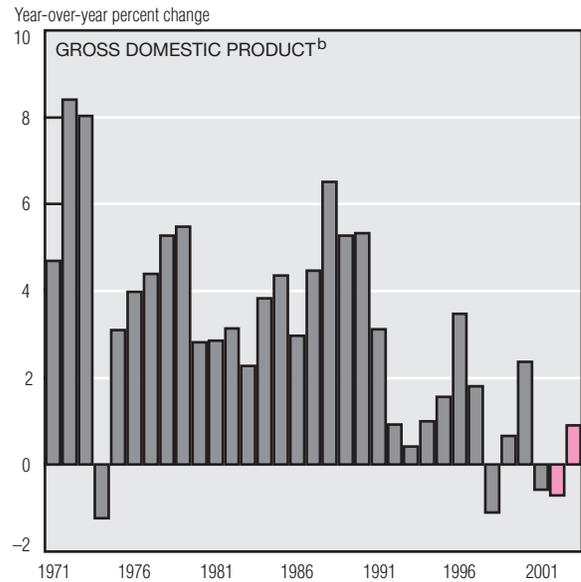
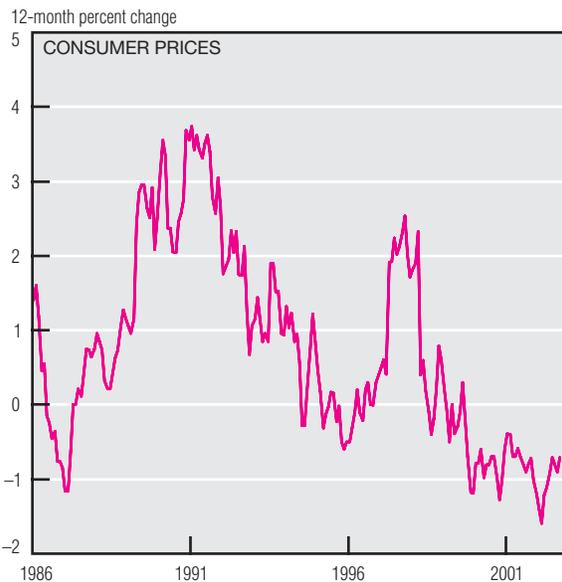


Japanese Interventions



a. Positive values are official purchases of dollars; negative values are official sales of dollars.

b. Data for 2002 and 2003 are from the Blue Chip forecast.

SOURCES: Board of Governors of the Federal Reserve System; Japanese Ministry of Finance; and Organization for Economic Cooperation and Development.

On November 19, Japanese Finance Minister Masajuro Shiokawa formally asked the Bank of Japan not to neutralize the monetary effects of any foreign exchange interventions that the Ministry of Finance (MF) might undertake. The move surprised many analysts because it potentially gives the MF leverage over Japanese monetary policy and could compromise the Bank of Japan's independence.

The Bank of Japan executes all official Japanese foreign exchange transactions at the direction of the MF. Since 1993, MF interventions have

been fairly frequent and large. These operations can alter the amount of yen reserves in the Japanese banking system. An intervention purchase of dollars, for example, adds to yen reserves. The Bank of Japan, however, undertakes traditional open-market operations to offset any such reserve changes that conflict with its independently determined monetary objectives.

The MF may feel that undertaking a monetary operation in exchange markets could have a bigger economic kick than standard open-market

procedures, or it may just want to increase the overall size of monetary operations. Japan's economic malaise has persisted with little respite for more than a decade. The Bank of Japan eased monetary policy to halt the decline in both output and prices; but with short-term interest rates near zero, the traditional channels of monetary influence seem ineffective. Recently, the Bank lowered its economic growth outlook, largely because of deteriorating prospects for Japan's critically important export sector.