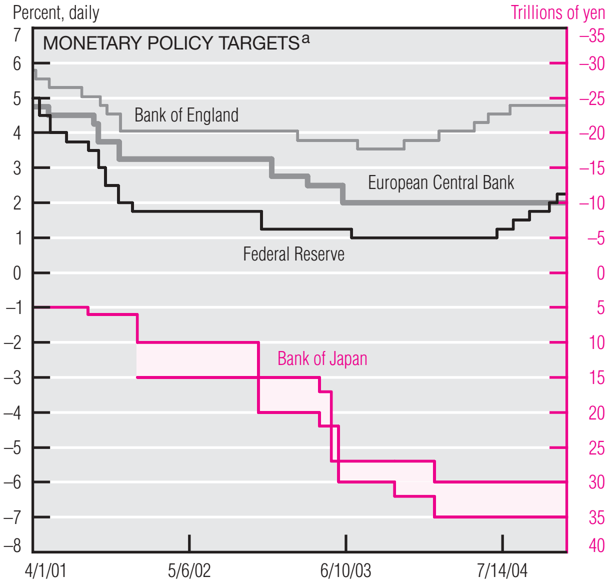
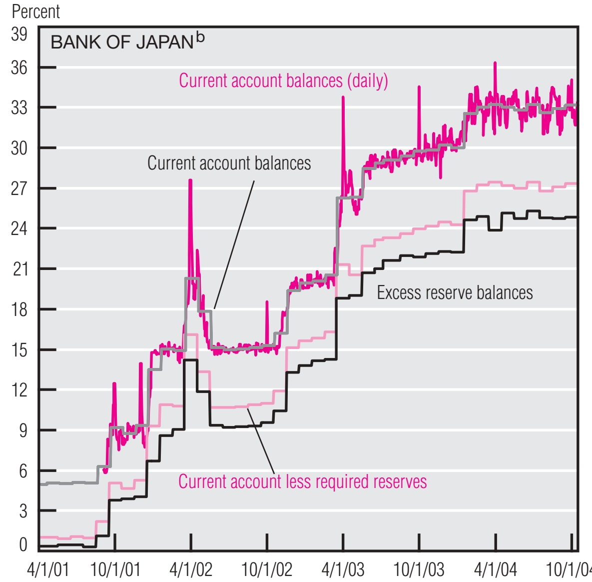
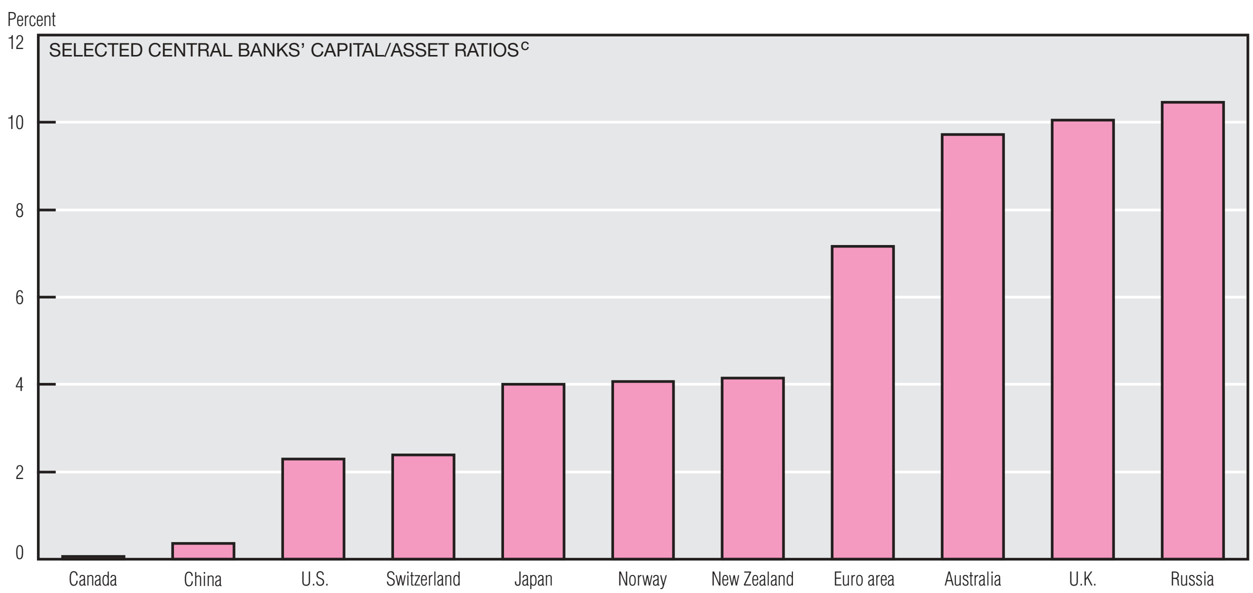
Foreign Central Banks







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.
c. The Bank of England's ratio is based on data as of February 29, 2004; other ratios are based on December 31, 2003 data.
SOURCES: Board of Governors of the Federal Reserve System; and selected nations' central banks.

The Federal Reserve's Federal Open Market Committee continued its series of policy rate increases at its December 14 meeting, bringing the target for the overnight federal funds rate up 25 basis points to 2.25%. The Bank of England and European Central Bank have not changed their target repurchase agreement rates recently, and the Bank of Japan is poised to begin a second year of maintaining the ¥30 trillion to ¥35 trillion target for the supply of its current account balance liabilities.

Capitalization varies widely among central banks, at least as recorded on their balance sheets. A cushion of capital to cover losses might seem irrelevant for modern central banks, which are created by governments with virtually unlimited ability to create base money if needed to meet obligations. Current thinking, however, suggests that a central bank's capitalization can be an important defense of its policy independence. Interest rate risk might lead to the realization of substantial losses on even the safest central bank assets. Any consequent impairment of capital and appearance of insolvency might damage the central bank's credibility in preventing inflation. Depending on national legislation, the bank might have to seek recapitalization and/or budgetary assistance and approval from the legislative or executive branch of government, creating opportunities for bringing effective political pressures to bear on policy decisions.