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Japan May Buy More Euro Bonds to Help Region, Officials Say
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By Toru Fujioka and Kyoko Shimodoi

Jan. 12 (Bloomberg) -- Japan may extend purchases of bonds sold by a European financial aid fund in coming months to support the region's recovery from the sovereign debt crisis, two government officials familiar with the matter said.

Finance Minister Yoshihiko Noda said yesterday Japan intends to buy more than a fifth of the bonds to be sold later in January to fund the bailout of Ireland. The government is considering more purchases after that to help boost confidence in the euro area, said the two officials, who spoke on condition of anonymity because the government's plans aren't public.

Japan may be trying to highlight its relevance in international economic affairs after China was ahead in seeking to shore up confidence in the euro. China, whose economy surpassed the size of Japan's in the second and third quarters last year, has received increasing interest from European leaders seeking greater access for their region's companies to the world's fastest growing major economy.

"These purchases give Japan a chance to raise its presence, after it was left behind by China in making investments in Europe," said Koji Ochiai, chief market economist at Mizuho Investors Securities Co. in Tokyo. "This will probably also generate relatively high yields at a time when Japan is working out how to manage its reserves."

Noda said yesterday that Japan will use existing euro assets in its foreign-exchange reserves to buy more than 20 percent of the bonds to be issued later this month by the European Financial Stability Facility. Another Japanese government official said the euro accounts for about a fifth of the country's reserves.

Largest Reserves

China has the largest foreign-exchange reserves in the world with \$2.85 trillion last quarter, according to the country's central bank. Japan is next, with \$1.096 trillion as of December, according to the government.

The EFSF, overseen by euro-area governments, plans to raise up to 16.5 billion euros (\$21.4 billion) this year and 10 billion euros in 2012 to help finance the Irish bailout, the European Commission said in December. The facility plans to issue between 3 billion euros and 5 billion euros of the AAA-rated bonds later this month, meaning Japan may spend more than 1 billion euros.

That fund and the European Financial Stabilization Mechanism will sell a total of seven to eight benchmark bonds, each worth 3 billion euros to 5 billion euros in 2011, the commission said last month in a statement. The commission, the European Union's executive arm, manages the EFSM.

The Japanese government officials said that decisions on whether to buy more EFSF bonds will be made based on various factors including how smoothly this month's sale goes.

China's vice premier, Li Keqiang, last week expressed confidence in Spain's financial markets and pledged more purchases of that country's debt. Chinese Vice Premier Wang Qishan said on Dec. 21 his nation has taken "concrete action" to help the European Union address its debt crisis.

Ireland in November became the second euro-area country after Greece to seek a bailout and the first to request aid from the EFSF.

Portuguese Prime Minister Jose Socrates said yesterday his country doesn't need a bailout from the EU and its 2010 budget deficit will be lower than forecast. He said rumors that the country needs aid are only helping "speculators" while hurting Portugal and the euro.

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