Communiqué

G20 Finance Ministers and Central Bank Governors Meeting
Shanghai, February 27, 2016

1. We met in Shanghai to review and address key global economic challenges and move forward on the policy agenda for the Hangzhou Summit. The global recovery continues, but it remains uneven and falls short of our ambition for strong, sustainable and balanced growth. Downside risks and vulnerabilities have risen, against the backdrop of volatile capital flows, a large drop of commodity prices, escalated geopolitical tensions, the shock of a potential UK exit from the European Union and a large and increasing number of refugees in some regions. Additionally, there are growing concerns about the risk of further downward revision in global economic prospects. While recognizing these challenges, we nevertheless judge that the magnitude of recent market volatility has not reflected the underlying fundamentals of the global economy. We expect activity to continue to expand at a moderate pace in most advanced economies, and growth in key emerging market economies remains strong. However, we agree that we need to do more to achieve our common objectives for global growth. We will continue to monitor global economic and financial developments closely.

2. Over the last several years, the G20 has made important achievements to strengthen growth, investment and financial stability. We are taking actions to foster confidence and preserve and strengthen the recovery. We will use all policy tools – monetary, fiscal and structural – individually and collectively to achieve these goals. Monetary policies will continue to support economic activity and ensure price stability, consistent with central banks' mandates, but monetary policy alone cannot lead to balanced growth. Our fiscal strategies aim to support the economy and we will use fiscal policy flexibly to strengthen growth, job creation and confidence, while enhancing resilience and ensuring debt as a share of GDP is on a sustainable path. We are also making tax policy and public spending as growth-friendly as possible, including by prioritizing expenditure in favor of high-quality investment. We reaffirm the role of mutually-reinforcing macroeconomic and structural policies to buttress our efforts to achieve strong, sustainable and balanced growth. Faster progress on structural reforms should bolster potential growth in the medium term and make our economies more innovative, flexible and resilient. To enhance our readiness to respond to potential risks, we will continue to explore policy options that the G20 countries may undertake as necessary to support growth and stability. We reiterate that excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will consult closely on exchange markets. We reaffirm our previous exchange rate commitments, including that we will refrain from competitive devaluations and we will not target our exchange rates for competitive purposes. We will resist all forms of protectionism. We will carefully calibrate and clearly communicate our macroeconomic and structural policy actions to reduce policy uncertainty, minimize negative spillovers and promote transparency.

3. We reiterate the importance of raising actual output as well as the essential role of structural reforms in boosting productivity and potential output. We will prioritize and put special emphasis in 2016 on the implementation of our adjusted national Growth Strategies with a view to achieving the objective of 2 percent additional output by 2018. Building on past country- specific commitments, we are committed to further enhancing the structural reform agenda, including by developing a set of priorities and guiding principles as a reference for G20 reform efforts, as well as by creating an indicator system to further improve assessing and monitoring of the progress of structural reforms and their adequacy to address structural challenges, taking into account the diversity of country circumstances. This enhanced structural reform agenda will be incorporated into the existing work stream under the Framework for Strong, Sustainable and Balanced Growth. In order to enhance the efficiency of our efforts, we will combine our investment strategies with growth strategies and remain committed to their timely and effective implementation to accomplish our goals. We will review the combined strategies, including through enhanced peer review, and will adjust them as necessary to ensure progress towards our collective growth ambition and our overarching objective of strong, sustainable and balanced growth. Recognizing the importance of trade and investment for growth and their recent weakness, we will explore potential policy measures in these areas, with support of the IOs. We will continue to take steps to promote greater inclusiveness and reduce excessive global imbalances.

4. We reaffirm our commitment to advancing the investment agenda with focus on infrastructure both in terms of quantity and quality aspects. We look forward to the Multilateral Development Banks (MDBs) to present concrete actions by July to optimize their balance sheets as agreed in Antalya. Given the unique role of MDBs in promoting infrastructure development and considering the MDB's mandate on promoting infrastructure investment and poverty reduction, as called for in the Addis Ababa Action Agenda, we encourage MDBs to formulate quantitative ambition for high-quality projects and take joint actions to demonstrate their commitment to infrastructure investment to attract new sources of long-term investment financing, including by catalyzing private sector funding, enhancing cooperation among existing and new MDBs, promoting multi-partite cooperative co-financing models and supporting works concerning project preparation. Strengthening connectivity is the key to maximize the positive spillovers of national infrastructure and create more investment opportunities. We will launch a global infrastructure connectivity alliance initiative to enhance the cooperation and synergy of infrastructure programs. We support the development of a guidance note on recommended policy steps that could contribute to diversified financing instruments for infrastructure and SMEs with special attention to equity financing by promoting capital markets development, engaging institutional investors, encouraging implementation of G20/OECD corporate governance and SME financing principles and promoting infrastructure investments as an asset class.

5. A stable and resilient international financial architecture is a key element to foster strong, sustainable and balanced growth as well as financial stability. We endorsed the work program of the International Financial Architecture Working Group (IFAWG) aimed at promoting a smooth functioning and orderly evolution of the international monetary system (IMS), informed by the IMF's stocktaking of the IMS. We welcome the entry-into-effect of the 2010 IMF Quota and Governance reforms. We support the timetable for completing the IMF's 15th General Review of Quotas, including a new quota formula, by the 2017 Annual Meetings, and reaffirm our commitment to a strong, quota-based and adequately resourced IMF. We support the World Bank Group (WBG) to implement its shareholding review according to the agreed roadmap and timeframe, with the objective of achieving equitable voting power over time. We will continue to promote the orderliness and predictability of sovereign debt restructuring processes and strengthen debt sustainability frameworks.

Capital flows are a central feature of the international monetary system. Given the current development in the global economy, we will better monitor capital flows, including more timely identification of risks, and take stock of and review policy tools and frameworks as appropriate to address challenges arising from large and volatile capital flows, drawing on country experiences. We stress the importance of an adequate and effective global financial safety net (GFSN) and look forward to discussing the IMF's analysis on the GFSN architecture in April. We welcome the completion of the IMF's 2015 Review of the Method of Valuation of the Special Drawing Rights (SDR) and support further work to examine the possible broader use of the SDR and on local currency bond market.

6. We remain committed to timely, full and consistent implementation of the agreed financial reforms, including the Basel III and total-loss-absorbing-capacity (TLAC) standard. To this end, we encourage national authorities to strengthen cross-border cooperation, including in implementing effective cross-border resolution regimes and over-the-counter derivatives reforms, and to defer to each other when it is justified, in line with the St. Petersburg Declaration. We support the work by the Basel Committee to refine elements of Basel III framework to ensure its coherence and maximize its effectiveness without further significantly increasing overall capital requirements across the banking sector. We will continue to monitor and assess reform implementation and effects, including to address any material unintended consequences, including for emerging market and developing countries. We support the work underway to improve the assessment methodology for global systemically important insurers and the further progress in developing the Insurance Capital Standard according to the agreed timeline. We strongly encourage implementation of the agreed CPMI-IOSCO Principles for Financial Market Infrastructures (FMIs), and further strengthening the regulation and oversight of FMIs. We look forward to further progress in identifying and addressing gaps related to resilience, recovery planning and resolvability of central counterparties (CCPs), including cooperation arrangements for CCPs that are systemic across multiple jurisdictions. We continue to closely monitor, and if necessary, address emerging risks and vulnerabilities in the financial system, including those associated with shadow banking, asset management and other market-based finance. We welcome the work by the BCBS and IOSCO on criteria for identifying simple, transparent and comparable securitizations. We will review holistically changes in market liquidity and impact on market stability, and we will consider policy measures if necessary. We welcome the ongoing work by the IOs, as set out in the FSB work plan on the decline in correspondent banking services, and look forward to accelerated progress in assessing and addressing this issue as appropriate. We welcome the planned work by the FSB, IMF and BIS to take stock of experiences and potential lessons with macro-prudential frameworks and tools, and report back to us by our meeting in July. We remain committed to strengthen the financial inclusion agenda. We ask the Global Partnership for Financial Inclusion (GPFI) to produce a framework for implementing the G20 SME Finance Action Plan, and explore developing a set of high-level principles on digital financial inclusion, and improving data collection and indicators.

7. Widespread, consistent and effective implementation of G20/OECD Base Erosion and Profit Shifting (BEPS) project is critical for a fair and modern international tax system. We reiterate our commitment to timely implementation of the BEPS project, and continue to monitor and address BEPS-related issues in order to ensure tax fairness and a level playing field. To ensure a consistent global approach, we endorse the inclusive framework proposed by the OECD for the global implementation of BEPS project and encourage all relevant and interested non-G20 countries and jurisdictions, which commit to implement the BEPS project, including developing countries, to join in the framework on an equal footing. We support that the specific challenges faced by developing countries in BEPS implementation

should be appropriately addressed under the framework. We remain committed to implementing the standard for information exchange on request as well as for Automatic Exchange of Information (AEOI), and call on all financial centers and jurisdictions to do so by 2017 or at the end of 2018. We reiterate our call for all countries to join the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and look forward to the progress report by the Global Forum. We welcome the different existing initiatives aimed at building capacity for developing economies to their needs on tax issues, including the Addis Tax Initiative, the Tax Administration Diagnostic Assessment Tool, and the Tax Inspectors Without Borders. In this connection, China would make its own contribution by establishing an international tax policy research center for international tax policy design and research as well as technical assistance to developing economies. We also welcome the new proposal of developing a tax platform jointly by the IMF, OECD, UN and WBG, and call on them to recommend mechanisms to help ensure effective implementation of technical assistance programs, and recommend how countries can contribute funding for tax projects and direct technical assistance, and report back with recommendations at our July meeting. We recognize the role of tax policy in achieving sustainable economic growth, and will explore this issue further at the G20 Tax Symposium to be held in July. We recognize the significant negative impact of illicit financial flows on all our economies, and we continue to take forward the work of the G20 on this theme.

8. We are resolved to combat decisively terrorist financing. We will intensify our efforts to tackle all sources, techniques and channels of terrorist financing and will enhance our cooperation and exchange of information. We call on all countries to join us in these efforts, including through a swift implementation of FATF standards and provisions of the UN Security Council Resolution 2253 in all jurisdictions. We ask the FATF, working with the relevant IOs, to strengthen its work on identifying and tackling loopholes and deficiencies that remain in the financial system and ensure that the FATF standards are effective and comprehensive, and fully implemented. We call on the FATF to intensify its work on identifying, analyzing and tackling terrorist financing threats, the sources and methods of funding and the use of funds.

9. Recognizing the pressing environmental challenges and the importance of mobilizing green finance, we have established the G20 Green Finance Study Group (GFSG). We ask the GFSG to identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilize private capital for green investment. The GFSG will collaborate with other G20 groups and other external initiatives as well as with the private sector. We expect the GFSG to deliver a synthesis report by our July meeting.

10. We welcome the adoption of the Paris Agreement on Climate Change and the commitments made by developed countries and international organizations and announcements made by other countries on climate finance, and call for timely implementation. Developed country Parties shall provide financial resources, including support provided through the Green Climate Fund, to assist developing country Parties with respect to both mitigation and adaptation, in continuation of their existing obligations under the United Nations Framework Convention on Climate Change (UNFCCC). Other Parties are encouraged to provide or continue to provide such support voluntarily. We reaffirm our commitment to implementing the 2030 Agenda for Sustainable Development.

11. We reaffirm our commitment to rationalize and phase out inefficient fossil fuel subsidies that encourage wasteful consumption, over the medium term, recognizing the need to support the poor. Further, we encourage all G20 countries to consider participation in the

voluntary peer review of inefficient fossil fuel subsidy that encourages wasteful consumption.

Annex

Reports received

1. IMF G20 Surveillance Note prepared for the February 26-27 Ministerial.
2. Financial Stability Board Chair's Letter to G20 Finance Ministers and Central Bank Governors, February 2016.
3. OECD Interim Economic Assessment
4. OECD's Secretary-General's tax report
5. Going for Growth report by OECD
6. FATF report to G20 on FATF Counter-Terrorist Financing Initiatives

Issues for further action

1. We request the Framework Working Group (FWG) to further work on the priorities and guiding principles as well as the proposed structural indicator system to secure delivery of the Growth Strategies, with an aim to submit policy papers on both topics for our review, and endorsement if appropriate, in our next meeting in April. We call on the IMF and the OECD to continue to provide technical support and further work on the enhanced structural reform agenda, including updating the policy papers based on the proposals by China, the IMF and the OECD and members' feedbacks.
2. We ask the IMF, OECD and WBG to update the assessment of the implementation of key commitments in our growth strategies, implementation gaps, as well as of progress towards our collective growth ambition as defined in Brisbane, to provide technical support to our peer review and report back to us by our meeting in July.
3. We look forward to a progress report on the implementation of the MDBs' Action Plan to Optimize Balance Sheets in July.
4. We look forward to a proposal of joint actions led by the WBG, together with other MDBs, to demonstrate the MDBs' commitment to infrastructure development.
5. We look forward to a productive discussion in Singapore in April to promote global infrastructure connectivity.
6. We look forward to receiving the Global Infrastructure Hub's (GIH) knowledge sharing report at our April meeting and to the Hub developing, in coordination with other IOs involved in PPPs, a knowledge sharing platform that will help improve global infrastructure connectivity and institutional capacity of developing economies in delivering bankable infrastructure projects.
7. We look forward to guidance note on recommended policy steps to diversify financial instruments for infrastructure and SMEs, and attract new sources of long-term financing including private investment with inputs by the OECD, and other IOs.

8. We welcome and support the implementation of the related G20/OECD Corporate Governance and SME financing Principles, and the G20 SME Finance Action Plan, and look forward to being updated on its progress at our next meeting, including assessment methodology of corporate governance principles.

9. We look forward to the report of the IMF and the FSB in the fall of 2016 on the second phase of the Data Gaps Initiative (DGI-II), including on the finalized action plans.

10. We look forward to further work on capital flows by the IMF, the BIS, the OECD, and other IOs and we look forward to their studies and reports.

11. We look forward to the IMF's report to examine and reflect on the possible broader use of the SDR by July.

12. We look forward to the report by the IMF, in consultation with other parties, on the progress in implementing the enhanced collective action and pari passu clauses and further explore market-based ways to speed up their incorporation in the outstanding stock of international sovereign debt.

13. We look forward to the FSB's second annual report on implementation and effects of regulatory reforms.

14. We ask the FATF to report back to us by our meeting in July on the update of implementation of its standards by jurisdictions worldwide and of FATF's new Strategy on combating terrorist financing, as well as on the follow-up procedures that have been launched to accelerate implementation in those jurisdictions where weaknesses have been identified.

15. We ask for a report for our next meeting on the first stage of the work of the FSB's task force on climate-related financial disclosures.

16. We request the Climate Finance Study Group (CFSG), based on the outcomes and towards the objectives of the 21st session of the Conference of the Parties to the UNFCCC (COP21), to continue its work in the areas as set out in its 2016 Work Program in accordance with the principles, provisions and objectives of the UNFCCC and report back to us in our July meeting.