The PREYMA Report

The G20 and Global Capital Markets

Critical Issues and Analysis

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Introduction

The Organisation for Economic Co-operation and Development (OECD) released its Interim Economic Assessment, which states that although the global recovery is slower than previously anticipated and uncertainty remains, the loss of momentum is temporary. It has trimmed its forecast for growth for the G7 countries from 2.5% in its May *Economic Outlook* to 1.5% for the rest of the year. Growth remains strong in the emerging markets.

Data seem to be following a trend of being stronger than expected, which is helping to mitigate fears of a double-dip recession. The new trend of thought is that although growth is slow, it is nonetheless still growth. Retail sales in China along with industrial output and fixed-asset investment all came in above expectations. Even though inflation has risen to its highest level in a year, the People's Bank of China did not raise interest rates. The United States Federal Reserve also left its benchmark lending rate unchanged for "an extended period of time." Canada, however, raised its interest rate on September 8 by a quarter of a point to 1%, but Mark Carney, governor of the Bank of Canada, stated that it would be watching U.S. economic conditions very closely.

Ireland is facing continuing woes over its banking crisis. The latest blow came with the news that an estimated €34 billion bailout would be needed for Anglo Irish Bank. Instead of cutting spending in the upcoming December budget, in November finance minister Brian Lenihan will announce a restructuring strategy that includes a four-year plan to balance the budget. The current deficit is 32% of gross domestic product (GDP), 10 times greater than allowed by law for European Union members.

Moody's Investors Service downgraded Spain's rating one level to Aa1 from AAA, which it held since 2001. The downgrade was based on concerns for Spain's economic recovery along with its soaring deficits and debts. The new rating, however, will make it more expensive for Spain to borrow and will put additional strain on its finances. Spain has been in a recession for two years since its construction and real estate sectors collapsed; unemployment sits at 20%.