

Pre-Summit Statement by G8 Finance Ministers

We met and discussed today global economic issues in preparation for the Summit of the G8 Heads of State and Government in Heiligendamm.

Global growth remains robust and it is more balanced across regions and within our countries. Risks for the outlook have abated, but high and volatile energy prices remain a concern and 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.

We firmly believe that all participants have the responsibility to ensure a successful outcome of the **Doha Development Round**. It is necessary to achieve an ambitious balanced and comprehensive deal that delivers economic benefits for all members, enhances global growth and contributes to poverty reduction. We remain committed to resisting protectionist sentiment. We should strive to reach an agreement on the core modalities as soon as possible, which will require political will and additional efforts by all parties. Also, open investment regimes are vital for improving productivity, creating jobs and spurring healthy competition. All countries, developed and developing countries alike, have the responsibility for ensuring that Aid for Trade will help secure the full benefits of trade for developing countries. We expect spending on Aid for Trade to increase to \$4 billion, including through enhancing the Integrated Framework. We support enhanced cooperation to enforce intellectual property rights and combat counterfeiting which are crucial to our knowledge economy.

We discussed with the Finance Ministers of Cameroon, Ghana, Mozambique, Nigeria and South Africa and the President of the African Development Bank (AfDB) the importance of **Good Financial Governance in Africa** in achieving the Millennium Development Goals. With the attached “G8 Action Plan for Good Financial Governance in Africa” we strongly support efforts to increase the effectiveness and efficiency of public financial management in Africa, including capacity building, with special attention to particular needs of post conflict and fragile states. We commit to engaging actively in implementing the Action Plan and ask the World Bank, the IMF and the AfDB to do likewise. Improved financial governance and aid flows must go hand in hand if we are to tackle poverty. We reaffirm our commitment to meeting our responsibilities as donors, in particular the importance of delivering on our aid commitments. We welcome proposals for more effective international cooperation on asset recovery including from the World Bank and the United Nations. We encourage the use of the **debt sustainability framework** by all borrowers and creditors in their decisions. We continue to support the development of a **charter for responsible lending** and seek to involve other interested parties, including the G20. In this context we are concerned about the actions of some litigating creditors against Heavily Indebted Poor Countries. We have agreed to work together to identify measures to tackle this problem, based on the work of the Paris Club.

We express our appreciation to World Bank President Paul Wolfowitz for his service to the Bank and his commitment to responsible development and poverty reduction, particularly in Africa.

We endorsed the attached “**G8 Action Plan for Developing Local Bond Markets in Emerging Market Economies and Developing Countries**” which is aimed at fostering growth and financial stability. The plan identifies measures in several areas where further progress should be made. The plan for action acknowledges

the key importance of macroeconomic stability and sound legal frameworks as necessary conditions for the development of local currency bond markets. We call for a strengthening of market infrastructure to broaden and diversify the investor base. We encourage the promotion and coordination of technical assistance and ask the International Financial Institutions to take stock of the available data in support of local currency bond markets, with a view to data consolidation. We also agree on the importance of promoting regional initiatives that should provide extra momentum for developing these markets. We ask the IFIs to report regularly on the progress made in implementing this plan and we agree to monitor the issue. In low-income countries, the development of local bond markets must take into account their potential impact on long-term debt sustainability.

We continued our discussion on recent developments in global financial markets, including **hedge funds**, which, along with the emergence of advanced financial techniques and products, such as 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 increasing complexity of the instruments they trade, we reaffirmed the need to be vigilant.

In this context, we welcomed the Financial Stability Forum's (FSF) update of its 2000 Report on Highly Leveraged Institutions and support its recommendations. The **global hedge fund industry** should review and enhance existing sound practices benchmarks for hedge fund managers; in particular in the areas of risk management, valuations and disclosure to investors and counterparties in the light of expectations for improved practices set out by the official and private sectors. **Counterparties and investors** should act to strengthen the effectiveness of market discipline, including, by obtaining accurate and timely portfolio valuation and risk information. **Supervisors** should act so that core intermediaries continue to strengthen their counterparty risk management practices. In the exercise of their supervision of hedge funds counterparties, relevant authorities should monitor developments and cooperate among themselves. The **FSF** has agreed to report to ministers as from October of this year on the progress and actions taken in respect of these recommendations.

We discussed measures to improve the efficiency of **public spending** and its effectiveness in supporting economic growth and employment. This is a key task, along with securing adequate revenues, in order to ensure public finances are on a sustainable footing in the face of rising age-related expenditures, while enhancing citizens' well-being. We agreed that well-designed and well-implemented budget rules can be useful both in supporting fiscal discipline and raising the efficiency of public spending. We will continue learning from each other's experiences in order to improve the performance and outcomes of public services while containing spending.

In order to ensure **energy** security and to address **climate change**, we consider energy efficiency and the promotion of energy diversification, which can include advanced energy technologies such as renewable, nuclear, and clean coal, to be important. We reaffirm the shared responsibility of all countries to act in an effective and balanced manner to tackle the challenge of greenhouse gas emissions and energy security without creating economic distortions. We are of the view that it is particularly important for all countries to pursue policies that mitigate climate change and facilitate the necessary adaptation. We agree that energy and climate policy frameworks should be based on market based policies, in order to minimize the cost of action and to provide incentives for all stakeholders to use existing low carbon technologies and invest in the development of innovative technologies. These frameworks, which could include taxes and emission trading, should be effectively designed to meet specific conditions in each country, whilst capturing the benefits of integrated markets. We agreed that finance ministers should discuss these issues further and look forward to a conference on these issues later this year.

We are committed to **fighting 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 and 1747. To this end, we ask the Financial Action Task Force (FATF) to examine the risks involved in weapons of mass destruction proliferation finance. We urge the FATF to collaborate intensely with jurisdictions that have failed to recognise the international standards. We urge that, as it reviews its strategic direction, the FATF consider expanding its mandate, enhancing global implementation of its standards, improving its strategic surveillance, and examining ways to bolster accountability and outreach activities. We call on the IMF and the World Bank to closely cooperate with the FATF.