



Meeting of Ministers and Governors in Melbourne, 18-19 November 2006

## **Communiqué**

We, the Finance Ministers and Central Bank Governors of the G-20, held our eighth meeting in Melbourne, Australia, under the theme of ‘Building and Sustaining Prosperity’.

Sustained economic growth is delivering rising living standards and permanent reductions in poverty. Deeper linkages are being forged between nations through trade, investment and the movement of people and capital. These developments provide unprecedented opportunities to spread the benefits of growth widely. Yet we also face shared challenges, including those arising from ageing populations in many countries and rapid population growth in much of the developing world. Meeting these challenges requires effective domestic policy responses supported by effective international policy cooperation and strong and inclusive international institutions.

### **Global outlook**

G-20 members noted that the world economy continues to expand at a solid pace, with growth above its long-term average for the fourth consecutive year. The outlook remains positive. Global economic growth is expected to slow slightly from the rapid pace of the past few years. Growth in industrialised countries is expected to moderate slightly from its recent strong pace. Among emerging market countries, output growth is expected to remain strong, with key economies like China and India continuing their rapid expansion. Above average growth in the global economy has seen spare capacity decline which, combined with buoyant energy and mineral prices, has increased the risks to inflation.

Maintaining strong world growth and containing inflation will require ongoing adjustments to monetary and fiscal policies while ensuring appropriate exchange rate flexibility and structural reform. We need to take advantage of the present strength in the global economy to get policy settings right. Faced with potential inflationary pressures, the normalisation of monetary policy underway in many G-20 countries will need to continue. Fiscal policy needs to ensure that public-sector balance sheets are not vulnerable to slower revenue growth and higher expenditure when growth rates resume more normal trajectories, and that there is sufficient room for policy to respond if growth slows more sharply than currently anticipated. We are determined to implement these policies, which are also required to enable global imbalances between countries to unwind in an orderly manner.

Stable global economic growth depends on open trade. G-20 members warned of the threat to global prosperity from rising protectionism in trade and investment. The success of the Doha Development Round is essential to securing freer, more open trade, reducing the risk of economic and financial instability, and achieving faster economic growth, development and sustained reductions in poverty. G-20 members call for an early resumption of WTO negotiations and the achievement of an ambitious outcome for the benefit of all.

## **Global energy and minerals markets**

G-20 consideration of global energy and minerals markets reflects the importance of resource consumption, production, investment and trade to the world economy.

Global demand for energy and minerals commodities is set to increase significantly over coming decades driven by a strong world economy, rising incomes, and ongoing industrialisation and urbanisation in many economies. While physical stocks exist to meet demand and investment is increasing, the expansion of supply to date has struggled to keep pace with demand growth, resulting in significant increases in prices. We agreed that enhancing global trade by strengthening markets, and ensuring sustainability by promoting investment and encouraging efficiency, are the best ways to deliver lasting resource security.

We discussed the challenges to macroeconomic policy presented by energy and minerals price cycles. Monetary authorities remain vigilant in keeping inflation low and stable and stand ready to contain second-round price effects. Flexible domestic economies and exchange rates help facilitate adjustment to large movements in traded goods prices. Finance ministers are also focused on key fiscal challenges such as managing revenue surges and the appropriate level of energy subsidies. We agreed that further reform of energy subsidies is a priority in order to improve fiscal sustainability, better target poverty, and ensure that price signals work to expand supply and induce efficiency.

We reaffirmed the commitment we made in the *G-20 Accord for Sustained Growth* in 2004 to direct domestic policies toward creating a favourable overall investment climate and enhancing domestic and international competition. We discussed how the current resources boom can be harnessed for growth and development, highlighting the importance of sound domestic policy and effective governance for boosting investment. We welcomed further work on principles for the efficient and effective governance of extractive firms, both private and state-owned. We noted the benefits of the *Extractive Industries Transparency Initiative* (EITI), a voluntary initiative to strengthen transparency, governance and investment-led development in resource-rich countries, and encourage governments and firms to support the initiative. We support continued progress on the World Bank-led Clean Energy Investment framework.

Long-term resource security and dealing with key global challenges, such as climate change, require effective international policy frameworks and actions. Well-functioning markets—characterised by clear price signals, open trade and investment, market transparency, good governance, and effective competition among firms—will support investment in new supply, bring forth efficiencies and new technologies, encourage the use of alternative and renewable energy sources, and allow knowledge and resources to flow across borders. We note the International Energy Agency's *World Energy Outlook* and its recommendations.

We support the *Joint Oil Data Initiative* and see value in it being extended to other energy sectors, like gas, and incorporating a common definition of energy reserves. We encourage the development of clear principles to guide trade and investment for extractive industries. We agreed that the G-20 will work toward articulating these principles. We discussed the links between energy and climate change policy, including the role of market-based mechanisms, and agreed that the G-20 would monitor this issue.

We recognised the need for continued and enhanced dialogue between producers and consumers. We also met in a working lunch with global business leaders to discuss ways to strengthen energy and minerals markets.

### **Demographic change**

While G-20 countries are at different stages of a major demographic transition, we recognise the importance of early consideration of policies to smooth the inevitable adjustments that will need to be made. This year we focused on the implications for financial markets, as well as further aspects of labour mobility.

Well-functioning and open financial markets can help smooth the economic impacts of demographic change. Improving the efficiency of financial markets and promoting financial innovation are important in facilitating adjustment. We also agreed to work together to raise people's awareness of their retirement income needs and improve their understanding of the available options.

We considered the role of labour mobility in the demographic change underway, recognising the potential benefits to both developed and developing countries. We reiterate our previous calls for international cooperation to improve remittance services and reduce transaction costs. We discussed the potential for improved portability of social security and health care payments to reduce the cost of migration, particularly for temporary migrants and invited the World Bank to quantify the costs and benefits of improved portability as a basis for further discussion in the G-20.

### **Reform of the Bretton Woods Institutions**

The G-20 believes that the effectiveness and legitimacy of the IMF and World Bank must be enhanced through comprehensive governance reform and strategic policy review.

A strong, credible IMF that reflects today's global economic realities is in our shared interest. As such, we welcomed the support given by IMF Governors in Singapore for reform of quota and governance aimed at reflecting members' relative positions in the world economy and enhancing the voice of low-income countries in the Fund. We are pleased that the G-20 has been able to make a contribution to this historic outcome.

We are committed to the successful completion of a comprehensive set of reforms under the second stage of this process, delivered within the timeframes agreed by IMF Governors. To this end, we identified key issues on which agreement needs to be achieved in order to implement second-stage reforms, including: the main considerations underlying a new, transparent and simple quota formula which captures IMF members' relative economic positions; how to implement the new quota formula; and agreement on the increase in basic votes and how the share of basic votes can be protected over time.

We had candid discussion about these issues and agreed that the G-20 remain closely engaged with this work over the next year to achieve significant progress on the second stage of reform.

We progressed other issues addressed in our October 2005 *Statement on Reforming the Bretton Woods Institutions*. We welcomed the Development Committee's call for the World Bank to work with its shareholders to consider voice and participation in

the governance of the Bank and agreed that the G-20 can play an important role in this renewed debate. We also agreed on the need for further G-20 consideration of strategic and policy issues facing the IMF and World Bank. These include: IMF surveillance; the Fund's role in emerging market economies, including a possible new liquidity instrument; the Fund's role in low-income countries; and collaboration between the Fund and Bank.

We emphasised the importance of modernising and strengthening IMF surveillance to meet the demands of globalisation and agreed to further consider broad directions in surveillance, focusing on desirable objectives and medium-term priorities, as input to IMF discussion on a remit for surveillance in the first half of 2007. We also welcomed the IMF review with a view to updating the 1977 decision on surveillance over exchange rate policies.

We welcomed the initiative taken in March 2006 by the heads of the two institutions to establish an External Review Committee on World Bank-IMF collaboration. We were joined by the chair of the Committee, Mr Pedro Malan, in our discussion of key issues around the responsibilities of the two institutions.

We reiterated the position expressed in our October 2005 Statement that the selection of senior management of the IMF and World Bank should be based on merit and ensure broad representation of all member countries. We welcomed consideration of any steps to ensure a fully transparent process for the selection of the IMF Managing Director and the World Bank President.

#### **Advancing economic reform**

The *G-20 Accord for Sustained Growth* provides robust principles for domestic growth-enhancing policies. We had a wide-ranging and pragmatic discussion, sharing experience on implementing and consolidating reforms. Our current policy priorities are outlined in the attached *G-20 Reform Agenda*.

#### **Aid commitments and effectiveness**

Building on the *G-20 Statement on Global Development Issues* in 2005, we welcome recent increases in aid and debt relief and underscore the importance of pledges of further aid increases being fulfilled, along with renewed efforts to improve the quality of aid. We also underscored the importance of helping countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. Increased development financing must be accompanied by improved aid effectiveness to achieve the Millennium Development Goals. All G-20 members have pledged their support for the *Paris Declaration on Aid Effectiveness*. We agreed that the G-20 will work toward improving aid effectiveness and good governance in the period ahead.

#### **Other business**

Further to our 2004 commitment to achieving high standards of transparency and exchange of information for tax purposes, we welcome the release of the Global Forum on Taxation 2006 assessment which shows that progress has been made in the implementation of those standards. Further progress is needed and we encourage continuing implementation efforts and call on those countries and territories that have not yet implemented high standards of transparency and exchange of information to do so.

We welcomed ongoing efforts by a growing number of borrowing countries and private-sector creditors on the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* to improve financial stability and enhance market access of emerging market economies.

We reaffirmed our commitment to take action against money laundering and terrorist and illicit financing. We commend and encourage closer cooperation between the IMF and World Bank and the Financial Action Task Force (FATF) as well as FATF-style regional bodies in promoting stronger implementation of international AML/CFT standards. We call on FATF and FATF-style regional bodies to continue to broaden the support base for their work and for all countries to strengthen their AML/CFT regimes and publish their comprehensive country evaluations.

We thanked our Australian hosts for their leadership of the G-20 this year and hosting us in Melbourne. We look forward to further effective collaboration in the G-20 next year under South Africa's leadership. We welcome Brazil as the chair of the G-20 in 2008.