Statement by G7 Finance Ministers and Central Bank Governors

Washington, April 21, 2006

We, Ministers and Governors, met today and resolutely reaffirmed that openness and globalization are beneficial in promoting economic prosperity and reducing poverty. These benefits are most effectively realized with sound economic management and supportive policies for those whose welfare is adversely affected. We committed to: strengthen economic policies in our countries; work together to remove distortions to the global adjustment process; resist protectionism and promote liberalization of trade and investment including an ambitious outcome from the Doha Development Round; and modernize the international financial institutions.

The strong global economic expansion continues into its fourth year and the outlook remains favorable, supported by improved macroeconomic policies in many countries as well as benign financial market conditions. Inflation remains contained despite high oil prices and global trade growth is buoyant. Yet risks remain from oil market developments, global imbalances, and growing protectionism. We underscored that global economic adjustment is a shared responsibility.

We are strengthening the dialogue between oil producers and consumers to further improve market transparency through the release of more complete and timely data on production, consumption and inventories, and for clear reporting of oil reserves. We urge investment in exploration, production, energy infrastructure, and refinery capacity. Investment is crucial and oil producing countries should provide open and secure investment environments to enable market participants to meet pressing needs. We remain committed to greater energy efficiency, conservation, and diversification, which will improve the balance between supply and demand.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. Greater exchange rate flexibility is desirable in emerging economies with large current account surpluses, especially China, for necessary adjustments to occur.

We welcomed the IMF Managing Director's Strategic Review to equip the IMF to help countries meet the macroeconomic and financial policy challenges of globalization. We supported the strengthening of IMF surveillance, including through increased emphasis on the consistency of exchange rate policies with domestic policies and a market-based international monetary system and on the spillover effects of domestic policies on other countries. We support a new remit for bilateral and multilateral surveillance by the IMF. An ad hoc quota increase would help better to reflect members' international economic weight. We agreed on the need for comprehensive reform of the IMF, and called on the Managing Director to come forward with concrete proposals for the Annual Meetings in Singapore.

We reaffirmed the importance of implementing our commitments on development. In that context, we welcomed the decision by the IMF, World Bank, and African Development Bank to implement 100 percent debt cancellation for qualifying countries. We emphasized the importance of avoiding a fresh accumulation of unsustainable debt, of responsible lending by creditors, and of ensuring that recipient countries incur new debt in accordance with the debt

sustainability framework. We stressed the need to bolster the fight against corruption so that development assistance effectively promotes growth, and call on the President of the World Bank and other MDB Heads to continue their focus on this issue, bringing forward a strategy in this critical area. Having endorsed the concept of a pilot Advance Market Commitments for vaccines, we call for the additional work necessary to make its launch possible in 2006.

We reiterated our commitments to combat money laundering and terrorist financing and call on the IMF and the World Bank to collaborate closely with the Financial Action Task Force.

Finally, we thank Roger Ferguson for his chairmanship of the Financial Stability Forum, and we have asked Mario Draghi to be his successor.

Annex: Global Imbalances

April 21, 2006

We, Ministers and Governors, reviewed a strategy for addressing global imbalances. We recognized that global imbalances are the product of a wide array of macroeconomic and microeconomic forces throughout the world economy that affect public and private sector saving and investment decisions. We reaffirmed our view that the adjustment of global imbalances:

- Is shared responsibility and requires participation by all regions in this global process;
- Will importantly entail the medium-term evolution of private saving and investment across countries as well as counterpart shifts in global capital flows; and
- Is best accomplished in a way that maximizes sustained growth, which requires strengthening policies and removing distortions to the adjustment process.

In this light, we reaffirmed our commitment to take vigorous action to address imbalances. We agreed that progress has been, and is being, made. The policies listed below not only would be helpful in addressing imbalances, but are more generally important to foster economic growth.

- In the *United States,* further action is needed to boost national saving by continuing fiscal consolidation, addressing entitlement spending, and raising private saving.

- In *Europe,* further action is needed to implement structural reforms for labor market, product, and services market flexibility, and to encourage domestic demand led growth.

- In *Japan,* further action is needed to ensure the recovery with fiscal soundness and long-term growth through structural reforms.

Others will play a critical role as part of the multilateral adjustment process.

- In *emerging Asia, particularly China,* greater flexibility in exchange rates is critical to allow necessary appreciations, as is strengthening domestic demand, lessening reliance on export-led growth strategies, and actions to strengthen financial sectors.

- In *oil-producing countries,* accelerated investment in capacity, increased economic diversification, enhanced exchange rate flexibility in some cases.

- *Other current account surplus countries* should encourage domestic consumption and investment, increase micro-economic flexibility and improve investment climates.

We recognized the important contribution that the IMF can make to multilateral surveillance.