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BoE's Posen: Monetary Policy Not Primary Driver Of Sustained Asset Price Booms

11/19/2010 12:30 AM ET

Monetary policy is not the primary driver of sustained asset price boom, Bank of England policy maker Adam Posen said Thursday.

"Monetary ease has some positive correlation with asset prices, a relationship most clearly seen between broad money and real estate prices, but is not the primary driver of sustained asset price booms," said Posen.

He added that monetary ease, measured either by high rates of narrow or broad monetary aggregate growth, or by low real or nominal instrument interest rates - is neither necessary nor sufficient to cause a boom.

It is currently beyond the ability of policy makers to discern in real time which booms are harmful and merit pre-emption, and which are not, even taking recent horrible events into account, Posen said at the Cato Institute Monetary Conference.

"We should not leap to believing that we can readily recognize bubbles, at least not in time to do anything pre-emptive about them," he said.

He sees some risk of deflation in the UK. He told reporters that his growth forecast remains "meaningfully below" the assessment of his colleagues.

In the November Monetary Policy Committee meeting, Posen alone sought an increase in the asset purchase programme by GBP 50 billion, taking the total to GBP 250 billion. He said further asset purchases would be necessary to avoid inflation falling well below the target in the medium term.

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