

Since opening to great fanfare in July 2003, the exhibit has told the story of central banking in the United States as it has never been told before. As we trace our roots through the exhibit, we provide a powerful reminder of the ingenuity, the political battles, and the colorful cast of characters that brought our nation's central bank to life.

Money in Motion: Change Abounds at the Fed

While the exhibit itself is a physical manifestation of the Federal Reserve's activities, there have also been many changes in the details of our work. In fact, 2003 was a year that involved intense change in our Reserve Bank on a number of fronts.

First, it marked our conversion to a new check processing platform. This transition was driven primarily by the need to install a uniform national platform for financial services across the Federal Reserve System. Also, a standardized platform facilitates our move toward the more modern payments system emerging out of recent legislation. Known as "Check 21," this act facilitates the use of new technology in check payments, creating a more efficient system of check collection and processing. First Vice President Bill Stone provides more details on this exciting new technology in a later section of this report.

This year also marked the introduction of the new \$20 bill. In addition to their new look and color, the new notes are safer, smarter, and more secure than ever before. The Treasury plans to issue a new \$50 bill this fall, and we are working hard to build awareness about currency authenticity and to combat counterfeiters.

Meanwhile, as credit cards, debit cards, and other new methods of payment become more popular and pervasive, the Philadelphia Fed's Payment Cards Center continues its work to provide meaningful insights into this emerging sector of the financial services industry.

Our economic education initiatives are yet another element of the ongoing efforts by the Federal Reserve Bank of Philadelphia to open its doors and help the public understand what we do. Around our District, we're helping young people understand the workings of the economy and the financial system. We're helping low- and moderate-income communities protect people from unscrupulous business practices and evaluate risks and alternatives. And we hold seminars and workshops here at the Bank to teach the importance of economic and financial education.

The Federal Reserve works as a stage manager for the financial system—critical to its smooth operation but entirely behind the scenes.

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Money in Motion: The Economy in Motion

A key part of the Federal Reserve's mission is to ensure the robust health of the U.S. economy. Our Research Department advances this effort through its in-depth analyses of the economy and innovative research on policy issues. The department's contributions to economic policymaking were supported by our third annual Policy Forum, which was held last fall and focused on "Managing the Recovery in Uncertain Times." The event brought together widely recognized experts from around the world to discuss the central policy issues that emerged during the ongoing recovery.

At the Philadelphia Fed, our outlook for this economic recovery is bright. The economic recovery is gaining traction, and we look forward to solid expansion in 2004, with GDP growing at a healthy pace and job growth accelerating as we move through the year. Meanwhile, inflation should remain subdued.

For the longer term, changes in technology and the globalization of markets will continue to present the U.S. economy with new challenges and new opportunities. By responding as we always have—with ingenuity and innovation—we will ensure continued improvement in living standards both here and around the world.

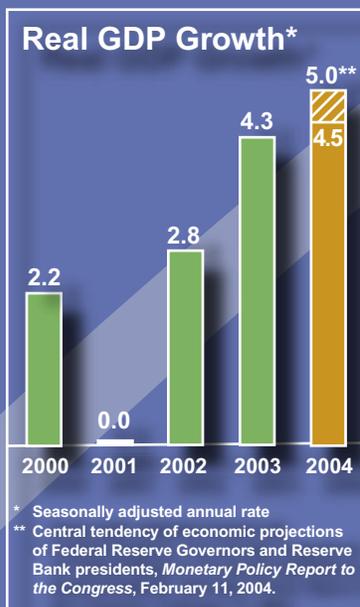
The Third District's economy weathered the recent business cycle reasonably well, and our region's economy continues to evolve along with the nation's. Looking ahead, we are well positioned to take advantage of the ongoing economic expansion.

As the expansion unfolds, monetary policy will begin returning to a more neutral stance. Likewise, the stage will be set for fiscal policy to pursue a more balanced posture. However, both these policy changes are likely to occur only slowly and in response to the acceleration of growth. In short, the U.S. economy is on the right path—a path of sustained growth with low inflation—and that is a good place to be.

Board of Directors

As always, we are truly grateful for the valuable contributions of all who assisted us in the past year. Special thanks go to our Board of Directors. Their role is critical to putting money in motion. Their broad experience and keen acumen allowed us to accomplish a great deal in 2003.

I am pleased to report the following election results:



Ronald J. Naples, chairman and CEO of Quaker Chemical Corporation, has been appointed Chairman of the Board, and Doris M. Damm, president and CEO of ACCU Staffing Services, was appointed Deputy Chairman.

We look forward to the insight and guidance of our newest Board members: William F. Hecht, chairman, president, and CEO of PPL Corporation, and Eugene W. Rogers, CEO and director of Newfield National Bank.

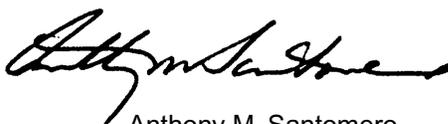
In addition, Rufus A. Fulton, Jr., chairman and CEO of Fulton Financial Corporation, has been reappointed to represent the Third District on the Federal Advisory Council to the Board of Governors.

Finally, we wish to offer our sincere thanks to those who completed their terms of service on our Board of Directors: our former Chairman Glenn A. Schaeffer, president emeritus of the Pennsylvania Building and Construction Trades Council, and Robert J. Vanderslice, president and COO of Pennsville National Bank.

Closing Thoughts

In closing, I want to point out that 2004 marks the 90th anniversary of an important date in central banking history. On November 16, 1914, the nation's 12 Federal Reserve Banks opened their doors for business. At the time, the Federal Reserve Bank of Philadelphia operated out of a modest two-room office at 4th and Chestnut streets. Ninety years have brought tremendous change. Throughout 2004, we will celebrate this milestone and honor the progressiveness of our forefathers in their classic example of addressing competing concerns—a decentralized central bank that successfully balances private and public interests.

We hope you enjoy this year's annual report, "Putting Money in Motion: Telling Our Story." It expresses the spirit in which we pursue new initiatives to strengthen our role as a central bank. Likewise, it explains the origins of our core convictions and commitments. But most important, it demonstrates our focus on helping our region continue to grow and prosper.



Anthony M. Santomero
President
April 2004

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