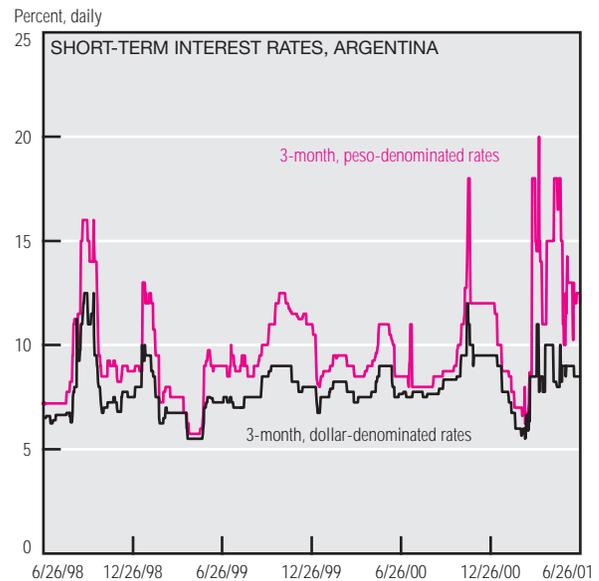
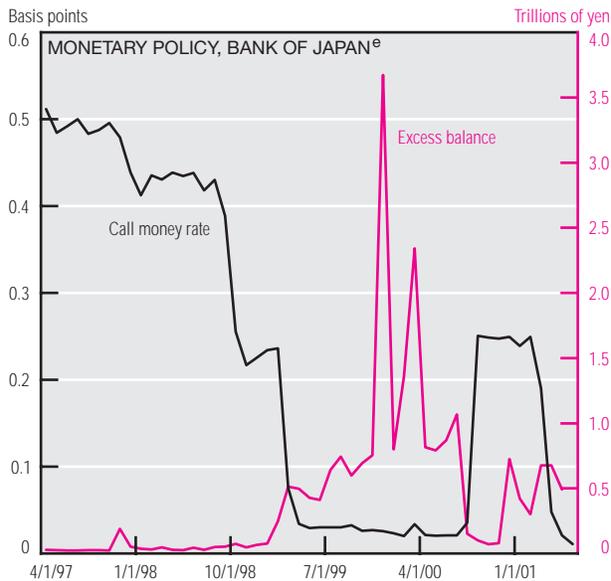
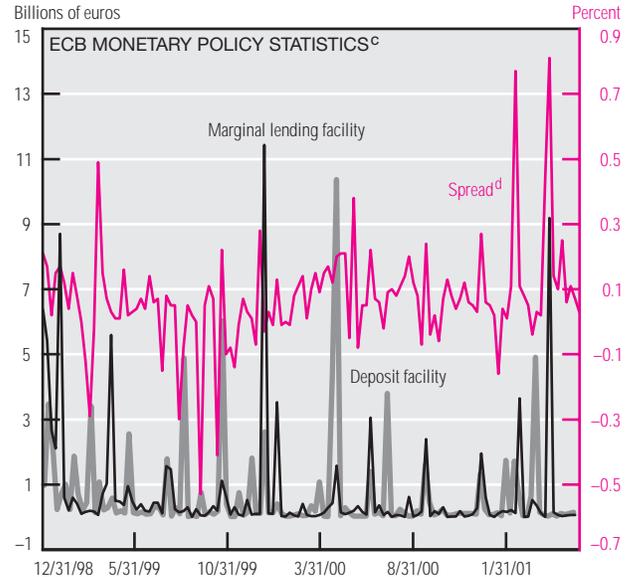
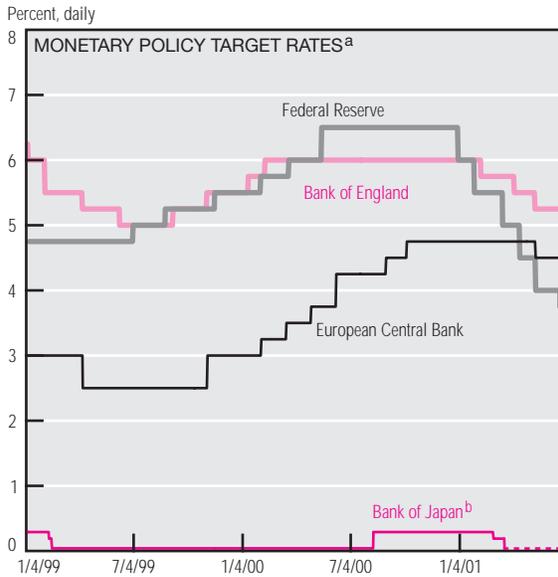


Foreign Central Banks



a. Overnight interbank rates for U.S. and Japan. Two-week repo rates for the euro area and the U.K.

b. On March 19, the Bank of Japan shifted to a target for the quantity of current account balances at BOJ that is expected to be consistent with a zero rate.

c. Weekly averages.

d. Spread between euro overnight interbank average index and main refinancing operations rate.

e. One-month averages for reserve maintenance period ending June 15.

SOURCES: Board of Governors of the Federal Reserve System; European Central Bank; Bank of Japan; and Wholesale Markets Brokers Association.

Major central banks made no changes in operating targets in June until the Federal Reserve announced a rate cut of 25 basis points (bp) on June 27.

Lombard facilities give banks relatively unimpeded access to central bank loans, but at a substantial spread above a central bank's operating target rate. This suggests that Lombard borrowing would be minimal unless the overnight rate were to rise close to the Lombard rate. For the European Central Bank, weekly average data obscure any relationship that might be apparent on a daily basis. But even

weekly data show a positive correlation of 0.26 between borrowing and the rate spread.

The Bank of Japan's current monetary policy focuses on supplying far more reserves than its banking system needs to meet reserve requirements. Excess balances were large when the call-rate operating target was zero, but declined briefly last year with a higher (25 bp) call-rate target.

Argentina has struggled with currency risk, evident in the gap between dollar and peso interest rates. Its Currency Board, created in 1991,

pegged the peso to the U.S. dollar, one for one. Newly approved legislation pegs the peso to the average value of the dollar and the euro at the time when those two currencies next reach parity. Meanwhile, non-energy importers must pay a variable premium when converting pesos to dollars, while non-energy exporters will receive the same premium when converting dollars to pesos. The premium, currently about 7%, diminishes (increases) as the euro moves toward (away from) parity with the dollar.