



## End of the crisis? And next?

Leadership Summit RSM  
Wim Boonstra ,10 september 2009

Rabobank Economic Research



# Content

- International Economic Environment
  - Outlook
  - Position of the US
  - Structural change in world economy
- Dutch Economy
- Future of banking
- The role of cooperative banks
- Conclusion

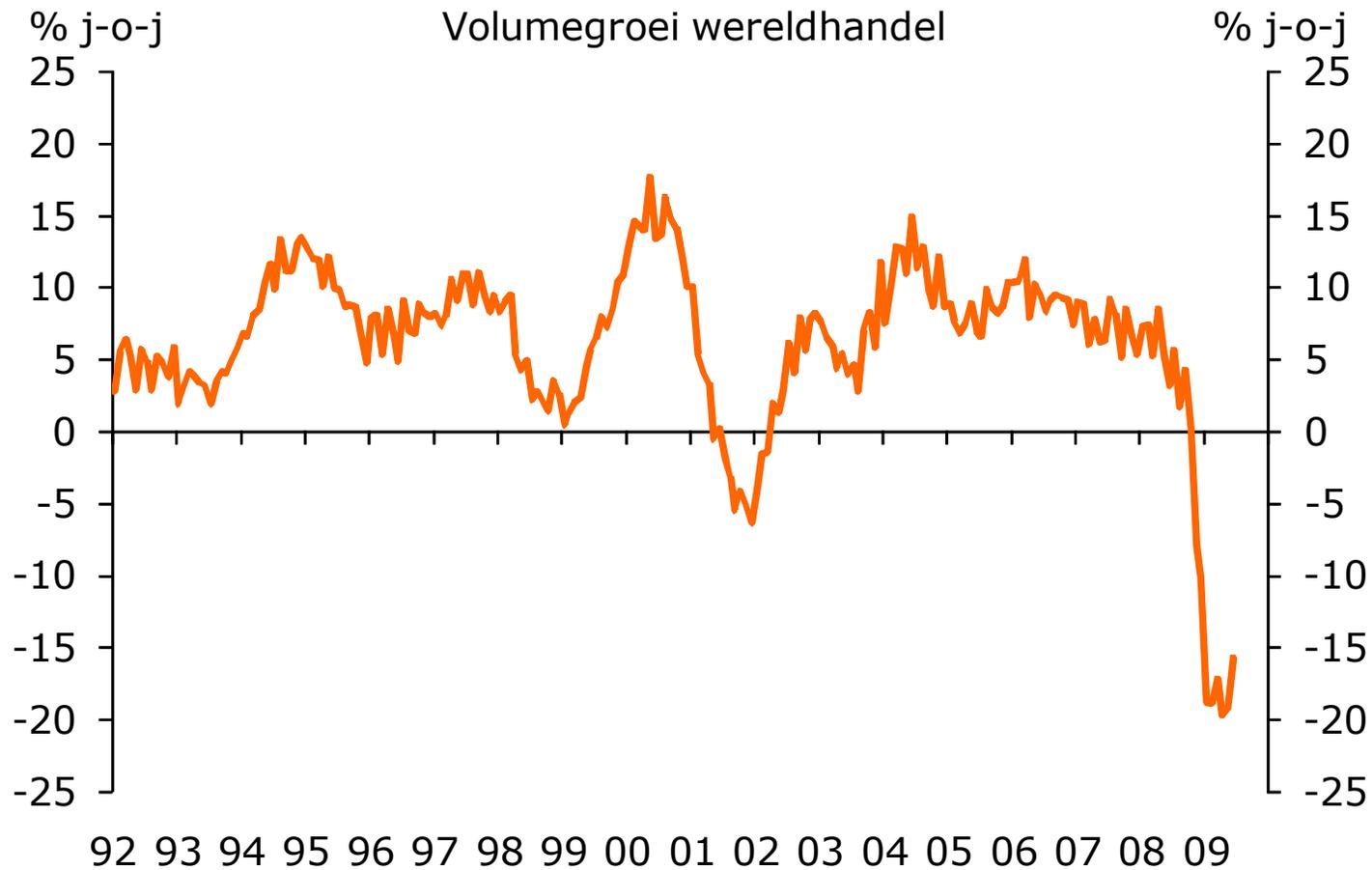


# International economy: the good news

- Global economy seems to recover
- Good news from Asia
- US economy responds to stimulus
- Recovery in France and Germany
- Return of optimism
  - OECD
  - IMF

# Economic outlook

## World trade seems to stabilise



# Economic Outlook

## International Outlook



		'08	'09	'10
<b>US</b>	GDP-growth	0.4	-2¾	1½
	Inflation	3.3	-¼	1
	Unemployment	5.8	9¼	10
<b>Japan</b>	GDP-growth	-0.7	-5¾	2
	Inflation	1.4	-1¼	¾
	Unemployment	4.0	5¼	5¾
<b>UK</b>	GDP-growth	0.7	-4½	1
	Inflation	3.6	1¼	1½
	Unemployment	5.8	7½	8¾
<b>Eurozone</b>	GDP-growth	0.6	-4	0
	Inflation	3.3	¼	1¼
	Unemployment	7.6	9½	10½

# Economic Outlook

## Permanent or temporary recovery?



### Stimulus

- Inventory cycle
- Expansive fiscal policies
- Expansive monetary policy
- Low inflation

### Break

- Banking sector still in problems
- Reduction of public deficits
- Exit strategy monetary policy
- Uncertain inflation outlook
  - Commodities
  - Policy outlook
  - Monetary expansion

Recovery has arrived, but it will be weak and fragile

# The world has changed: Old globalisation (19th century)



- Gold Standard with Sterling as trade and vehicle currency
- Free international trade
- Free capital flows, but
- Gross financial flows more or less equal to net flows
- Financial flows compensate trade imbalances
- Fixed exchange rates, gold-specie-flow mechanism
- Sometimes reshuffling based on trade imbalances

# The world has changed: New globalisation (end 20th century)



- No formal monetary standard
- Dollar as most important trade and vehicle currency
- Free international trade
- Free capital flows, but
  - Gross financial flows are much larger than net flows
  - Financial flows have their own dynamics and determine exchange rates and trade imbalances
- Exchange rates move more or less independently from fundamentals, at least in the short run
  - Disimbalances can be continued for a much longer time
  - Corrections can be very disruptive

# United States' special position

- Major source of all our current problems
  - Exporter of toxic assets
  - Huge savings deficit
- Major fundamental problems
  - High unemployment
  - Huge deficits
  - Poorly supervised financial system
  - Already going 'back to normal'
- Special position of dollar
  - Adds to instability of global economy
  - Misalignment of exchange rates fundamental problem

# The questions to be answered:

- What is so special about the US- dollar?
  - Most important trade, vehicle, investment and reserve currency
  - (informal) anchor of world financial system
- Why have the US a structural current account deficit and why is the world financing it?
  - The world needs US dollars
  - Global savings glut
- What should the US deliver?
  - A solid and stable currency
  - Monetary and financial stability
- What happens if the US dollar depreciates?
  - US become richer, rest of world becomes poorer
  - Necessary to redress global imbalances



# Need for a new monetary standard

- Is the US to blame?
  - Yes, because it ignored growing imbalances
  - Yes, because it failed to deliver financial stability
  - No, because surplus countries also played a disruptive role
- Is the current system sustainable?
- What would the new system look like?
  - No logical successor for US dollar
  - Greater role for IMF needed



# Economic Outlook

## The Netherlands

- Dutch economy in deepest recession since WOII. But the worst seems to be over
- Stabilisation of world trade offers some relief
- Domestic dynamics: Investment drops and consumers start to save
- Labour market: Unemployment will rise coming months
- Housing market stagnating, but not core of the problem

# Economic outlook

## Dutch Economic Outlook



Yoy %-change	2008	2009	2010
GDP	2.0	-5	1/4
Consumption	1.3	-2 <sup>3</sup> / <sub>4</sub>	-1
Investment	6.6	-15	-6 <sup>1</sup> / <sub>2</sub>
Exports	2.7	-9 <sup>3</sup> / <sub>4</sub>	2 <sup>1</sup> / <sub>4</sub>
Imports	3.7	-8 <sup>3</sup> / <sub>4</sub>	1
Inflation (%)	2.3	1	1 <sup>1</sup> / <sub>4</sub>
unemployment	3.9	5	7 1/2
%GDP:			
Government balance	0.6	-4 <sup>1</sup> / <sub>2</sub>	-6 <sup>3</sup> / <sub>4</sub>
Trade balance	6.7	6.1	6.3



# The future of banking

- Back to customer orientation: the renaissance of 'classic banking'
- Role of authorities
  - Improved supervision
  - Redressing the negative impact from the State interventions
  - Non-solutions for non-existing problems: bankers' bonus discussion
- Search for optimal scale: too big to save versus economies of scale
  - Cooperative network model as example: small scale local, large scale central
- Redefining the role of shareholders in banking
  - Banks are not 'normal' companies but part of infrastructure → limits to SHV model
- Not enough attention for banks with alternative orientations
  - Savings banks
  - Cooperative banks
- The added value of diversity for financial systems

# Cooperative banks are different

- Origin
  - Reaction to market failure (access to finance for farmers, craftsmen, etc.)
  - Initially broad ambition (economic, but also social improvement)
  - Private initiative
- Dual bottom line
  - Maximum profits not the ultimate goal
  - Stakeholders Value (STV) versus Shareholders Value (SHV) Model
  - Sound profitability necessary precondition for continuity
- Governance
  - Bottom-up decision making instead of top-down
  - Democratic structure: influence of members
  - Ultimate decision making power lies with the member banks
- Ownership
  - Nobody owns the bank
  - Locked in capital (mostly cumulative profits)



# Impact cooperative banks on financial systems

- Competition
  - Stakeholder model versus Shareholder model
  - Dual bottom line
  - Presence of strong cooperatives adds to competition
- Presence value
  - Can only be measured when a strong cooperative bank is newly established or disappears from the market
  - See demutualisation in the UK
- Stability
  - Cooperative banks add to the stability of financial systems

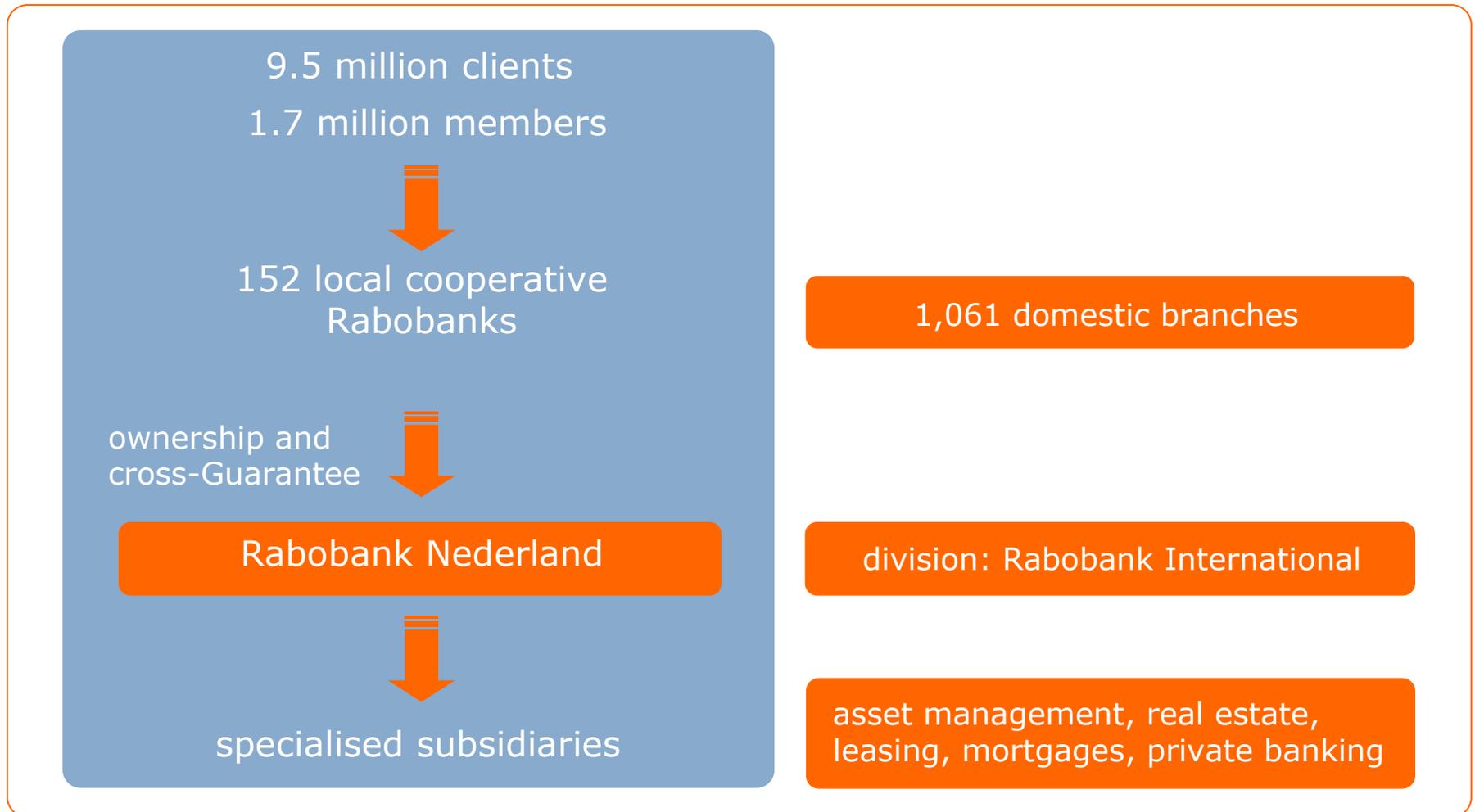


# Cooperative banks and stability

- The cooperative model is relatively crisis proof
- Evidence
  - Earlier crisis: Dutch cooperative banks in early 20th century
  - Today: European cooperative banks did better (less bad) than commercial banks
- Causes
  - Conservative approach to banking
  - Peer pressure translate into relatively good credit quality
  - Customer intimacy
  - In this crisis: relatively strong capitalization
- Stability decreases when cooperative banks broaden their scope into non-traditional areas and start to behave like commercial banks



# Structure Rabobank Group





# Rabobank at a glance

	June 2009	Dec. 2008
Total assets (€bn)	615.4	612.1
Group equity (€bn)	36.9	33.5

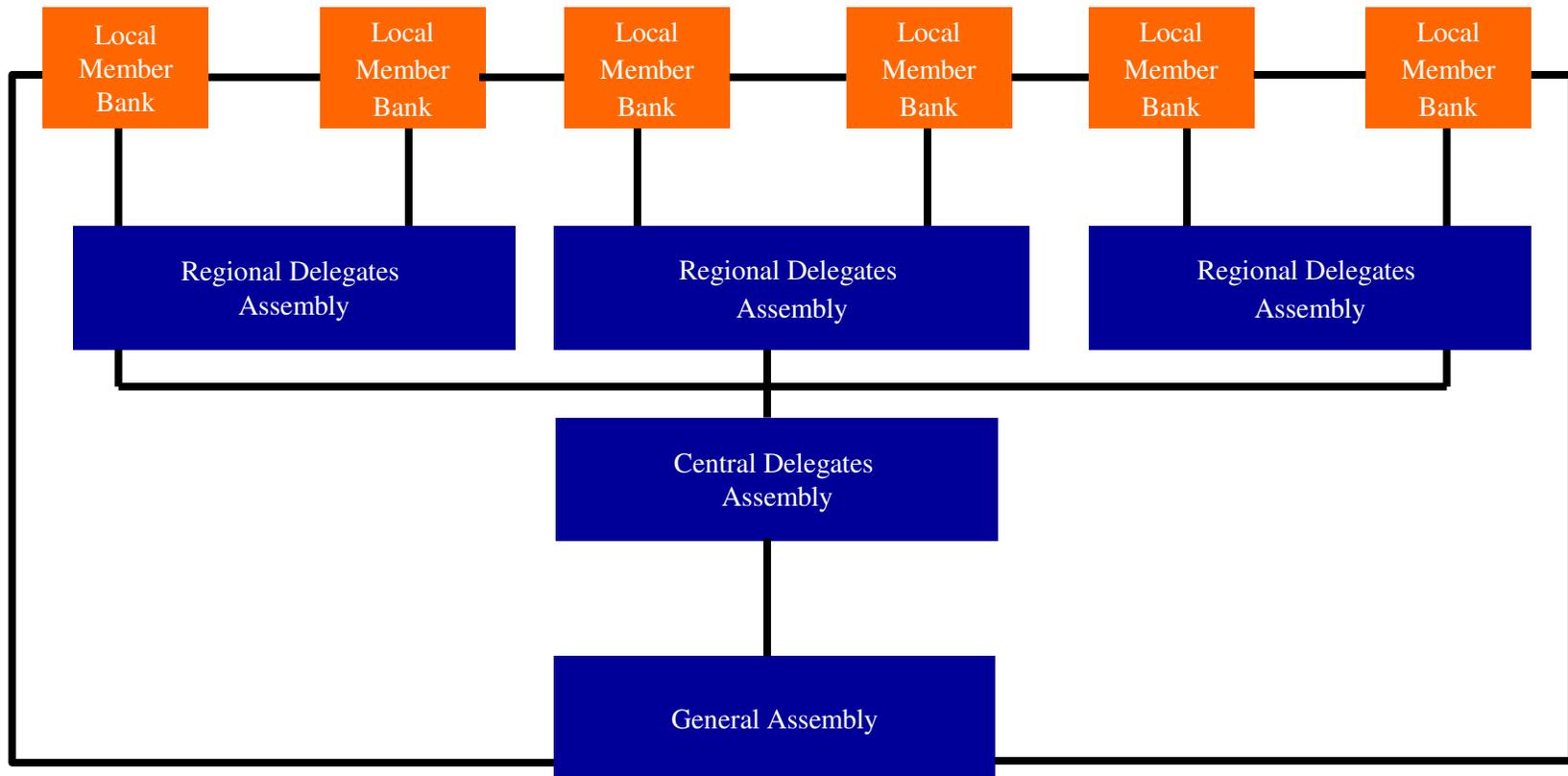
	2009-I	2008-I	Long term objective
Return on equity	8.7%	11.3%	10%
Net profit growth	-18%	+18%	+10%
Tier-I ratio	13.0%	11.2%	12.5%

Income	€ 6.3bn
Operating expenses	€ 3.7bn
Value adjustments	€ 1.1bn
Operating profit	€ 1.4bn
Taxation	€ 0.1bn
<b>Net profit</b>	<b>€1.3bn</b>

	2009-I	2008-II	2008-I
Net profit (€mn)	1,316	1,141	1,613
Efficiency ratio	59.1%	66.0%	64.6%

Committed to Triple-A ratings		Since
Standard & Poor's	AAA	1981
Moody's Investor Service	Aaa	1981
DBRS	AAA	2001

# Our secret: good governance





# Governance and ownership issues

- Rabobank 'owns itself' (equity is 'in de dode hand')
- Equity base is the result of 110 years of retained profits
  - Additional capital is raised via membership certificates
  - Availability of capital sets the pace for growth
- Who is the boss? → good question
  - Member based organization
  - Local banks own Rabobank Nederland
  - Cross-guarantee scheme
  - Rabobank Nederland supervises the local banks
    - Delegated supervision from DNB
    - Supervision on behalf of the Group
  - Delicate balance of power
- Leadership style:
  - Facilitating
  - Democratic

# What have we learned?

- Our business model is basically sound
  - Strong customer orientation
  - Strong balance sheet, high solvency and liquidity
  - Good governance
- Some aspects need reorientation
  - Decrease our dependency on wholesale funding
  - Stronger focus on our core clients
  - Decrease of our non-core international business
- Key succes factors:
  - Strong company culture
  - Good governance
  - Financial discipline, anchored by AAA-rating



# Conclusion

- Recovery has arrived, but will be weak and fragile
- Global financial architecture should be redesigned
- Back to the future in banking
- Cooperatives and savings bank add to stability
- Too much focus on SHV-model
- Good governance is key



More information?

[www.rabobank.com/kennisbank](http://www.rabobank.com/kennisbank)