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一般社団法人東京国際金融機構
（FinCity.Tokyo）

Financial Centres at Crossroads

-Tokyo and London’s Role in Global Megatrends-

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FinCity.Tokyo 代表理事
中曽 宏

(Cover Page)

1. Introduction and the role of Fincity Tokyo

Good morning, ladies and gentlemen, it is my great pleasure and honour to address the distinguished audience here at the venerable Mansion House at the heart of the Square Mile. Let me begin with introducing ourselves. FinCity Tokyo is a public-private partnership, established in 2019 under the leadership of Tokyo's Governor Koike to embark on transformative reform of Tokyo's financial ecosystem with a view to performing a better role as a global financial center. We work in partnership with the government, but we are not a part of it. Our power resides in the expertise and the extensive network of financial institutions that we have built up over the years.

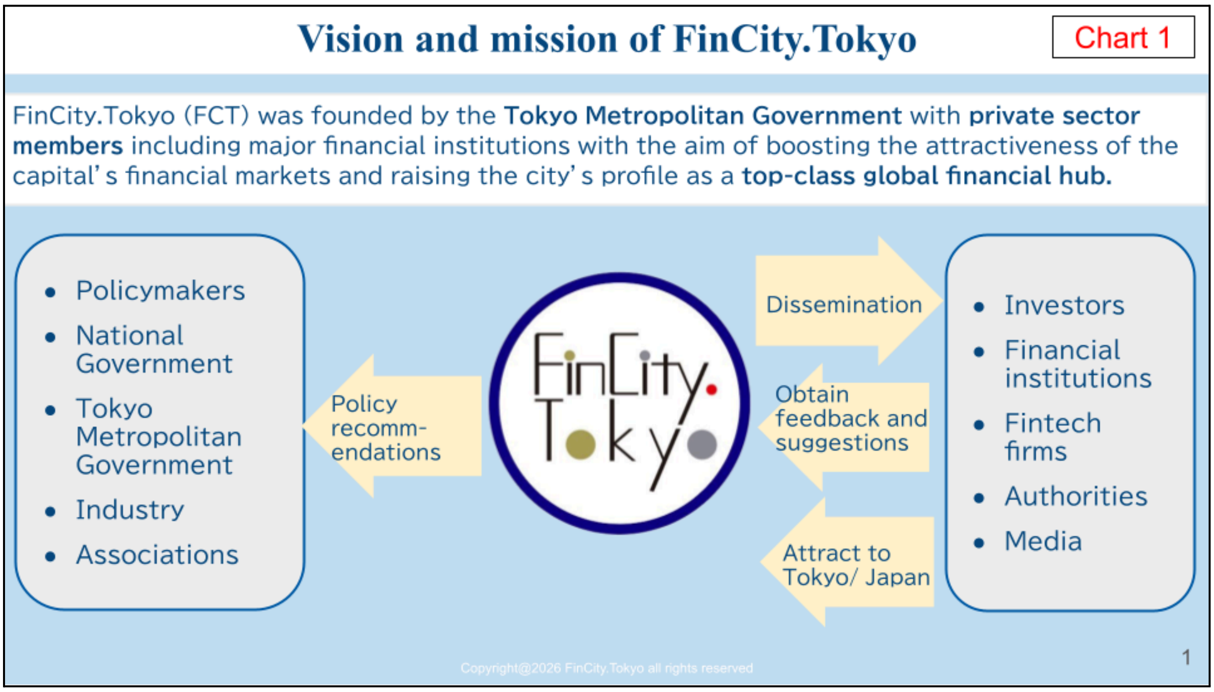
Eight years ago, in October 2017, when I was the Deputy Governor of the Bank of Japan, I delivered a speech at the Guildhall. I spoke about the Japanese economy that was still struggling to overcome deflation, a chronic disease left behind by the Japanese banking crisis of the1990s. Those were painful days when hopes of recovery proved short-lived only to be betrayed repeatedly in a series of *false dawns.*

The hardship was a legacy of Japan's asset bubble in the late 1980s. During those bubble years, a square kilometer in downtown Tokyo was said to be worth the value of the entire State of California. Japanese banks were compared to the Invincible Armada. Complacency, vanity and *nouveau rich* prevailed instead of honesty and humbleness that were the foundation for the Japanese culture and society.

“Japan as Number One,” the title of a book by Ezra Vogel in 1979, that many thought was our destined future, proved illusionary as the asset bubble burst in the early 1990s. Then, people were reminded of the penetrating lines from a Japanese Classic in the 12th Century on a Mighty Samurai Dynasty that flourished and vanished. The lines said “Proud ones are but for a moment, like an evening dream in springtime. The mighty are destroyed at the last, they are but as the dust before the wind”. Eight centuries on, the lines still tell us a lot.

But lessons were learned. Japan is back. Its economy is on its way to sustained growth with corporate profits remaining high and wages keep rising. We have seen CPI inflation rates overshooting the price stability target of 2% for 45 months in a row, leaving deflation behind us, at last. Our financial industry is back on the global stage. Moreover, political stability is restored and reinforced after the historic victory won by Prime Minister Takaichi in the latest election. Therefore, even for a conservative former central banker like myself, who has seen many false dawns in the so-called the Lost Three Decades, it appears that *this time is different*.

What should the guiding principle be in this new era for FinCity Tokyo in promoting Tokyo as a financial centre? Our objective is *not* to replicate the base to the powerful fleet of Japanese banks as was the case in the 1980s. That is *not* our intention. Instead of pursuing dominance, we aim at promoting innovation in financial services and advancing policies to address social challenges and thus to contribute to sustained growth both at home and overseas. That is our role today. (Chart 1)



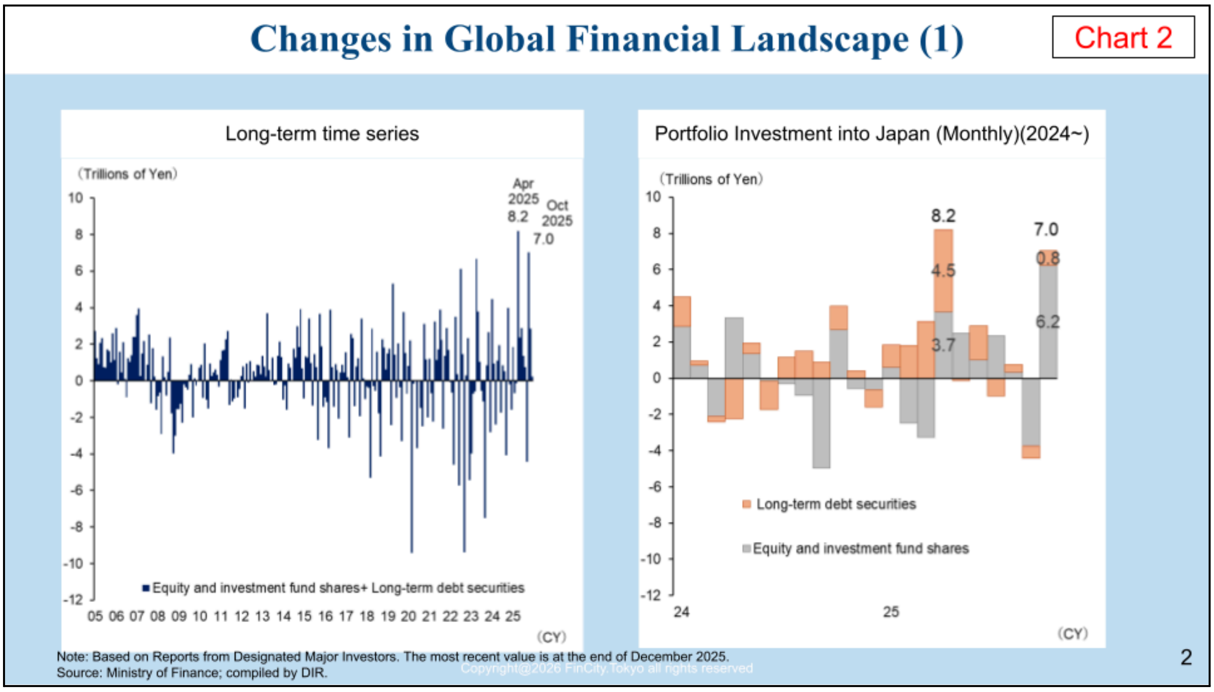
(Chart 1)

2. The shifting global economic and financial order

But we face new challenges today. Since the beginning of 2025, almost every morning we were awoken with surprise at the incoming news on events that took place overnight in the US or elsewhere. Meanwhile, this January in Davos the Canadian PM Mark Carney talked about *rupture* in the world order. His message proved a wake-up call for many of us who were getting more used to this routine of life and inclined to turn a blind eye to the sober reality.

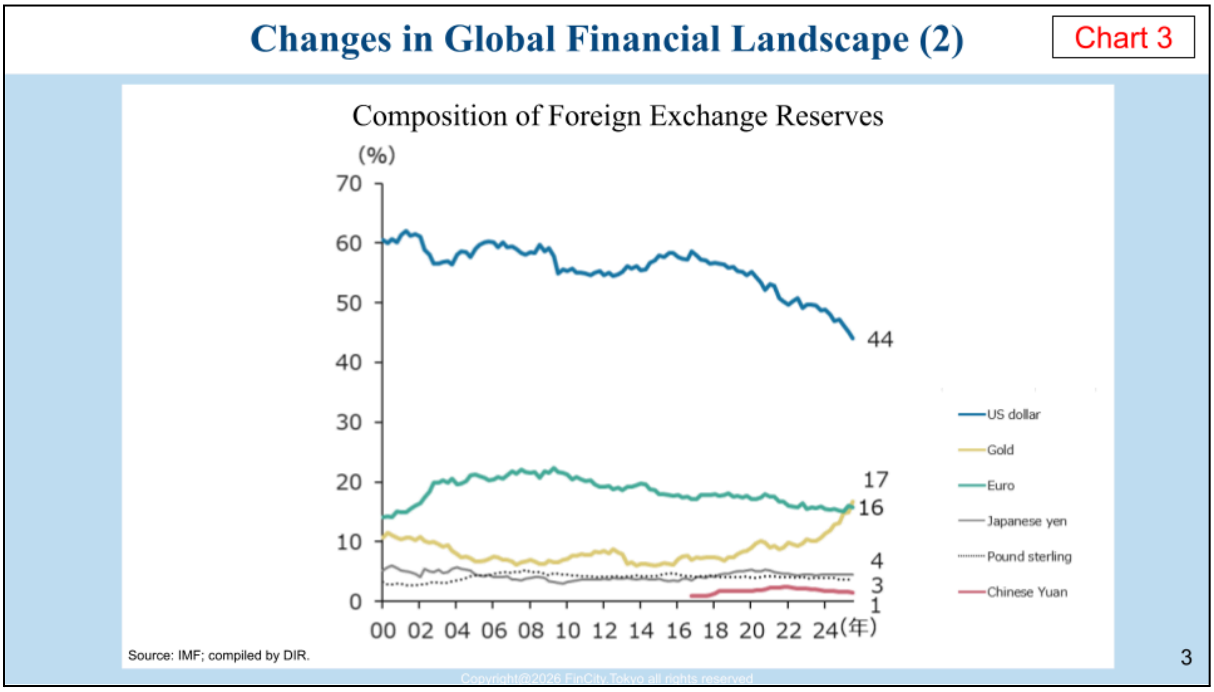
In global financial markets, we have witnessed some factors that underpinned the USD supremacy start to erode. The US stepped down from its role as the guardian and the standard-bearer of free trade. As a result, its economic policies have become highly unpredictable. The widening US fiscal deficit casts some doubt about the sustainability of the soundness of the benchmark US Treasury market. It was against this backdrop, we saw in April last year, immediately after Liberation Day, a brief period when the value of dollar assets across the board plunged, as if a “Minsky Moment” had arrived, breaking the usual correlations among US securities, equity, and the dollar exchange rate.

During the corresponding period, Japan saw a recorded high level of capital inflows amounting ¥8.2 trillion into equities and bonds combined (Chart2). The trend inflow seems to continue compounded by domestic factors including a) the continued move from savings to investment as Japan is now back in the world with positive interest rates, b) stronger corporate governance led by the JPX that requires management to be more conscious of capital cost and stock price, and c) a lot of M&As are in the pipeline as firms realign their business portfolios.



(Chart 2)

Although I don’t think the USD supremacy will be taken over any time soon, given the likelihood that the US remains the largest economy in the world and the “network externality,” I expect global investors will continue to diversify their portfolios away from the USD into other currencies including the yen and other value-storage assets such as gold. As a matter of fact, although the dollar remains by far the largest reserve currency, its share in the foreign exchange reserves is slowly declining. This contrasts with gold that has caught up with the euro. Meanwhile, the yen and the Sterling remain as stable reserve currencies (Chart3).



(Chart 3)

These non-dollar reserve currencies will have to collectively function to fill the gap created by the US as they recede from the international arena under its "America First" proposition. What this suggests is that financial centers like Tokyo and London, built on the foundation of democracy and the rule of law, are well-positioned to grasp new opportunities and bear new responsibilities in the shifting global financial landscape.

3. Possible areas for further collaboration between Tokyo and London

As I mentioned, Japan is back on its growth trajectory, but to make it sustained, we need a well-thought-out growth strategy. Growth strategy was the third arrow of Abenomics that needed to fly faster and higher. The government's "Policy Plan for Promoting Japan as a Leading Asset Management Center" is a pillar for growth. The Plan, originally launched by PM Kishida, remains high on the policy agenda set forth by PM Takaichi, now with a broader objective of supporting Japan's economic growth. Successful implementation of the Plan will add a new investment chain to what has been a bank-centric economy. Growth capital provided via this channel will help support firms that have potential to grow one day into unicorns. Inward investment to Japan will enhance the role of the yen as an international currency.

In this context, I want to raise two possible areas for future collaboration between the financial centres of Tokyo and London.(Chart 4) The first is utilization of the Emerging Managers Program (EMP), which is a part of the Policy Plan. An emerging manager typically refers to a small active independent manager with relatively short track-record but who has high investment skills. The idea of EMP is to systematically provide emerging managers with better chances to demonstrate their skills.

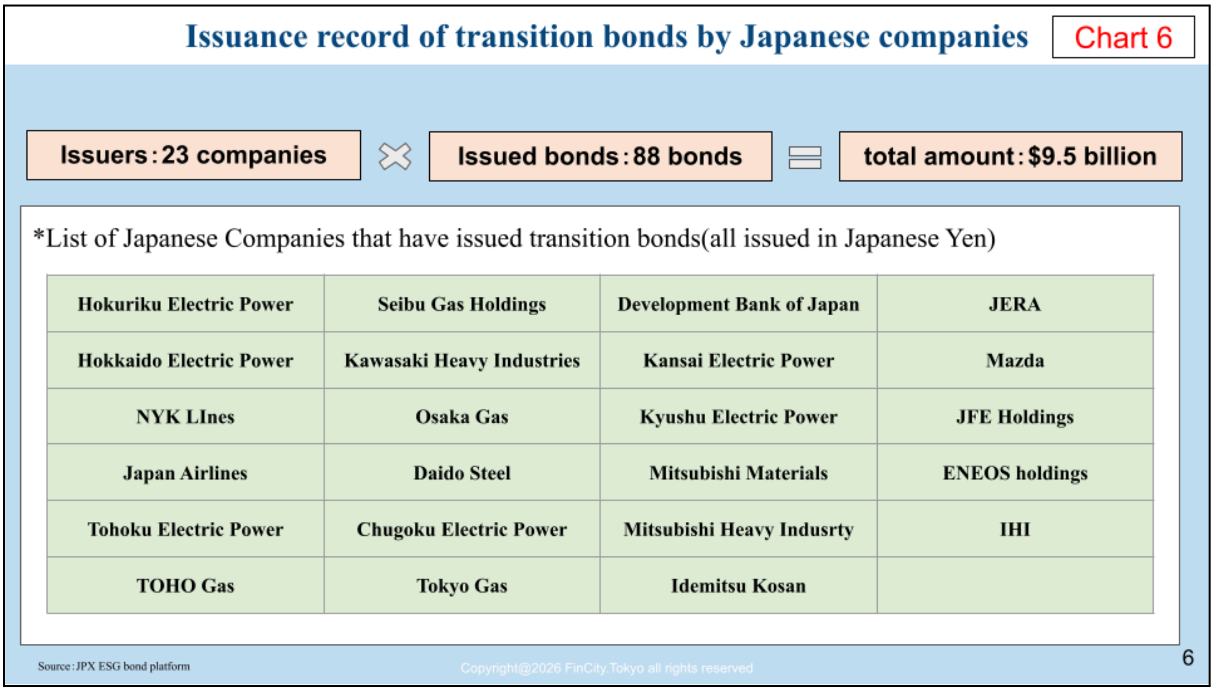
(Chart 4)

FinCity Tokyo supports emerging managers year-round in connecting with institutional investors. And every year, we host the Tokyo Asset Management Forum to showcase distinctive managers who can serve as catalysts for upgrading the Tokyo Financial Center. This year's Forum was held last week in Tokyo with a large attendance. We hope to welcome more emerging managers from the UK to take advantage of new investment opportunities in Japan.

The second area for possible collaboration is transition finance where we hope to build expertise together. The scene is set for collaboration. In July last year, we co-hosted "Transition Finance Forum" in London together with the City of London's Transition Finance Council. This was followed up by a series of "UK-Japan Transition Planning Dialogue." The third dialogue is to take place tomorrow in London. We hope to build up as much expertise as possible in the runup to the UK's G20 presidency in 2027, so that the UK can play a leadership role in reorienting the path to net zero goals. (Chart 5)

(Chart 5)

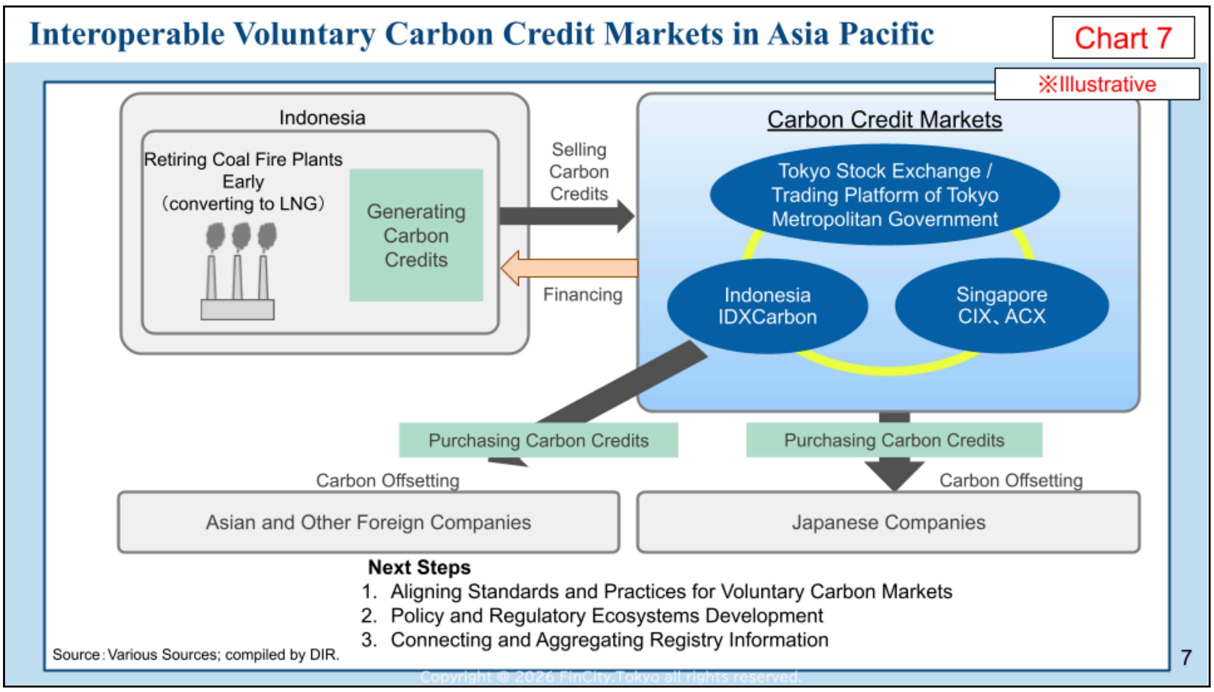
Specifically, there are two topics we want to explore together. One is upgrading the market for transition bonds. The intention is to support hard-to-abate industries that cannot leap directly from brown to green to realistically transition to achieve net zero goals. Japan has a framework in which firms issue transition bonds to finance *amber* projects that use cleaner energy sources and are aligned to the sector-specific roadmaps formulated by the government. The cumulative amount of transition bonds issued by Japanese firms reached \1.4 trillion($9.5billion). I hope our experience proves useful for the UK's own designing of transition finance. (Chart 6)



Hokuriku Electric Power	Seibu Gas Holdings	Development Bank of Japan	JERA
Hokkaido Electric Power	Kawasaki Heavy Industries	Kansai Electric Power	Mazda
NYK LInes	Osaka Gas	Kyushu Electric Power	JFE Holdings
Japan Airlines	Daido Steel	Mitsubishi Materials	ENEOS holdings
Tohoku Electric Power	Chugoku Electric Power	Mitsubishi Heavy Indusrty	IHI
TOHO Gas	Tokyo Gas	Idemitsu Kosan	

(Chart 6)

The other topic we want to explore further with London is interoperable voluntary carbon credit markets, which is one form of transition finance. We have been working with partners in the Asia Pacific region to develop a network of interoperable carbon credit markets so that carbon credit generated through, for example, the early retirement of coal-fired power plants in an economy can be sold elsewhere in the region. In this way we think we can collectively become green quicker than otherwise. (Chart 7)



(Chart 7)

The initiative is acknowledged by the APEC Finance Ministers and is now proceeding to next steps in technical areas including a) alignment of standards and practices for voluntary carbon markets and b) connection of registry data among participants from across the region. In my view, the initiative could in the future be expanded to connect with carbon markets in Europe. That is where I see potential for new collaboration between FinCity Tokyo and London's Transition Finance Council.

4. Concluding Remarks

As the world nervously awaits what may come after the rupture in the world order, a phrase by Mark Twain comes to my mind. He said, "history doesn't repeat itself, but it often rhymes." In its three decades of long journey from the bursting of the asset bubbles to the long-waited economic revival, Japan experienced hardships of all kinds. Financial crises, deflation, and natural disasters. In addressing them, we tried various unconventional policies. Some worked, others fell short. Given our diverse experience, we may be better positioned to identify rhymes that underlie the current megatrends. Thus, I think we could contribute to the international community by turning our experience into guideposts at crossroads in an increasingly uncertain world. It would be only then that we could reflect on our economic history, perhaps with heartfelt sentiment, that, after all, not everything was lost in the Lost Three Decades.
I want to finish my speech by reiterating FinCity Tokyo's commitment to be a part of Japan's broader efforts to contribute to maintaining global economic and financial stability. Thank you very much for your attention.