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.