Japan central bank says won't tolerate deflation

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Japan's central bank said Friday it was crucial for the country to beat deflation and it would not accept continued price declines.

"It is a critical challenge for Japan's economy to overcome deflation and return to a sustainable growth path with price stability," the bank said in a statement after a regular two-day policy meeting.

Bank of Japan policy members also voted unanimously to hold its key interest rate unchanged at 0.1 percent, as widely expected, to support a recovery in the world's No. 2 economy.

The central bank's statement on deflation came after pressure from the government for a more proactive stance. Earlier this month, Prime Minister Yukio Hatoyama and Bank of Japan Gov. Masaaki Shirakawa met to discuss the problem, after which Hatoyama said they pledged to quickly take action.

Core consumer prices index fell at a near record pace of 2.2 percent in October from a year earlier, the eighth straight month of decline.

Deflation can drag down an economy by lowering company profits, leading to wage cuts and postponed purchases by wary consumers. Japan is especially sensitive to the issue after experiencing the "Lost Decade" in the 1990s, when it was beset by extended price falls.

Japan's recovery — recently revealed as less robust than first thought — is also facing other headwinds including a strong yen which hurts the competitiveness of exporters like Toyota Motor Corp. and Sony Corp.

Earlier this month, the government cut its estimate of third quarter growth to an annualized 1.3 percent from 4.8 percent.

The bank said it "does not tolerate" a situation in which the country's main price index remains flat or decreases on a yearly basis.

It said it will maintain an "extremely accommodative financial environment" and make policy moves as needed to keep prices from falling, without specifying.

The bank also noted the risk that financial events abroad could affect Japan's recovery, possibly by hurting overall business sentiment.

Several credit agencies have lowered their ratings on Greece, which is dealing with its biggest debt crisis in decades and facing pressure from its European neighbors to act. Last month financial markets worldwide retreated on the news that the major

government investment company in Dubai would suspend debt payments.

Overall, Japan's central bank maintained its assessment that the world's No. 2 economy continues to recover, saying it is "picking up mainly due various policy measures taken at home and abroad."

The Bank of Japan's closely watched "tankan" survey, released earlier this week, showed that Japanese companies are gaining confidence in the global economy, but uncertainty on the domestic front is curtailing corporate spending.

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