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

I. The U.S. Federal Reserve

In the first three quarters of 2008 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 respectively to 2 percent and 2.25 percent. 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 downside risks and growing inflation risks, the FOMC decided at its 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 when necessary would take measures to promote sustainable economic growth and price stability.

In addition to cutting the federal funds target rate and the discount rate, the Fed injected considerable liquidity into the market through innovative liquidity management instruments in a bid to deal with the persistent credit squeeze. In the first three quarters, the Fed launched the Term Securities Lending Facility (TSLF), the Primary Dealer Credit Facility (PDCF), and other liquidity management tools, and provided non-recourse loan support to depository institutions and bank holding companies to purchase asset-backed commercial papers (ABCP) from money market mutual funds in order to pump capital into the market.

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, although uncertainties over the potential impact of financial market risks to the real economy still existed. Due to energy and food price hikes, inflation grew rapidly since autumn 2007. 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 mandate. To this end, it will closely monitor economic and financial developments within the area, formulate relevant monetary policies, and take firm and prompt precautionary measures to ensure that a second-round of impacts of the price hikes and the upside risks to mid-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 to mid-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 next regular meetings on August 7 and September 4 the Governing Council decided that the rates would remain unchanged.

In addition to the interest rate adjustment, 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

In the first three quarters 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 earlier increases in the prices of energy and materials and weaker growth of exports. Although there were substantial uncertainties, in the longer run as the effects of the earlier increases in the prices of energy and materials abate and the overseas economies move out of their deceleration phase, the economy is likely to return to a sustainable growth path with price stability. The Bank of Japan will carefully assess the future outlook for economic activities and prices, closely considering the likelihood of its projections as well as factors posing upside or downside risks, and it will implement corresponding policies in a flexible manner.

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 a 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 and 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 the leave the official bank rate unchanged at 5 percent.