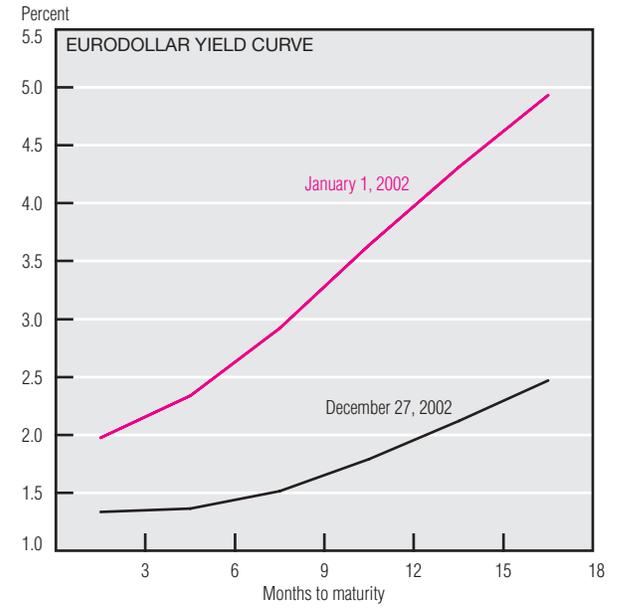
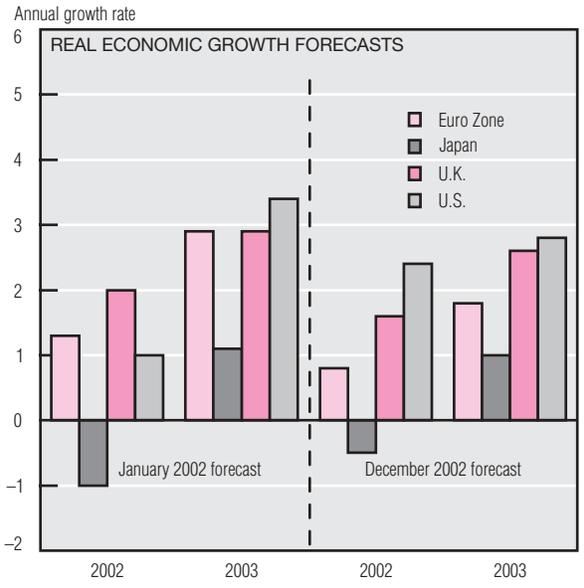
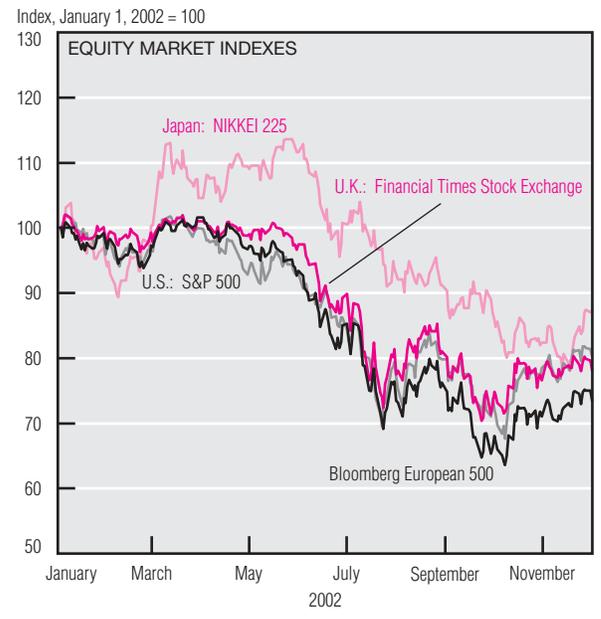
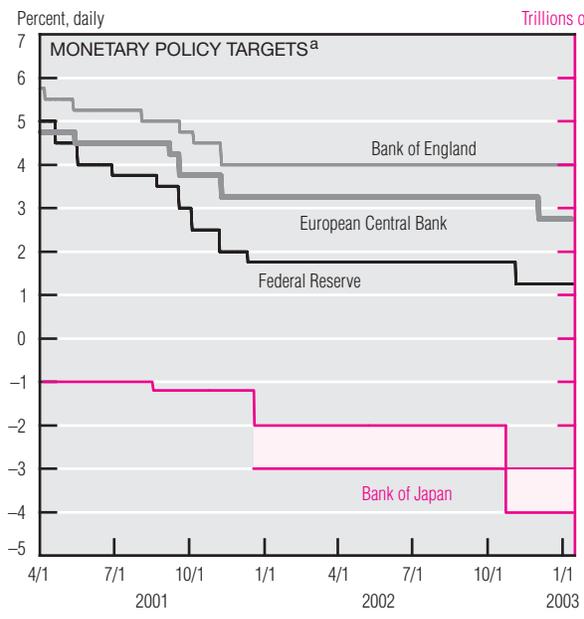


# Foreign Central Banks



a. Federal Reserve: overnight interbank rate. Bank of Japan: a quantity of current account balances (since December 19, 2001, the range of a quantity of current account balances). Bank of England and European Central Bank: two-week repo rate.  
 SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; and Bloomberg Financial Information Services.

For most developed nations, 2002 was a period of economic weakness. Sluggish investment spending and low profits led to slow growth and large stock market declines. The policies of monetary ease with which central banks began the year were followed by long periods of “no change.” Further easing began late in October when the Bank of Japan adopted a more accommodative target range for money market operations (¥15 trillion to ¥20 trillion). In early November, the Federal Reserve

eased its federal funds rate target by 50 basis points (bp) to 1.25%. The European Central Bank followed early in December, reducing its policy rate by 50 bp to 2.75%. Only the Bank of England has maintained an unchanged policy rate, 4.0%, for the entire year.

Stock markets around the world have fallen significantly. One of the most volatile and hardest hit was Europe, where losses in value were about 30%. Although Japan’s NIKKEI 225 outperformed several other

important stock indexes, it still has managed to lose about 19% of its value since the beginning of 2002.

Forecasts of real GDP for 2003 were revised down over the course of 2002, particularly for the euro area and the U.S. At the beginning of the year, growth estimates were 2.9% for the euro area and 3.4% for the U.S.; these estimates subsequently have been revised down to 1.8% and 2.8%. While expectations of growth softened in 2002, the yield curve fell dramatically and flattened somewhat.