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**2008 POLITICAL  
SCENARIOS: "FOR NOW"**

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Since the end of last week, the Government has started a new campaign based on the phrase the President used during the 1992 coup "For Now...." In *Ecoanalítica's* opinion it is quite clear that the subject of constitutional reform is far from over and didn't end with the latest referendum vote. As we stated last week, we believe the President will continue with his constitutional reform agenda, until he at least gets a third presidential term. Working under this premise, we believe the following three scenarios are worth discussing: 1) The Special Powers Law, 2) A new constitutional reform introduced by the people, and 3) a Constituent Assembly. These three scenarios don't mutually exclude each other. All three measures are actionable by the President of the Republic through the Council of Ministers, and the following scenarios that we will describe are all under the President's power of decision. On the other hand, the opposition has the opportunity to gain some ground through the National Assembly representative recall referendums from August 2008.

## Chávez the All-Powerful...The era of “Democratic dictatorship”

In January 2007, the National Assembly granted the President Special Powers to legislate in 11 action fields for a period of 18 months, in other words, until the beginning of August 2008. According to legal experts, a Special Powers Law is supposed to give a President special powers in very specific areas for very brief periods of time and in times of emergency. Of course, this analysis doesn't apply to the Special Powers Law that is currently in place in the country today. The action fields specified by the current Special Powers Law are so general that the President could legislate more than 85% of his constitutional reform. For example, within the scope of the Special Powers Law is the possibility to reform the Organic Law of Territorial Order, with which one could create the new territorial structures described in the reform proposal.

At *Ecoanalítica*, we have no doubt that the President could use the Special Powers Law to change a significant part of the current legislation in order to push through a good part of the constitutional reforms that were proposed, but within the 15% that he can't push through by Special Powers Law is what the President most wants: indefinite reelection. In other words, no matter what the President decides to approve by using the Special Powers Law, we are sure that in the short term he will initiate action on one of these two scenarios which will lead to a constitutional reform.

## Constitutional reform supposedly introduced by the “people's initiative”

One of the paths that the President might choose to follow in order to extend his time in office and remain in power is to write and approve a “light” version of the constitutional reform. The reform could be introduced by the National Assembly through a majority vote of its members, the President or the president of the Council of Ministers; or “by a number of no less than 15% of registered voters which request the reform”.<sup>1</sup> At *Ecoanalítica*, it's not totally clear whether the recently rejected constitutional reform proposal was introduced by the President or by the National Assembly or both. However, in order to reduce the political risk of its approval, we have no doubt that the route they'll take is to collect signatures. 15% of registered voters represent 2.4 million people. Given the Presidents popularity and that the signatures would be public and auditable the Government would have no trouble collecting them.

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<sup>1</sup> Article 343 of the current Constitution.

## **The new reform could be approved in 2008**

In order to reduce the risk of its approval, the President could write a less radical reform proposal. For example, he could keep presidential term limits at 6 years and limit reelection to 3 or 4 terms. He could be less ambiguous about private property, and so on. Another thing is that the Administration could make sure that the referendum to approve this new reform (which is necessary in this scenario) coincides with the regional election, thereby guaranteeing greater support from mayors and governors to help approve it. The President's popularity would have to dramatically drop in order for him not to win a reform approval in this scenario.

## **Constituent Assembly**

The third scenario is the Constituent Assembly. We would like to point out that this scenario is in the hands of the President, since if the opposition decides to collect signatures, the only thing the President has to do is to get together with the Council of Ministers and make the initiative his. In this scenario, the proponent is the one who decides how the constituents will exercise the vote. And, the Constitution doesn't establish that the new Constitution has to be submitted to a referendum.

In *Ecoanalítica's* opinion, this is the scenario that generates the most uncertainty for the country's economy. If the President is the proponent, he will probably ask that the vote be totally uninominal, so that the greatest minority has a strong representation in the Constituent Assembly. Remember that for the 1999 Constituent, Chávez, through his "kinos" (ballot lists), controlled more than 97% of the assembly. The second worrying fact is that the most prudent thing to do is to submit the new Constitution to be approved, or not, by the public, this step is not established as being a necessary step in the current Constitution, and it would be up to the Constituent Assembly to decide whether to submit the new Constitution to a referendum for approval or not. In other words, if the Government won the Constituent election with a clear majority, the Constitution to come out of it could be even more radical than the recent proposal that was rejected and Venezuelans wouldn't necessarily get the chance to even vote on it. We hope that we are wrong, however we think that in the short term, the President could begin to take action down this path.

## **Recall Referendum for National Assembly representatives**

Among the actions that the opposition could take in the middle of these scenarios that have been described here is the Recall Referendum for National Assembly representatives. Remember that these

representatives were elected in the middle of a huge abstention, so the recall action of many of them could be a relatively simple exercise. For example, in the Capital circuit of Baruta, El Hatillo, Chacao where more than 320,000 voted, representative Gabriela Ramirez was elected with less than 20,000 votes, or 6.25% of the voters. The opposition could win some relative victories, because in the case of a recall vote of an Assembly representative, it's the alternate that occupies the vacant seat. It's necessary that the opposition choose a few emblematic figures from the National Assembly or simply ask for the recall of all its members. Starting in August 2008, the opposition could start the signature collection process to initiate this course of action.

## The Government's radical agenda is not popular

Lastly, we'd like to point out that what we wrote in our January 31<sup>st</sup>, 2007 report, and was proven on December 2<sup>nd</sup>: "the only thing that could guarantee that this radicalization process be stopped is that it begin to erode away at the President's source of power: his popularity." All the surveys indicate that the President's radical agenda is not popular. Every time the President has tried to become more radical, it's been the drop in his popularity that has stopped the advance of the radical agenda. In this latest opportunity, even though it was by the slightest of margins, the Venezuelan people said NO "for now." For the good of our country, and the growth of our economy, let's hope that this "for now" becomes "forever." Meanwhile, 2008 promises to be another year of political confrontation, just like the last 9 years have been.

## Economic Tips

**Treasury payments are at VEB102 trillion.** Figures from the National Treasury Office indicate that Treasury payments carried out up until the month of November reached VEB102 trillion. 25% of the resources used were for paying wages and salaries.

**FONDEN budget published.** The 2008 National Development Fund Budget (FONDEN) was published in the Gaceta Oficial N° 38.824. The budget was set at VEB28.80 billion. It's important to point out that this budget does not include the contributions that the BCV and PDVSA will make during 2008.

**Consumption of USdollars increases by 282%.** The level of Venezuelan consumer activity abroad between January and November of this year increased by 282% compared to the same period last year when Venezuelan consumer spending abroad reached US\$1.10 billion. Just credit card purchases made abroad or through the internet reached US\$4.0 billion, while tourists that decide to travel to other countries requested US\$183 million in cash advances during the year.

**Cadivi suspended 5,000 users from future access to official foreign currency.** The Foreign Currency Administration Commission (Cadivi) continues with its process to investigate credit card holders who have used their credit cards outside the country. It is planning to summon another 31,000 users in the coming days. A few weeks ago, CADIVI summoned around 7,000 persons, of which 5,000 were suspended from the foreign currency administration system.

**Possible modification to the Exchange Crime Law.** The National Assembly (AN) Plenary session plans to submit the reform of the Exchange Crime Law for its second discussion that looks to curb the trafficking with parallel market USdollars. National Assembly representative, Hiroshima Bravo, president of the AN Tax Administration Sub-commission, stated that one of the new things included in this reform is that it will be prohibited to divulge written, audiovisual or information on web-pages on the internet concerning the non-official or parallel USdollar information. *“Who ever does not follow this directive will receive a fine of 1,000 tax units (VEB37.6 million) and if fined a second time 3,000 tax units (VEB112.8 million).”*

**Banco del Sur established.** The new multilateral financial development organism was formally established last December 9<sup>th</sup>. Initially formed by 7 member countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela), the Banco del Sur was created without statutes or clearly defined initial capital.

**Growth surpasses expectations.** Economic growth in Latin America and the Caribbean in 2007 was 5% greater than initially expected by the CEPAL, while unemployment also dropped more than expected. These tendencies were announced by the secretary general of the CEPAL, José Luis Machinea. He continued to say that in 2008 economic growth would continue at a “reasonable pace,” without going into details. 2007 is the fifth year in a row of growth and the fourth that posts a growth rate over 4%.

**Request before the TSJ that the BCV maintain clear accounts.** The president of the Banco Venezolano de Crédito, Oscar García Mendoza; and economists José Guerra, Jesús Rojas, and Orlando Ochoa, introduced a stay before the Supreme Justice Tribunal

## Weekly Report

(TSJ) by which they request that the Central Bank of Venezuela (BCV) report what amount of the international reserves has been turned over to the Government.

**Financial entities ready for the monetary conversion.** The Superintendent of Banks, Trino Alcides Díaz, announced that only one or two banks are having problems with their monetary conversion process (eliminating three zeros from the present local currency). The rest of the banking system, made up of 59 financial institutions, are not registering any problems with the monetary conversion process and are ready to meet the established deadline of January 1, 2008. This means that 97% of the financial institutes are on track to change over to the other monetary system.

**Cost of basic basket is at VEB2.26 million.** Food and basic service costs increase by 2.7% in the month of November compared to the previous month according to Workers' Center for Documentation and Analysis (CENDA). The basic basket price is at VEB2,259,507 and so far this year has increased by 18.04%. The clothing and footwear sector have increased the most (7.6%), followed by the cost of health (5.5%). Basic public services are also up 4.6%, and according to CENDA calculations, basic food items are up 2.6%.

**International reserves.** In the first week of December, the international reserves were at US\$32.50 billion, up 1.2% compared to the previous week. In 2007 so far, total reserve levels have dropped by 13%.

**Interest rates.** During the month of November, the average lending interest rate for the six banks in the country was at 19.91%, reaching its highest level since October 2003. On the other hand, interest rates corresponding to term deposits and savings closed the month at 11.58% and 8.00%, respectively.

**Monetary liquidity.** The amount of money circulating and in savings and term deposits was at 145.8 trillion this week, down 0.18 percentage points compared to last week. Monetary liquidity has increased by 23% since the first week of January.

## OIL TIPS

**Oil price dropping.** In just one week, the Venezuelan oil and oil by-products basket lost 4.9% of its value dropping US\$4.27, and going from US\$85.85 to US\$81.58 per barrel.

## Weekly Report

It's the second week in a row that it registers a drop for a total of -US\$5.82 per barrel or 6.65% since November 26.

**OPEC won't increase production.** At the 146<sup>th</sup> OPEC meeting, Mohamed bin Dhaen al Hamli, President of the Conference, pointed out that worldwide inventories of crude oil are above the last five year average. Therefore, the OPEC does not expect to increase its production, at least not until February 2008 which is the date set for its next meeting.

**Mixed company between Venezuela and Belarus will extract 18 thousand b/d.** The Minister of Energy and Petroleum and president of PDVSA, Rafael Ramírez, announced that drilling had begun on the third well at Junín I block in the Orinoco Oil Belt, which is part of the activities being carried out by the mixed company between the state run oil company of Venezuela and Belorusneft for the quantification and certification of crude oil reserves. According to Ramírez, the exploratory campaign of this bi-national company expects to drill nine new wells by which it will be able to certify the reserves tested to be around 500 million barrels of crude oil.

**CVP mixed company conversion pacts signed.** The Corporación Venezolana del Petróleo, a subsidiary of PDVSA, finalized the legal process in constituting the mixed companies of Petropiar and Petrocedeño, former Orinoco Oil Belt strategic associations, and Petrosucre and Petroparia, former shared risk exploration agreements. Specifically, the conversion agreements were signed which secured the participation the partners: CVP with a 70% interest in Petropiar (Ameriven) and U.S. Chevron with the other 30%. With regard to Petrocedeño (Sincor), CVP has a 60% interest in the company and the French company Total has 30.32% and the Norwegian company Statoil has 9.67%.

**Venezuela and Cuba move forward with refinery.** Cuba and Venezuela will inaugurate the Cienfuegos oil refinery after December 20<sup>th</sup> and they are already at work expanding the facility, as part of the second stage. Havana and Caracas created a mixed company in 2005 to modernize and expand the Camilo Cienfuegos refinery in two stages. The project has a cost of US\$136 million and will be able to process 65,000 barrels daily.

**Agreements with Iran.** Venezuela and Iran are planning to form a global alliance worth US\$1.0 billion to develop joint projects. The company, with 50% investment participation by each country, will be called Venezuelan Iranian Oil & Gas Co. and will have its headquarters in Europe. Different from other such alliances, this company will focus on operations outside of both of its national boundaries. It's expected that by the end of the year, the company will be registered in the Virgin Islands, which would make it immune to any sanctions levied at Iran.

## BUSINESS SECTOR TIPS

**449,549 vehicles sold between January and November.** According to CAVENEZ's latest report, between January and November 2007, a total of 449,549 new automobiles were sold in the country, up 45.6% compared to the same period in 2006 when 308,670 units were sold. It's important to note imported car sales which were up 87.7%, while the sale of cars assembled domestically dropped by 1.3%. This is the first negative figure reported by the industry related to sales so far this year. Venezuela Móvil sales only represent 17.6% of the market.

**Housing construction not meeting 2007 goals.** Even though investment in housing construction has increased over the last three years, this hasn't accelerated the construction process any and consequently the number of finished units are far from the established goals. During the first semester of this year the Ministry of Housing and Habitat announced that during this fiscal year more than 80,000 housing units would be ready to be occupied, however, by the close of the third quarter, 45% of this goal has been completed, which means that the government entities responsible for meeting this goal have completed, in a period of nine months, 36,680 houses.

**Housing program along with Belarus.** Within the framework of the oil agreements reached with Belarus, a mixed company was created that will construct houses and infrastructure and will report to the Ministry of Infrastructure. In the resolution published in the Gaceta Oficial it announces that with regard to the mixed company's social capital the Ministry of Housing will have a 26% share of participation, the Ministry of Infrastructure will have a 25% share, and the Belzarubezhstroj society will receive a 49% share of the stock.

**US\$150 million in financing for Andean countries.** The Chinese Development Bank (CDB) made its first deposit to the Andean Development Corporation (CAF) for US\$150 million. The loan is aimed at financing infrastructure and social development projects in Latin America, reported the CAF in a written statement.

**Sterilized milk is taken out of the price control group.** Long lasting milk has been taken out of the group of products that are in the price control system according to a joint resolution released by the Ministry of the People's Power for Light Industry and Commerce, the Ministry for Agriculture and Lands, and the Ministry of Food. The decision was published in the Gaceta Oficial 38.827

**Pasta industry will use wheat for bread.** Simón Nobile, president of the Edible Pasta Manufactures Association (Avepastas), announced that from December 15<sup>th</sup> they would begin to receive shipments of wheat for bread and use this mixed with durum wheat to make pasta. He explained that there is more wheat for bread on the market but that it doesn't have the same characteristics as durum wheat in terms of consistency and color. However, it is cheaper allowing the pasta industry to lower its production costs a bit.

**Toilet paper shortage is not due to production.** The president of the Venezuelan Pulp, Paper, and Carton Association (Apropaca), announced that the problem faced by certain private establishments concerning toilet paper shortages is mainly due to commercialization problems and not production. He dismissed the fact that the industry has problems obtaining raw material and assured that inventories are at between 30 to 45 days.

**The Government looking to place the blame.** The Minister of the People's Power for Food, General Rafael Oropeza, alerted the population to shortages in other consumer products due to the private sector not covering demand. "We have a protective wall set up to save the people from being drowned," he said. The General accused the private sector of not living up to the expectations and needs of the people and that the Venezuelan people didn't know what went on behind closed doors.

**Bootleggers on the attack.** Business Software Alliance (BSA), a company that specializes in legal issues and digital security made a study that came up with the significant figure of US\$ 8million as the value of all software offered online during the first semester this year. Manuel Rodríguez, a representative of BSA for Venezuela, assures that this is only a small part of the black market and that its growth makes the privacy of information very susceptible. Data Corporation announced that almost 50% of bootleg commercialized software is at risk of containing a virus.

**TVES with a budget.** Months after its creation, TVES has a budget. According to the gaceta oficial N° 38.787, it was assigned VEB157.00 billion of which VEB140.00 billion came from public sector donations. So the amount that came in due to "sale of services" (advertisement space?) is VEB17.00 billion. Company spending is expected to run at VEB158.30 billion, of which VEB122.90 billion is to go to "non-personal services." This is for the rent of location and equipment, basic services, transportation, professional services, among other things. Actual transmission time up until the end of December 2007 (since it began transmitting on May 14, 2007) will be 5,448 hours (227 days), and the cost of each hour of programming will be VEB29 million.

## Political Tips

**CNE reports final results.** The president of the CNE, Tibisay Lucena, released the second bulletin with the results from the referendum regarding the constitutional reform. She informed that with 94% of the ballots counted, that these results can be considered definite. Block A, the NO option received 50.65% of the vote while the YES option received 49.39% of the vote; in block B, the NO vote received 51.01% of the votes and the YES vote received 48.99% of the vote. This ratifies the NO vote's victory.

**Chávez denies.** Chávez held a press conference with the Military High Command in order to deny the accusations made by a number news papers and later picked up by CNN that insure that the military had to pressure Chávez in order for him to accept the results of the referendum because he was so furious with the results that he refused to accept the results.

**Bolivarian students announce signature drive.** The Federation of Bolivarian Students announced that they intend to begin a signature drive in order to introduce the reform of the Constitution and that there be another referendum next year. María Gabriela Pulido, national director of the Federation ratified their members unwavering support of President Hugo Chávez, and called out to the population to enact article 342 of the Constitution, which establishes that the Constitution can be introduced to be reformed by the Executive office of the Administration, the national Assembly, or the people by collecting 15% of voter signatures.

**Arrest warrant issued for Enrique Mendoza.** The 45<sup>th</sup> Control Tribunal of Caracas issued an arrest warrant for former governor of Miranda state, Enrique Mendoza, and his former Press director, the journalist Milagros Durán. The Attorney General's Office considers that Mendoza committed the crimes of civil rebellion, contrived against the functioning of entities of the Public Power, inciting to commit a crime, inciting to disobey the law and hate among citizens, conspiracy, and damages to public buildings. Journalist, Milagros Durán, charged with the same crimes but as a co-conspirator.

## Other Tips

**José Rojas appointed as director before the IMF.** The Government issued a decree appointing José Rojas Ramírez as executive director before this international entity as of

November 1<sup>st</sup>, according to what appears published in the Gaceta N° 38.216 dated December 6<sup>th</sup> of this year. Rojas Ramírez formerly occupied the office of Minister of Finance and vice-president of finance for PDVSA during President Chávez's current Administration.

**Bush announced Real Estate help plan.** The U.S. President announced a series of measures titled "Hope Now" designed to help people with real estate debt who were hard hit by the sub prime market crisis. Among the measures introduced are the freezing of interest rates for a period of 5 years, as well as the refinancing of existing loans to be converted to mortgage loans with fixed interest rates.

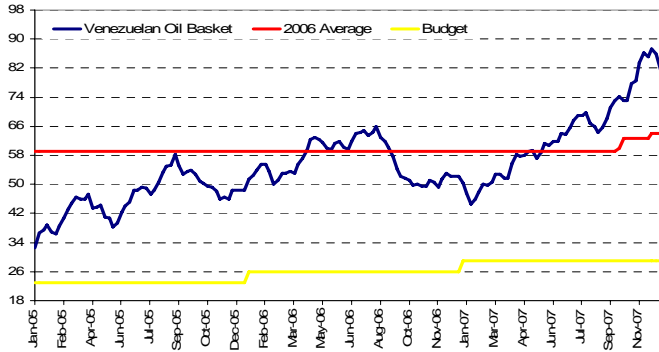
**BCV Zulia will begin to calculate regional GDP.** The regional headquarters of the BCV in Maracaibo will begin to calculate the regional GDP next year, an indicator that measures the level of growth of a number of economic activities that are a part of the states everyday life.

**U.S. Senate approves Free Trade Agreement with Peru.** On December 4<sup>th</sup>, the U.S. Senate approved the Bill to implement the Free Trade Agreement (FTA) between the U.S. and Peru, with 77 votes in favor and 18 votes against. On November 8<sup>th</sup>, the House of Representatives had approved the Bill with 285 votes in favor and 132 votes against. It's expected that President Bush will sign the Bill next week. The FTA will go into effect as soon as both countries finish the implementation process which is estimate last until the middle of next year.

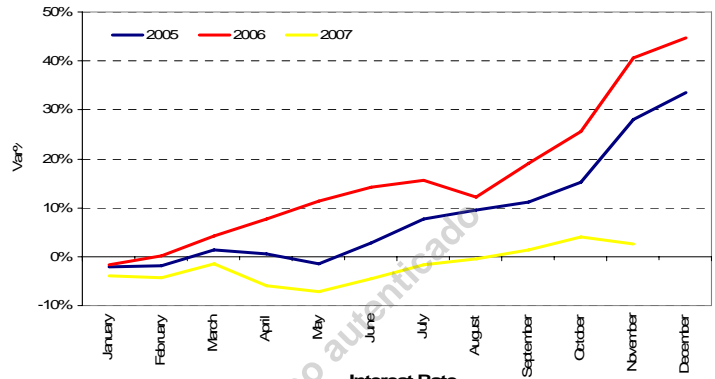
**The OECD presented its Economic Outlook.** Latin America will only be able to maintain its economic growth rate in the long term if it solves its social inequality problem by adequately redistributing income and a reform of its pension system. So said world experts in the areas of Latin American politics and finances at a round table held during the presentation of the 2008 Latin American Economic Outlook Report of the OECD.

## ECONOMIC OVERVIEW

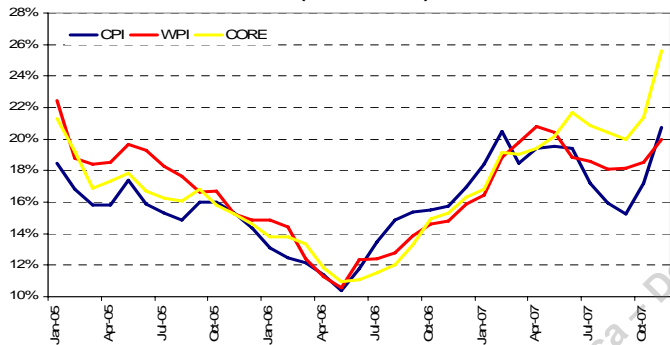
**Oil Price**  
(Venezuelan Basket US\$/pb)



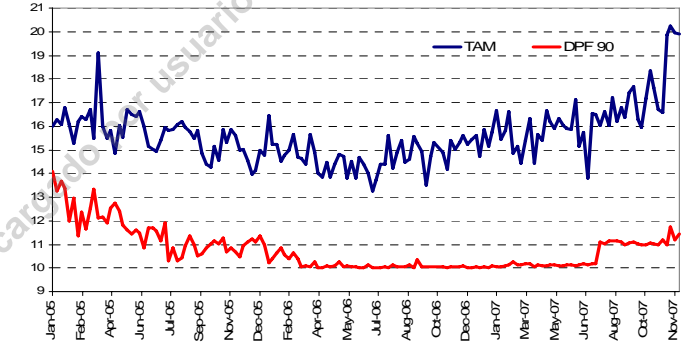
**Real Expansion (M2)**



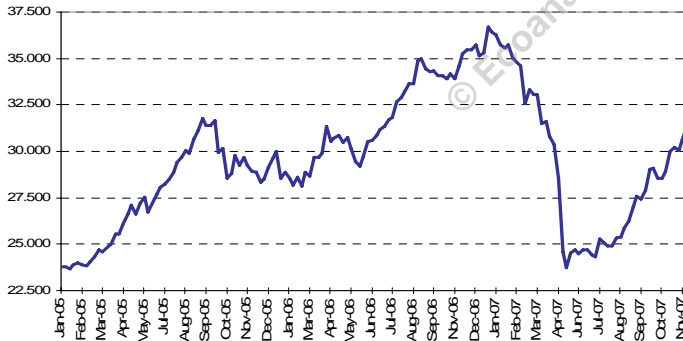
**Inflation**  
(Last 12 Months)



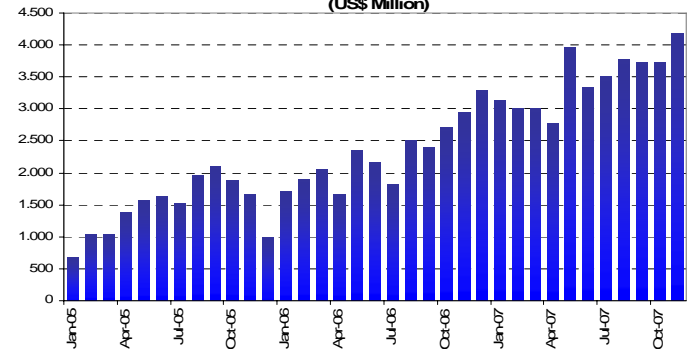
**Interest Rate**  
(Six Principal Banks)



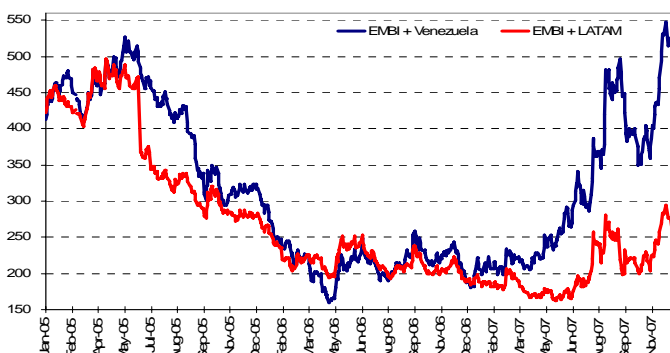
**Fx Reserves - BCV**  
(US\$ Million)



**Disbursement**  
(US\$ Million)



**EMBI**



**Central Government**  
(VEB Billion)

