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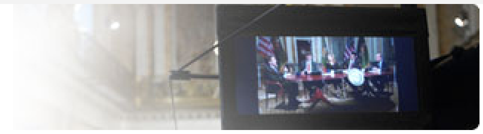
Henry M. Paulson Jr.

U.S. DEPARTMENT OF THE TREASURY

Press Center



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Tokyo Japan – I was very pleased to travel to Tokyo for today's meeting of G-7 Finance Ministers and Central Bank Governors. This meeting took place amid slowing global growth and downside risks facing the G-7 economies in large part stemming from recent financial market turbulence. Today's meeting gave us the opportunity to discuss policy responses to these downside risks as well as the need to craft effective policy and regulatory responses that institute sounder frameworks better able to withstand risks and stresses.

I am confident in the long-term health of the United States economy and I expect that it will continue to grow in 2008. The housing correction, high energy prices, and capital market turmoil have combined to weigh on near-term growth. Indeed, growth slowed markedly at the end of 2007. Given the short-term downside risks, we clearly needed to act. The President called for a growth package that would have a real impact on our economy and just before I left Washington, Congress passed legislation that meets the President's principles for an effective growth package. We believe the package will provide a much-needed boost this year. It was a sincere pleasure to work in a bipartisan spirit on this package and demonstrate that the government is capable of coming together to work in the best interests of the American people.

We are also working directly on the housing market, pursuing efforts through a private sector alliance and with Congress to avoid preventable foreclosures.

The longer-term global economic outlook would also be significantly enhanced if the recent progress in the Doha round could be translated rapidly into the substantial lowering of tariffs and other barriers to trade. We encourage all parties to seize this opportunity, especially in the area of financial services, and other services sectors, and make additional efforts now to secure economic gains and combat protectionist pressures.

We discussed the impact of elevated oil prices on our economies. We encouraged increased oil production from OPEC and others and underscored the need to increase refinery capacity and improve energy efficiency.

The current financial turmoil is serious and persisting. While financial markets are improving, it will take time to work through the current financial turmoil. As the financial markets recover from this period of stress, as of course they will, we should expect continued volatility as risk is repriced.

Market participants have taken encouraging steps to address the financial turmoil. Since August, financial institutions have disclosed and written off more than $150 billion of assets, and U.S. financial institutions have raised more than $95 billion in new capital. Past episodes of financial turmoil have demonstrated that recognizing losses and restoring capital are two of the very most important steps toward restoring financial normalcy.

At our last meeting in October, G-7 Finance Ministers and Central Bank Governors asked the Financial Stability Forum (FSF) to analyze the underlying causes of the turbulence and offer proposals in such areas as risk management, the accounting and valuation of structured products, the role and use of credit ratings in structured finance, and prudential oversight of regulated financial entities. Today, FSF Chair Mario Draghi briefed us on the FSF's interim findings on the supervisory framework and oversight; the underpinnings of the originate-to-distribute model; the uses and role of credit rating agencies; market transparency; supervisory and regulatory responsiveness to risks; and the authorities' ability to respond to crises. I want to personally thank Mario Draghi for his excellent report and commend him for his leadership.

The FSF Report focuses on the causes of the turmoil and some of the systemic weaknesses that allowed the turbulence to spread throughout the global financial system. It identifies many financial market practices and supervisory and regulatory policies that merit our attention. The areas cited in the interim report closely track those also being discussed by the President's Working Group on Financial Markets, and I was able to brief my colleagues on that work.

One of the lessons of this current market turmoil is the increasing need for frequent communication and close coordination during times of stress and in formulating the appropriate policy responses to manage the likelihood of recurrence of the same problems.

As financial officials, we need to respond resolutely and proactively to the turmoil. Indeed, the work in the FSF and PWG is emblematic of that, as are the steps the U.S. is taking to support our economy, prevent foreclosures, and strengthen consumer protection. But the questions raised are complex and require real answers that stand the test of time. I look forward to the FSF's report in April and I underscored the important role that global standard setting bodies will play in expeditiously tackling many of the issues that have been identified.

We also discussed the need for our countries to remain open to foreign investment. I reiterated the open investment policy of the United States and explained that this commitment to open investment also frames our approach to protecting national security through the Committee on Foreign Investment in the United States. I emphasized that all countries undergoing investment review processes, including those in the G-7, should focus on genuine national security concerns and not broader economic and national interests.

Sovereign Wealth Funds (SWFs) have recently received considerable attention. It is important that we approach these policy issues surrounding SWFs in a measured, reasoned, and multilateral manner while remaining vigilant against protectionist sentiment raised in the international financial system. We strongly supported IMF Managing Director Strauss-Kahn's efforts to identify best practices for SWFs.

We are resolved to continue our work in the OECD to identify best practices for the inward investment regimes of countries that receive government-controlled investment, including from SWFs.

We had a useful discussion on IMF reform. I stressed the need for firm implementation of the IMF's new framework for exchange rate surveillance and underscored that fundamental reform of the IMF's governance structure is needed to reflect the rising importance of dynamic emerging markets. Regarding the Fund's medium-term financing picture, I emphasized that serious consolidation of expenditures, along the lines put forward by Managing Director Strauss-Kahn, must be pursued in tandem with consideration of new income sources.

I was pleased to join my colleagues from the UK and Japan in underscoring our commitment to the creation of an international clean technology fund. In the State of the Union address, President Bush announced he is committing $2 billion over the next three years to the fund. The fund would help finance clean energy projects in the developing world by financing the gap between traditional and more expensive clean technology. We envision that the fund will leverage the resources of bilateral donors, multilateral development institutions, and the private sector.

We look forward to working with other countries to help ensure the fund's success.

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 remain particularly concerned about the risks of illicit finance emanating from Iran. We strongly support the public actions of the Financial Action Task Force (FATF) to protect the international financial system from these risks, and agreed that FATF should continue to take such measures. We also agreed that FATF should continue to apply its expertise in providing guidance to assist states in implementing their financial obligations under U.N. Security Council resolutions to combat WMD proliferation. We strongly support the continued cooperation of the IMF and World Bank with the FATF to combat money laundering and terrorist financing worldwide.

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