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?

- 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.
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

- 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

- 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
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

- 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

- 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?