



Cathy E. Minehan, President, with Paul M. Connolly, First Vice President

letter from the president

I have been told that while history is about much more than simply remembering dates, a few dates must be remembered to have any sense of history. Critical dates for the United States start with the July 1776 signing of the Declaration of Independence and include the beginning of the Civil War in 1860, the end of the First World War in 1918, December 7, 1941, and now, in some ways most tragically, September 11, 2001. Like our forefathers who lived through those other dates, we will always remember where we were on September 11, who we might have lost, and what happened to us personally. And most of all, we will remember that the world changed in some ways irrevocably.

Here at the Boston Fed, we joined with the other Reserve Banks and the Board of Governors in responding quickly and forcefully to the disruptions in payments, banking, and securities markets in the days after the terrorist attacks. As the nation's central bank, the Federal Reserve System provided the liquidity that kept the financial markets flowing. I am particularly proud of the role the Boston Fed played in ensuring that the key aspects of the national payments system for which we have responsibility, and our own services, operated without a hitch. Our staff's efforts and dedication were remarkable. Even now, as our attention is focused on

improvements that can and should be made to our contingency planning, the ongoing efforts of our Protection staff keep the Bank a safe place for employees, tenants, and visitors alike.

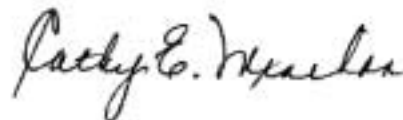
Throughout the region and the nation, resilience in the face of this enormous tragedy was the hallmark of 2001. The year was destined in any event to be a watershed of sorts. After the extraordinary economic expansion of the late 1990s, a slowdown emerged in 2000 and evolved into what now appears to have been a mild recession in 2001. A decline in capital spending after years of rapidly growing investment was the proximate cause of the downturn; our key trading partners weakened as we did, and the first global recession in some time occurred.

Here in New England, high-tech manufacturing and business services shed jobs as a red-hot labor market cooled, and urban and suburban commercial vacancy rates in the Boston area tripled. The aftermath of September 11 had been expected to worsen things considerably, and tourism, hotels, and airlines certainly experienced problems. But the strength of consumers and their unshakable confidence in the future of our region and our country came through. Aided by aggressive monetary policy easing and fiscal stimulus, U.S. consumers kept the economy going, and the productivity of U.S. businesses and workers kept future prospects bright. Everything changed in a fundamental way on September 11, but the strong underpinnings of the U.S. economy remained unchanged.

For some time now, we have used this Annual Report to discuss matters of importance to the Bank and areas in which the Bank is playing a key role. Our essays have looked at key policy issues, like trade and productivity, at matters of Federal Reserve macro policy responsibilities, like bank supervision, and at the payments services in which the System and the Bank play both a policy and an operational role.

The “Bank Highlights” section of this report describes our contributions to System leadership in 2001, as well as key local initiatives. The Boston Fed has a long history of community involvement. Our activities in this arena, including our economic education programs, are highlighted. In addition, this year’s essay focuses on community development and, specifically, on the role played by community development corporations in addressing housing, credit, and social services needs. CDCs have many accomplishments to their credit, but the challenges of inner city and rural development remain formidable.

In addition to the contributions of our officers and staff, the Bank owes a great deal to the many people from around the region who assist us by serving on our various advisory groups. Most important, the Bank’s board of directors provides input and guidance in all aspects of what we do. Three members of the board completed their terms this year. Robert Glauber, President and CEO of the National Association of Securities Dealers, Inc., and Terrence Murray, Chairman and CEO of FleetBoston, brought us valuable insights into financial markets and the banking industry. And we owe special thanks to William Brainard, Arthur Okun Professor of Economics at Yale University, for the insight and common sense he displayed as our chairman from 1997 through 2001. His leadership helped shape the Bank’s continuing evolution to better serve this region and the nation.

A handwritten signature in cursive script, appearing to read "Cathy E. Wheeler".