

Essen, February 9/10, 2007

Statement

We, Finance Ministers and Central Bank Governors, met today to evaluate the **global economic outlook**. Global growth is more balanced. In our economies, performance remains favourable. The US economy is experiencing solid activity, while adjusting to a more sustainable growth path. Canada and the UK remain on a strong and balanced growth path. The euro area is experiencing an increasingly broad-based upswing. Japan's recovery is on track and is expected to continue. We are confident that the implications of these developments will be recognized by market participants and will be incorporated in their assessments of risks.

Amid lower energy prices and moderating inflationary pressures risks have abated, but we will remain vigilant. We will continue to pursue sound policies to foster sustained and balanced growth and support the orderly adjustment of global imbalances. In this respect, we welcome China's commitment to rebalance growth.

We remain committed to resisting protectionist sentiment and fully support the re-launch of the **Doha trade** negotiations announced in Geneva. We firmly believe that all participants have the responsibility to ensure a successful outcome of the Doha round as it will enhance global growth and contribute to poverty reduction. All of us accept our responsibility for ensuring that Aid for Trade will help secure the full benefits of trade for developing countries. To further liberalize cross-border capital markets, we agreed to explore within the G7 free trade in securities based on mutual recognition of regulatory regimes. We support enhanced cooperation to enforce intellectual property rights and combat counterfeiting which are crucial to our knowledge 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. In emerging economies with large and growing current account surpluses, especially China, it is desirable that their effective exchange rates move so that necessary adjustments will occur.

We also met with Ministers of Finance from a number of key emerging market economies to discuss the role of **local bond markets** in fostering growth and financial stability. In this context developing local currency bond markets deserves higher priority to reduce emerging countries' vulnerability to external shocks and financial crises and to promote growth. We look forward to the results of the high level conference on May 9-10 in Frankfurt on market experience, which will help to identify concrete recommendations and sustain the momentum of reform.

We discussed recent developments in global financial markets, including **hedge funds**, which along with the emergence of advanced financial techniques including credit derivatives, have contributed significantly to the efficiency of the financial system. Nevertheless the assessment of potential systemic and operational risks associated with these activities has become more complex and challenging. Given the strong growth of the hedge fund industry and the instruments they trade, we need to be vigilant. We therefore agreed to further pursue the issue. We will exchange views with the private sector and ask the Financial Stability Forum to update its 2000 Report on Highly Leveraged Institutions.

We reaffirm our strong belief that fundamental reform is necessary for the IMF to maintain its credibility and effectiveness in the changing global economy. We remain committed to making **IMF quota shares** more aligned with members' relative weight and role in the world economy, and to enhance the participation and voice of low-income countries. We also stress the importance of improving **IMF surveillance**. To be more effective surveillance must be applied equally and even-handedly, focused on external stability, and subject to a clear accountability framework, without creating new obligations. In this context, we welcome the Managing

Director's proposals to update the 1977 Decision on Surveillance over Exchange Rate Policies and for a remit and look forward to moving these forward as a priority. We take note of the Report on the Sustainable Long-Term Financing of the IMF that provides a good basis for further discussion. We support the recently-launched reform of the **governance of the World Bank**.

We discussed the complementary role of **Good Financial Governance in Africa** in channelling resources to their most productive use and in helping to achieve the Millennium Development Goals. We agreed to develop – together with African partners - an action plan that includes a joint reform strategy to promote effective and transparent budget processes, a vigorous implementation of existing initiatives to increase transparency such as the Extractive Industries Transparency Initiative (EITI) and its potential extension to other sectors, and the enhancement of reforms and capacity building efforts in the area of tax systems, stabilisation fund, public expenditure management, and debt management. In turn, it is imperative that creditors and donors take account of debt sustainability issues in their lending practices. To this end the development of a charter of responsible lending would represent an important step. Finally, we will explore measures to support financial sector development in Africa.

We welcome the 9 February 2007 launch in Rome of the pilot **Advance Market Commitments** (AMC) for pneumococcus, an innovative financing mechanism designed to mobilize private investment in research and development of life-saving vaccines benefiting poor countries. We discussed the importance of making progress on education, including in science and technology in the poorest countries and look forward to the forthcoming International Conference on Education.

We consider **energy** efficiency and the promotion of energy diversification, notably through renewable energies, to become an increasingly important issue for our economies as well as emerging market economies in view of energy security, high and volatile energy prices and climate change. We agree that market based policy measures, which could include taxes and emission trading, should be effectively designed to meet specific conditions in each country. At the same time, we remain committed to a transparent and forward looking dialogue with energy-producing countries.

We are committed to fight money laundering, terrorist financing and other illicit financing involving similar risks to the stability and integrity of financial markets. We are committed to the effective and timely implementation of UN Resolutions 1540, 1718, 1737. To this end, we ask the Financial Action Task Force to examine the risks involved in weapons of mass destruction proliferation finance and to review its mandate. We urge the FATF to collaborate intensely with jurisdictions that have failed to recognise the international standards. We call on the IMF and the World Bank to closely cooperate with the FATF.

We welcomed the successful outcome of the Paris conference on Lebanon and we discussed economic prospects in the West Bank and Gaza strip. We agreed to keep this under review.