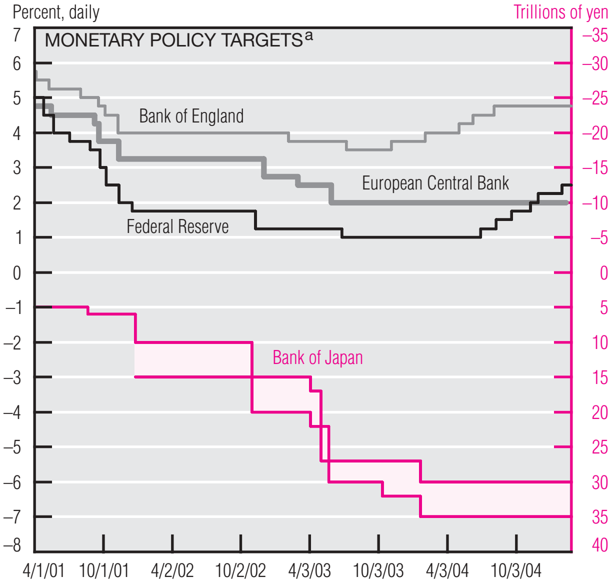
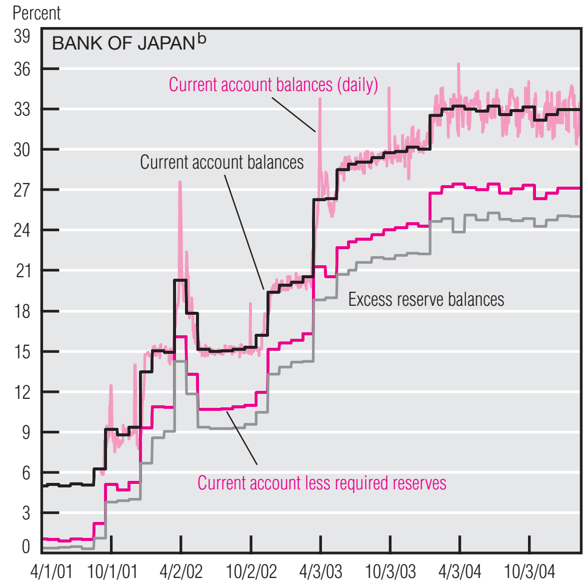
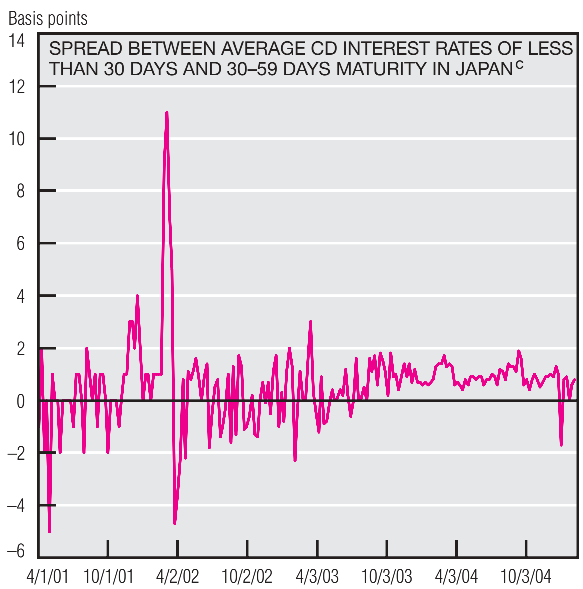
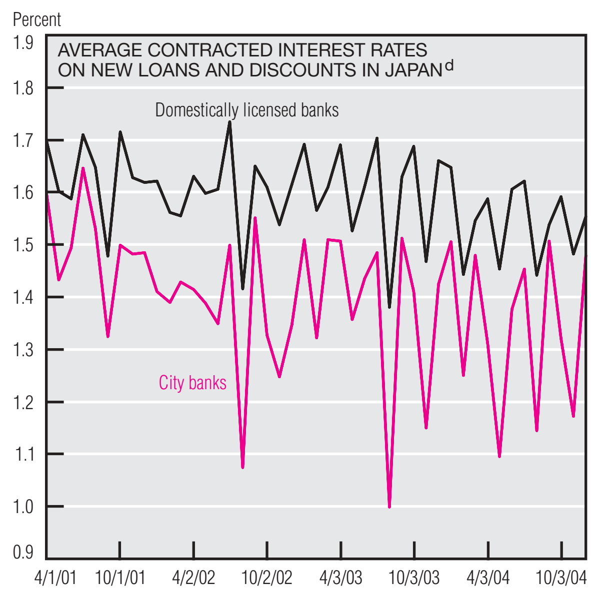
Foreign Central Banks









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. Current account balances at the Bank of Japan are required and excess reserve balances of 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 the sixteenth of one month and ending the fifteenth of the next.

c. Calculated as the difference between average interest rates on new issues of certificates of deposit of city banks; weekly data.

d. New loans and discounts exclude overdraft accounts and include renewed continuing loans; end of month data.

SOURCES: Board of Governors of the Federal Reserve System; Bank of England; Bank of Japan; and European Central Bank.

None of the four major central banks has changed its policy setting since the last Federal Reserve action.

Japan's overnight interbank rate has been essentially zero for about three years, reflecting the Bank of Japan's anti-deflation policy of quantitative easing. For the past year, that policy has maintained a level of current account balances and excess reserves of the banking system that is more than ¥25 trillion higher than at the beginning of 2001. Recently, the Bank has had occasional difficulty attracting sellers of all the securities it wished to buy in order to maintain that level of balances. This has triggered questions about whether the effective demand for its liquidity might be declining relative to the past year's target.

As long as the Bank is able to meet its current account balance target, the zero floor on nominal overnight interest rates suggests that excess effective liquidity might show up in lower nominal interest rates at nearby maturities and risk classes. There are hints of such an effect. Since the end of September, the average interest rate on new CDs at the maturity of 30–59 days has declined very slightly relative to rates on 0–29 day CDs. Average contracted interest rates on loans and discounts of all domestically licensed banks have continued to decline; this has occurred three times as much at city banks, where loan quality is thought to be better.