

U.S. DEPARTMENT OF THE TREASURY

Press Center



Prepared Statement by Treasury Under Secretary David H. McCormick in Advance of G-7 Finance Ministers and Central Bank Governors Meeting

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Washington – Good afternoon. The G-7 Finance Ministers and Central Bank Governors will hold their next meeting here at the Treasury Department on April 11, against the backdrop of the IMF and World Bank Spring meetings. A good part of the G-7 meeting will be devoted to current economic conditions, financial market developments, and the policy response to recent financial market turmoil. They will also discuss progress on the reform of the International Monetary Fund among other topics.

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Our G-7 colleagues will be keenly interested in hearing first hand about the U.S. economic outlook, and Secretary Paulson will tell them that the housing correction, financial market turmoil, and high energy prices are weighing on U.S. economic growth. There are significant downside risks to the outlook, and we are taking action to support the economy as we work through these challenges. The economic stimulus package passed in February will provide over \$150 billion of individual and business tax relief in 2008, leading to the creation of over half a million additional jobs by the end of the year. In addition, the Administration has taken a number of steps specifically designed to ease the strain from the housing downturn, such as convening the HOPE NOW alliance and implementing the FHASecure program.

I share Secretary Paulson's confidence in the resiliency, flexibility and strength of our economy and our capital markets. Since last August, markets have been re-pricing and reassessing risk and there will be more bumps in the road. As we work through this period, our highest priority is limiting its impact on the real economy. We are focused on maintaining efficient and liquid financial markets and ensuring that our banks are able to continue supporting the economy by making credit available to consumers and businesses.

In addition to measures to bolster the economy in the near term, the Administration is taking steps to enhance the functioning and stability of the U.S. financial system going forward. The President's Working Group on Financial Markets (PWG) reviewed policy issues and issued its policy statement on March 13. The PWG recommendations include steps to improve market transparency and disclosure, risk awareness and risk management, capital and regulatory policies, practices regarding the use of credit ratings, and market infrastructure for over-the-counter derivatives products. Implementation of these recommendations can strengthen market discipline, enhance risk management, and improve the efficiency and stability of our capital markets. We expect that the PWG will report on progress towards implementation in the fourth quarter of 2008 and consider whether further steps are needed to address weaknesses in financial markets, institutions and related supervisory policies. The PWG is working with foreign regulators, finance ministries, and central banks through the international Financial Stability Forum (FSF) to address these challenges globally.

At our upcoming meeting, Mario Draghi, head of the Financial Stability Forum, will brief the ministers and governors on the FSF's work on assessing underlying weaknesses and formulating policy recommendations. As the G-7 requested, the FSF has focused its efforts on risk management; transparency, accounting, and valuation of structured products; credit rating agencies; and cooperation among supervisors and authorities. We look forward to discussing the rapid and effective implementation of the FSF findings with our colleagues. We will urge that FSF member organizations, including the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Accounting Standards Board, and the Joint Forum of banking, securities, and insurance supervisors, accelerate their timetables to conclude their efforts by end-2008. We look forward to a report by the FSF on progress implementing the policy recommendations at the G-7 Ministerial meeting in October. These efforts are a critical example of cooperation among the G-7.

You will be aware that the Secretary recently announced a blueprint for modernizing financial regulation. Some may view these recommendations as a response to the circumstances of the day; yet this report is the culmination of a year's worth of work at the Department. Our first and most urgent priority is working through this capital market turmoil and housing downturn, and that will be our priority until this situation is resolved. With few exceptions, the recommendations in this Blueprint should not and will not be implemented until after the present market difficulties are past.

The United States is the world leader in financial services. We recognize that a competitive market requires regulation, investor protection and market stability. But our financial regulatory structure has not kept pace with innovations in the markets. The blueprint takes an expansive look at financial regulation in the United States, making recommendations for short, intermediate and long term improvements to our system.

Turning to the global outlook, as you know, the global economy was exceptionally strong the last four years, averaging nearly 5 percent growth annually. It was perhaps inevitable that some slowdown would occur but the financial headwinds and other adjustments underway pose significant challenges to the outlook for 2008. The extent to which particular economies will be affected varies; some commodity producers and emerging market economies are likely to continue to enjoy robust economic growth. Others face downside risks and will need to be more attentive to measures that can support growth. In particular, downside risks persist in view of the ongoing weakness of U.S. residential housing markets, stressed global financial market conditions, continued high oil and commodity prices, and consequent inflation pressures. That said we remain positive about the long-term resilience of the global economy, as well as the long-term resilience of the U.S. economy, and we believe that the IMF's latest WEO projections are unduly pessimistic.

While the bulk of the meeting will undoubtedly center on the global economic situation and financial turmoil, the G-7 will also discuss a range of issues pertaining to the IMF. The U.S. will underscore that the IMF must vigorously reform itself to remain legitimate and relevant and resemble today's world economy. We will emphasize the need for firm implementation of the IMF's new framework for exchange rate surveillance. To date, the Fund has strengthened its focus on exchange rate analytics, but implementation of the new framework is a work in progress and there is clearly far more progress to be made.

The U.S. will also back the recent agreement on IMF quota and voice reform, which – though not as ambitious as we would have liked – represents an improvement on the status quo and a first step in recognizing the growing role of dynamic emerging market economies in the global system. The Secretary will also underscore his support for the approved work plan to deliver a final set of best practices for sovereign wealth funds by the IMF Annual Meetings in October. We will discuss the progress made toward putting the IMF's finances on a more sustainable footing by tackling both expenditures and revenues. In this regard, we commend the Managing Director for putting a concrete plan on the table to tackle the IMF's administrative expenses and the Secretary will reaffirm our intention to support limited gold sales to create a stable revenue base.

After the G-7 meeting, Secretary Paulson will host a dinner that will bring together the G-7 Finance Ministers and Central Bank Governors and leaders from several leading financial services companies to have a further discussion on the causes and consequences of the recent financial market turmoil, and how leaders in the private and public sectors are responding to this challenge.

Secretary Paulson will also be meeting bilaterally with a number of his counterparts from within and outside the G-7. He will be attending a breakfast meeting of the International Monetary and Financial Committee of the IMF, a Ministerial meeting of the Financial Action Task Force, and a meeting of the World Bank's Development Committee. Secretary Paulson will also host a roundtable meeting with the Finance Ministers from a number of sub-Saharan African countries with demonstrated commitment to economic reform. Following up on his trip to Africa last November, Secretary Paulson will discuss with the Ministers options for addressing critical challenges to sustainable, private-sector led growth including financing basic infrastructure and improving the investment climate.

Thank you for coming this morning, and I look forward to answering your questions.