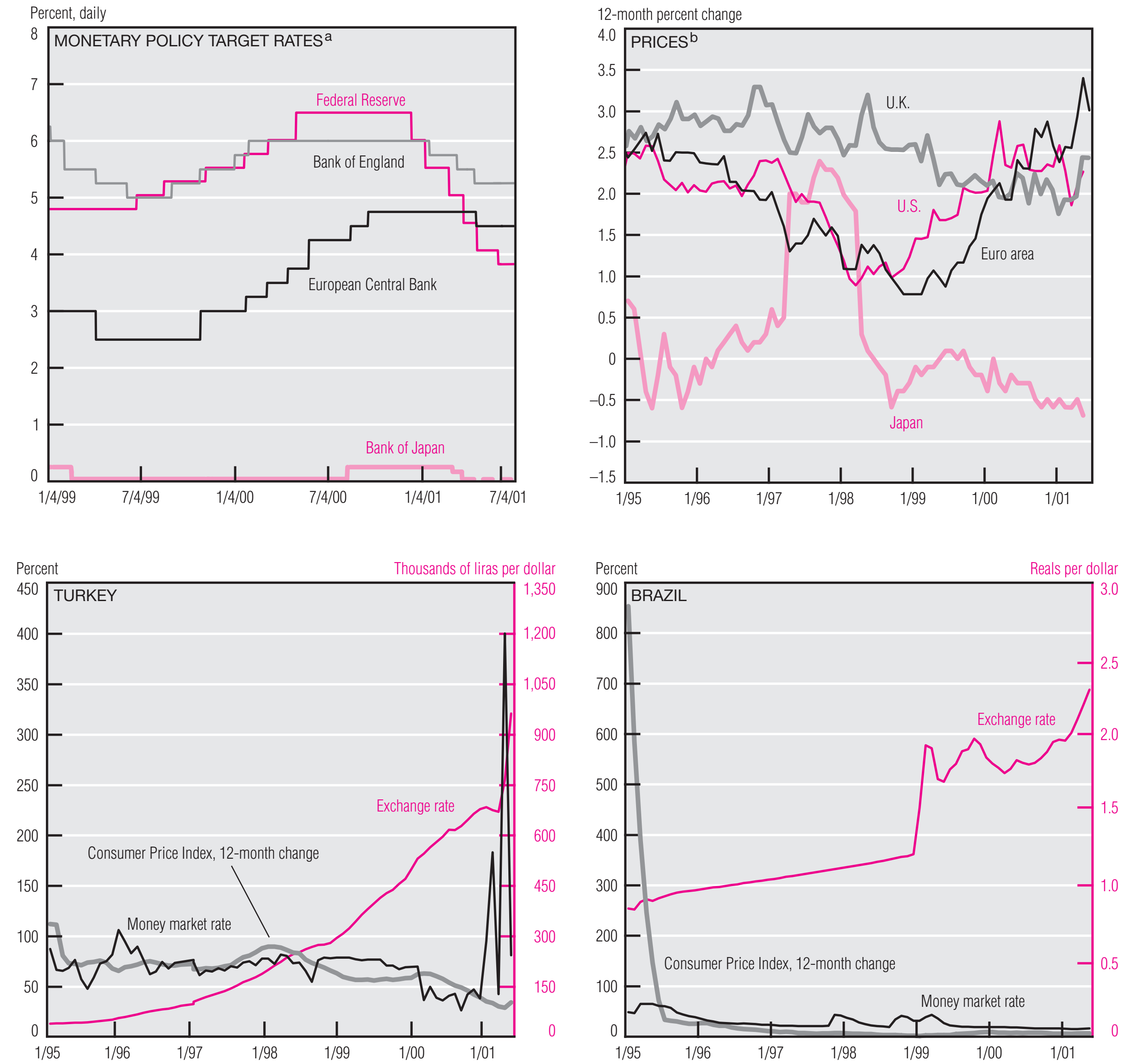
Foreign Central Banks



a. Two-week repo rate for the Bank of England and the European Central Bank. Overnight interbank rates for the Federal Reserve and the Bank of Japan. (Since March 19, 2001, the Bank of Japan has targeted a quantity of current account balances that is expected to be consistent with a zero overnight rate.)

b. U.S.: Personal Consumption Expenditures Chain-type Price Index; Euro area: Harmonized Consumer Price Index; Japan: Consumer Price Index excluding fresh food; U.K.: Retail Price Index excluding mortgage interest payments.

SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Wholesale Markets Brokers Association; and Bloomberg Financial Information Services.

None of the four major central banks has changed its policy setting since the Federal Reserve shaved 25 basis points from the federal funds rate target in late June. Inflation performance has remained relatively benign in the U.S., at least as measured by the personal consumption deflator. In the U.K., inflation remains near its 2.5% target, having increased each month since February. Inflation in the euro area currently exceeds the 0%–2% target zone, while the struggle against deflation continues in Japan.

Both Turkey and Brazil have attracted international concern over the past year or so because their currencies have depreciated significantly against the U.S. dollar. Turkey's phaseout of its managed float of the exchange rate had been part of an International Monetary Fund package until February, when intense pressure on the lira led to a decision to let the exchange rate float freely. Since then, money market interest rates have declined from crisis levels. Unlike 2000, though, interest rates remain above the declining inflation rate this year, suggesting that monetary expansion may be better controlled.

Brazil's exchange rate also has depreciated this year, although it is more in line with the depreciation of the euro and yen. Money market rates have remained above the relatively low inflation rate, as they have for many years. Brazil's neighbor, Argentina, with its currency pegged to the U.S. dollar, had borne the brunt of dollar appreciation until dual exchange rates for non-energy exports and imports were introduced last month. In Brazil, whose major trading partners are the U.S. and Argentina, depreciation of the exchange rate has tended to insulate exports from declining demand.