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## ***THE GOVERNMENT LOST BUT...WHO WON?***

### **By:**

Alejandro Grisanti  
Asdrúbal Oliveros

### **Edited by:**

John Holden

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This past referendum vote was very difficult to call. Even on Sunday, while the vote was in progress, different indicators were showing the Government winning by the slightest of margins. But once the results were reported one could draw a number of conclusions: 1.- This election was a clear defeat for the Government, but not necessarily a win for the opposition. 2.- Part of the opposition has yet to realize that they have won and is still trying to figure out what the punch line is. It's important that the opposition continue to strengthen their vote and begin to organize and design strategies for the upcoming 2008 regional election. And lastly, they must not underestimate the President of the Republic; a battle may have been won, but it is still a long way to win the war. We believe that the referendum vote results are positive for the main economic indicators, and especially the parallel US-dollar.

### **A difficult election to predict**

All credible pollsters had the constitutional referendum vote at a dead heat. Those that thought voter turnout would be high or that the NO vote was gaining momentum had the NO vote winning: others, who had confidence in the Government's ability to mobilize its supporters,

or that the fact that the President had turned the election into a personal matter, for or against him, thought that the YES vote would win. The fact is that the numbers of all the polls had the vote very close, and it was the interpretation of each surveys analyst that had one side or the other winning, and consequently measuring the levels of participation and mobilization that would allow for predicting the result.

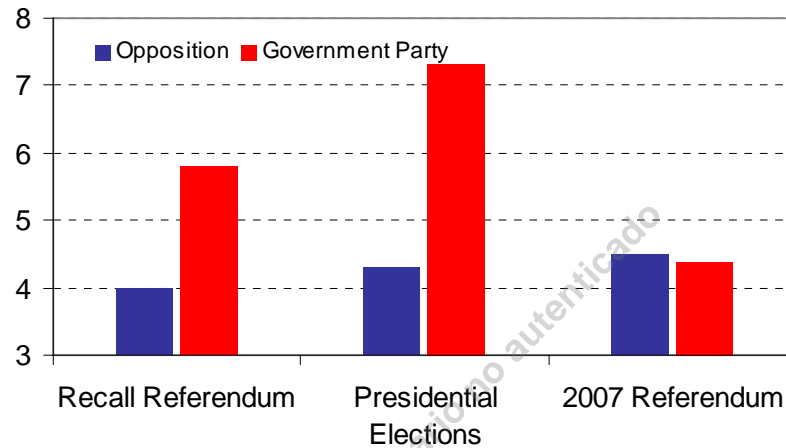
### **Tense moment: the opposite of the recall referendum happened**

On the day of the election, the voter turnout that was being reported by the political parties was very low, plus the information reflected by the exit polls showed the YES vote ahead by between 3 and 8 points. Everything pointed to the reform being approved. However, when the voting tables were begin to be closed, the quick count by the political parties showed that the vote was very close with a slight lead for the NO vote. It's worth remembering that during the recall referendum exactly the opposite happened, when the first exit polls had the opposition winning and the final results had the Government winning. The first lesson to be learned is that exit polls allow you to measure tendencies and that each party is able to react to these tendency; but that in a close election, exit polls are horrible at predicting results.

### **More than a win for the opposition, it's a loss for the Government**

Analyzing the results of the last three elections, this doesn't look like a win for the opposition. The opposition continues to be trapped in the dilemma whether to go out and vote or not, without being able to increase its total vote results. In the 2004 recall referendum, the opposition received 4 million votes, then 4.3 million votes in the 2006 presidential election, and now 4.5 million votes during this past referendum. This means that in three years the opposition has only been able to increase their total number of votes received by 12.9%, a figure which is equal to the increase in the Permanent Voter Roll (15%). The Government was the clear loser. In the 2004 recall referendum it received 5.8 million votes, then 7.3 million votes in the 2006 presidential election, and now loosing 40% of its votes and only receiving 4.4 million votes during this past referendum. It would be very positive for the opposition to turn the Government's loss into its victory, but it doesn't look like that's the path its following.

## Electoral Results (Million Votes)



Sources: CNE and Ecoanalítica

### The opposition didn't know how to loose...and doesn't know how to win

What is very surprising is that some of the opposition is crying out "fraud" in an election that they won and that the Government recognizes that they lost. What is there to be gained politically to continue to discredit the vote, if this is how they got their victory? The only thing gained by abstaining to vote is that the opposition gave up their spaces. **Ecoanalítica** worked with one of the opposition political parties and we saw no sign of fraud and/or results been misrepresented during the whole process. The Venezuelan opposition has to ask itself, who truly benefits by abstaining from voting and what do they gain by discrediting the vote. What is the purpose of un-legitimizing abstaining as a protest mechanism by proposing this alternative at every single election? The only thing this does is to make abstaining loose its purpose and value. At **Ecoanalítica** we are sure that there are some members of the opposition that are sad that the NO vote won. And by the same token, and much easier to understand, there are members of the Government that are happy that the YES lost.

### It's important to continue working towards rescuing the value of the vote

Society has gained a lot in this sense. The electoral system was not designed by the CNE. It was designed collectively with organized society, the political parties, and the electoral authority. That 54% of the boxes be opened, that the machines remain disconnected during the voting process, that the ballots be printed before the machines are

connected, that the use of the fingerprint scanners be limited, etc. These things have been granted because of the opposition. These measures guarantee the voting process, as the recent election demonstrated.

## **The opposition has to continue to organize for the upcoming 2008 regional election**

The opposition includes political parties, students, the civil society, etc. In other words, we all have to continue working towards the 2008 elections in order to gain back political spaces. The voting results indicate that the opposition won in 8 states and that obtained similar result even in 3 more states. It won in the main cities and these are the spaces that the opposition has to take back. It's difficult to win a presidential election in 2012 without having positions in state governments, at the mayor's offices, municipal councils, and parish boards. This is the army that the opposition needs to produce effective results. The task is not easy, however we think that with the 2006 electoral map, the political parties will be able to come together and present consensus candidates for these elections.

## **A battle was won, but not the war**

This is the situation, the opposition has to continue to "operate politically" in order to avoid and/or create obstacles on the other paths the President will take. A lot of the reforms the President will be able to carry out with the Special Powers Law. Plus, Hugo Rafael Chávez Frías will not stop trying to achieve his objective to reform the Constitution and be able to run for reelection indefinitely. The opposition can not act hurriedly. For example, a call for a Constituent National Assembly by certain factions of the opposition is one of the worst courses of action that could be taken, because the Constitution could always be changed for the worse, and even more serious is the fact that what comes out of Constituent National Assembly doesn't have to be submitted to an approval referendum.

At **Ecoanalítica**, there is no doubt that the No victory is much more positive for private investment, for the parallel exchange rate, and for the economy as a whole than if the YES vote would have won. In the end, it produces a new balance of power that the opposition must "cash in on."

## Economic Tips

**November inflation figures highest since February 2003.** The CPI index registered a variation for the month of November of 4.4%, much higher than that of October of this year which was at 2.4%, and that of November 2006 which was at 1.3%. With this latest result, the accumulated inflation for the first eleven months of the year reached 18.6%, more than six points over the Government's goal of 12%. So, now almost ready to head into the new year, it is imperative that the Government redesign its anti-inflationary policies, especially the area related to price and exchange rate controls, as well as look for a way to work with the private sector of the economy.

**BCV increases minimum savings deposits rates to 10%.** The Central Bank of Venezuela announced that it was initiating an increase of the minimum savings deposits interest rates which would go from 8% to 10%, effective immediately, as part of its monetary policies aimed at controlling liquidity and lowering prices. The BCV also announced that the minimum rate for term deposits remains at 11% and the lending rate also remained at 28%. However, these measures could put pressure to increase the lending rate due to an increase in spending as a result of the financial system transformation.

**The Government buys back debt.** According to the Minister of Finance, Rodrigo Cabeza, Venezuela plans to buy back public debt in 2008 as part of its debt management strategy. The Minister did not specify anything about amounts or what kind of operations would be used.

**Risk differential for Venezuelan bonds drops significantly.** The yield differential of Venezuelan bonds with respect to U.S. debt instruments dropped due to NO vote concerning President Chávez's constitutional reform project. The referendum results translated into a Venezuelan EMBI+ 15 basic point drop to settle at 514 points.

**70% of the budget has been used by close of October 2007.** During the first semester of this year, the administration tried to moderate public spending in order to avoid causing greater impact on liquidity levels and prices, but during the second semester an increase in obligations forced it to increase the spending rate. According to Ministry of Finance preliminary figures, by the close of October, more than 70% of the budget had been spent. These figures are based on the allocated amount of VEB140 trillion, which means that the amount spent has topped VEB98 trillion.

**AN will propose a new Law to manage surplus resources.** The Finance Commission of the National Assembly plans to propose a number of new laws among which a law to manage surplus resources stands out. It's also expected that the Central Bank of Venezuela Law and the Bank Law will also be modified in the upcoming year. So announced AN representative, Elvis Amoroso, who said that a short law "written so that it will allow the Administration to better manage surplus reserves would be a good proposal to promote investment and to achieve national development."

**The ITF increases tax collection.** According to SENIAT figures, tax collection in November was at VEB5.7 trillion, and if the Financial Transaction Tax (ITF) is added on, tax collection reaches VEB6.8 trillion. When the authorities first announced the ITF, it was estimated that it would contribute around VEB930.00 billion over a period of two months, but already in one month it has generated VEB1.1 trillion. Up until November, tax collection had reached VEB55.9 trillion.

**High increase and zero devaluation.** Minister of Finance, Rodrigo Cabeza, announced that the country's economy would maintain growth rate similar to the one it has been showing for the past four years, in 2008, and he dismissed any ideas of devaluing the bolivar. According to the Minister, the GDP for this year will top US\$200.00 billion, increasing a significant percentage, though he did allow that it might be less than the 12% average registered by the past few years. It's important to point out that the Minister recognized that it would be "impossible" to reach that level (12%) of growth without private investment.

**Informal economy rate showing no signs of improving.** The percentage of workers that make up the informal economy remained the same during the last year according to National Statistics Institute figures. At the close of October, 44% of the population takes part in the informal sector compared to the 45% that took part during the same period last year.

**The fund is still on.** The Government announced that the Social Stability Fund for self employed workers is still going to be submitted for approval, even though the constitutional reform project, which this measure was a part of, was rejected by the people. The Minister of Labor and Social Security, José Ramón Rivero, said that the measure will seek approval through legislative channels, though use of the Special Powers Law as a means of approving the measure has not been discarded. Rivero announced that in the next few days, his office will submit the necessary documents to the National Assembly members of the Social Development Commission.

**The Government will continue to pay labor liabilities.** During 2008, the Government plans to increase resources to continue to pay the debt it owes former employees of the

central and decentralized public administration. Anticipating a surplus of resources for the next fiscal year, the Ministry of Finance is contemplating earmarking around VEB3 trillion. This year, VEB3.6 trillion was allotted to cover this debt which has been cancelled as the National Treasury certifies the release of extra funds which guarantees the presentation of extraordinary operations. Estimates carried out last year by the Ministry of Finance put the total amount owed at around VEB16 trillion of which around VEB9 trillion were due to central administration workers.

**CADIVI announced new export procedures.** CADIVI announced that from November 23 until December 31, 2007, exporters registered in the Foreign Currency Administration System User Registry will be exempt from presenting the Export Intention form as a requirement to have their merchandise processed by Customs; rather they must now present the Temporary Export Intention form which is found on CADIVI's web-page.

**International Reserves.** According to the latest BCV figures, total international reserves are at US\$32.11 billion, up 3.7% with respect to the previous week.

**Interest rates.** The average lending interest rate of the six main banks was at 19.93% during the week of November 23, 2007, down 0.32 percentage points with respect to the previous week, while average interest rates for 90 day term deposits was at 11.2%, down 0.52 percentage points compared to last week.

**Monetary liquidity increases.** During the week of November 23, 2007, monetary liquidity was up 1.4% compared to the previous week, settling at VEB146 trillion.

## OIL TIPS

**Venezuelan barrel of oil went down US\$1.6 during the week to close at US\$85.9.** Worries about the economy slowing down affected crude oil prices, leading the Venezuelan basket to close the week down US\$1.55. According to the Ministry of Energy and Petroleum, the barrel was at US\$85.85 and the average for the month of November was at US\$86.01.

**Repsol business in Venezuela under scrutiny by MENPET.** The Minister of Energy and Petroleum, Rafael Ramírez, referred to President Chávez's threat aimed at Spanish companies in the country, confirming that the Spanish-Argentinean oil company Repsol

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YPF's business is being closely reviewed. "In Spain's case, it's a problem because we had plans to jointly develop an area of the Orinoco Oil Belt. Now, it depends on the President's (Chávez) decision. If the President says we have to stop, we stop."

**Another sale.** After having broken off the partnership that CITGO had with Lyondell Chemical in Texas and discontinuing Citgo Asphalt's operations by selling the Paulsboro and Savannah refineries in the United States, PDVSA has now put on sale the Borco terminal in the Bahamas. PDVSA is currently in the phase of evaluation of the proposals.

**Shipments to the U.S. drop.** Venezuelan hydrocarbon shipments to the U.S. dropped in September due to lesser quantities of by-products being shipped, informed the Energy Information Administration, the statistics branch of the U.S. Department of Energy. As has been the case all year long, placement of Venezuelan oil by-products in the U.S. dropped in September going from 192 thousand to 179 thousand b/d, down 6.7%. The average for the year is down 22.2% with regard to products shipped. The average between January and September 2006 was at 296 thousand b/d, while for the same period in 2007, shipments were at 230 thousand b/d. On the other hand, sales of oil by-products increased slightly by 0.7% going from 1.13 to 1.14 million b/d between August and September, thereby maintaining Venezuela's status of fourth largest supplier of crude oil to the U.S., after Canada, Saudi Arabia, and Mexico, which on average place more than 1.2 million b/d to the U.S..

**Oil production going up.** National crude oil production increased again in the month of October, up 30 thousand barrels a day to average 2.41 million b/d, informed the International Energy Agency (IEA). Most of the increase was due to increased pumping by the mixed companies from the Orinoco Oil Belt, which went from 500 thousand to 520 thousand b/d. Last month's sustained production was at 2.60 million b/d, which means that there is the almost immediate capability of increasing extraction by 190 thousand b/d. The IEA estimates that by the end of the year, production capacity will be at 2.62 million b/d, and that it will drop back down to 2.6 million b/d in 2008.

**U.S. says OPEC needs to pump more crude oil.** Despite the recent drop in prices, the OPEC needs to pump more oil in order to help increase crude oil inventories, said the U.S. Secretary of Energy. Industrialized nations' crude oil inventories are "a bit below" normal averages and an agreement to increase production by the OPEC would help return them to their normal levels.

**Sharp drop in crude oil prices and fears of recession mark OPEC's 146<sup>th</sup> Conference.** The fear of an eventual U.S. recession and the sharp drop in crude oil prices from around the US\$100 per barrel mark were the main topics being discussed concerning whether to eventually increase the OPEC oil supply, this week in Abu Dhabi.

## BUSINESS SECTOR TIPS

**Venezuela among the worst to invest in.** Venezuela, along with Bolivia, is one of the least attractive countries for Spanish investment, according to the results of a number of surveys carried out by Spain's mayor investors. These results can be seen in the Spain's Investment Abroad Value Index, made by *Iberglobal y Club de Exportadores e Inversores* based on a series of surveys given to Spanish businessmen between June and July, which gave Venezuela an average rating of 4.12 points out of a 10 point scale.

**Colombia considers Plan B.** After of a week of microphone diplomacy, including relations being frozen by President Chávez, Colombian Government authorities have begun to hold meetings with industry and commerce sector representatives in order to initiate a plan B concerning export activities. These meetings were held before the Venezuelan Government recalled their ambassador in Colombia, Pavel Rondón, for talks.

**Venezuela would suffer the most because of problems with Colombia.** The Venezuelan Exporters Association (AVEX) pointed out that Venezuela would suffer the most if trade between the two countries was in any way compromised or broken off, especially with regard to sugar, milk, eggs, and chicken.

**Brazil supports Venezuela's inclusion to MERCOSUR.** The Brazilian Foreign Minister, Celso Amorim, stated in Sao Paulo that Venezuela's inclusion to Mercosur "consolidates an economic closeness that already exists" and dismissed the issue of its neighboring country breaching the "democratic clause." Venezuela's adhesion to Mercosur must be ratified by the Congress of Argentina, Brazil, Paraguay, and Uruguay, but in Brazil's case, there is a split among legislators, because some question the neighboring country's democratic situation.

**Warn that CADIVI delays may cause more shortages.** Industrialists and merchants warn that for the first quarter of next year shortages of certain products and spare parts could get worse due to the fact that problems still persist with being able to get the necessary foreign currency in order to purchase items, raw materials, or goods necessary to cover demand. "CADIVI's web-page has been down, without access, for a number of weeks, and this has caused delays of up to 160 to 180 days for imports," informed the president of Conindustria, Eduardo Gómez Sigala.

**420 tons of milk arrives from Brazil.** Since last Sunday, 420 tons of milk from Brazil has arrived and are in the process of being nationalized in the customs area at Maiquetía,

according to official sources. In total, seven loads, 60 tons each, have been unloaded and will be distributed mainly through the Mercal chain. It's estimated that in the next few days, more tons of milk will continue to arrive from Brazil and Argentina. This merchandise is being imported by PDVSA Agrícola.

**Price adjustment for dairy products.** In an effort to put an end to the shortages of raw and pasteurized milk production, the Administration is contemplating adjusting their prices, according to sources within the production sector. Both prices will be adjusted by around 50%. The Government expects to increase the at-the-corral price of milk to between VEB1,500 and VEB1,800 compared to the current fixed price of VEB1,100.

**Meat from Nicaragua.** Minister of Agriculture and Lands, Elías Jaua, informed that plans are set to import around 5,000 head of cattle from Nicaragua, of which the first 1,000 will arrive by next January. The cattle will be distributed in the Venezuelan *llanos* for the purpose of strengthening the National Livestock Plan.

**CEMEX sees the U.S. market difficult.** CEMEX expects that for this year and the beginning of next year there will be a drop in the volume of sales in the United States due to the housing real estate crisis. However, the company expects to overcome this situation by the second or third quarter of 2008, when it expects the U.S. construction sector to recuperate.

**Another one that's leaving.** Phillips, the electrical appliance manufacturer, has decided to leave Venezuela and will locate its new plant in the tax free zone of Fontibón, Colombia, where it will begin operations by next January. This decision was made due to the numerous difficulties it has had with the exchange requirements that are currently in effect in Venezuela, which has also complicated raw material imports.

**Colombian airlines having difficulties opening new routes to Venezuela.** Colombian aeronautical authority, Fernando Sanclemente, has reported that Venezuela has put obstacles in the way of Colombian airlines opening up new flights to Caracas.

**Increased spectrum for Movilnet and Movistar.** CONATEL formally turned over the new portion of the 30 MHz spectrum space to the cell phone companies Movistar and Movilnet, which is expected to significantly improve service.

**Insurance with public policies account for 28% of all premiums.** The greatest demand for insurance policies by the public sector as well as for automobiles coincide with insurance sector results, which sales at the close of September increased by 55%. According to the Superintendent of Insurance Office, premiums during the ninth month of

the year totaled VEB10.7 trillion, compared to the VEB6.9 trillion tolled during the same period in 2006.

**High level of property invasions.** According to the Urban Real Estate Owners' Association (APIUR) records, currently there are 8,000 properties that are being occupied (invaded) in all of Venezuela, of which 153 are in Caracas. The APIUR warns that due to this situation, private property is everyday more threatened given that the authorities and the Attorney General's Office aren't taking any concrete steps to return these properties to their rightful owners. Another observation made by the APIUR concerns the 160 buildings expropriated by the Greater Caracas Mayor's Office, and the fact that the owners of these properties have yet to receive any compensation. According to this organization's figures, only 2% of the building owners have received any compensation.

## Political Tips

**Chávez recognizes that the country wasn't ready.** "We still aren't ready for Socialism" is the first conclusion that President Hugo Chávez reached after his defeat at the ballot box with regard to the constitutional reform that he introduced last August 15<sup>th</sup> in order to develop a socialist model for the country. Even though he was sure a year ago that the seven million people that reelected him were with socialism, today he says "we still aren't politically mature enough." Another comment made by the President a few hours after the results were in was that "I could have made a mistake concerning the strategic moment to make the proposal."

**Observers criticize the delay.** The observation association *Ojo Electoral* presented its preliminary report concerning the reform referendum that was held on Sunday yesterday. Its results were almost identical to those presented by the CNE. They also mentioned that they believed that the CNE "delayed reporting its first bulletin without justification, keeping the population in an unnecessary state of anguish."

**Chávez to travel.** Venezuelan President Hugo Chávez confirmed on Tuesday that he would travel to Cristina Kirchner's inauguration on December 10<sup>th</sup> in Buenos Aires, and that he would also attend Mercosur semester meeting on 17<sup>th</sup> and 18<sup>th</sup> of the month in Montevideo, according to an official press release. It's expected that in honor of Cristina Kirchner taking office the foundation of the Banco del Sur will be signed in Buenos Aires, and attended by Brazil, Argentina, Ecuador, Bolivia, Paraguay, Uruguay, and Venezuela.

## Other Tips

**Time Zone change decree published in *Gaceta Oficial*.** The time zone change has been published in the *Gaceta Oficial*. The decree, dated November 27<sup>th</sup> includes other changes having to do with measurement within the national territory. Although there is no mention of when it will enter into effect, the Minister of Science and Technology had declared that the measure would be initiated on this coming Sunday, December 9<sup>th</sup> at 3 am.

**Dropped in human development rating.** Venezuela dropped two places in the 2007 Human Development Index compared to last year 74<sup>th</sup> place with regard to the measurements taken by UN Development Program among countries considered to be intermediate human development countries. Last year, Venezuela came in 72<sup>nd</sup> place out of 177 countries evaluated by the UN Development Program regarding life expectancy, educational achievement, access to healthcare, poverty, and other human well-being indicators.

**Unlike Venezuela.** Brazil registered in October direct foreign investments for US\$3.18 billion, which helps accumulate a record figure so far this year of US\$31.20 billion according to figures released by that country's Central Bank. This figure represents an increase of 128% compared to the same period in 2006, when direct investments totaled US\$13.60 billion. 2006 closed with foreign investments at US\$18.78 billion.

**Ecuador's armada took control of all PETROECUADOR subsidiaries.** Ecuador's army took control of all state-run PETROECUADOR's subsidiaries on Tuesday, with the appointment of three navy captains to the vice-presidency of the three companies that make up the group that is headed since last week by Fernando Zurita, who is also a navy captain. The decision to name navy officers as directors of the oil companies was made after the state-run company's oil production dropped to 36,000 b/d last week, settling last Thursday at a total of 139,375 b/d compared to the more than 175,000 b/d it had been producing.

# Weekly Report

## ECONOMIC OVERVIEW

