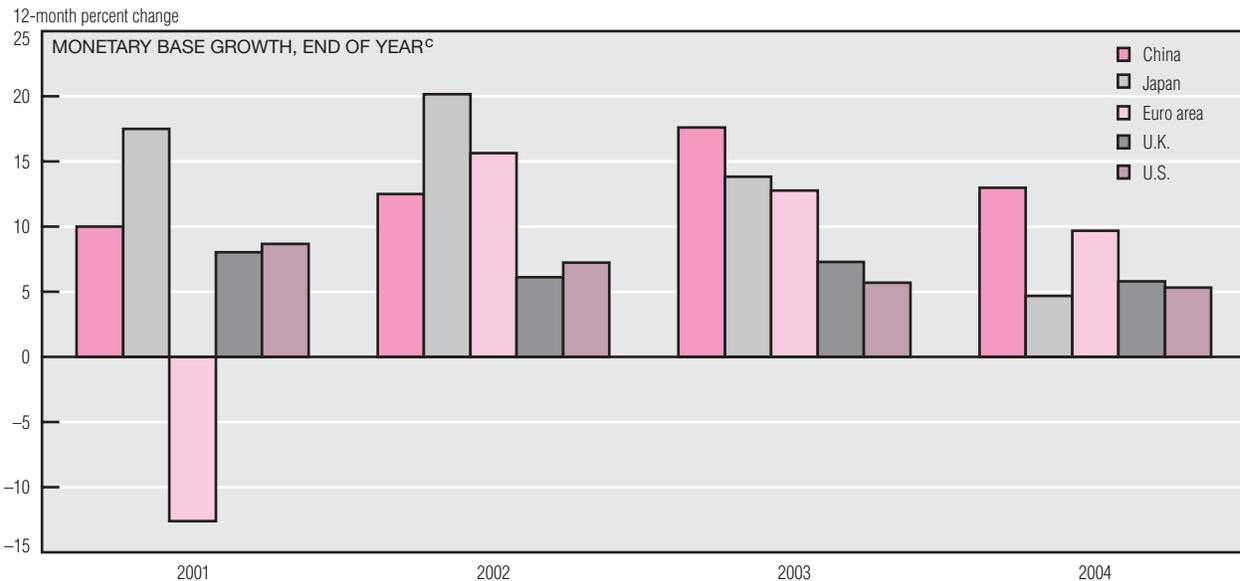
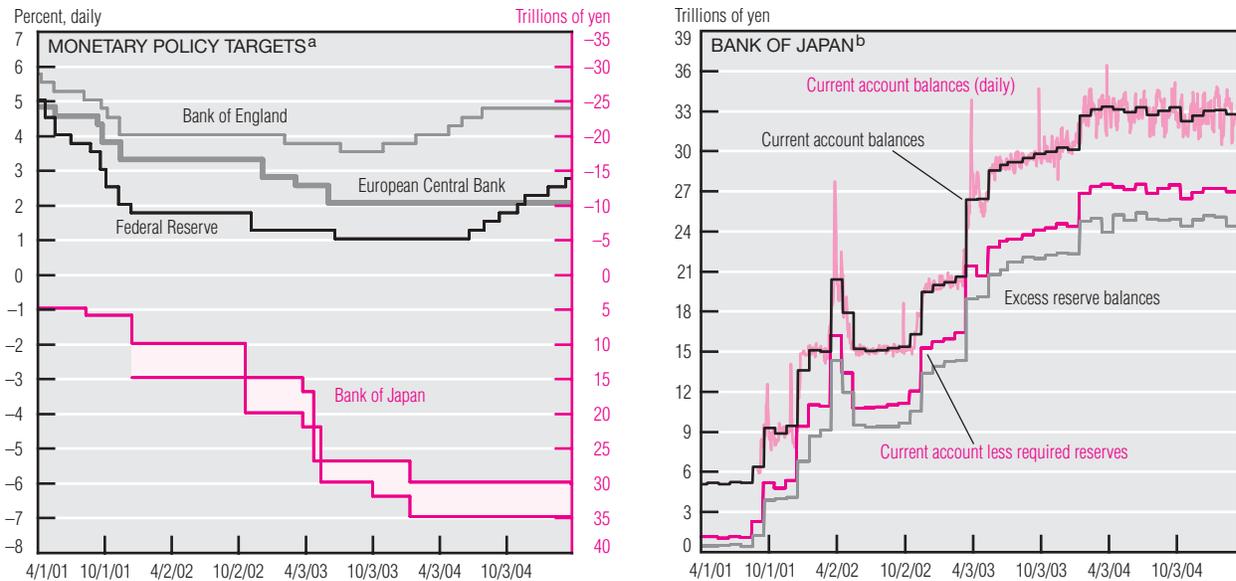


Foreign Central Banks



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. U.S., Japan: "monetary base" (monthly average, seasonally adjusted); U.K: "M0" (monthly average, seasonally adjusted); ECB: "base money" (average of weeks in December); China: IMF "reserve money" (end of period).

SOURCES: Board of Governors of the Federal Reserve System; Bank of England; Bank of Japan; European Central Bank; and International Monetary Fund, *International Financial Statistics*, vol. LVIII, no.3, March 2005.

Of the four major central banks, only the Federal Reserve has changed its policy setting recently, raising its target for the overnight federal funds rate by another 25 basis points to 2.75%.

The Bank of Japan implemented its policy of monetary easing in March 2001. The monetary base grew very substantially over the ensuing three years as the Bank targeted successively larger supplies of current account balances, a regime often referred to as "quantitative easing." With the target quantity of current account balances

unchanged for the past 14 months, however, growth of the monetary base slowed to less than 5% in 2004. At least as a semantic matter, "easing" has given way to continued "ease," with the overnight rate still hovering around zero.

The People's Bank of China also has supported rapid monetary base growth over the past four years. At the same time, foreign exchange reserves tripled and now provide the equivalent of almost 80% of the monetary base. More than half of the increase in foreign exchange holdings came in

2004 alone. Nonetheless, the growth rate of the monetary base declined in 2004 as the Bank issued bonds that absorbed half of the base money it created through purchases of foreign exchange.

Base growth in euros has not been readily comparable to other areas. It declined sharply in 2001, the year of the change-over from national central banknotes to euro banknotes. Thereafter, growth rates were high, but declining, and averaged 5.7% over the four years.