

Statement of G7 Finance Ministers and Central Bank Governors

Washington, October 19, 2007

The global economy is in its fifth year of robust growth. Recent financial market turbulence, high oil prices, and weakness in the US housing sector will likely moderate this growth. Nevertheless, our overall economic fundamentals continue to be strong and emerging markets are providing critical impetus to the strength of the world economy.

We remain committed to doing our part in sustaining strong global growth. We have acted resolutely to protect the systemic stability of global financial markets, and monetary policy must remain vigilant in maintaining price stability. We will continue to pursue medium term structural reforms and fiscal discipline. Technological change and openness to trade and investment are essential for our prosperity in a globalized world. We are committed to resisting protectionist pressures and to a successful conclusion of the Doha Development round that results in significant new trade flows in the key areas of agriculture, non-agriculture market access and services, especially financial services. Trade liberalization and Aid for Trade are critical for global poverty reduction.

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. We welcome China's decision to increase the flexibility of its currency, but in view of its rising current account surplus and domestic inflation, we stress its need to allow an accelerated appreciation of its effective exchange rate.

Following recent global market turbulence, the functioning of financial markets is improving. Strong global fundamentals and well-capitalized financial institutions provide a sound and resilient basis but uneven conditions are likely to persist for some time and will require close monitoring.

Our response to recent financial turbulence must be based on full analysis of its causes. Securitization and financial innovation have contributed significantly to the growth of our economies. We expect market participants to address many of the shortcomings that were exposed by recent events. To ensure a sound, transparent, and comprehensive framework, we have asked the Financial Stability Forum (FSF) to analyze the underlying causes of the turbulence and offer proposals in the areas of liquidity and risk management; accounting and valuation of financial derivatives; role, methodologies and use of credit rating agencies in structured finance; and basic supervisory principles of prudential oversight, including the treatment of off-balance sheet vehicles. We received an outline of the work plan from FSF Chair, Mario Draghi, and look forward to his further reports at our upcoming meetings in Japan and Washington.

We discussed progress made in implementing the FSF recommendations on Highly Leveraged Institutions. In this context, we welcome the work undertaken by private sector representatives in the United Kingdom and the United States to develop strengthened best practices.

We discussed World Bank and IMF reform. We received a report from World Bank President Zoellick on his ideas for the institution's work going forward and we look forward to

further discussing with him and other shareholders his plan for ensuring the Bank successfully meets its evolving challenges in promoting economic growth and poverty reduction. We thanked Rodrigo De Rato for his contribution to the work of the IMF and look forward to working with the incoming Managing Director, Dominique Strauss-Kahn. We remain committed to achieving an ambitious package of fundamental reforms. Quota shares and voice should better reflect the realities of the world economy including the growing weight and role of dynamic members, many of which are emerging markets. We also agreed that the voice of low income countries should be enhanced. We welcome the decision to modernize the Fund's framework for surveillance, including for exchange rates, and we look forward to its firm and even-handed implementation. IMF finances need to be put on a sustainable footing, but concurrently, the IMF must undertake a serious review of its activities and consolidation of its spending.

We discussed the importance of unified action to address energy security and global climate change while supporting growth and economic development. We are committed to working with major economies and through the UN climate process to that end. We agree that market based policy measures should be effectively designed to meet specific conditions in each country. We noted the need for scaling up investments in cleaner and lower carbon technologies through existing mechanisms such as the Clean Energy and Investment Framework and agreed to explore the creation of a clean technology fund to support the deployment of clean energy technologies to developing countries.

Cross-border, market-based investment is a major contributor to robust global growth. In this context, we agreed that sovereign wealth funds (SWFs) are increasingly important participants in the international financial system and that our economies can benefit from openness to SWF investment flows. We see merit in identifying best practices for SWFs in such areas as institutional structure, risk management, transparency and accountability. For recipients of government-controlled investments, we think it is important to build on principles such as nondiscrimination, transparency, and predictability. We are committed to strengthening our dialogue with countries involved and look forward to discussing these issues at our Outreach Dinner later this evening. We ask the IMF, World Bank, and OECD to examine these issues. We will explore opportunities to enhance investment flows between our economies and continue our discussions on mutual recognition of comparable securities regimes.

We asked the Fund, the World Bank, and the African Development Bank to actively support the implementation of the "G-8 Action Plan for Good Financial Governance in Africa" and to better align their strategies in this area. We remain concerned about the problem of aggressive litigation against HIPC countries. We welcome the steps already taken by the Paris Club to address this problem, urge all sovereign creditors not to on-sell claims on HIPCs, and are examining additional steps that might be taken. We discussed the Implementation Report on the G-8 Action Plan for Developing Local Bond Markets in Emerging Market Economies and Developing Countries and welcomed the work underway. We call on all IMF members to respond to the current situation in Liberia and follow us in financing full debt relief at the IMF.

We remain committed to fighting money laundering, terrorist financing and other illicit financing involving similar risks to financial markets, and we commend the Financial Action Task Force (FATF) for its ongoing work examining the risks of weapons of mass destruction proliferation finance, enhancing its surveillance of global threats, and deepening its dialogue with the private sector. We call upon the IMF and World Bank to continue their close cooperation with the FATF, and we urge the FATF to collaborate intensively with jurisdictions that have failed to recognize international standards. We look forward to meeting with other FATF Ministers next Spring to refresh the mandate of the FATF.

We particularly commend FATF for taking steps to protect the international financial system from the various money laundering and terrorist financing risks related to Iran. In the wake of two unanimous UN Security Council Resolutions addressing Iran's nuclear and ballistic missile programs, and the FATF's actions identifying the risks of illicit finance associated with Iran, financial institutions are advised to take into account these risks.