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Kuroda Dismisses Idea of BOJ Buying Municipal Bonds.

TOKYO — Bank of Japan Governor Haruhiko Kuroda on Wednesday signalled that the central bank's massive asset purchases will continue to focus on government bonds, saying it was difficult to buy municipal bonds given the fairly small market for them.

"It's hard to see how we can buy municipal bonds as part of our monetary policy," Kuroda told parliament, when asked by a lawmaker whether it could be a policy option.

Kuroda also said prices are not determined by the pace of money printing alone, distancing himself from the views of BOJ Deputy Governor Kikuo Iwata - a former academic who was an architect of the central bank's asset-buying programme dubbed "quantitative and qualitative easing" (QQE).

"Price moves are influenced by various factors like oil price fluctuations and exchange-rates... so you can't say inflation is completely a monetary phenomenon," Kuroda said.

"But from a long-term perspective, you can say monetary policy has significant influence on inflation," he said.

Under QQE deployed in 2013, the BOJ set base money - or the amount of deposits and cash in circulation - as its policy target under Iwata's theory that the central bank can accelerate inflation simply by printing money aggressively.

But after more than three years of aggressive government bond purchases failed to end economic stagnation, the central bank in September switched its policy target to interest rates in an overhaul of its policy framework.

The BOJ still loosely commits to buying government bonds so its holdings increase at an annual pace of 80 trillion yen (627 billion pounds) per year. It does not buy municipal bonds, though some analysts have proposed doing so if it were to ease policy.

On Wednesday, Kuroda dismissed concerns voiced by some market participants that the central bank's aggressive purchases were drying up bond market liquidity.

"I don't think the market's liquidity has shrunk sharply, or its functions have deteriorated significantly, compared with historical levels," Kuroda told parliament, when asked about the rising costs of the BOJ's stimulus programme.

Trading volumes of Japanese government bonds hit their lowest levels in years in October, as the BOJ's large presence in the market squeezed opportunities for trading.

By REUTERS

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(Reporting by Leika Kihara; Editing by Richard Borsuk)

