Appendix 2

Monetary Policies of the Central Banks of the Major Economies in the First Half of 2010

I. The U.S. Federal Reserve

At its regular meetings held on January 27, March 16, April 28 and June 23, the Federal Open Market Committee (FOMC) announced that the federal funds target rate would remain unchanged within a band between 0 and 0.25 percent.

As the financial market gradually resumed its functions, the Federal Reserve phased out the extraordinary liquidity support instruments designed for crisis assistance, with the exception of the Term Auction Facility (TAF). On February 1, the Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan, and the Swiss National Bank jointly put an end to the currency swap arrangements they had put in place during the financial crisis. On February 18, the Federal Reserve raised the discount rate to 0.75 percent, the first interest rate adjustment since December 2008. As a result, the spread between the discount rate and the federal funds target rate expanded to 0.5 percentage point. On April 30, the Federal Reserve announced to establish a Term Deposit Facility (TDF) as one of several tools that the Federal Reserve could employ to drain liquidity when policymakers judged that it was appropriate. However, the Federal Reserve emphasized that the development of the TDF was a matter of prudent planning and had no implication for the near-term conduct of monetary policy.

With the deepening of the European sovereign debt crisis, the Federal Reserve, the Bank of Canada, the Bank of England, the European Central Bank, and the Swiss National Bank announced the reestablishment of temporary U.S. dollar liquidity swap facilities. These facilities were designed to help improve liquidity conditions in U.S. dollar funding markets and prevent the spread of strains to other markets and financial centers. On May 10, the Federal Reserve reopened a dollar swap agreement with the Bank of Japan. On May 28, the Federal Reserve announced to have scheduled three small-value auctions of term deposits through its Term Deposit Facility (TDF) over the next two months. In the meantime, the Federal Reserve emphasized that these auctions were a matter of prudent planning and had no implications for the near-term conduct of monetary policy. On July 22, Chairman Bernanke presented the Semiannual Monetary Policy Report to the Committee on Financial Services of House of Representatives, and pointed out that the Fed anticipated that economic conditions were likely to warrant exceptionally low levels of the federal funds rate for an extended period. In addition, since the U.S. economy was still facing significant uncertainties, the Federal Reserve would continue to prudentially evaluate the current economic and financial conditions, and was ready to take further policy measures.

II. The European Central Bank

In the first half of 2010, the Governing Council of the European Central Bank (ECB) decided at its various regular meetings to keep the benchmark interest rates unchanged, the interest rate on the main refinancing operations, the marginal interest rate on the deposit facility and the marginal interest rate on the lending facility at 1.00 percent, 0.25 percent, and 1.75 percent respectively. At the regular meeting on March 4, the Governing Council of the ECB discussed how to gradually exit from the extraordinary operations and measures in view of the development of the economy and the financial market, and how to avoid distortions as a result of the prolonged use of extraordinary measures while continuing liquidity support to banks in the Euro zone on favorable terms. On May 10, in order to address the severe tensions in certain market segments, the Governing Council of the ECB decided to conduct interventions in the euro area public and private debt securities market, to reactivate the temporary liquidity swap lines with the Federal Reserve, and to adopt a fixed-rate tender procedure with full allotment in the regular 3-month and 6-month longer-term refinancing operations (LTROs), so as to meet the full liquidity demand of financial institutions. On June 30, the Governing Council of the ECB announced that it had fully completed the Covered Bond Purchase Programme (CBPP), which started in July 2009, and the purchase under the programme was EUR 60 billion in nominal value. The Eurosysetm central banks intended to keep the purchased covered bonds until maturity.

III. The Bank of Japan

In the first half of 2010, the Bank of Japan decided at its various regular meetings to keep the uncollaterized overnight call rate unchanged at 0.1 percent. On several occasions the Bank of Japan noted that Japan faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability and the in the conduct of monetary policy, the Bank of Japan will aim to maintain an extremely accommodative financial environment. On January 28, with improvements in financial market functioning, the Bank of Japan confirmed the expiration of its temporary liquidity swap line with the Federal Reserve, effective February 1, 2010. On March 17, the Bank of Japan decided to expand the measures that were introduced in December 2009 to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation, and increased the volume of money available to banks under the fixed-rate fund supply operation from 10 trillion yen to 20 trillion yen. On May 10, the Bank of Japan announced to reopen the U.S. dollar swap line with the Federal Reserve. On May 21, the Bank of Japan unveiled a new fund-provisioning framework to facilitate strengthening of the foundations for economic growth. On June 15, the Bank of Japan announced that, in accordance with the fund-provisioning measure, it would provide up to 3 trillion yen to financial institutions. The Bank of Japan expects that financial institutions will utilize the fund-provisioning measure appropriately and effectively, taking it as an opportunity to expand lending and investment to businesses that will contribute to raising productivity or creating new demand.

IV. The Bank of England

At regular meetings held in the first half of 2010, the Bank of England announced it would keep the official rate of 0.5 percent unchanged, and maintain the asset purchase program of GBP 200 billion. On May 10, in response to deepening of the European sovereign debt crisis, the Bank of England reopened the currency swap line with the Federal Reserve.