

fact that their economies are operating near or even above their productive capacities and their unemployment rates have fallen below levels that in the past were associated with rising inflation.

With respect to the pattern of current account balances, the U.S. deficit widened somewhat in 1996 as a result of robust growth in domestic demand. The International Monetary Fund expects a further slight widening in 1997, as appreciation of the U.S. dollar outweighs the impact of stronger global economic growth. The Japanese current account surplus is also forecast to widen somewhat this year. Nonetheless, current account imbalances in the advanced countries are expected to remain modest by historical standards. The IMF expects Canada will run a current account surplus equivalent to 0.5 per cent of gross domestic product in 1997.

Outside of the advanced economies, conditions are also generally supportive of further growth and improvements in living standards. This reflects the fact that many countries have adopted sound macroeconomic policies and outward-oriented, market-based structural reforms.

Economic conditions in the countries of the former Soviet Union and Central and Eastern Europe continue to show signs of improvement, suggesting that the difficult transformation to market economies is bearing fruit. The region of the former Soviet Union as a whole is expected to recover in 1997, with the IMF forecasting economic growth of nearly four per cent, after sharp declines in real output between 1991 and 1996. In Central and Eastern Europe, the economic recovery associated with market-based reforms is expected to gain momentum, with economic growth projected by the IMF at over four per cent in 1997. Despite this progress, however, some countries are experiencing significant macroeconomic imbalances as budget deficits remain large and rapid growth has led to significant trade deficits. Meanwhile, some countries, such as Romania and Bulgaria, are only now emerging from severe economic difficulties.

As has been the case for a number of years, growth in the developing countries was on average quite strong in 1996, but varied substantially among different regions. In Asia, growth has recently decelerated, compared with the experience of the past 10 years, in response to slower exports and a tightening of monetary policy aimed at controlling inflation. This cyclical correction has improved prospects for sustained growth with moderate inflation in the region over the short term. The economies of Central and South America have recovered from the Mexican financial crisis and its after-effects. Activity in the region is expected to accelerate in 1997 as recoveries in several countries gain momentum. Finally, last year, Africa posted its strongest growth performance in 20 years (almost five per cent) and there are signs that stronger macroeconomic and structural policies in the region are beginning to produce higher growth in more countries.