

Liquidity Bubble a Risk as Economy Improves

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Adrian Monck, Managing Director, Head of Communications: +41 (0)79 615 1671; adrian.monck@weforum.org

- Central banks will need to remove liquidity from the system as economic conditions improve
- 2013 will be a transition year in which spending will increase
- Productivity will replace liquidity as the primary focus for growth
- The theme of the 43rd World Economic Forum Annual Meeting is Resilient Dynamism. For more information, visit <http://wef.ch/Davos>

Davos-Klosters, Switzerland, 25 January 2013 – Speaking today at the 43rd World Economic Forum Annual Meeting, Ray Dalio, Founder and Chief Investment Officer of Bridgewater Associates, warned against a growing liquidity bubble. “ When spending picks up, it will be incumbent on the central banks to mop excessive liquidity up, ” he said, warning against inflation risk.

Dalio described the new norm as being a depressed economy, saying the discussion will shift from liquidity to productivity. “ Productivity will be the driver, ” he said. “ The debt cycle will no longer be the driver; 2013 will be a transition year and the shift of cash will be a game changer. ”

Dalio was speaking on a panel which included Anshu Jain, Co-Chairman of the Management Board and the Group Executive Committee, Deutsche Bank; Jin Liqun, Chairman of the Board of Supervisors, China Investment Corporation (CIC); Pierre Moscovici, Minister of Economy and Finance of France; Brian T. Moynihan, Chief Executive Officer, Bank of America; and Ignazio Visco, Governor of the Bank of Italy.

Visco echoed Dalio ’ s comments, warning against complacency and saying the challenge for central banks will be the absorption of excess liquidity when economic conditions improve. “ Liquidity was needed because of the risks which precipitated from the financial crisis, ” he said. “ This has been addressed with conventional monetary policy. ”

Moynihan also signalled optimism for 2013, but with a sombre tone. “ Investors are waiting for certainty, ” he said, confirming the views of Jain who said investors were most specifically looking for policy certainty and regulatory certainty.

“ The major thing a central bank produces is not money; it is trust, ” said Visco.

Notes to Editors

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