

Toshihiko Fukui: Bank of France – Bank of Japan: converging views

Opening speech by Mr Toshihiko Fukui, Governor of the Bank of Japan, at a joint symposium of the Bank of France and the Bank of Japan, Paris, 8 January 2008.

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I am very happy to welcome you today to this conference organised to celebrate the 150th anniversary of Franco-Japanese diplomatic relations. Indeed, Franco-Japanese economic relations are of particular interest to all of you.

The Bank of Japan opened its office in Paris in 1955. Since then, a large number of Bank of Japan staff members – including myself – have established strong ties with France thanks to the hospitality of the Banque de France and the pleasant atmosphere in Paris. I for one lived in Paris for about two years and half in the early 1970s, at the time of the Nixon shock that brought an end to the Bretton Woods system. The United States suddenly decided to suspend the convertibility of the dollar into gold. It was a Sunday. I clearly remember the efforts I expended during the talks with the Banque de France. What I learned in Paris is invaluable as it was a key experience for a central banker.

The Banque de France counts a number of people with an in-depth knowledge of the Japanese economy. Amongst others, I would like to mention Mrs Denise Flouzat, former member of the Monetary Policy Council at the Banque de France, who will be chairing the afternoon session. In 2002, she published a book entitled “Japan: eternal revival?”, in which she assesses the strong potential of the Japanese economy to overcome the economic crisis at what was probably the worst time after the bursting of the financial bubble. The subsequent development of the Japanese economy confirms Mrs Flouzat’s perceptiveness. In 2003, the year following the publication of Mrs Flouzat’s book, I became Governor of the Bank of Japan. This book has clearly had a considerable influence on the way in which I have conducted monetary policy in Japan.

Both France and Japan have a very rich culture, underpinned by their long history. They have established a constructive relation, learning from each other in many fields. For example, in the field of art, a considerable number of painters, such as Léonard Fujita, have studied oil painting in Paris. Conversely, illustrious impressionist painters, such as Claude Monet, drew their inspiration from the Japanese etchings. Everyone knows that art in France has been strongly influenced by Japanese culture. As regards gastronomy, there are now a large number of Japanese restaurants in Paris. French cuisine has drawn on Japanese cuisine, and vice-versa. Rather than simply perpetuate their traditions, Japanese and French chefs seek to extend the realm of *nouvelle cuisine*.

Japan and France have established a particularly constructive relation in many economic spheres. The two topics of today’s conference are *the Banque de France and the Bank of Japan: construction and co-operation* and *the French and Japanese economies in a globalised world*. As an introduction, I will make a few comments on the co-operation between the two central banks in the context of economic globalisation.

France has played a very important role from the start of the Meiji era in Japan in the mid 19th century, when the country became a player on the global economic scene. Thanks to France’s financial and technological assistance, a major shipyard and port infrastructures were set up in the town of Yokosuka. This is one of the initiatives that marked the start of Japan’s co-operation with third countries in the process of industrial modernisation in Japan.

France also played a role at the time of the creation of the Bank of Japan. Mr Léon Say, Minister of Finance at the time, advised Mr Masayoshi Matsukata, an influential member of the Japanese government who was studying central banking in Europe, to refer to the newly-established National Bank of Belgium. His contribution was highly significant. Later, when the

Bank of Japan was drawing up its statutes, the Japanese government drew on the statutes of the National Bank of Belgium and the regulations of the Banque de France.

Economies have become increasingly globalised over the past century and a half. Recently, the pace of globalisation has even accelerated. Borders are melting away and are no longer an obstacle to economic activity. Franco-Japanese relations should not be looked at solely from the angle of trade and capital flow statistics. It would be wiser to say that France and Japan are two major intertwined economic centres on the global stage.

This globalisation process has a significant impact on the primary objective of a central bank's monetary policy, which consists in ensuring price and economic stability. It is now impossible for all central banks to assess the economic situation without taking a look at global economic trends. In addition, the globalisation process in the area of financial transactions is much faster and deeper than in trade in goods and services. If a shock occurs in one country, it will immediately spill over onto numerous other financial markets.

In this context, central bank co-operation is becoming increasingly important. In fact, strong ties have been established at various levels. I myself have continued to participate in the Governors' meetings of the Bank for International Settlements, a discussion forum for central banks. It is a pleasure for me to talk to Mr Noyer and other central bank governors at the meetings, which are not only an opportunity to exchange information on the state of the economy and prices, but also to tackle problems specific to each country and international topics of common interest. I set great value on my colleagues' ideas and suggestions and feel solidarity with them because we are bound by our common objective, supporting the global economy.

At the same time, central banks seek to emulate each other, i.e. they seek to draw lessons from each other's experience and endeavour to always adopt the best practices. In this process, there is no patent. Actually, it is in our interest that all countries conduct an appropriate monetary policy because it is a guarantee of global economic stability. This is why central banks are committed to passing on their own experience.

For example, central banks have been striving to make their monetary policy more transparent. Since the 1990s, central banks have achieved greater autonomy from the State in a large number of countries and regions, including Europe and Japan. At the same time, central banks are required to be more transparent and accountable for the conduct of monetary policy. Increased transparency is important because it enhances the effectiveness of monetary policy by anchoring the expectations of households, companies and financial market participants. Having acknowledged the need for greater transparency, banks have endeavoured to take the most appropriate measures to better explain their monetary policy and better communicate with financial markets, taking into account the economic and social situation of their country. To do so, banks have drawn on each other's experiences.

One fundamental issue is how to define price stability, which is the primary objective of monetary policy. This involves striking a balance between the need for clarity and the need for monetary policy flexibility. Each country has worked out its own solution to this tricky problem.

A number of countries, including the United Kingdom, have adopted a policy of inflation targeting, whereby the central bank sets a target inflation rate. In this case, measures are adopted gradually to ensure sufficient flexibility. The European Central Bank, set up in 1998, defines price stability in terms of the year-on-year increase in the Harmonised Index of Consumer Prices and relies on a reference value for monetary growth. The Bank of Japan adopted a new monetary policy framework in 2006. It publishes an inflation rate that reflects the Policy Board members' understanding of medium- to long-term price stability. In line with this understanding, we examine the most likely outlook and assess risks most relevant to the conduct of monetary policy, which we call the two-perspective approach. In November 2006, the FED published a series of measures aimed at enhancing its communication strategy. One of them consisted in extending the economic and price forecasting horizon to three

years. A three-year inflation forecast shows the inflation rate that the Federal Open Market Committee considers consistent with the objectives of the FED, i.e. price stability and maximum employment.

These frameworks were devised by taking account of other countries' experiences and retaining the most suitable elements for their own economy. I believe that, in this area, central banks will increasingly draw on the experiences of other countries.

Countries share the same understanding of problems but at the same time stick to their uniqueness when taking decisions. This holds true in the area of monetary policy but also in numerous other areas within the evolving field of international relations. As in the case of art and gastronomy, which I talked about at the start of my speech, mutual influences lead to new innovations and blur borders through mutual understanding. This does not mean that we lose our uniqueness.

In today's conference, we will take a look at the economic and financial growth patterns of both France and Japan and examines in-depth the economic problems with which each country is faced in the context of globalisation. I hope that it will give rise to a better mutual understanding of both economies and foster further emulation.

Thank you very much for your attention.