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#### THE INTERNATIONAL ECONOMIC SITUATION

5. In recent years, substantial progress has been achieved in promoting a stronger world economy through sound macroeconomic policies and greater economic efficiency. The economic expansion in our countries, now in its eighth year, has supported notable income growth and job creation in the context of rapid growth of international trade. However, unemployment remains high in a number of countries. Inflation, although considerably lower than in the early 1980s, is a matter of serious concern in some countries and requires continued vigilance. External imbalances have been reduced in the United States and Japan, whereas in other cases they have increased. Continuing adjustment remains a priority in order to counter protectionist pressures, alleviate uncertainties in financial and exchange markets, and contribute to avoiding pressures on interest rates. Sound domestic macroeconomic policies, which may differ according to conditions in each country, will make a major contribution to further external adjustment.

6. In the developing world, the experience of the late 1980s varied widely. Some economies, particularly in East Asia, continued to experience impressive domestic growth rates. The economies of a number of other developing countries have been stagnant or declined. Nonetheless, serious efforts -- in some cases by new leadership -- to implement economic adjustment and market-oriented policies have begun to yield positive results and should be continued.

#### INTERNATIONAL MONETARY DEVELOPMENTS AND POLICY COORDINATION

7. At a time of growing economic interdependence, the Summit countries have developed a cooperative process based on a common appreciation of the need for market-oriented policies and the importance of sound domestic budgetary and monetary policies. This process has contributed importantly to the strengthened performance of the world economy and to improved stability of exchange rates by concentrating attention on multilateral surveillance and close coordination of economic policies, including cooperation on exchange markets. It is important to continue and, where appropriate, to strengthen this cooperative and flexible approach to improve the functioning of the international monetary system and contribute to its stability.

8. To sustain the present economic expansion to the benefit of all countries, each nation must pursue sound policies. Balanced expansion of demand with increasing productive capacity is key, while external imbalances and structural rigidities require correction. Price pressures warrant continued vigilance.