

THE WHITE HOUSE
WASHINGTON

June 16, 2010

Dear G-20 Colleagues:

When we met in London in April of 2009, we were facing the worst worldwide economic financial crisis since the 1930s. We acted with unprecedented speed and aggressive action to boost demand and repair our financial systems. It worked.

In Pittsburgh, with recovery beginning to take hold, we agreed to work together to achieve a more balanced pattern of global growth and financial reforms to strengthen our financial system and protect our economies from instability.

In Toronto, we meet at a time of renewed challenge to the global economy. We must act together to strengthen the recovery. We need to commit to restore sustainable public finances in the medium term. And we should complete the work of financial repair and reform.

Our highest priority in Toronto must be to safeguard and strengthen the recovery. We worked exceptionally hard to restore growth; we cannot let it falter or lose strength now. This means that we should reaffirm our unity of purpose to provide the policy support necessary to keep economic growth strong. It is essential that we have a self-sustaining recovery that creates the good jobs that our people need. In fact, should confidence in the strength of our recoveries diminish, we should be prepared to respond again as quickly and as forcefully as needed to avert a slowdown in economic activity.

A strong and sustainable global recovery needs to be built on balanced global demand. Significant weaknesses exist across G-20 economies. I am concerned by weak private sector demand and continued heavy reliance on exports by some countries with already large external surpluses. Our ability to achieve a durable global recovery depends on our ability to achieve a pattern of global demand growth that avoids the imbalances of the past. In Pittsburgh, we agreed that countries with external surpluses would need to strengthen domestic sources of growth. Leaders and governments will need to decide for themselves how to achieve that objective. In some countries, strengthening social safety nets would help boost low levels of consumption. In others, product and labor market reforms could strengthen both consumption and investment. I also want to underscore that market-determined exchange rates are essential to global economic vitality. The signals that flexible exchange rates send are necessary to support a strong and balanced global economy.

We need to commit to fiscal adjustments that stabilize debt-to-GDP ratios at appropriate levels over the medium term. I am committed to the restoration of fiscal sustainability in the United States and believe that all G-20 countries should put in place credible and growth-friendly plans to restore sustainable public finances. But it is critical that the timing and pace of consolidation in each economy suit the needs of the global economy, the momentum of private sector demand, and national circumstances. We must be flexible in adjusting the pace of consolidation and learn from the consequential mistakes of the past when stimulus was too quickly withdrawn and resulted in renewed economic hardships and recession. For our part, we will pursue measures to support the recovery in private demand and return the unemployed to work. At the same time, we recognize the importance of setting a credible medium-term fiscal path: that is why my Administration will cut the budget deficit we inherited in half by FY 2013 and work to reduce our fiscal deficit to 3 percent of GDP by FY 2015, which will stabilize the debt-to-GDP ratio at an acceptable level in that year.

To support the recovery and strengthen the ability of our financial systems to deliver needed credit, we must maintain the momentum of financial repair. Resolving ongoing uncertainty about the transparency of bank balance sheets and the adequacy of bank capital, particularly in Europe, will help reduce financial market volatility and the cost of borrowing. We should support efforts to enhance transparency and increase disclosure by our large financial institutions and to act, where necessary, to strengthen the capital position of our banks. Our ability to grow without the excesses that put our economies at risk two years ago requires that we accelerate our efforts to bring needed financial reforms to completion. In the U.S., both houses of Congress have passed comprehensive financial regulatory reform bills. We must reiterate our commitment in Toronto to a common framework for reforms that provide:

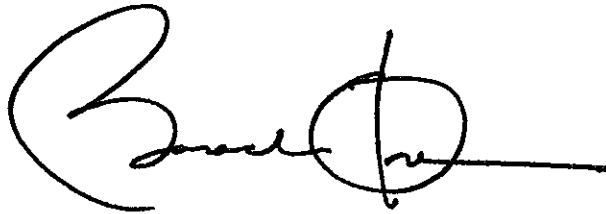
- *more stringent capital and liquidity requirements:* We want our negotiators to reach agreement on a new capital framework we can endorse in Seoul that will include higher common equity requirements, tighter definitions of capital, a simple mandatory leverage ratio, and appropriate liquidity requirements. While we consider reasonable transition measures, we must not lose sight of the need to make sure our financial institutions have the capital needed to withstand future stresses;
- *stronger oversight of derivatives markets:* We want our negotiators to reach agreement to put in place across the major financial markets a consistent framework for oversight of derivatives markets. We should subject all dealers and all major participants in the derivatives markets to supervision and regulation, including conservative capital and margin requirements, disclosure and reporting requirements, and strong business conduct standards to mitigate the potential for systemic risk and market abuse.
- *more transparency and disclosure* to promote market integrity and reduce market manipulation; and

- *more effective framework for winding down large global firms, along with principles for the financial sector to make a fair and substantial contribution towards paying for any burdens it creates* in a way that protects taxpayers, creates a level playing field, and reduces risks to our economies.

In Toronto, I also look forward to working on our action agendas on issues ranging from energy and development, to governance reform of international financial institutions.

Together, we designated the G-20 as the premier forum for international economic cooperation. It is important that the G-20 demonstrates its continued determination to work collectively to address the renewed challenges facing the global economy. I look forward to seeing you in Toronto and reaffirming our unity of purpose and resolve.

Sincerely,

A handwritten signature in black ink, appearing to be "Barack Obama", written in a cursive style. The signature is positioned below the word "Sincerely,".