COMMUNIQUÉ

Meeting of Finance Ministers and Central Bank Governors
Berlin, 20-21 November 2004

1. We, the Finance Ministers and Central Bank Governors of the G-20, held our sixth meeting in Berlin, Germany. Our meeting confirmed the growing sense of common purpose and shared views and responsibility which has developed within the G-20 over the last years.

2. We welcomed the favourable macroeconomic environment in the world economy with high growth at low inflation rates. We expect that the macroeconomic environment will remain favourable in the next year. Many countries are implementing structural reforms to foster sustainable growth and financial stability. However, downside risks have increased due to oil price volatility, persisting external imbalances and geo-political concerns. Co-operation between oil producers and consumers to ensure adequate supply, investment to expand oil production capacity, improvements in oil market transparency, greater energy efficiency and wider use of alternative sources of energy will contribute to improving the resilience and sustainability of the international economy and to more moderate oil prices in the medium term. We also discussed the impact of current macro-economic conditions, in particular oil prices, on many of the poorest countries and the adverse effects on their development prospects. We underscored the importance of medium-term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and, in emerging Asia, steps towards greater exchange rate flexibility, supported by continued financial sector reform, as appropriate.

3. We reaffirmed our commitments made in Morelia towards the progress of developed and developing countries on implementation of the Monterrey Consensus and the Millennium Development Goals. We welcomed recent work by the World Bank and the IMF on the need and mechanisms for financing for development.

4. We agreed that our goal of improving welfare and employment in our countries calls for strong and sustained growth worldwide. We therefore had a thorough exchange of views on growth-enhancing strategies. Building on our own experiences as well as on our discussions on institution-building in the financial sector, on regional cooperation and integration and on demographic challenges, we today reached an accord on a number of common principles for domestic policies which would help to foster sustained economic growth if implemented consistently and with due regard to country-specific circumstances. We will translate this G-20 Accord into concrete action through measures such as found in the attached G-20 Reform Agenda, and we will regularly review the progress towards implementation. We are agreed that such policy reforms need to be supported by a robust and effective international financial and trade architecture that delivers fair access to markets. In this respect, we are committed to a quick resolution and effective implementation of the Doha Round.

5. Based on an exchange of experience over the past two years, we emphasised that strong domestic financial sectors are essential in supporting economic growth and reducing external vulnerabilities. We agreed that high priority should be given to establishing stable and efficient institutions. Progress in institution building is also important for a well-sequenced liberalisation of the capital account. Emphasis must be given to implementing the relevant internationally recognised standards and codes. We highlighted the crucial role of financial sector supervision, which should pay due regard to efficiency, operational independence and accountability of the agencies involved. We welcomed the efforts of the World Bank to develop principles and guidelines for effective insolvency and creditor rights systems and we commend efforts to develop a unified international stan-

dard in this area, in collaboration with UNCITRAL, that takes into account different legal traditions. We identified stable and efficient payment systems as pivotal for the financial infrastructure and emphasised the role of central banks as a supplier and overseer of payment services. We welcomed the efforts of the IMF, the World Bank and others in promoting institution-building and the development of local capacity and agreed on the importance of closely coordinating such activities.

6. We agreed that regional cooperation and integration can be important steps for national economies in opening up to global trade and financial flows and in achieving gradual improvements in competitiveness. We emphasised that regional arrangements should be designed with due regard to multilateral objectives. While trade has historically been the initial step of regional integration, we highlighted the formation of regional integrated financial markets for bonds and financial services. The reduction of barriers to foreign direct investment in the financial sector within the necessary regulatory framework, can, if appropriately sequenced, enhance the efficiency and stability of national financial systems. We agreed that G-20 countries, as systemically important economies, have a special responsibility in their regions. We undertake to play a leading role in advancing regional and global integration.

7. Against the backdrop of global demographic changes, we assessed trends in our countries and the challenges they present for economic policy. As all our countries will be affected by ageing-related budgetary pressures in the coming decades, we are well aware of the need for fiscal consolidation and further structural reforms. However, policy challenges differ greatly among countries in the short-term. Countries that will encounter ageing problems first need to integrate a larger part of their working-age population into the labour force, expand individual working life and implement life-long learning. Countries that will experience a rise in the working age population before the problematic impact of ageing becomes apparent should increase investment in human-capital and infrastructure while pursuing prudent fiscal policies. We emphasised the importance of a stable and efficient international financial system that allows smooth flows of capital between regions at different demographic stages. We are committed to strengthening the monitoring of economic challenges of an ageing population and surveillance of respective policies and call on the IMF to regularly include, e.g. every four years, in the context of its Article IV consultations a thorough and integrated analysis of these long-term challenges and policy responses. Building on this, the G-20 will review demographic, migratory, and other long-term challenges regularly at a global level.

8. We reaffirmed the importance of an international financial architecture that sets incentives for pursuing sustainable policies and prudent risk-taking. In this regard, we welcomed the results achieved between issuing countries and private-sector participants on "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets". Such principles, which we generally support, provide a good basis for strengthening crisis prevention and enhancing predictability of crisis management now, and as they further develop in future.

9. We reaffirmed our commitment to fight the abuse of the international financial system in all forms. To this end, we have committed ourselves to the high standards of transparency and exchange of information for tax purposes that have been developed by the OECD's Committee on Fiscal Affairs as set out in the attached statement. We will work to implement the high standards of transparency and effective exchange of information through legal mechanisms such as bilateral information exchange treaties, and we also call on those financial centres and other jurisdictions within and outside the OECD which have not yet adopted these standards to follow our lead and take the necessary steps, in particular in allowing access to bank and entity ownership information.

10. While we have made progress in fighting money laundering and the financing of terrorism since 11 September 2001, much remains to be done. FATF regional style bodies are expected to be an important element of our efforts and we welcome the recent establishment of the Eurasian Group on Money Laundering and Financing of Terrorism (EAG). We look forward to the early admission of China in the FATF. We are committed to implement the revised FATF Forty Recommendations and the FATF Special Recommendations. We welcomed the decision by the IMF and the World Bank to make comprehensive assessments on money laundering and terrorist financing a regular part of their work. We are agreed on the importance of responding to the challenges posed by ille-

gal cash couriers and by the use of the informal sector for remittances and we supported the FATF's current efforts to address these issues more effectively. In this context we welcomed the new FATF Special Recommendation IX on cash couriers and urge its efficient implementation.

11. We expressed our appreciation to the German authorities for their excellent stewardship of the G20 this year and for the effective arrangements for this meeting. We will continue our work under the Chinese presidency in 2005 and we welcome the invitation to our next meeting in Beijing. We have also agreed today that the G-20 will be chaired by Australia in 2006.

Berlin, 21 November 2004

G-20 ACCORD FOR SUSTAINED GROWTH

Stability, Competition and Empowerment: Mobilising Economic Forces for Satisfactory Long-Term Growth

We, the Finance Ministers and Central Bank Governors of the G-20, have a common goal of promoting employment, welfare and development in our countries. We are convinced that strong and sustained economic growth is necessary both at national and global level to achieve this end. We have therefore discussed the requirements for long-lasting growth on the basis of our own experience and believe that domestic policy needs to address three tasks: establishing and maintaining monetary and financial stability; enhancing domestic and international competition; and empowering people to participate. Transparency and accountability within an internationally agreed framework of codes and standards remain key to ensuring sustained economic growth and stability at the global level. We agreed on the following key elements that will guide our domestic economic policies in the future. In implementing these elements, microeconomic aspects must be given due consideration. As these principles are interlinked, they must be implemented consistently, with due regard to possible trade-offs and complementarities, because many single elements have the potential of blocking the positive effects of others. While appropriate and credible policies are the basis for economic growth, they need to be backed by high-quality institutions, including ethical standards in corporate governance. Policymakers should build institutions in parallel with engaging in reforms and also ensure that institutions stay consistent with the requirements of a changing environment. However, given the diversity of institutional settings and the success of different economic strategies among G-20 countries, there is no single template for strong long-term growth. Policies need to be shaped to the special circumstances in individual countries. Efforts along these lines will unfold their full potential in a favourable international environment, in particular in the context of a robust and effective international financial and trade architecture which supports countries in the adoption of these principles.

Monetary and financial stability

- Price stability is indispensable for sustainable economic growth as it fosters investment and saving. Inflation is destabilizing and has a strong negative impact on the poor. Deflation squeezes profits, discourages investment and leads people to postpone spending. Experience has shown that central bank independence helps to achieve the goal of price stability in the long run.

- Fiscal discipline is equally important. Fiscal policy must ensure that public expenditures and debt remain at reasonable levels in relation to national aggregates in order to prevent economic growth being restrained by crowding-out, anticipated future tax increases and inflationary pressures. Public expenditure composition and the tax system should ensure fiscal sustainability without discouraging investment and employment. Demographic challenges may generate additional needs for consolidation and restructuring of public expenditure, including reforms to ensure the viability of public pension schemes. In addressing these challenges, transparent budget procedures are of the utmost importance.

- The domestic financial sector must be able to withstand economic shocks without giving rise to systemic problems which impair the allocation of savings to investment opportunities and the processing of payments in the economy. Excessive borrowing in foreign currencies for domestic activities has been identified as a major cause of international financial crises. Currency mismatches could be diminished by strengthening domestic banking systems and capital markets. Strong domestic financial sectors can reduce the need for foreign currency borrowing and become an alternative channel of external funding by attracting foreign investors into domestic currency instruments. High priority must be given to implementing the relevant internationally recognised standards and codes.

- The liberalisation of the capital account yields essential efficiencies and benefits for economic growth. However, countries still opening their capital account should proceed prudently in order to avoid an excessive volatility of capital flows. A prudent approach would be based on sound macroeconomic policies and gradual deregulation of the domestic financial sector combined with adequate enhancements of the supervisory framework. The elimination of restrictions on capital movements should be appropriately sequenced. Experience has shown that countries seeking domestic monetary autonomy while substantially liberalising their capital account should increase the degree of exchange rate flexibility accordingly.

Enhancing domestic and international competition

- Competition is the driving force of economic growth because it fosters efficiency and stimulates innovation. It is also essential for strong investment activity. Carefully designed policies of deregulation, privatisation, and liberalisation of international transactions are important means of strengthening competition. However, ensuring competition and the functioning of markets requires setting the right incentives through efficient institutional arrangements. In particular, policymakers should aim at strengthening and enforcing intellectual and other property rights, contract law, bankruptcy procedures and anti-trust regulations. Also, efforts will be required to promote good governance and combat corruption.

- Global trade liberalisation is an essential instrument to promote growth by channelling resources to their most productive use. While trade liberalisation needs to take due account of adjustment costs, policymakers worldwide should move ahead vigorously on the basis of multilateral commitments. Multilaterally consistent bilateral and regional agreements can also contribute to trade liberalisation.

- Flexible labour market conditions are crucial cornerstones in achieving high employment levels and broad participation of the labour force. Both wage levels and working hours need to be responsive to market requirements and reflect national circumstances. Flexibility in work arrangements needs to be complemented by policies to provide opportunities and incentives to gain and improve skills, foster labour mobility, strengthen incentives to work in the formal sector and reduce information asymmetries.

- Small and medium sized enterprises (SMEs) are an important element of dynamic economies as they play a central role in creating jobs, facilitating the absorption and adaptation of technology and strengthening entrepreneurial skills. Policymakers can support SMEs by committing themselves to non-discriminatory measures and ensuring access to financial services, risk capital, innovation networks and public R&D programmes.

- A favourable overall investment climate, including adequate infrastructure, will support domestic capital accumulation and also be attractive for Foreign direct investment (FDI). FDI is generally a powerful means of enhancing competition and the growth potential. For one thing, FDI facilitates the international transfer of know-how, thus fostering the competitiveness of the host country directly. For another, FDI can help to improve the productivity of local companies by stimulating imitation of new technologies.

Empowering the people and reducing poverty

- Mobilising all productive forces of a society requires empowering individuals and enhancing economic participation. Equal economic opportunities allow people to better provide for themselves and their families, thus helping to reduce poverty and social tensions. Education and training are key requirements as they improve people's chances of finding jobs and contribute to higher productivity. The broadly-based provision of high-quality primary and secondary education should be a responsibility of governments and provides the basis for successful tertiary education. Raising the level of education contributes to the quality of governance as an educated population is better placed to demand the provision of good governance and sound institutions.

- Broadly-based access to a wide range of financial services and reducing impediments to small businesses, such as the time to start a business, is of crucial importance as it fosters entrepreneurial capacities and facilitates the integration of people into the formal economy.

- While employment is the first and best safeguard against social exclusion, social safety-nets are needed to cushion the effects of unemployment. Moreover, the elements of social infrastructures such as clean water, sanitation and basic health services are public goods whose provision has a positive impact on welfare and potential growth. It is important to design social policies so as to permit market mechanisms to function effectively.

Berlin, 21 November 2004

G-20 REFORM AGENDA

Agreed actions to implement the G-20 Accord for Sustained Growth

We, the Finance Ministers and Central Bank Governors, have adopted the reform agenda below which translates our G-20 Accord for Sustained Growth into concrete policy measures for our countries. We will review the progress at our next meeting in Beijing in 2005.

The United States is determined to reduce its public budget deficit, to continue reforming health insurance and the pension system, and to raise private savings. Canada is focused on raising its standard of living through productivity growth. It is maintaining a policy of balanced budgets, and it is implementing an expenditure review process that will ensure resources are available to focus on new priorities. Latin American members will continue with broad-based structural reforms and prudent fiscal policies. Argentina will also continue strengthening its banking sector and reviewing its fiscal system, in order to determine whether it requires any further improvement. Brazil will continue ensuring macroeconomic stability while pursuing further microeconomic reforms and increasing infrastructure investment geared at enhancing the growth potential of the economy. The country attaches priority to deepening domestic financial markets as a means of improving access to economic opportunities for a broader part of society. In Mexico, under the context of a solid fiscal stance, public expenditure will be emphasized in social sectors and infrastructure. The creation of more investment and employment opportunities will be pursued by deepening and modernising of the financial system.

Members of the European Union are committed to further reforming labour markets, to consolidating public finances and pension systems, to enhancing innovation and to completing the single market. Germany will complete its tax reform, fully implement labour market reform, push on with the reform of the health and pension system, and ensure fiscal sustainability. France will continue labour and product market reforms and restore fiscal sustainability by implementing recent pension and health care reforms and further public expenditure restraint. Italy will continue with reforms aimed at raising competition in the markets for goods and services. The UK will continue to work towards raising the economy’s sustainable rate of growth through reform of the labour, product and capital markets, and investment in public services, underpinned by a macroeconomic framework to deliver stability for the long term.

The most important challenge for Russia is to create the foundations for more broad-based and sustainable growth at a high rate. Key elements will be reforms of the banking sector and the judiciary systems. Turkey will maintain a prudent fiscal stance, continue to privatise, reform the banking sector, social security system and tax system, and improve the general business climate.

To promote growth and employment, the South African government is focusing on infrastructure investment, increasing savings, and skills development. Furthermore, South Africa regards enhancing the efficiency of the public service as a key goal. Saudi Arabia will continue its efforts to diversify its economic structure, support private sector development and improve business environment for foreign investors. Priorities remain infrastructure investments, the creation of employment for the young generation and developing the secondary bond market.

In South and Southeast Asia, an overarching goal is to improve the climate for investment, in particular through regulatory reform. In India, the challenge is to reduce the budget deficit while raising sufficient resources for infrastructure and rural development. Tax reforms and public sector reforms are important areas of concern. Employment generation and better access to education and health remain important. Indonesia will further focus on improving public debt management, improving the regulatory framework in order to promote stability of the financial market, and addressing problems of governance.

Australia will improve the flexibility in workplace relations to expand available employment options, improve the tax and income support systems to further encourage participation in the labour force, and progress more general microeconomic reform.

Japan will continue its reform agenda, including measures to promote further reform of the financial system, such as reduction of non-performing loans, to foster privatization, such as in postal services, and regulatory reforms, and to address more vigorously the problem of fiscal sustainability.

China will continue to deepen the reforms of the state asset management system and state-owned enterprises; promote the development of the non-public sector of the economy; consolidate and strengthen the position of agriculture as the foundation of the national economy; carry forward the reforms of the financial system, the fiscal and taxation systems and the investment system; push forward employment and income distribution system reform and improve social safety nets; and strengthen reforms of administration management system and economic legal system. Korea will continue restructuring its corporate sector to enhance international competitiveness, strengthening its domestic financial sector, and pursuing labour market reform while making an effort to build up an efficient social safety net.

All G-20 members remain committed to strengthening the framework for the global economy. They encourage trade ministers to work together in good faith to enable the WTO negotiations to succeed as quickly as possible.

21 November 2004

G20 STATEMENT ON TRANSPARENCY AND EXCHANGE OF INFORMATION FOR TAX PURPOSES

We, the Finance Ministers and Central Bank Governors of the G20, are committed to enhancing good governance and fighting illicit use of the financial system in all its forms. Consequently, we are committed to transparency and exchange of information for tax purposes. We regard this as vital to enhance fairness and equity in our societies and to promote economic development.

Financial systems must respect commercial confidentiality, but confidentiality should not be allowed to foster illicit activity. Lack of access to information in the tax field has significant adverse effects. It allows some to escape tax that is legally due and is unfair to citizens that comply with the tax laws. It distorts international investment decisions which should be based on legitimate commercial considerations rather than the circumvention of tax laws. The G20 therefore regards it as a mark of good international citizenship for countries to eliminate practices that restrict or frustrate the ability of another country to enforce its chosen system of taxation.

We are therefore committed to the high standards of transparency and exchange of information for tax purposes that have been reflected in the Model Agreement on Exchange of Information on Tax Matters as released by the OECD in April 2002. We call on all countries to adopt these standards.

High standards of transparency require that governmental authorities have access to bank information and other financial information held by financial intermediaries and to beneficial ownership information regarding the ownership of all types of entities. High standards of exchange of information require that such information be available for exchange with other countries in civil and criminal tax matters. Exchange of information in tax matters should not be limited by dual incrimination principles in criminal tax matters or by the lack of domestic tax interest in civil tax matters. There must be appropriate safeguards on the use and disclosure of any exchanged information. Exchange of information should therefore be implemented through legal mechanisms providing for the use of such information only for authorized tax purposes, thus ensuring the protection of taxpayers' rights and the confidentiality of tax information.

We call on all countries with financial centres to adopt and implement the high standards articulated by the OECD so that we can move towards an international financial system that is free of distortions created through lack of transparency and lack of effective exchange of information in tax matters. It is important that countries which do meet these standards have confidence that they will not be disadvantaged and that financial centres in countries that choose not to meet these standards will not benefit from that choice.

The G20 therefore strongly support the efforts of the OECD Global Forum on Taxation to promote high standards of transparency and exchange of information for tax purposes and to provide a cooperative forum in which all countries can work towards the establishment of a level playing field based on these standards.