

The **PREYMA** **Report**

The G20 and Global Capital Markets Critical Issues and Analysis

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Introduction

Attention for most of June focused on the growing sovereign debt crisis and the risk of Greece defaulting on its loans. Even after Standard and Poor's downgraded Greece to CCC, the lowest possible credit rating, European Union finance ministers produced a bailout plan that was contingent on Greece passing tough austerity measures and including the private sector in voluntarily rolling over their Greek bonds. By month's end, French and German banks had agreed to roll over their bonds after a French proposal to swap 50% of bonds maturing between 2011 and 2014 for new 30-year bonds and another 20% invested in special purpose vehicles. Holders would also receive interest tied to Greece's growth rate. The final 20% would be reinvested in zero-coupon, AAA-rated bonds. Amid growing strikes and violent protests that saw hackers shut down the government's website and the finance ministry building set on fire, a mid-term package of €28 billion in public sector cuts and €50 billion in a sell-off of state assets passed in two separate votes by a narrow margin in Greece's parliament. International lenders will now deliver €12 billion of the latest tranche from 2010's bailout package. EU finance ministers will meet again in July to discuss the new bailout plan. China, a major holder of European sovereign debt supports finding a solution for Greece as well.

U.S. lawmakers were unable to agree on how to address its \$14.3 trillion debt ceiling. Originally, negotiations led to \$1 trillion in spending cuts over the next decade but later stalled due to the intro-

duction of increased taxes. Calls were made for the president to become directly involved in the talks. The goal was to cut \$2.4 trillion in spending to cover the federal government until after the next election in 2012. All three rating agencies warned that they would downgrade the U.S. if a solution was not found. Standard and Poor's also warned that it was looking into downgrading the U.S. banks that had relied on government support during the financial crisis, specifically assessing whether Bank of America, Citigroup Inc. and Wells Fargo & Co. could sustain themselves if the government could not provide financial support if they got into trouble. One-year credit default swaps (CDS), insurance in case of a U.S. default, have doubled since April.

In Washington on June 22, a senior official of the Obama administration announced that the United States will host the 2012 G8 summit in Chicago in May, around the same time as President Barack Obama hosts the annual summit of the North Atlantic Treaty Organization (NATO). Obama confirmed the announcement of the NATO summit in a televised speech that evening. The two summits will take place between May 15 and 22. The G8 summit will focus on economic issues, and Afghanistan will be a main theme of the NATO summit.¹

¹ G8 Research Group (2011), "United States Will Host the 2012 Summit in May in Chicago," June 22. <www.g8.utoronto.ca/whatsnew/2012location.html>.



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