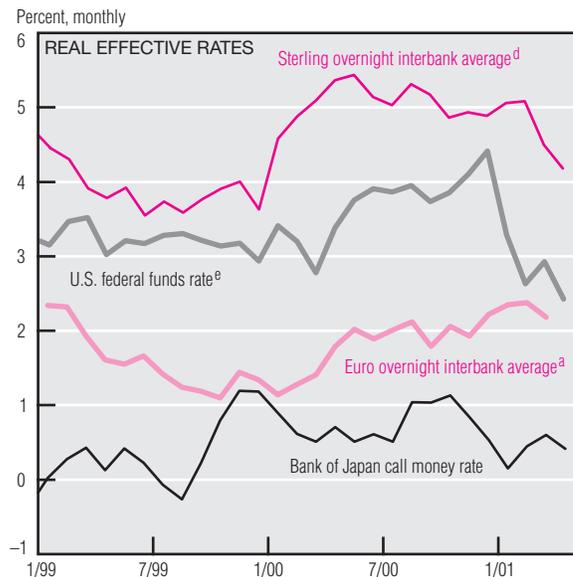
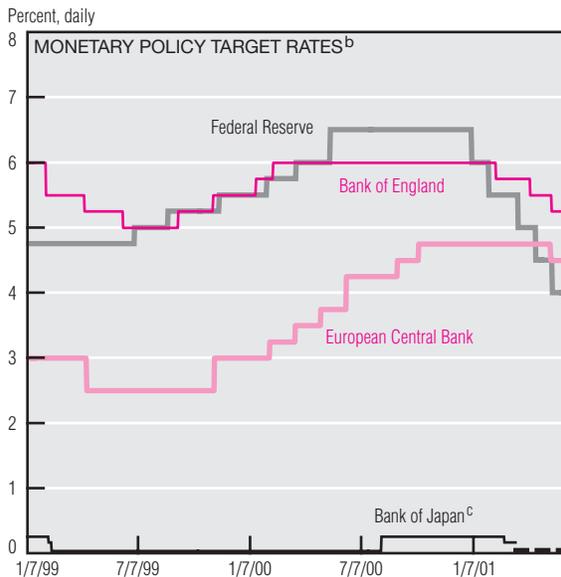
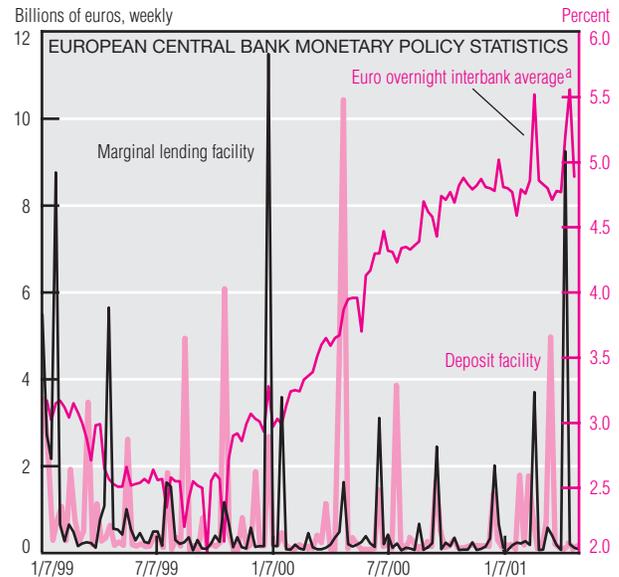
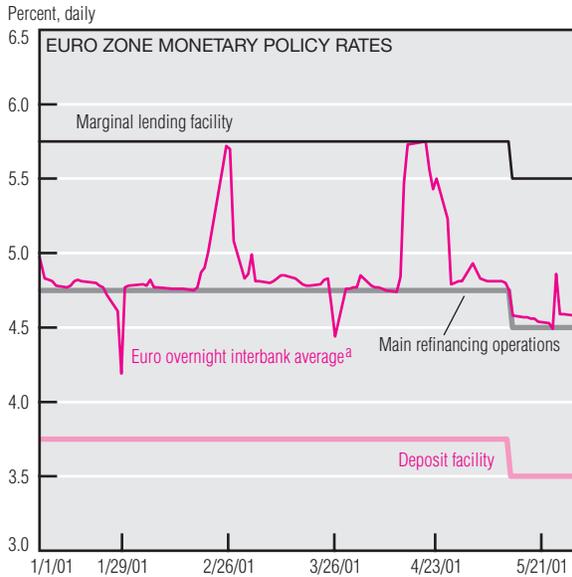


Foreign Central Banks



a. The weighted rate on all overnight unsecured lending transactions in the interbank market, initiated within the euro area by contributing panel banks.

b. Overnight interbank rates except for the European Central Bank, whose main refinancing rate is shown.

c. On March 19, the Bank of Japan shifted to a target for the quantity of current account balances at BOJ that is expected to be consistent with a zero rate.

d. The weighted average rate of all brokered, unsecured sterling overnight deals between money market institutions and their overseas branches, transacted between midnight and 3:30 p.m. GMT.

e. The weighted average rate on trades made through New York City brokers.

SOURCES: Board of Governors of the Federal Reserve System; European Central Bank; Bank of Japan; and Wholesale Markets Brokers Association.

On May 11, the European Central Bank (ECB) cut its main refinancing rate target 25 basis points (bp) to 4.5%. It was the last major central bank to respond to the current global economic slowdown. The move came while the M3 monetary aggregate was slightly above its 4.5% target. The ECB noted, however, that M3 growth “has been on a gradual downward trend since spring 2000,” and M3 growth now is distorted upward by non-euro-area residents’ holdings. Measured inflation also is above target, but the ECB explained that “upward risks to price stability

over the medium term have diminished somewhat,” a view “supported by all forecasts.”

In the ECB’s February 14 and April 11 main refinancing operations, bidding at rates at or above the ECB minimum was weakened by expectations of an imminent cut in that rate. The resulting shortage of reserves caused the overnight market rate to spike, driving banks to borrow unusually large amounts from the marginal lending facility at a 100 bp premium over the minimum rate. In the week following, bidding and allotments in refinancing operations reached the

highest levels in the ECB’s brief history, compensating for the previous week’s shortage.

European and U.S. policy rates now are clustered within a 125 bp range, while Japanese policy is consistent with a zero rate. A rough reading of real policy rates might be derived by assuming that the past year’s actual inflation rate approximates expected inflation. On this basis, policy rates are more evenly spread, between 0.4% in Japan (zero nominal rate plus 0.4% deflation rate) and about 4.2% in the U.K. (5.25% nominal rate minus about 1.1% inflation).