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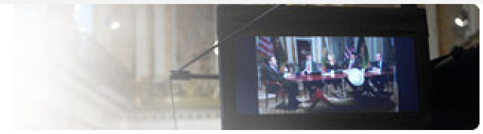

Statement by U.S. Treasury Secretary Henry M. Paulson Following the Meeting of the G7 Finance Ministers and Central Bank Governors Essen, Germany

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We had a very good meeting with G-7 Finance Ministers and Central Bank Governors today, hosted by Minister Steinbruck. I thank Minister Steinbruck for his gracious hospitality.

We are enjoying one of the strongest and most prolonged global expansions in memory. The United States is doing its part. The U.S. economy grew strongly last year. Although the residential housing market has been cooling, growth is being supported by good consumption on the back of solid job creation and wage growth. Net exports are also contributing. Looking ahead, the outlook is very encouraging. Housing activity appears to have stabilized; labor markets are firm; consumer confidence is rising; wages are rising; and inflation is easing. We are looking for solid growth in 2007, in line with potential of near 3%. The federal budget deficit was 1.9% of GDP last fiscal year and is expected to come down further this year. The President's budget projects a balanced budget in 2012.

All countries must also do their part to contribute to global adjustment. Europe's expansion is continuing and Japanese growth is expected to accelerate. But there is still ample scope in both areas to strengthen measures aimed at creating more robust domestic demand. Greater flexibility in China's exchange regime is also needed as part of China's rebalancing of its economy.

Strengthening capital markets, both here in the United States and abroad, is one of my highest priorities. Competitive capital markets spur growth, create wealth and improve the quality of our lives. In emerging economies, local capital market development holds the very same promise. Already, emerging economies are making considerable progress, but there is much more to be done. At dinner last night, we discussed local capital market development with our counterparts from Brazil, China, India, Mexico, Russia and South Africa, and concrete actions that the G-7 and the International Financial Institutions might take to help strengthen these important trends.

We also discussed trade with our emerging market colleagues. We agreed that the Doha Round is one of the most significant things we can do for economic growth and opportunity for all people, especially those in the poorest countries of the world. We welcomed the new approach of the trade ministers, focused on sensitivities and priorities, and the renewed spirit of optimism and new energy behind discussions. My colleagues and I embraced the role we can play, in working with the trade ministers and in making the case for trade.

Hedge funds were another topic of discussion. I am firmly convinced that hedge funds provide considerable benefits to financial markets and our economies, but they also can present potential challenges and risks. It is in the U.S. interest to promote a thriving, competitive global hedge fund industry that facilitates price discovery and promotes liquidity in financial markets, while maintaining investor protection and promoting financial stability. Market discipline, focusing on the risk management of regulated counterparties, is the most effective way to address potential systemic risk concerns. In the U.S., the President's Working Group on Financial Markets – comprised of the Treasury Secretary and the Chairmen of the Federal Reserve Board, the SEC and the CFTC – continues to assess developments in markets, disclosure and counterparty risk management.

As leading shareholders of the international financial institutions, we discussed the need to reform the IMF to make it as modern as the world economy in which we live. I emphasized that the Fund governance structure lags well behind today's global realities and I emphasized the need for boldness in reforming the Fund. In particular, I look forward to an agreement later this year on changes in the IMF's quota formula to better capture members' true weights in the world economy and on steps to protect the voice of the poorer countries through an increase in basic votes. I urge other industrial countries to follow the U.S. lead and forgo an increase in their voting shares in the next stage of reforms. I look forward to the Managing Director's leadership on this issue, and also welcome the strong consensus in the group in support of the proposals to update the IMF's 30-year old rules on exchange rate surveillance.

The G-7 reaffirmed its commitment today to the critical fight to protect the international financial system from illicit activity, including terrorist financing, the proliferation of weapons of mass destruction, and money laundering. I emphasized that, to be effective, Finance Ministries must develop legal authorities and invest resources to apply targeted economic and financial measures against a broad range of international threats. These efforts should include national implementation of the economic sanctions called for in United Nations Security Council Resolutions 1718 and 1737 against weapons of mass destruction proliferation support networks in North Korea and Iran. We called upon the Financial Action Task Force to join these efforts and address the threat of weapons of mass destruction proliferation finance and the vulnerabilities associated with jurisdictions that have failed to recognize international standards.

Energy efficiency was also on the agenda and I emphasized the importance of improving energy security through increased use of alternative fuels, better fuel efficiency, and policies to accelerate those trends. Finally, we touched on good financial governance in Africa. The international community has done a good job in developing ways to measure and track public financial management and I called for stronger linkages between international development assistance and individual country budget performance.