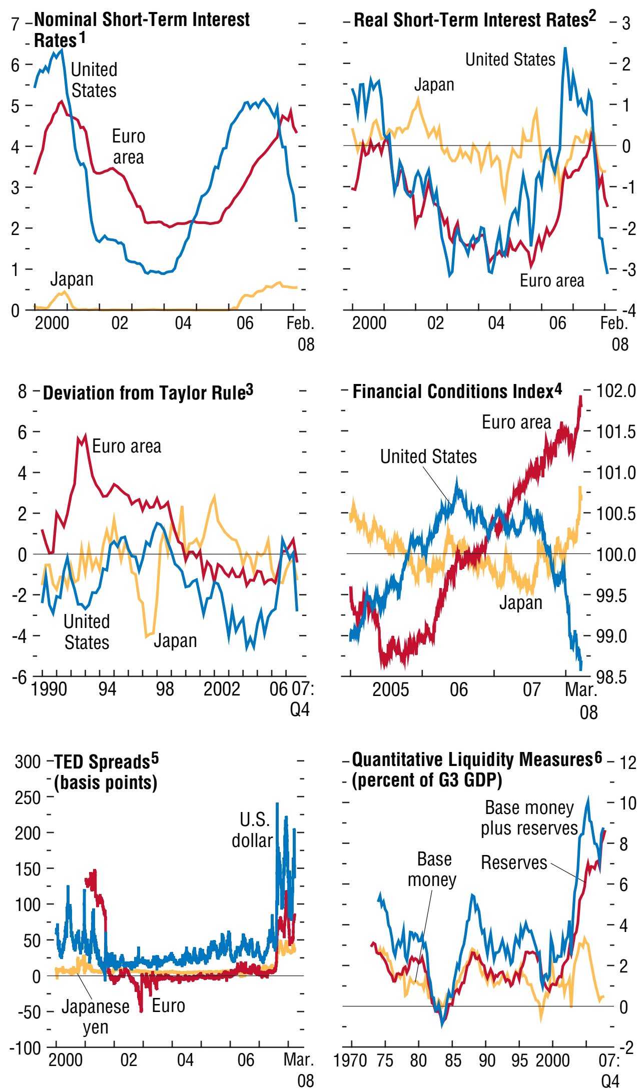
Figure 1.4. Measures of Monetary Policy and Liquidity

(Interest rates in percent unless otherwise noted)

Central banks have responded aggressively to a drying up of liquidity in interbank markets by providing large-scale access to short-term funding. The Federal Reserve responded to increasing downside risks to activity by cutting the federal funds rate rapidly, while the European Central Bank and the Bank of Japan have kept policy rates on hold.



Sources: Bloomberg Financial Markets; Eurostat; Haver Analytics; Merrill Lynch; OECD *Economic Outlook*; and IMF staff calculations.

[1]Three-month treasury bills.

[2]Relative to headline inflation. Measured as deviations from 1990–2007 average.

[3]The Taylor rate depends on (1) the neutral real rate of interest, which in turn is a function of potential output growth, (2) the deviation of consumer price inflation from the inflation target, and (3) the output gap. See Chapter 2 of the September 2004 *World Economic Outlook*.

[4]Weighted average of change in nominal effective exchange rate, overnight LIBOR, three-month LIBOR, 10-year government bond, and corporate high-yield bond rates. Weights estimated by IMF staff.

[5]Three-month LIBOR rate minus three-month government bill rate.

[6]Change over three years for euro area, Japan, and United States (G3), denominated in U.S. dollars.