

Global Economic Setting

Economic growth and job creation remain major objectives for summit countries. To this end, Canada and its summit partners have pursued a medium-term strategy of fiscal consolidation, low and stable inflation, and structural reforms aimed at enhancing economic efficiency and social adaptability to a rapidly changing domestic and global environment. This policy framework has helped bring down global interest rates and continues to provide impetus for growth and job creation.

Indeed, the outlook for growth in output, trade and employment in the global economy is more encouraging than it has been for a number of years. Recently, the continued strength in economic activity in the United States and the United Kingdom has led to declines in unemployment. Following slower growth in 1995 and the first half of 1996, economic activity in Canada strengthened significantly during the second half of last year and the first quarter of 1997. In continental Europe and Japan, growth prospects have improved owing to a stronger export outlook, although domestic demand is expected to remain weak in the near term. Meanwhile, Russia's historic and difficult transition from a centrally planned economy to a market economy is beginning to show visible and sustained progress — inflation has come down sharply, the external value of the ruble has stabilized, and the economy strengthened in the first quarter of 1997.

In financial markets, one of the most notable developments of the past year has been the correction of the currency misalignments of early 1995, when the dollar fell to record lows against the yen and German mark. The rebound in the U.S. dollar has been broadly consistent with the relative cyclical positions and policy requirements of the United States, Japan and Germany. Although bond yields have risen in a number of summit countries since the beginning of the year, they remain relatively low and should continue to support growth and employment over the short term.

Looking ahead

Looking ahead, forecasters expect each summit participant to post stronger growth in 1997 than in 1996, with the exception of Japan. The anticipated pick-up in activity is not expected to lead to a notable upturn in inflation. Inflation remains low in the advanced economies of the Eight. In Japan and continental Europe, the low inflation rate reflects, to some extent, continued economic slack. In Canada, inflation is well within the official target band of one to three per cent, and is expected to remain so over the short term. The United States and the United Kingdom continue to maintain inflation at low levels, despite the