To date, three years into the first global financial and economic crisis of the XXI century, central banks find themselves with significantly expanded balance sheets as a result of the substantial support they provided to the markets through both conventional and unconventional monetary policy tools implemented in response to the turmoil. As the crisis loses its intensity, new policies need to be designed in order to unwind the significant support so as not to derail the recovery and not to pose risks to price and financial stability. For this a proper exit strategy needs to be designed.

In the literature to date there is no well-defined notion to what an exit strategy is and, most importantly, there is no unique answer on the principles it should follow. In this thesis the author attempts to identify the determinants of a successful exit strategy and analyse the main challenges policymakers face when designing one. Additionally, the author places a great emphasis on the risks of premature and delayed exits and on the past experiences with this issue.

The results are based, to a large degree, on extensive review of literature, which, due to the recent provenience of the problem and its acute importance, is represented in a big part by central bank authorities’ speeches, conference papers and some very recent working papers. Based on the findings in this thesis the author defines the optimal elements of an exit strategy and proposes a monetary exit strategy for the European Central Bank.