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Statement by IMF First Deputy Managing Director John Lipsky at the conclusion of the Asia-Pacific Economic Cooperation meeting

First Deputy Managing Director of the International Monetary Fund (IMF), John Lipsky participated in the 2008 Asia-Pacific Economic Cooperation (APEC) Finance Ministers Meeting in Trujillo, Peru. Mr. Lipsky issued the following statement today at the conclusion of the meeting:

“I would like to thank President Alan Garcia and his government for hosting the APEC meeting and welcoming us to their wonderful country. It has been a great pleasure to visit Peru, my first opportunity as the First Deputy Managing Director of the IMF.

“Over the past days, I was privileged to meet President Garcia, Minister of Economy and Finance Luis Valdivieso and Central Bank President Julio Velarde. During the APEC meeting, I have had useful discussions with authorities on both sides of the Pacific. I gained valuable insights from the private sector at my meeting with the APEC Business Advisory Council.

“Since last year’s APEC meeting, the global environment has deteriorated dramatically, and the financial crisis has spread to emerging economies. While a modest recovery is expected to begin in the second half of 2009, this outlook is exceptionally uncertain and additional downside risks are evident—notably with regard to financial sector developments. Growth in Asia is expected to slow along with the global economy, as exports weaken and spillovers from the global turmoil weigh on domestic demand. With growth and commodity prices easing, inflation should stabilize but remain at elevated levels.

“Asia’s outlook also is subject to uncertainty, reflecting the weak global growth outlook and associated risks. Asian policymakers face the difficult challenge of safeguarding financial stability while navigating their economies through a global downturn. As a result, Asian authorities will need to remain vigilant to spillovers from the global turmoil and be prepared to respond quickly and flexibly to a sharp slowing of domestic activity.

“Latin American economies have also been hit by the confluence of a slowdown in the U.S. economy, a freeze in global credit and weak external demand. Foremost among the risks, though, is the outlook for commodities. Even following recent declines, prices have remained high. Thus, there is a risk of additional declines, if the history of previous global downturns provides a relevant guide. Thus, policymakers must remain on high alert to deal with the current shocks. However, Latin America is expected to resist the current global shocks more successfully, reflecting the significant improvements in macroeconomic fundamentals over the past decade.

“To help countries face these major challenges, the Fund has been adapting its financing to better serve the needs of its membership. We have launched a new Short-Term Liquidity Facility, to help countries with good macroeconomic fundamentals to cope with financing gaps. We have also put in place emergency procedures, to deal with requests more quickly, and revamped our Exogenous Shocks Facility, as part of a wider review of our financing role in member countries.

“During my meetings with President Garcia and his team, I commended the impressive progress that the Peruvian economy has recorded in recent years. Economic growth at present is the fastest in Latin America and one of the fastest among emerging market economies. Inflation has accelerated, reflecting pressures from global food prices, but remains one of the lowest in the region. Moreover, Peru’s vulnerabilities have declined significantly, with lower public debt, strengthened financial sector, and much improved balance sheets in the rest of the economy. In addition, the economy has opened up significantly to international trade, and reforms are ongoing to enhance the business environment, reduce informality and alleviate poverty.

“Our conversations focused on the challenges lying ahead for Peru, particularly given the difficult global context. We have agreed that Peru is well placed to face the global financial crisis and sustain high economic growth. The authorities prompt and prudent policy reaction over the past few months has helped stabilize liquidity and minimize strains in the economy. We also agreed that it will be important to maintain prudent fiscal and monetary policies in light of the strong underlying economic momentum. However, were the global crisis to intensify and affect Peru more seriously, there could be some scope for countercyclical policies. Against this background, I have also expressed that the Fund stands ready to support Peru if the authorities deemed it necessary.”