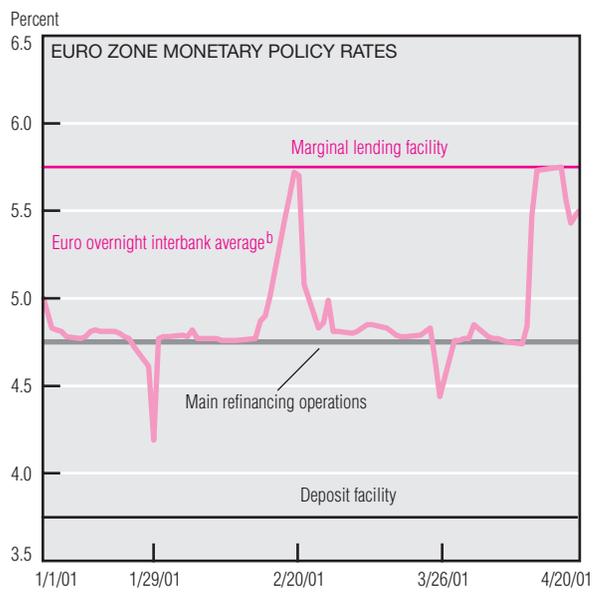
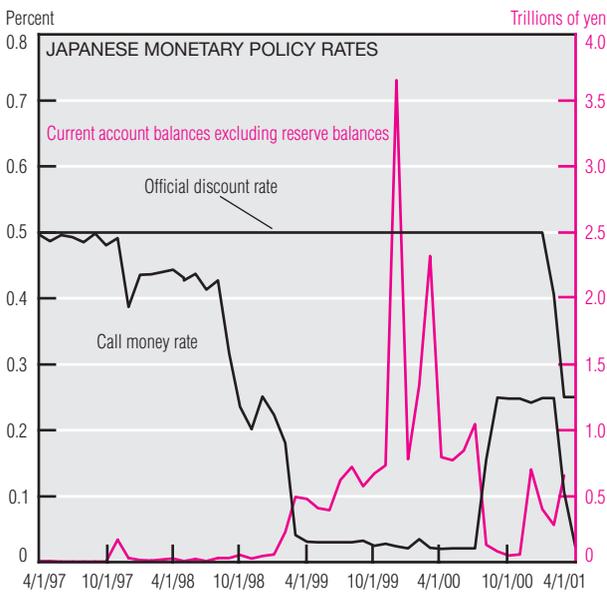
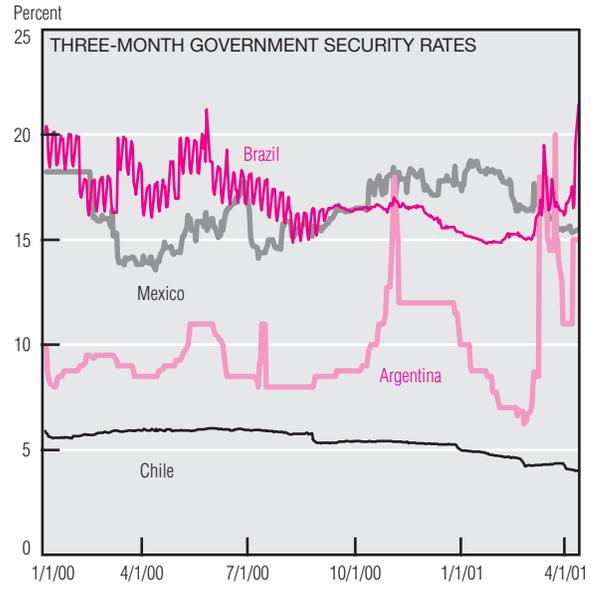
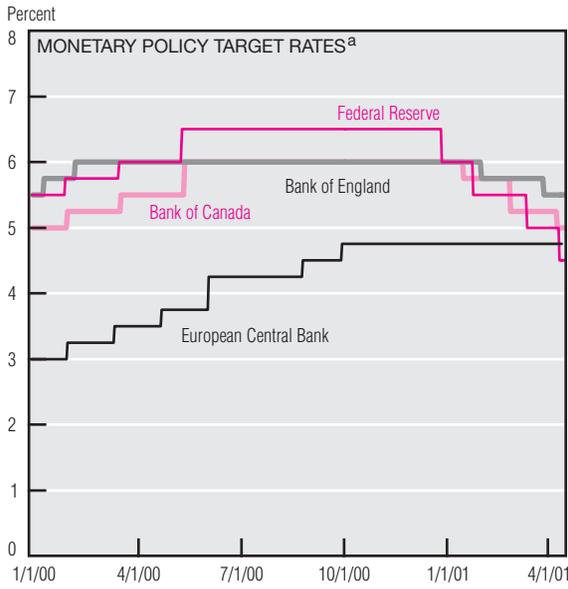


Foreign Central Banks



a. Overnight interbank rates except for the European Central Bank, whose main refinancing rate is shown.
 b. The weighted average rate on all overnight unsecured lending transactions in the interbank market, initiated within the euro area by contributing panel banks.
 SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; and International Monetary Fund, *International Financial Statistics*.

Reductions in the Federal Open Market Committee's interest rate target this year have been paralleled by three other central banks of the G7, but not by the European Central Bank (ECB). While the economic outlook for all the G7 nations has dimmed at least somewhat, concern about above-target inflation has restrained the ECB from adjusting its policy rates.

Experience in Latin and South America has been less uniform. Short-term interest rates in Chile and Mexico have drifted down with those of the G7. Argentina and Brazil, however, have faced special challenges to monetary stability that have

engendered substantial variations in their money market interest rates.

In March, the Bank of Japan shifted its operating policy target from an overnight call rate "around 0.15%" to a quantity of current account balances on deposit with the bank "around Y5 trillion." This quantity target (about Y1 trillion above required reserves) distinguishes current policy from the so-called zero interest rate target that prevailed between February 1999 and August 2000. The recent rough correspondence between the level of the call rate and the level of current account balances in excess of required reserves suggests that the call rate

should average close to zero, as the Bank of Japan expects.

Recent European experience illustrates the operation of a Lombard-type central bank lending facility, embodied in the ECB's marginal lending facility. The ECB stands ready to make collateralized loans to approved institutions at a rate 100 basis points above the policy target. Normally, little borrowing takes place, but when the supply of base money is restricted relative to demand (as in February and April 2001) the lending facility serves to cap the market rate for overnight loans.