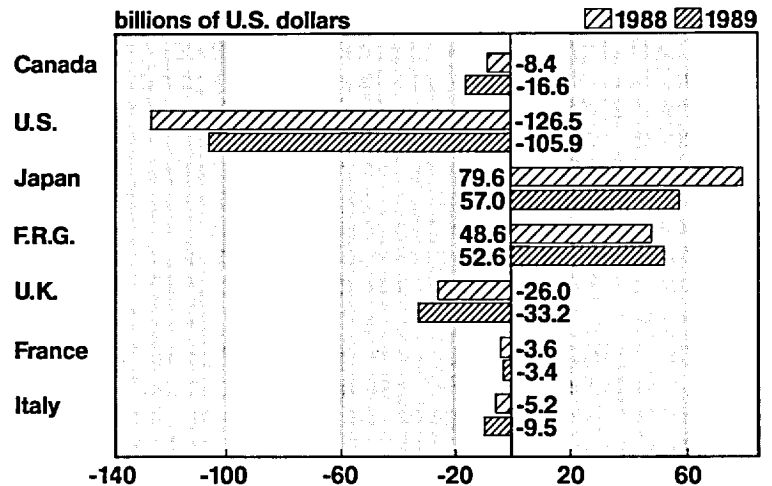


The U.S. current account deficit and the Japanese current account surplus both narrowed considerably in 1989. Evidence from early 1990, however, shows that the U.S. deficit will likely widen again in 1990. Progress on the reduction of the Japanese surplus has also slowed.

The F.R.G.'s current account surplus continued to grow in 1989, reaching US\$52.6 billion, largely at the expense of its principal trading partners in the EC. Canada's current account deficit widened to US\$16.6 billion from US\$8.4 billion in 1988.

Chart 3
Current Account Balances



Inflation increased in each of the G-7 countries in 1989. Strains on productive capacity exerted upward pressure on prices despite the general easing of growth that occurred. The largest increase in inflation was in the U.K., where retail prices rose 7.8 percent during the year. In Canada, inflation was nearly one percentage point higher in 1989 than in 1988.

Chart 4
Growth of Consumer Price Index in 1988 and 1989

