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McCormick in Advance of Meeting of the G-7 Finance Ministers
and Central Bank Governors**

David McCormick

United States: Department of the Treasury

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U.S. DEPARTMENT OF THE TREASURY

Press Center



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

2/5/2008

Washington, DC – Good morning. As you know, the G7 Finance Ministers and Central Bank Governors will meet in Tokyo on February 9th. Their discussions will include current conditions and financial market developments, the international financial institutions, development issues, and climate change. A good part of the G-7 meeting will be devoted to the policy response to recent financial market turmoil.

Secretary Paulson will tell his counterparts that the U.S. economy is undergoing a housing correction, together with high energy prices and capital market turmoil, that is slowing our economic growth, but the U.S. economy is resilient. Our long-term economic fundamentals are sound, but we need to act because the short-term risks are clearly to the downside, and the potential benefits of quick action to support our economy have become clear. The Federal Reserve has already taken action and the President has called for a growth package that is large enough to have a real impact on our economy and that will bolster consumer spending and business investment this year. Secretary Paulson has commended the House for quick bipartisan action on the economic growth package. He is confident Senate leaders understand speed and simplicity are key to enacting this bipartisan agreement, and he is hopeful the Senate will act quickly.

In 2007, global economic growth was quite strong despite market turbulence. The outlook for 2008 still remains solid. Emerging markets, in particular, are expected to post robust economic gains. There are risks, however, and 2008 will pose a more challenging economic environment for policymakers. G-7 Ministers and Central Bank Governors will discuss how best to ensure strong and sustained global economic growth. Given current softness in demand growth in the United States, it is especially important that other economies – large and small, advanced and emerging market – take prudent steps to strengthen their economies' demand components. Stronger demand growth abroad would help ensure a global economy that is both robust and better balanced.

Serious turmoil in our financial markets is persisting. Institutions have taken encouraging steps to address the challenge. 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 to the extent necessary are one of the most important steps toward restoring financial normalcy.

Secretary Paulson has great confidence in our markets. They have recovered from similar stressful periods in the past, and they will again. But make no mistake, the current turmoil will continue to challenge policy-makers and we can expect to see more financial market volatility as further disclosures and re-pricing of risk take place.

Looking forward, we face the challenge of addressing regulatory and policy issues raised by this turmoil. We need to be pro-active, but the issues are complex and require careful analysis so that we can effectively target the real problems and not rush to judgment. At this week's meeting, Mario Draghi, head of the Financial Stability Forum, will brief the ministers and governors on the FSF's interim findings regarding the causes of the turbulence and areas for policy consideration. In October 2007, we asked the FSF to focus its efforts on risk management, the accounting and valuation of structured products, the role and use of credit ratings in structured finance, and basic supervisory principles of prudential oversight of regulated financial entities. We look forward to discussing the FSF findings with our colleagues and to providing guidance to the FSF as it continues its work. In April, the FSF will provide the G-7 with another update on its progress in formulating policy recommendations.

We will also discuss open investment. Cross-border investment and the globalization of capital markets have brought enormous benefits to the world -- broader choices in financial products, greater prosperity, and expanded opportunity. The President's Executive Order in January strengthens the process of the Committee on Foreign Investment in the United States (CFIUS) and will ensure that all appropriate federal agencies continue to be able to rigorously review foreign investments with potential national security implications. America clearly remains open to investment.

Sovereign wealth funds (SWFs) have recently received considerable attention. It is important that we remain vigilant about their implications for protectionist sentiment and the international financial system. It is imperative that we maintain open markets. We are pursuing a reasoned, multilateral approach, including through the IMF's collaboration with SWFs to identify best practices. We are also

encouraging the OECD to identify investment policy best practices for countries that receive government-controlled investment, including from SWFs.

Concerning the IMF, the U.S. will emphasize the need for firm implementation of the IMF's new framework for exchange rate surveillance and 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, we will emphasize that serious consolidation of expenditures, along the lines put forward by MD Strauss-Kahn, must be pursued in tandem with consideration of new sources of income.

The Secretary and his UK and Japanese colleagues will highlight their commitment to the creation of an international clean technology fund. 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. In the State of the Union address, President Bush announced he is committing \$2 billion over the next three years to the fund. We look forward to working with other countries to help ensure the fund's success.

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