

Concerns Over Shadow Banking, Optimism for Emerging Markets

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Fon Mathuros, Head of Media, Communications Department, Tel:+41 79 201 0211
fmathuro@weforum.org

- Global growth is recovering, but still weak.
- While GDP growth of developing countries is slowing, it is still much faster than the GDP growth of developed countries.
- Chinese economy is entering a period of slower growth.
- For more information about the Annual Meeting of the New Champions, please visit: <http://www.weforum.org/newchampions>

Dalian, People ' s Republic of China, 13 September 2013 Emerging markets will still lead global economic growth, said Min Zhu, Deputy Managing Director of the International Monetary Fund (IMF), but there will continue to be challenges. As the world pulls itself out of the financial crisis, uncertainty and volatility remain the norm for the global economy.

Panellists in a debate on the global economic outlook discussed the Chinese shadow banking sector, referring to the system of non-bank intermediaries that provide services similar to traditional financial institutions, and whose size and health has concerned some investors. The estimated 20 trillion RMB size of the shadow banking system is significant, but won ' t " overwhelm " the 150 trillion RMB total banking system, said Zhang Yichen, Chairman and Chief Executive Officer of CITIC Capital in Hong Kong SAR. Because this system is far less complex than the US subprime market, where the risk was widespread throughout whole system, " in times of crisis, it ' s very easy to contain, " he said.

Zhu, however, says the sector is a " concern " . Moreover, because the Chinese financial market " is much less sophisticated than the US market, " simpler products, like those provided by the shadow banking sector, can be worrying, he said.

Growth for the world economy overall " is still weak, " said Zhu, a view shared by Rich Lesser, Global Chief Executive Officer and President, The Boston Consulting Group, USA. " Global growth isn ' t where we want it to be, " he said.

But even if the average growth rate for developing countries will be lower in the future than in the last 10 years, it will still be much higher than the average growth rate for developed countries, said Ali Babacan, Deputy Prime Minister for Economic and Financial Affairs of Turkey. In emerging markets, Lesser is looking at the willingness of these countries " to undertake reform and make it stick. If that happens, we have a lot of optimism in the medium term, " he said.

Because of positive factors such as the shrinking of the labour cost gap between the United States and China, and the implications of increased shale gas production, " there is a reasonable cause for optimism " in the US economy, said Lesser. As for Europe, it has come out from " a very very low point, " he said, and " stepped back from the brink a far distance, but challenges ahead remain substantial. "

Zhu is confident that, despite the challenges the region faces, there will not be a return to the Asian financial crisis. " The macro-condition is very different, the debt level is much lower and the reserve line is much higher, " he said, concluding that the fundamental situation is much better.

So where do the risks come from in China? Structural reform, which is clearly only starting, answered Zhang. “ Over the next 18 to 24 months, you ’ re going to see more bad news, ” he said. “ But I think China will be able to weather it. ”

Over 1,600 participants from 90 countries are taking part in the seventh Annual Meeting of the New Champions Dalian on 11-13 September. The Meeting is held in close collaboration with the Government of the People ’ s Republic of China with the support of the National Development and Reform Commission (NDRC).

Under the theme Meeting the Innovation Imperative, the Meeting features an intensive three-day programme to explore the innovation imperative under four thematic sub-themes: Transforming Industry Ecosystems; Unleashing Innovation; Building Societal Resilience; and Connecting Markets.

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World Economic Forum, 91-93 route de la Capite, CH-1223 Cologny/Geneva
Tel. +41 (0)22 869 1212, Fax +41 (0)22 786 2744, <http://www.weforum.org>