
THE GLOBAL ECONOMIC SETTING

The pace of growth in the major industrialized countries has been uneven over the past year. The North American economies have been gaining momentum and the United Kingdom has begun to emerge from its prolonged recession. However, growth is weak in Japan, and the continental European economies have entered a recession. Although economic growth has differed, all these economies share unacceptably high unemployment.

In North America, the pace of recovery was unusually slow and employment failed to expand as rapidly as it has in past recoveries. In Japan, past asset price deflation continued to have profound effects in the financial and non-financial sectors of the economy. European growth, by contrast, was constrained by high interest rates. In Germany, the reaction of monetary policy to the unification-related boom led to higher interest rates, which were transmitted to the rest of Europe. Although European interest rates have fallen considerably so far this year, signs of renewed growth on the continent may not be seen until late in the year.

Growth in the developing countries varied substantially from region to region. The Middle East showed the fastest growth last year as oil production in Iraq and Kuwait returned to normal levels and efforts to rebuild these countries generated increased investment. Asia's growth was boosted by the fast-growing eastern Asian economies, including China and Korea.

In the Western Hemisphere, growth in the developing countries was less than half that of developing countries in Asia. On average, African countries posted the lowest rates of growth, in part because of severe drought but also because of some slippage in their reform efforts.

The former centrally planned economies continued to struggle last year with the transition to market economies. Output is estimated to have

declined sharply throughout the former Soviet Union and the countries of Central and Eastern Europe.

Inflation in the major industrialized countries fell to 3.1 per cent in 1992 from 4.4 per cent in 1991. Canada's inflation rate in 1992, 1.5 per cent, was the lowest among G-7 members. Inflation continued to be a problem in the developing countries, especially in South America and Russia.

European financial markets experienced a great deal of turbulence last year. In September, speculative pressures on the British pound and the Italian lira forced the U.K. and Italy to withdraw from the exchange rate mechanism (ERM) of the European monetary system, and other currencies were devalued within the ERM.

These developments have left the Deutschmark stronger against other European currencies. However, the Deutschmark has weakened somewhat against the U.S. dollar since the autumn, reflecting a narrowing of the German-U.S. interest-rate differential. At the same time, the yen has strengthened against North American and European currencies. The Canadian dollar has been broadly stable over the last six months, ranging from 78 to 81 cents American.

Current account imbalances in the major industrial economies were a greater source of attention over the past year. The most noteworthy change was a sharp widening of Japan's current account surplus, in line with weak domestic growth and a pickup in U.S. demand.

The volume of world trade is expected to expand by more than 5 per cent this year, according to projections by the International Monetary Fund (IMF). A successful conclusion to the Uruguay Round of multilateral trade negotiations would stimulate even greater output growth and a strong expansion of global trade over the medium term.