**Statement of G-7 Finance Ministers and Central Bank Governors**
**Tokyo**
**February 9, 2008**

We, Finance Ministers and Central Bank Governors of the G-7 countries, met today to discuss issues facing the world economy.

The world confronts a more challenging and uncertain environment than when we met in last October, though its fundamentals as a whole remain solid. In the United States, output and employment growth have slowed considerably and risks have become more skewed to the downside, but long-term fundamentals remain sound and we expect growth to continue in 2008. In all our economies, to varying degrees, growth is expected to slow somewhat in the short-term, reflecting wider global economic and financial developments. Emerging market economies (EMEs) are forecast to continue robust, if slower, growth. We note that downside risks still persist, which include further deterioration of the U.S. residential housing markets; tighter credit conditions from prolonged difficulties in the financial markets; high oil and commodity prices; and heightened inflation expectations in some countries. Each of us has taken actions, appropriate to our domestic circumstances, in the areas of liquidity provision, monetary policy, and fiscal policy. We also remain committed to strengthening our efforts to enhance growth through necessary reforms. Going forward, we will continue to watch developments closely and will continue to take appropriate actions, individually and collectively, in order to secure stability and growth in our economies.

We are deeply engaged in working together to strengthen financial stability, limit the impact of the financial turmoil and address the factors that contributed to it. Co-ordinated liquidity provision by Central Banks has helped mitigate short-term pressures in the money markets. Financial institutions' recognition and full and prompt disclosure of their losses, based on appropriate valuation, accompanied, where necessary, by measures to reinforce their capital base, play an important role in reducing uncertainty, improving confidence, and restoring the normal functioning of the markets. We urge this process to continue. Authorities should encourage market-led improvements in transparency and disclosure practices in this area, and, where needed, provide clear and consistent guidance.

In October, we asked the Financial Stability Forum (FSF) to analyse the underlying causes of the recent turbulence and put forward relevant actions and initiatives in a number of areas. We welcome its interim report and the good progress that has been made, and look forward to its final report in April. We will act expeditiously on its recommendations. Among the issues that have to be addressed, we emphasise, in particular, i) the importance of promoting prompt and full disclosure by financial institutions of their losses and of valuation of structured products; ii) strengthening management of liquidity risks at financial institutions by accelerating the development of an internationally consistent approach by the Basel Committee on Banking Supervision; iii) improving the understanding and disclosure of banks' and other financial institutions' exposure to off-balance sheet vehicles; iv) enhancing underpinnings of the originate-to-distribute model by ensuring an appropriate incentive structure comes into play; v) addressing potential conflicts of interest at credit rating agencies, and improving the information content of ratings to increase investors' awareness of the risks associated with structured products; and vi) implementing the Basel II capital adequacy framework to enhance transparency and risk management. In addition, authorities should review, as necessary, their mandates, coordination mechanisms, and instruments to ensure measured and flexible responses to market stress, including arrangements for dealing with weak and failing financial institutions, both domestically and cross-border. We ask the IMF and the FSF to report at our next meeting on identifying potential vulnerabilities and enhancing early warning capabilities.

We stand ready to take any further action necessary to enhance stability in the financial market and to ensure that international integration of financial markets and financial innovation continue to bring about benefits to the world economy.

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 encourage accelerated appreciation of its effective exchange rate.

Elevated oil prices largely reflect rising world demand, but other elements such as geopolitical concerns also play the role. We encourage OPEC and other oil-producing countries to raise production, and reiterate the need to enhance refinery capacity and improve energy efficiency. It should be avoided to artificially lower domestic energy prices through fiscal measures, as it works against market-based adjustment of energy demand, and raises gas emissions. We asked the IMF to conduct further research on the real and financial factors behind the recent surge in oil prices, and its effects on the global economy.

Upholding open trade and investment regimes is critical to realising global prosperity and fighting protectionism. We highlight the urgent need for a successful conclusion of the Doha Development Round that will substantially lower tariffs and other barriers to trade, including in the financial and other services sectors. We look forward to the outcome of the work under way at the IMF to identify best practices for sovereign wealth funds (SWFs) in such areas as institutional structure, risk management, transparency and accountability. We also encourage the OECD to build on its important work by identifying investment policy best practices for countries that receive cross-border investment from SWFs. We welcome the work by private sector representatives to develop strengthened voluntary best practices for Highly Leveraged Institutions in line with the FSF recommendations. We will continue to explore the issue of mutual recognition of comparable securities regimes, and how this can enhance international investment flows.

We discussed IMF reforms. We reaffirm our support for the recent IMF surveillance decision on exchange rate, financial sector, fiscal and monetary policy, and urge its rigorous and even-handed implementation. We support the recent proposal by the Managing Director to re-focus the IMF’s operations on core priorities and to cut spending by US＄100 million over three years. To fill the remaining gap, we are prepared to take measures to augment income, considering proposals in the Crockett report. We emphasised the importance of better aligning quota share of member countries with their relative position in the world economy based on a simpler and more transparent formula. We reaffirmed our commitment to concluding the quota and voice reform by the Spring IMFC meeting. A successful conclusion is a critical step in enhancing legitimacy and effectiveness of the IMF.

We discussed the importance of the unified action to address global climate change while supporting growth and economic development, based on the Bali Action Plan of December 2007. We will seek to enhance the critical roles played by international financial institutions and the private sector in reducing greenhouse gas emissions. Market based policies, which could include taxes and emission trading, will become increasingly important in combating climate change. They should be designed to meet specific conditions in each country. We also acknowledged the need to scale up investment in developing countries to support them in joining international efforts to address climate change. The deployment of clean technologies would be further enhanced through the reduction or elimination of trade barriers for key environmental goods and services. We also discussed the initiative by Japan, the United Kingdom and the United States to create, in collaboration with the World Bank and others, a strategic multilateral investment framework to address climate change. This would include, among other things, a fund that complements existing bilateral and multilateral efforts in providing financial support for the deployment of clean technologies in developing countries.

We welcome the recent robust growth experienced by many African economies and are committed to working together with African countries to maintain and strengthen this favorable momentum. We reiterated the need to foster private-sector led growth in developing countries in order to achieve the MDGs. To that end, we agreed that it is important to continue supporting African countries in improving investment climate, fostering private enterprises, strengthening financial systems, and building reliable infrastructure.

We reaffirmed that enhanced actions to ensure debt sustainability should be carried forward. We reviewed actions to tackle aggressive litigation against Heavily Indebted Poor Countries (HIPCs). We support improvements to the World Bank's Debt Reduction Facility, including through the earlier provisions of technical assistance. We took note of  proposals for establishing a legal support facility for HIPCs. We welcome the agreement reached by the OECD Export Credit Group on the Principles and Guidelines on sustainable lending to low-income countries and the interest shown by non-OECD members in this agreement. Building on our existing commitment on development and debt relief, we welcome agreement on the financing of debt relief for Liberia.

We encourage the IMF and World Bank to continue their important work in the fight against money laundering and terrorist financing. We look forward to meeting with other FATF Ministers in April to renew the mandate of the Financial Action Task Force (FATF) to address threats posed by weapons of mass destruction proliferation finance, enhance its surveillance of global threats, and deepen its dialogue with the private sector. We call upon FATF to continue to take measures to protect the international financial system from the risk of illicit finance including ensuring enhanced scrutiny of transactions involving Iran.