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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

Henry M. Paulson Jr.

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, D.C.– The G-7 Finance Ministers and Central Bank Governors just concluded their meeting. Recent global economic developments and financial market turmoil dominated the discussion, though there was also a good discussion on a number of issues.

Regarding the global economy and financial markets, the main focus was on the implications of the turmoil for our economies, the extent to which the functioning of various credit markets has improved and what lessons we could draw from the experience.

I reported to my colleagues that we confront these current challenges against the backdrop of a strong economy – not just in the U.S., but globally. Indeed, this is the first housing downturn in the past three decades in which U.S. GDP growth has not turned negative. Business investment has expanded in recent months, our exports are being boosted by the strong economic growth of our trading partners and the healthy job market has helped consumer spending continue to grow.

T he outlook for the remainder of 2007 and 2008 remains quite healthy, influenced heavily by the strong performance of emerging market economies – particularly China – as well as some rebalancing of domestic demand growth in the industrial countries. In this regard, our European colleagues were able to point to the stronger performance of their economies over the past year. The capitalization of our financial institutions is remarkably strong, which is also a major help in addressing the current environment. Our macroeconomic policy stances on the whole are sound and there was complete agreement around the table that monetary policy must continue to remain vigilant in maintaining price stability.

In the US I believe we have a healthy, diversified economy that will continue to grow.But, despite strong economic fundamentals, the housing decline is still unfolding and I view it as the most significant current risk to our economy. The longer housing prices remain stagnant or fall, the greater the penalty to our future economic growth.

Chairman Bernanke and I also reported on the steps the U.S. has taken to protect the systemic stability of global financial markets and address the problems in the mortgage financing sector. The U.S. current account deficit, which was 6.75 percent of GDP at the end of 2005, is now 5.5 percent of GDP. I recognized the need to increase our national savings and continue reducing the fiscal deficit. I was able to report that for the just-completed fiscal year, our deficit fell to 1.2 percent of GDP, and we remain on track to balance the budget in 2012. However, growing social insurance outlays pose a medium-term challenge to the fiscal outlook, which we must address.

The general feeling around the table was that there are some markets are returning to normalcy as risk has been reassessed and repriced. In other markets, that reassessment will take longer, in part due to the complexity of underlying securities. Competitive and innovative global markets bring many benefits – expanded job opportunities, broader prosperity, and widespread access to a diverse array of financial products. Yet there are risks as well, and the issues arising from the recent turmoil are complex and require careful analysis. I welcomed the update from Mario Draghi, Chairman of the Financial Stability Forum, on the Forum's review of the underlying causes of recent financial market turbulence, and look forward to the full report early next year. I also briefed my colleagues on the actions that were being taken in the President's Working Group on Financial Markets to address the recent turbulence, and our comprehensive review of the relevant policy issues including the role of credit rating agencies and securitization.

We had a good discussion on appropriate reforms for the international financial institutions. W e heard from Ambassador Zoellick on the need to strategically deploy the World Bank's assets and improve its development effectiveness. I am encouraged by – and strongly support – Ambassador Zoellick's priorities and plan for the World Bank. Regarding the IMF, I emphasized the critical imperative of firmly implementing the recent decision on exchange rate surveillance. I also continue to urge a significant reform to the IMF's governance structure, improving the shares of dynamic emerging markets, and I stressed that as part of the Fund's consideration of its medium term financing picture, serious consolidation of expenditures must be considered in tandem with a review of income.

We discussed the creation of an international clean technology fund to help developing nations harness the power of clean energy technologies, and solicited feedback on this proposal. This fund could be part of the broader major economies initiative, in which the world's largest producers of greenhouse gas emissions will work together to establish a new international approach on energy security and climate change in 2008 that will contribute to a global agreement by 2009 under the UN Framework Convention on Climate Change. We look forward to working with other countries to develop this concept.

I urged my counterparts to step up efforts to restart the Doha talks, and emphasized the equal importance of results in agriculture, non-agriculture market access, and services - including financial services. A Doha agreement is within reach and we should not lose the opportunity before us. Success on Doha is the single most effective thing we can do to raise living standards around the world. Reducing trade and investment barriers and maintaining open markets is critical to ensuring that the benefits of trade are shared broadly. I also emphasized that the United States is committed to working with our global trading partners to ensure a successful Doha Round.

We reaffirmed our commitment to vigorously counter money laundering, terrorist and proliferation financing in order to promote economic development and safeguard the integrity of the global financial system. We discussed ways to deal with Iran's pursuit of a nuclear capability and ballistic missiles, the regime's vast financial support to lethal terrorist groups, and the deceptive financial tactics employed by Iran to evade sanctions and mask illicit transactions. We welcomed the recent statement by the Financial Action Task Force highlighting the significant threat Iran's illicit conduct poses to the international financial system.

The Financial Action Task Force's statement has put the international financial system on notice about the threat that Iran poses to the security and stability of the international financial system. I urge financial institutions everywhere to take FATF's action into account as they evaluate whether handling Iran-related business is worth the risk.