

Japan's central bank should stand up to markets, take long-term view: BOJ chief

TOKYO, Dec. 3 (Xinhua) -- Bank of Japan Governor Masaaki Shirakawa said on Monday that the central bank will continue its ultra loose monetary policy and stand up to financial markets where necessary, taking into account a long-term financial horizon.

"In order to deliver sustainable economic growth under price stability, central banks must have a very long-term horizon," Shirakawa said at a conference in Tokyo on Monday.

The BOJ chief added that central banks should pay heed to developments in financial markets, but should, where necessary, tread an autonomous path.

"Central banks should have a deep respect for financial markets and continue to make every effort to extract information, but they should also be willing to stand up to the market from time to time, " Shirakawa said.

With reference to the current global financial situation the central bank chief explained the dangers and risks presented by over-enthusiastic market players, in the short-term.

"When market participants become too optimistic, this distorts market prices which then begin to overshoot," Shirakawa explained.

He went on to say that market players' short-term expectations of each other could influence prices, regardless of actual changes in inherent value.

"If for some reason market participants come to believe that other market participants would expect prices to rise, the market price will rise irrespective of any changes in intrinsic value," said Shirakawa.

"Such a self-fulfilling cycle would lead to overshooting prices and bubbles," he said.

Of the central bank's own ultra-loose monetary policy, Shirakawa said that it was conditional on there being no significant impediment to economic stability.

"An example of how a central bank should conduct its policy in the face of market expectations is the Bank of Japan's current commitment to ease monetary policy aggressively," he said.

"That commitment is conditional on there being no significant risk to the sustainability of economic growth, including the accumulation of financial imbalances," the BOJ chief added.

"The Bank of Japan will in this context, conduct an assessment independent of what markets might be thinking, while taking full account of information derived from markets," the BOJ chief concluded.

Following its latest meeting in November the BOJ's policy board voted unanimously to maintain its short-term interest rates at almost zero.

In October the BOJ eased policy by boosting its asset-buying program by 11 trillion yen (133.5 billion U.S. dollars), to 91 trillion yen, after raising it from 70 trillion yen in September to counter the downside risks to prices and overall growth.