

U.S. DEPARTMENT OF THE TREASURY

Press Center

Prepared Statement by Treasury Under Secretary David McCormick in Advance of Meetings of the G-7 Finance Ministers and Central Bank Governors, the International Monetary Fund, and the World Bank

10/17/2007

HP-619

Washington, DC-- Good afternoon. I am looking forward to a very busy set of meetings over the next several days.

Good afternoon. I am looking forward to a very busy set of meetings over the next several days.

Secretary Paulson will host G-7 Finance Ministers and Central Bank Governors here at the Treasury on Friday. They will discuss current economic conditions and financial market developments, trade, reform of the international financial institutions, development issues, and energy and the environment among other things. Clearly recent financial market turmoil will be a focal point and a good part of the G-7 meeting will be devoted to this issue.

The fundamentals of the U.S. economy remain strong even while overall growth is moderating. Consumer spending is good, unemployment remains low, export growth is strong, the current account deficit has narrowed, and our budget situation has improved considerably. We recognize the need to continue our efforts to raise national savings and reduce the deficit. I am pleased to report that for the just-complete fiscal year, our deficit fell to 1.2 percent of GDP, and we remain on track to balance the budget in 2012.

The global economy remains quite strong with a robust outlook for the remainder of 2007 and 2008. Importantly, there has been some rebalancing of domestic demand growth and this is being reflected in somewhat smaller global imbalances, with the notable exception of China, which still has a rising external surplus. As in the past, Ministers will discuss the near-term outlook and prospects for growth enhancing reforms in Europe and Japan.

The strong global economy and well-capitalized financial institutions provide a strong platform for addressing recent market turbulence. Financial authorities throughout the world have acted to promote systemic stability. There are signs that financial market conditions have begun to stabilize in some areas, although we recognize that it will take some time to work through the recent difficulties.

The issues raised by the recent turmoil are complex and require careful analysis. We must undertake this work quickly, but we cannot rush to judgment. In this light, Secretary Paulson – working with the G7 has asked the Financial Stability Forum – under the leadership of Bank of Italy Governor Mario Draghi – to form a working group to look at the underlying causes of the turbulence and offer proposals in the areas of risk management, the accounting and valuation of financial derivatives, the role and methodologies of credit rating agencies in structured finance, and basic supervisory principles of prudential oversight of regulated financial entities. This weekend, Mario Draghi is expected to brief the G7 on the working group's work plan going forward with an expected final report to be delivered next April. Finally on this front and notwithstanding the recent turmoil, we should remember that the globalization of capital markets has brought enormous benefits to the world – broader choices in financial products, greater prosperity, and expanded opportunity.

The Secretary will raise the issue of a clean technology fund, which President Bush mentioned two weeks ago as part of the Major Economies Meeting. The Fund would help finance clean energy projects in the developing world by focusing on financing the gap between traditional and more expensive clean technology. We envision that the fund will leverage bilateral donor resources, multilateral development institution resources, and private resources. We look forward to working with other countries to explore this concept and ensure the fund's success.

The G-7 meeting will also include an outreach dinner on sovereign wealth funds. In particular, we seek to discuss the implications of these funds for an international financial system fundamentally based on the principle of private sector allocation of resources to their most efficient uses, and to emphasize our joint commitment to maintain openness to investment and to promote financial stability. The Secretary has invited Finance Ministry and sovereign wealth fund representatives from China, Korea, Kuwait, Norway, Russia, Saudi Arabia, Singapore and the United Arab Emirates to join us. We look forward to a constructive discussion.

Over the weekend, at the International Monetary and Financial Committee and Development Committee meetings, we will discuss reform of the international financial institutions. On the IMF, we are going to emphasize the importance of the IMF implementing the new surveillance procedures on exchange rate regimes as well as the need for fundamental reform of the governance structure to reflect the rising weight of dynamic emerging markets. Our discussions on quota reforms are ongoing and we will continue to work towards a comprehensive agreement. We will also emphasize that in tackling the Fund's medium-term financing picture, serious consolidation of expenditures must be on the table in tandem with a review of the income situation. On World Bank reform, we will have an opportunity to discuss President Zoellick's recently announced priorities and strategy and focus on how the Bank can best enhance its development impact in a changing global environment.