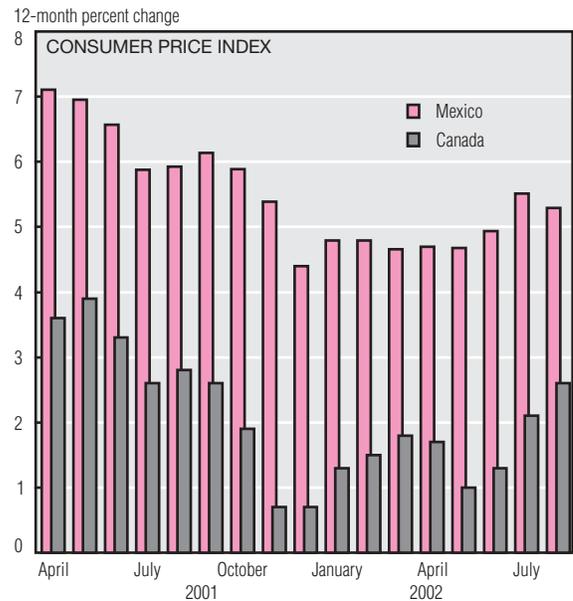
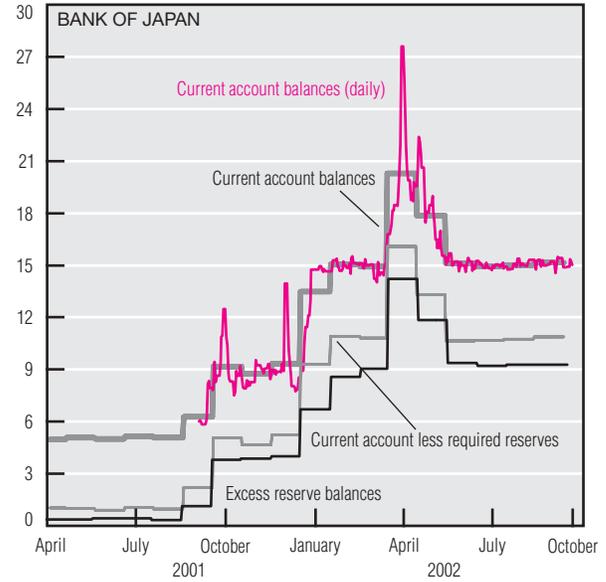
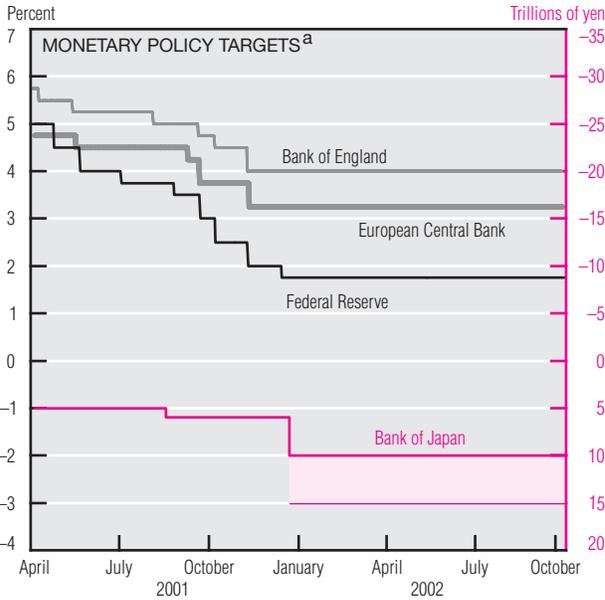


Foreign Central Banks



a. Federal Reserve and Bank of Japan: overnight interbank rates (since March 19, 2001, the Bank of Japan has targeted a quantity of current account balances; since December 19, 2001, it has targeted the range of a quantity of current account balances). Bank of England and European Central Bank: two-week repo rate. SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; Bank of Canada; and Bloomberg Financial Information Services.

None of the four major central banks changed its policy setting over the past month, although all acknowledge a potential for weakness in the global outlook.

The Bank of Japan has maintained its steady pattern of supplying about ¥15 trillion in current operating balances. Without intending to alter that policy position, it is considering a program to reduce what it views as the potentially destabilizing influence of stock market volatility on the banking system. The plan's details have not been announced, but published

remarks by Bank of Japan officials suggest its outlines. The Bank would purchase from banks, at market prices, equities in nonfinancial corporations to the extent that they exceed a bank's primary capital. For a dozen or so large banks, the aggregate amount of this excess is thought to be roughly ¥8 trillion. Currently, stock market volatility is said to affect banks' capital directly because 60% of unrealized capital losses must be charged off. While selling stocks might force banks to realize residual losses, their portfolios would be subject to less market risk in the future. The Bank of

Japan would hold the equities for up to 10 years.

The exchange rates of the Mexican peso and the Canadian dollar against the U.S. dollar have depreciated recently. The Bank of Canada has increased its interest-rate policy target a total of 75 basis points this year. In September, the Bank of Mexico added 100 billion pesos to the amount by which it leaves the banking system "short" of nonborrowed reserves. This was expected to increase the year's run-up in short-term interest rates, which is already several hundred basis points.