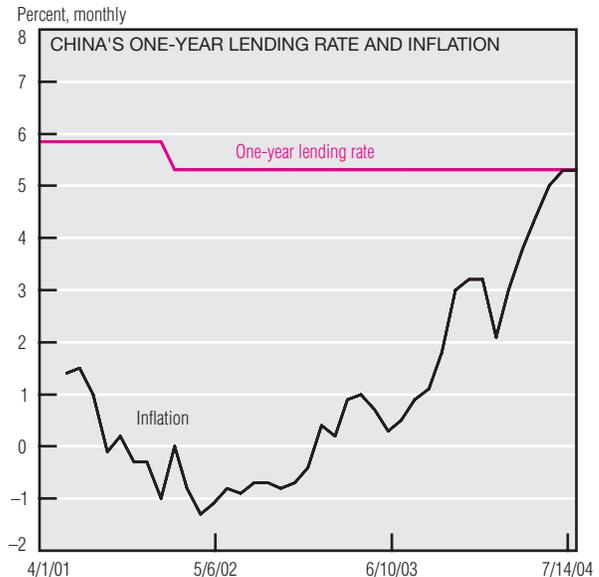
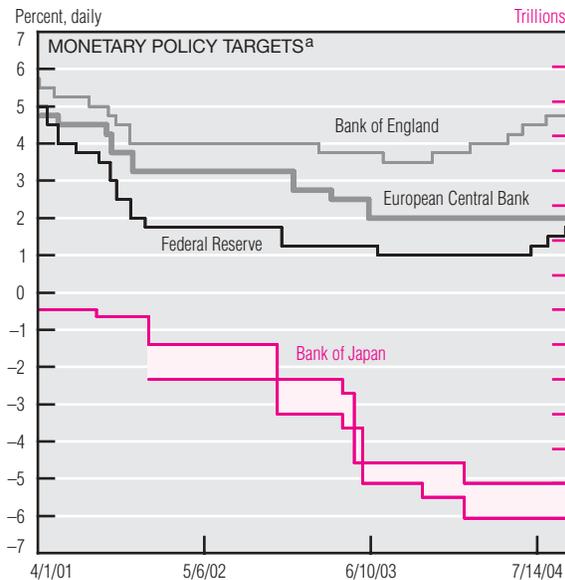


# Foreign Central Banks



## Central Banks' Monetary Policy Stances

### Accommodative

**United States:** "accommodation can be removed at a pace that is likely to be measured"

**European Central Bank:** rate "very low by historical standards...lending support to economic activity"

**Japan:** "...CPI is still on a declining trend" so "pursue an easy monetary policy even as the economy continues to recover"

**Sweden:** "rate is low in an historical perspective" and "will need to be raised in the long run"

**Switzerland:** raised rate to reverse 2003 cut made under "extraordinary circumstances"

### Not Accommodative

**Brazil:** raised rate "to rein in inflation without disrupting...economic recovery"

**Canada:** raised rate: "to avoid a buildup of inflationary pressures" while "close to production capacity"

**New Zealand:** raised rate: "looking ahead, we do not have much inflation headroom"

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.

SOURCES: Board of Governors of the Federal Reserve System; and Bloomberg Financial Information Services.

The Federal Reserve, alone among the major central banks, changed its policy rate during the past month, raising it another 25 basis points to 1.75%. The Federal Open Market Committee characterized the policy situation as one in which "the stance of monetary policy remains accommodative" but also said that "policy accommodation can be removed at a pace that is likely to be measured."

"Accommodation" has no precise definition, but at least seems to imply that the nominal policy rate would have to be higher in the longer run if an economy is expected to achieve

tolerably low inflation and sustainable real growth. Many observers think that the Peoples Bank of China is being accommodative by holding the one-year loan rate at 5.31%, where it has been for the past two and a half years, while maintaining that "price performance in China remains stable on the whole." Other central banks suggest that they are or have been accommodative, referring to their policy rates as being at historic lows or at lows that reflect extraordinary conditions.

Not all central banks can afford to be accommodative lest they risk

letting inflation rise. Some—notably Brazil, Canada, and New Zealand—recently raised their rates, arguing that the absence of excess capacity already makes inflation their dominant concern. Still other banks perceive themselves to be in less demanding situations. The Bank of England is not convinced that "little or no remaining spare capacity" prevents inflation from being "well anchored." The Bank of Norway left its rate unchanged, enjoying the enviable combination of lower inflation and stronger real growth.