

Toshihiko Fukui: 100th anniversary of the Bank of Japan's presence in New York

Remarks by Mr Toshihiko Fukui, Governor of the Bank of Japan, at the reception for the 100th anniversary of the Bank of Japan Representative Office in New York, New York, 6 January 2005.

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Distinguished guests, Chairman Greenspan, President Geithner, Ladies and Gentlemen,

It is my great pleasure to welcome you to tonight's event commemorating the 100th anniversary of the Bank of Japan's presence in New York.

Beginning of the Bank of Japan's New York office

In 1905, exactly one hundred years ago, the Bank opened its office here in New York. Its original mission was to oversee the business related to government debt issuance. At that time, Japan was engaged in warfare against Russia.

Baron Korekiyo Takahashi, Deputy Governor of the Bank at the time, was asked to raise the necessary funds - 10 million pounds, between three to four percent of Japan's GDP at the time - abroad. He first went to London, then the largest financial market in the world. Since Japan was only a small emerging nation at that time, it comes as no surprise that Baron Takahashi could only raise half the necessary funds there. Fortunately, he came across a prominent American banker, head of Kuhn, Loeb & Co., who agreed to underwrite the remaining half.

Baron Takahashi, who later became Governor of the Bank of Japan and eventually Prime Minister of Japan, wrote in his autobiography that he was utterly surprised by the fact that this American banker literally made the decision overnight. Even in those days, it appears, U.S. bankers had boldness and decisiveness when it came to completing a deal.

Around the time the deal was struck, the yield spreads of the Imperial Japanese government debt over the British Consol, a measure of risk premium against the benchmark of the era, peaked around 300 basis points. It tightened to around 150 basis points one and a half year later.

When the first official of our New York office arrived in 1905, he must have had a strong brew of cultural shock. For example, back in Tokyo street cars barely started to move on the ground; whereas in New York, subway service was already in its second year of operation. Also, I'm certain that he wasted no time in attending a Yankee game, whose history in New York started just two years earlier.

The year 1905 was roughly half a century after the establishment of formal diplomatic relationship between the United States and Japan, and by then the number of Japanese citizens in New York had started to pick up. In fact, this place where we are all gathered tonight, the Nippon Club - which stands for Japan Club - will also be celebrating its 100th anniversary this year.

Benefits from the presence in New York

The New York market has continued to grow over the years. Time and again, Japan has benefited from financial activities in this market. Debt issuance following the Great Kanto Earthquake of 1923 is one such instance. When the deal was arranged, the Governor of the Bank at the time, Junnosuke Inoue, played an important role. It is interesting to note that his first hand knowledge of the New York market as well as the bonds he formed with U.S. bankers during his tenure as general manager of our New York office proved to be quite valuable for future endeavors.

Equally significant has been the fact that, over the years, we have had the pleasure of engaging ourselves in countless discussions with such eminent figures as market participants, distinguished scholars, and especially the esteemed Federal Reserve officials, on topics ranging from monetary policy to financial market developments.

On December 1913, the Federal Reserve Act was enacted, and the following year, the Federal Reserve Bank of New York came into existence. Through the discussions with the Fed, we have

7developed common understandings, such as: the importance of price stability for sustainable economic growth; the importance of a sound financial system as well as liquid and well functioning financial markets.

Today, the primary responsibility of the New York office is to develop a channel for a candid dialogue with respectable people widely in the region it covers, that is, both North and South America, but the crucial part is of course the United States, above all, Federal Reserve officials and banking communities here. It is no exaggeration to say that New York office has been very successful in creating a bond of trust between us.

This strong partnership has helped us weather a storm at times of difficulties. At times of no difficulties, too, our New York office gave essential inputs to discussions in Tokyo, thereby enabling us to learn a lot about not only the U.S. economy but also economic and financial developments in the world.

Let me emphasize that our New York office is performing a very important role within the Bank of Japan. That is not just my personal view, but the entire Policy Board of the Bank appreciates the contribution made by the New York office.

Looking ahead

Before I conclude, allow me to briefly touch upon the current economic situation in Japan. The fundamentals of Japan's economy have visibly improved during the past few years, although we have seen a temporary pause in growth in the first half of FY 2004. Considerable progress has been made in dealing with structural elements such as excessive capital stock, debt, and labor in the corporate sector, and the vulnerability in the financial system, all of which have delayed the recovery of the Japanese economy.

Japan, it seems to me, is once again well poised to contribute positively to the world economy. Against this backdrop, the economic and financial ties between the United States and Japan remain as important as ever.

On behalf of all the current and past colleagues of mine at the Bank, I would like to express my deepest gratitude for the unconditional support that has been extended to us over the years. I have no doubt that the coming decades will be no less rewarding than these 100 years have been.

Thank you.