Meeting of the Federal Open Market Committee
August 5, 2008 Presentation Materials -- Text Version

Appendix 1: Materials used by Mr. Dudley
Class II FOMC - Restricted FR

Page 1

Top panel
(1)

Title: U.S. Equity Indices
Series: S&P 500 Index, Nasdaq Index, and S&P 500 Financials Index
Horizon: August 1, 2007 - August 1, 2008
Description: U.S. equity indices stabilize. S&P 500 Financials Index recovers modestly.
Source: Bloomberg

Middle panel
(2)

Title: Global Equity Indices
Series: DJ Euro Stoxx, Japan Topix, and MSCI Emerging Markets
Horizon: August 1, 2007 - August 1, 2008
Description: Global equity indices stabilize.
Source: Bloomberg

Page 2

Top panel
(3)

Title: Global Credit Default Swap Spreads
Series: ITRAXX Crossover Series 7 and Baa CDS spread
Horizon: August 1, 2007 - August 1, 2008
Description: ITRAXX Crossover and Baa CDS spread stabilize at elevated levels.
Source: Bloomberg, Lehman Brothers

Middle panel
(4)
Title: Asset-Backed Security Spreads
Series: AAA-Rated ABS Spreads for 3-Year Auto Loans, 5-Year Credit Card Loans, and 3-Year FFELP Student Loans
Horizon: August 1, 2007 - August 1, 2008
Description: Asset-backed security spreads for auto loans, credit card loans, and student loans widen during the intermeeting period.

Source: JPMorgan Chase

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Top panel
(5) Correlation of Daily Asset Price Changes

July 1, 2008 - August 1, 2008
Blue boxes denote correlations greater than 0.50 or less than -0.50

<table>
<thead>
<tr>
<th>Variables</th>
<th>2YR Yield</th>
<th>10YR Yield</th>
<th>S&amp;P</th>
<th>USD/JPY</th>
<th>10YR Swap Spreads</th>
<th>VIX</th>
<th>CDX IG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2YR Yield</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>10YR Yield</td>
<td>0.92</td>
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</tr>
<tr>
<td>S&amp;P</td>
<td>0.61</td>
<td>0.56</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD/JPY</td>
<td>0.49</td>
<td>0.44</td>
<td>0.67</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>10YR Swap Spreads</td>
<td>-0.10</td>
<td>0.06</td>
<td>-0.12</td>
<td>0.21</td>
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<td></td>
</tr>
<tr>
<td>VIX</td>
<td>-0.47</td>
<td>-0.45</td>
<td>-0.90</td>
<td>-0.54</td>
<td>0.20</td>
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<td></td>
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<tr>
<td>CDX IG</td>
<td>0.44</td>
<td>0.38</td>
<td>0.62</td>
<td>0.25</td>
<td>-0.61</td>
<td>-0.67</td>
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</tr>
<tr>
<td>Merrill-HY</td>
<td>-0.71</td>
<td>-0.63</td>
<td>-0.39</td>
<td>-0.42</td>
<td>-0.03</td>
<td>0.26</td>
<td>-0.23</td>
</tr>
</tbody>
</table>

Source: Bloomberg, JPMorgan Chase

Middle panel
(6) Correlation of Daily Asset Price Changes

March 1, 2008 - April 1, 2008
Blue boxes denote correlations greater than 0.50 or less than -0.50

<table>
<thead>
<tr>
<th>Variables</th>
<th>2YR Yield</th>
<th>10YR Yield</th>
<th>S&amp;P</th>
<th>USD/JPY</th>
<th>10YR Swap Spreads</th>
<th>VIX</th>
<th>CDX IG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2YR Yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10YR Yield</td>
<td>0.90</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>S&amp;P</td>
<td>0.87</td>
<td>0.77</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD/JPY</td>
<td>0.90</td>
<td>0.80</td>
<td>0.86</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10YR Swap Spreads</td>
<td>-0.23</td>
<td>-0.01</td>
<td>-0.26</td>
<td>-0.07</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIX</td>
<td>-0.81</td>
<td>-0.73</td>
<td>-0.94</td>
<td>-0.85</td>
<td>0.14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, JPMorgan Chase
### Page 4

**Top panel**  
(7)

**Title:** Equity Volatility  
**Series:** Average Equity Price Volatility for GSEs, Investment Banks, and Regional Banks  
**Horizon:** August 1, 2007 - August 1, 2008  
**Description:** Equity price volatility for GSEs, investment banks, and regional banks increases sharply.  
* Volatility computed as a 1-month standard deviation of the daily percent change in equity price.  
Source: Bloomberg

**Middle panel**  
(8)

**Title:** Option-Implied Volatility Skew Indicates Downside Risk at Elevated Levels*  
**Series:** Option-Implied Volatility Skew for S&P 500 and Financial ETF  
**Horizon:** August 1, 2007 - August 1, 2008  
**Description:** Option-implied volatility skew is positive.  
* Implied Volatility Skew computed as the difference between implied volatility on the 1-month 25 delta put and 1-month 25 delta call options.  
Source: Bloomberg

### Page 5

**Top panel**  
(9)

**Title:** Fannie Mae Discount Note Auctions  
**Series:** Stop-Out Rate Spread to OIS for 3- and 6-Month Fannie Mae Discount Note Auctions  
**Horizon:** January 1, 2008 - July 30, 2008  
**Description:** The stop-out rate spreads to the overnight index swap rate in the 3- and 6-month Fannie Mae discount note auctions have been increasing since May 2008.  
Source: Fannie Mae

**Middle panel**  
(10)

**Title:** Freddie Mac Discount Note Auctions  
**Series:** Stop-Out Rate Spread to OIS for 3- and 6-Month Freddie Mac Discount Note Auctions

---

<table>
<thead>
<tr>
<th>Variables</th>
<th>2YR Yield</th>
<th>10YR Yield</th>
<th>S&amp;P</th>
<th>USD/JPY</th>
<th>10YR Swap Spreads</th>
<th>VIX</th>
<th>CDX IG</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>0.82</td>
<td>0.69</td>
<td>0.81</td>
<td>0.75</td>
<td>-0.44</td>
<td>-0.75</td>
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<tr>
<td>Merrill-HY</td>
<td>-0.84</td>
<td>-0.80</td>
<td>-0.66</td>
<td>-0.77</td>
<td>-0.08</td>
<td>0.61</td>
<td>-0.73</td>
</tr>
</tbody>
</table>

Source: Bloomberg, JPMorgan Chase
Horizon: January 1, 2008 - August 4, 2008
Description: The stop-out rate spreads to the overnight index swap rate in the 3- and 6-month Freddie Mac discount note auctions have been increasing since May 2008.
Source: Freddie Mac

Bottom panel (11)
Title: Agency Debt Spreads
Series: Fannie Mae 5- and 10-Year Debt Spreads and Freddie Mac 5- and 10-Year Debt Spreads
Horizon: March 1, 2008 - August 1, 2008
Description: Agency debt spreads are relatively unchanged over the intermeeting period.
Source: Bloomberg

Page 6
Top panel (12)
Title: Mortgage Option Adjusted Spreads
Series: Mortgage Option Adjusted Spreads to Treasury Yield, Agency Debt, and Interest Rate Swap
Horizon: January 1, 2007 - August 1, 2008
Description: Mortgage option adjusted spreads increase during the intermeeting period.
Source: Lehman Brothers

Bottom panel (13) Federal Reserve Term Securities Lending Facility Results
March 28, 2008 - July 31, 2008

<table>
<thead>
<tr>
<th>Auction Settlement</th>
<th>Term</th>
<th>Collateral</th>
<th>Amount</th>
<th>Minimum Fee Rate</th>
<th>Stop-out Rate</th>
<th>Propositions</th>
<th>Bid/Cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/28/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$75 b</td>
<td>0.25%</td>
<td>0.33%</td>
<td>$86.1 b</td>
<td>1.15</td>
</tr>
<tr>
<td>4/4/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.16%</td>
<td>$46.9 b</td>
<td>1.88</td>
</tr>
<tr>
<td>4/11/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$40.0 b</td>
<td>0.68</td>
</tr>
<tr>
<td>4/18/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.10%</td>
<td>$35.1 b</td>
<td>1.40</td>
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<tr>
<td>4/25/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$75 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$59.5 b</td>
<td>0.79</td>
</tr>
<tr>
<td>5/2/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.10%</td>
<td>$24.1 b</td>
<td>0.96</td>
</tr>
<tr>
<td>5/9/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$28.7 b</td>
<td>0.58</td>
</tr>
<tr>
<td>5/16/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.10%</td>
<td>$7.2 b</td>
<td>0.29</td>
</tr>
<tr>
<td>5/23/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$75 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$46.1 b</td>
<td>0.62</td>
</tr>
<tr>
<td>5/30/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.10%</td>
<td>$16.4 b</td>
<td>0.66</td>
</tr>
<tr>
<td>6/6/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$26.9 b</td>
<td>0.54</td>
</tr>
<tr>
<td>6/13/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.10%</td>
<td>$27.2 b</td>
<td>1.09</td>
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<tr>
<td>6/20/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$75 b</td>
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<td>0.25%</td>
<td>$36.8 b</td>
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<tr>
<td>6/27/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.11%</td>
<td>$15.4 b</td>
<td>0.62</td>
</tr>
</tbody>
</table>
### Page 7

**Top panel**

(14)

**Title:** One-Month Libor-OIS Spreads  
**Series:** Spreads between One-Month Libor Rates and One-Month Overnight Index Swap Rates for U.S., U.K., and Euro Area  
**Horizon:** July 1, 2007 - August 1, 2008  
**Description:** Spreads between one-month Libor rates and one-month overnight index swap rates decline in the U.K. and stabilize in the U.S. and Euro area.

Source: Bloomberg

### Middle panel

(15)

**Title:** Three-Month Libor-OIS Spreads  
**Series:** Spreads between Three-Month Libor Rate and Three-Month Overnight Index Swap Rates for U.S., U.K., and Euro Area  
**Horizon:** July 1, 2007 - August 1, 2008  
**Description:** Spreads between three-month Libor rates and three-month overnight index swap rates decline in the U.K. and stabilize in the U.S. and Euro area.

Source: Bloomberg

### Bottom panel

(16)

**Title:** Forward Three-Month Libor-OIS Spreads  
**Series:** Forward spreads between three-month Libor rate and three-month overnight index swap rates in the U.S. for the 1-2 Year Horizon and the 2-3 Year Horizon  
**Horizon:** July 1, 2007 - August 1, 2008  
**Description:** The spread between the three-month Libor rate and the three-month overnight index swap rate over 1-2 year and 2-3 year horizons have increased.

Source: Reuters

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### Page 8

**Top panel**

<table>
<thead>
<tr>
<th>Auction Settlement</th>
<th>Term</th>
<th>Collateral</th>
<th>Amount</th>
<th>Minimum Fee Rate</th>
<th>Stop-out Rate</th>
<th>Propositions</th>
<th>Bid/Cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/7/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$26.1 b</td>
<td>0.52</td>
</tr>
<tr>
<td>7/11/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.10%</td>
<td>$21.3 b</td>
<td>0.85</td>
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<tr>
<td>7/18/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$51.8 b</td>
<td>0.69</td>
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<tr>
<td>7/25/2008</td>
<td>28 Days</td>
<td>Schedule 1</td>
<td>$25 b</td>
<td>0.10%</td>
<td>0.12%</td>
<td>$51.7 b</td>
<td>2.07</td>
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<tr>
<td>7/31/2008</td>
<td>28 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.25%</td>
<td>0.25%</td>
<td>$28.1 b</td>
<td>0.56</td>
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</tbody>
</table>

Source: Federal Reserve Bank of New York
Title: TAF Auction Results
Series: TAF Bid-to-Cover Ratio and Spread between the TAF Stop-Out Rate and Minimum Bid Rate
Horizon: December 20, 2007 - July 31, 2008
Description: Both the bid-to-cover ratio and spread between the TAF stop-out rate and the minimum bid rate have stabilized since June.
Source: Federal Reserve Board

Title: Central Bank Term Funding Facilities' Bid-to-Cover Ratios
Series: Bid-to-cover ratios for the Federal Reserve Term Auction Facility, the European Central Bank foreign exchange swap line, and the Swiss National Bank foreign exchange swap line
Horizon: December 20, 2007 - July 31, 2008
Description: The bid-to-cover ratio in the European Central Bank U.S. dollar auctions increases, while the bid-to-cover ratio in the Federal Reserve TAF auctions stabilizes.
Source: Federal Reserve Board, European Central Bank, Swiss National Bank

Title: Composition of Federal Reserve's Balance Sheet
Series: Federal Reserve's Permanent SOMA Holdings, Long-Term RPs*, Short-Term RPs, and Other Liquidity Programs
Horizon: August 1, 2007 - December 31, 2008
Description: Permanent SOMA holdings decline with the introduction of the Federal Reserve's liquidity programs.
* RPs with an original maturity of at least 7 days are long-term. Return to text
Note: The sum of all components equals net autonomous factors plus reserve balances
Source: Federal Reserve Bank of New York

Title: Other Liquidity Programs Component of Federal Reserve's Balance Sheet
Series: Federal Reserve's Primary Dealer Credit Facility, Primary Credit Facility, Term Auction Facility, FX Swaps, and Single Tranche Repo
Horizon: August 1, 2007 - December 31, 2008
Description: The other liquidity programs' component of the Federal Reserve's balance sheet grows over the last year.

Bottom panel
Permanent SOMA Component of Federal Reserve's Balance Sheet

Series: Federal Reserve's Outright Holdings, Term Securities Lending Facility, Term Securities Lending Facility Options, Securities Lending, and Foreign RP Pool

Horizon: August 1, 2007 - December 31, 2008

Description: Permanent SOMA component of the Federal Reserve's balance sheet declines over the last year.

Source: Federal Reserve Bank of New York

Fed Funds Futures Curves


Horizon: April 29, 2008 - August 4, 2008

Description: The fed funds futures curve has shifted down and flattened since the June FOMC meeting.

Source: Bloomberg

Eurodollar Futures Curves


Horizon: April 29, 2008 - August 4, 2008

Description: The Eurodollar futures curve has shifted lower since the June FOMC meeting.

Source: Bloomberg

Distribution of Expected Policy Target Rate Among Primary Dealers Prior to August 5 FOMC Meeting

Series: Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 7/28/2008

Horizon: 2008:Q3 - 2009:Q4

Description: On average, primary dealers expect slightly lower policy rates than what is currently priced into Eurodollar futures.

Source: Dealer Policy Survey

Distribution of Expected Policy Target Rate Among Primary Dealers Prior to June 25 FOMC Meeting

Series: Dealer expectations for policy target rate by quarter, average forecast for policy target by
quarter, and market rate for policy expectation by quarter as of 6/16/2008

**Horizon**: 2008:Q3 - 2009:Q4

**Description**: On average, primary dealers expect lower policy rates than what was priced into Eurodollar futures at the time of the June FOMC meeting.

Source: Dealer Policy Survey

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**Top panel**

(26)

**Title**: Probabilities for Policy Rate Outcomes: August FOMC Meeting

**Series**: Probabilities for a 1.75, 2.00, 2.25, 2.50, or 2.75 percent target rate at the August FOMC meeting

**Horizon**: June 1, 2008 - July 31, 2008

**Description**: At the time of the August 5th FOMC meeting, options on fed funds futures suggested a 2.00 percent target rate following the August 5th FOMC meeting was the most likely outcome.

Source: Federal Reserve Bank of Cleveland

**Middle panel**

(27)

**Title**: Probabilities for Policy Rate Outcomes: September FOMC Meeting

**Series**: Probabilities for a 1.75, 2.00, 2.25, 2.50, 2.75, or 3.00 percent target rate at the September FOMC meeting

**Horizon**: June 1, 2008 - July 31, 2008

**Description**: At the time of the August 5th FOMC meeting, options on fed funds futures suggested a 2.00 percent target rate following the September 16th FOMC meeting was the most likely outcome.

Source: Federal Reserve Bank of Cleveland

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**Top panel**

(28)

**Title**: Commodity Prices

**Series**: GSCI Spot, Energy, Agriculture, and Industrial Metals Indices

**Horizon**: January 1, 2008 - August 1, 2008

**Description**: Commodity prices decline since the June FOMC meeting.

Source: Bloomberg

**Middle panel**

(29)

**Title**: Spread Between Nominal and Inflation Protected Treasury Yields

**Series**: Five- and Ten-Year Spreads between Nominal and Inflation Protected Treasury Yields

**Horizon**: January 1, 2007 - August 1, 2008

**Description**: The spreads between 5- and 10-year nominal and inflation-protected Treasury yields decline since the June FOMC meeting.
Bottom panel
(30)

Title: TIPS Implied Average Rate of Inflation: 5-10 Year Horizon  
Series: Federal Reserve Board's 5-10 Year Horizon TIPS Inflation Compensation and Barclays' 5-10 Year Horizon TIPS Inflation Compensation  
Horizon: January 1, 2007 - August 1, 2008  
Description: TIPS inflation compensation over a 5-10 year horizon increased modestly since the June FOMC meeting as measured by both the Federal Reserve Board and Barclays.

Source: Federal Reserve Board, Barclays Capital

Appendix 2: Materials used by Mr. Madigan
Material for FOMC Briefing on Monetary Policy Alternatives  
Brian Madigan  
August 5, 2008

Class I FOMC - Restricted Controlled (FR)

Table 1:  
Alternative Language for the August 2008 FOMC Announcement

August 5, 2008
[Note: In Appendix 2, Table 1, strong emphasis (bold) has been added to indicate underlined red text in the original document. Emphasis (italic or strike-through) indicates bold blue text or strike-through blue text, respectively, in the original document. Exception: On the first row of Rationale in the original document, the strike-through blue text is also bold.]

<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>June FOMC</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.</td>
<td>The Federal Open Market Committee decided today to <strong>raise</strong> its target for the federal funds rate <strong>25 basis points</strong> to 2¼ percent.</td>
<td></td>
</tr>
<tr>
<td>2. Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters.</td>
<td><strong>Overall</strong>, economic activity <strong>continues to expanded in the second quarter</strong>, partly reflecting <strong>growth in consumer spending and exports</strong>. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters. <strong>Over time</strong>, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.</td>
<td><strong>Overall</strong>, economic activity <strong>continues to expanded in the second quarter</strong>, partly reflecting <strong>growth in consumer spending and exports</strong>. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters. <strong>Nevertheless</strong>, the <strong>accommodative stance</strong> of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.</td>
<td></td>
</tr>
<tr>
<td>3. The Committee expects inflation to moderate later this year and next year.</td>
<td>Inflation <strong>has been high</strong>, <strong>spurred by the earlier</strong> increases in the prices of</td>
<td>Inflation <strong>has been high</strong>, <strong>spurred by the earlier</strong> increases in the prices of</td>
<td></td>
</tr>
</tbody>
</table>

[Source: Bloomberg]
### June FOMC

However, in light of the continued increases in the prices of energy and some other commodities and the elevated state of some indicators of inflation expectations, uncertainty about the inflation outlook remains high.

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### Alternative B

energy and some other commodities, and some indicators of inflation expectations have been elevated. The Committee expects inflation to moderate later this year and next year, but uncertainty about the inflation outlook remains highly uncertain.

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### Alternative C

energy and some other commodities, and some indicators of inflation expectations have been elevated. Although the Committee expects inflation to moderate later this year and next year, the possibility that inflation may fail to decline as anticipated is of significant concern.

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#### Assessment of Risk

4. The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time. Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Although downside risks to growth remain, the upside risks to inflation are also of significant concern to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

The Committee took this action to better balance the upside risks to inflation and the downside risks to growth. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.