Japanese banks are London's largest foreign bank group, as measured by the size of balance sheet assets. This article examines their role and activities in both international and UK markets. It analyses the banking statistics reported to the Bank of England by Japanese banks, but also reflects views and opinions expressed by a wide range of Japanese bankers in discussions with the authors. Although briefly touching on the historical development of the Japanese presence in London, the article concentrates on the evolution of business since the end of 1983. Among the principal findings are:

- The surge in Japanese banks' growth worldwide reflects the strength of Japan's external position and the gradual opening up of its financial markets.
- Japan's capital outflow since 1984 has exceeded its current account surplus and Japanese banks in London are major intermediaries in financing these outflows. Japanese banks account for over 35% of London's international banking business.
- Japanese banks' share of lending to UK non-bank residents is small (8%), but high in certain sectors. Lending to corporations in the United Kingdom is seen as an important area for growth but a difficult one for them to break into.
- Japanese bankers' expectation of an international agreement on capital adequacy is contributing to a shift in emphasis away from volume of business towards return on assets.
- The banks' commitment to London has been strengthened by the establishment of merchant bank subsidiaries.

Introduction

The Japanese banking system comprises a number of different categories of institution each of which traditionally, and to some extent by legal provisions, has its own broad function or particular area of specialisation. In the past, the city banks, for example, provided mainly short-term finance, with long-term capital coming from trust banks and the long-term credit banks. In the Japanese domestic market, these lines of demarcation have become increasingly blurred and in the more flexible environment of the City of London they have all but disappeared. In London, four categories of Japanese bank are represented. All thirteen city banks and the three long-term credit banks have branches. So do six of the seven trust banks (the seventh has a representative office) and Japan's largest regional bank. In addition, there are four subsidiaries (including two subsidiaries of securities houses), two consortium banks and fourteen representative offices. The branches employ about 2,000 people (compared with 1,500 in March 1984), around a quarter of whom are Japanese.

Historical background

In the post-war period, Japanese banks began setting up in London between 1952 and 1956, when six of the city banks established branches in London.\(^1\) Their activities were largely confined to financing trade with Japan through Japanese trading houses in London. The 1960s saw several more Japanese banks opening in London, but the next important period of expansion was in the early 1970s. In 1972, the Japanese Ministry of Finance allowed Japanese banks to lend to non-Japanese entities and to participate in the international syndicated credit market. At that time, there was no international banking market in Japan and, since London was the established centre of euromarket business, it was natural that Japanese banks came to London to develop international activities. Japan's tight regulatory environment also played a part in driving Japanese financial intermediation offshore. By the late 1970s, all the branches currently in London had opened.

Most of the major Japanese banks were well placed to participate in the boom in the syndicated credit market.

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\(^1\) Written by R J Wallen and Dermot Trimble in the Bank's Financial Statistics Division. The authors are grateful for comments received from the Embassy of Japan in London, the London office of the Bank of Japan and from Japanese bankers in London, but take full responsibility for any errors that remain.

\(^2\) The Bank of Tokyo (under its original name, the Yokohama Specie Bank) was the first Japanese bank to come to London, establishing a branch in 1884. Three other banks—Mitsui, Mitsubishi and Sumitomo—opened branches shortly after the end of the First World War and these continued business until 1939.
that occurred in the 1970s and which provided a major impetus to growth in that decade. Despite the slowdown in syndicated lending in the wake of the 1982 debt crisis, Japanese banks in London continued to expand on the back of high levels of interbank and inter-office business and substantial investments in FRNs. In the decade to end-September 1987, the assets of Japanese banks in London increased from 8% to a quarter of total sterling and foreign currency assets of all banks in the United Kingdom.

During the 1970s, the city and long-term credit banks established merchant bank subsidiaries. In the 1980s, the trust banks were encouraged to do the same by the trend towards securitisation and the growth of overseas portfolio management. The activities of these subsidiaries are discussed in the note on page 521.

**Macroeconomic background**

Many of the factors which contributed to the internationalisation of Japanese banks’ activities in the 1970s and early 1980s—such as the recycling of OPEC surpluses and the boom in the FRN market—were common to banks of other nationalities. But Japanese banks’ international activities grew through the post-1982 period at a faster rate than those of other nationality groups (as they had done during the second half of the 1970s). Indeed, over this period, some banks—notably US banks—began to restructure as part of a policy of concentrating on domestic business and reducing international exposure.

This surge in Japanese banks’ growth reflected the strength of Japan’s external current account, the surplus on which increased from $5 billion to $86 billion between 1981 and 1986. In response to this rising surplus and to increasing international pressure, the Japanese government in 1983, and subsequently, took measures aimed at securing a greater international use of the yen and opening up the country’s domestic financial markets. This led to a marked expansion in euroyen activity—(borrowing and lending yen by banks located outside Japan) and contributed to a sharp increase in foreign currency borrowing by Japanese residents. The latter was partly to hedge overseas assets and to finance capital markets activity by both banks and their customers. The gradual opening up of Japan’s domestic financial markets, which increased competition between banks and put pressure on domestic banking profits, also encouraged banks to expand internationally. Overseas expansion was further stimulated by the rivalry between Japanese banks over balance sheet size.

Between 1983 and 1986, Japan’s annual net capital outflow (excluding banking funds) increased from $18 billion to $131 billion. Since 1984, these outflows have exceeded Japan’s current account surplus and have led to the paradoxical situation of Japan being a net taker of international banking funds. Japanese banks’ role as intermediaries has contributed significantly to their international growth. Japan’s net bank borrowing was $23 billion last year and a further $25 billion over the first six months of this year. Banks in London provided over half these funds.

**Business in London**

London is the most important centre for Japanese banks’ international business outside Japan itself. During 1984 and 1985, Japanese banks in London took a fairly stable share of Japanese banks’ total assets and international assets (Table A). The fall in their share of international assets in 1986 was accounted for by the sharp increase in foreign currency lending to Japanese residents booked in Japan. Nevertheless, at end-June 1987, 28% of Japanese banks’ international assets was booked in London. There are no indications yet that the Tokyo offshore banking market has affected business carried out in London.

The primary role of the Japanese banks in London is to carry out international business (defined as cross-border business in foreign currency and sterling, and foreign currency business with UK residents); international assets account for 95% of total assets. International business has provided the main impetus to growth in recent years. Between end-1983 and end-June 1987, international assets more than doubled from $172 billion to $363 billion (Table A). This was faster than the growth of other nationality groups, with the result that over this period, Japanese banks’ share of all UK banks’ international assets rose from 27% to 36% (Chart 1).

The fall-off in sovereign lending and the trend towards securitisation contributed to a gradual reappraisal of business strategies and have led Japanese banks in London to look for new markets and to build up their merchant bank subsidiaries. According to Japanese bankers, their traditional emphasis on volume of business is changing towards quality of assets and return on assets. This has been encouraged by the Ministry of Finance in guidelines issued in May 1986 and, more recently, by the prospect of an international agreement on capital.
adequacy requirements. In September of this year, the Ministry of Finance issued a directive tightening Japanese banks' risk-weighted foreign-assets ratio. Over the first nine months of 1987, Japanese banks' international assets grew by 9%, compared with 29% over the same period last year.

Bound up with the banks' future development and growth in London is the relationship between senior Japanese management and British staff. According to a number of Japanese bankers, the creation of a corporate culture that successfully assimilates British staff is not always easy, particularly with the sometimes disruptive labour market conditions in the City. In some instances, these difficulties are proving a stumbling block to the promotion of British staff into senior managerial levels and, in turn, are slowing the devolution of more decision making to the branches.

**Treasury activities**

The most important element of Japanese banks' international activity in London has always been their treasury function. Over the last four years, their inter-office business (usually with head office) has become even more important, particularly for trust banks and long-term credit banks.

To meet head offices' and their own funding needs, Japanese banks in London are net takers of funds, both from banks located outside the United Kingdom and from the UK interbank market (Chart 2).

Japanese banks' outstanding claims on their own offices overseas increased from $45 billion at end-1983 to $144 billion at end-September 1987 (Table B). Head offices were also large depositors with their London branches; over the last four years, these placements have become a more important source of international funds for the branches (up to one third in some cases). Nevertheless, on a net basis, the banks' outstanding claims on their own offices outside the United Kingdom stood at $63 billion at end-September 1987.

**Table B**

<table>
<thead>
<tr>
<th>Year to end-Sept.</th>
<th>1987</th>
<th>Outstanding at end-Sept. 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims</td>
<td>14.1</td>
<td>144.0</td>
</tr>
<tr>
<td>Liabilities</td>
<td>21.6</td>
<td>81.5</td>
</tr>
</tbody>
</table>

Other banks outside the United Kingdom are Japanese banks' largest source of international funds; at end-September 1987, Japanese banks' net outstanding borrowings from this source stood at $47 billion (Table C).

**Table C**

<table>
<thead>
<tr>
<th>Year to end-Sept.</th>
<th>1987</th>
<th>Outstanding at end-Sept. 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims</td>
<td>14.1</td>
<td>110.4</td>
</tr>
<tr>
<td>Liabilities</td>
<td>21.6</td>
<td>157.6</td>
</tr>
</tbody>
</table>

Over the last four years, the London interbank market has declined in relative importance as a source of foreign currency (see below), but Japanese banks are still major players on both sides of the market and net outstanding borrowings totalled $20 billion at end-September 1987 (Table D). A tightening of capital adequacy ratios could, however, restrict the future growth of interbank business.

**Table D**

<table>
<thead>
<tr>
<th>Year to end-Sept.</th>
<th>1987</th>
<th>Outstanding at end-Sept. 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims</td>
<td>-1.5</td>
<td>39.0</td>
</tr>
<tr>
<td>Liabilities</td>
<td>1.3</td>
<td>58.6</td>
</tr>
</tbody>
</table>

A number of the larger Japanese banks undertake international treasury business in London for corporate clients as well as for their head offices. This business has become highly profitable. In recent years, it has been boosted by the strength of the yen, the buoyancy of the Tokyo stock market, the expansion of the euroyen market...
The merchant bank subsidiaries of Japanese banks

Background

The Japanese banks in London began setting up their own merchant bank subsidiaries in the early 1970s after the Ministry of Finance allowed banks to engage in securities business overseas. They were, and still are, barred from doing so in Japan by Article 65 of Japan’s Securities and Exchange Law. The first of these merchant banks were subsidiaries of city banks and were initially joint ventures with British merchant banks, although they are now almost entirely Japanese owned. Most of those established in the 1980s are subsidiaries of trust banks and from the outset these have been wholly Japanese owned. Of the 23 Japanese banks with branches in London, only one does not have its own merchant bank subsidiary.

Most of the merchant banks have paid up capital of around £10 million, although some have plans to increase this up to a £40 million benchmark set by one bank to meet expected capital adequacy requirements under the Financial Services Act. Balance sheet assets vary between $300 million and $500 million. The banks individually employ between 30 and 130 people, and overall around 1,100 people (compared with 340 in March 1984), of which a fifth are Japanese. These institutions are not authorised under the Banking Act and are not part of the UK monetary sector.10

Activities

The merchant banks were initially established to help clients tap the eurobond market and to trade in bonds on their own account. Underwriting new issues and the selling and trading of bonds remain their core businesses, although the longer-established banks offer a fuller range of services, including investment management and loan syndication.

The buoyancy of the euroyen and equity-warrant markets provided profitable business for merchant banks earlier in this year. The recent volatility of these markets, together with persisting problems in the FRN market and high overheads, are squeezing profits. In addition, the returns on underwriting business have become increasingly uncertain, although they need to be judged with the returns on swap business associated with underwriting. The choice between underwriting issues in current market conditions and running the risk of losing important corporate clients remains a difficult one.

The merchant banks’ clients—both issuers and investors—are predominantly non-Japanese. The banks can neither lead manage issues for Japanese corporations nor sell euroyen bonds directly into Japan within 90 days of the issue date. However, they are allowed to sell bonds to Japanese subsidiaries located overseas and to lead manage issues for them (so long as the issue is made on the strength of the subsidiary’s name and without a parental guarantee). A significant part of euroyen and equity-warrant issues is probably held by Japanese investors. London, however, is the centre for issuing and trading. The merchant banks have had considerable success in lead managing euroyen issues for non-Japanese borrowers, partly reflecting the favourable outlook for yen interest rates. They also report growing European investor interest in euroyen.

In the past, the traditionally conservative demands of Japanese investors have meant that the Japanese merchant banks have been less innovative than many other merchant banks and securities houses. But, with an expanding non-Japanese client base and with Japanese clients themselves becoming more sophisticated, the merchant banks are devoting more resources to developing new instruments and services.

Outlook

Difficult conditions in the euromarkets are affecting all the Japanese merchant banks, particularly the more recently established ones which rely almost exclusively on underwriting and trading. These difficulties are, for some banks at least, being exacerbated by problems of retaining experienced British staff and the heavy expense of taking on new staff. Nevertheless, all the banks remain committed to their London subsidiaries. As corporate clients increasingly demand an integrated banking and capital markets service, the parent banks see their merchant banks as a vital element in retaining old clients and attracting new business by offering funding techniques that they are prohibited from undertaking themselves.

The merchant banks are developing their client base among UK and European corporations and investors, sometimes sharing marketing and sales expertise with their sister branches. Expanding and developing services is another important objective. This includes investment management services, where there is growing Japanese investor interest in non-Japanese equities. The commercial paper market could also be another important area for expansion. The Ministry of Finance is expected shortly to ease restrictions on Japanese corporations issuing euroyen commercial paper. There is widespread expectation that a euroyen commercial paper market could offer huge potential. In the longer term, the merchant banks want to establish representative offices in Japan.

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10 Only two of the merchant bank subsidiaries—Bank of Tokyo International and IBJ International—are authorised under the Banking Act and are part of the UK monetary sector; the activities of the remainder, therefore, are not captured in the statistical analysis presented in the article.
and by hedging (which itself has benefited from the development of futures, options and swaps). A survey last year of the foreign exchange market in London\(^{(1)}\) indicated that Japanese banks' main strength was in yen/dollar business, of which they provided one third of the market's turnover. However, within the foreign exchange market as a whole they provided only 7% of its daily turnover of $90 billion.

**UK interbank market**

Japanese banks are active in the UK interbank market to varying degrees. City banks, for example, have been cultivating the market since the early 1970s both as depositors and as borrowers, and trading in the London interbank market is an important source of profit in its own right. At end-September 1987, the Japanese banks accounted for 39% of all foreign currency borrowing from the market and 24% of lending to it. However, their involvement in the market has become relatively less important for them over the last four years, both as a source of funds and for placing deposits. To a large extent, this reflects the surge in business with own offices and with other banks located outside the United Kingdom. More recently, though, some of the branches have been cutting back their involvement because of fine margins.

The volume of interbank business done between Japanese banks varies considerably. The advantages of known credit risks are to some extent offset by fine margins. So while some banks do as much as 70% of their interbank business with Japanese banks, others, for whom the margin is more important, do markedly less.

For all Japanese banks there has been a trend in recent years towards taking deposits of a shorter maturity. At end-July 1987, close to 50% of their sterling and foreign currency deposits taken in the London interbank market was at maturities of less than one month. The ease and efficiency with which Japanese banks can raise a large volume of funds at these maturities is an important factor in the taking of interest rate mismatch positions in their money-market operations. In the three years to July 1987, the Japanese banks have more than doubled the volume of funds taken (on a net basis) in the London interbank market at maturities of less than one month.

**Swap activity**

The role played by Japanese banks in the swap market in London is that of an end-user or an intermediary, not a market maker. Competition among Japanese banks for interest-rate and currency swap business in London has intensified over the last two years. This reflects the increasing number of counterparties in Tokyo and London anxious to take advantage of arbitrage opportunities (in many cases differences between the eurobond market and short-term money markets); swaps are also used as hedging techniques in managing money-market positions.

At end-1986, Japanese banks in London accounted for about 15% of the outstanding notional value of interest rate swaps. Typically, these involve the issue of fixed-rate US dollar CDs or fixed-rate US dollar bonds; following the interest rate swap, the Japanese bank pays out floating-rate interest, matching the fixed-rate interest received from the swap with the obligations on the debt. Japanese banks have also made increasing use of currency swaps (they are around two thirds the value of their interest rate swaps). This has been stimulated by the underwriting activities of their merchant banking subsidiaries in London. Non-Japanese corporate and sovereign clients have increased their issues of yen eurobonds, and such issues have usually been linked to a currency swap agreement. Another factor has been the replacement of yen debt owed by non-Japanese corporate and sovereign borrowers in anticipation of the yen's appreciation against the US dollar; clients have exchanged yen-denominated interest and principal for payments in US dollars. Currency swaps have also helped Japanese banks circumvent certain domestic regulations, enabling, for example, city banks to generate long-term yen funding which is barred to them in Tokyo.\(^{(2)}\)

The Japanese merchant banks in London generally do not act as counterparties in swap agreements, principally because counterparties prefer to deal with the branch rather than the subsidiary (the bank's credit rating is applicable to the London branch but not to the bank's subsidiary). This separation of responsibilities can also be partly explained by the need to avoid a duplication of the resources required to carry out swaps.

**International lending**

The importance of sovereign lending has declined since the debt crisis of the early 1980s. The exposure of Japanese banks in London is concentrated on Europe; exposure to the major debtors and developing countries is small. Eastern Europe is the only significant area of growth in sovereign lending.

More recently, the banks have been developing business with non-banks in the industrialised economies. A number are specialising in international aircraft finance, for which London is an important centre. Lending to non-banks in the Republic of Ireland, Italy and the United States has also grown strongly. But the most significant growth has been to non-banks in Japan, claims on which rose from $0.5 billion to $7.4 billion between end-1983 and end-June 1987, reflecting measures that allowed Japanese banks to lend foreign currency to Japanese residents. Nevertheless, since end-1983, lending to non-banks outside the United Kingdom has fallen from 12% of Japanese banks' international assets to 9%.

**Currency composition**

International lending by Japanese banks in London is predominantly denominated in US dollars. However,

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since end-1983, there has been a significant rise in yen lending, reflecting the development of the euroyen market. At end-June 1987, yen-denominated lending accounted for 19% of outstanding loans compared with 5% at the end-1983. Over the first six months of this year, around half of new lending was denominated in yen (Table E).

Table E
Currency shares of lending by Japanese banks
Percentage of total flows: excluding estimated exchange rate effects

<table>
<thead>
<tr>
<th>Currency</th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
<th>1987 to end-June</th>
<th>Outstanding at end-June 1987</th>
<th>Percentage share</th>
</tr>
</thead>
<tbody>
<tr>
<td>US dollar</td>
<td>56</td>
<td>46</td>
<td>72</td>
<td>61</td>
<td>189.5</td>
<td>67</td>
</tr>
<tr>
<td>Yen</td>
<td>20</td>
<td>29</td>
<td>17</td>
<td>53</td>
<td>58.1</td>
<td>19</td>
</tr>
<tr>
<td>Swiss franc</td>
<td>7</td>
<td>13</td>
<td>3</td>
<td>7</td>
<td>20.9</td>
<td>7</td>
</tr>
<tr>
<td>Deutschemark</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>9</td>
<td>16.0</td>
<td>5</td>
</tr>
<tr>
<td>Sterling</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>16</td>
<td>7.3</td>
<td>2</td>
</tr>
</tbody>
</table>

Demand for euroyen is predominantly from banks in Japan and is tightly linked to Japan’s domestic markets, in particular to conditions in Japan’s short-term interbank market. Although there are arbitrage opportunities, a major attraction of the London euroyen market is the easy access to funds and the flexibility of maturity dates, particularly for periods up to three months.

Holdings of FRNs
Many Japanese banks looked to the FRN market to sustain asset growth at a time when sovereign lending was weakening. Generally, FRNs were purchased to trade rather than as investments or as a liquidity buffer. Japanese banks have over half UK banks’ holdings of FRNs; since the autumn of last year, when the market experienced liquidity problems, there has been no significant disinvestment (Table F).

Table F
Japanese banks’ holdings of floating-rate notes
$ billions

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK banks’ holdings of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese banks</td>
<td>10.1</td>
<td>17.0</td>
<td>28.6</td>
<td>36.1</td>
<td>34.0</td>
</tr>
</tbody>
</table>

UK corporate banking
Because Japanese banks came to London primarily to undertake international business, lending to the UK non-bank sector has been a secondary priority. The banks’ share of lending in both sterling and foreign currencies to UK non-bank residents is small but nevertheless grew from 5% to 8% of total lending by UK banks between November 1983 and August 1987. Their share of sterling lending was 3% at August 1987 (Chart 3).

Four years ago, the wholesale distribution sector was the major outlet for Japanese banks’ lending to non-banks, and accounted for almost one third of this sector’s borrowing (Table G). This includes lending to the UK offices of large Japanese trading companies doing business in the United Kingdom and Europe. It also includes the UK wholesale distribution arms of leading Japanese exporters, particularly in the electronic and automobile sectors.

Table G
Japanese banks’ lending to UK residents

<table>
<thead>
<tr>
<th>Percentage of lending to UK residents (£ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Total lending (a)</td>
</tr>
<tr>
<td>Securities dealers (b)</td>
</tr>
<tr>
<td>Wholesale distribution</td>
</tr>
<tr>
<td>‘Other’ financial services</td>
</tr>
<tr>
<td>Building societies</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Property companies</td>
</tr>
<tr>
<td>Central and local government services</td>
</tr>
<tr>
<td>Construction</td>
</tr>
</tbody>
</table>

(a) In sterling and foreign currency.
(b) Data available separately from November 1986.

Lending is still concentrated in a relatively small number of sectors where Japanese banks have secured a high level of penetration, but, in recent years, lending has been directed more towards the financial sector, notably to building societies and to securities dealers (the latter includes Japanese-owned securities houses and merchant banks). Japanese banks have also secured a high level of penetration in the water supply and energy sectors.

Japanese bankers see the UK domestic market as an area of potential growth now that sovereign lending and investments in FRNs are no longer active business targets. Most of the banks also want to shift the emphasis of their UK corporate business away from Japanese-owned companies, where margins are often very fine, towards other companies operating in the United Kingdom. The financial sector remains a prime area of expansion. Multinationals in the United Kingdom and other large...
UK corporations are viewed by many Japanese bankers as offering only limited opportunities because of the already intense competition for their business; so many Japanese banks are now looking more towards medium-sized companies.

Individual branches are at very different stages in developing and expanding their research and marketing resources in the UK corporate market. Three of the branches have recently set up representative offices in the Midlands and North West to be closer to potential clients, and a fourth is planning to do so early in 1988. A number of the larger branches are now strengthening their research capabilities and specialising in selected sectors, such as construction and property, where asset backing and margins are good. According to Japanese bankers, the UK corporate market has not been an easy one to break into. Limited research and analytical capacity, together with highly cautious attitudes in head offices (which are unfamiliar with medium-sized UK companies), has led to a gradualist approach to developing this business.

Even though Japanese banks’ percentage share of medium and long-term lending to local authorities has increased, lending in nominal terms (which was always relatively small) has declined in recent years. Japanese bankers expect this trend to continue. Moreover, in the much larger short-term local authority loan market, Japanese banks continue to play a negligible role.

Assessment
Japanese banks came to London because it was far more flexibly regulated than their own domestic market and, from the early 1970s, it was the established centre of euromarket business. It had, and still retains, the attractions of a fully integrated financial centre, including a different time-zone window from Tokyo. During the 1980s, with the gradual opening up of Japan’s financial markets, its rapidly growing external strength and the internationalisation of the yen, Japanese banks’ business in London expanded rapidly. By the end of 1982, they were the largest foreign bank group in London, as measured by the size of balance sheet assets, and their lead has widened over the last five years.

The trend towards securitisation and recent developments in the sovereign lending and FRN markets are leading the branches to reappraise business strategies and to place more emphasis on the quality of loan portfolios and return on assets. This is likely to be a gradual process, but is being reinforced by Japanese bankers’ expectation of an international agreement on capital adequacy requirements. There are signs that the growth in Japanese banks’ lending may be slowing down.

Unless there is a significant fall in Japan’s current account surplus over the medium term, the branches are likely to continue to expand their international business, albeit at a slower rate than in recent years. The branches are gradually developing their corporate business in the United Kingdom and increasing their commitment to their merchant bank subsidiaries. So long as the regulatory environment remains favourable, many of the Japanese banks clearly see London as the place to develop a global financial services capacity. Japanese banks are likely to remain the major foreign presence in London for the foreseeable future.