Inflation among the major industrial countries declined for the third year in a row in 1993, falling to 2.8 per cent from 3.1 per cent in 1992. Canada's inflation rate averaged 1.8 per cent in 1993, the second lowest (after Japan) among the G-7. Among the developing countries, inflation remained high in the Western Hemisphere and the former Soviet Union and was lowest in Asia.

Cross-country differences in economic growth contributed to substantial increases in current account imbalances in 1993, particularly the U.S. current account deficit and Japan's current account surplus. U.S. exports have been constrained by lower growth among its main trading partners, while imports have been boosted by strong domestic demand. The International Monetary Fund (IMF) projects that the U.S. current account deficit will widen further in 1994 and 1995.

International financial markets experienced some turbulence this year following the U.S. Federal Reserve's decision in February to raise official short-term interest rates as a pre-emptive strike against inflation. The increase in U.S. short-term interest rates triggered large rises in long-term rates in most industrial countries, including Canada, where these higher long-term rates have as yet shown few signs of abating. The U.S. dollar has come under pressure against the yen and the Deutschmark, reflecting in part the widening of the U.S. current account deficit and investor uncertainty over the timing and extent of future Federal Reserve tightening.

Strengthening the prospects for sustained growth and lower unemployment continue to be the twin economic policy objectives of the G-7 countries. To this end, the G-7 governments remain committed to the co-operative growth agenda adopted at last year's summit, which focuses on mutually reinforcing macroeconomic policies and structural reforms. Concrete measures consistent with this growth agenda have been taken to create conditions favourable to sustained low interest rates and a prolonged period of non-inflationary growth.

The U.S. administration has taken significant steps to reduce the budget deficit. This has led to a substantial decline in long-term interest rates and has contributed to a surge in investment, although some of this progress has been set back by recent fluctuations in international financial markets. Despite the strong reaction in financial markets earlier this year to the increase in U.S. official interest rates, the Federal Reserve's actions are timely and appropriate. By moving now to pre-empt inflationary pressure the Federal Reserve is helping to sustain growth and job creation.

Japan is unique among the major industrial countries in that it entered the recession with low levels of debt. It has taken advantage of this greater room for manoeuvre on the fiscal side by implementing three major fiscal stimulus packages. There have been some encouraging signs recently that these measures have helped the prospects for a turnaround in Japan's economy, and a reduction in its current account surplus, by boosting domestic demand.