The Monetary Policy Committee raised the Bank of England’s policy rate 25 basis points to 4.25% on May 6, “to keep CPI inflation on track to meet the 2% target in the medium term.” The committee deemed this change necessary because of “a small and diminishing margin of spare capacity.”

The Federal Reserve left its policy rate unchanged at the May 4 Federal Open Market Committee meeting. However, markets interpreted its statement that “policy accommodation can be removed at a pace that is likely to be measured” as indicating a greater likelihood of a small move than was suggested by its previous statement that it “can be patient in removing its policy accommodation.”

Amid further indications of a broad-based economic recovery, the Bank of Japan continues to maintain the current “extremely easy monetary policy” of quantitative easing. However, Governor Fukui has alluded to the bank’s eventual need for an “exit policy” to extricate itself from the current procedure, but “avoid sharp fluctuations in financial markets and ... prevent any sudden discontinuities in market conditions.”

In China, inflation has been rising relative to the 2004 target of 3% set by the People’s Bank. Although the bank has maintained a fixed nominal exchange rate relative to the U.S. dollar, the real (inflation-adjusted) exchange rate has been appreciating. The effects of monetary tightening frequently have been apparent in spikes in interbank loan rates, which have not been controlled since 1996.