Appendix 2 Monetary Policies of the Central Banks of the Major Economies in 2008

I. The U.S. Federal Reserve

From January to April, in order to facilitate the economic recovery from the credit crunch and the depressed real estate market, the Federal Open Market Committee (FOMC) cut the federal funds target rate on four occasions by 225 basis points to 2 percent, and lowered the discount rate on five occasions by 250 basis points to 2.25 percent. On January 22, the FOMC cut the federal funds target rate and the discount rate, each by 75 basis points, to 3.5 percent and 4 percent respectively. On January 30, the FOMC decided to cut the federal funds rate and the discount rate by 50 basis points respectively. On March 16, the FOMC approved an emergency 25-basis-point cut in the discount rate to 3.25 percent. On March 18 and April 30, the FOMC cut the federal funds target rate and the discount rate by 75 basis points and 25 basis points to 2 percent and 2.25 percent respectively. In the opinion of the FOMC, the creation of a relatively accommodative monetary-policy environment by cutting interest rates and increasing market liquidity will help alleviate risks and maintain modest economic growth.

Thereafter, in light of the coexistence of the downside risks of economic growth and the growing inflation risks, the FOMC decided at its June 25, August 5, and September 16 regular meetings to keep the interest rates unchanged. The FOMC stated that it would closely follow economic and financial developments and would take measures when necessary to promote sustainable economic growth and price stability.

In the context of the deepening international financial crisis and the heightening risk of an economic recession, the Fed, in collective action with the European Central Bank (ECB), the Bank of England, the Bank of Canada, Sveriges Riksbank (the Central Bank of Sweden), and the Swiss National Bank, announced a cut in interest rates by 50 basis points respectively on October 8, and thus the federal funds target rate and discount rate were reduced to 1.5 percent and 1.7 percent respectively. Thereafter, the Fed lowered the federal funds target rate and discount rate, each by 50 basis points, to 1 percent and 1.25 percent respectively. On December 16, the Fed set the federal funds rate within a band of 0-0.25 percent for the first time, and reduced the discount rate to 0.5 percent.

In addition to cutting the federal funds target rate and the discount rate, the Fed injected considerable liquidity into the market by extending the term of lending, expanding the scope of eligible collateral, increasing counterparts, and cutting lending costs, in a bid to deal with the persistent credit squeeze.

II. The European Central Bank

In the first half of 2008 the Governing Council of the European Central Bank (ECB) decided to leave unchanged the minimum bid rate on the main refinancing operations, the marginal interest rate on the deposit facility, and the marginal interest rate on the lending facility at 4 percent, 3 percent, and 5 percent respectively. In the ECB's opinion, although GDP growth slowed somewhat, the current economic fundamentals were sound and the economy continued to grow, and uncertainties over the potential impact of financial market risks on the real economy still existed. Due to energy and food price hikes, inflation had grown rapidly since autumn 2007, and due to the rapid growth of money and credit, upside risks to price stability over the medium term intensified. Against this backdrop, the ECB will consider maintaining price stability as its main objective. To this end, it will closely monitor economic and financial developments within the area, formulate a relevant monetary policy, and take effective and prompt precautionary measures to ensure that the second round of impacts of the price hikes and the upside risks for medium-term inflation will not materialize.

Based on the judgment that upside risks to price stability over the medium term had intensified, and to prevent a second round of impacts of the price hikes and the upside risks for medium-term inflation from materializing, after its regular meeting on July 2 the ECB Governing Council announced an interest rate rise of 25 basis points, raising the minimum bid rate on the main refinancing operations, the marginal interest rate on the deposit facility, and the marginal interest rate on the lending facility to 4.25 percent, 3.25 percent, and 5.25 percent respectively. At its subsequent regular meetings on August 7, September 4, and October 2 the Governing Council decided that the rates would remain unchanged.

Facing higher risks of economic recession and lower pressures of inflation, the ECB cut the minimum bid rate on main refinancing operations by 175 basis points on three consecutive occasions at its regular meetings on October 8, November 6, and December 4, and lowered the minimum bid rate on main refinancing operations, the marginal interest rate on the deposit facility, and the marginal interest rate on the lending facility to 2.50 percent, 2.00 percent, and 3.00 percent respectively.

In addition to interest rate adjustments, in order to ease the liquidity shortage in the euro zone market, the ECB conducted conventional open market operations and carried out a number of other non-conventional operations, including fine-tuning operations, longer-term refinancing operations, and dollar loan auctions through the Term Auction Facility (TAF).

III. The Bank of Japan

At its regular meetings in the first nine months of 2008, the Bank of Japan decided to leave the uncollateralized overnight call rate unchanged at 0.5 percent. In the opinion of the Bank of Japan, economic growth had been sluggish due to the effects of the earlier increases in the prices of energy and raw materials and the weaker growth of exports. Although there were substantial uncertainties, in the longer run as commodity prices stabilize and the world economic slowdown moderates, inflation will gradually decline and the economy will likely return to a sustainable growth path with price stability. On the basis of careful assessments of various risk factors in the economy and prices, the Bank of Japan will implement corresponding policies in a flexible manner.

As the international financial crisis worsened, the Bank of Japan took a series of measures, including open market operations, accommodating liquidity facilities, expanding the size of the USD/JPY swap, providing guarantees to more entities, freezing the sale of stocks of financial institutions held by the Bank of Japan, and paying interest on excess reserves of financial institutions, in a bid to enhance the capacity of liquidity provision. In addition, the Bank of Japan reduced the uncollateralized overnight call rate by 20 basis points on two occasions respectively, on October 31 and December 19, to 0.1 percent.

IV. The Bank of England

On February 7 and April 10, the Monetary Policy Committee of the Bank of England cut the official bank rate by 25 basis points respectively to 5 percent. The Committee pointed out that credit conditions were tightening, property prices were sliding, and there was lack of consumer confidence. Although the increases in the prices of energy and food and the costs of imports were expected to raise inflationary pressures, the market turmoil would result in slower growth, which would in turn curb inflation. The Monetary Policy Committee of the Bank of England believed that a moderate interest-rate cut could balance the risks of slower growth and price hikes.

At the following meetings between May and September, the Monetary Policy Committee of the Bank of England decided to leave the official rate unchanged at 5 percent.

As the international financial crisis worsened, the Monetary Policy Committee of the Bank of England increased the intensity and frequency of interest rate cuts beginning in October, lowering the official rate on three occasions respectively on October 8, November 6, and December 4 by a cumulative 300 basis points to 2 percent.