

Kuroda: Bank of Japan won't take on debt-servicing role

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Governor Haruhiko Kuroda said the Bank of Japan won't buy bonds just to keep down government debt-servicing costs after it achieves its goal of stable 2% inflation.

"If we reach our target and prices are stable, we have no intention of moving away from our goal and implementing policy to reduce debt servicing costs," Kuroda said in parliament today in response to a question from opposition lawmaker and former economy minister Seiji Maehara, who said "the BOJ could be smacked around and told to do something" if yields rise.

Unprecedented easing has helped suppress yields on 10-year government bonds to the lowest in the world even as inflation has accelerated to the fastest pace since 2008. The challenge for Kuroda and Abe will be to avoid any abrupt yield increases should a pickup in prices to the BOJ's target prompt the central bank to consider an exit from record bond purchases.

"Kuroda is delivering a message that the government must continue efforts to reduce Japan's massive debt and that the BOJ won't be a buyer forever," Hideo Kumano, executive chief economist at Dai-ichi Life Research Institute in Tokyo. "It's clear Kuroda sees the need for another sales-tax increase next year. Kuroda thinks the BOJ can cope with the economy if the tax hike puts it in danger."

The 10-year government bond yield was unchanged at 0.605% at 12:30pm in Tokyo. After the BOJ announced unprecedented easing in April last year, the yield swung from a record low of 0.315% to as much as 1% in the next month.

The government raised the sales levy this month to 8% from 5% — the first increase since 1997 — as Abe tries to rein in the world's biggest debt burden. A further increase to 10% is scheduled for October 2015, pending a government decision later this year.

"The BOJ strongly hopes that the government will steadily work toward financial consolidation," said Kuroda.

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