

APEC – Key Challenges

Challenges of the Financial Crisis

4. Since we met in Vancouver in November last year, the outlook for the global economy has weakened considerably. The regional financial crisis has had economic and social aftershocks more severe than earlier anticipated and similar problems have appeared in other parts of the world.

Nevertheless, there have been several encouraging developments in our economies and in the international financial system in recent months. The progress made by Indonesia, Korea, Philippines and Thailand in the implementation of strong reform programmes, backed by an unprecedented degree of financial cooperation and support from the international community, has resulted in a substantial degree of financial stability, thereby laying the foundation for recovery in the APEC economies most directly affected by the crisis. In these economies:

- Exchange rates have remained relatively stable, and have strengthened in many of these economies over the past several months. This has permitted substantial reductions in nominal interest rates to levels which, in some cases, are below those prevailing before the crisis.
- Fiscal policies have been adjusted with support from the IFIs to allow increased spending to support demand and employment.
- The initial acceleration in inflation that accompanied devaluation has been contained to moderate levels in most emerging Asian economies, and the rate of inflation is now decelerating across the region.
- Short-term external debt burdens have been reduced and reserves have begun to be replenished in many economies.
- Current account balances have moved into surplus, although most of the adjustments have come from reduced imports.
- Output declines have been more extensive than many had anticipated, but are now moderating.
- Several other economies including Indonesia, Korea, and Thailand, have made impressive efforts to strengthen and restructure their respective corporate and financial sectors.