



Exit Strategies

– The Importance of
Coordinated Solutions
after the Crisis

Governor Stefan Ingves

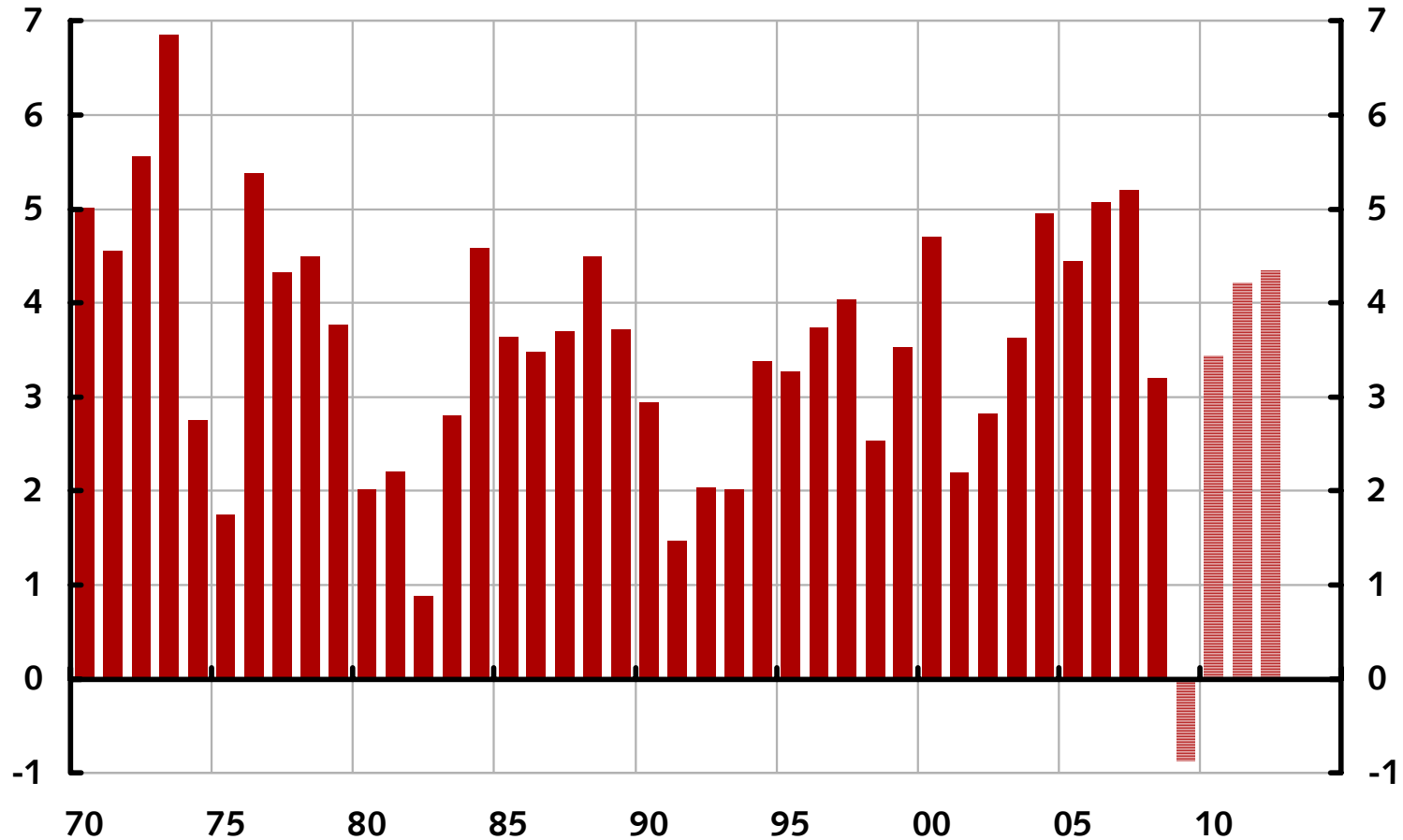
Eesti Pank, 14 January, 2010

The Macro Picture



Global GDP-growth

Annual percentage change

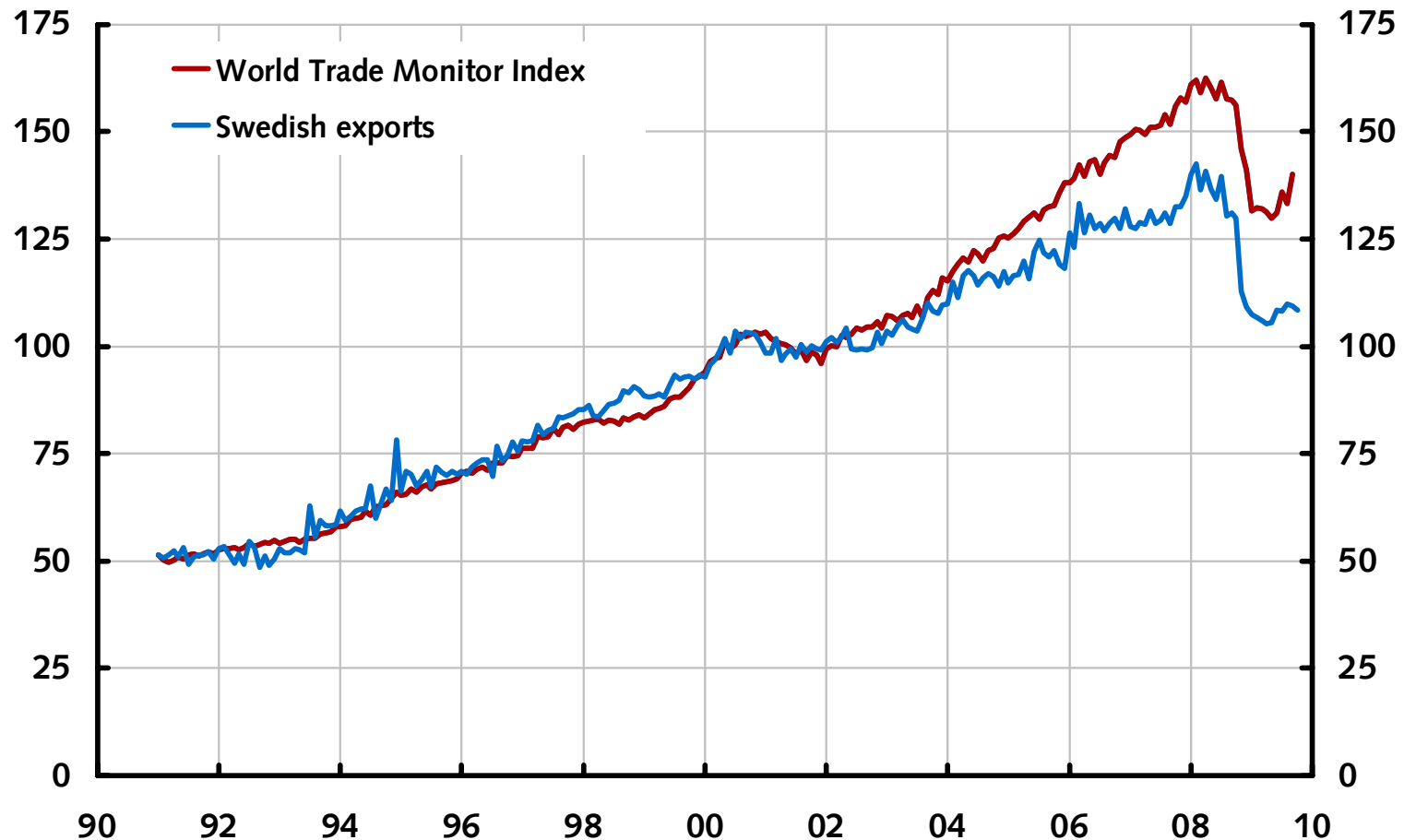


Note. Striped bars represent the Riksbank's forecast.

Sources: IMF and the Riksbank

World Trade Index and Swedish export

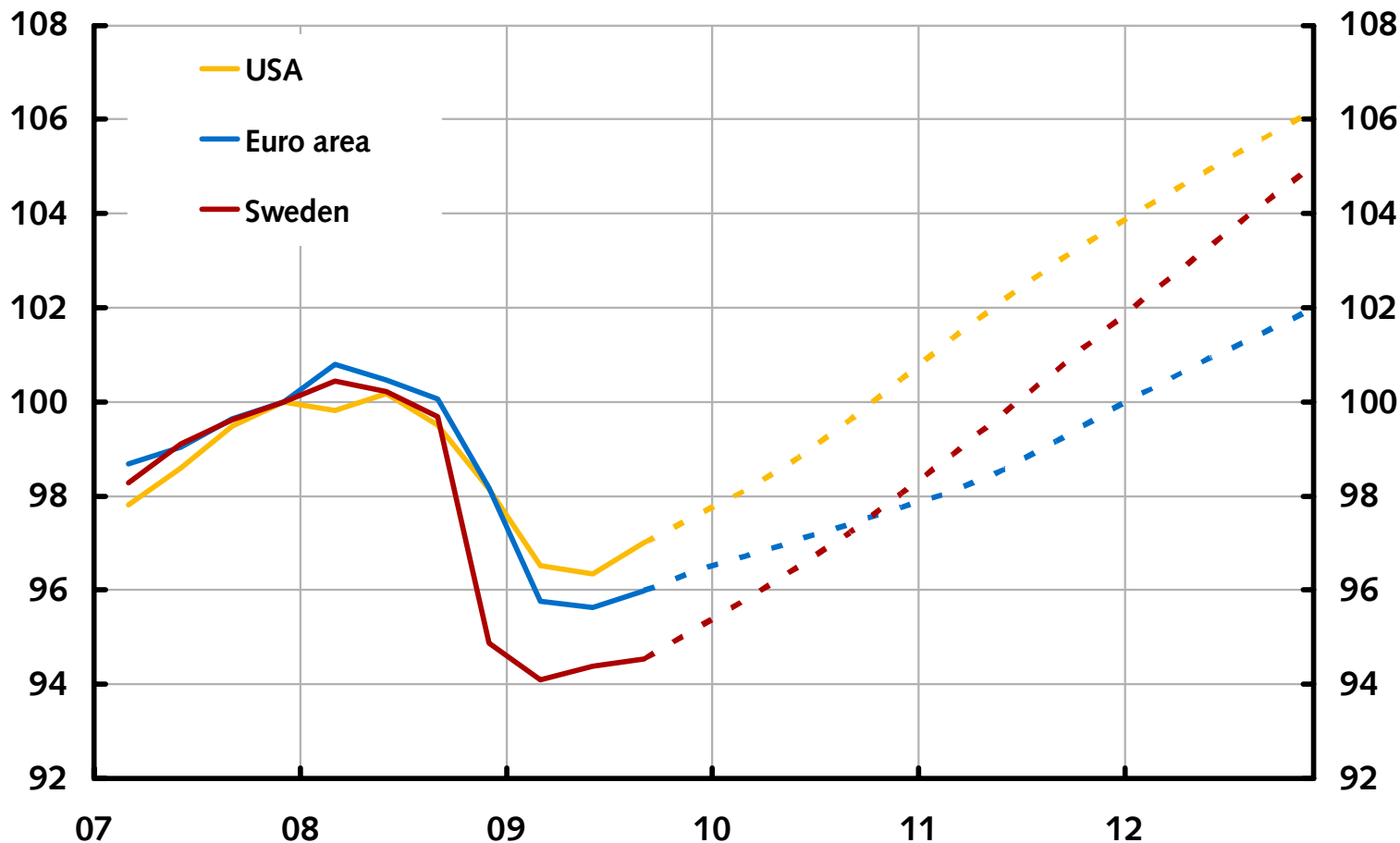
Index, 2000 = 100, seasonally adjusted data



Recovery from low levels – will take time...

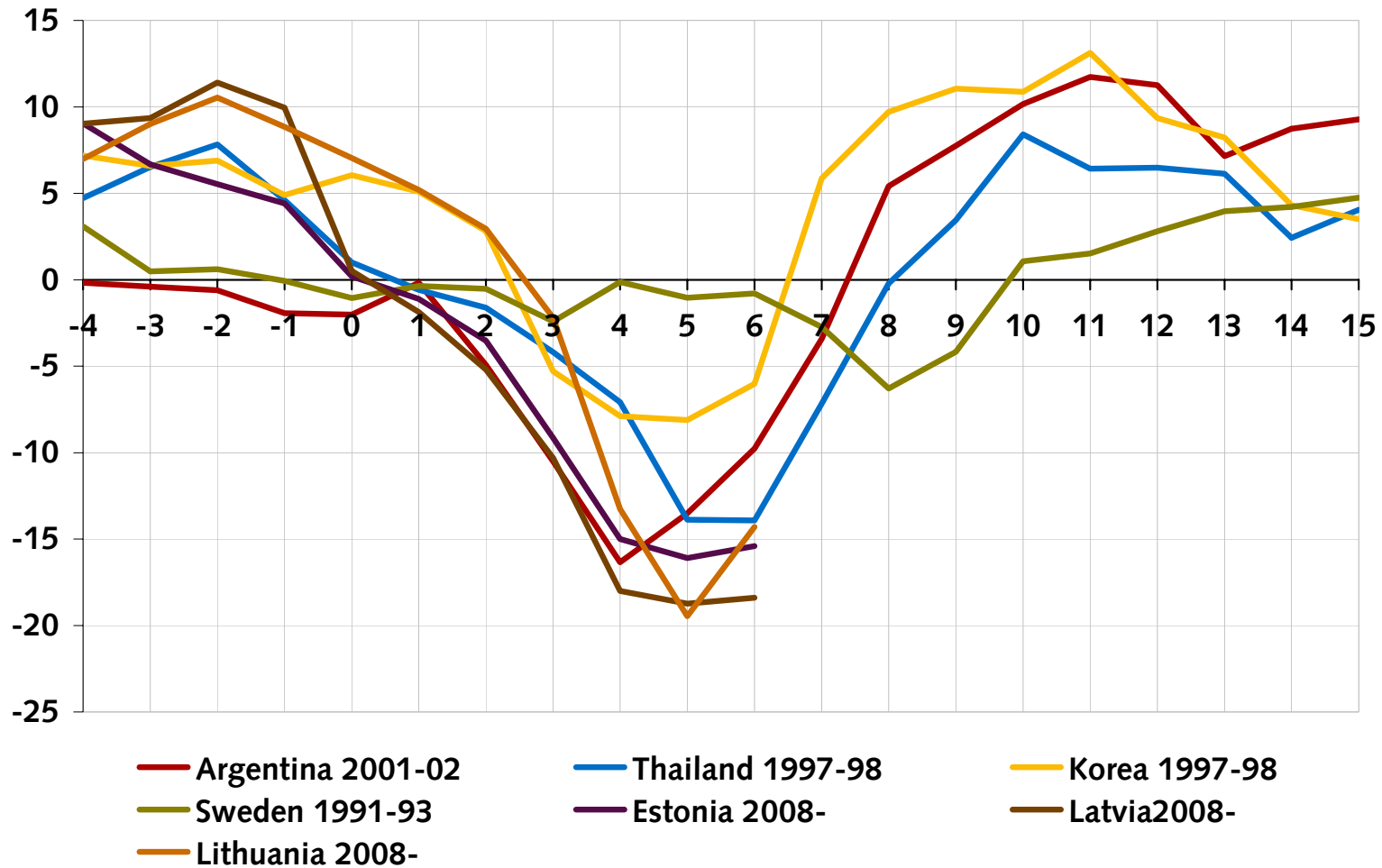
Comparison of recovery in Sweden, the euro area and USA

GDP-level, index 2007 quarter 4 = 100



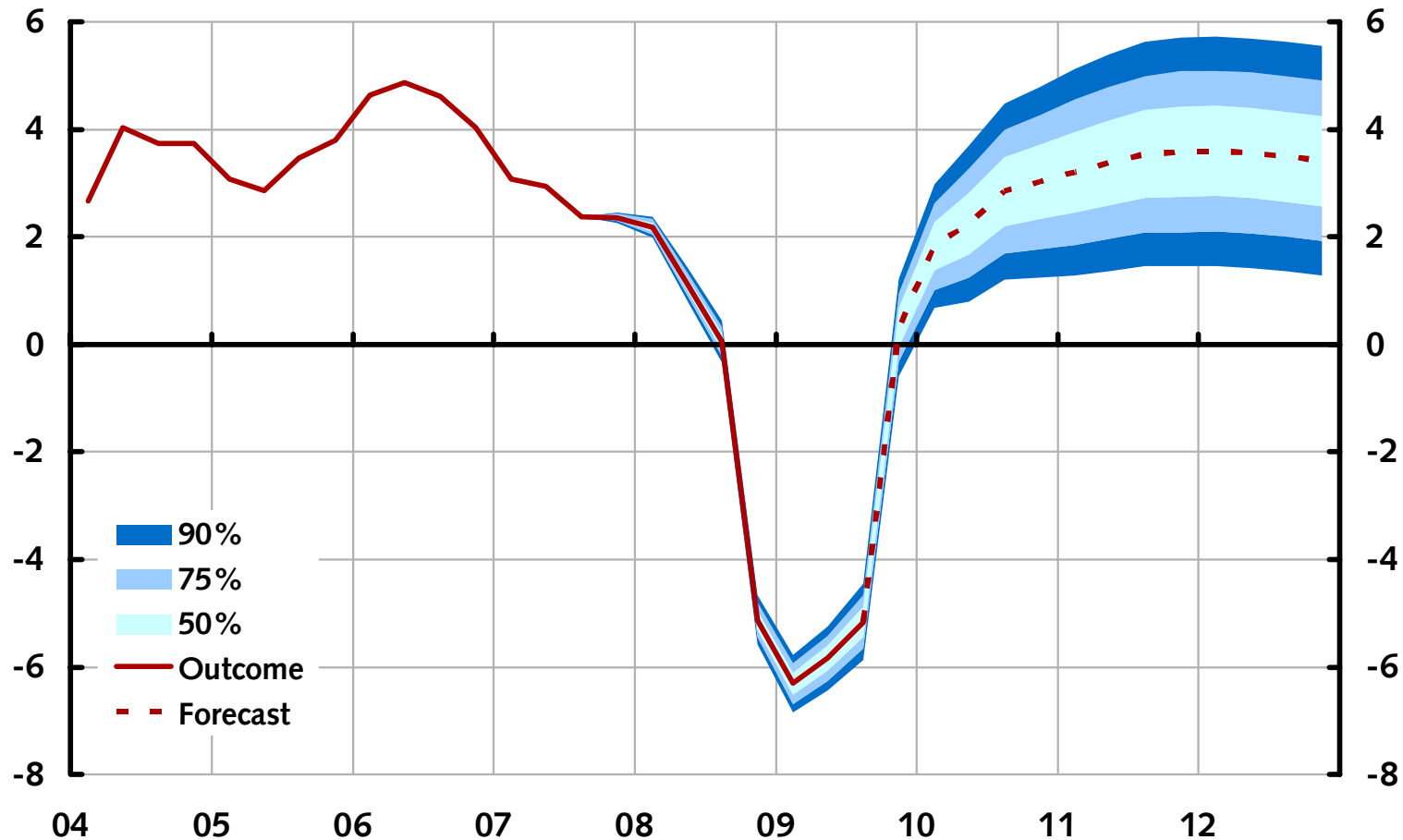
Pre and post crisis GDP growth

Annual percentage change on quarterly data



GDP with uncertainty bands

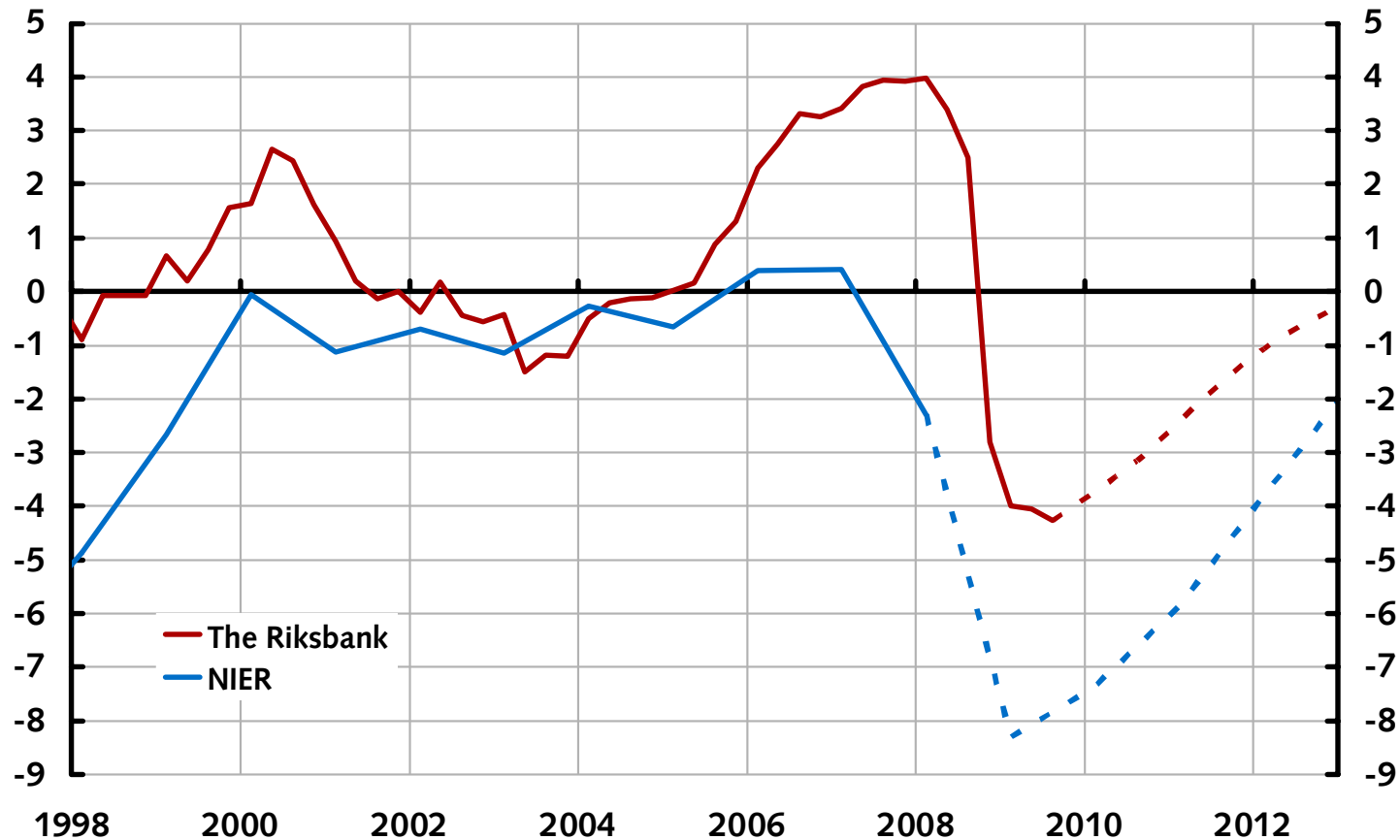
Annual percentage change, seasonally-adjusted data



Note. The uncertainty band shows the band within which GDP growth is expected to be with a 50%, 75% and 90% probability. Broken lines represent the Riksbank's forecast.

Output gap in Sweden

Per cent



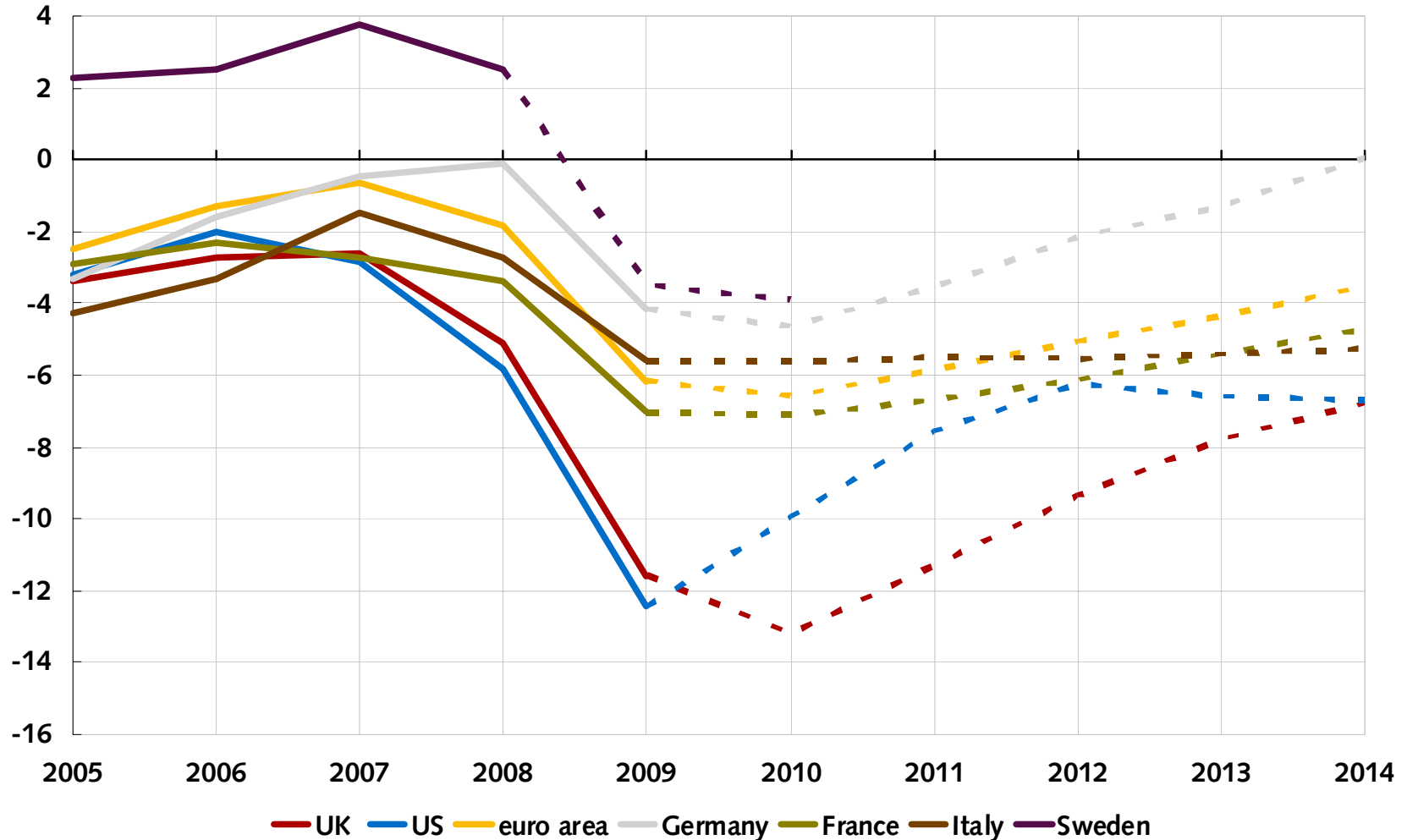
Note. The output gap is the difference between actual GDP and potential GDP. The Riksbank output gap is calculated as the percentage deviation of GDP from its HP-trend. The output gap can be used to measure resource utilisation in the economy.

The Fiscal Exit



General government balance

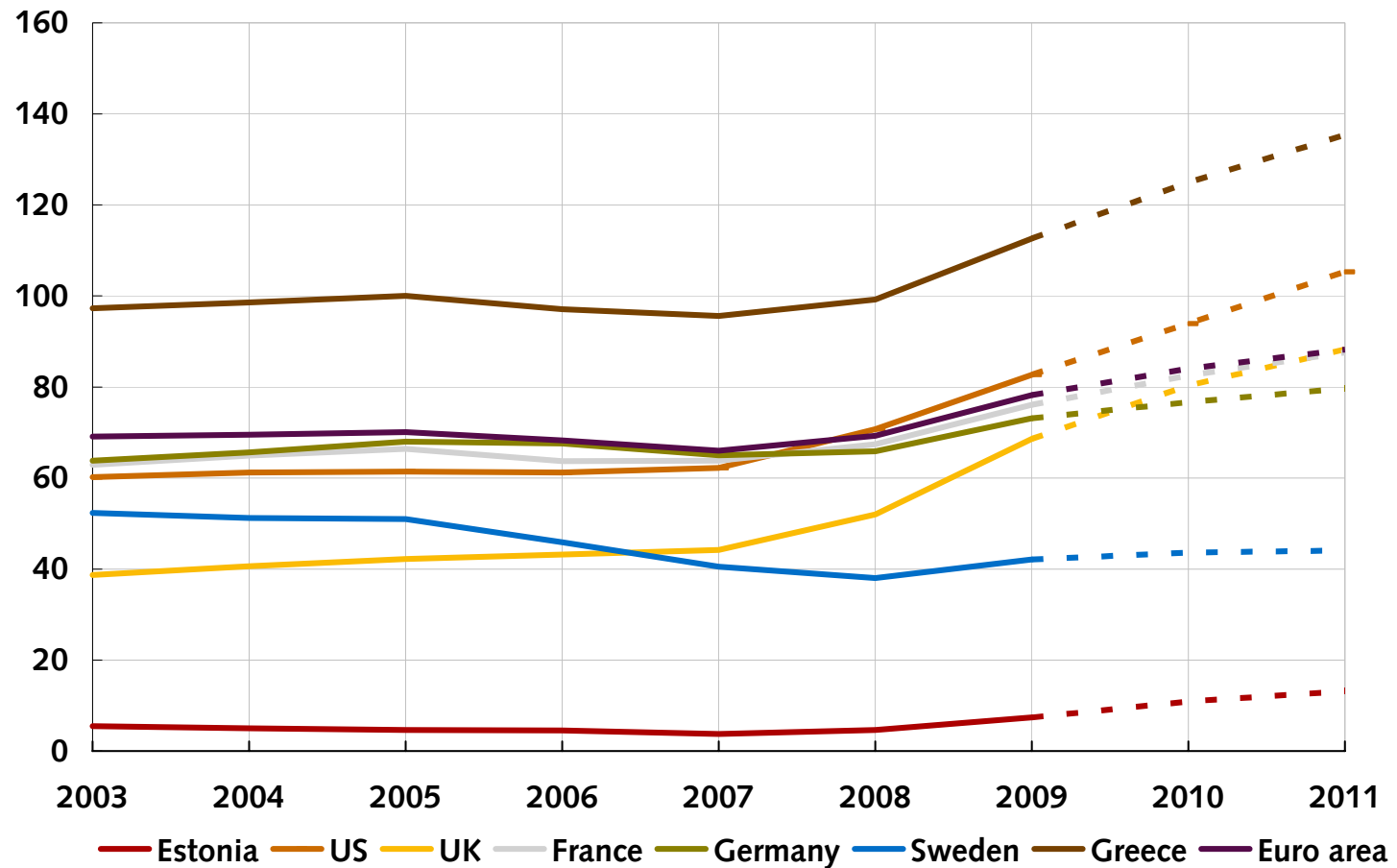
Percent of GDP



Sources: IMF, World Economic Outlook, Oct 2009 and EU commission autumn forecast

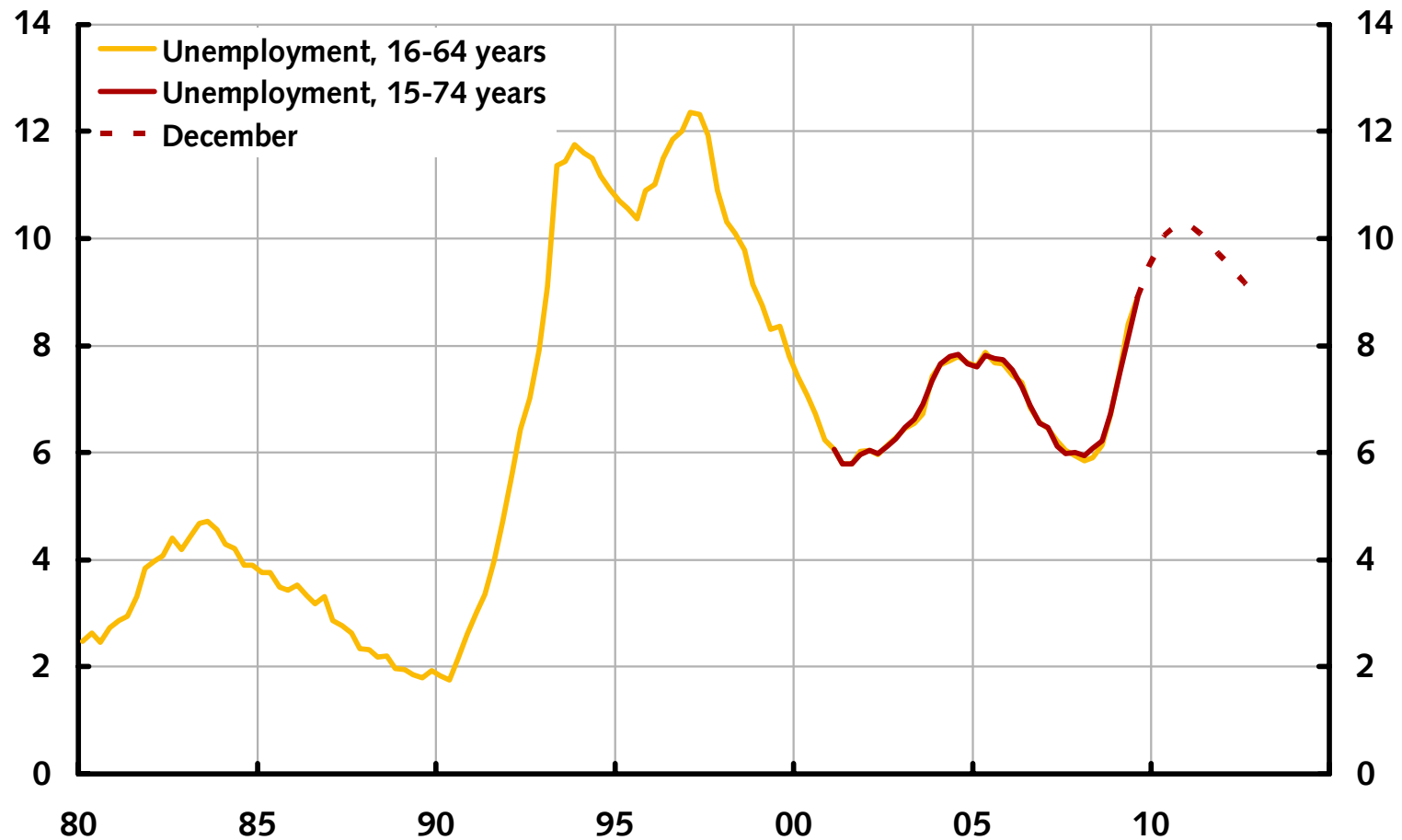
Government gross debt

Percent of GDP



Unemployed

Percentage of the labour force, seasonally-adjusted data



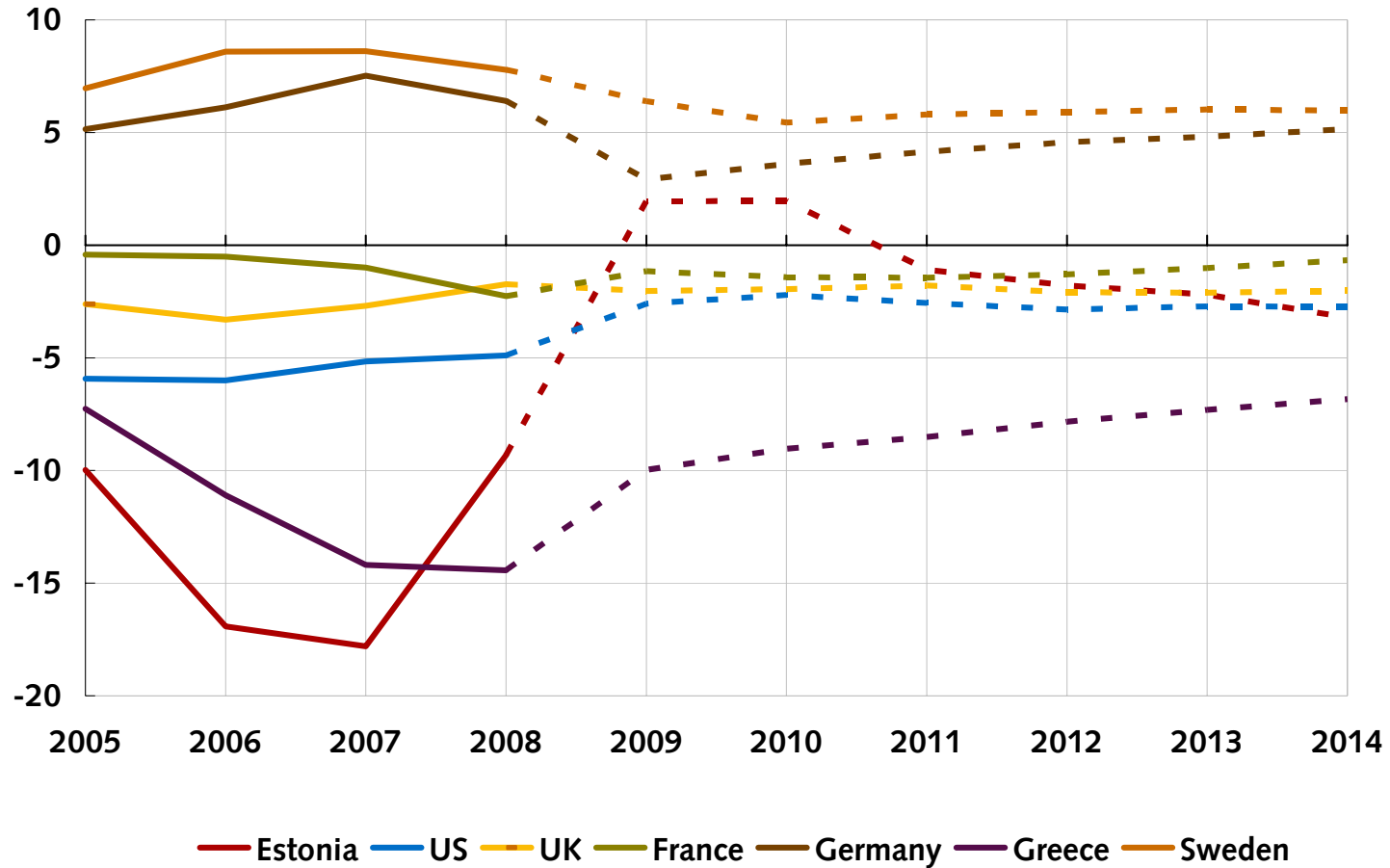
Note. Pre-1993 data has been spliced by the Riksbank.
Broken lines represent the Riksbank's forecast, 15-74 years.

Sources: Statistics Sweden and the Riksbank

External Balance

Current account balance

Percent of GDP



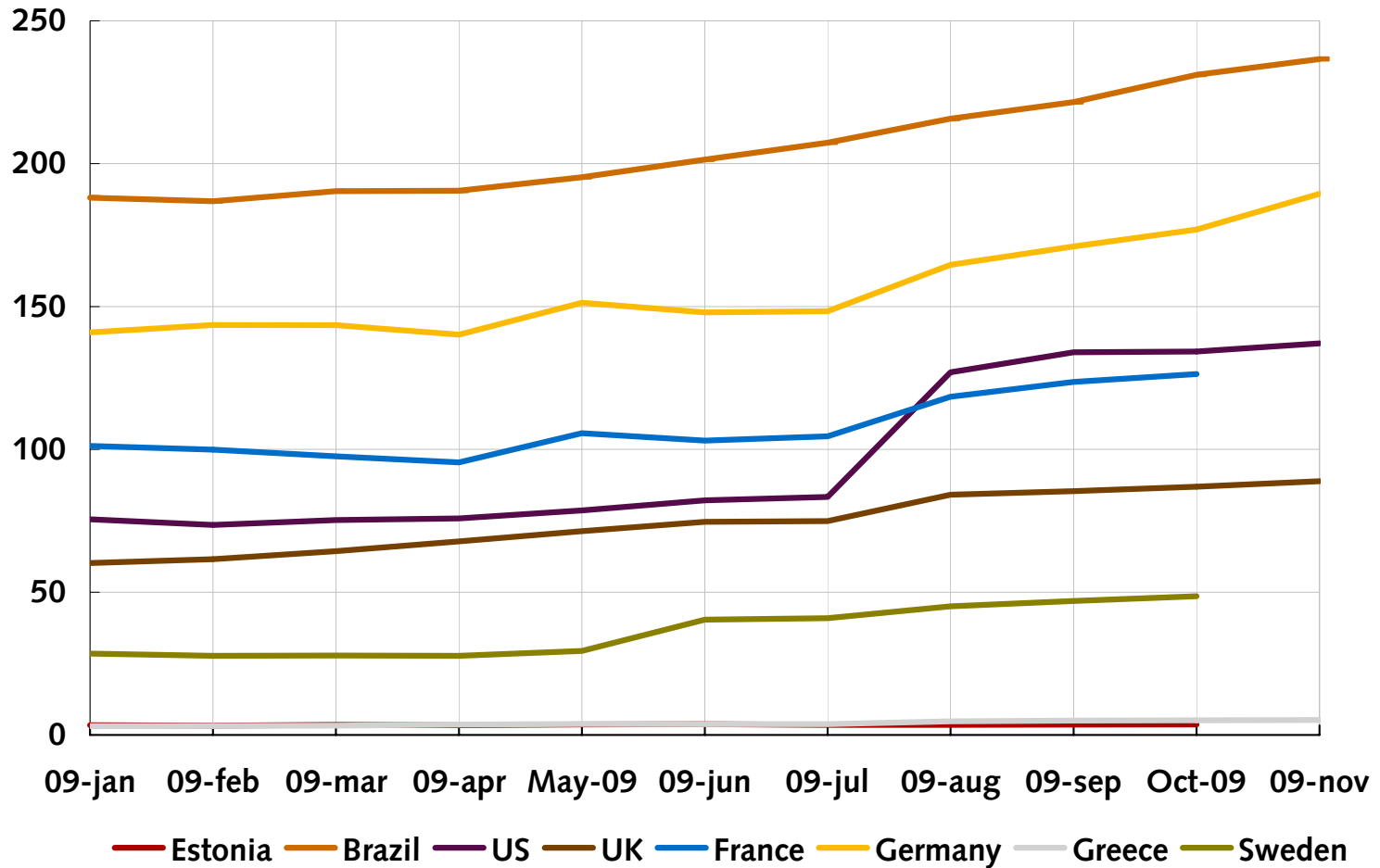
Capital controls

- Brazil, 2009
 - Iceland, 2008

 - Who is next?
-

Foreign exchange reserve

Millions USD

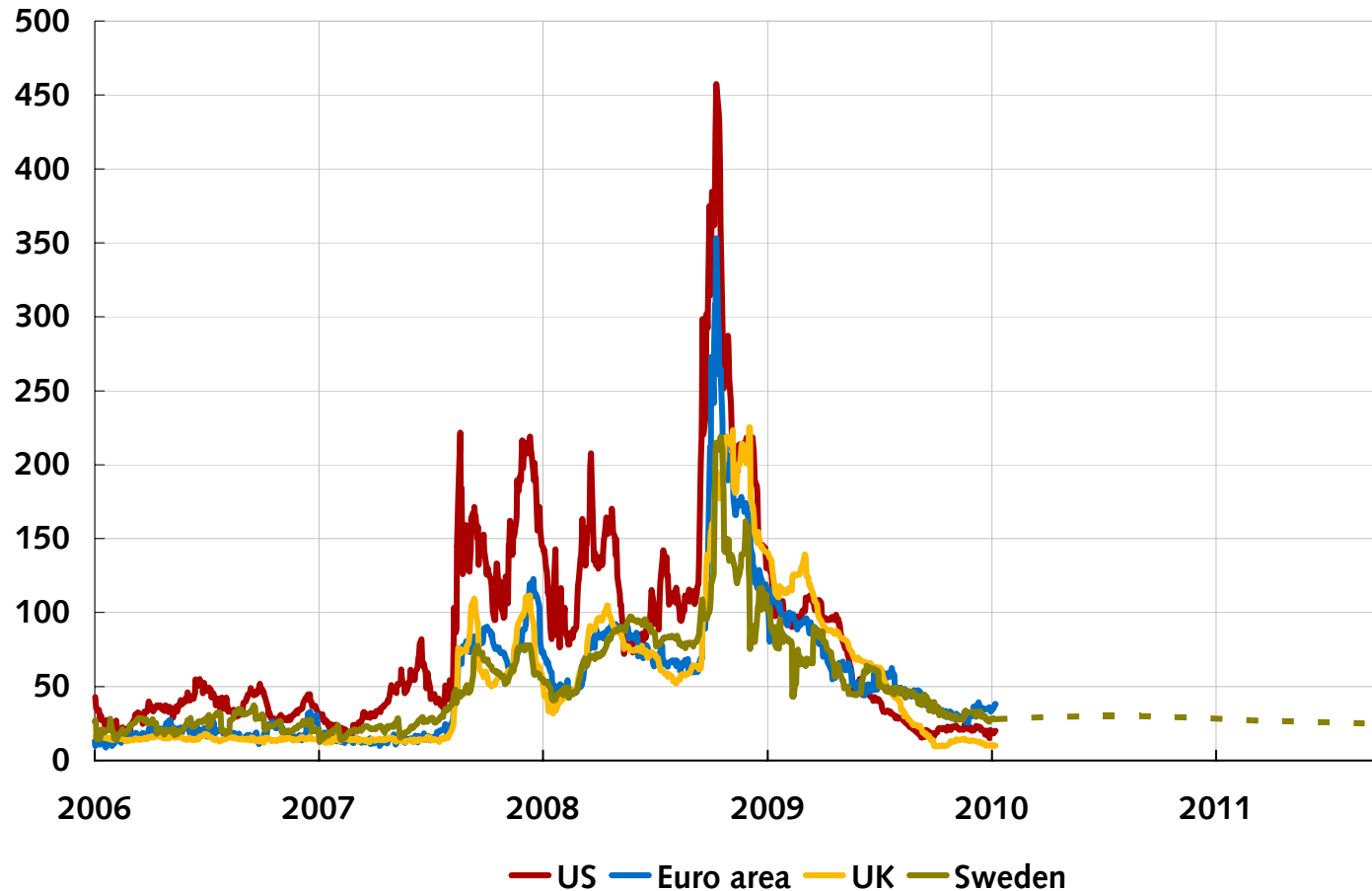


Monetary Policy Exit



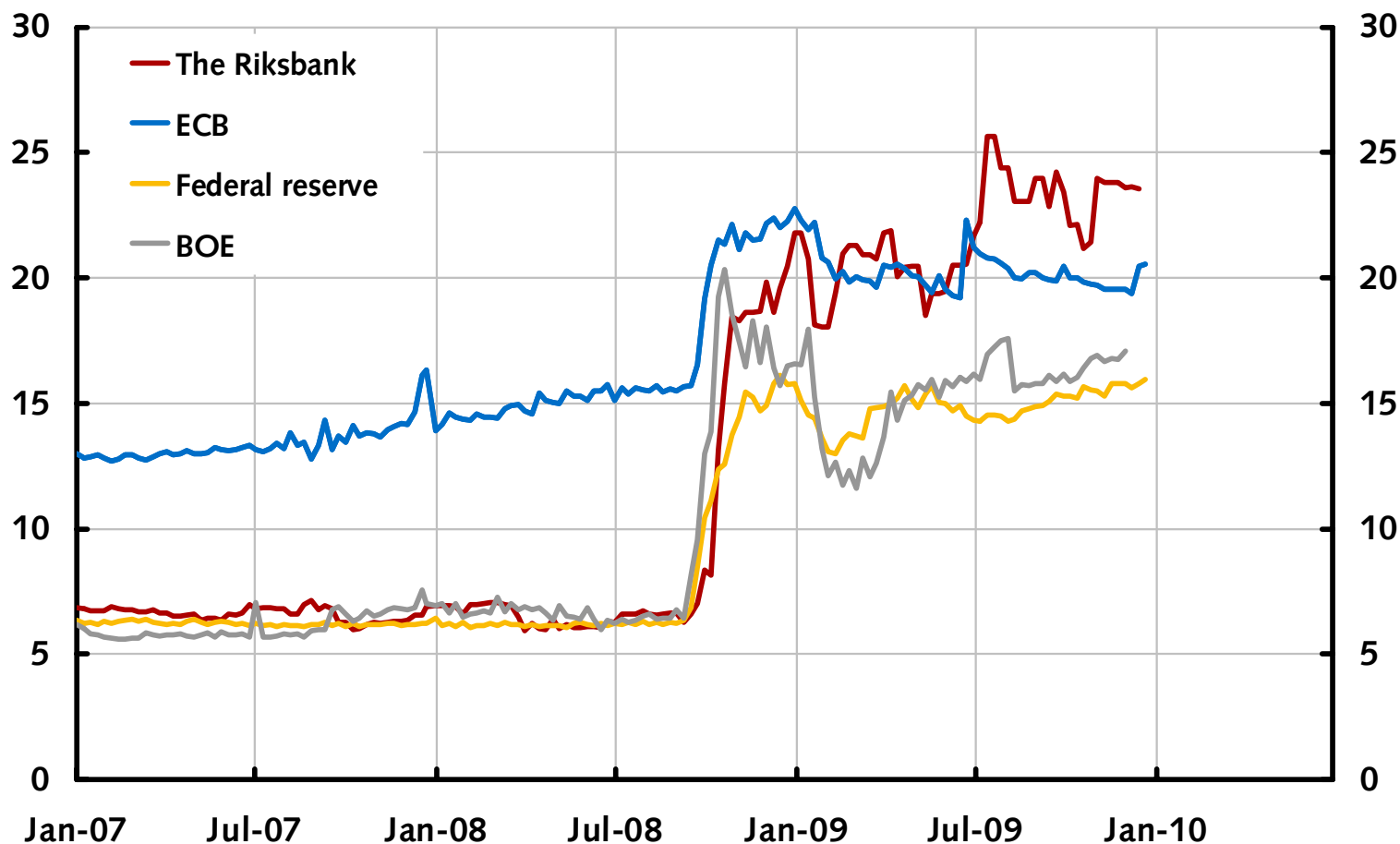
Difference between 3-month interbank rates and treasury bills (TED spread) – What levels should we expect?

Basis points



International comparison between central banks' balance sheets

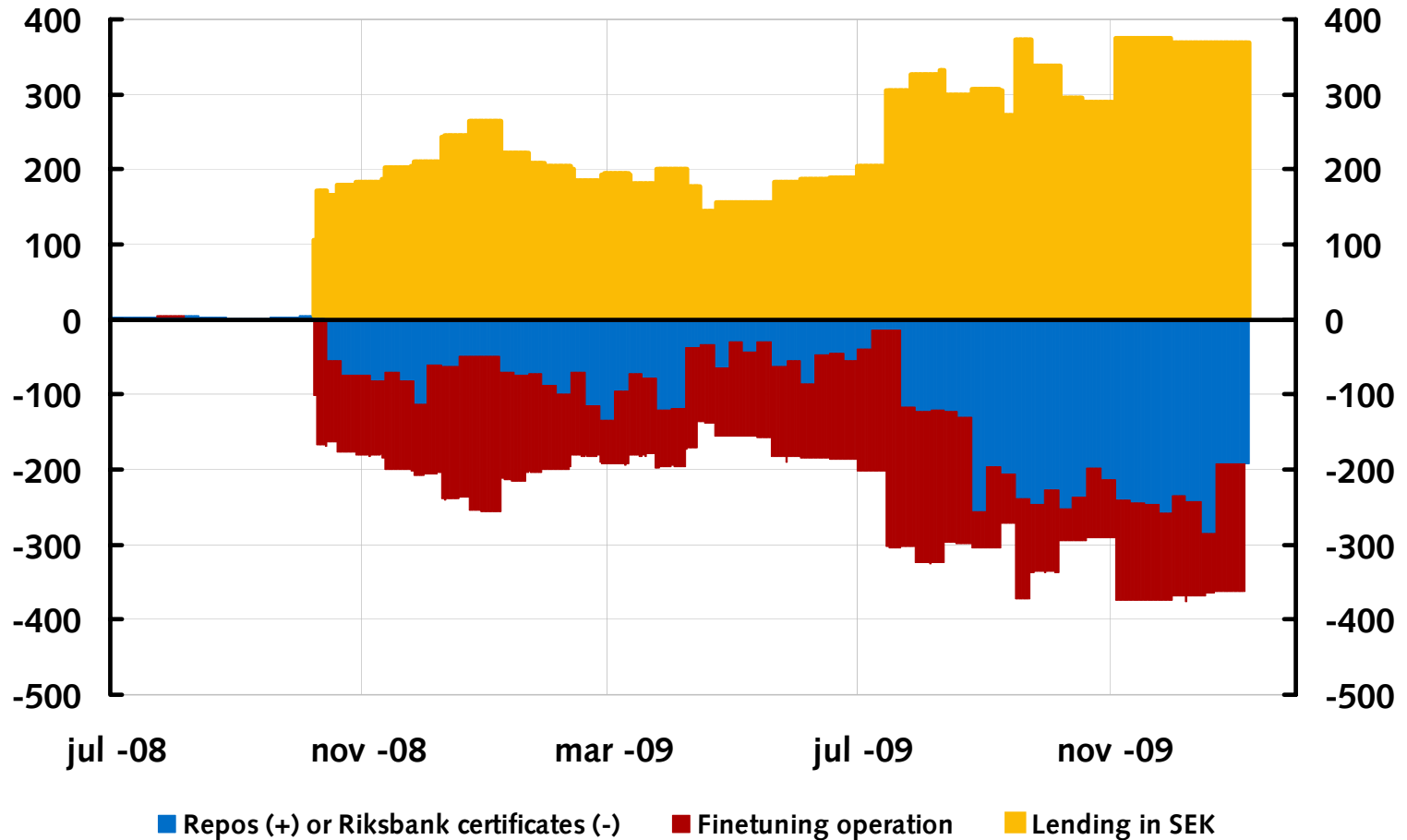
Share of GDP



Sources: The respective central banks

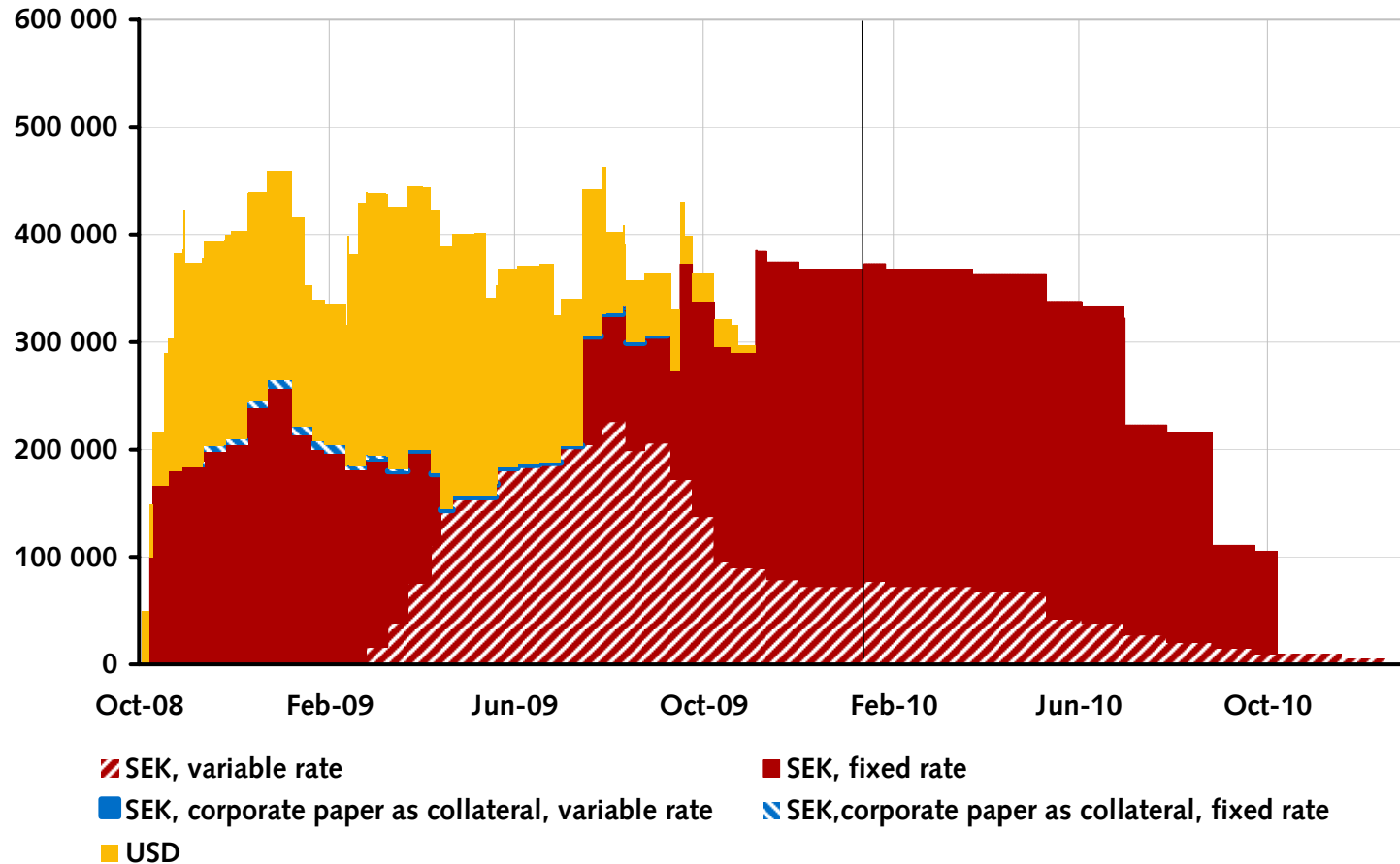
Lending and borrowing with the Riksbank

Billions SEK



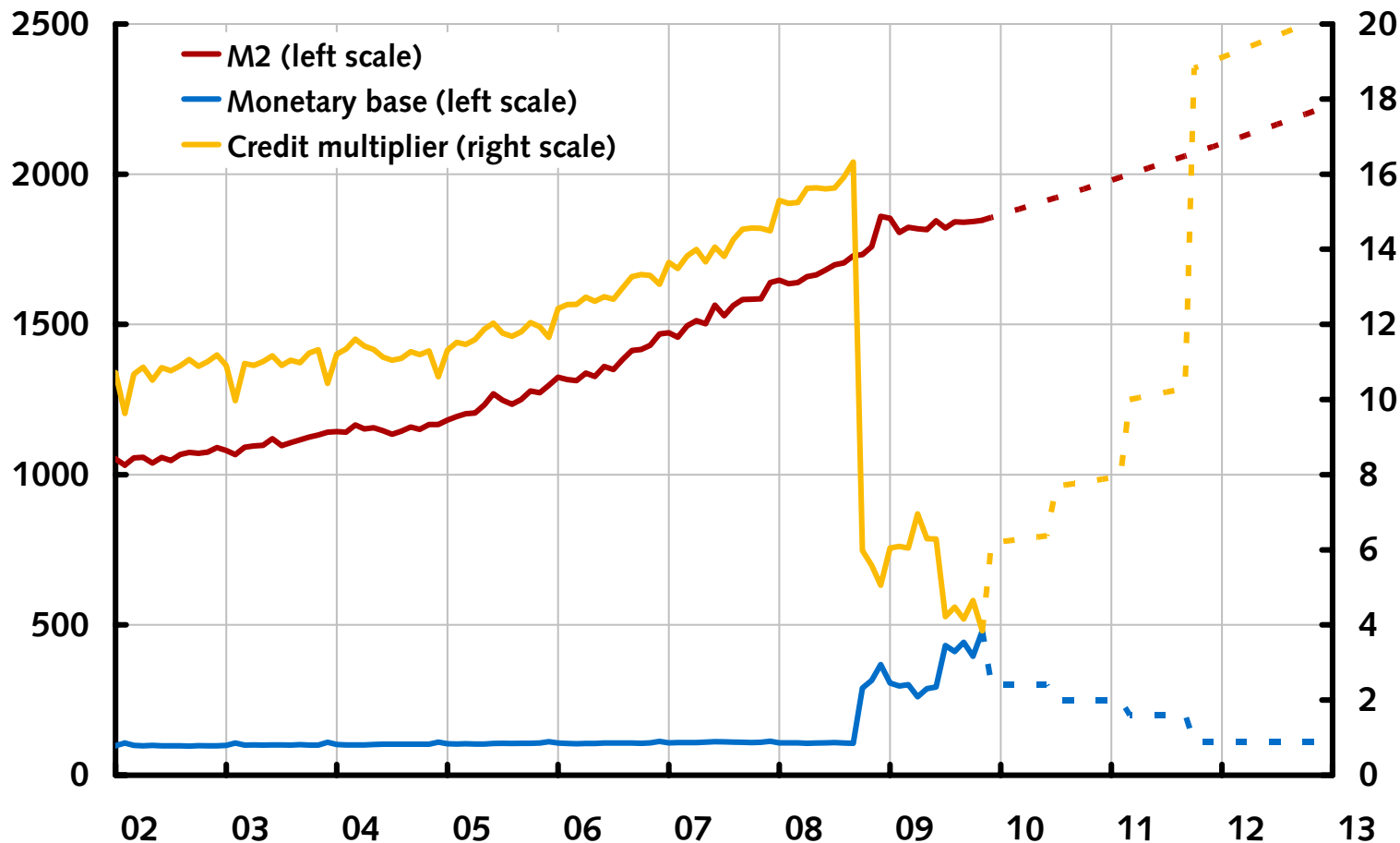
Outstanding amount of the Riksbank's lending facility and maturity profile

Millions SEK



Money supply (M2), monetary base and credit multiplier - what levels will we return to?

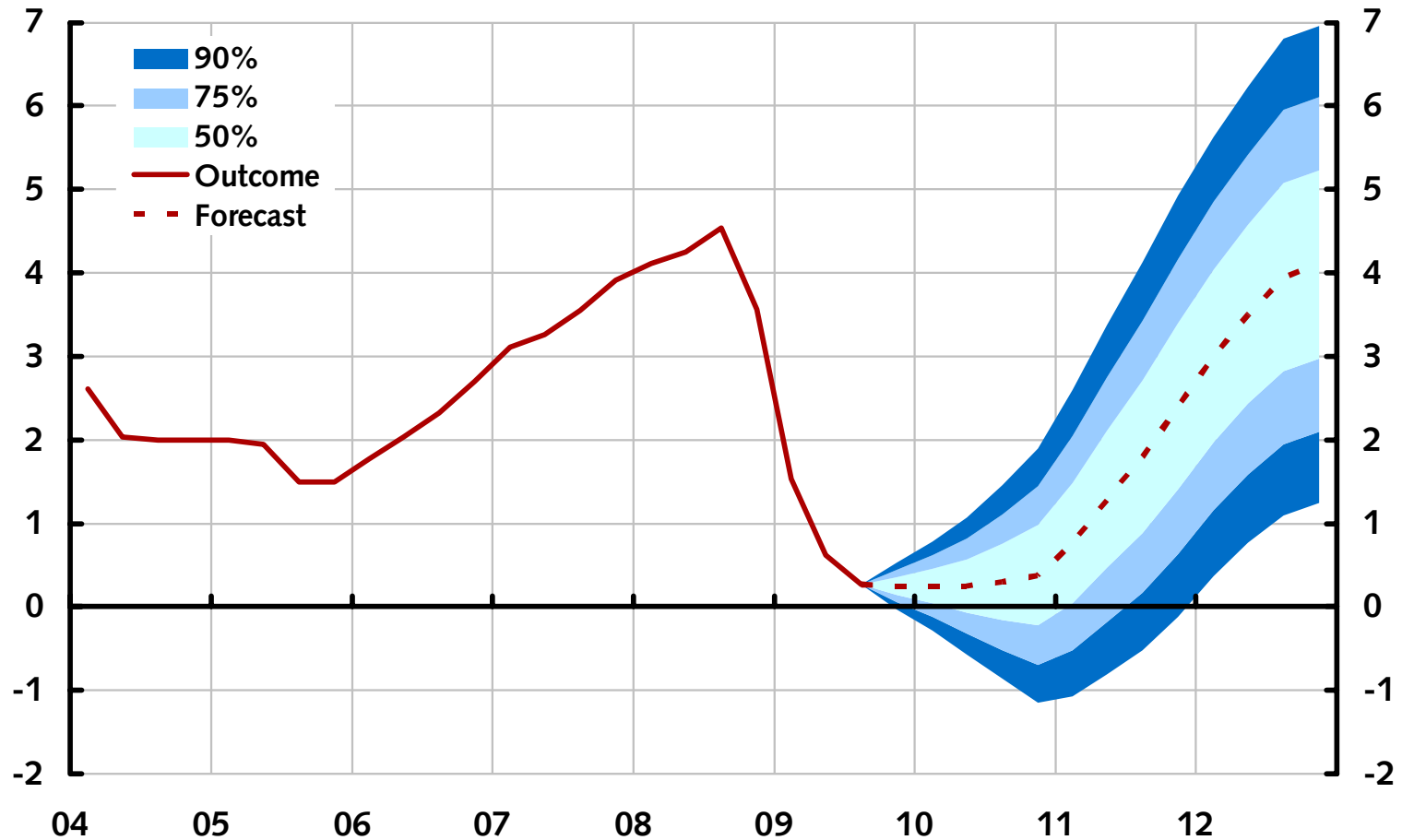
SEK billion and ratio respectively



M2 is equal to the sum of notes and coins held by Swedish Non-bank public, overnight loans, deposits in transaction accounts, deposits that are redeemable at a notice of up to and to 3 months, and deposits with a maturity of up to and to 2 years.

Repo rate in Sweden

Per cent, quarterly averages



Note. Broken lines represent the Riksbank's forecast.

Source: The Riksbank

Loan Losses

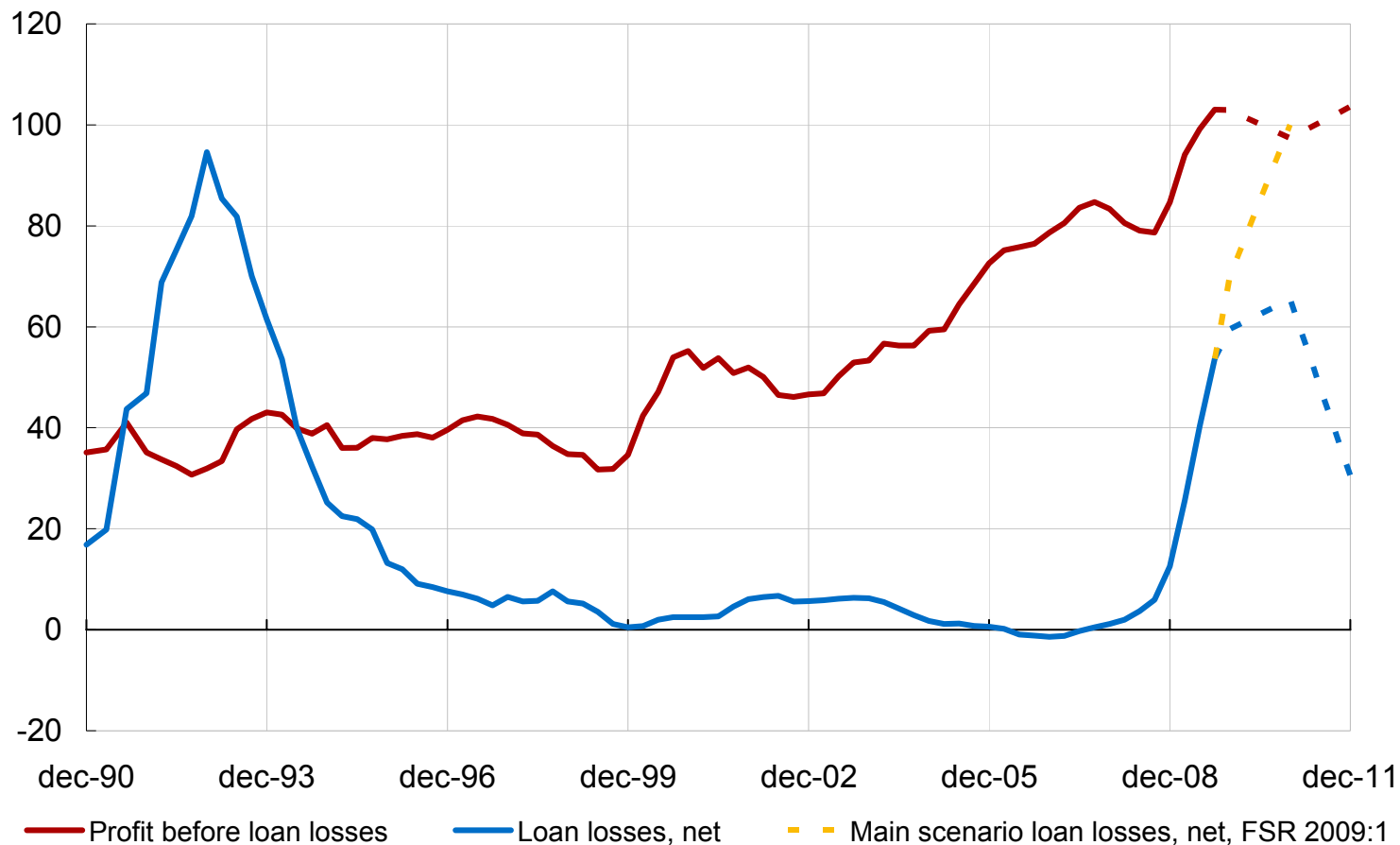
Bank Triage

Public Sector Exit



Earnings before loan losses and loan losses (net) in the major banks

Summed up over four quarters, SEK billion, fixed prices,
30 September 2009



Note. Estimates for earnings before loan losses according to SME Direkt, September 2009

Sources: Bank reports, SME Direkt and the Riksbank

The international regulatory agenda

The international regulatory agenda

- Capital in the banking sector
 - Liquidity regulation
 - Accounting
 - Unregulated companies and markets
 - Trading in financial instruments
 - Handling of distressed banks
 - Remuneration systems
-



Extra slides

Financial crisis prolongs recessions

- Study by Reinhardt & Rogoff (2009) of financial crisis in 21 different countries:
 - The aftermath of financial crisis shows deep and lasting effects on
 - Asset prices
 - Output
 - Employment
 - Recessions sparked by financial crisis accompanied by massive increases in government debt
-

Past Experience with Severe Financial Crisis, Peak to Trough Changes



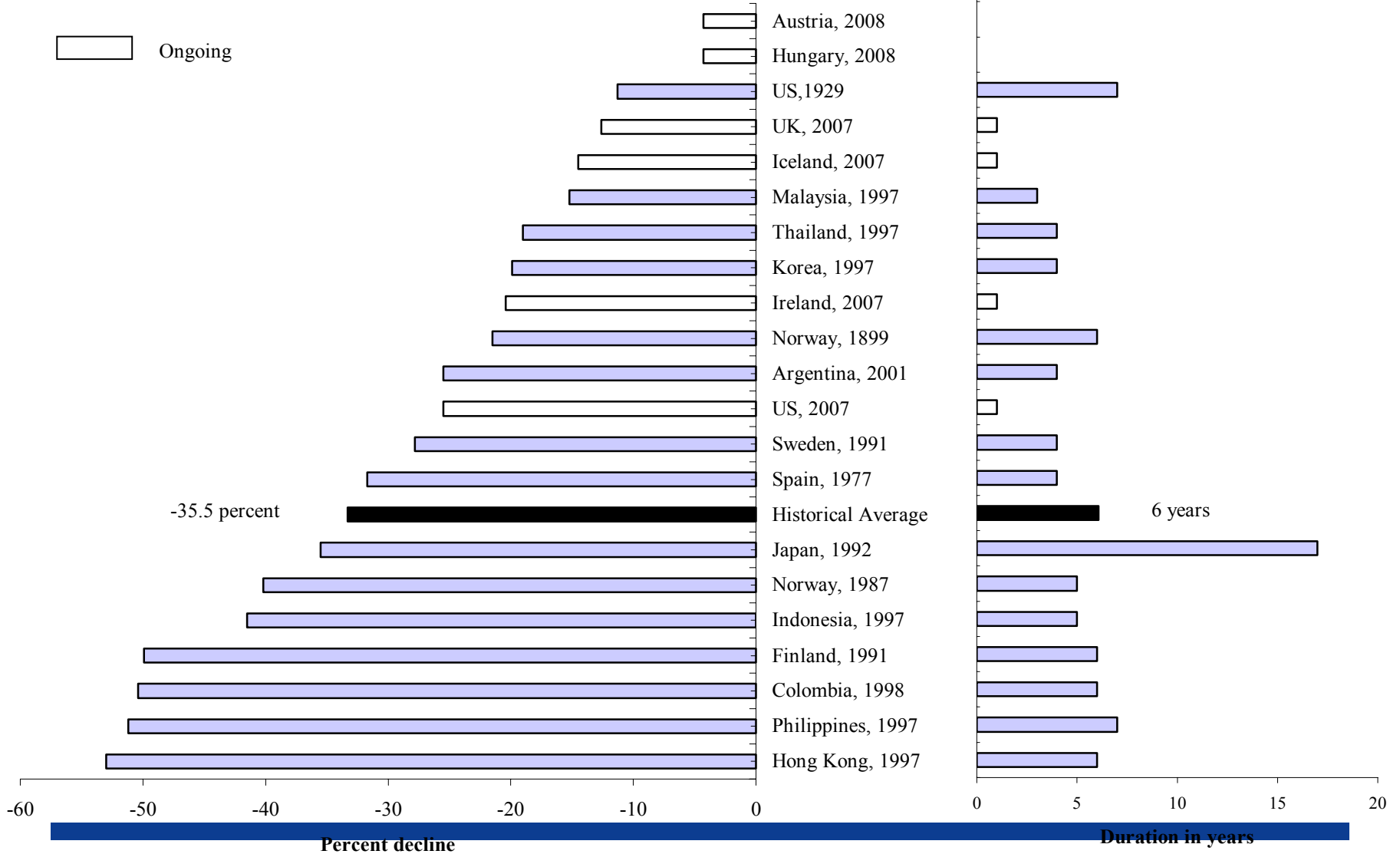
Spain (1977), Japan (1992), Norway (1987) Philippines (1997), Sweden (1991), Hong Kong (1997), Colombia (1998), Korea (1997), Malaysia (1997), Finland (1991), Thailand (1997) Indonesia (1997), Argentina (2001), US (1929)	Cumulative % change	Duration
Housing prices	-36%	5 years (not including Japan)
Equity prices	-56%	3.4 years
Unemployment	7%	4.8 years
Real GDP per capita	-9.3%	1.7 years

Source: Reinhart and Rogoff, 2009, "The Aftermath of Financial Crises"

Past and Ongoing Real House Price Cycles and Banking Crises:

Peak-to-trough Price Declines (left panel) and Years Duration of Downturn (right panel)

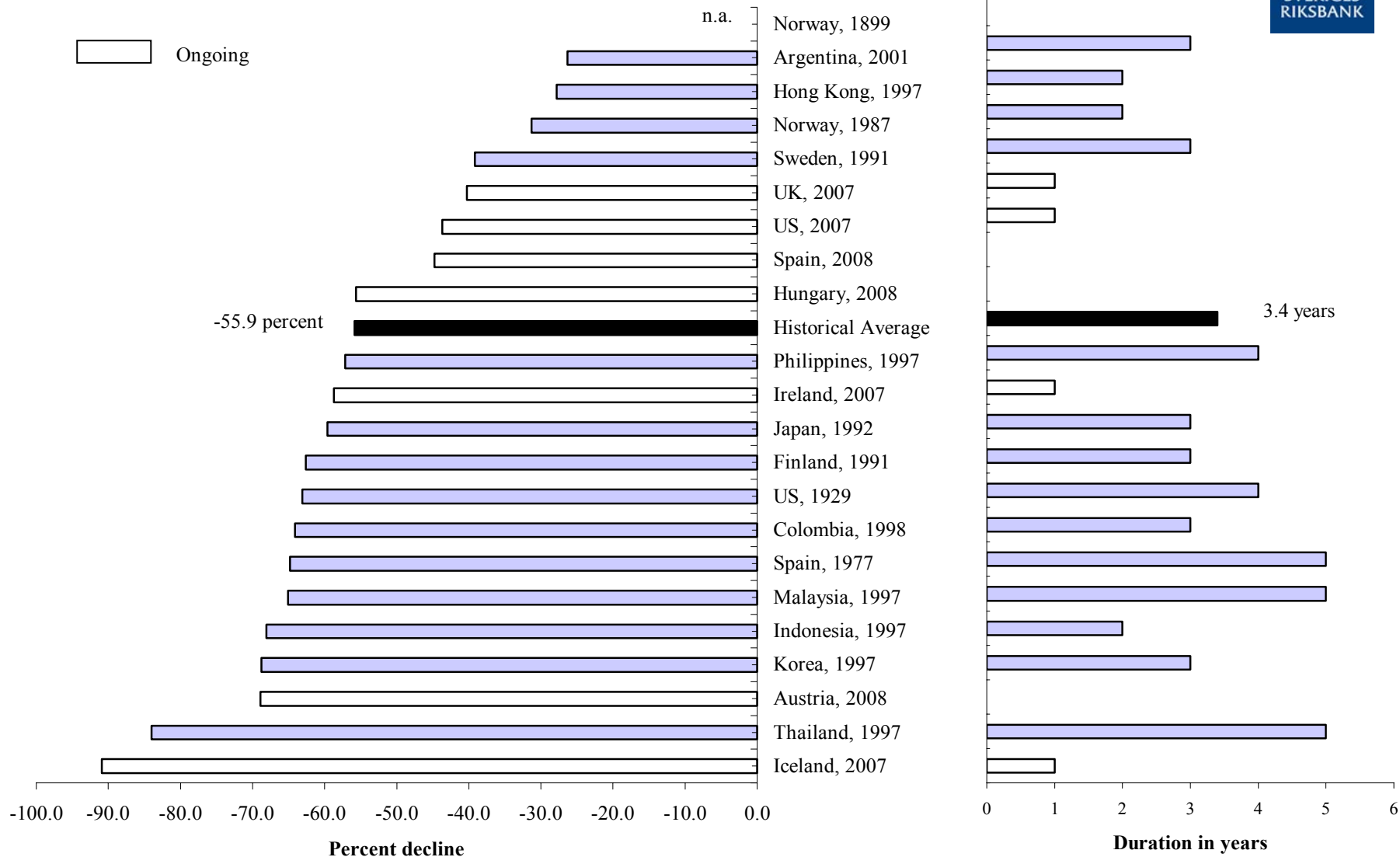
Reinhart and Rogoff, 2009



Past and Ongoing Real Equity Price Cycles and Banking Crises:

Peak-to-trough Price Declines (left panel) and Years Duration of Downturn (right panel)

Reinhart and Rogoff, 2009

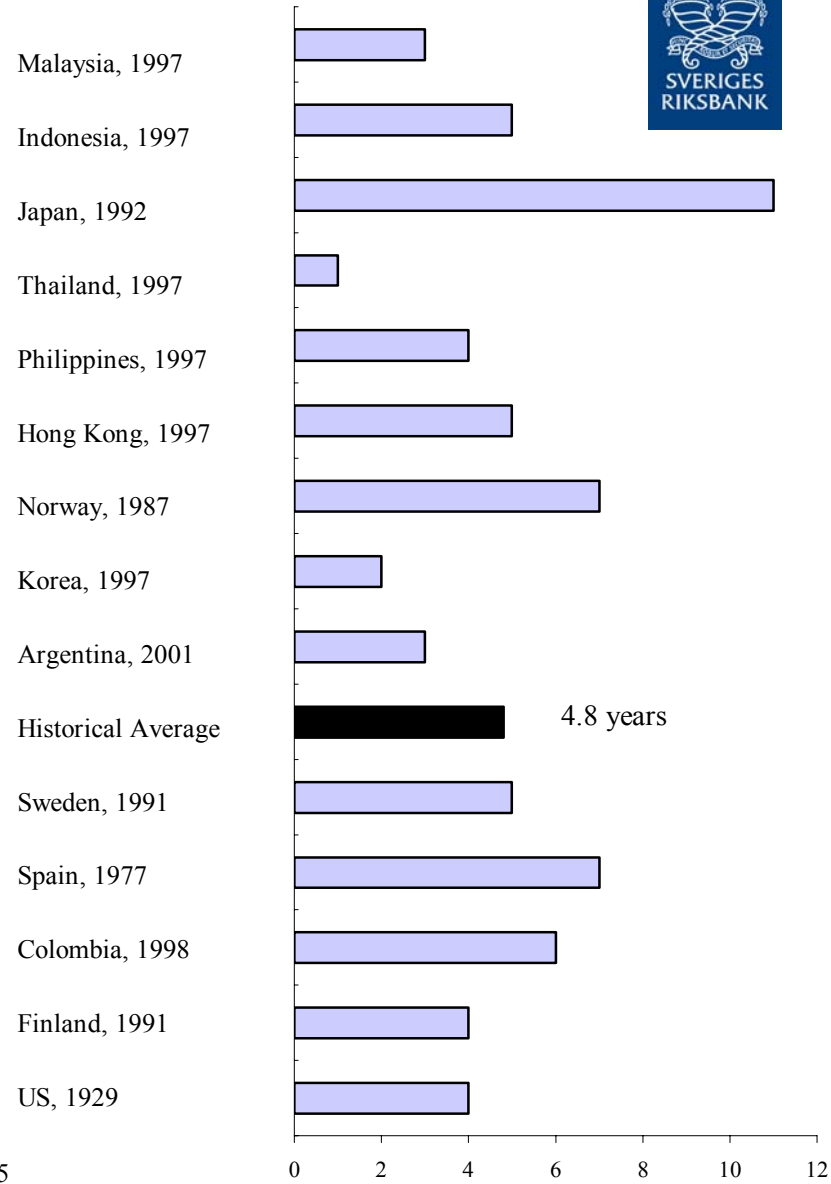
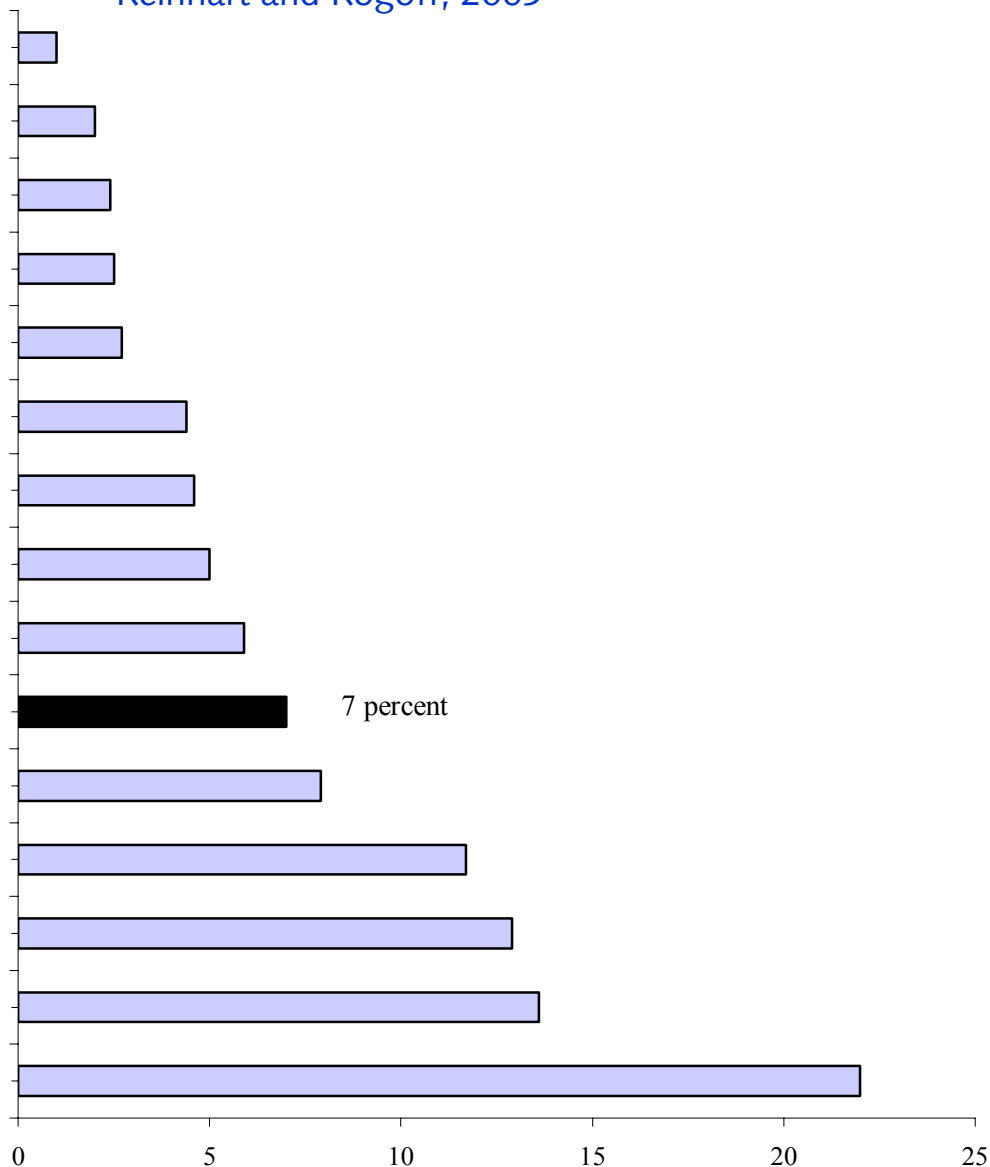


Past Unemployment Cycles and Banking Crises: Trough-to-peak

Percent Increase in the Unemployment Rate (left panel) and Years Duration of Downturn (right panel)



Reinhart and Rogoff, 2009



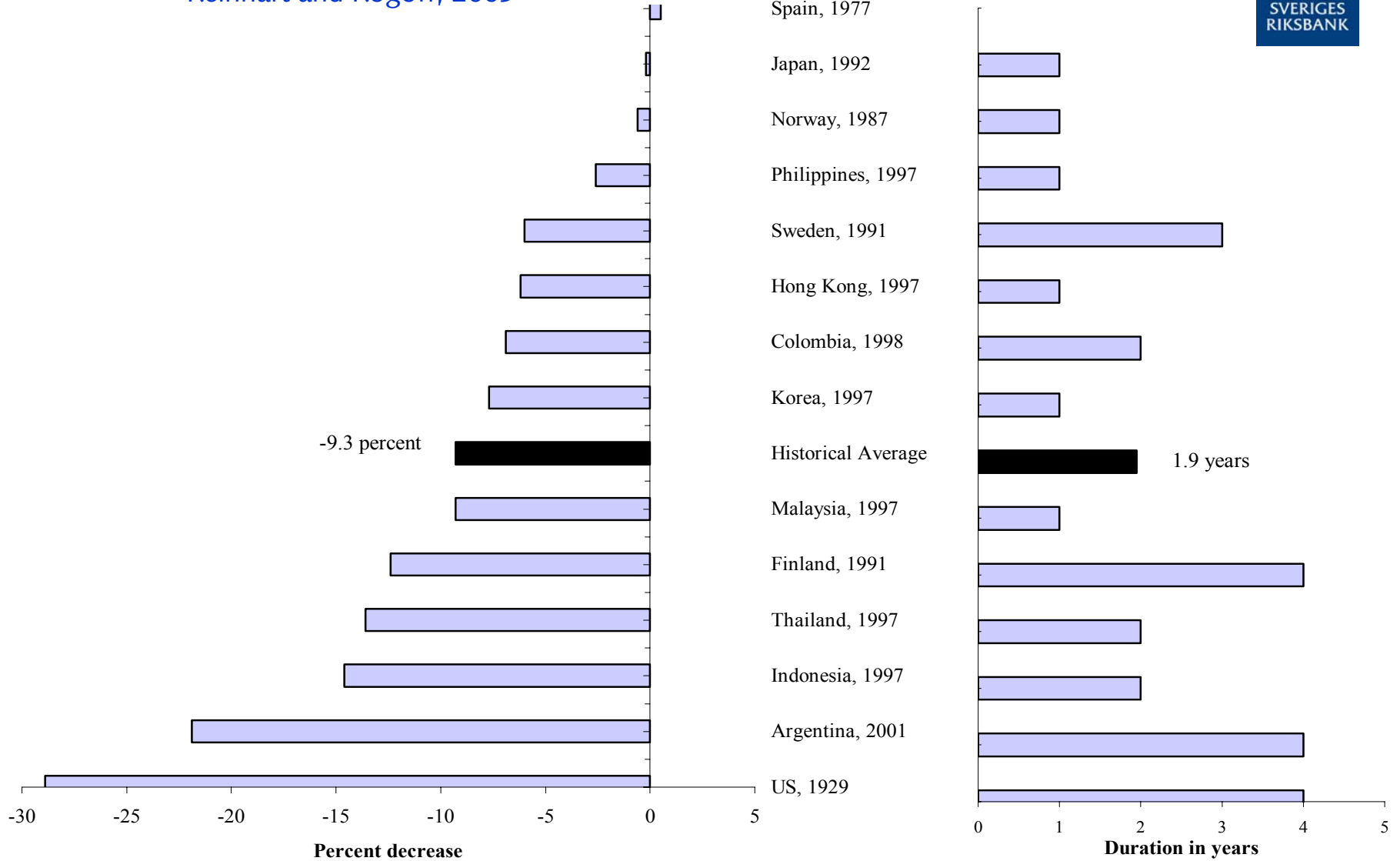
Percent increase

Duration in years

Past Real Per Capita GDP Cycles and Banking Crises: Peak-to-trough

Percent Decline in Real GDP (left panel) and Years Duration of Downturn (right panel)

Reinhart and Rogoff, 2009



Exit strategies – Three main issues

1. Fiscal policy measures
 2. Monetary Policy measures
 3. Timing of exit
-

Timing

- If redirection of the fiscal and monetary policy stimulation is done too soon the recovery of the economy may be put at risk
 - If it is done too late it may lead to excessive increases in assets prices and inflationary pressures
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Possibly different incentives for central banks and governments for exit



- To be reelected Governments are dependent on public opinion – may weaken their incentives to redirect fiscal stimulus
 - Independent central banks may have stronger incentives to redirect unconventional measures when that is motivated for monetary policy reasons
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Need for coordinated exit?

- Different conditions in different countries – motivates different exit strategies in different countries
 - Still – the EU have agreed on redirecting extra ordinary fiscal stimulus by 2011
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Central banks' balance sheets increased dramatically at about the same time

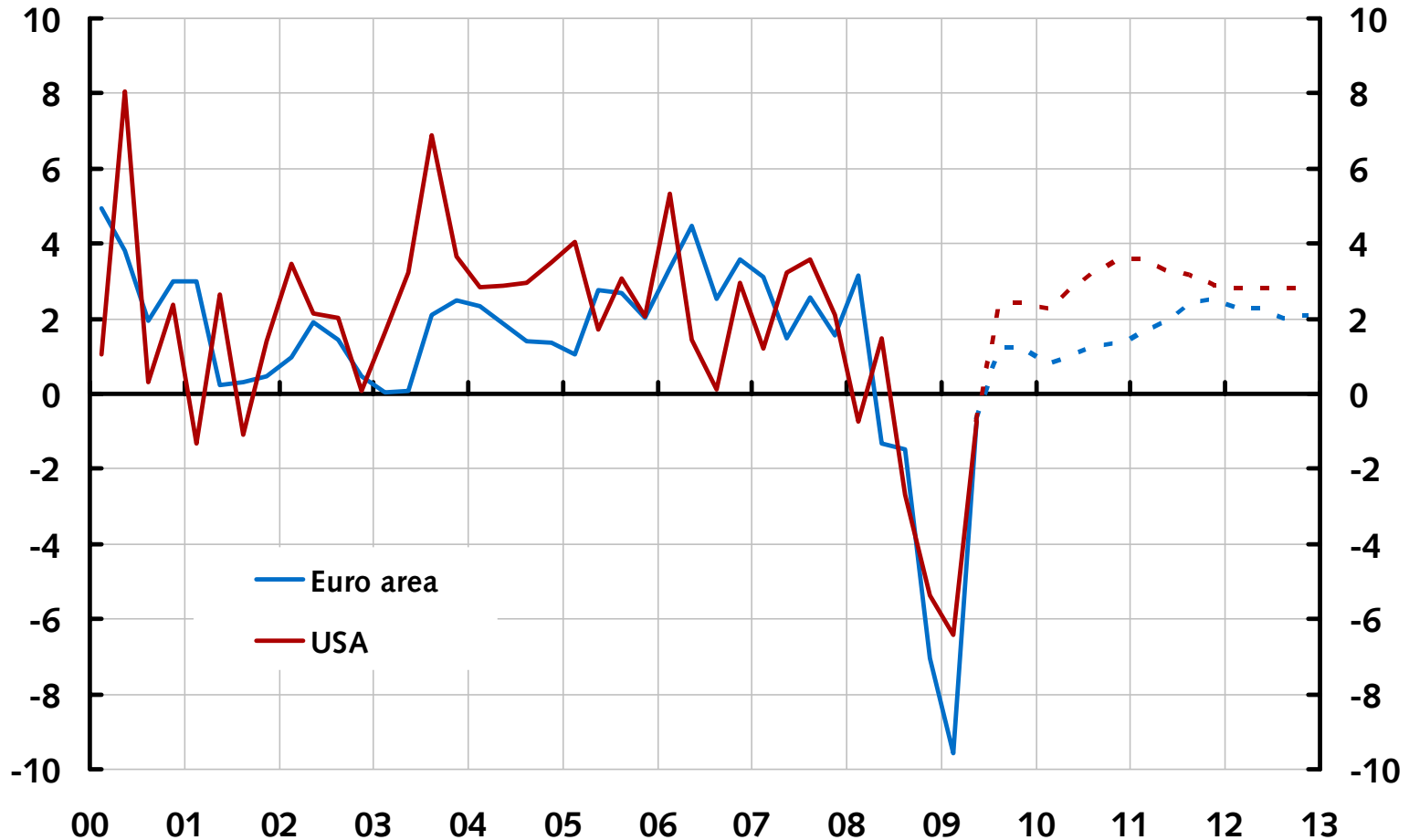


- Even if conditions and measures differ to some extent between different countries – central banks introduced unconventional monetary policy measures at about the same time when Lehman Brothers filed for bankruptcy



GDP for the USA and the euro area

Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data

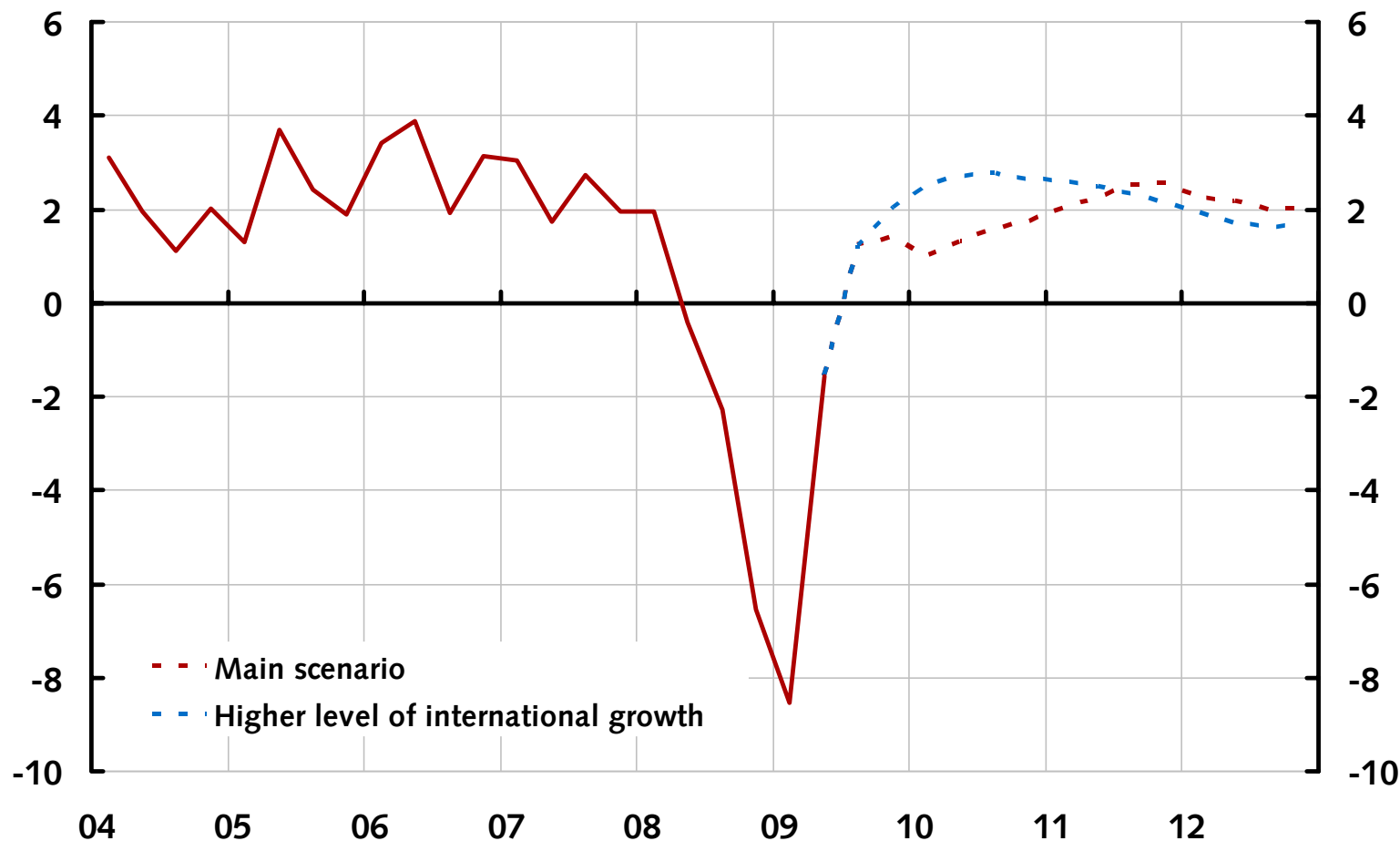


Note. Broken lines represent the Riksbank's forecast.

Sources: Bureau of Economic Analysis, Eurostat and the Riksbank

GDP abroad

TCW-weighted, quarterly changes in per cent calculated in annualised terms

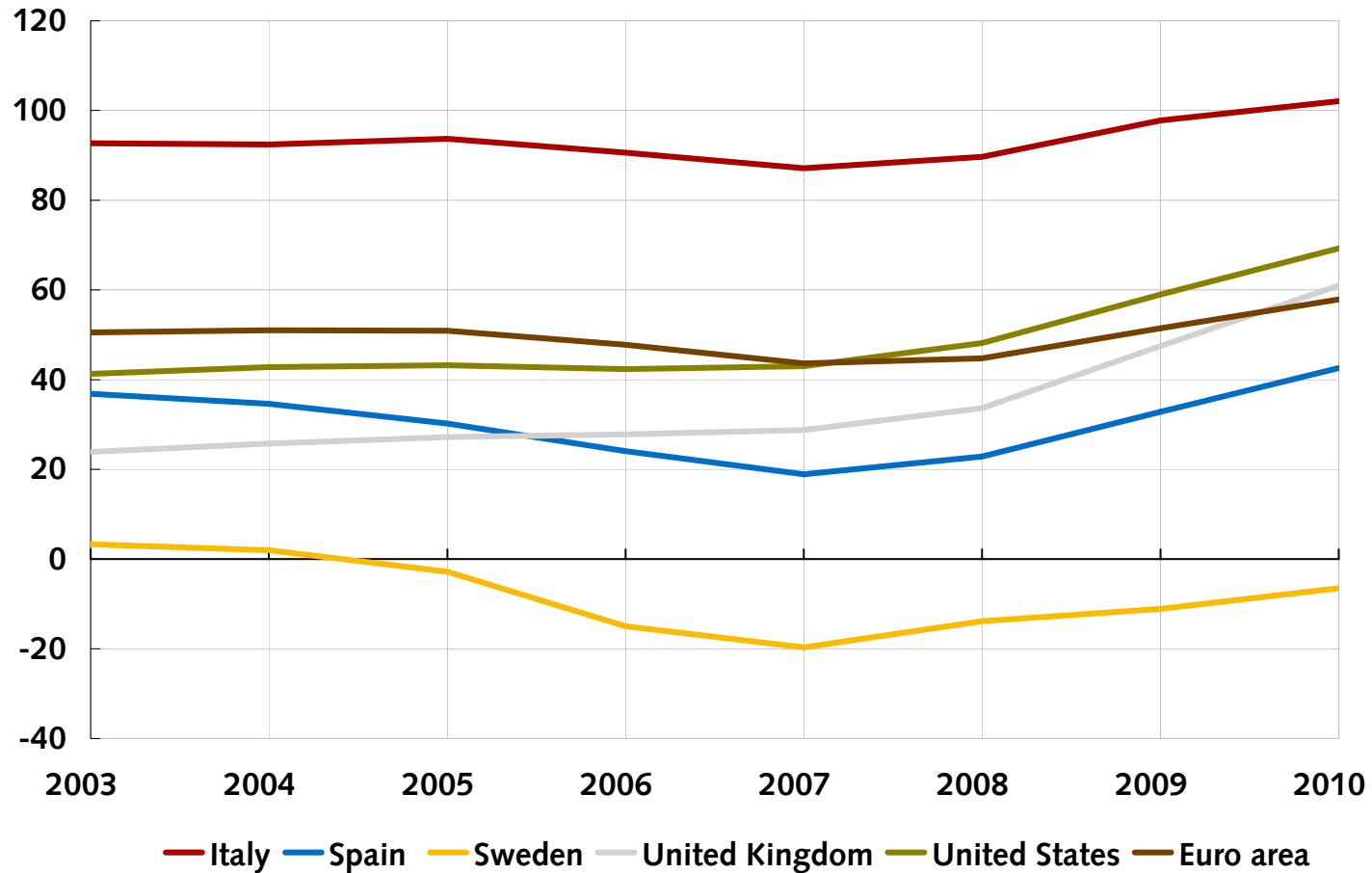


Note. Broken lines represent the Riksbank's forecast.

Sources: National sources and the Riksbank

Government gross debt

Percent of nominal GDP



Capital requirements in the banking sector

