G7 STATEMENT

Okinawa, 21 July 2000

World Economy

1. Since we last met in Cologne, prospects for world economic growth have further improved, as the underlying fundamentals of the industrial countries and the world economy more generally have strengthened, and as our economies move towards a more balanced and therefore more sustainable pattern of growth. Emerging market economies, including the crisis-affected economies in Asia and elsewhere, continue to strengthen.

2. At the same time, continued vigilance and further action are needed to ensure that sustained, strong and balanced growth is achieved. We agree on the importance of directing macroeconomic and structural policies in all our countries at achieving this objective, with emphasis on taking full advantage of the investment opportunities created by new technologies to raise potential growth rates.

3. More specifically,

- In the United States and Canada, where growth remains strong with low unemployment and inflation well contained, macroeconomic policies should continue to be directed towards maintaining a sustainable rate of growth and low inflation, and in the United States, national saving should increase.

- In the euro area, where growth has further strengthened and employment is rising, sound macroeconomic policies and vigorous structural reforms directed towards expanding investment, employment, and productive potential remain important.

- In the United Kingdom, where growth has strengthened, employment is still rising, and inflation is low, economic policies should continue to aim at meeting the inflation target while sustaining growth and employment.

- In Japan, where the economy continues to show positive signs of recovery, although uncertainty still lingers, macroeconomic policies should continue to be supportive to ensure domestic demand-led growth. Structural reform should be continued to promote an increase in productive potential.

- We welcome the recovery in many emerging market economies as well as countries in transition and developing countries, but we stress the importance of further progress in corporate and financial restructuring and the importance of sound underlying fiscal positions and debt structures.

4. We are concerned about the adverse effect on world economic growth of recent developments in world crude oil markets. In this context, we highlight the need for greater stability of oil markets to help ensure sustained growth and prosperity in both oil producing countries and oil consuming countries.

Strengthening the International Financial Architecture

5. Following a series of crises since 1997, the international community has endeavoured to promote greater stability of the global economy through strengthening the international financial architecture, in view of the drastic changes to the global financial landscape, particularly in light of the increasing size and importance of private capital markets.

6. We welcome the progress made thus far and support the further steps set out by our Finance Ministers in the following areas.

7. We will continue to work together with other members of the international community to further strengthen the international financial architecture.

Reform of the International Monetary Fund (IMF)

8. The IMF should continue to play a central role in advancing macroeconomic and financial stability as an important precondition for sustainable global growth and

should continue to evolve to meet the challenges of the future. As a universal institution, the IMF must work in partnership with all its members, including the poorest, based on shared interests. In this regard, we attach particular importance to the following measures:

- **Strengthening IMF surveillance to prevent crises:** A substantial qualitative shift in the nature and scope of the surveillance is needed in light of globalisation and large scale private capital flows.

- **Implementation of international codes and standards:** We are determined to strengthen our efforts to this end, including through their incorporation in IMF surveillance.

- **Reform of IMF facilities:** To adapt to the globalisation of capital markets, we attach priority to early progress in achieving a streamlined, incentive-based structure for IMF lending as set out by our Finance Ministers.

- **Safeguarding IMF resources and post-programme monitoring:** It is imperative to implement the strengthened safeguard measures and to enhance IMF's capacity for post-programme monitoring.

- **Strengthening governance and accountability:** It is important that the IMF's decision-making structure and its operation remain accountable taking into account changes in the world economy.

- **Promotion of private sector involvement in crisis prevention and resolution:** We welcome that private external creditors have contributed to the financing of recent IMF programmes, confirming the importance of making operational the approach agreed by our Finance Ministers last April based on the framework we laid out in Cologne.

Reform of the Multilateral Development Banks (MDBs)

9. The core role of the MDBs should be accelerating poverty reduction in developing countries while improving the efficiency of assistance and avoiding competition with private financial flows. The MDBs should increase their resources devoted to

core social investments such as basic health and education, clean water and sanitation. The Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) should become the basis for programmes that have strong ownership by the recipient countries.

10. All the MDBs should allocate their support increasingly on the basis of borrower performance. Country assistance strategies should take full account of borrowers' policy environments, including governance issues. The MDBs' own governance and accountability should also be strengthened.

11. We look to the MDBs to play a leadership role in increasing the provision of global public goods, particularly for urgently needed measures against infectious and parasitic diseases including HIV/AIDS, as well as environmental degradation.

Highly-leveraged Institutions (HLIs), Capital Flows, and Offshore Financial Centers (OFCs)

12. We stress the importance of implementing measures recommended by the Financial Stability Forum (FSF) last March.

13. With regard to concerns about the potential consequences of the activities of HLIs, we agree that the recommended measures should be fully implemented and that they will be reviewed to determine whether additional steps are necessary. We note that the FSF considered, but did not recommend, at this stage, direct regulation of the currently unregulated HLIs, but emphasized that direct regulation would be reconsidered, if, upon review, the implementation of its recommendations were not adequately addressing concerns identified.

14. We urge the IMF to conduct quickly assessments of offshore financial centres identified by the FSF as a priority.

15. We agree that it remains essential for each country to strengthen the financial system, choose an appropriate foreign exchange rate regime, and liberalise the

capital account in a well-sequenced manner.

Regional Co-operation

16. We agree that regional co-operation through intensified surveillance can help contribute to financial stability by strengthening the policy framework at the national level. Co-operative financing arrangements at the regional level designed to supplement resources provided by the international financial institutions (IFIs) in support of IMF programmes can be effective in crisis prevention and resolution. In this context, we welcome the recent developments in Asia and North America. In a different institutional context, economic and financial integration mechanisms, and monetary unification in Europe are also contributing to the economic and financial stability of the global economy.

Progress of the Enhanced HIPC Initiative

17. The International Development Goal of cutting in half by 2015 the proportion of the world's population living in extreme poverty is an ambitious one. It demands a strategy of economic growth accompanied by the right social sector policies which can contribute to a virtuous circle of poverty reduction and economic development. Debt relief for Heavily Indebted Poor Countries (HIPCs) is only one part of such a strategy, but it is a crucial part.

18. Last year in Cologne, we agreed to launch the Enhanced HIPC Initiative to deliver faster, broader and deeper debt relief, releasing funds for poverty reduction. We welcome endorsement of this initiative by the international community last autumn.

19. Since then, while further efforts are required, progress has been made in implementing the Enhanced HIPC Initiative. As reported in the annex to our G7 Finance Ministers' report, published today, on "Poverty Reduction and Economic Development," nine countries (Benin, Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Senegal, Tanzania and Uganda,) have already reached their Decision Points and are seeing the benefits of the Initiative. Total debt relief

under the HIPC Initiative for these countries should amount to more than US$15 billion in nominal terms (US$8.6 billion in Net Present Value).

20. We welcome the efforts being made by HIPCs to develop comprehensive and country-owned poverty reduction strategies through a participatory process involving civil society. We encourage those HIPCs that have not yet done so to embark quickly on the process and thus fully benefit from the debt reduction. We are concerned by the fact that a number of HIPCs are currently affected by military conflicts which prevent poverty reduction and delay debt relief. We call upon these countries to end their involvement in conflicts and to embark quickly upon the HIPC process. We agree to strengthen our efforts to help them prepare and come forward for debt relief, by asking our Ministers to make early contact with the countries in conflict to encourage them to create the right conditions to participate in the HIPC Initiative. We will work together to ensure that as many countries as possible reach their Decision Points, in line with the targets set in Cologne, giving due consideration to the progress of economic reforms and the need to ensure that the benefits of debt relief are targeted to assist the poor and most vulnerable.

21. In this regard, we welcome the establishment of the Joint Implementation Committee (JIC) by the World Bank and the IMF, and strongly urge both HIPCs and IFIs to accelerate their work toward the implementation of the Initiative. IFIs should, along with other donors, help HIPCs prepare PRSPs and assist their financial resource management by providing technical assistance.

22. We reaffirmed our commitment to provide 100% debt reduction of ODA claims, and newly commit to 100% debt reduction of eligible commercial claims. We welcome the announcement made by some non-G7 countries that they too will provide 100% debt relief, and we urge other donors to follow suit.

23. We note the progress made in securing the required financing of the IFIs for effective implementation of the Enhanced HIPC Initiative, and welcome pledges and the initial contributions including those to the HIPC Trust Fund. We reaffirm our commitment to make available as quickly as possible the resources we have

pledged. In this context, we recognise the importance of fair burden sharing among creditors.

24. Given the enormous destructive effect of war and crisis, we call upon the OECD to review strengthened measures, including a review of national rules and regulations, toward ensuring that export credits to HIPCs and other low income developing countries are not used for non-productive purposes. We encourage the OECD to complete this work and publish the results as soon as possible.

Actions Against Abuse of the Global Financial System

25. To secure the benefits of the globalised financial system, we need to ensure that its credibility and integrity are not undermined by money laundering, harmful tax competition, and poor regulatory standards.

26. We welcome and strongly endorse our G7 Finance Ministers' report, published today, on "Actions Against Abuse of the Global Financial System," and attach particular importance to the following developments:

- **Money laundering**: We welcome the initial work of the Financial Action Task Force on Money Laundering (FATF), which has published its review of the rules and practices of 29 countries and territories and its identification of 15 non-co-operative countries and territories (NCCTs). We note with satisfaction the issuance of advisories to our domestic financial institutions that they should take cognisance and enhance their scrutiny of the risks associated with business and transactions with individuals or entities from the 15 NCCTs. We are ready to give our advice and provide, where appropriate, our technical assistance to jurisdictions that commit to making improvements to their regimes. We are prepared to act together, when required and appropriate, to implement co-ordinated counter-measures against those NCCTs that do not take steps to reform their systems appropriately, including the possibility to condition or restrict financial transactions with those jurisdictions and to condition or restrict support from IFIs to them.

- **Tax havens and other harmful tax practices**: We welcome the OECD Report on

Progress on Identifying and Eliminating Harmful Tax Practices, which includes two lists: certain jurisdictions meeting tax haven criteria; and potentially harmful regimes within the OECD member countries. We also welcome the public commitments already made by jurisdictions to eliminate harmful tax practices and we urge all jurisdictions to make such commitments. We encourage the OECD to continue its efforts to counter harmful tax practices and to extend its dialogue with non-member countries. We also reaffirm our support for the OECD's report on improving access to bank information for tax purposes and call on all countries to work rapidly towards a position where they can permit access to, and exchange, bank information for all tax purposes.

- **Offshore financial centres**: Regarding offshore financial centres (OFCs) that do not meet international financial standards, we welcome the identification by the Financial Stability Forum (FSF) of priority jurisdictions for assessment. We consider it essential for OFCs to implement all measures recommended by the FSF with a view to improving weak regulatory and supervisory systems, as well as to eliminate harmful tax competition and to adopt anti-money laundering measures. In this regard, we attach priority to the eight areas identified by our Finance Ministers: international co-operation, exchange of information, customer identification, abolition of excessive secrecy, effective vetting of financial institutions, enhanced resources for financial supervision and anti-money laundering compliance, improved legislation on money launderings and elimination of harmful tax practices. We will take steps to encourage jurisdictions to make the necessary changes and provide technical assistance where appropriate. Where jurisdictions fail to meet certain standards and are not committed to enhancing their level of compliance with international standards, we will also take measures to protect the international financial system from the effects of these failures.

- **Role of international financial institutions (IFIs)**: We urge IFIs, including the IMF and World Bank, to help countries implement relevant international standards, in the context of financial sector assessments as well as programme design and assistance.

27. We stress the urgent need for concrete actions against abuse of the global financial

system at both the national and international level. We also strongly urge better co-ordination, further impetus to efforts under way in various international fora, and expeditious follow-up actions.

Nuclear Safety/Ukraine

28. We welcome the decision taken by President Kuchma to close the Chernobyl Nuclear Power Plant (NPP) on 15 December this year. We continue to co-operate with the Government of Ukraine in addressing the problems associated with the permanent shutdown of the Chernobyl NPP.

29. We reaffirm our commitment made at the Cologne Summit to continue our support for the Shelter Implementation Plan (SIP). We welcome the results of the Pledging Conference in July to ensure full implementation of the SIP. We appreciate the contribution of the non-G7 donors.

30. We urge the Government of Ukraine to accelerate its power sector reforms, particularly improvement of cash collection and privatisation, which will attract financially viable investments in the energy sector. We look forward to receiving the report of the European Bank for Reconstruction and Development in this respect. In the meantime, we affirm our commitment in line with the Memorandum of Understanding to assist the Ukraine in the preparation and implementation of energy projects based on least cost principles.