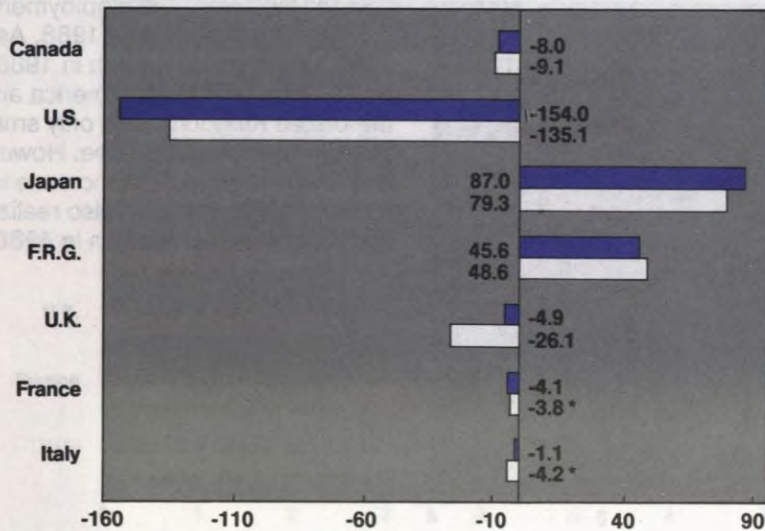


Chart 3
Current Account Balances

billions of U.S. dollars

■ 1987 □ 1988



* IMF estimates from WEO April 1989

The U.S. current account deficit narrowed in 1988. While the Japanese surplus declined, most of the decline was in the first half of the year. In the second half and into early 1989, Japanese surpluses began to widen once more.

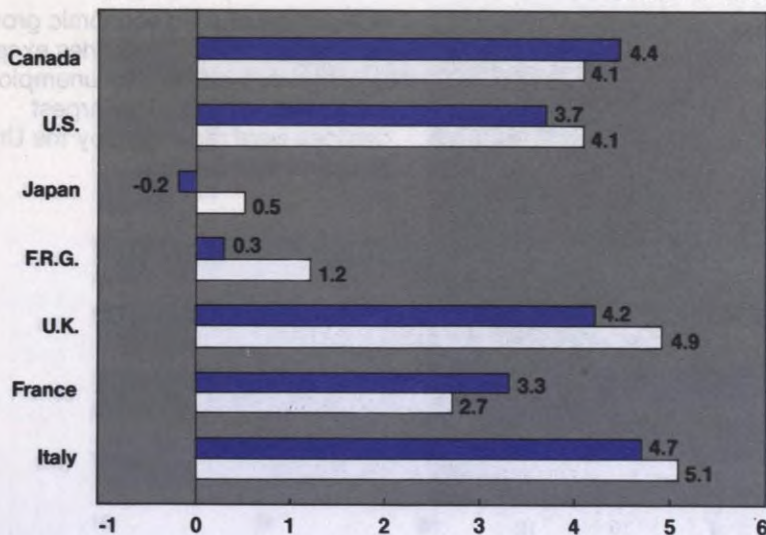
The F.R.G. surplus increased somewhat in 1988, despite a reduced surplus in trade with the United States. Strong growth in domestic demand, particularly investment, among its principal European trading partners has contributed to vigorous growth in F.R.G. exports. Of the major European economies, the United Kingdom has experienced the largest deterioration in its current account balance.

Strong growth in domestic demand in Canada also led to a deterioration in its current account deficit.

Chart 4
Growth of Consumer Price Index in 1987 and 1988

per cent

■ 1987 □ 1988



Inflation rates increased in most of the G-7 countries in 1988. With 1988 being the sixth year of the current expansion, strains on productive capacity began to emerge in some of the G-7 economies, and inflation increased. Although the Canadian inflation rate was lower on an annual basis, there was a marked increase by the end of the year and into early 1989. By April 1989, inflation was running at a 4.6 per cent rate compared to 4.0 per cent a year earlier.

Exchange rate depreciation and higher commodity prices contributed to higher inflation in Japan and F.R.G. in 1988.