MEETING OF G-20 FINANCE MINISTERS
AND CENTRAL BANK GOVERNORS

Montreal, October 25, 2000

COMMUNIQUÉ

G-20 Finance Ministers and Central Bank Governors

We, the Finance Ministers and Central Bank Governors of the G-20, held our second meeting today in Montreal, Québec, Canada. We discussed the state of the world economy, particularly the associated policy challenges and ways of addressing potential vulnerabilities. We welcome the continued strengthening of global economic growth, but remain mindful of the importance of sound national economic and financial policies in building an international financial system that is less prone to crises.

Our meeting provided us with an opportunity to engage in a wide-ranging discussion of the opportunities and challenges posed to all of our economies by globalization – the increasing integration of national economies resulting from the greater international mobility of goods, services, capital, people, and ideas. The process of globalization has deep historical roots, but has been accelerated in recent years by unprecedented technological change, the increasing universality and acceptance of market-based economic systems, and the liberalization of international trade and capital movements.

We discussed the benefits of globalization. These include providing people and societies around the world with an unparalleled opportunity to achieve sustained and broad-based improvements in living standards through participation in world trade, further trade liberalization by all countries, including improved access for developing countries' exports to advanced economies' markets, access to cheaper consumption and capital goods, integration into international capital markets, and openness to technological change and innovation. We reaffirm our belief that the economic integration that is at the heart of globalization can continue to be an enormously powerful force contributing to improving the lives of hundreds of millions of people in industrial, transition, and developing countries alike, giving them greater access to goods, capital and ideas – and thus a much greater capacity to achieve rapid and enduring growth in the living standards of their citizens, and to attack income inequalities and reduce poverty.

At the same time, we are in agreement that the process of globalization, like any economic transformation, can also give rise to economic difficulties and social dislocations. Governments have an important role to play in formulating and implementing policies to promote financial and economic stability and harness the benefits of globalization. We agree that putting in place the right frameworks and policies for promoting a globalization process that works well for all of its participants will be the key challenge for the international community in the 21st century.

As G-20 Finance Ministers and Central Bank Governors, we are committed to working together to promote policies that successfully meet this challenge. In particular, we agree to:

1. Commit ourselves to further improve the effectiveness of international institutions, which are fundamental to a strong and stable global financial system. These efforts include increasing the transparency of their activities and decision-making processes, and enhancing co-operation among them.

2. Implement the emerging international consensus on policies to reduce countries' vulnerability to financial crises, including through appropriate exchange rate arrangements, prudent liability management, private sector involvement in crisis prevention and resolution, and adoption of codes and standards in key areas including transparency, data dissemination, market integrity, and financial sector policy. A summary of our conclusions in these areas can be found in the Annex to this statement.

3. Improve integration into the globalized financial world. Emerging market economies should be supported with technical assistance and policy advice by the international financial community in opening their capital accounts in a well-sequenced manner to benefit from international capital flows while minimizing potential risks.

4. Create more favourable conditions for the integration of heavily indebted poor countries into the global economy by urging both bilateral and multilateral creditors to participate fully in the enhanced HIPC Initiative, and, where appropriate, call for those bilateral creditors that have not already done so to consider taking the additional step of committing to 100-per-cent reduction of ODA claims and eligible commercial claims. We further encourage all bilateral donors to improve the effectiveness of international assistance and direct aid to those poor countries that are serious about tackling economic reforms and poverty reduction.

5. Strengthen our efforts to combat financial abuse, including money laundering, tax evasion and corruption, given its potential to undermine the credibility and integrity of the international financial system, cause serious macroeconomic distortions, and jeopardize national financial sectors. Market integrity is an important pre-condition for financial stability, and we look forward to the joint paper by the IMF and World Bank asked for by the IMFC on their respective roles in combating financial abuse and in protecting the international financial system.

6. Contribute to international efforts to increase the provision of other global public goods to address serious issues such as infectious disease, agricultural research, and the environment, which cut across national borders and require concerted global co-operation.

7. Support continued efforts by the WTO to build consensus toward further multilateral trade liberalisation and strengthening of trade rules that would bring broad-based benefits to the global economy, by reflecting the needs and interests of both developed and developing countries, in particular those of the lowest income economies, so that all can realize the rewards of full participation in the global trading system. We also agree to promote domestic policies that help spread the benefits of integration to all members of society.

8. Promote the design and effective implementation of ‘social safety nets’ that protect the most vulnerable groups of society in the process of liberalization.

9. Ensure that efforts in the areas identified above, and in other areas, take account of a diversity of perspectives.

Annex

Reducing Vulnerability to Financial Crises

At our meeting today, we considered ways to reduce the frequency and severity of financial crises, such as those which in recent years have taken their toll on growth and social conditions in many emerging markets and had significant repercussions for the global economy. We agreed that countries can substantially reduce their vulnerability to crises through sound policies in key areas, including through appropriate exchange rate arrangements, prudent liability management, the development and implementation of international standards and codes, and appropriate involvement of the private sector.

Experience has shown all too clearly that crises originating in one country can have serious repercussions for neighbouring countries and indeed the entire global economy. For this reason, the international community has a strong and legitimate interest in establishing "best practices" in these key policy areas. We agreed that these best practices have the following main elements, which if implemented will help to reduce vulnerability to financial crises in a complementary and mutually reinforcing manner.

1. Exchange Rate Arrangements

We agree that the choice of exchange rate regime must be supported both by appropriate macroeconomic policies and by sound financial institutions if it is to contribute to achieving a country’s policy objectives. Foreign exchange crises are felt not only by the countries in which they originate, but can also have spill-over effects on other members in the global community.

There is a spectrum of possible exchange rate arrangements and no single arrangement is necessarily right for all countries all the time. The experience of recent years suggests that countries face a much higher risk of financial crisis if they choose an exchange rate regime that is not backed by consistent macroeconomic and structural policies and appropriate institutional arrangements.

We welcome the movement by many countries toward exchange rate arrangements that are more supportive of financial stability. There is evidence that there may be advantages in choosing either free floating or firm fixing such as a currency board. However, intermediate regimes could be a viable, albeit demanding, option for some economies.

We agreed that it is crucial for all countries, whatever regime they choose, to avoid defending an exchange rate not backed by strong, credible and consistent supporting arrangements and domestic policies.

The IMF plays a key role in advising and supporting countries in this area. It should reinforce its assessment of the compatibility of members' exchange rate regimes with their macroeconomic and financial policies. The IMF should also encourage countries to adapt their policies by giving them advice, and support when appropriate, in order to help avoid unsustainable positions.

2. Prudent Liability Management

We agreed that a comprehensive strategy to reduce vulnerability to financial crises requires attention to liability management including effective management of public-sector liabilities, appropriate consideration of the external financial situation of the private sector, and effective and transparent financial sector regulation and supervision.

In particular, we agreed that effective management of public sector liabilities requires finding an appropriate balance between minimizing financing costs and increasing liquidity risk. Care must be taken to avoid excessive reliance on short-term debt, currency mismatch or the "bunching" of external debt payments. Prudent public sector liability management is also assisted by the development of an efficient and liquid market for long-term domestic currency-denominated government securities.

Prudent liability management is also essential for the private sector, in particular for banks and other financial institutions. Appropriate standards of financial sector regulation and supervision, disclosure, accounting and auditing should be in place to facilitate the monitoring of the external activities of the financial sector. The overall external position of the private sector requires appropriate consideration, subject to the constraints associated with the availability of data.

Our discussions also indicated a clear consensus on the crucial role of the international community in assisting countries to develop and implement liability management strategies. We welcome the work underway at the IMF and World Bank to develop guidelines for public debt management and for the development of domestic public debt markets, developing and as appropriate publishing meaningful indicators of external vulnerability, and promoting the implementation of strong liability management policies and practices through technical assistance and other means.

3. Private Sector Involvement in Crisis Prevention and Resolution

We noted the enormous increase in private capital flows to emerging markets over the past decade, as well as the increasing diversity and sophistication of the means and instruments through which these flows are effected and welcomed the overall impact of this development in fostering more rapid growth and raising the standard of living of hundreds of millions of people around the world. At the same time, the last decade has witnessed a number of severe crises.

In this environment, we agreed that the framework for private sector involvement will benefit both debtors and creditors by promoting more efficient and stable international capital markets, in which financial crises are less frequent and less severe. Efficient international capital markets require that private investors bear the consequences of the risks they take.

We welcomed the agreement reached at the IMFC Spring meeting on a framework of principles and tools, and the progress made at the IMFC annual meeting on the operational framework by which private sector involvement in the prevention and resolution of financial crises can be promoted.

Our discussions indicated a clear consensus on the need to apply the framework flexibly, and in a manner that avoids an overly prescriptive involvement by the international community in the details of any debt negotiation process or that undermines the presumption that borrowers should meet their obligations in full and on time. We reaffirm the importance of the principle of comparability of treatment at the Paris Club, which provides for balance between the contributions of public and private creditors. We also believe that no class of private creditors should in general be treated as privileged relative to others in a similar position.

We believe that encouraging the wider use of mechanisms to improve communications between debtors and creditors will help to ensure that debtor countries and private creditors participate cooperatively in restructurings.

We welcomed the results of the Roundtable held by our Deputies with senior members of the private financial sector in Toronto on August 25. This Roundtable allowed for a structured and constructive dialogue on these issues, including the value of contractual arrangements such as collective action clauses, and an exchange of perspectives on the framework and its application. We have instructed our Deputies to continue this dialogue and report to us at our next meeting as appropriate.

We agreed that the development of a framework for efforts by the official and private sectors in this area must be a continuing process, evolving in a manner that takes account of developments in the global economy and financial markets. We further agreed to monitor experience with the framework to ensure that it will continue to be effective in supporting a stable and efficient international financial system.

4. International Standards and Codes

Finally, we considered the role that weaknesses in financial sector regulation and supervision, in corporate governance, in the disclosure of economic and financial data, and in the transparency of macroeconomic policies have played in contributing to recent financial crises. We agreed on the importance of international codes and standards to address these weaknesses, endorsed the Financial Stability Forum’s recommendations, and encouraged continued work on incentives to foster implementation. The G-20, as part of its mandate to promote co-operation to achieve stable and sustainable world economic growth, should play an important leadership role in supporting the continuing implementation of international standards and codes in a manner and at a pace that reflects each country’s unique development and reform priorities, and institutional characteristics. Consistent with this objective, we agreed that:

1. Governments should be encouraged to publicly articulate their commitment to adopt key standards and, as appropriate, announce action plans for their implementation. They should also be encouraged to participate in external IMF-led assessment programs, and in the interim conduct on-going self-assessments of progress in observance of standards. In both

cases, they should consider ways of disclosing information on progress in implementing standards, to enable more appropriate risk assessments.

2. The official sector should also continue its dialogue with market participants as a way of obtaining their perspective on priorities for countries and the international community in this area, on market incentives for implementation, and on ways of improving the transparency and accessibility of information released.

3. IMF surveillance should be the principal mechanism for monitoring countries' progress in implementing standards and codes, working closely with other international institutions, such as the World Bank, as well as standard-setting bodies and international groups such as the Financial Stability Forum.

4. Governments and the international community should work to ensure that the human and financial resources required for implementation and for assessments of implementation are available to assist countries achieve compliance with international standards and codes.

We reaffirmed our commitment, made at the inaugural meeting of G-20 Ministers and Governors in Berlin in December 1999, to undertake the completion of Reports on Observance of Standards and Codes (ROSCs; formerly "Transparency Reports") and Financial Sector Assessment Programs (FSAPs), within the context of continuing efforts by the IMF and World Bank to improve these mechanisms. In this respect, we are encouraged that FSAPs or ROSCs, or both, have been completed or are underway in a growing number of G-20 countries, in particular Argentina, Australia, Canada, France, India, Korea, Russia, South Africa, Turkey, and the U.K., and look forward to the continued publication of ROSCs on the IMF web site.