major factor in bringing down inflation in recent years has been a more disciplined monetary policy. If we are to experience durable economic growth over the coming years and avoid acceleration of inflation, monetary policy must act to finance economic activity only at a rate consistent with an environment of moderating prices.

If monetary policy is to continue as a stabilizing force it must be complemented and balanced by an appropriate fiscal policy. We have all seen the consequences of failure in this regard: high nominal and real rates of interest, financial market uncertainty, exchange rate volatility. If these persist they will undermine our efforts to sustain growth. High interest rates discourage investment and this ultimately limits our growth potential.

This issue has gained renewed prominence in the last several weeks as we have seen the eruption of further upward pressure on interest rates. The impact of such a development on both developed and developing countries could be severe unless it can be stopped and preferably reversed. I submit that this issue should be given the highest priority in all our current international discussions. The world simply cannot afford a new explosion of interest rates.

Many of us, including Canada, need to work towards reducing our fiscal deficits in support of balanced economic expansion. For those that have experienced the most success in reducing inflation and are in a strong current account position, deficit reduction should be approached within a medium-term framework. Otherwise, there is a risk that the initial recovery of domestic demand will be choked off.