733 (100.0)	12,594 (100.0)	10,348 (100.0)	5,062 (100.0)	7,534 (100.0)
Increase or Decrease (△) of Gold & Foreign Exchange Reserves	14,399 (231.2)	33,169 (492.6)	1,565 (12.4)	5,062 (48.9)	420 (8.3)	9,880 (131.1)
			*615 (4.9)	△1,268 (△12.3)	**2,405 (47.5)	6,102 (81.0)
Increase or Decrease (△) of Claims on All Banks	△562 (△9.0)	△2,468 (△36.7)	8,120 (64.5)	6,186 (59.8)	1,316 (26.0)	960 (12.7)
Increase (△) or Decrease of Financial Institutions Deposits	△2,520 (40.5)	△8,861 (△131.6)	190 (1.5)	△763 (△7.4)	△2,187 (△43.2)	△2,168 (△28.8)
Increase or Decrease (△) of Claims on Government	414 (△6.6)	△3,838 (△57.0)	1,809 (14.4)	974 (9.4)	3,638 (71.9)	△5,257 (△69.8)
Increase (△) or Decrease of Government Deposits	△5,945 (△95.5)	△13,222 (△196.4)	—	—	31 (0.6)	△1,590 (△21.1)
Miscellaneous	1,270 (20.4)	1,953 (29.0)	297 (2.4)	157 (1.5)	△561 (△11.1)	△392 (△5.2)

\* Increase or Decrease (△) of Loans to Foreign Exchange Fund Account

\*\* Increase or Decrease (△) of Loans to Department of Foreign Exchange.

Source: Compiled by the staffs of the Bank of Japan.

Original source U.S.A.: Federal Reserve Bulletin

Original source U.K.: Monthly Digest of Statistics

Original source W.G.: Monthly Report of the Deutsche Bundesbank

Original source France: Bulletin Mensuel de Statistique

Original source Italy: Supplemanto al Bollettino

that the banks lost the sense of liquidity which is indispensable for the normal business of banking. In Western countries, central bank loans are looked upon as a means of last

resort for commercial banks, but nowadays in Japan central bank loans are looked as if a sort of reserve by the commercial banks.

The "overloan" tendency has been more or less a characteristic feature of the Japanese banking system ever since the introduction of modern banking system along 1870s. The

Table 4 (A) *Principal Accounts of Commercial Banks in Japan*

( ) 100=deposits

End of the Year		1938 ¥ million	1950 ¥ 100 million	1955 ¥ 100 million	1960 ¥ 100 million
Liabilities	Deposits	19,834(100.0)	10,486(100.0)	37,244(100.0)	88,722(100.0)
	Borrowed Money	735 (3.7)	1,472 (14.0)	859 (2.3)	6,109 (6.9)
	Debentures issued	2,187 (11.0)	488 (4.6)	2,862 (7.7)	8,881 (10.0)
	Capital	3,037 (15.3)	381 (3.6)	2,203 (5.9)	5,881 (6.6)
Assets	Cash, Checks & Bills	1,134 (5.7)	1,589 (15.2)	4,771 (12.8)	11,571 (13.0)
	Checks & Bills	—	1,422 (13.6)	4,304 (11.6)	9,732 (11.0)
	Others	—	167 (1.6)	467 (1.3)	1,839 (2.0)
	Interbank deposits and call loans	1,397 (7.0)	240 (2.3)	1,078 (2.9)	2,055 (2.3)
	Securities	9,467 (47.7)	1,346 (12.8)	5,187 (13.9)	15,243 (17.2)
	Government Bonds	5,644 (28.5)	371 (3.5)	648 (1.7)	456 (0.5)
	Others	3,823 (19.3)	975 (9.3)	4,539 (12.2)	14,787 (16.7)
	Loans	12,284 (61.9)	9,947 (94.9)	31,958 (85.8)	81,827 (92.2)

Source: The Bank of Japan, "Economic Statistics of Japan" 1938, 1960.

Table 4 (B) *City Banks*

End of the Year		1938 ¥ million	1950 ¥ 100 million	1955 ¥ 100 million	1960 ¥ 100 million
Liabilities	Deposits	8,122(100.0)	6,199(100.0)	24,073(100.0)	55,804(100.0)
	Borrowed Money	—	1,022 (16.5)	834 (3.5)	5,773 (10.3)
	Capital	946 (11.6)	210 (3.4)	1,262 (5.2)	3,054 (5.5)
Assets	Cash, Checks & Bills	616 (7.6)	1,226 (19.8)	3,731 (15.5)	8,701 (15.6)
	Checks & Bills	.....	1,160 (18.7)	3,542 (14.7)	7,717 (13.8)
	Others	.....	66 (1.1)	189 (0.8)	984 (1.8)
	Interbank deposits and call loans	372 (4.6)	73 (1.2)	296 (1.2)	181 (0.3)
	Securities	3,167 (39.0)	658 (10.6)	2,942 (12.2)	9,078 (16.3)
	Government Bonds	1,994 (24.6)	251 (4.0)	419 (1.7)	347 (0.6)
	Others	1,173 (14.4)	407 (6.6)	2,523 (10.5)	8,731 (15.6)
	Loans	4,628 (57.0)	5,587 (90.1)	18,619 (77.3)	47,039 (84.3)

Notes: 1938.....Mitsui, Mitsubishi, Daiichi, Yasuda, Sumitomo, Sanwa (6 banks)

1950.....Mitsui, Daiichi, Mitsubishi, Fuji, Sumitomo, Sanwa, Daiwa, Tokai, Kobe, Tokyo, Kyowa (11 banks)

1955, 1960.....Mitsui, Daiichi, Mitsubishi, Fuji, Sumitomo, Sanwa, Daiwa, Tōkai, Kōbe, Kyōwa, Kangyō, Hokkaidō-Takushoku, Tokyo (13 banks)

Source: Bank of Japan, "Economic Statistics of Japan" 1938, 1960.

reason is the same as above described. So when the large amount of government securities was issued and bought by the Bank of Japan prior to the end of the Second World War the "overloan" position was much improved. In 1955 the Bank of Japan could purchase the large amount of foreign exchange due to the favorable balance of payments, so the "overloan" disappeared. Thus the degree of "overloan" had changed from time to time.

We should also point out that it is the practice for Japanese business corporations to meet fund supply through bank borrowings rather than to direct resort to the capital market. Moreover business borrowings from commercial banks are not confined to operating funds but also include plant and equipment fund. In other words, the commercial banks in Japan are the "mixed" banks in fact. (Table 4 & 5)

Table 5 (A) *Outstanding Loans of Banks*

( ) amounts of increase during the fiscal year

¥ 100 million

Use of Funds End of the Fiscal Year	All Banks						City Banks and Country Banks					
	Equipment Funds		Operating Funds		Total		Equipment Funds		Operating Funds		Total	
1954	3,689	12.7%	25,383	87.3%	29,077	100.0%	1,398	5.8%	21,967	94.2%	23,365	100.0%
	(512)	—	(1,792)	—	(2,310)	—	(111)	—	(1,538)	—	(1,647)	—
1955	3,960	12.3	28,341	87.7	32,301	100.0	1,546	5.5	26,552	94.5	28,098	100.0
	(1,271)	—	(2,953)	—	(3,224)	—	(148)	—	(4,585)	—	(4,733)	—
1956	5,578	15.1	36,948	84.9	42,527	100.0	2,406	6.5	34,785	93.5	37,190	100.0
	(1,618)	—	(8,607)	—	(10,226)	—	(860)	—	(8,233)	—	(9,092)	—
1957	7,368	16.9	43,614	83.1	50,982	100.0	3,365	7.5	41,208	92.5	44,573	100.0
	(1,790)	—	(6,666)	—	(8,455)	—	(959)	—	(6,423)	—	(7,383)	—
1958	9,186	18.3	50,085	81.7	59,271	100.0	3,869	7.6	47,196	92.4	51,065	100.0
	(1,818)	—	(6,471)	—	(8,289)	—	(504)	—	(5,988)	—	(6,492)	—
1959	11,197	16.1	58,504	83.9	69,701	100.0	4,439	7.4	55,176	92.6	59,616	100.0
	(2,011)	—	(8,419)	—	(10,431)	—	(570)	—	(7,980)	—	(8,551)	—
1960	14,170	16.7	70,678	83.3	84,849	100.0	5,586	7.7	66,703	92.3	72,289	100.0
	(2,973)	—	(12,174)	—	(15,148)	—	(1,147)	—	(11,127)	—	(12,673)	—

Source: Bank of Japan, Economic Statistics of Japan, 1960.

According to the flow of funds analysis conducted by the Economic Research Department of the Bank of Japan ("Monetary Development, 1954—1957, and Essential Features of the Financial Structure of Japan" in December, 1958, and "A Study on Flow of Funds in Japan" in December 1959). The largest proportion of domestic gross investments is made by the corporate business sector and the household sector weighs relatively little. In these accounts the corporate business sector excludes financial institutions, and the personal sector includes not only households but also unincorporated businesses, farmers, non-profit

Table 5 (B) *Outstanding Deposit of Banks*

( ) amounts of increase during fiscal year

¥ 100 million

End of the Fiscal Year	All Banks (including special banks)						City Banks and Country Banks					
	Current Deposits Ordinary Deposits Deposits at Notice		Time deposits and instalment savings		Total		Current Deposits Ordinary Deposits Deposits at Notice		Time deposits and instalment savings		Total	
1954	17,059	54.0%	14,554	46.0%	31,613	100.0%	16,015	53.0%	14,228	47.0%	30,243	100.0%
	(1,776)	—	(2,686)	—	(4,462)	—	(2,682)	—	(3,439)	—	(6,121)	—
1955	21,164	54.4	17,765	45.6	38,929	100.0	19,964	53.5	17,382	46.5	37,346	100.0
	(4,105)	—	(3,211)	—	(7,316)	—	(3,949)	—	(3,154)	—	(7,103)	—
1956	26,996	54.3	22,722	45.7	49,718	100.0	25,485	53.4	22,221	46.6	47,706	100.0
	(5,832)	—	(4,957)	—	(10,789)	—	(5,521)	—	(4,839)	—	(10,360)	—
1957	29,192	51.1	27,887	48.9	57,079	100.0	27,573	50.3	27,242	49.7	54,815	100.0
	(2,196)	—	(5,165)	—	(7,361)	—	(2,088)	—	(5,021)	—	(7,109)	—
1958	31,864	47.7	34,980	52.3	66,845	100.0	29,836	46.6	34,134	53.4	63,970	100.0
	(2,672)	—	(7,093)	—	(9,766)	—	(2,263)	—	(6,892)	—	(9,155)	—
1959	34,952	45.6	41,675	54.4	76,627	100.0	32,587	44.6	40,534	55.4	73,121	100.0
	(3,088)	—	(6,695)	—	(9,782)	—	(2,751)	—	(6,400)	—	(9,151)	—
1960	43,274	46.2	50,470	53.8	93,744	100.0	40,276	45.2	48,919	54.8	89,195	100.0
	(8,322)	—	(8,795)	—	(17,117)	—	(7,689)	—	(8,385)	—	(16,074)	—

Source: The Bank of Japan, Economic Statistics of Japan, 1960.

organizations. (Table 6)

Investment in the personal sector are almost totally self-financed with its own financial surplus or savings, but only a relatively small part of investment is self-financed in the corporate business sector, and the financial liabilities of the latter increase as investments expand. Moreover, in the latter sector, the so called direct-financing, namely financing through subscriptions to stocks or debentures by individuals, is small and major portions of investment funds are raised through "indirect financing," such as bank credit.

In the domestic gross savings (including capital consumption allowances), the importance of the personal sector is decisively large, and that of the corporate business sector and the government sector is relatively little. Thus less than one half of gross savings (unspent income) in the personal sector is directed to real investments, leaving a major portion for deposits with financial institutions and purchase of securities, especially for savings deposits with banks. Savings in the corporate business sector and the government sector combined (undistributed profits and capital consumption allowances in corporate businesses and current surpluses of the central government and local authorities) are especially directed to real investments, and an increase in financial assets in these two sectors, in reality, is maintained simply as reflection of an increase in financial liabilities. This tendency

Table 6 *Principal Financial Transactions (1954-1961)*

(¥100 million)

Sector	1954	1955	1956	1957	1958	1959	1960	1961
Bank of Japan Sector								
Bank Notes	-79	518	1,110	522	539	1,385	2,047	2,459
Loans	-1,360	-2,206	970	4,090	-1,726	-415	1,623	7,844
Foreign Exchange Reserves	1	1,665	-60	-1,028	448	787	1,095	-551
Gov't Securities	1,691	701	331	-1,995	1,488	1,088	-757	-2,814
Bank and other Sector								
Loans	3,707	5,528	11,508	13,114	12,177	15,915	22,146	28,256
Demand Deposits	-267	475	721	-661	416	398	928	4
Short-term Deposits	688	2,203	3,124	1,775	2,596	3,789	5,243	6,106
Time and Savings Deposits	3,756	4,533	6,224	7,302	8,948	10,384	11,728	13,808
Trusts and Insurance	591	1,177	950	1,217	1,616	2,211	2,649	3,384
Beneficiary certificates of investment	22	-191	82	692	731	1,216	2,754	5,725
Government Sector								
Loans	2,350	2,006	2,198	2,465	3,064	3,173	3,414	4,323
Postal Savings & Post Office Life Insurance, Postal Annuity	1,498	1,445	1,856	1,879	1,770	2,477	2,692	2,937
Financial Surplus or Deficit (-)	-17	516	1,318	2,281	1,092	341	2,491	4,819
Corporate Business Sector								
Demand Deposits	-151	489	716	-617	408	363	742	-91
Short-term Deposits	341	666	1,317	920	1,551	1,526	2,156	-2,539
Borrowings	3,270	5,384	11,315	12,402	11,480	14,336	19,310	24,958
Stocks & Corporate Debentures	1,853	1,384	2,770	3,998	3,312	4,286	7,028	13,502
Financial Deficit (-)	-2,999	-3,711	-8,733	-10,655	-5,126	-9,436	13,981	-24,416
Personal Sector								
Cash Currency	-63	319	723	169	412	1,062	1,524	1,983
Demand Deposits	-93	-2	36	-40	13	48	216	93
Short-term Deposits	545	1,292	1,717	661	1,080	2,031	2,673	3,537
Savings Deposits	3,754	4,142	5,690	5,934	6,618	8,255	9,054	9,601
Securities	930	269	1,424	2,079	2,304	2,945	5,204	9,719
Financial Surplus	4,588	6,423	8,636	7,616	7,141	11,762	13,724	19,090
Rest-of-the World Sector								
Gold and Foreign Exchange Reserve	-307	111	621	-1,501	1,213	1,406	1,807	-1,216
Surplus or Deficit (-) of Balance of Payments	-138	741	-82	-2,161	1,681	1,342	629	-3,658

Source: Bank of Japan, "Chosa Geppo (Monthly Economic Review)" June, 1962.



is especially conspicuous in the corporate business sector. (Table 7)

Table 7 *Increase of Financial Assets of Household*

(¥100 million)

	1956	1957	1958	1959	1960	1961
Cash Currency deposit Currency (Cash Currency)	2,476 (723)	790 (169)	1,505 (412)	3,141 (1,062)	4,413 (1,524)	5,613 (1,938)
%	22	7	12	18	20	19
Indirect Investment (Savings Deposit)	7,306 5,692	7,708 5,934	9,209 6,618	11,640 8,255	13,013 9,054	13,829 9,601
To Banks	2,892	2,623	3,185	3,760	4,070	2,510
To Financial Institutions for Small Businesses	1,668	2,239	2,560	3,051	3,474	5,492
Postal Savings	1,132	1,072	873	1,444	1,510	1,599
%	65	73	72	68	59	48
Direct Investment (Securities Investment Trust)	1,455 (70)	2,080 (619)	2,043 (648)	2,440 (1,075)	4,767 (2,570)	9,688 (5,128)
%	13	20	16	14	21	33
Total	11,237	10,578	12,757	17,221	22,193	29,130
%	100	100	100	100	100	100
Financial Surplus	8,636	7,616	7,141	11,762	13,724	19,090

Source: Bank of Japan, Research Department, "Chosa Geppo" June, 1962.

As to the whole structure of economic circulation, it is noted that the corporate business sector has shown an excess of investment over savings and the personal sector, an excess of savings over investment. Such an economic pattern is not peculiar to the Japanese

Table 8 *Investment and its Financing of the corporate business sector*

(¥100 million)

	1956	1957	1958	1959	1960	1961
Aggregate Investment	15,351	20,302	11,966	22,722	30,599	47,534
Plant & Equipments	10,141	14,532	13,938	16,899	25,287	35,233
Inventories	5,210	5,770	-1,972	5,823	5,312	12,301
Aggregate Funds Financed	22,657	25,810	23,402	32,105	45,324	63,801
Internal Funds	8,015	9,419	8,279	12,766	18,055	23,126
External Funds	14,642	16,391	15,123	19,339	27,269	40,675
Borrowings	11,315	12,402	11,480	14,336	19,310	24,958
(Borrowings from Banks)	(8,400)	(9,200)	(7,265)	(8,608)	(13,640)	(14,684)
Debentures	576	521	579	1,447	1,528	3,858
Stocks	2,194	3,477	2,733	2,839	5,500	9,644
(Not Borrowings from abroad)	557	-9	331	717	931	2,215
Money	2,213	413	2,000	2,059	3,132	2,659

Source: Bank of Japan, "Chosa Geppo" (Monthly Economic Review) June, 1962.

economy, since a similar phenomenon has been noted in common with various countries, but it is more conspicuous in Japan than any other countries. In this respect this phenomenon is a special feature of Japanese economy. (Table 8)

On the other hand, in the flow of financial funds, the main flow is that of "indirect financing", which is made through the intermediary of the financial institutions, and the flow of "direct financing" such as securities transactions and the like, is little. Indirect financing, especially bank deposits and loans transactions, has major importance.

In Japan the market for corporate bonds had not developed, and the new issues of bonds are regulated under the direction of monetary authorities, and the rate of interest is also regulated. A large part of the bonds are purchased by commercial banks, and are held until maturity. So the holdings of corporate bonds by the commercial banks are not so different from the long term loans by the bank. (Table 9)

Table 9 *Flow of Funds in Money Market and Securities Market*

(¥100 million)

	1956	1957	1958	1959	1960	1961
Supply of Funds	17,216	20,076	19,091	24,001	33,839	47,894
Money Market (Indirect financing)	15,255	16,989	16,395	21,049	28,014	36,366
(Securities Private Investment)	(1,549)	(1,410)	(1,154)	(1,961)	(2,454)	(3,787)
Financial Institutions	13,507	14,930	14,400	19,089	26,530	33,576
Government Financial Institutions	2,276	2,659	3,234	3,304	3,526	5,264
Adjustment	-528	-600	-1,239	-1,344	-2,042	-2,474
%	89	85	86	88	83	76
Securities Market (Direct Financing)	1,961	3,087	2,696	2,952	5,825	11,528
(Security Investment Trust)	34	475	683	1,135	2,811	(5,247)
%	11	15	14	12	17	24
Demand for Funds	17,216	20,076	19,091	24,001	33,839	47,894
Borrowings	13,706	15,579	15,241	19,088	25,560	32,579
%	79	78	80	80	76	68
Securities Issue	3,510	4,497	3,850	4,913	8,279	15,315
%	21	22	20	20	24	32

Source: Bank of Japan, "Chosa Geppo" (Monthly Economic Review) June, 1962.

Till the end of the Second World War, each "Zaibatsu" had its own bank, and supplied the funds, not only the operating fund but also the plant and equipment fund, to their enterprises. After the disclosure of the "Zaibatsu", each bank began to form the groups of enterprises and take the position of the pre-war "Zaibatsu" center.

Owing partly to severe inter-bank competition and also to the unduly close business-bank relationship, there is also an increasing tendency to grant loans merely from the standpoint of looking after the interest of group members and city banks have come to rely on excessive

Table 10 (A) *Structure of Capital of Industrial Corporations of Main Countries*  
(Total Assets=100)

	Japan (1960 L.H.)		U.S.A. (1961) 1.Q.	U.K. (1961) 1.Q.	West Germany (1959)
	All Industries	Manufacturing			
Net Worth	28.87	31.64	65.8	65.5	42.2
Legal Capital	14.09	15.65	27.7	27.7	22.6
Capital Surplus	6.68	4.18		17.9	19.6
Earned Surplus	8.10	11.81	38.1	19.8	
Liabilities	71.13	68.36	34.2	34.5	57.8
Current Liabilities	45.29	46.86	20.5	24.0	31.8
Accounts & Notes Payable	15.45	14.84	7.6	11.2	22.1
Short-term Loan	16.47	17.26	3.3	3.7	
Othes	13.37	14.76	9.6	9.2	9.7
Fixed Liabilities	25.84	21.50	13.8	10.5	26.0
Corporate Bonds	6.92	5.35	10.5	7.1	17.4
Long-term Loan	16.41	13.43	1.8		
Others	2.51	2.72	1.5	3.5	8.6

Source: Compiled by the staffs of the Bank of Japan, original source.

Japan: Bank of Japan, Analysis of Financial Statements of Main Industrial Corporations.

U.S.A.: FTC—SEC, Quarterly Financial Report for Manufacturing Corporation

U.K.: Economist, July 15, 1961

West Germany: Wirtschaft u. Statistik

borrowings not only from the Bank of Japan, but also from the call money market and foreign banks. In this situation country banks are the suppliers of call loan. In such a manner, the banks had so actively accomodated funds that the economy was "overheated" recurrently and the result was the balance of payments difficults and the rise of prises.

Facing with this situation, the Bank of Japan was forced to increase its loans but it is believed that the Bank of Japan strived to supply only the necessary minimum of cash demand.

It is wellknown that the central bank loans should be of short term nature, and of course in the case of the Bank of Japan, individual loan terms are for 3-months at the maximum. But on the other hand, as bank note circulation have increased from year to year, the result has been for loans on the whole to expand, even if there has been no positive and willful intension on the part of the Bank of Japan to raise its loans.

Moreover expansion in the central bank loan must be considered in relation to the government accounts. As above mentioned, medium and long term government bonds have not been issued to cover shortages in the fiscal accounts from 1949. On the other hand, when there is any Treasury net receipts in a particular year, it is transferred as receipt for the year following the next with one-half going for debt redemption and the rest as general account expenditures. Hence from the long-range point of view, big fluctuations in receipts and payments in the Treasury accounts with the public do not rise. But in the fiscal accounts other than the general account, for instance in the special accounts such as the Trust Fund Bureau, sizable surpluses have been accumulated over the years and in case

Table 10 (B) *Structure of Capital of Industrial Corporations*

	All Industries					
	1955	1956	1957	1958	1959	1960 F.H.
Number of Companies	335,729	361,951	389,955	411,138	438,256	290.561
Number of Samples	(5,072)	(4,174)	(4,974)	(5,368)	(5,965)	(4,453)
Liabilities	71.0	72.7	74.7	74.5	76.2	75.3
Current Liabilities	56.8	58.4	59.5	58.0	58.9	56.2
Accounts & Notes Payable	27.1	27.7	27.0	25.5	26.6	26.3
Short-term Loans	16.5	16.8	18.1	19.3	18.2	17.5
Others	13.2	13.9	14.4	13.2	14.1	12.4
Fixed Liabilities	14.3	14.2	15.2	16.5	17.3	19.1
Long-term Loans	9.8	9.6	10.0	11.3	11.9	12.8
Corporate Bonds	2.0	2.0	1.9	2.0	2.2	2.8
Others	2.5	2.6	3.2	3.2	3.2	3.5
Net Worth	29.0	27.4	25.3	25.5	23.8	24.7
Legal Capital	10.5	10.5	10.7	11.6	10.9	12.0
Capital Surplus	11.8	9.7	5.8	6.1	4.9	5.0
Earned Surplus	6.7	7.2	7.8	7.9	8.0	7.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

  

	Manufacturing					
	1955	1956	1957	1958	1959	1960 F.H.
Number of Companison	114,800	122,707	138,253	146,460	155,686	93,444
Number of Samples	(2,282)	(1,904)	(2,253)	(2,385)	(12,131)	(1,940)
Liabilities	66.0	68.3	71.8	71.1	72.3	71.3
Current Liabilities	54.0	56.0	58.3	56.0	55.6	53.4
Accounts & Notes Payable	21.2	22.9	23.1	21.9	22.3	22.0
Short-term Loans	19.4	17.6	19.4	20.1	19.1	17.9
Others	13.4	15.5	15.8	14.0	14.2	13.5
Fixed Liabilities	12.0	12.3	13.5	15.1	16.7	17.9
Long-term Loans	6.9	7.2	8.0	10.1	11.4	12.0
Corporate Bonds	2.3	2.1	1.7	1.6	2.0	2.4
Others	2.8	3.0	3.8	3.4	3.3	3.5
Net Worth	34.0	31.7	28.2	28.9	27.7	28.7
Legal Capital	12.0	11.8	11.4	12.4	12.0	13.4
Capital Surplus	11.5	8.8	5.8	5.2	4.3	4.0
Earned Surplus	10.5	11.1	11.0	11.3	11.4	11.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Japan, Economic Statistics of Japan, 1960.

of deficit of international balance of payment the receipts of the Foreign Exchange Funds Accounts from the private sector excess over the payments. As the interest rate on the short-term government securities are pegged lowly they are held almost in entirety by the Bank of Japan and government organs. Consequently the net receipts and payments of the

government funds with the public can not be adjusted through the rise and fall in private sector holdings of Treasury bills and decrease in Treasury deposits with commercial banks, as in U.S.A. So net withdrawals by the Treasury account from the private sector forced inevitably for the Bank of Japan to increase loans.

These factors caused the "overloan" inevitable. But the Bank of Japan has consistently assumed restrictive attitude in extending loans, and especially took the severe attitude at times of sharply rising prices and unfavorable balance of payments position.

It should be pointed out however, that under the above described mechanism of currency supply the credit base of commercial banks is not clear, and it seems as if banks disregard the liquidity ratio and loan-deposit ratio. Of course the Bank of Japan strives to diminish the "over-loan", but its result is seen only in the rising rate of call money market. In 1957 the Act of Reserve Requirement was enforced, but changes in reserve requirements can't be made at will. And the reserve requirements ratio has remained at the very low level because of "overloans". Therefore the central bank should rely principally on the Bank rate and rediscount policy in order to execute monetary control.

But the level of interest rates in Japan is permanently so higher than those in advanced countries, that it is not easy to raise the Bank rate when the tight money policy is required. So the Bank of Japan adopted the two level system of money rates on commercial bank borrowings with "penalty rates" charged on amounts in excess of a frequently changing formula. And as money market rates do not fall below the penalty rate, the short-term rates of interest becomes higher than the long-term interest rate in Japan. This hinders the development of not only the money market but also the capital market.

Then direct "guidance" by the central bank over the loan and discount policy of commercial banks became inevitable. This is referred to as "discount window operation", a form of moral suasion, and a kind of credit rationing.

Although the monetary control through "penalty rates" and "discount window operation" is very effective especially when a strong stringent policy is required. But it can not be denied that the monetary control of the central bank should be processed through a market mechanism in a free economy. The staffs of the Bank of Japan themselves also do not wish to keep this abnormal method of monetary control any longer. But even if they wish to depend on the open market operation in such a manner as in the Western countries, the adequate object of operation is not available, and even if the substitutive object should be found, the open market for securities has not yet developed sufficiently. In case of "overloan" position, the reserve requirement is not so effective as in the Western countries. The "overloan" may be the price paid for the rapid growth of Japanese economy.