

## Over US\$ 100 Trillion Additional Credit Needed to Support Global Growth

18 January 2011

New York, USA, 18 January 2011 – Credit levels will need to double over the next 10 years, growing by US\$ 103 trillion, to support consensus-projected economic growth. This doubling of credit could be achieved without increasing the risk of major crisis, finds *More Credit with Fewer Crises: Responsibly Meeting the World's Growing Demand for Credit*, a report released by the World Economic Forum in collaboration with McKinsey & Company. The study develops a detailed global credit model using historical credit volumes and forecasting potential credit demand to 2020 across 79 countries, representing 99% of world credit volume. The study applies a sustainability methodology to the projected credit demand, using newly developed metrics to answer the following two questions: Will credit growth be sufficient to meet demand? Is there a risk of future credit crises and, if so, where?

The report finds that meeting credit demand will be challenging. Globally, financial protectionism may constrain cross-border financing, a key to the provision of sufficient credit in the next decade, as global imbalances persist. In addition, the regions will experience varying issues: Asia will face the challenge of meeting the high credit demand growth of US\$ 40 trillion with less developed financial systems and capital markets. In the European Union, a further US\$ 13 trillion of credit in the form of bank lending will be needed. To supply this, banks will require additional capital that, after retained earnings, could lead to a capital shortfall of US\$ 2 trillion. Analysis shows that the US would continue to need to draw on global savings, potentially by up to US\$ 3.8 trillion in 2020, in order to fund its credit needs, unless there is a marked increase in US domestic savings rates.

"Leaders in the private and public sectors must take decisive actions to avoid contributing to credit hotspots and coldspots, while still meeting the US\$ 100 trillion of credit demanded to sustain economic growth over the next 10 years," said GianCarlo Bruno, Director, Financial Services Industries, World Economic Forum.

Despite widespread deleveraging, a number of "hotspots" – i.e. segments where credit levels grow in excess of sustainable levels – will persist, while new ones emerge. By 2020, these will include retail credit segments in countries representing almost half of the global GDP. By contrast, government credit hotspots are projected for a much smaller set of countries, between them representing 13-14% of world GDP. In wholesale credit, Asia and Western Europe will be the main drivers of hotspots in 2020.

The report finds that the large projection in credit demand can be safely met, but financial institutions, regulators and policy-makers need more robust indicators of unsustainable lending, contagion risk and credit shortages – and better mechanisms to ensure credit promotes development.

"This report is a timely contribution to the discussion of what's needed to secure stable and sustainable credit for the world economy in the years ahead. Given the huge financing needs of both developed and developing markets, it's a crucial issue for policy-makers and the financial industry to tackle globally," said Deven Sharma, President, Standard & Poor's.

"The banking system has a critical role in supporting future economic growth and this report highlights ways in which it can do so with reduced risk of crises. In particular, there is a pressing

need for continued development of capital markets in developing economies to support their continued economic success,” said Charles Roxburgh, Director of McKinsey Global Institute.

The report concludes with eight recommendations that financial institutions, regulators and policy-makers can follow today to ensure sustainable credit levels for the future:

1. Integrate the concepts of sustainable credit into the regulatory agenda
2. Create standardized government accounting practices to increase transparency and accurately assess sovereign finances
3. Encourage responsible borrowing through financial education
4. Encourage financing of local “coldspots” through targeted mechanisms
5. Task a single agency with monitoring global credit levels and system-wide credit sustainability
6. Align banks’ risk appetite with sustainable credit criteria
7. Drive innovation by financial institutions, developing new mechanisms that can safely meet future global credit needs
8. Establish goals for efficient and deep capital markets by 2020 in developing economies

The findings and recommendations of the report will be discussed by experts from the industry, policy-makers, regulators and academics at the World Economic Forum Annual Meeting 2011 in Davos-Klosters, Switzerland.

This report was developed by the World Economic Forum in collaboration with McKinsey & Company.

#### Notes to Editors

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