

press release

FOR IMMEDIATE RELEASE

Ref. 12/CA/03/2010

Domestic factors to drive global policy debate China and the US take centre stage

LONDON, 2nd March, 2010 --- The global economy faces considerable risk of premature exits from stimulus policies, but local factors in emerging economies such as China and India may justify tightening in the near future, according the latest edition of ***Global Focus***, Standard Chartered Bank's monthly report, published today.

The report draws insights from the research team's recently concluded client meetings held across Asia, Africa, the Middle East, Europe and the US. Divergent trends, even among the emerging markets, will require investors and companies to differentiate between economies more than ever before, the report concludes.

While the financial markets are naturally more focused on what the world's biggest borrower, the US, will decide on interest rates, the actions of the world's biggest saver, China, should matter more in the coming months, according to the report. Although the Chinese economy has come full circle since the onset of the global financial crisis, it faces a challenge of its own – how to tame a booming economy where public and private investment is soaring, fuelled by bank lending and government spending, raising concerns about the sustainability of the growth story.

Dr. Gerard Lyons, Chief Economist, said:

“China has a bubble in some places, but it would be wrong to believe this is a bubble economy. It is for real. Quite simply, China is experiencing an Industrial Revolution, and I still do not think the markets really appreciate the speed and magnitude of this change. The message is that investors and markets should anticipate increased volatility. The business cycle exists in China, as elsewhere, but as the economy grows, the volatility could become significant.”

In the West, the recent move by the US Federal Reserve to raise the discount rate has raised worries over policy tightening. However, this – along with other measures, such as the impending conclusion of the quantitative easing programme – should be seen as a step aimed at normalising, rather than tightening, monetary policy, according to the report.

Meanwhile, debt problems in Europe have raised concerns about the stability of the European Union. The ***Global Focus*** report suggests that the solution to the current crisis lies in a stronger political union to support the monetary union in Europe.

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