

MONETARY POLICY

Central banks across the OECD area have responded to the crisis in an unprecedented way, both by ways of conventional cuts in the policy rates regulating access to central banks' credit, and by expanding their balance sheets through unconventional measures.

Definition

Policy rates are those regulating the main refinancing operations of central banks. Data refers to the target range set by the US Federal Reserve for its federal fund rates; to the short-term policy rates of the Bank of Japan; to the rate on the main refinancing operation of the European Central Bank; and to the official interest rate of the Bank of England. Also shown in the figures are the overnight rates on the money market.

Overview

Most countries have used monetary policy in the aftermath of the crisis to stimulate aggregate demand. The stimulus from monetary policy has taken two main forms.

First, central banks have reduced rapidly their policy rates since the onset of the recession. The US Federal Reserve has established a target range for its Federal Reserve rate of 0% to 0.25% since December 2008, communicating its intention to keep rates exceptionally low for an extended period. The Bank of Japan used its (already limited) room for manoeuvre to cut policy rates to 0.1%, while the Bank of England lowered its policy rates to 0.5%. The European Central bank cut its main policy rate less aggressively, lowering its rate on the main refinancing operation to 1%. Other OECD and non-OECD countries have also substantially eased their policy rates. These reductions in policy rates have translated in similar reductions in governing rates on money markets, which reached negative levels in real terms.

Second, as most major central banks exhausted the room for further reduction in policy rates, the focus of monetary policy has shifted to more unconventional measures to support the functioning of financial markets. These unconventional measures to expand the supply of credit have generally taken the form of provision to banks of greater access to liquidity than would normally be required to keep market short-term rates in line with policy targets; of expanding money supply through quantitative easing and the creation of excess reserves; and of direct interventions in broader segments of credit markets (beyond the traditional counterparty of banks) aimed at easing overall credit conditions in the economy.

All these unconventional measures resulted in a significant expansion of central banks' balance sheets, particularly in the United States and the United Kingdom.

Monetary conditions are expected to remain loose until firm evidence of a recovery in economic activity takes hold. A few countries, such as Australia, Norway and Israel took steps to raise their policy rates in the second half of 2009.

Data on central banks' balance sheets are expressed in national currency and are drawn from Datastream, as available on 11, June 2009.

Comparability

Data on policy rates and central banks' balance sheets are drawn from official sources and have a high degree of comparability. They may however correspond to different degrees of easing in market conditions, depending on regulations restricting access to central banks' credit facilities.

Sources

- OECD (2009), *OECD Economic Outlook: June No. 85 – Volume 2009 Issue 1*, OECD, Paris.
- Thomson Reuters Datastream.

Further information Analytical publications

- Minegishi, M., B. Cournède (2009), *The role of transparency in the conduct of monetary policy*, OECD Economics Department Working Papers, No. 724, OECD, Paris.

Statistical publications

- OECD (2010), *Main Economic Indicators*, OECD, Paris.

Online databases

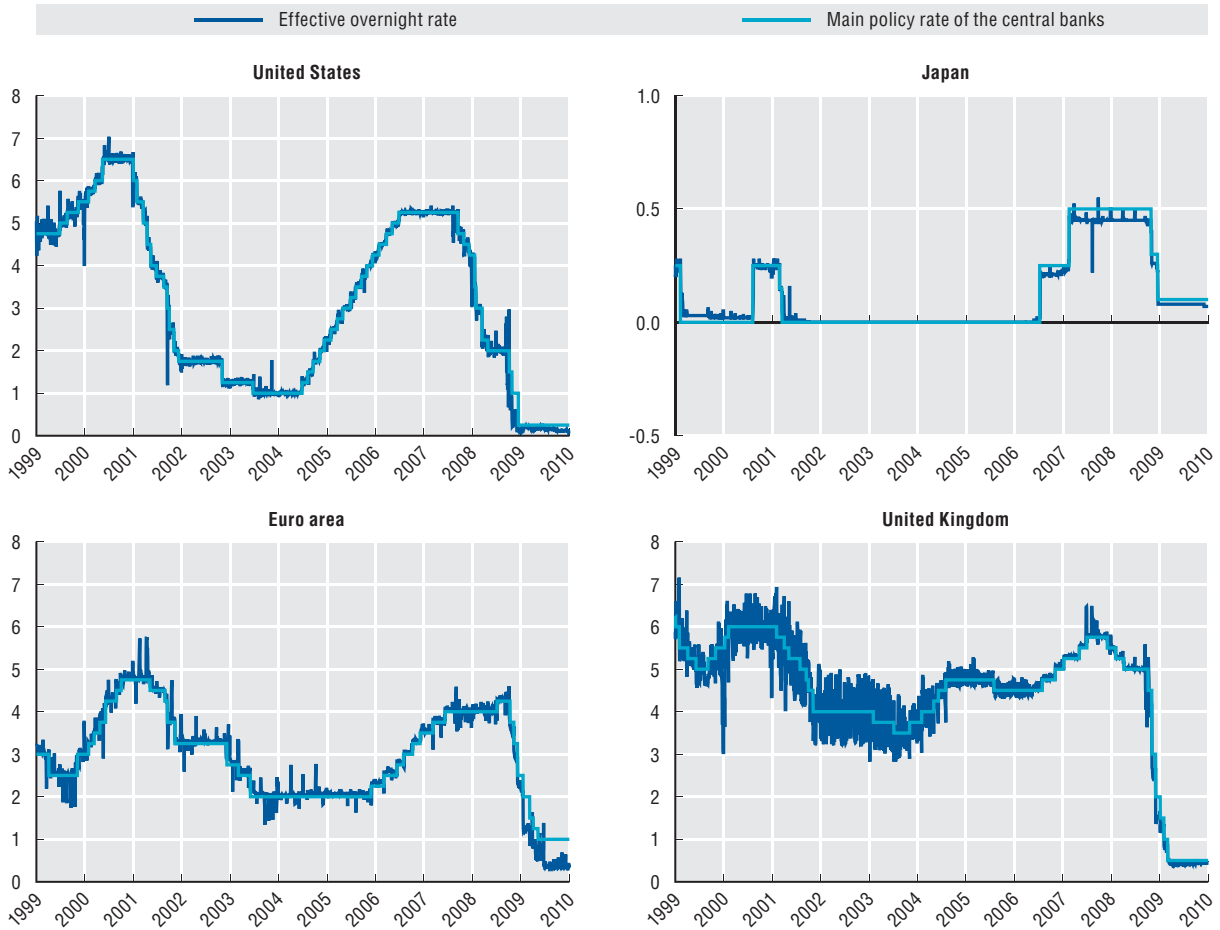
- *Main Economic Indicators*.

Web sites

- OECD Economic Outlook, www.oecd.org/OECD/EconomicOutlook.
- OECD Main Economic Indicators, www.oecd.org/std/mei.

Policy interest rates in major OECD economies

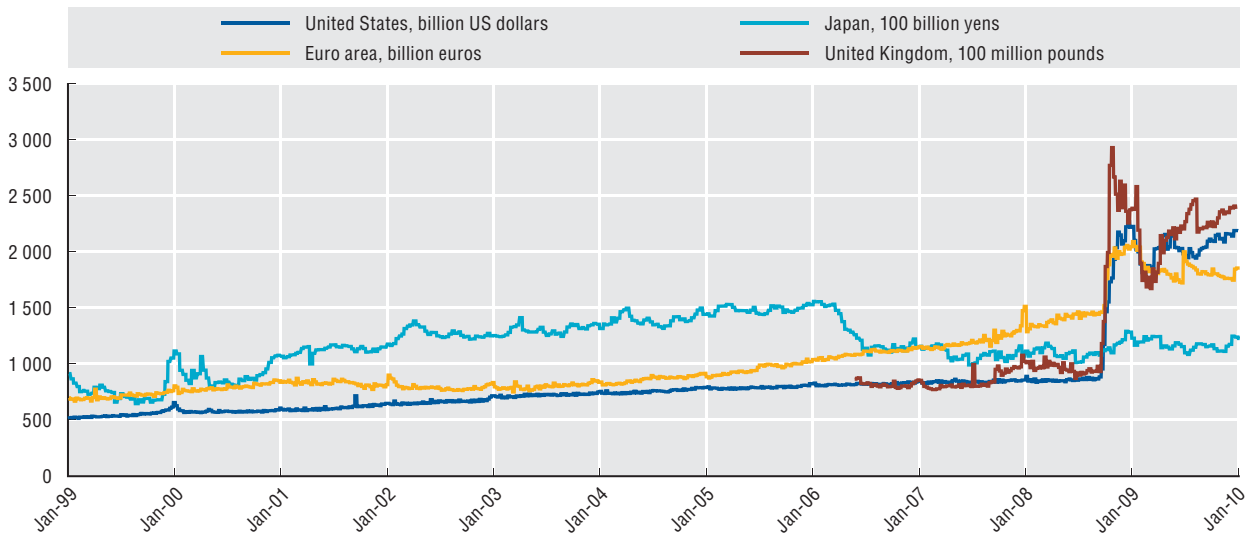
Percentage



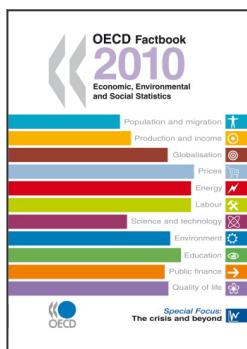
StatLink <http://dx.doi.org/10.1787/823483764355>

Expansion of central banks' balance sheets

National currencies



StatLink <http://dx.doi.org/10.1787/823485026712>



From:
OECD Factbook 2010
Economic, Environmental and Social Statistics

Access the complete publication at:
<https://doi.org/10.1787/factbook-2010-en>

Please cite this chapter as:

OECD (2010), "Monetary Policy", in *OECD Factbook 2010: Economic, Environmental and Social Statistics*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/factbook-2010-107-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.