

to private sector interests in 1991 of the main national airline, VIASA, and the phone company, CANTV. As to the tax system, following income tax reform in 1991, there has been increasingly serious delay in bringing in a much-needed sales tax.

In macroeconomic terms, the performance of the economy since the reform package was brought in has been impressive. The initial reaction, in 1989, was a deep but short-lived recession (8.6% economic decline). This has been followed by strong, sustained growth in GDP, at 6.4% in 1990, 10.4% in 1991 and 7.3 percent in 1992, the strongest sustained growth of any economy in the western hemisphere. (The IMF indicates 2.7 percent growth in Latin America as a whole in 1992) The growth has been registered across the broad range of economic sectors, with the exception of a continuing slump in mining. (To provide a perspective, about 25% of GDP originates in the oil sector, 15% in manufacturing and 15% in commerce). The unemployment level dropped from an average of 10.9% in 1990 to 8% in 1992 and is still declining. (Note that more than half - 57% - of the labour force is in the service sector, about 15% in manufacturing and 11% in agriculture. The oil sector employs less than one percent.)

Inflation, after shooting up to 81% in 1989 when prices were suddenly decontrolled, fell to 36.5% in 1990, 31% in 1991, and thereabouts it still remains, at the end of 1992. Inflation is a major social problem.

The major source of inflationary pressure, and the single most important economic policy challenge, is the growing budget deficit, this year at 6.1% of GDP, and the related failure of the political system to agree to an increase in taxes (specifically a proposed general sales tax). Venezuelans pay about 3% of their national income in taxes, compared with about 20% on average for other Latin American countries, and 40% for Canada.

If fiscal policy is lax, monetary policy is restrictive. Interest rates are extremely high, reaching as high as 80% of late, which constitutes a drag on investment activity, especially by small and medium-sized firms.

On the external side, international oil price changes continue to affect significantly Venezuela's current account. Thus, after having sunk to a serious deficit situation in the