

## U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Statement by Treasury Secretary Henry M. Paulson, Jr. following Meeting of the G-8 Finance Ministers

6/14/2008

hp-1025

**Osaka, Japan – I would like to start by thanking Minister Nukaga and his staff at the Japanese Ministry of Finance for hosting a successful meeting.**

Our meeting took place amid some new challenges for the global economy. I told my G-8 colleagues that the U.S. economy continues to face challenges including the housing correction, financial market turmoil, and high energy prices which continue to weigh on growth. While we are still working through housing and capital markets issues, and expect to be doing so for some time, we also expect to see a faster pace of U.S. economic growth before the end of the year, while recognizing that the recent increase in oil prices risks prolonging the U.S. economic downturn. The Administration and Congress worked together and worked quickly to pass the Economic Stimulus Act of 2008, a robust, broad-based and temporary package that will provide over \$150 billion in stimulus for businesses and individuals in 2008. This will provide a meaningful near-term boost to household and business spending. The Administration has also coordinated several effective initiatives to help ease the strain from the housing downturn. The HOPE NOW alliance reports that since last July, the mortgage industry has helped nearly 1.6 million homeowners stay in their homes.

Financial Stability Forum Chairman Draghi reported to us on the implementation of the priority recommendations of the Finance Stability Forum (FSF) that were endorsed by the G-7 Finance Ministers and Central Bank Governors in April. I am pleased by the progress to date in meeting these goals, as well as progress implementing the other FSF recommendations. The President's Working Group (PWG) has been working closely with the FSF and is now tracking and assessing implementation of its policy recommendations and will report on progress in the fourth quarter of 2008. At that time, the PWG will consider whether further steps are needed to address weaknesses.

This period of slower growth has raised concerns around the world about the benefits of globalization. Some suggest that recovery lies in a retreat inward, away from international economic engagement. This would be the wrong choice. In today's global economy, a shift inward would lead to economic stagnation and would cost millions of jobs, deter foreign investment, curtail growth, and increase the cost of many goods and services purchased by American households. In fact, the key to remaining competitive in today's changing world is embracing openness to trade and investment. In this context G-8 Finance Ministers agreed that measures that address national security concerns should be transparent, predictable and proportionate to the national security concern identified. We recognized that commercially-driven investment from government-controlled investors such as sovereign wealth funds has benefits and underscored that these investors should adopt high standards in areas such as institutional and governance arrangements, investment and risk management structures, and transparency.

High and increasing oil and food prices pose policy challenges for both advanced and developing countries and we spent considerable time talking about these challenges. Food price inflation is being driven primarily by economic fundamentals including high energy prices, increased food demand, and low inventories. The international community should respond with an integrated approach that addresses the immediate effects of the crisis as well as underlying causes of food insecurity. In the short run, donors should unite to provide emergency assistance. The President has requested an additional \$770 million, including \$395 million in emergency food aid, \$225 million in International Disaster Assistance which would support a range of programs including the purchase of seeds and other farm inputs to increase local production, and \$150 million in Development Assistance to improve agriculture infrastructure. But it is also imperative to remove supply-side constraints, replace general food subsidies in developing countries with well-targeted ones, remove export restrictions, and improve the efficiency of international agricultural markets, including through the successful conclusion of the Doha Development Round.

Since 2002, the price of oil has increased five-fold, and earlier this year oil prices breached previous record highs in real terms. At its heart, this run up in price reflects long-term trends in global supply and demand and strong economic growth coinciding with a period of minimal investment in oil production. This is not something that lends itself to short-term solutions. On the demand side, we need markets to work and to avoid subsidies and other market-distorting policies. On the supply side, countries should open oil markets investment to boost yields, exploration, and production. Producers need to increase output and capacity.

I was pleased to note progress on G-8 actions to respond to challenges associated with climate change. Last year, President Bush initiated the Major Economies process to bring the major emitting developed and developing countries together to tackle climate issues and tasked the Treasury Department with creating an international program to promote clean technology deployment in developing countries. This program is a critical effort of the G-8 countries to reduce the rapid growth of greenhouse gas emissions in developing countries by helping them to finance the additional costs of deploying clean energy technologies over cheaper, dirtier alternatives. Today Ministers discussed the considerable progress made in establishing the Clean Technology Fund which includes a successful meeting hosted by Germany last month that brought together developed and developing countries and resulted in strong agreement on the parameters of how the Fund will work, how it will be governed, and how it will bring benefits to emerging economies. The Administration strongly supports the Fund and has requested authorization from Congress for a U.S. contribution of \$2 billion over three years to the Fund. I was pleased to join my G-8 colleagues in welcoming and supporting the launch of this fund.

On economic development in Africa, G-8 Ministers support Japan's focus on the importance of developing the private sector in order to achieve sustainable economic growth. In my trip to Africa last fall, and in subsequent conversations, a number of African Finance Ministers have highlighted their commitment to creating an enabling environment for the private sector. Priorities include efforts to improve investment climates, deepen financial sectors and strengthen the continent's infrastructure base.

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