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The Chairman's Summing Up at the Conclusion of the
1985 Article IV Consultation with Venezuela
Executive Board Meeting 85/181 - December 13, 1985

Executive Directors were in broad agreement with the thrust of the staff appraisal in the report for the 1985 Article IV consultation with Venezuela.

Directors commended the authorities for the substantial adjustment that had taken place since 1982. They noted the remarkable improvement in the public finances, the pursuit of restrained monetary policies, and the maintenance of a cautious wage policy. In the context of the fairly low rate of inflation that those policies had produced, relative prices had been shifted through a significant real depreciation of the bolívar. Those policies, together with the application of tight import controls, had resulted in a major improvement in the external accounts, which had enabled the public sector to reduce its external debt and the Central Bank to improve its reserve position.

Directors observed that the move in 1985 to a more expansionary demand policy was lagging, with the result that the public sector position and the balance of payments were showing more strength than had been contemplated by the authorities, and inflation was running lower than had been expected. In the circumstances, the authorities' concern about the prolonged stagnation in domestic economic activity and the sharp increase in unemployment in recent years was understandable.

Directors generally believed that there was room for some expansion in public sector spending in the light of the major adjustment in domestic expenditure that had taken place and the relatively favorable international reserve position. Nevertheless, most Directors considered that any move toward fiscal stimulation should be cautious, especially because of the risk that the policy might have to be reversed because of a further decline in oil revenues and of the Government's heavy debt burden. In this connection, Directors welcomed the recent scaling down of the three-year special investment program and noted that its financing would be entirely domestic. In particular, the development of sound supply-oriented investment programs, including careful project evaluation, was advocated as a way of correcting distortions, removing structural bottlenecks, and improving resource allocation patterns.

Most Directors argued that the sluggishness of the economy was in part the result of an excessive reliance on controls and regulations. To improve incentives for private investment and to help promote diversification and sustainable growth of the economy, a number of Directors

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encouraged the authorities to develop specific timetables to reduce the scope of controls, including price and import controls, and to expedite their plans to design and implement tax and tariff reforms. They expected that future consultations would focus on these structural measures.

Directors stressed the need for credit policies that would help to prevent the emergence of pressures on prices or on the balance of payments. They observed that the wage policy pursued thus far had played an important role in the adjustment of the Venezuelan economy, and they commended the cooperative attitude of the social partners in wage determination. Directors emphasized the importance of wage restraint in the re-establishment of price stability, and they encouraged the authorities to continue their reliance on collective bargaining for the setting of wages.

The intention of the authorities to unify the controlled exchange rates by the end of the year was welcomed by Directors, and they urged them to do so at a rate that would improve the country's competitiveness. Directors also said that exchange rate policy should be handled with appropriate flexibility in the future in order to encourage export diversification and efficient import substitution, and to facilitate full unification of the exchange rate system as soon as possible. Pursuit of a flexible exchange rate policy together with an appropriate demand policy would provide the basis for the liberalization of import restrictions.

Directors noted that the latest developments in the world oil market increased the uncertainty surrounding the medium-term outlook for Venezuela's balance of payments, which underlined the need for continued implementation of cautious fiscal, monetary, and wage policies, supported by a realistic exchange rate policy. They stressed that the uncertainties in the oil market situation pointed to the need to create conditions that would foster domestic and foreign private sector investment and diversify the economy.

Directors welcomed the agreement reached between Venezuela and its creditor banks on a multiyear rescheduling of public and publicly guaranteed debts falling due in the period 1983-88. A number of Directors expressed concern about the large stock of arrears on private external debt servicing and emphasized the need to eliminate them without delay in order to restore confidence and normalize Venezuela's relations with its creditors and suppliers.

Directors commended Venezuela for its development assistance in financing part of the oil imports of several countries in Central America and the Caribbean area.

In response to the authorities' request, Directors agreed to a change in Venezuela's consultation cycle. Thus, the 1986 Article IV consultation with Venezuela is expected to be completed in about six months and the midyear consultation in about one year.