

An exception is the yen, which depreciated about 7 per cent against the U.S. dollar. In the first half of 1992, the U.S. dollar has tended to strengthen against most of the major currencies, as prospects for an American recovery appear to be relatively favourable.

The outlook for 1992 is for a recovery of the global economy, albeit a moderate one by historical standards. The International Monetary Fund has forecast a 1.4 per cent growth rate for 1992. In 1993, growth is expected to show a more marked recovery, with a forecast of 3.5 per cent growth. The volume of world trade is expected to increase at a pace of 6.3 per cent in 1993 after recording a 5 per cent increase in 1992.

Several of the main forces behind the weakness of activity in 1991 are no longer at work in 1992 or are diminishing. The uncertainties related to the crisis in the Middle East have dissipated, private citizens and corporations in several of the larger

industrial countries have reduced their high levels of debt, and interest rates have fallen. As financial balances are consolidated, the basis for a resumption of stronger growth is improving.

Inflation in the G-7 economies, with the major exception of Germany, has eased so far in 1992 and this is expected to be the case for the year as a whole. The International Monetary Fund has forecast the aggregate G-7 inflation rate to be 3.2 per cent in 1992 and 3.1 per cent in 1993.

Structural reform in several key areas, including tax reform and privatization, has been introduced in G-7 countries in recent years, improving the flexibility of markets and the ability of economies to adapt to global economic change. Prospects for sustained non-inflationary growth will be enhanced as monetary and fiscal policies in industrial countries continue to be directed towards medium-term objectives of price stability and further fiscal consolidation.