

Christian Noyer: Bank of France – Bank of Japan: converging views

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

* * *

Mr Ambassador, Governors, Chairpersons, Professors, ladies and gentlemen, dear friends, I am delighted to welcome you today to the Banque de France together with the Governor of the Bank of Japan, Toshihiko Fukui. *Yokosso Ilashaïmase* ! Some of you have come as neighbours, and others have made the trip from Tokyo to attend this symposium, for which I would like to thank you wholeheartedly.

And, as 2008 has just begun, I would like to wish you a very happy New Year: the year of the rat in the Japanese calendar, "*Akemashite omedeto gozaïmasu nesumi doshi*". I recently read the following prediction concerning this year: "It will be particularly favourable for all forms of investments and savings (we all know that rodents hoard their food)". The prediction went on to say (every word is true) "The influence of the rat curbs inflation". As a euro area central banker, I welcome this omen.

But coming back to what gathers us here today, 2008 is the year of friendship between France and Japan, celebrating the 150th anniversary of Franco-Japanese diplomatic and economic relations. Ambassador Imura has agreed – and I thank him profusely for this – to make the introductory speech to remind us of the importance of this anniversary and the celebrations that will take place throughout the year.

In order to celebrate this historic anniversary, we decided to organise this symposium in a place that itself has a very rich history: the Golden Gallery of the Hôtel de Toulouse. I will mention in passing that 200 years ago this year the Banque de France chose the Hôtel de Toulouse for its head office. I will not, this morning, go into great depth about the history of this place. Nevertheless, on a day like this, given over to History, I will just say that this gallery was designed in the early 17th century by François Mansart for M. de La Vrillière, a minister of Louis XIII, and was then renovated in the style of the day at the beginning of the following century by Robert de Cotte, the First Architect of Louis XIV, for the Count of Toulouse (the legitimated son of the Sun King), its new owner.

Although this symposium is being held in Paris in the most prestigious part of the Banque de France, it is, nonetheless, a joint symposium of the Banque de France and the Bank of Japan. Indeed, without the remarkable efforts of the Representative Office of the Bank of Japan in Paris, which has played a leading role in its organisation, this symposium would never have seen the day. This Office has also acted as the go-between with the head office of the Bank of Japan in Tokyo, for which I thank it sincerely.

While the Banque de France has been seconding a representative to the French Embassy in Tokyo since 1976, the Representative Office of the Bank of Japan was set up in Paris over 50 years ago. This Office is an extremely strong and precious link between our two institutions, which enjoy exceptionally good long-standing relations. The Banque de France is very attached to the presence of this Office in Paris and strives to provide it with assistance and information. This Office is also, I believe, for the Bank of Japan, a prime vantage point for observing the French economy and the Paris Financial Centre, naturally, as well as a particular vantage point for the euro area, which is highly complementary with that provided by its Office in Frankfurt. For these reasons the Bank of Japan has retained this representation in Paris, and we are extremely pleased that it has.

In addition to this very strong institutional foundation of the relationship between the Banque de France and the Bank of Japan, you, Governor Fukui, bring an important personal dimension in the form of your personal attachment to our country. It should be pointed out that, in the early 1970s, you yourself worked in the Bank of Japan's office in Paris. During

this “French period” of your career, you acquired an extraordinary knowledge of our country, its language and culture. Since then, you have always shown deep and unswerving friendship towards France. You have many French friends, some of whom are with us today.

The French Government recognised your exceptional contribution to Franco-Japanese friendship by awarding you the “Commander of the Legion of Honour” – the highest of our national honours. Let me say how happy and moved I was to be present, in Tokyo on 25 November 2005, at the ceremony where you received this decoration from France’s Ambassador in Japan.

I would add that I myself am fascinated by Japan and its culture. For over 25 years I have been to your country almost every year. I also have dear friends there, some of whom have been kind enough to join us today.

This mutual attraction for one another’s cultures has helped us, Governor Fukui, to build a strong personal relationship over the course of our meetings at the international institutions, in Basel and Washington in particular. This doubtless explains why we agreed straightaway, when invited by the diplomatic authorities in our respective countries, to involve our institutions in the celebrations of this 150th anniversary.

If you look, on the website of the Japanese Embassy in France, at the schedule of events celebrating this occasion – some of which will be quite exceptional – we see that the arts and culture have pride of place. This is no surprise given the rich cultural heritage in both our countries.

It seemed to us, however, that as central banks we should devote today’s symposium to economic history and analysis.

Japanese philosophy teaches us that “visiting the past teaches us new things” (*“fuluki wo tazume atalashiki wo shilu”*).

I’m pretty confident that the historical approach of our morning session will shed light on the more recent economic developments that will be our focus this afternoon.

Modern central banks emerged with the advent of industrial economies in order to facilitate trade and centralise the regalian function of issuing currency. While being strictly national, the issuing banks of 150 years ago quickly became used to keeping pace with globalisation. From the nineteenth century onwards, the appearance of central banks and the emergence of their role allowed them to meet the needs of economies that were already global, with an integrated production function in the wake of the industrial revolution. Lenders of last resort in critical moments and ultimate guarantors of their currencies, central banks extended their role in the twentieth century to include the construction and monitoring of business cycle indicators by drawing on highly-specialised knowledge of the credit sector, built up both in France and Japan through their branch networks. As well as producing statistical data and remaining vigilant with regard to internal stability in a more open and flexible environment, our central banks also became responsible for the external value of money in this period, and played an active role in international bodies. Having become independent in the 1990s, both the Banque de France and the Bank of Japan maintained price stability in the face of adverse pressures, whether inflationary or deflationary, making use of a range of appropriate instruments.

Participating in the community of central banks that has gradually been built up, the Banque de France and the Bank of Japan, in parallel, have been regional pivots of the central bank function. After the Second World War in particular, our two institutions favoured co-operation with the central banks of economic regions undergoing reconstruction and newly emerging markets. Finally, during the twentieth century, we carved out a place for ourselves in the world by adapting to the new international functions: the more dynamic the international markets were, like in the 1920s and in stages from the 1960s onwards, the more our two banks’ international functions developed.

This morning's session, concerning the history of our economies and institutions, will enable us to shed light on all these aspects.

The afternoon's session will focus on developments in our economies and institutions in an increasingly globalised world. Globalisation is not a new phenomenon. The past 150 years of diplomatic and economic relations between our two countries are proof of this. However, the scope and the speed of the current stage of globalisation have far outstripped anything experienced in the nineteenth and twentieth centuries. In a globalised world, the French and Japanese economies have found themselves in very different environments, with France and Germany leading a very structured regional institutional construction with the European Union, first in terms of trade, then at an economic and monetary level, while Japan has been the economic leader of a de facto integrated area, with remarkable dynamism thanks to its productive, capacity and technological investment.

Growth of international capital flows has resulted from domestic policies and global factors, such as the increasing interdependence of economies. The French and Japanese economies have benefited from this while experiencing an unprecedented boom in technical progress and productivity growth, mainly as a result of considerable investment in information and communication technologies.

Thanks to technological progress and financial globalisation, the efficiency of financial markets has strengthened over the decades. Cross-border links between markets are closer than ever, yet the current crisis is revealing the persistent nature of the risks to financial stability. Thus, the existence of trust-based relationships built on long-standing mutual experience is a particularly strong asset for central banks to help them respond to uncertainty. Their network can enable them to find ad hoc solutions such as those adopted in a concerted and co-ordinated manner in December to facilitate market liquidity during a period of great uncertainty. Relations between the Banque de France and the Bank of Japan are particularly valuable in the analysis, comparison and understanding of differences in of our regions' economic cycles.

Although our financial systems have undoubtedly become more efficient thanks to innovation and globalisation, it remains to be seen as to whether progress has been made in terms of resilience. The central banks' role of keeping pace with these developments and assisting in periods of increased volatility highlights the importance of our co-operation and the resulting capital of trust. In this respect, I wholeheartedly thank all of the speakers and moderators here today, as they are further contributing towards strengthening this capital.

According to a Japanese proverb, "with a friend at your side, no road seems too long" (« *tabi ha michidure* »). Governor Fukui, I would venture to say that today's celebration of the friendship between our two nations and more specifically between our two institutions will soon seem to us like a fleeting moment. However, I am also convinced that our institutions will continue the road together with constantly renewed pleasure derived from our productive and friendly exchanges. It is now with great pleasure that I give you the floor, Governor Fukui.