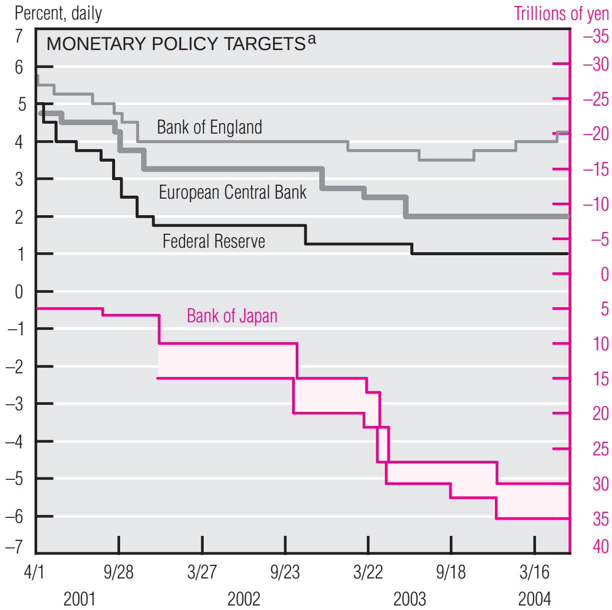
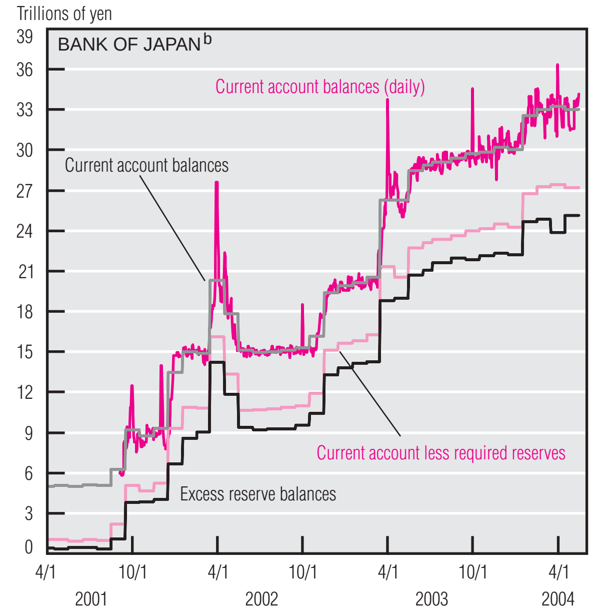
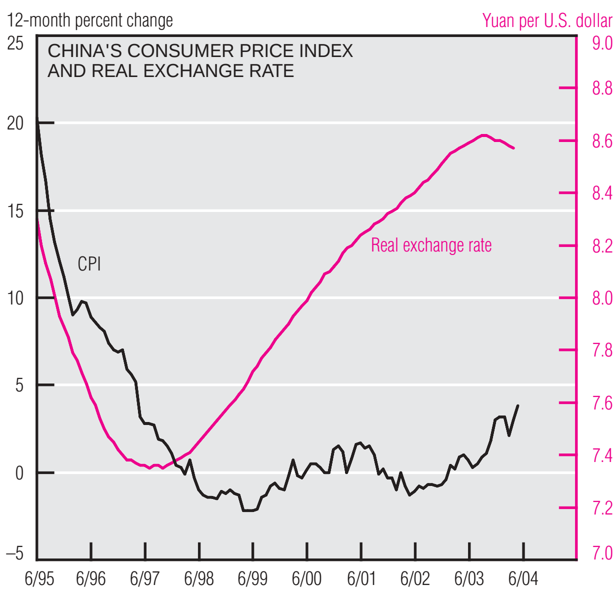
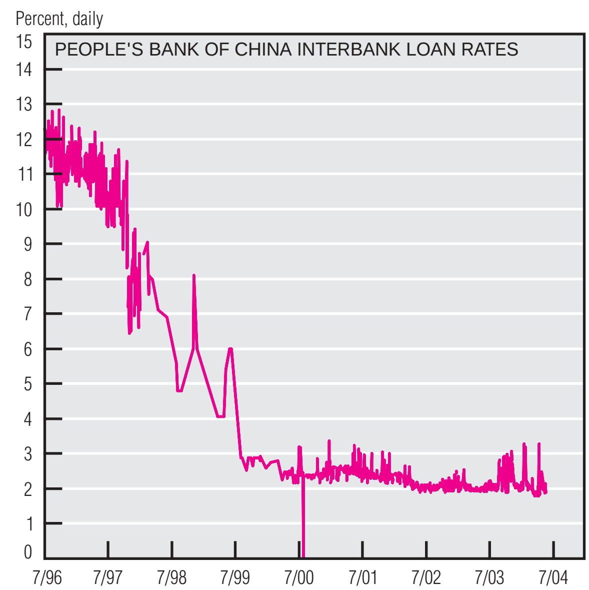
Foreign Central Banks









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 at 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.

SOURCES: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; Bank of England; People's Bank of China; and Bloomberg Financial Information Services.

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.