

## Liquidity Bubble a Risk as Economy Improves

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- 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*.  
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**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 Lique, 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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