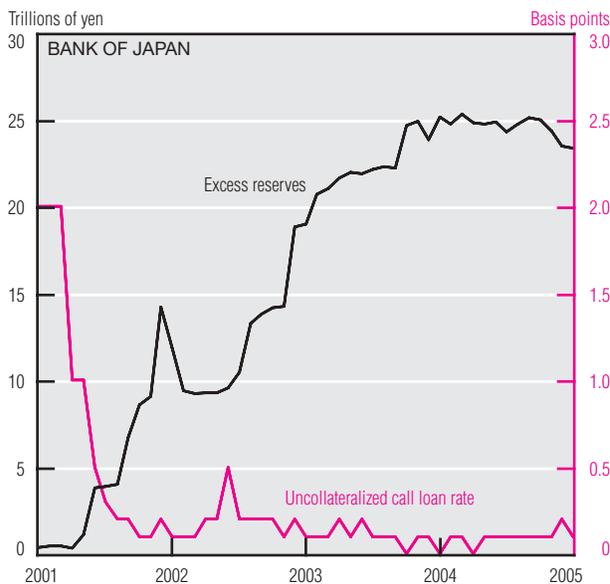
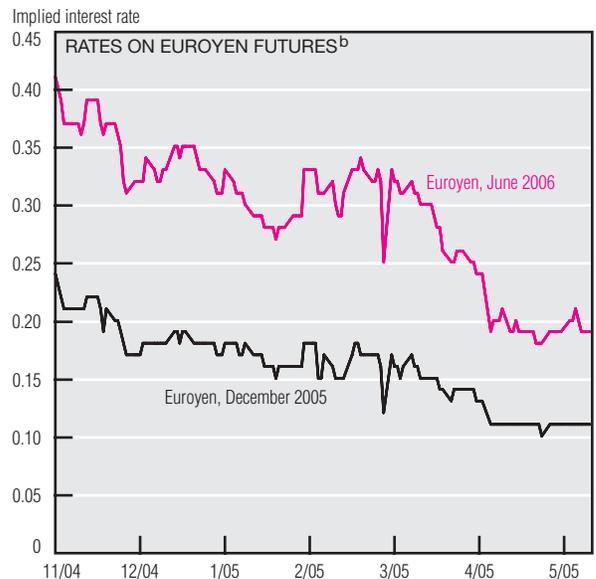
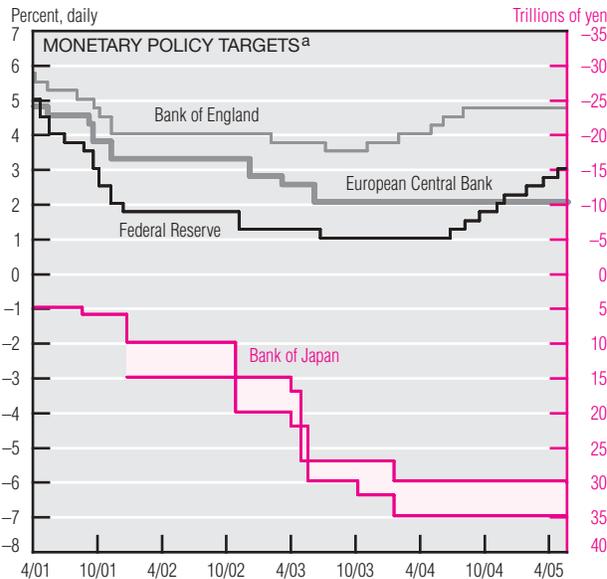


Foreign Central Banks



Frequency of Undersubscription in the Bank of Japan's Funds-Supplying Operations

	Offers	Undersubscriptions
2001	542	16
2002	459	171
2003	310	17
2004	310	23
January–April 2005	102	47

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. Futures contracts on three-month Japanese yen interbank deposits held outside Japan.
 SOURCES: Board of Governors of the Federal Reserve System; Bank of England; Bank of Japan; European Central Bank; Eiji Maeda, Bunya Fujiwara, Aiko Mineshima, and Ken Taniguchi, "Japan's Open Market Operations under the Quantitative Easing Policy," Bank of Japan Working Paper Series No. 05-E-3, April 2005; and Bloomberg Financial Information Services.

None of the four major central banks has changed its policy setting since the Federal Reserve raised its funds rate target to 3% on May 3. Other aspects of policy decisions have worried market participants amid recent uncertainty about the strength and durability of global economic expansion.

Among the nine members of the Bank of England's Policy Committee, the number of dissenters in favor of raising the interest rate target shrank from two at the April meeting to one at the early May meeting.

For Japan, doubts about the strength of the economic outlook

contributed to low implied yields on Euroyen futures, but technical matters generated interest in lowering the quantity of current account balances without tightening monetary policy. Among the nine members of the Bank of Japan's Policy Board, dissenters rose from none at the mid-March meeting to two at the May 20 meeting in favor of lower account balances.

The Bank of Japan did make a significant change in its policy announcement language. Heretofore, the Bank has merely stated a target range for balances with the technical caveat that, in the event of "a surge in liquidity

demand, the Bank will provide more liquidity irrespective of the above target." To this has been added a further technical caveat that when "liquidity demand is exceptionally weak considering such factors as responses of financial institutions to the Bank's funds-supplying operations, there may be cases where the balance of current accounts falls short of the target." This addition reflects the market's shrinking appetite for excess reserves and the increased incidence of undersubscription in the Bank's funds-applying operations.