

U.S. DEPARTMENT OF THE TREASURY

Press Center

Statement by Treasury Secretary Henry M. Paulson, Jr. Following Meeting of G-7 Finance Ministers and Central Bank Governors

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Washington, DC--I was pleased to host the G-7 Finance Ministers and Central Bank Governors today here in Washington. We addressed many important issues on a very full agenda.

The current global expansion provides a positive backdrop to our discussions. The U.S. economy is healthy and is making a transition to a sustainable expansion. GDP growth in the 4th quarter was 2.5 percent and U.S. output is up by 3.1 percent over the past 4 quarters. Inflation remains moderate and the U.S. labor market is healthy, with low unemployment, steady job gains, and strong real wage growth. The overall strength of the U.S. economy has led to an improved federal budget situation over the past two years. The deficit, which was 1.9 percent of GDP in FY2006, has been cut in half three years ahead of schedule and the Administration's budget projects a return to a surplus by 2012. We continue to watch developments in the subprime mortgage market. While challenges in this market do not appear to pose a serious risk to the overall economy, many families have been affected. As I testified before Congress earlier this month, we are working closely with housing sector regulators on this issue.

Nevertheless, we remain aware of risks to the world economy. Fuel prices remain high and volatile. Protectionist pressures are rising. Global financial markets are vulnerable to reversals, as we saw earlier this year, though the system has proved to be resilient and adjustments orderly. My colleagues and I discussed the initial progress made towards implementing policies to help reduce global imbalances, including some rebalancing of global demand. However, more needs to be done. We need global demand to be underpinned by strong domestic demand in major economies such as Japan and Europe, and the cyclical upswings need to be translated into lasting improvements in potential growth. Greater exchange rate flexibility and stronger domestic demand in China are critical parts of rebalancing, and it is crucial that China move now with greater urgency. Oil exporters also need to undertake measures to increase investment and consumption. Tonight I will have a working dinner with my G-7 and Chinese colleagues. We will be joined by our counterparts from Russia, Saudi Arabia, and the United Arab Emirates to discuss investment flows from oil exporters to gain a sharper understanding of this increasingly important issue.

I have emphasized that our capital markets in the United States and abroad are vital to global economic growth. At our meetings today, I talked with my colleagues about the United States' approach to private pools of capital, including hedge funds, provided by the U.S. President's Working Group on Financial Markets (PWG). The PWG recognized the rapid growth of this industry and the increasing complexity of the financial instruments that hedge funds use. The U.S. federal regulators and policymakers unanimously moved in February to give unified, forward-leaning guidance for market participants for enhanced vigilance and market discipline. The PWG will continue to encourage market participants to take up this guidance. In our meetings today, we also discussed how robust domestic bond markets are necessary for the growth and stability of all economies, including the emerging markets. We continued our discussion about securities and mutual recognition among comparable regulatory regimes. In today's global marketplace, I believe this is an idea well worth considering and I will be supportive of our regulators' efforts to make progress in this area.

We are at a critical juncture for progress on the Doha Development Round of trade negotiation, and we had a serious discussion on the way forward. I urged my fellow Finance Ministers to encourage their trade ministers to achieve an ambitious deal because of the Round's potential to stimulate growth and economic development. Substantial progress on services, including financial services, must be integral part of a development round, so Finance Ministries need to work together to reinvigorate the financial services negotiations. Progress must be based on a substantive break-through.

As major shareholders of the IMF, the G-7 have a strong interest in safeguarding the legitimacy and effectiveness of that institution. To do so, we must make the IMF look more like the world economy in which it operates. The rise of emerging markets needs to be reflected in the IMF's governance structure. That is why it is essential, first and foremost, that we be bold and follow through with fundamental reform of IMF quotas. I think there is a path forward that could achieve this objective, but doing so will require a rededication by many countries to the understanding that a strong IMF benefits us all. A more representative IMF, however, will mean little without significant improvements in the institution's surveillance over exchange rate policies. For this reason, the G-7 reaffirmed our strong support for quick action to update the IMF's 30-year-old principles and procedures for exchange rate surveillance.

We had a good discussion on policies to promote development in low-income countries, especially ways to address debt sustainability concerns. Responsible lending policies and practices are fundamental to our efforts to enhance support to low-income countries. The key to preserving debt sustainability is to build upon and support the work reflected in the IMF/World Bank Joint Debt Sustainability Framework, and for all creditors to incorporate the framework into their lending practices.

We reaffirmed our commitment to vigorously counter money laundering, terrorist financing, and other illicit finance to promote the stability and integrity of the international financial system. We called on the Financial Action Task Force (FATF) to address emerging threats, including the threat of WMD proliferation finance, and to enhance implementation of FATF standards around the world.

Energy efficiency and security were also on the agenda. The United States is committed to improving energy security and tackling the important issue of climate change, as evidenced by the Administration's January announcement of the "Twenty in Ten" initiative. I urged my colleagues to explore creative policies to address these issues that will engage developing countries. We also need to explore options for accelerating market penetration of low-carbon energy technologies. Solving climate change is fundamentally a technology challenge, so we must consider how best to achieve this goal.

Thank you.