Bank of Japan officials expect Prime Minister Shinzo Abe to proceed with a planned sales-tax increase next year to maintain confidence in the government’s finances, according to people familiar with the discussions.

Some officials said the central bank would be prepared to boost stimulus if necessary should the world’s third-biggest economy require more support following a higher levy, said the people, who asked not to be named because the talks are private.

Abe is set to decide by the end of the year whether consumers and companies can bear the tax burden rising to 10 percent. Weakness in production and household spending since Abe lifted the levy to 8 percent in April underscore the risks of his effort to steer Japan out of a two-decade slump while trying to contain the world’s biggest debt load.

“The next sales-tax hike is looking increasingly shaky,” said Masamichi Adachi, a senior economist at JPMorgan Chase & Co. and former central bank official. The BOJ would rather boost stimulus than have the government postpone raising the levy, Adachi said.

Gross domestic product shrank an annualized 6.8 percent in second quarter from three months earlier, as consumers and businesses cut spending following the sales-levy bump, the first since 1997. The rebound since then has lacked vigor, with industrial output and household spending in July weaker than estimated, according to data last week.

**Kuroda’s Comments**

The underlying trend in the economy is “solid,” Governor Haruhiko Kuroda said on Aug. 22 in Jackson Hole, Wyoming, where central bankers had gathered. The BOJ would adjust policy if inflation undershot its 2 percent goal, he said.

The economy is on a moderate recovery trend, the Cabinet Office said in a report on Aug. 26, maintaining its assessment.

Kuroda has called on the government to put its finances on a healthy footing.

“It’s an essential precondition for sustainable growth of the Japanese economy to establish a sustainable fiscal structure,” Kuroda told reporters in June. The central bank “strongly hopes” for steady implementation of steps toward fiscal consolidation, he said.
October Watched

Thirty-five percent of 34 economists predicted the BOJ would boost stimulus by the end of the year, according to a survey by Bloomberg News from July 30 to Aug. 1. Of those polled, 26 percent forecast a move in October, the top pick for action.

The BOJ began its unprecedented easing in April 2013 in a bid to generate 2 percent inflation. The stimulus weakened the yen and set Japan on course to emerge from deflation.

The yen fell 0.1 percent to 104.18 per dollar at 2:28 p.m. in Tokyo. It’s depreciated almost 11 percent since the central bank began its easing program.

Consumer prices excluding fresh food -- the BOJ’s main inflation gauge -- climbed 1.3 percent in July from a year earlier, stripping out the effects of the higher sales levy, according to a BOJ estimate.

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