Turnaround in Tokyo

The Japanese, Recently Lenders Overseas, Begin to Increase Borrowing From Abroad

By NORMAN PEARLSTINE
Staff Reporter of THE WALL STREET JOURNAL

TOKYO—Only a year ago corporate treasurers from America and Europe were rushing here to exploit the burgeoning Tokyo capital market.

But the Japanese Finance Ministry has put the local market on ice, ending the corporate rush. Now, with the approval and encouragement of the ministry, Japanese corporations are beginning to increase their foreign bank borrowings. And, for the first time in three years, they are making plans to float foreign currency bonds in the U.S. and Europe.

The massive turnaround reflects Japan's concern about declining foreign-currency reserves. Last February official Japanese foreign-currency reserves were embarrassingly large, totaling about $19 billion, and the Finance Ministry was trying to get dollars out of the country as fast as possible. Foreign corporations were able to raise about $700 million on the Tokyo bond market between July 1972 and April 1973, and Japanese commercial banks were doling out loans totaling much more than that.

But primarily because of a heavy outflow of long-term capital, reserves have dropped sharply in the last 12 months, falling to a low of about $11.5 billion at the end of January. They will probably rise slightly this month, but with an expected increase in crude-oil prices, they are likely to fall through the rest of this year.

On the Fence

While government finance officials are united on the need to end bank borrowings and bond issuance by foreigners here, they are undecided about how much capital Japanese firms should be allowed to raise abroad.

Some officials are eager to permit heavy borrowing and placement of many bond issues to help ease currency-reserve problems. But they are being restrained by others who say that the government's tight-money policies, designed to curb Japan's runaway inflation, will be destroyed if unlimited fund raising is permitted.

As a result, a compromise has been struck. Only a small percentage of those firms that want to raise capital abroad are being permitted to do so. And, at least for now, the Finance ministry is insisting that any funds raised abroad must be used abroad.

The Euromarket

It appears that the Finance Ministry will allow Japanese firms to borrow about $330 million abroad in the first three months of this year, up sharply from the $60 million that it permitted in the last three months of 1973. Yoshio Hatano, head of the ministry's foreign-capital division, says that the increased borrowing includes about $140 million specially allocated to Japanese power companies. (The government has temporarily barred power companies from raising prices to cover higher crude-oil costs, and some of the firms are said to be having cash-flow problems.) It is likely that firms with heavy exports, such as steel and shipbuilding, will get to borrow most of the remaining funds this quarter.

Most of the funding is expected to come from the Euromarket, bonds denominated in dollars or other currencies on deposit outside their home countries. But some firms indicate they will get some of their loans from the U.S. mainland as well. Mr. Hatano says that a decision about funding levels beyond March hasn't been made yet and adds that it will depend on how well the government tight-money policies are working. Businessmen here, however, say they are hopeful that the new levels will at least be maintained the rest of this year.

It is understood that about 130 Japanese firms have told the Finance Ministry that they would like to issue foreign bonds this year totaling well over $1 billion. But government and brokerage-house officials here indicate that it is unlikely that more than one-third of the applications for bond-issuance authorization will be approved.

Tokyo Shibaura Electric Co. (Toshiba) announced last week that it has received government approval to issue 30 million Swiss francs of bonds in Switzerland next month to finance overseas activities. And it is expected that three or four other firms will receive similar approval in the next few weeks.

Woes in the U.S.

Although the U.S. bond market is considered to be larger and more reliable than the Euromarket, brokerage-house-sources here indicate that most of the bond issues will be floated in Europe because Japanese firms find it difficult to comply with U.S. Securities and Exchange Commission disclosure regulations.

The fund-raising efforts have promoted some mild sparring between Japanese and foreign firms. Japanese companies have been trying to get foreign banks to lend them funds at only one-half percentage point above the banks' interbank lending rate, contending that the banks have been giving firms elsewhere that rate. But most of the banks have been trying to negotiate loans at three-quarters of a point above their interbank rate. The companies, which are generally seeking seven-year unsecured loans, say they deserve the better rate because they are large and well-established. But the foreign bankers have been arguing that Japanese firms are too highly leveraged and have too many current liabilities in relation to current assets to justify the lower rate.

In addition, Japanese brokerage firms and banks have indicated that they are eager to manage the underwriting of the bond issues. (Banks can underwrite bond issues in Europe, although they can't in the U.S.) In the past, Japanese brokerage houses weren't big or experienced enough to manage the underwritings themselves, and foreign firms have had the business to themselves. The foreign firms now fear, however, that they will be cut out of the most lucrative part of the underwritings.