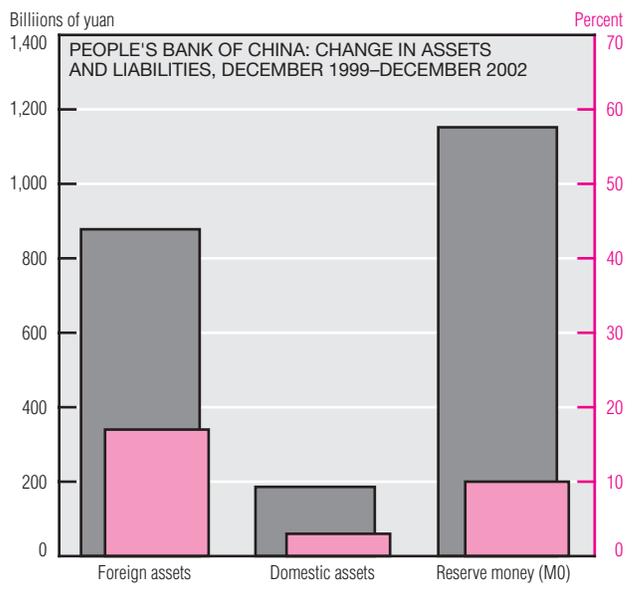
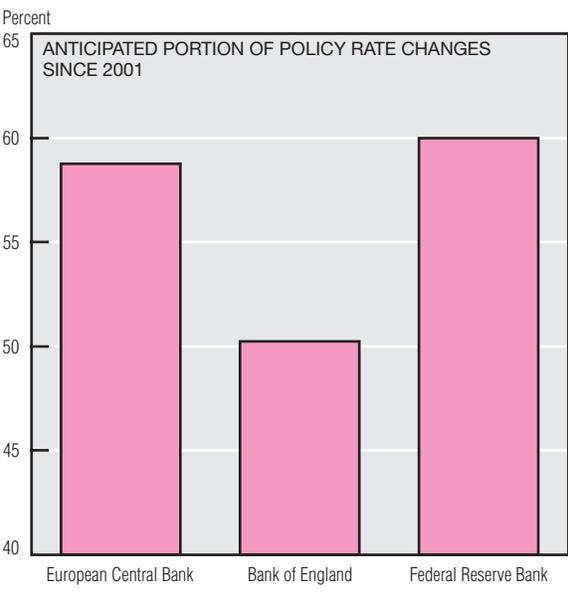
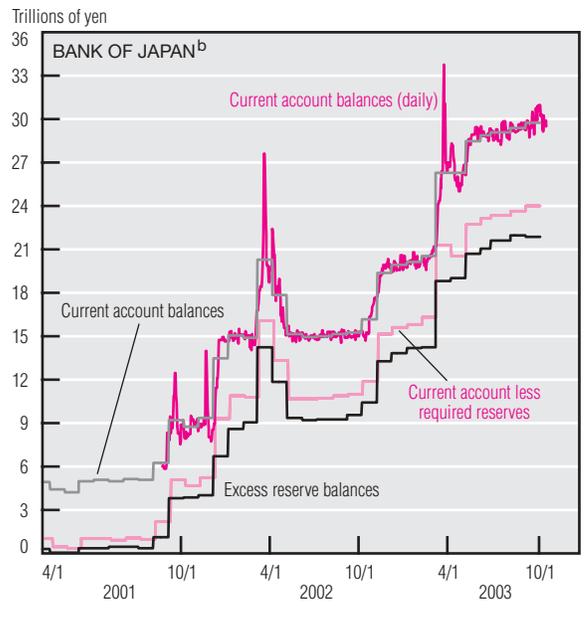
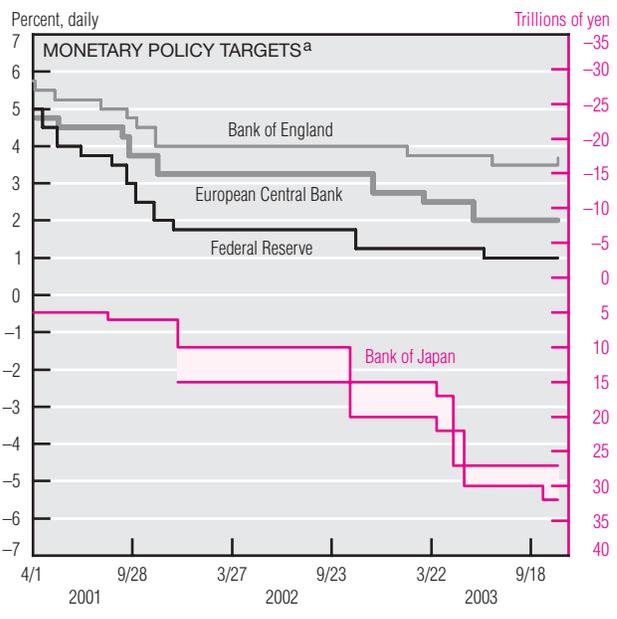


Foreign Central Banks



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.
 SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; People's Bank of China; Wholesale Markets Brokers Association; and Bloomberg Financial Information Services.

Major central banks have not moved in concert lately. The Bank of Japan made another easing adjustment, raising the top of its target range for current account balances. The Federal Reserve and European Central Bank maintained policy unchanged. The Bank of England tightened by raising its repo rate 25 basis points to 3.75%—a change that was widely expected after a narrow vote against tightening in October. Indeed, markets generally anticipate changes in policy. Both the Federal Reserve and the Bank of Japan recently have considered

improving transparency in communicating policy intentions. The appointment of a new European Central Bank president has spurred conjecture about changes in that bank's format for communicating policy decisions. Transparency implies that actual changes in a policy setting will be anticipated, with no reaction of market interest rates. Comparing the average change in the one-month riskless rate from the day before a change in the policy target to the day after suggests that policy actions are largely anticipated. Over the past two years, on average, 60% of the amount of

each change in the policy rate was anticipated in both the U.S. and the euro area; in the U.K., the average was about 50%. The fixed exchange rate of the People's Bank of China has attracted much attention. Preventing appreciation has required sizeable purchases of foreign exchange. Over the three most recent years for which data are available, rapid accumulation of foreign exchange by the People's Bank was accompanied by rapid growth of reserve money, with virtually no purchases of domestic assets.