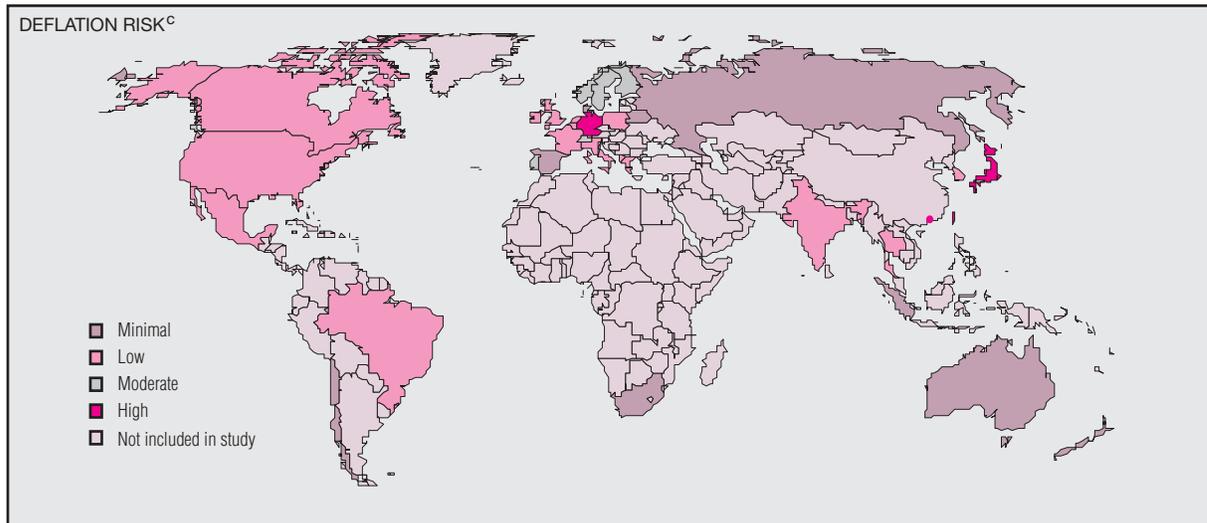
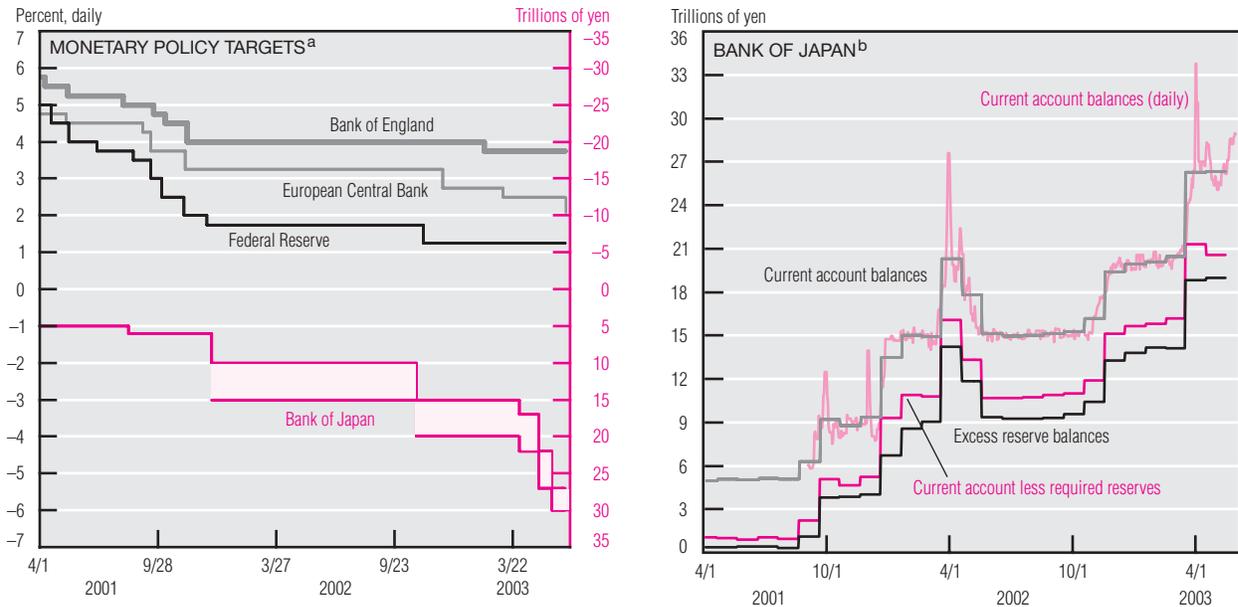


# Foreign Central Banks



a. Federal Reserve: overnight interbank rate. Bank of Japan: a quantity of current account balances (since December 19, 2001, a range of quantity of current account balances). Bank of England and European Central Bank: two-week repo rate.

b. Current account balances at the Bank of Japan are required and excess reserve balances at depository institutions subject to reserve requirements plus the balances of certain other financial institutions not subject to reserve requirements. Reserve requirements are satisfied on the basis of the average of a bank's daily balances at the Bank of Japan starting the sixteenth of one month and ending the fifteenth of the next.

c. Index of deflation risk: Minimal (Australia, Chile, Denmark, Malaysia, New Zealand, Russia, Spain, and South Africa); Low (Austria, Brazil, Canada, France, Greece, India, Ireland, Italy, Republic of Korea, Mexico, Netherlands, Poland, Thailand, U.K., and U.S.); Moderate (Belgium, Finland, Norway, Portugal, Singapore, Sweden, and Switzerland); High (Japan, Hong Kong, Taiwan, and Germany).

SOURCES: Board of Governors of the Federal Reserve System; European Central Bank; Bank of Japan; Bank of England; Wholesale Markets Brokers Association; Bloomberg Financial Information Services; and International Monetary Fund, "Deflation: Determinants, Risks, and Policy Options—Findings of an Interdepartmental Task Force," April 30, 2003.

On May 6, the Federal Reserve's Open Market Committee voted unanimously to maintain its 1.25% federal funds rate target. On June 5, the European Central Bank cut its main policy rate  $\frac{1}{2}$  percentage point to 2.00%, citing stable prices and growing "downside risks to economic growth." On the same day, the Swedish Riksbank followed suit, but the Bank of England's Monetary Policy Committee maintained its 3.75% policy rate unchanged. The Bank of England

apparently continues on a policy path of moving inflation down closer to target. The Bank of Japan relaxed its monetary policy target another ¥5 trillion on May 20 "in order to show its determination to ensure financial market stability" as the government injected capital into the Resona bank.

Amid widespread attention regarding deflation and its prospects, the International Monetary Fund recently released an internal task force report on deflation. Among other things, it

analyzed the prospects of deflation for each of 35 nations. Notable were the findings that "mild deflation is fairly likely to take hold [in Germany] even though the risks of pernicious deflation are low," but that the "likelihood of sustained deflation appears remote" in the U.S. For all 35 nations included in its analysis, the task force "did not find evidence to support strong concerns of generalized global deflation."