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EUROSISTEMA

Remarks at the Event to Commemorate Thirty Years of Banca d'Italia in Japan

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Thirty Years of Banca d'Italia in Japan:
Anniversary Celebration

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Governor Kuroda, Ambassador Starace,

Distinguished representatives of Japan's authorities, of the financial and corporate sectors, of academic and research institutions, and members of the Italian, European and international communities in Tokyo,

I am delighted to welcome you all this evening, and to see several personal friends among you, as we celebrate the 30th anniversary of the establishment of Banca d'Italia's Tokyo Representative Office, which was officially inaugurated on January 27, 1989 by Governor Carlo Azeglio Ciampi, in the presence of the Bank of Japan's Governor, Satoshi Sumita.

A special word of welcome goes to those of you who also attended that event. Like the Bank of Japan and other central banks around the world, the Bank of Italy has long recognised the value of a stable presence in major international financial centres, for liaising with local authorities, disseminating information on and analyses of the respective economies, and for closely monitoring market developments. The Bank's first 'Delegation' – as our foreign offices were, and still are formally called – was opened in London in 1917, soon to be followed by the New York Office.

Our interactions with Japan's monetary and financial authorities had, of course, been under way well before the opening of our Tokyo Office. As Governor Kuroda recalled, in 1962 Paolo Baffi, then senior deputy governor (Direttore Generale) of the Bank of Italy, came to Japan to deliver a series of lectures on international monetary policy, widely followed by officers from Asian central banks, thus setting strong foundation to future closer relations between our two institutions.

What I would like to remember today, however, is another episode that significantly enhanced this relationship.

In late 1971, Giorgio Carducci and Tommaso Padoa-Schioppa – two young Bank of Italy officers working in our Research Department – were dispatched to Japan for a study mission by the then Governor Guido Carli, and at the suggestion of the Head of the Research Department, Carlo Azeglio Ciampi – later to become through the years, Governor of the Bank, Prime Minister, Minister of Finance and President of the Republic. Their task was to analyse the financing model of Japanese industrial expansion, and especially the role played by banks in funding capital accumulation, an issue of particular importance for Italy's economic development. Indeed, this was a situation Italy shared at that time with Japan, and the banking channel is still today the main source of financing for Italy's predominantly small and medium-sized enterprises.

The mission lasted two months and enjoyed the generous support of the Bank of Japan, which went well beyond the already high standards set by the world-renowned *omotemashi* of the Japanese people: Governor Sasaki assigned an office at the Bank of Japan to Messrs. Carducci and Padoa-Schioppa throughout their stay, and they were constantly assisted by the Bank's officers, who arranged most of the meetings with other institutions. As Carducci and Padoa-Schioppa noted in their final report, 'without that precious collaboration, it would have been impossible to conduct the research so rapidly and comprehensively'.

The report compiled by Carducci and Padoa-Schioppa offered a synthetic but thorough description of the real, monetary and financial sectors of the Japanese economy at that time. It was published in Italian the following year, contributing to a better understanding in Italy of the foundations and structural features of Japan's own 'economic miracle' (a term we use when talking of Italy's resurgence from the ashes of World War II in the 1950s and 1960s).

A further important step in the direction of extending our interactions with the Japanese monetary and financial system was taken in 1985, with the secondment of a senior Bank of Italy officer as a Financial Attaché to the Italian Embassy in Japan. Today, besides our three Representative Offices there are 14 financial attachés seconded by the Bank to Italy's Embassies, covering almost sixty economies around the world.

With the opening of our own Office in Tokyo in 1989, our presence in Japan was definitely strengthened, and we have since maintained a high level of cooperation with the Italian Embassy, thanks to the efforts over the years of its heads: Mr Rosario Bonavoglia, Mr Sandro Appetiti, Mr Pietro Ginefra and the current one, Mr Angelo Cicogna; and, of course, of the Italian Ambassadors.

The Office has greatly benefited from our Japanese partners' forthcoming attitude and constant support. The frequent exchange of views with the Bank of Japan, as well as with the other financial authorities, and members of the academia and the private sector, has provided us with extremely useful input for our own analyses and policy decisions.

It is important to underline that the activity of our Representative Office is not confined to maintaining a fruitful collaboration with Japan's authorities and financial institutions. It also provides an important contribution, through research and analysis, to our understanding of Japan's economy and its fundamental role in Asia and in the world.

I benefited too from the valuable support of the Italian Representative Office in Tokyo, not only as a Bank of Italy manager, member of the Board and Governor, but also during my missions to Japan when I was the OECD's Chief Economist during the difficult years of the Asian financial crisis.

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This cooperation and exchange of views with Japanese authorities and experts has proven beneficial in the past. It will perhaps matter even more in the future, given the challenges that our countries are facing, ranging from navigating a difficult international environment to adjusting to a rapidly ageing society and the spreading of new technologies.

Over the last thirty years, the world economy has undergone a profound transformation. Favourable geopolitical developments have combined with spectacular advances in information and communication technologies to spur unprecedented global economic and financial integration. The impact on economic growth and social development has been no less impressive. During this period, the volume of international trade has more than quadrupled, contributing to an almost three-fold increase in global output.

While our two countries have benefited from these developments, they have also seen a sharp slowdown in the pace of economic expansion and the emergence of structural impediments that are largely shared by our two economies. Sluggish growth, adverse demographic trends and soaring public debt are challenges we have in common, and the adequate policy responses needed to meet them might be partly based on each other experiences and best practices.

The prolonged periods of subdued growth that Japan and Italy suffered since the early 1990s have been driven by a deceleration in productivity, a phenomenon common to many developed and developing nations but more marked in the case of Japan and Italy. In Italy we observed a substantial delay in responding to the significant changes brought by globalisation and technological progress. This delay was exacerbated by the difficulties of small and medium-sized enterprises in innovating and adjusting their governance systems. These factors accompanied the long period of adverse cyclical conditions that followed the global financial crisis and the associated progressive reduction in the entry and exit dynamics of firms. Corporate sector governance and the efficient reallocation of capital in the business sector have often been at the centre of attention in Japan too.

Demographic developments contribute to a better understanding of the subdued economic performance, especially in Japan, where the problem of an ageing population emerged earlier. According to UN population projections, in Italy the ratio of people aged 65 and above to the working age population (20-64) is currently about 38 per cent and projected to exceed 72 per cent by 2050; in Japan it is already above 46 per cent and is estimated to rise to almost 78 per cent by 2050. Life expectancy at birth is currently over 82 years in Italy (15 years longer than in 1950) and close to 84 in Japan (20 years above the 1950 level); in both countries it will exceed 87 years by 2050.

Japan and Italy are therefore frontrunners in facing the economic and institutional adjustments demanded by this demographic transition, which is unprecedented and has far-reaching implications in terms of productivity growth, the balance between saving and investment, pension requirements and long-term care. There are clear implications here for public finances and asset markets.

Mechanical extrapolations of population trends show that a shrinking labour force will exert a significant drag on potential output over the next thirty years for both our economies, even taking into account possible mitigating effects, such as those stemming from immigration.

With respect to the old-age related spending borne by public finances, both Italy and Japan have intervened on pensions, even though their increase in the past twenty years has been substantial and is not going to decline for years to come. Additional funding needs will arise from the health care system. Taking also into account non-demographic drivers (such as the effect of technological progress), outlays related to health and long-term care are projected to rise significantly. As Japan and Italy have two of the highest public debt-to-GDP ratios among advanced countries, there is very little fiscal space to accommodate these trends.

Slow productivity growth, ageing and high public debt are three interrelated challenges which require a comprehensive policy response. The demographic developments under way and the need to ensure sustainable public finances emphasise the importance of boosting productivity growth.

It must be recognised that advances in medical sciences and improvements in living conditions have moved the threshold forward considerably of what used to be called 'the third age': as the positive experience of Japan illustrates, senior citizens can be engaged in productive activities, including the provision of all-important community services. Moreover, adequate social policies can encourage a much higher participation of women in the labour force, especially in Italy.

Policies to promote innovation and investment in new technologies are crucial. At the same time, as technological progress advances further, taking advantage of its great economic opportunities will require paying close attention, in particular, to the changes implied for the qualitative profiles of labour demand. Appropriate plans will need to be drawn up and consistently deployed to retrain workers, invest in education, fight poverty and inequality, lest these powerful transformational forces undermine social cohesion.

Supporting technological innovation, and its efficient diffusion throughout the economy is key to obtaining sustained increases in productivity in the longer term, and to safeguarding the living standards of future generations, as well as the sustainability of our countries' social security systems and public finances. Nevertheless, it is essential to take into account the effects on the nature and quality of available jobs, which will stem from the extant technological revolution that is proceeding with unprecedented speed and is wide ranging, from automation to digitalisation, from robotics to artificial intelligence.

In this respect Japan appears to be better positioned than Italy in some key areas. First and foremost, the quality of its human capital: in Italy only 27 per cent of the population aged 25 to 34 has completed tertiary education, while in Japan this percentage is as high as 60 per cent. Italy and Japan also stand at opposite extremes as regards the older working population: in Italy the percentage of people who have completed tertiary education in the 55-64 age group is the lowest among the G7 countries while Japan has one of the highest. Japan also has a significantly higher R&D expenditure to GDP ratio. These differences help to explain the fact that the contribution of total factor productivity to output growth has remained positive in Japan (although at much lower levels than in the years before the 'lost decade'), while in Italy it has been negative on average since 2000, only recently showing a weak recovery.

Policies to safeguard the benefits of technological progress should go hand in hand with a firm commitment to international integration: it would be a serious mistake to believe that disengaging from global responsibilities could make it easier to achieve long-lasting benefits at home. It is unfortunate that in many respects we have recently observed a deterioration of international relations, with the multilateral, liberal world economic order that presided over many post-WWII developments starting to falter with the emergence of new players and the pressures of new protectionist tendencies.

To be sure, international economic relations need to be based on generally accepted rules, which protect legitimate rights and ensure a level playing field for all parties. The system of multilateral regulations and supranational institutions which has provided that framework, supporting global economic development in the post-war era, is now facing serious difficulties, against a backdrop of significant differences in the political systems and economic models of key trading nations. This is making cooperation more complex, but by no means less necessary for the common good, a conviction that Japan and Italy both share.

Critical issues for the future well-being of all nations, such as the environmental sustainability of economic development, can only be managed through joint actions, which leverage scientific research and already available technology to ensure that growth does not come at the expense of the environment. Japan's contribution in this direction has, of course, been essential, as it presided over the adoption of the historical Kyoto protocol in 1997. We may also recall the alarm already raised in the early 1970s by the 'Club of Rome', with its report, 'The Limits to Growth'.

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We are facing strong headwinds, as Japan knows only too well, being the acting President of the G20 this year. Thorough discussions on all these points took place at the G20 meeting of Finance Ministers and Central Bank Governors held in Fukuoka a few days ago. Indeed, Japan has had the merit of putting at the centre of the agenda those topics that are today acknowledged as being central to global economic prospects, such as ageing, technological development, the need for high-quality infrastructure and a broader health care coverage in developing countries.

Italy will take the helm of the G20 in 2021 and I am sure that the path taken by Japan will be both an important legacy and a hard example to follow. In this essential collective endeavour, we know we can count on the full support and determined actions of Japan, which, as president of the G20, is making an important contribution to reaffirming the value of multilateral cooperation for the world's shared prosperity.

There is clearly no shortage of opportunities, including in our own domains of central banking and financial supervision, to continue working with our Japanese friends, and build on the excellent cooperation that our Tokyo Office has contributed to over the last thirty years.

As Japan enters its REIWA era with a spirit of renewed confidence, we very much look forward to extending that rewarding partnership for the next thirty years and beyond.

Thank you. *Grazie*. *Doumo arigatou gozaimasu*.