With respect to the pattern of current account balances, the U.S. deficit remained largely unchanged in 1995 as the effect of stronger domestic economic growth, which would otherwise be expected to lead to a widening of the U.S. current account deficit, was offset by the gains associated with the U.S. dollar's depreciation against the yen and the German mark. (Although the dollar appreciated on average during the last three quarters of 1995, its value on average during the year was lower than in 1994. Moreover, exchange rate shifts typically affect trade flows with a lag.) The International Monetary Fund (IMF) projects that the U.S. current account deficit will equal 2 per cent of GDP in 1996, virtually unchanged from the 1994–95 period. The encouraging narrowing in Japan's current account surplus over the past year is expected to persist for some time despite the recent rebound in the value of the U.S. dollar against the yen. Another important development has been the marked improvement in Canada's current account deficit, which fell from 3 per cent of GDP in 1994 to 1.7 per cent in 1995. The IMF expects that Canada's current account deficit will fall further, to 0.6 per cent of GDP in 1996.

One of the main financial market developments of the past year has been the rebound of the U.S. dollar from the record lows against the yen and German mark witnessed in early 1995. This reversal has been consistent with economic fundamentals and policy developments. Bond yields, despite their recent run-up in response to strong U.S. economic — especially employment — data, are lower than their levels of a year ago in most G-7 countries. Fiscal consolidation and low inflation have contributed to a downward trend in long-term interest rates. This should help bolster growth and employment in the G-7.

Within Europe, fiscal consolidation objectives are rendered even more pressing by the ambitious timetable for European Monetary Union (EMU). Slower-than-expected economic growth has meant that most members of the European Union do not at present meet the fiscal requirements for EMU. Considerable reductions in budget deficits will be necessary to achieve EMU by the 1999 deadline established in the Maastricht Treaty.

Economic conditions in the countries of eastern Europe and the former Soviet Union are beginning to show signs of improvement suggesting that their transformation to market economies is bearing fruit. Recorded output remains lower in these countries than at the beginning of reforms although official data often fail to accurately reflect robust growth in the new private sector. Moreover, growth has resumed in most central and eastern European countries, with GDP rising in 1995 across the region for the first time in five years. Indeed, growth in several eastern European countries in 1995 reached levels comparable to those in the dynamic Asian economies. The situation in many republics of the former Soviet Union is also encouraging: although output in most of these countries has not yet begun to rise, it is showing some signs of bottoming-out, reflecting in part successful anti-inflation efforts.