What lies ahead –
Exiting from financial sector policies

The balancing act: withdrawing
support but not the safety net

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Objectives for interventions & exit

Three leading objectives:
1. Preserving financial stability
2. Minimizing market distortions
3. Minimizing costs to tax payer
### Changing context (1)

<table>
<thead>
<tr>
<th>Previous situation</th>
<th>Present situation</th>
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</thead>
<tbody>
<tr>
<td>Governments as backstop</td>
<td>Government finance also a <em>source of instability</em></td>
</tr>
<tr>
<td>Focus on unwinding interventions</td>
<td>New instabilities have led to <em>new interventions</em></td>
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### Changing context (2)

<table>
<thead>
<tr>
<th>Previous situation</th>
<th>Present situation</th>
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<tbody>
<tr>
<td>Broad interventions, across the board</td>
<td>Increasing <em>divergence</em> between countries and institutions calls for <em>targeted interventions</em></td>
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<tr>
<td>Temporary measures</td>
<td>Exit increasingly interacts with <em>long-term reforms</em> (Basel)</td>
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Exiting from capital support

- **Conversion** of government support into equity
- **Repayment** by the company, subject to criteria:
  1. Supervisory capital norms met after repayment
  2. Private capital replacing public support must be of the same quality (core Tier 1)
  3. Demonstrated access to equity and funding markets
  4. No excessive deleveraging to free up capital

Exiting from debt guarantee schemes (1)

- Funding markets still fragile, backstop facility needed
- After exit, re-opening of scheme is difficult
- Preserving financial stability with minimal market distortions → **gradual exit** desirable
- Transparency needed to avoid distortions and **foster market discipline**
Exiting from debt guarantee schemes (2)

Options for exit strategies:

1. Higher guarantee fees
2. Enhanced disclosure of beneficiary companies and guaranteed amounts
3. Stricter requirements for guarantees
4. Conditional closure of schemes

The road ahead for deposit guarantees

- Exit from extended/unlimited maximum amounts
- Ex-ante funded schemes
- Contributions dependent on individual bank risk
- Shorter pay-out periods
- Design depends on national context
Overarching guidelines for exit

• Need for flexible, gradual and pre-announced exit
• Need for backstop facilities over longer period
• Need for coordination, but not harmonization
• Need for market-driven strategies
• Need to tailor exit to new, not old, situation