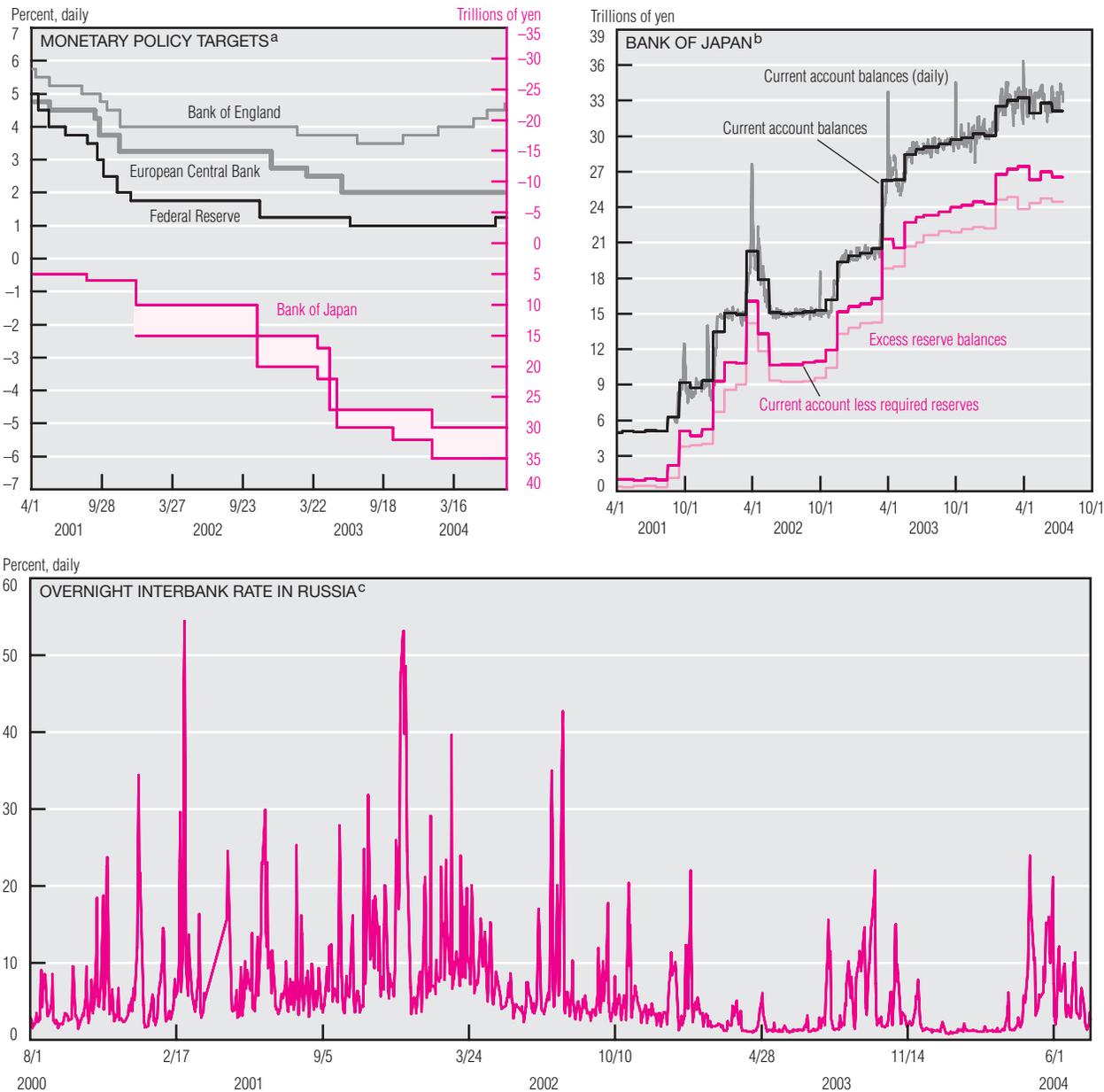


Foreign Central Banks



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: 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. Overnight rate: Moscow Interbank Actual Credit Rate (annualized percent rate for ruble credits).

SOURCES: Board of Governors of the Federal Reserve System; European Central Bank; Bank of Japan; Bank of England; and Bank of Russia.

The Federal Open Market Committee increased its federal funds rate target by 25 basis points to 1.25% on June 30, "with underlying inflation still expected to be relatively low." The Monetary Policy Committee of the Bank of England raised its target another 25 basis points to 4.75% on August 5, "to keep CPI inflation on track to meet the 2% target in the medium term." The analogous committee of the Bank of Japan has maintained a ¥30–¥35 trillion target for current account balances since January, and there has been no

significant change in the division of those balances between required and excess reserves.

Sporadic flare-ups in a continuing liquidity crisis disturbed Russia's banking system in recent months and led to the closure or takeover of several banks. The episode was triggered by what the World Bank's Moscow office describes as a "bungled...operation to withdraw the license of a medium-sized bank" in April for suspected money laundering. That action, plus pre-existing public uncertainty about the viability

of other banks, induced widespread depositor withdrawals of substantial sums from a number of banks. In addition, market commentary has emphasized the drying up of interbank funding as an important source of illiquidity. Though not as high or volatile as several years ago, the overnight interbank rate has increased, with peak rates above 20% at the end of both April and May. The Bank of Russia added liquidity by reducing deposit reserve requirements by more than half, including cuts on June 15 and July 8.