Meeting of Ministers and Governors in Kleinmond, South Africa, 17-18 November 2007

COMMUNIQUÉ

1. We, the Finance Ministers and Central Bank Governors of the G-20, held our ninth meeting in Kleinmond, South Africa, under the theme of “Sharing – Influence, Responsibility, and Knowledge”. We reiterated our collective determination to achieve balanced and sustainable growth; and deliberated on the global economic and financial outlook, on fiscal elements of growth and development in G-20 member countries, on policy issues pertaining to commodity cycles and financial stability, and on Bretton Woods reform. We recognized the valuable initiative made in 2007, to build an improved appreciation within the forum of some of the economic and financial policy challenges in Africa.

Global Outlook

2. G-20 members welcomed the continued strong growth of the global economy in the first half of 2007 but noted that downside risks to the near-term outlook have increased as a consequence of recent financial market disturbances. We were pleased to note the resilience of emerging market and other developing countries during the recent turbulence. While the likely slowdown in global economic growth is expected to be modest, its extent and duration remains difficult to predict. While the slower pace of growth is expected to moderate pressures on capacity and resources, rising energy and food prices will remain an important source of price pressures. Monetary authorities in G-20 countries will need to assess carefully the inflation outlook in light of both tight conditions in commodity markets and the downside risks to growth. We also agreed that an orderly unwinding of global imbalances, while sustaining global growth, is a shared responsibility involving: steps to boost national saving in the United States, including continued fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms and fiscal consolidation in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil-producing countries. The need to address rising pressures on health and social security spending and infrastructure was also stressed.

3. The recent financial market disturbances have highlighted the importance of sound macroeconomic and financial policies and continued vigilance. While the immediate policy priority has focused on restoring and maintaining orderly conditions in financial markets, we concur that recent events have emphasised the need for greater effectiveness of financial supervision and the management of financial risks as well as to increase transparency among financial intermediaries. The nature of the recent turbulence also

suggests that there may be important new lessons for understanding the origins of crises, the way financial shocks are transmitted; and the respective roles of regulators, rating agencies, the private sector and the international financial community. We agreed to pursue further work to improve our understanding of these issues and their application to G-20 members, in the year ahead.

4. We noted the medium-term challenges which need to be addressed to ensure future global prosperity, including climate change, energy security and protectionism. We reaffirmed our commitment to maintain open trade and investment regimes and to resist protectionist pressures. We committed to working with our trade authorities to reach a rapid and successful conclusion to Doha, to promote open and rules-based trade and investment regimes, improve productivity, create jobs, alleviate poverty and spur competition. We noted the critical importance of trade liberalisation and Aid for Trade for global poverty reduction.

5. We discussed the economic implications of climate change. We noted the relationship with other key economic goals as well as the important discussions in other fora on an international policy response to climate change. We agreed that the G-20 can play an important role in this debate.

Fiscal Elements of Growth and Development

6. Sound fiscal policies are essential for supporting strong and equitable economic growth and development. They affect the business cycle, helping to minimize output gaps and to smooth and sustain economic growth over time. We also discussed the importance of creating and maintaining fiscal space for the achievement of the objectives set out in the G-20 Accord for Sustained Growth, by providing the capacity to fund economic and social infrastructure necessary to aid growth and development, and reduce poverty. Sound fiscal policies will also ensure the best use of increased aid flows including those associated with the Millennium Development Goals.

7. We also reflected on the balance between fiscal policy as a counter-cyclical macroeconomic instrument and the best ways of creating fiscal space to finance social and economic development over time. We considered the macroeconomic implications of creating fiscal space, counter-cyclical aggregate demand management and the use of fiscal rules; and highlighted the importance of a sound medium- to long-term fiscal framework in creating and maintaining fiscal space. We resolved to explore how best these lessons of shared experience can be adapted in our member countries to create fiscal space, and to use it more effectively. Fiscal space also provides a key organising principle in the rationalisation of expenditure programmes, and in the efficient allocation of expenditure itself. G-20 discussions in 2007 have centred on how efforts to create fiscal space complement and facilitate efforts to achieve better spending outcomes and allocations. We agreed to do further work on assessing mechanisms to improve the efficiency and effectiveness of government expenditure.

8. We noted that several factors are important in finding and creating fiscal space, including the design of effective medium-term fiscal frameworks and the institutional underpinnings of successful national budgeting; and that the coordination of expenditure across tiers of government can also be important for the overall coherence of efforts to create fiscal space. We also highlighted the important role long-term – or intergenerational – budgeting can play in helping to coordinate revenue and expenditure policies and in providing the resources necessary to respond to long-term challenges, including demographic change, climate change and the provision of infrastructure. In addition, a range of public services is critical for economic development, including social and economic infrastructure, institution building, and human capital and skills development; and agreed that it would be useful to explore further the identification of those needs, the returns to investing in them, and the most effective ways of implementing policy and institutional solutions to delivering them. We agreed to continue this discussion next year, emphasizing the quality and efficiency of public expenditure, macroeconomic stability and debt sustainability, as well as assessing the role of counter-cyclical fiscal policies as a stabilising and growth-sustaining tool.

Commodity Cycles and Financial Stability

9. We discussed a range of policy issues related to commodity cycles and financial stability, concentrating on the recent market developments, especially for energy. We reiterated our agreement from 2006 that well-functioning markets will support investment in new supply, bring forth efficiencies and new technologies, encourage the use of economically efficient renewable energy sources, and allow knowledge and resources to flow across borders. We recognized the need for continued and enhanced dialogue between producers and consumers; and noted the International Energy Agency's recent World Energy Outlook. Commodity prices have increased remarkably in the current decade. Commodities have also developed as a new and important asset class. There is substantial room to develop new markets in additional commodities and with new instruments that should increase market liquidity, particularly as participation grows and broadens. Commodities markets have seen a dramatic rise in participation by non-commercial investors, which has improved the depth and liquidity of markets and contributed to improved price discovery.

10. Commodity price volatility can generate large terms of trade shocks, with widespread implications for the macroeconomic performance of affected countries including on the balance of payments, budgetary positions, liquidity management, asset prices, and monetary policy. We emphasised the importance of sound macroeconomic policies in moderating and managing the effects of such volatility and noted that volatility can also have implications for the stability of the financial system. We looked forward to the IMF examining best practices on fossil fuel subsidies. We also noted the importance of well-functioning commodities markets, underpinned by good governance and transparency, in managing resource booms. Appropriate institutional frameworks and policy guidelines for managing extractive industries can play an important role in improving the fiscal and investment response to commodity price volatility. For example, we encouraged broad participation in the Extractive Industries Transparency Initiative (EITI), on a voluntary basis.

We reiterated our support for the Joint Oil Data Initiative (JODI) and look forward to extended, deeper coverage.

11. We also noted the use of sovereign wealth funds (SWF's) to limit the pro-cyclicality of commodity-linked revenue and discussed more generally the challenge of ensuring such funds best serve their intended purpose. Coordinating fund spending with fiscal and monetary policy is also necessary. We agreed that SWF's are increasingly important participants in the international financial system and that our economies can benefit from openness to SWF investment flows. However, we would welcome further sharing of member countries' experience and insight on the management and operation of these funds. We noted the work by the IMF and World Bank to analyse issues for investors and recipients of such flows, including a dialogue on identifying best practices.

12. Hedging can represent an effective way to reduce the volatility of commodity-linked private incomes and public revenues. We noted that there remains significant potential for both public and private agents to make better use of hedging strategies. These benefits need to be balanced against the risks and challenges involved in utilizing hedges, including low market liquidity, high cost, substantial counterparty risk, and a lack of specialized financial skills. We agreed that among G-20 member countries, education of both public and private sector officials is needed to further promote the use of hedging strategies.

13. We also discussed the economic potential of biofuels and clean technology and their linkages with GDP growth, income and employment generation, emissions reduction and food prices and noted the benefit of further exploring these linkages, in the period ahead.

Bretton Woods Reform

14. Building on our statement on *Reforming the Bretton Woods Institutions*, issued in 2005 and following our work in 2006, we reiterated our commitment to strengthening the credibility, effectiveness and legitimacy of the International Monetary Fund (IMF) and the World Bank. The G-20 has made further progress in 2007 in contributing to the IMF's efforts to find a solution to the second stage of IMF quota and voice reform. We were pleased to note that the forum's efforts in 2007 have contributed to a convergence of views among the IMF's members. We reiterated that the reform should enhance the representation of dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. We also reiterated our commitment to continuing our discussion in order to develop a consensus within the timeframes set by the Governors in 2006. We encourage the Executive Board to continue its work in order to allow agreement on all elements of the package by Spring 2008.

15. We also noted further progress with other policy and internal governance issues raised in our statement in 2005 on *Reforming the Bretton Woods Institutions*, including the IMF's adoption of the new 2007 Decision on Bilateral Surveillance over Member's Policies, and the progress made in establishing a framework for developing a new income model for the IMF. The adoption of an income model and the further reduction in expenditure through

Fund-wide priority setting, which should be pursued simultaneously, can place the Fund's finances on a sustainable footing. We look forward to similar progress being made on the design of a new liquidity instrument. We welcomed the announcement that the IMF has secured sufficient financing pledges from member countries to allow the Fund to provide debt relief to Liberia. We welcomed the steps being taken within the World Bank to address the challenges of internal governance reform. We welcomed the early efforts of the new President to set out a comprehensive strategic policy direction for the Bank and look forward to contributing to the further development of this framework. We also welcomed the Bank's continuing efforts to improve the voice and representation of its emerging market and developing member countries, which should be part of this strategic framework. Within this framework we encourage its role in fostering lending in local currency as a means to develop domestic capital markets which will enhance better liability management.

16. We reiterated the position expressed in our November 2006 statement, that the selection of senior management of the IMF and World Bank should be based on merit and should ensure broad representation of all member countries; and urged the improvement in the process for the selection of the IMF Managing Director and the World Bank President. We reaffirmed our strong commitment to continue contributing to the reform efforts of the two institutions.

Other Business

17. We reaffirmed the importance of the G-20 Accord for Sustained Growth, adopted in 2004; and continued our tradition of engaging in detailed and candid discussion and sharing of country-specific experience in achieving sustained growth. We noted the significant value of the forum's shared knowledge and experience in establishing sound macroeconomic policies for sustained economic growth, reiterating that each country should choose its development approach, as well as the policies best suited to its needs, in accordance with its international responsibilities. Our policy priorities are outlined in the attached G-20 Reform Agenda.

18. We congratulated and offered our support to the President of the World Bank and the Managing Director of the IMF, both of whom have assumed their new responsibilities in recent months.

19. We thanked our South African hosts for their presidency of the G-20 this year and welcomed Brazil as chair in 2008. We have agreed that the United Kingdom will chair the G-20 in 2009.