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BoE's Posen-monetary policy can't prevent asset bubbles

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LONDON, Nov 18 (Reuters) - The view that monetary policy should be used to prevent asset price bubbles is flawed because such bubbles often cannot be spotted in advance, Bank of England policymaker Adam Posen said on Thursday.

In a speech at the Cato Institute in Washington, Posen made no reference to the current economic outlook but rather spoke theoretically about different policy approaches.

"We should not leap to believe that we can readily recognise bubbles, at least not in time to do anything pre-emptive about them," Posen told a financial gathering in Washington.

"It is currently beyond the ability of policymakers to discern in real time which booms are harmful and merit pre-emption, and which are not, even taking recent horrible events into account," he added.

Posen, who has been alone on the BoE's monetary policy committee in calling for an expansion of quantitative easing, disputed the view that loose monetary policy always led to asset price bubbles.

"Monetary ease -- measured either by high rates of narrow or broad monetary aggregate growth, or by low real or nominal interest rates -- is neither necessary nor sufficient to cause a boom," he said.

"Monetary ease has some positive correlation with asset prices... but is not the primary driver of sustained asset price booms."

He stressed that there were no accurate early warning indicators that would reliably allow policymakers to "get ahead" of asset price moves, and those that tried to would be frustrated.

"The difficulty is because of the complex nature of asset price booms and busts, a nature that seems to me to be overlooked in the advocacy of leaning against the wind," he said.

(Editing by Patrick Graham)

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