

## **Global Economic Setting**

Economic developments and near-term prospects in the major industrialized countries have improved significantly over the last year. Economic recoveries in North America and the United Kingdom have become well established, with growth in the United States in particular proceeding at a brisk pace. The recessions in Japan and continental Europe appear to have bottomed out, and there are some encouraging signs pointing to a resumption of growth in both cases.

In the United States, the modest recovery evident at the time of last year's summit has gained considerable strength, and the attention of policy-makers has now turned to steps to sustain growth by pre-empting any resurgence of inflation. Growth in the European economies appears to be gradually responding to the downward trend in interest rates that began almost two years ago. However, employment growth has been generally slow or even negative in some cases; as a result, unemployment remains unacceptably high and may continue to rise in some G-7 countries this year. Growth in Japan continues to be constrained by the lingering effects of asset price deflation and the adverse effect of a stronger yen on international competitiveness.

Growth in the developing countries, while on average quite strong, varies considerably across regions. Asia continues to post robust growth, led by high levels of investment in the dynamic East Asian economies, including China and Korea and the countries of Southeast Asia. African countries have experienced the slowest rates of growth, although their growth prospects appear to have improved as a result of recent economic reforms. Developing countries in the Western Hemisphere continue to grow at a rate approximately half the average for all developing countries. Growth in the Middle East has slowed from the high levels recorded in 1992, due in part to lower oil revenues.

The former centrally-planned economies of Eastern Europe and the former Soviet Union continue to bear the transitional costs associated with their transformation to market economies. Since the beginning of economic reform, output has declined sharply in these countries, although official data have typically not captured explosive growth in the nascent private sectors of these countries. However, there are signs that output has stabilized in the Central European countries, and that growth is poised to resume following four years of decline. The situation in many republics of the former Soviet Union is less encouraging: output is continuing to decline and inflation remains high owing to a sporadic approach to economic reform.