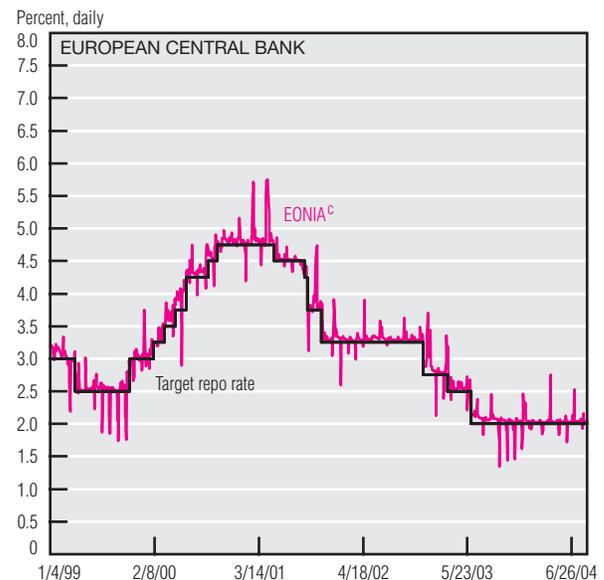
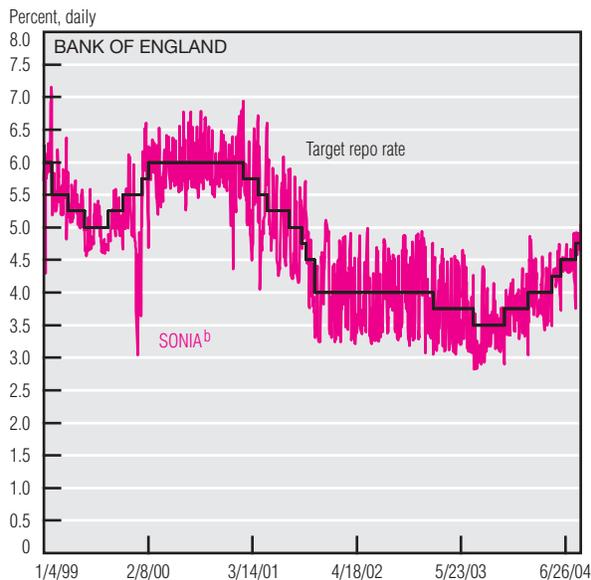
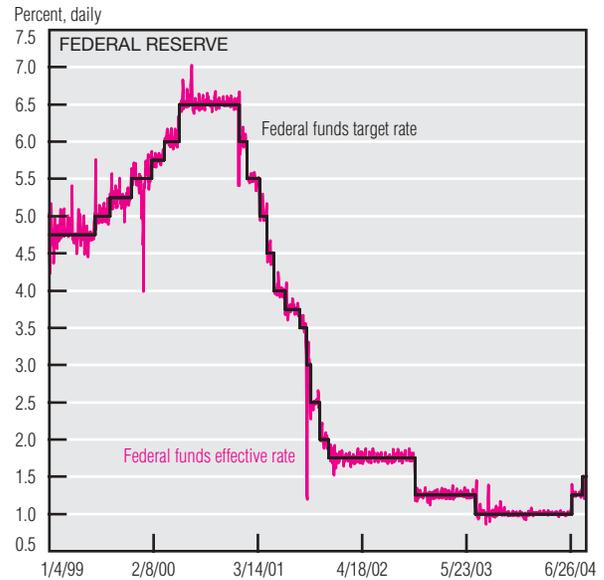
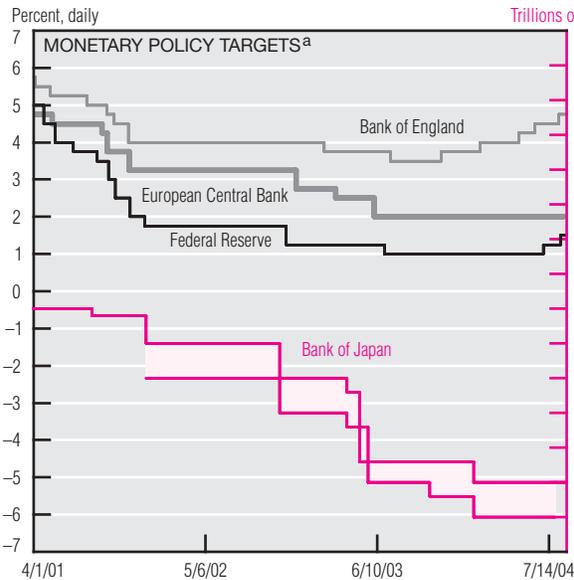


Foreign Central Banks



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

b. SONIA is the Sterling Overnight Index Average calculated by the Wholesale Markets Brokers' Association (WMB) as a weighted average of all unsecured sterling overnight transactions brokered in London by WMB member firms in a minimum deal size of £25 million.

c. EONIA is the Euro Overnight Index Average calculated by ECB as a weighted average of overnight euro interbank offer rates for interbank loans.

SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; and Wholesale Markets Brokers' Association.

None of the major central banks has changed its policy setting since the Federal Open Market Committee raised its target to 1.5% on August 10.

Most central banks implement monetary policy by targeting a short-term interest rate. The Federal Reserve uses the overnight interbank loan ("federal funds") rate as its policy target. The daily average actual rate rarely deviates far from the target. Open market operations, which can be carried out daily, if necessary, appear to match the daily supply of

and demand for bank reserves at the target rate.

The European Central Bank targets a one-week repo rate; the Bank of England, a two-week repo rate. Each supplies reserves to its banking system at the target rate for its maturity. Overnight interest rates in these currencies can vary substantially, reflecting day-to-day reserve demand and supply, including changes in expectations of future policy rate levels. Variability is especially noticeable in the sterling overnight interest rate and has prompted plans to change the Bank of

England's monetary policy operations. Currently, U.K. banks face no reserve requirements; they manage reserve positions so as to come as close as possible to, but not below, zero at the end of every day. The euro overnight index average rate is less variable: Here banks must meet positive ECB reserve requirements on a monthly average basis, providing more leeway in managing daily reserve positions. Still, there is a clear monthly spasm in the rate as banks approach the reserve maintenance deadline on the fifteenth of each month.