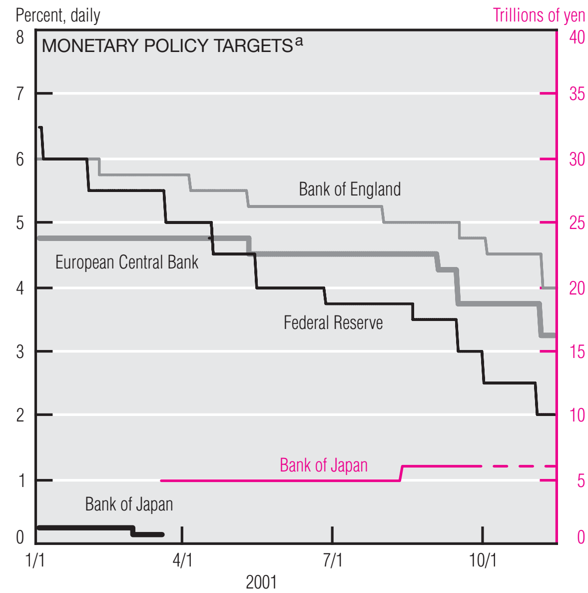
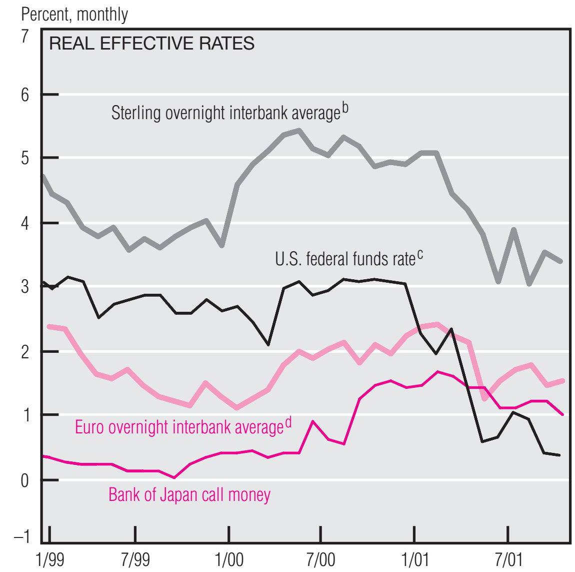
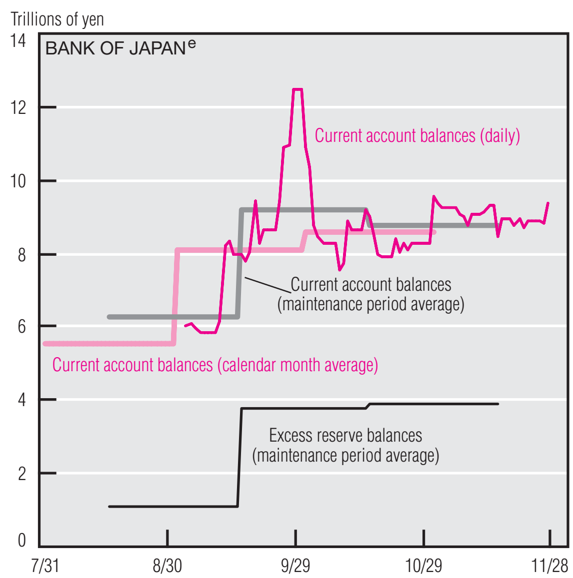
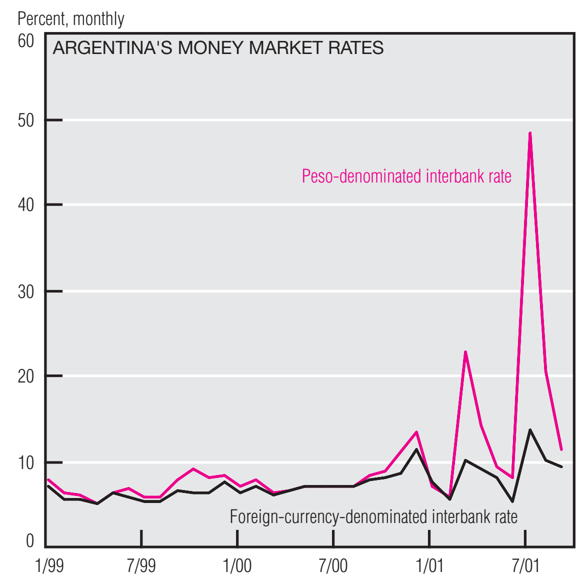
Foreign Central Banks









a. Federal Reserve and Bank of Japan: overnight interbank rates (since March 19, 2001, the Bank of Japan has targeted a quantity of current account balances). Bank of England and European Central Bank: two-week repo rate.

b. The weighted average rate of all brokered unsecured sterling overnight deals between money market institutions and their overseas branches transacted between midnight and 3:30 p.m. GMT.

c. The weighted average rate on trades made through New York City brokers.

d. The weighted average rate on all overnight unsecured lending transactions in the interbank market, initiated within the euro area by contributing panel banks.

e. 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 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.

SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; and International Monetary Fund.

In the second week of November, the Federal Reserve, the Bank of England, and the European Central Bank each cut its target interest rate 50 basis points (bp) for a total reduction of 450, 200, and 150 bp, respectively, in policy rates this year.

After adjusting for changes in measured consumer price inflation, rough indicators of real effective overnight interbank lending rates may have declined less than nominal policy rates. Including a 50 bp reduction in November, real rates have dropped about 315 bp in the U.S., 200 bp in the U.K., and 120 bp in the euro area.

A 40 bp reduction in Japan's real effective overnight interbank rate came early this year as the Bank of Japan cut its policy rate to zero. Deflation creates a real effective rate of about 1%, higher than in the U.S. Further attempts to ease monetary policy have focused on raising the Bank's target for the quantity of its current account balance liabilities, stated as "above Y6 trillion" since September 18. In fact, the Bank has increased the supply of current account balances about Y3 trillion (50%) over the past two reserve maintenance periods. So far, this effort has increased banks' holdings of excess reserves—idle current account balances—without any appreciable expansion in their loans and investments.

Markets' pessimism this year about Argentina's ability to maintain parity between the peso and the U.S. dollar has created substantial differences between peso- and foreign-currency-denominated Argentine interest rates.