Statement of the G-8 Finance Ministers Meeting

Osaka Japan
June 14th, 2008

1. We, the Finance Ministers of the G-8 countries, met today in Osaka, Japan, in preparation for the Summit of the G-8 Heads of State and Government in Hokkaido-Toyako. For a long time the world economy enjoyed a combination of robust growth and low inflation, but it now faces headwinds. We will work to ensure that the conditions are in place for continued strong world economic growth.

<u>World Economy</u>

2. We remain positive about the long-term resilience of our economies and emerging market economies are still growing strongly. However, the world economy continues to face uncertainty and downside risks persist. Further declines in housing prices in the United States and greater strains in the financial markets may adversely affect the global outlook. Elevated commodity prices, especially of oil and food, pose a serious challenge to stable growth worldwide, have serious implications for the most vulnerable, and may increase global inflationary pressure. These conditions make our policy choices more complicated. We will remain vigilant, and will continue to take appropriate actions, individually and collectively, in order to secure stability and growth in our economies and globally.

3. Financial market conditions have improved somewhat in the past few months. Bold measures by major central banks have supported the better functioning of markets. Disclosure of losses and capital enhancements by many financial institutions have also helped improve market sentiment. However, strains remain, especially in money and credit markets. The recent financial turmoil has revealed the risks posed to the financial system by excessive risk taking and leveraging. Financial innovation has contributed significantly to the global growth and development, but in the light of risks to financial stability, it is imperative that transparency and risk awareness be enhanced.

4. We are fully committed to completing our strategy launched last October for strengthening the resilience of the financial system including implementing recommendations made by the FSF. We welcome Mario Draghi's update on the progress including on the priorities for action within 100 days. We call for continuing efforts by financial firms to improve disclosure and risk management practices, and to enhance their capital base as needed. We call on the IASB to accelerate its reviews of accounting issues around off-balance sheet entities and valuation in illiquid markets. We welcome the revised IOSCO code of conduct for credit rating agencies, the steps national supervisors have taken to encourage better disclosure by financial institutions in their mid-year reports, and the imminent release by the Basel Committee of their sound practice guidance on liquidity risk management. We look forward to work on mitigating pro-cyclicality in the financial system. We encourage the financial services industry to act upon the lessons learned from recent events. We look forward to concrete progress in closer co-operation between the IMF and the FSF on reinforcing early warning capabilities.

5. We affirm our commitment to an open investment policy and acknowledge that international investment is fundamental to global prosperity. We will resist protectionist sentiment at home and abroad. We welcome the work of the OECD to establish best practices for open investment regimes. We recognise the benefits of commercially-driven investment from government-controlled investors such as sovereign wealth funds and, to this

end encourage these investors to work with the IMF to identify and adopt high standards in areas such as governance, risk management, and transparency. We welcome ongoing discussions on mutual recognition of comparable securities regimes and encourage further progress on facilitating cross-border financial services. We also highlight the urgent need for a successful conclusion to the Doha Development Round.

Commodity Prices

6. We have strong concerns about the sharp rise in oil prices, which have surpassed past peaks in both nominal and real terms, and the impacts on global macro-economic stability as well as people's welfare and development prospects. Elevated oil prices fundamentally reflect rising world demand and supply constraints, but other elements such as geopolitical concerns and financial factors also play a role. To meet the challenge, on the demand side, energy efficiency of all economies should be further improved and diversification of the energy sources pursued. To this end, we recognise the importance of full implementation of the St. Petersburg Energy Security Action Plan. These efforts will also help address the climate change problem. Passing on price signals to consumers for example by reducing subsidies, while giving targeted support to the poorest, is also important. We commend several emerging market economies for their recent moves in this direction and encourage further progress in this area. On the supply side, we urge oil producing countries to increase production and to invest to enhance long-term production capacity, drawing on the expertise of international oil companies. We also encourage all countries to enhance refinery capacity. In addition, the oil markets can be made more efficient by promoting greater transparency and reliability in market data including on oil stocks, which wider and more timely participation in the Joint Oil Data Initiative (JODI) would address, and on the size of financial flows coming into the oil markets. We ask relevant national authorities to examine the functioning of commodity futures markets and to take appropriate measures as needed. We also call on the IMF and the IEA to work together, with appropriate national authorities, in carrying out further analysis of real and financial factors behind the recent surge in oil and commodity prices, their volatility, and the effects on the global economy, and report back at the next Annual Meetings.

7. The recent steep rise in food prices has severely hit many low-income food-importing countries. Its causes are multi-faceted, but we expect that demand will likely stay high as emerging economies and developing countries grow. The international community should respond with an integrated approach that addresses the immediate effects of the crisis as well as underlying causes of food insecurity. In the short term, donors should unite to provide emergency assistance. We are supporting efforts by the WFP, the World Bank and others to this end and welcome the World Bank's recent announcement of a new $1.2bn rapid financing facility to address immediate needs. We welcome the work of the IMF to address the needs of food-importing countries facing balance of payments difficulties, including through the PRGF and the review of the Exogenous Shock Facility. In the medium term, it is critical for international organisations, including the UN bodies, and donors collectively to support partner countries' efforts to increase agricultural production, especially through a boost in productivity. It is particularly important to have a clear division of labour between different actors, including the Multilateral Development Banks (MDBs) and Rome-based institutions. Acknowledging the important role played by science and technology, we agree on the need to support international research institutes, such as the Consultative Group on International Agricultural Research (CGIAR) and other partnerships. It is imperative to remove supply-side constraints and export restrictions, replace general food subsidies in developing countries with well-targeted help for the poorest, and improve the efficiency of international agricultural markets, including through the successful conclusion of the Doha Development Round. As bio-fuels pose challenges and opportunities, it is essential to

ensure the sustainability of their production and use. In this light, research and development of the second-generation production methods from non-food material should be a priority.

8. Commodity price increases, including of oil and food, are a global challenge. We call for further partnership and dialogue between producers, consumers, and relevant institutions on food security. We ask the World Bank to examine the impact of commodity price increases on development prospects. We also ask the IMF to conduct work on reform of fossil fuel subsidies. We look forward to the reports on these issues at the next Annual Meetings.

Climate Change

9. We are convinced that urgent and concerted action is needed and accept our responsibility to show leadership in tackling climate change. We are strengthening our efforts to assist developing countries in addressing climate change, and agreed to the attached ‘‘G-8 Action Plan for Climate Change to Enhance the Engagement of Private and Public Financial Institutions’’. We welcome and support the launch, to be made in collaboration with the MDBs, of the new Climate Investment Funds (CIFs), which will complement existing bilateral and multilateral efforts, until a post-2012 framework under the UNFCCC is implemented. These funds include the Clean Technology Fund and the Strategic Climate Fund, and should be consistent with national mitigation plans proposed by developing countries. Together these funds will scale up public and private finance for the deployment of clean technologies, the prevention of deforestation and development of climate resilient economies in developing countries, as described in our separate statement on the CIFs.

10. We discussed the critical roles of the private sector in providing large-scale investment into low carbon activities. We, especially, welcome the recent activities of the private financial institutions, in creating innovative financial products and employing environmental guidelines for financing projects. We urge the MDBs, in coordination with other multilateral and bilateral actors, to play key roles in increasing needed investments and helping developing countries to integrate climate change into their overall development strategies and welcome the joint MDB report on climate change, in response to our request at the Gleneagles Summit. We note that market mechanisms, including emission trading and tax incentives, have the potential to deliver economic incentives to the private sector to take investment decisions that internalise environmental costs, while they should be designed to meet specific conditions in each country.

Development

11. Growth in Africa remains robust, though it is still susceptible to shocks, including rising food and energy prices, which pose great challenges to the most vulnerable populations. As high, stable growth is critical to attaining broad-based development and the Millennium Development Goals, we are committed to working together with African countries to foster sustainable, private sector led growth, building on our commitments to double aid to Africa. In support of country specific growth strategies, we propose to focus on two pillars in our ‘‘G-8 Action Plan for Private Sector Led Growth in Africa’’: improving the investment climate; and strengthening the financial sector. In this regard, we are increasing contributions for the development of reliable infrastructures, such as cross-border transport corridors. We will support capacity building of small- and medium-sized enterprises and help African countries’ efforts to promote their capacity to trade including through Aid for Trade. We affirm the importance of good financial governance, including long-term fiscal discipline for resource rich countries, and of broader implementation of the Extractive Industries Transparency Initiative. Furthermore, we

underline the necessity of enhancing a greater access to the formal economy. We will help strengthen local financial institutions, promote local currency financing for African borrowers, enhance local bond market development in African countries, and facilitate remittance flows.

12. We will continue to put emphasis on the sustainability of growth. Private sector adoption of voluntary guidelines for managing environmental and social issues in project finance should be encouraged. We support the ongoing discussions with emerging creditors in various fora with a view to ensuring external debt sustainability of low-income countries. We welcome the progress made since our meeting last year in taking action to tackle aggressive litigation against Heavily Indebted Poor Countries. In particular we note the measures taken by the Paris Club, improvements to the World Bank's Debt Reduction Facility and the establishment of a Legal Support Facility at the African Development Bank.

Abuses of the Financial System

13. We are committed to fighting money laundering, terrorist financing and other illicit financing. We are committed to effective and timely implementation of UN Resolutions, in particular Resolution 1803 which calls for exercising vigilance over the activities of financial institutions with all banks domiciled in Iran, in particular with Bank Melli and Bank Saderat, and their branches and subsidiaries abroad. We urge the Financial Action Task Force (FATF) to keep these threats under review and take appropriate action to safeguard the integrity of the international financial system.

14. In view of the recent developments, we urge all countries that have not yet fully implemented the OECD standards of transparency and effective exchange of information in tax matters to do so without further delay. We welcome the efforts of the OECD in this regard, and ask the OECD to strengthen its work on tax evasion.