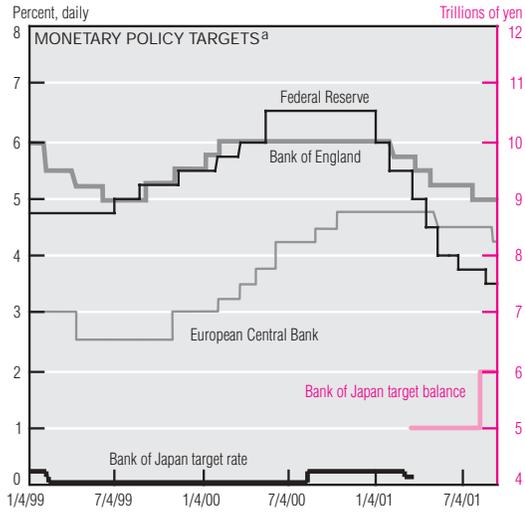
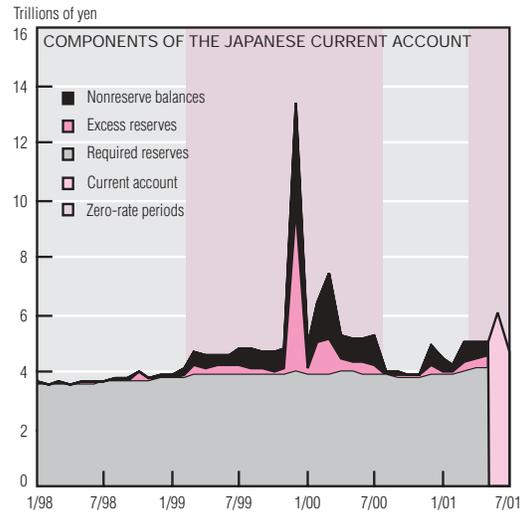
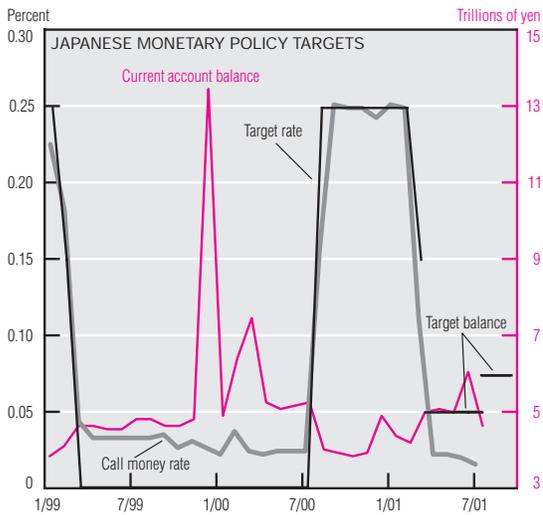


Foreign Central Banks



Bank of England's Expectations for Inflation and GDP Growth^b

	RPIX inflation ^c (percent)		GDP growth (percent)	
	Less than 2.5	More than 2.5	Less than 2.0	More than 2.0
2001:IVQ	80.0	20.0	57.0	43.0
2002:IVQ	64.0	36.0	48.5	51.5
2003:IIIQ	58.5	41.5	54.5	45.5



a. Federal Reserve and Bank of Japan: overnight interbank rates. (Since March 19, the Bank of Japan has targeted a quantity of current account balances expected to be consistent with a zero overnight rate.) The Bank of England and the European Central Bank: two-week repo rate.
 b. Based on constant nominal interest rates at 5%.
 c. Retail Price Index excluding mortgage interest payments.
 SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; Wholesale Markets Brokers Association; and Bloomberg Financial Information Services.

The world's major central banks took easing actions in August. Target rates dropped 0.25 percentage point: the Federal Reserve's rate to 3.5%; the Bank of Canada's to 4.0%; the ECB's to 4.25%; and the Bank of England's to 5%. Commenting after the Bank of England's move, the chairman of its Monetary Policy Committee said that "[t]o fail to cut would run the risk of undershooting the inflation target and unnecessarily depress activity," given that risks seem to be on the downside for GDP growth. The Committee's inflation report indicates that with the new policy setting, the chances of

undershooting the 2.5% inflation target are only slightly better than 50/50, as are the chances of undershooting 2% real GDP growth. Likewise, the Bank of Japan raised its target for current account balances from Y5 to Y6 trillion and increased its planned monthly purchases of long-term government bonds from Y400 to Y600 billion. (Those moves were consistent with suggestions made earlier in August by most of the International Monetary Fund's executive board.) The Bank of Japan's announcement noted that "concrete steps for reforms have started to take place

under the strong leadership of the government. A series of monetary easing measures, including today's decision, are consistent with providing maximum support for such reform efforts in various areas." Data on the composition of current account balances in June and July are not yet available, but growth of required reserves over the past several years suggests that the Y5 trillion target probably left the financial system fewer excess reserves and nonreserve balances than in the earlier zero-interest regime.