

The effects of Asian financial turbulence, combined with buoyant domestic demand and a strong U.S. dollar, are expected to contribute to an increase in the U.S. current account deficit in 1998. At the same time, the Japanese current account surplus is forecast to widen as weak domestic demand and the yen's depreciation against other major currencies continue to outweigh the negative impact of the crisis on exports.

Despite these movements, both the U.S. and Japanese trade imbalances, relative to GDP, are significantly smaller than in the mid-1980s. Moreover, much of the deterioration reflects cyclical factors and will ultimately be reversed as the U.S. and Japanese economies adjust.

Aside from managing the effects of the Asian situation and strengthening the international system to promote financial stability, summit participants face a number of key policy challenges in the near term. The January 1999 launch of the Economic and Monetary Union in continental Europe will be momentous in the evolution of both the European Union and the international financial system. And, given high levels of public debt and looming costs associated with aging populations, fiscal consolidation remains a clear priority. As well, better opportunities for education and training and fewer barriers to innovation and knowledge are essential if citizens are to acquire the skills needed to respond to changing economic circumstances.