

## **Toshihiko Fukui: The centenary of the Bank of Japan's London office**

Speech by Mr Toshihiko Fukui, Governor of the Bank of Japan, at the reception for the centenary of the Bank of Japan Representative Office in London, 29 June 2004.

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### **Welcoming guests to the party and expressing appreciation for the 100-year-long friendship**

Distinguished guests, Governor King, Ladies and gentlemen,

On behalf of the entire institution of the Bank of Japan, let me extend our gratitude to all of you and your predecessors for our long-standing friendship and your cooperation with our London office. We have been extremely happy to work with every one of you, regardless of nationality, domicile or profession. Some guests have worked with us in the financial, academic and public sectors, and some other guests have worked for the UK-Japan relationship. We also owe very much to the guests from the active and hard-working Japanese community here.

The year of 2004 marks the centenary of the Bank of Japan's London Office. I will take this opportunity to share with you some reflections over the past century by highlighting major events that have involved our London office.

### **Looking back on the 100-year history and thinking about the central bank**

What prompted the Bank of Japan to open an office in London 100 years ago?

The imminent objective then was to supervise the issuance and repayment operations of Japanese government bonds in London. In 1904, Japan, despite being a small emerging country, was forced into the so-called Russo-Japanese War. In order to engage in the warfare, the Japanese government issued sterling-pound bonds four times in the London market. Funds raised through the four issues altogether amounted to double the size of the Japanese government budget in an ordinary year. Under the circumstances, the Bank of Japan decided to open its London office to superintend the operations of the national debt.

Some of you may recall how such large issuance was arranged. It was Baron Korekiyo Takahashi, then Deputy Governor of the Bank of Japan, who stayed in London to negotiate for the issuance. His efforts were supported by Baring Brothers, Hongkong Shanghai Bank, and Mr. Alexander Shand of the then Parr's Bank amongst others. It is well known that Baron Takahashi later became Governor of the Bank of Japan, and subsequently Minister of Finance and Prime Minister.

You can find a hard copy of the bond in the showcase at the back of this room. It is interesting to note that the coupon rate was reduced from 6% for the first two issues to 4.5% for the rest. The rate of the third and fourth issues was lowered because this small and underdeveloped country in the Far East had won some battles against all the odds.

What was the significance of opening the London office? It represented our commitment to never betray trust given us by the market. I am pleased to emphasize that history shows the impeccable record of honoring the national debt and fulfilling our commitment. The role of managing the national debt is nowadays no longer deemed a major function of our Bank or central banks in industrial countries. Our principal objective today is to maintain price stability and financial stability. Yet, we find there is a timeless and shared element in the evolving objectives of the central bank between now and then. Honoring debt repayment and maintaining price stability both point to one thing in common. It is "trust in the currency." It has never changed as one of the ultimate objectives of the central bank.

When we review the past century, we are again impressed by the depth of the London market and the dynamism of market initiatives here. The successful flotation of Japanese government bonds in 1904 epitomizes such characteristics of the London market. We also find, over the century, numerous cases in which Japanese banks and businesses benefited from their participation in the London market.

In the area of intellectual thinking and its applications, we have been quite often inspired by the monetary authorities in the UK in general and the Bank of England in particular. We highly appreciate the close cooperation and the constant exchanges of views between us.

The Bank of Japan has not been a mere beneficiary. It has also contributed somewhat to nurturing the London market and maintaining its stability. Several months ago, senior officials at the Bank of England kindly reminded us of two major examples amongst others. The first one is, curiously enough, that the Bank of Japan was instrumental in the development of London's money market at the beginning of the twentieth century. Upon the request of the Bank of England, the Bank of Japan utilized a large pool of funds from the Japanese government bond issuance for the purpose of the better functioning of the money market in London. Let me give you a rough idea of how large the proceeds of Japanese government bond issuance. The total amount was more than double the amount of the gold reserves of the Bank of England.

The second example is the scheme for credit facility that was made available to the UK during the period from 1964 to 1977. The scheme was undertaken under the auspice of broader international initiatives, and the two central banks, in particular, were in very close cooperation. For details, please refer to the handout of a historical summary of major events that involved the UK-Japan relationship.

In this regard, I would also like to refer to some of the Bank of England's collections that are displayed in the showcase. The collections are commemorative of relations between the Bank of England and Japan as a whole. They are made available here today kindly by Mr. Keyworth, the archivist of the Bank of England.

### **Concluding remarks**

Finally, let me move from the past to the future. The future is always uncertain, but some current trends and changes can be certain in the future as well. Among them are globalization and the advancement of communications technology. It is true that these things will reduce notional distance between countries, but nobody would deny the importance of direct face-to-face interactions between people in the market.

As far as we understand it, the very strength of the London market comes from such direct face-to-face interactions between market participants, who work here in financial, accounting, legal and other related businesses. The London market attracts the best and brightest professionals and management from all over the world. In fact, their close interactions generate the dynamism of market development. That is why the Bank of Japan highly values information and insights that our London office gains from direct contacts here. Moreover, that is why the Bank of Japan sees our London office as one of the important channels of communication to market participants.

In concluding, I thank again, all the guests, predecessors and your institutions for the 100-year-long friendship and cooperation. And I am convinced that this established good relationship will continue for another century. There is no "exit policy" from London.

I wish all the best for each of you.

Thank you.