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### **Prepared Statement by Treasury Under Secretary David H. McCormick in Advance of G-8 Finance Ministers Meeting**

David McCormick

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## U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Prepared Statement by Treasury Under Secretary David H. McCormick in Advance of G-8 Finance Ministers Meeting

6/10/2008

HP-1018

**Washington** – Good afternoon. The G-8 Finance Ministers will be hosted by Japan in Osaka, Japan on June 13<sup>th</sup> and 14<sup>th</sup>. Their discussions will focus on three key areas: the world economy, climate change, and development, which correspond with the key themes of the Japanese G-8 presidency this year.

As typically happens, the Ministers will discuss the global economy, focusing on the near-term prospects for their economies and taking note of the continued strong performance in many emerging markets. Both Japan and Europe had strong first quarters and Secretary Paulson will be especially interested in hearing from other Ministers their assessments of growth prospects and how their economies are coping with financial market headwinds and higher-priced commodities. In addition, a number of Asian countries will attend outreach sessions, giving us a good chance to broaden the world economy discussions.

Oil market developments and high global food prices will factor into the global economy discussions. The vast majority of the run-up in oil prices reflects long-term trends in fundamentals: global economic growth has been consistently strong since 2002 and especially fast among emerging market economies. This strong growth has driven demand for oil while growth of global oil production has been basically flat since 2005. Ministers will likely focus on medium to long-term policies that can affect demand and supply, including developing alternative fuel sources.

On high food prices, the talks are likely to focus on progress to date in meeting emergency humanitarian assistance needs, efforts to ensure that farmers in developing countries have access to yield-enhancing inputs for the next harvest including seeds, pesticides and fertilizers, and plans to improve agricultural productivity in developing countries in the coming years. The United States has consistently contributed about half of global food aid and the President recently requested \$1 billion for near-term humanitarian assistance and programs to address challenges in supply. Ministers are also likely to encourage governments to lift food export restrictions and to redouble efforts to conclude an ambitious Doha Agreement in 2008.

Secretary Paulson will tell his G-8 colleagues that the housing correction, financial market turmoil, and high energy prices continue to weigh on the U.S. economy. 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. We have taken a number of steps to bolster the economy while we weather these challenges. The economic stimulus package, signed into law in February, will provide over \$150 billion for businesses and individuals in 2008. We expect these measures will provide a meaningful near-term boost to household and business spending.

The Administration has also led several initiatives to help ease the strain from the housing downturn. We are seeing results. The HOPE NOW alliance reports that since last July, the mortgage industry has helped nearly 1.46 million homeowners stay in their homes. Despite the recent turmoil, I share Secretary Paulson's confidence in the resiliency and flexibility of the U.S. economy. Our long-run economic prospects remain sound.

In addition to policy actions to strengthen the economy in the near term, it is essential to enhance the functioning and stability of the U.S. financial system going forward. The Administration is taking steps to do just that. As you know, the President's Working Group on Financial Markets (PWG) reviewed policy issues and issued its policy statement on March 13. The PWG is now tracking and assessing implementation 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.

In April the G-7 Finance Ministers and Central Bank Governors endorsed a series of FSF recommendations that complement efforts underway in the United States. These proposals included: strengthening prudential oversight of capital adequacy, liquidity and risk management; enhancing transparency and improved valuation, particularly for structured products; revising and clarifying the role and use of credit ratings; improving the responsiveness of authorities to risks; and, creating robust arrangements for dealing with stress in the financial system.

FSF Chairman Mario Draghi will provide an update on the implementation of the FSF recommendations to G-8 Finance Ministers in Saturday's meeting. We are encouraged by the progress so far to meet these goals, as well as progress implementing the other FSF recommendations. Financial institutions have raised almost \$270 billion in new capital since the turmoil began, and will shortly begin making their first half reports, which we expect to comply with leading practices. The Basel Committee on Banking Supervision is on track to issue liquidity guidelines for public comment in July, and IOSCO issued its Code of Conduct for Credit Rating Agencies in May. We look forward to another progress report by the FSF at the G-7 Ministerial meeting in October.

Climate change, an issue of great concern to Secretary Paulson, will be a major subject of discussion during the meeting. 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 Secretary Paulson with creating an international program to promote clean technology deployment in developing countries. At this meeting, Ministers will review the considerable progress made in establishing the Clean Technology Fund. The Fund is a critical new multilateral 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. Late last month we had a successful meeting in Germany which included 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. Japan and the UK have also pledged support, and we anticipate that other countries will soon follow.

Development -- with a particular focus on Africa -- is a key theme of Japan's G-8 presidency. We particularly welcome Japan's decision to focus on the importance of developing the private sector in order to achieve sustainable economic growth. In conversations with Secretary Paulson over the last year, a number of African Finance Ministers have highlighted their commitment to creating an enabling environment for the private sector. Ministers will specifically discuss how the G8 can support homegrown African efforts to improve investment climates, deepen financial sectors and strengthen the continent's infrastructure base.

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