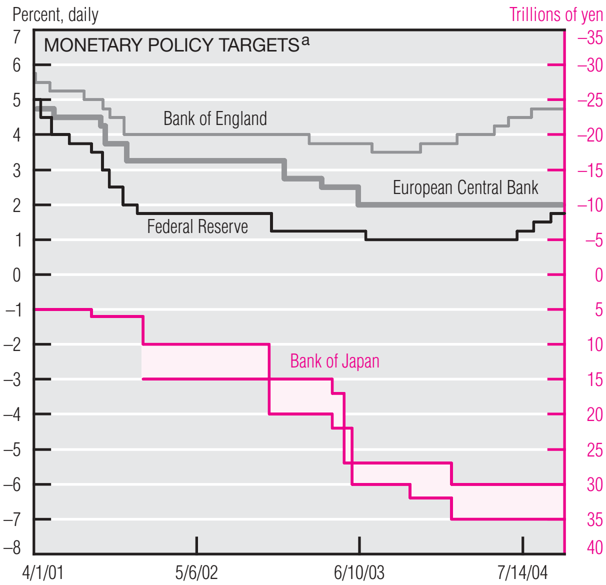
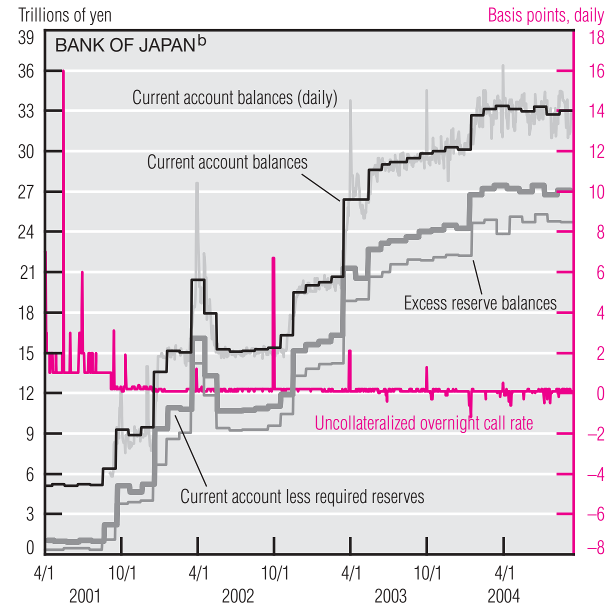
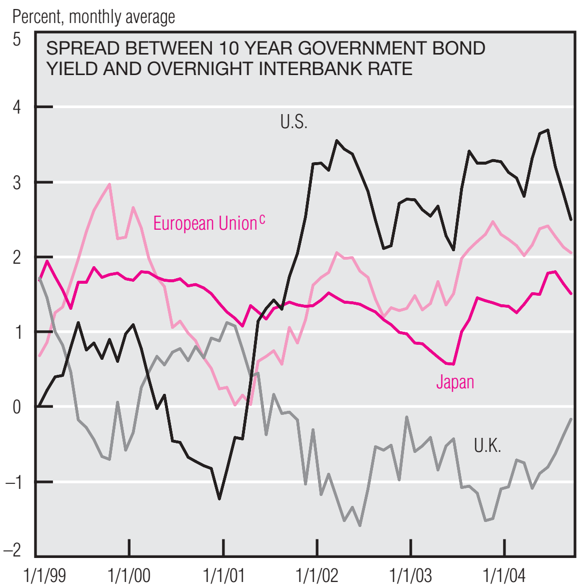
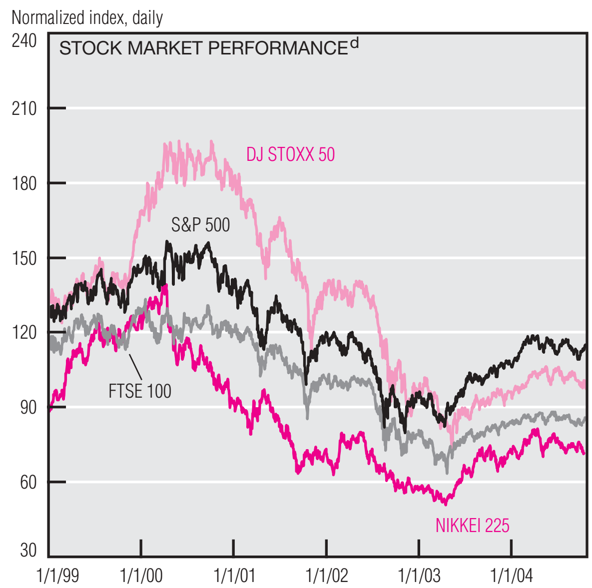
Foreign Central Banks









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. Yields on European Union bonds are as of the end of month.

d. Indexes are normalized to 100 on January 2, 1998.

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

None of the four major central banks has changed its policy setting since the Federal Reserve's Federal Open Market Committee adopted a 1.75% target for the federal funds rate on September 21. After 10 months, the Bank of Japan's ¥30–¥35 trillion target for current account balances remains consistent with excess reserves near ¥25 trillion and an overnight interest rate hovering around zero. According to recent remarks of Governor Fukui, "…zero percent [inflation] is merely a passing point," not an ultimate goal in deciding when Bank of Japan policy might let the overnight rate move above zero.

Rising dollar-denominated energy prices have tended to dampen the real growth outlook around the globe. This has been reinforced in many countries by the potential trade-related impacts of recent currency appreciation relative to the dollar. Both events might raise prices directly or lower prices through weaker economic activity. At the same time and no doubt reflecting these factors, nominal long-term interest rates denominated in the dollar, euro, yen, and U.K. pound have been falling relative to central banks' policy-related rates. Likewise, equity price indexes in all four currencies have been falling. The difficulty for central banks concerned with preventing inflation always comes in judging the extent to which movements in these nominal variables reflect reduced inflation expectations rather than reduced expectations of real returns to capital.