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IMF Managing Director Discusses Regional Outlook and Role of Fund with Finance Ministers from North and South America

The Managing Director of the International Monetary Fund (IMF), Dominique Strauss-Kahn, today met finance ministers from North and South America and the Caribbean to discuss the economic outlook and the IMF's role in the region.

"I welcome very much this important dialogue at a time when multilateral cooperation is all the more important," Mr. Strauss-Kahn said of the First Encounter of Ministers of Finance of the Americas in Cancún, Mexico, hosted by Mexico's Finance Minister Agustín Carstens and opened by President Felipe Calderón.

Speaking about the global and regional outlooks, Mr. Strauss-Kahn voiced concern about heightened inflation risks, noting that global food and oil price increases have driven recent pressures and now risk destabilizing inflationary expectations.

Headline inflation has continued to rise and, in most countries in the region, core inflation has also picked up, raising the danger of second-round effects, including through wages. So far, however, these effects have been fairly limited, he noted. "In many countries in Latin America where domestic demand growth has been very strong, existing policies risk amplifying the price shocks. Failure to act decisively now will increase the eventual output and social costs of adjustment," Mr. Strauss-Kahn said. For this reason, he added, "social protection should not be used to justify a retreat into protectionism, or a delay in measures to cool domestic demand. Many countries in the region have painstakingly built up macroeconomic credibility over the past decade. That should not be jeopardized now." During discussions, many ministers emphasized the importance and the challenges of keeping inflationary expectations under control.

Discussing the future role of the international financial institutions in the region, Mr. Strauss-Kahn stressed the importance of multilateralism. "The world needs strong international institutions to deepen understanding of these key global challenges and to provide a forum

for finding cooperative approaches to them.” The Fund is adapting to new challenges, including by stepping up its work with the Financial Stability Forum to draw lessons from the recent global financial turmoil, and by actively working to help member countries deal with the issues related to the global surge in food prices. “We are elevating our financial support to those countries most affected, especially in the developing world, as part of our work on low-income countries. We are considering changing our Exogenous Shocks Facility to make access more timely, substantial, and more concessional, with access based on policy commitments in key areas, rather than on many conditions,” he said.

The Fund is also reviewing its credit instruments to better adapt them to the needs of member countries and considering the creation of a new liquidity instrument for emerging markets to provide insurance against crises. “We are undertaking a review of the Fund’s lending facilities to help ensure that these are tailored to members’ needs. One key issue that will be examined is the case for increasing access limits,” Mr. Strauss-Kahn said, assuring ministers that the Fund is making existing facilities more flexible and responsive to their needs.