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

I. The Federal Reserve of the U.S.

In the first half 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. This was the first emergency rate cut since 2001, and also the largest one-time decrease in the federal funds rate since 1984. On January 30, the FOMC decided to cut the federal funds rate and discount rate by 50 basis points respectively. On March 16, the FOMC approved an emergency 25-basis-point decrease in the discount rate to 3.25 percent. On March 18 and on 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, recent information indicated unfavorable economic prospects. Growth in consumer spending slowed and labor markets softened. Financial markets remained under considerable stress, and credit tightening and deepening of the housing contraction were likely increase downside risks over the next few quarters. In the meanwhile, inflation risks increased, and some indicators of inflation expectations moved up. The FOMC expected inflation to moderate in the coming quarters, reflecting a projected leveling-out of energy and other commodities prices, though it still faced major uncertainties. In the opinion of the FOMC, the creation of a relatively accommodative monetary policy environment by cutting interest rates and increasing market liquidity would help alleviate risks and maintain modest economic growth. The Committee will act in a timely manner as needed by the economic and inflation situations.

The Fed has made a series of improvements and innovations to monetary policy instruments, e.g., extending borrowing maturity, expanding the range of eligible collaterals and counter parties, and decreasing borrowing costs, so as to boost market liquidity. First, on March 26, 2008, the maturity of discount window borrowing of eligible depository institutions was extended from 30 days to 90 days. Second, on March 11, 2008, the Fed launched the Term Securities Lending Facility (TSLF), enabling primary dealers to borrow government securities from the Fed with low-liquidity securities as a pledge. The TSLF has a maturity of 28 days, and the interest rate is determined as a result of an auction. Third, on March 16, the Fed activated the Primary Dealer Credit Facility (PDCF), allowing primary dealers to borrow overnight funds from the Fed with an interest rate acceptable to discount windows, and with a range of collaterals wider than that applied to repo transactions in the open market. Fourth, on March 11, the Fed increased the ceilings of currency swaps with the European Central Bank and the Swiss National Bank from USD 20 billion and USD 4 billion respectively to USD 30 billion and USD 6 billion, and the maturity was extended to September 30. On May 2, the ceilings were further increased to USD 50 billion and USD 12 billion respectively, and the maturity was further extended to January 30, 2009.

II. The European Central Bank

In the first half of 2008, the European Central Bank (ECB) Governing Council decided to leave 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 unchanged at 4 percent, 3 percent, and 5 percent respectively. In the ECB's opinion, although the growth of GDP slowed down somewhat, the current economic fundamentals were sound and the economy continued to grow, although uncertainties over the potential impact of financial market risks on the real economy still existed. Due to energy and food prices 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, the ECB will closely monitor economic and financial developments within the area, formulate a relevant monetary policy, 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.

III. The Bank of Japan

In the first half 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, the price hikes of energy and food increased the downside risks for economic growth, and uncertainties in the financial market still existed, so that an accommodative financial environment had to be maintained for the time being, and future decision-making will depend on observation and judgment of the economic and price movements.

IV. The Bank of England

On February 7 and April 10, the Bank of England cut the official bank rate by 25 basis points 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 financial market turmoil will result in slower growth and will curb inflation. The Monetary Policy Committee believed that a moderate interest-rate cut could balance the risks of slower growth and price hikes.