

# WHEN AND HOW TO EXIT: ISSUES OF TRANSITION

GENEVA CONFERENCE ON: “EXIT  
STRATEGIES: TIME TO THINK ABOUT THEM”

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# What Will Exit Involve?

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- Depends on final destination (exit to what?) but inevitably:
  - ▣ Interest rates will rise.
  - ▣ Balance sheets will have to shrink.
  - ▣ Composition of assets will be normalized.
  - ▣ Special policies aimed at facilitating the transmission of monetary will be unwound.

# When to Exit?

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- Exit involves two decisions: when to stop expanding or easing and when to begin tightening.
- Strategic issues:
  - ▣ Treatment of inflation (and output) objectives; Risk management.
  - ▣ Rate guidance: forecast or commitment?
  - ▣ Role of economic forecasts.
  - ▣ Weight on financial stability.

# How to Exit: Tools and Sequencing

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- In order to exit central banks must make some policy decisions...
  - ▣ How will rates be raised?
  - ▣ How will reserves be reduced?
  - ▣ How will balance sheets be shrunk?
  - ▣ How will balance sheets be reconfigured?
- Do central banks have the right tools?
- In what order should central banks employ these tools?

# Implications for Financial Stability

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- What will raising rates mean for financial stability?
- What will shifting rate relationships mean for financial stability?
- Central banks can reduce the risks of exiting by...
  - ▣ Regulatory Actions
  - ▣ Modifying Exit Strategies

# Fiscal and Monetary Policy After Exit?

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- Exiting may change the relationship between fiscal and monetary policy.
- What will be the effect on the government's fiscal stance?
- Will fiscal dominance become a constraint on monetary policy?
- Can monetary and fiscal policies be separated?

# Status of Central Banks after Exit

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- Exit may have implications for the financial status of central banks.
  - ▣ Balance sheet effects
  - ▣ Income effects
- Can negative capital or cash flow impede central banks in achieving their objectives?

# Maintaining Central Bank Independence

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- What can be done to reduce risks to independence?
- What role can public exit plans play?



# Questions for Discussion...

- When to Exit?
- How to Exit: Tools and Sequencing
- What will happen to the Relationship between Fiscal and Monetary Policy?
- How will the Exit change the Financial Status of Central Banks?
- How can independence be sustained?
- Should central banks publish exit plans?