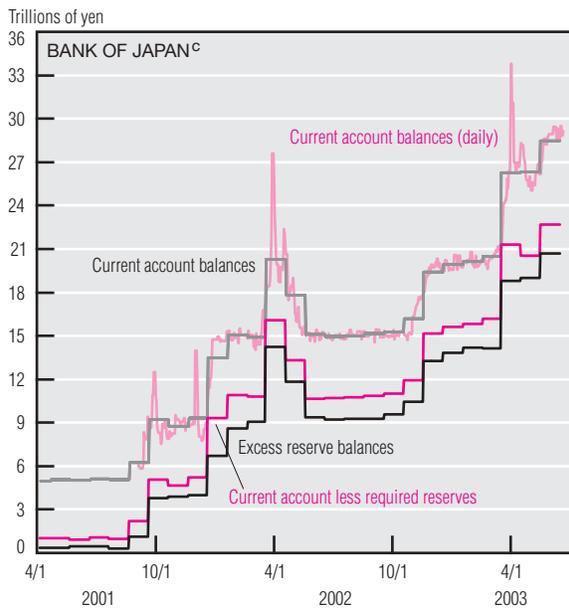
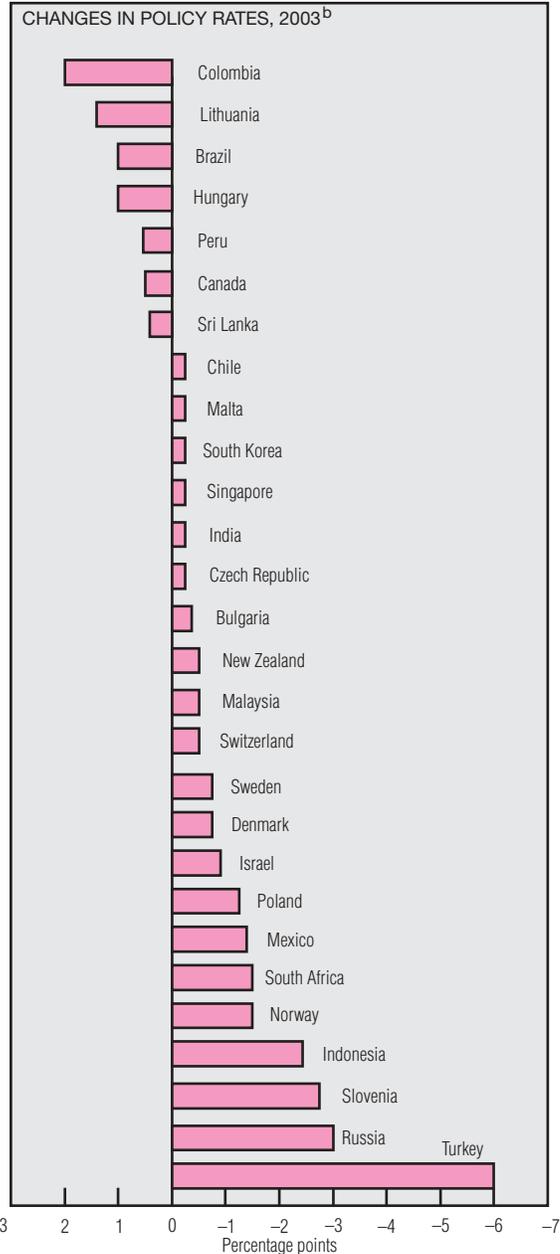
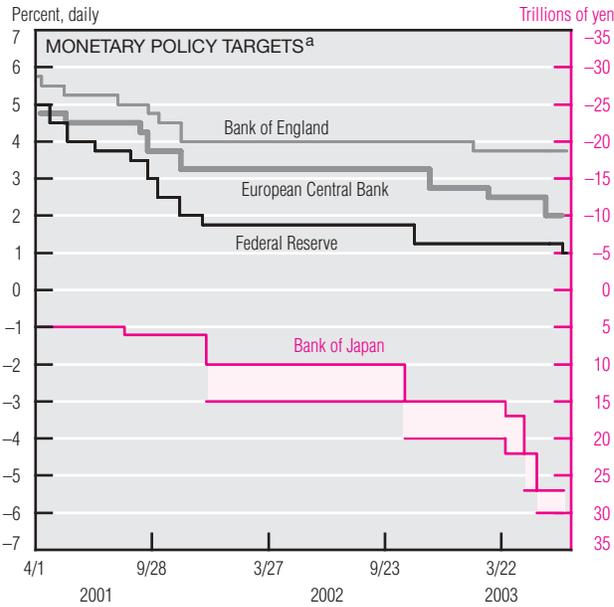


# Foreign Central Banks



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

b. Ten countries showed no change: Argentina, Australia, China, Croatia, Hong Kong, Latvia, Philippines, Taiwan, Thailand, and Ukraine.

c. 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 other 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 on the sixteenth of one month and ending on the fifteenth of the next.

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 European Central Bank reduced its policy rate to 2% early in June. The cut of 50 basis points (bp) was motivated by weaker prospects for economic growth and an improved outlook for medium-term inflation (below 2%). Commenting on published assessments of the potential for deflation in some of the European Central Bank's member countries, ECB President Duisenberg said, "At the regional level, a period of relatively low price increases or even price

level declines will improve a region's competitiveness within the currency area. Within a monetary union, deflation is not a meaningful concept when applied to individual regions."

In the U.S., the Federal Open Market Committee reduced its target for the federal funds rate by 25 bp, its first change since a reduction of 50 bp in November of last year.

Widespread talk of global economic weakness and prospects for deflation may obscure differences in monetary

policy developments around the world this year. It is true that policy easing has been widespread, as suggested by the actions of 21 of the 37 central banks (other than the "Big Four") for which Bloomberg Information Services provides data. However, tightening was the rule in another six of these cases, including Canada. Another 10 central banks (not shown) made no policy move. A similar variability can be seen within major regional groupings of nations.