BVZL ELSA SUMMIT 2016

Keynote - Economic Trends

Tobias Rommel, KSK Biberach

Kreissparkasse
Biberach

Agenda

1. Economic Crisis: Balance Sheet vs. Business Cycle Recession.
2. Debt-Levels
3. GDP Growth
4. Central Banks – The “New Tools”
5. Interest Rates – this time is different?!
6. Banks – in poor condition?
7. How we can get out?

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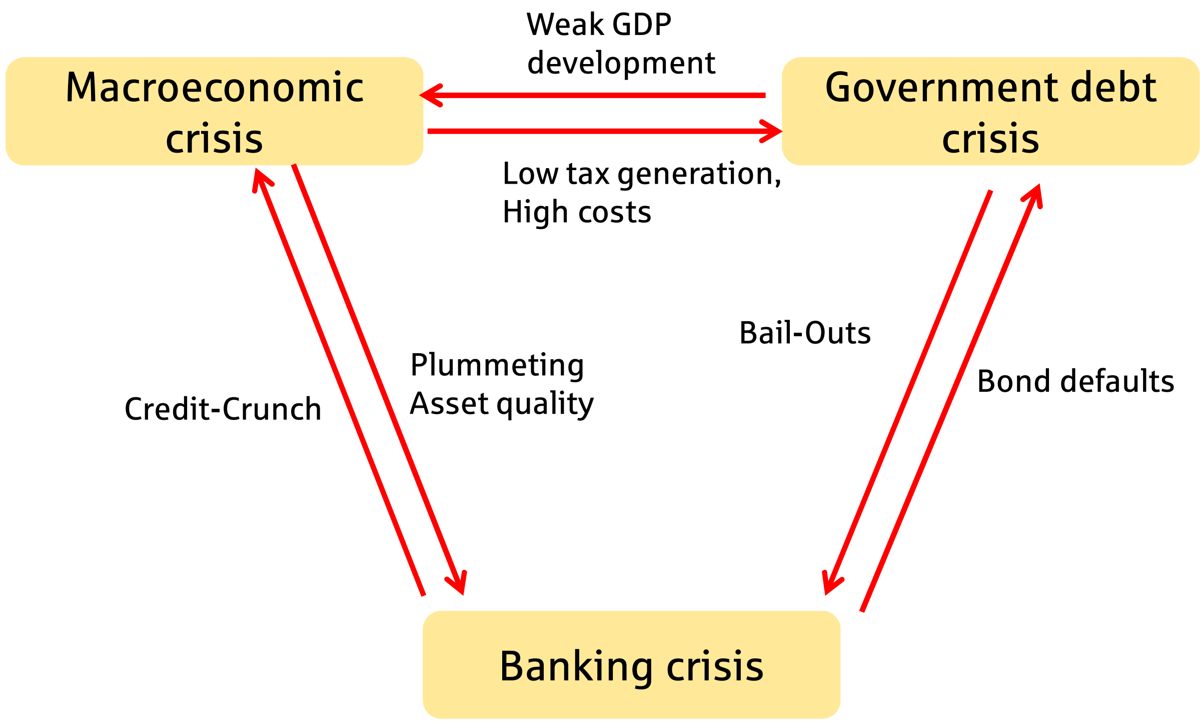
Economic Crisis: Balance Sheet vs. Business Cycle Recession

Why is the financial market crisis not over?

- Normal boom and bust cycles lasts on average 18 month
- Financial market crisis are normally severe and lasts on average 4.5yrs (tenor of great depression: 10yrs)
- In 2016 Italy has reached the GDP Level of 2007…
- Why?
  - Lender has to repair their balance sheets
  - Deleveraging need a lot of time
  - Basic principle: Big boom equals big bust!

Economic crisis: Balance Sheet Recession

Doom-Loop



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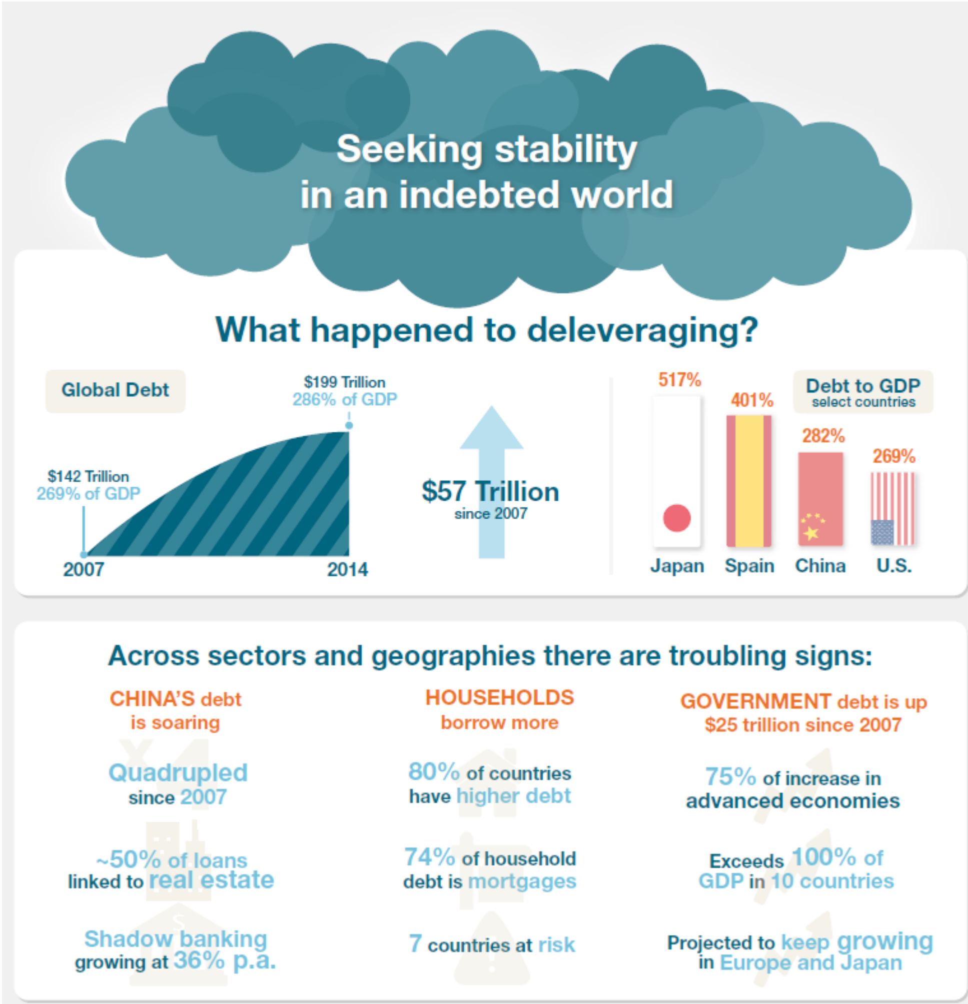
Debt Levels

Headlines McKinsey-Survey (02/2015)



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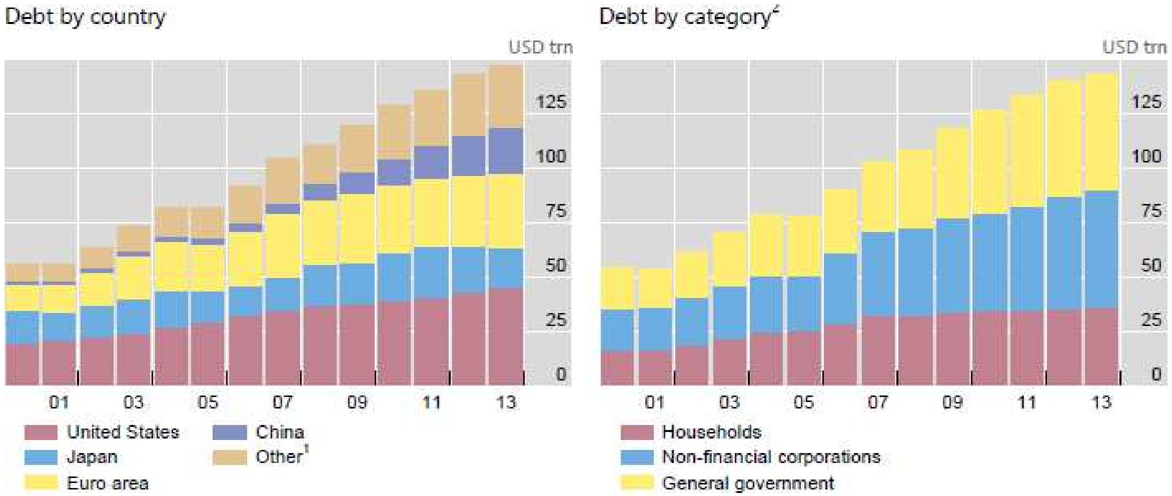
The main borrowers (BIS-Report)



[1] Sum of total debt for Argentina, Australia, Brazil, Canada, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey. [2] Sum of the economies listed in the left-hand side panel.

Sources: IMF, *World Economic Outlook*; OECD; national data.

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Debt-League and latest developments (since 2007, McKinsey)

Change in debt-to-GDP ratio since 2007 by country

Ranked by real economy debt-to-GDP ratio, 2Q14[1]

Advanced economy / Developing economy — ↑ Leveraging / ↓ Deleveraging

Rank	Country	Debt-to-GDP ratio[1] %	Real economy debt change, 2007–14 Percentage points: Total	Government	Corporate	Household	Financial sector debt change
1	Japan	400	64	63	2	-1	6
2	Ireland	390	172	93	90	-11	-25
3	Singapore	382	129	22	92	15	23
4	Portugal	358	100	83	19	-2	38
5	Belgium	327	61	34	15	11	4
6	Netherlands	325	62	38	17	7	38
7	Greece	317	103	70	13	20	1
8	Spain	313	72	92	-14	-6	-2
9	Denmark	302	37	22	7	8	37
10	Sweden	290	50	1	31	18	37
11	France	280	66	38	19	10	15
12	Italy	259	55	47	3	5	14
13	United Kingdom	252	30	50	-12	-8	2
14	Norway	244	13	-16	16	13	16
15	Finland	238	62	29	17	15	24
16	United States	233	16	35	-2	-18	-24
17	South Korea	231	45	15	19	12	2
18	Hungary	225	35	15	21	-1	10
19	Austria	225	29	23	6	0	-21
20	Malaysia	222	49	17	16	16	6
21	Canada	221	39	18	6	15	-6
22	China	217	83	13	52	18	41
23	Australia	213	33	23	-1	10	-8
24	Germany	188	8	17	-2	-6	-16
25	Thailand	187	43	11	6	26	21
26	Israel	178	-22	-4	-21	3	-2
27	Slovakia	151	51	28	8	14	-5
28	Vietnam	146	13	10	-1	5	2

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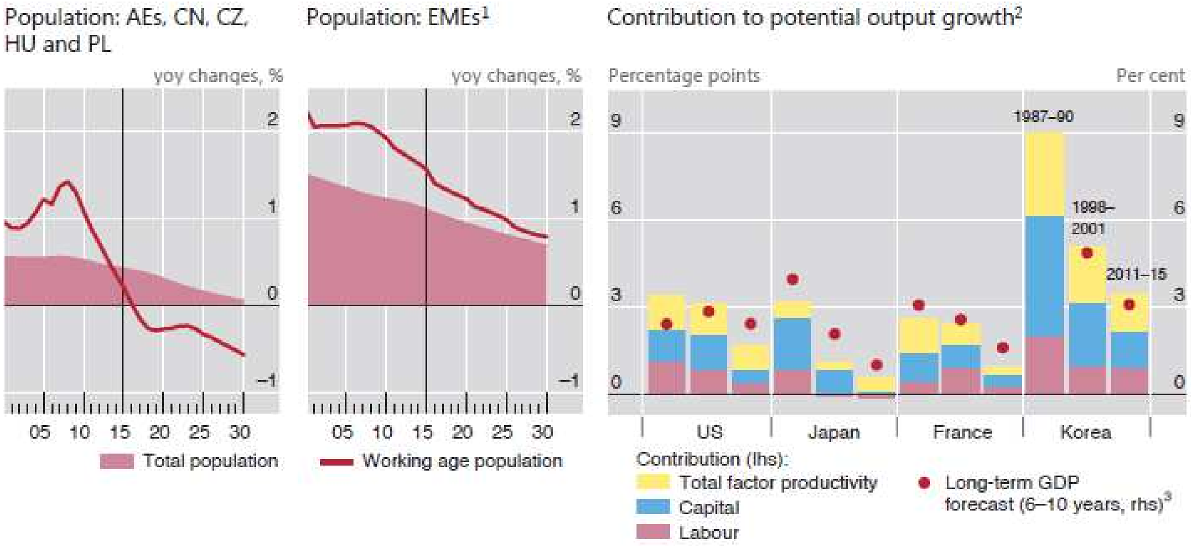
GDP Growth:

Population development + Productivity



[1] Excluding China, the Czech Republic, Hungary and Poland. [2] Period averages. [3] For 1987–90, only 1990 forecast.

Sources: OECD, *Economic Outlook*; United Nations, *World Population Prospects: The 2015 Revision*; Consensus Economics; BIS calculations.

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Central Banks – The “New Tools”

1. Using „Standard-Tools“ up to the maximum:
   - Zero basis rates + unlimited liquidity access for Banks
   - Reducing minimum reserves (= further stimulating creation of credit)
2. „New Tools “
   - Liquidity support for Banks up to 4yrs (normally < 1y)
   - Negative interest rates on central bank overnight deposits
   - Asset purchase programm (80bn/month) = heavy impacts, especially for long maturities
3. Further scenarios
   - Increasing negative interest rates
   - Expanding asset purchase program: Amounts and asset classes (stocks, bank assets, etc.)
   - Elimination of notes and coins

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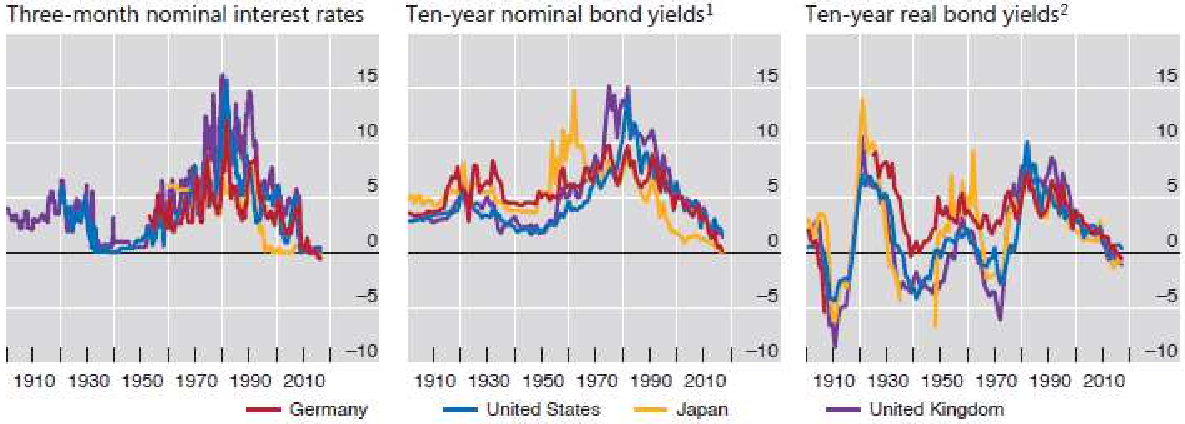
Interest Rates

nominal vs. inflation adjusted



[1] The hyperinflationary years of 1922–23 are excluded for Germany. [2] The hyperinflationary episodes for Germany and Japan are not shown. Prior to 2006, nominal 10-year yields minus average inflation rates during the next 10 years; from 2006 onwards, 10-year index-linked bond yields.

Sources: Barclays; Bloomberg; Global Financial Data; national data; BIS calculations.

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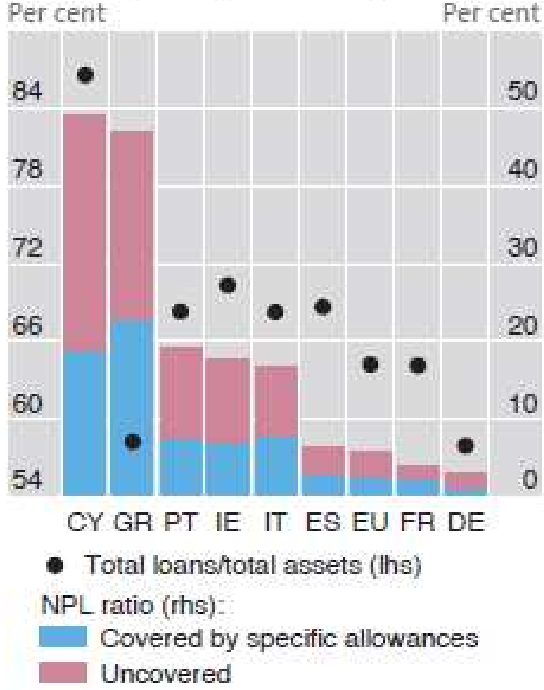
Banking Sector

(BIS-Report)

Bank price-to-book ratios fall[1]

NPLs sap bank profitability[4]



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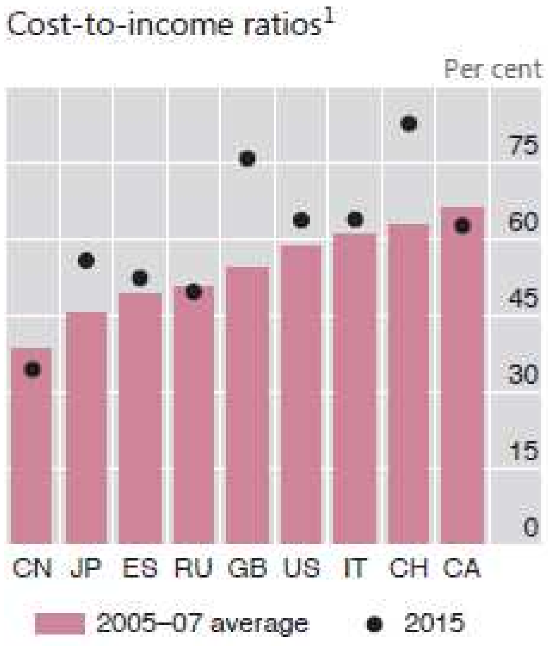
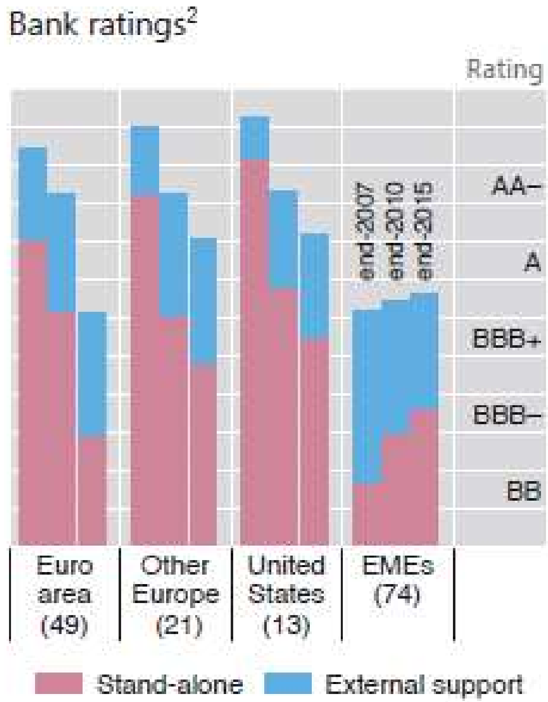
(BIS-Report)





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How we can get out?

Strategies to get out?

- Expanding GDP (USA after 2nd world war)
- Stable government spending (Germany)
- Increasing inflation rates

-> improving ratios not debt repayments!

- Hair-Cuts
- Mixture
- Questions:
  - What will happen with consumers/investors confidence?
  - Limits in GDP-Growth, what is realistic in mature markets?
  - Will it work for all economies simultaneously (vs. Pegging the neighbour policy)?

Thank you very much for your attention.

Tobias Rommel
Head of International Department

Telefon ++49 7351 570-2419
Fax ++49 7351 570-2361
tobias.rommel@ksk-bc.de

Kreissparkasse
Biberach