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## **WHAT IS GOING ON WITH THE SENIAT?**

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Reported non-oil tax collection by the SENIAT registered a 22.4% drop in real terms during the first semester 2008 compared to the same period in 2007. Such is the case that during the last year non-oil taxes are not showing the same rhythm of growth as in previous years. This doesn't seem to be worrying the Administration which seems to be mesmerized and intoxicated by the high oil prices. But, a drop in non-oil tax collection put us in a much more vulnerable position from a long term fiscal policy sustainability point of view.

### **It's not just because of the Financial Transfer Tax**

According to the figures released by the SENIAT, during the first semester of the year, non-oil tax collection was at VEF 36.68 billion which represents a nominal drop of 0.2% compared to the first semester 2007, but a real shrinkage of 22.4% for the same period. What stands out the most is 51.1% drop in Income tax collection. The main reason for this is due to the migration to mixed companies of the operation agreements and operators on the Orinoco Oil Belt. All the Income tax which was usually collected from these companies, most of them transnational

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companies, is not being collected by the SENIAT now, but is going directly to PDVSA.

<b>NATIONAL TAX COLLECTION</b>				
<b>(VEF Millions)</b>				
<b>JUNE</b>				
	<b>2008</b>	<b>2007</b>	<b>Var %</b>	<b>Real Var %</b>
<b>TOTAL</b>	5.148	6.584	-21,8%	-23,6%
<b>Income TAX</b>	1.394	3.137	-55,6%	-56,6%
<b>Tax</b>	2.586	1.775	45,7%	42,4%
<b>Customs</b>	652	1.494	-56,4%	-57,4%
<b>Others Incomes</b>	517	178	190,5%	184,0%
<b>JANUARY- JUNE</b>				
	<b>2008</b>	<b>2007</b>	<b>Var %</b>	<b>Real Var %</b>
<b>TOTAL</b>	36.684	36.755	-0,2%	-22,4%
<b>Income TAX</b>	11.418	18.141	-37,1%	-51,1%
<b>Tax</b>	7.905	9.508	-16,9%	-35,4%
<b>Customs</b>	6.929	8.280	-16,3%	-34,9%
<b>Others Incomes</b>	2.232	826	170,2%	110,0%
<b>ITF</b>	5.614	-	-	-

Sources: SENIAT and Ecoanalítica

This change directly affects the goals set by the SENIAT in terms of Income Tax collection. According to **Ecoanalítica's** calculations, the SENIAT is no longer collecting US\$ 3.65 billion (VEF 7.85 billion) due to this change. It's important to point out that this doesn't affect Government revenues in the least, because all the tax revenue that the SENIAT is not collecting, PDVSA is collecting, and even though these revenues are managed at the discretion of the oil company and deposited in different funds, it all, one way or another, finds its way into the Government coffers.

### The cost of the fight against inflation

The figures released by the SENIAT also point out a 35.4% drop in VAT collection in real terms during the first semester 2008 compared to the same period in 2007. The VAT rate reduction that the Administration has been implementing in order to control inflation has influenced this. And, the elimination of the Financial Transaction Tax during the first part of the year has also played a part in the diminished amount of non-oil taxes collected. During the first semester, Financial Transaction Taxes collected

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during the first half of the year were at VEF 5.61 billion, and due to the elimination of this measure, by our calculations, the SENIAT will miss out on collecting during what's left of the year around VEF 8.32 billion.

In other words, just in Income Taxes and Financial Transaction Taxes, the SENIAT is missing out on collecting around VEF 16.18 billion (US\$ 7.52 billion), which is equivalent to 2.5 points of GDP. However, the only part of this which is not going into the Government's coffers, in other words real losses for the Administration, are the taxes not being taking in due to the elimination of the Financial Transaction Tax.

### **A miniscule effort**

The figures released by the SENIAT also reflect a 34.9% drop in real terms in what Customs took in during the first semester of 2008. This is just one more piece of evidence which shows that the growth in imports has been more moderate this year, spearheaded by a CADIVI which has been much more selective. The only segments which have increased during this semester, by 110% in real terms, are the other domestic taxes. This has to do with the increase in liquor and cigarette taxes. The bad thing is that the other taxes only represent 6.1% of the total taxes collected by the SENIAT.

### **For now, this doesn't translate to a cash flow problem**

Given the current situation with international oil market and that the National Budget was based on a significantly underestimated price per barrel of oil, the drop in revenues collected by the SENIAT doesn't present any real cash flow problem for the Administration. In fact, this drop has been provoked by direct measures implemented by the Government.

### **The SENIAT may be planning an offensive move for next year**

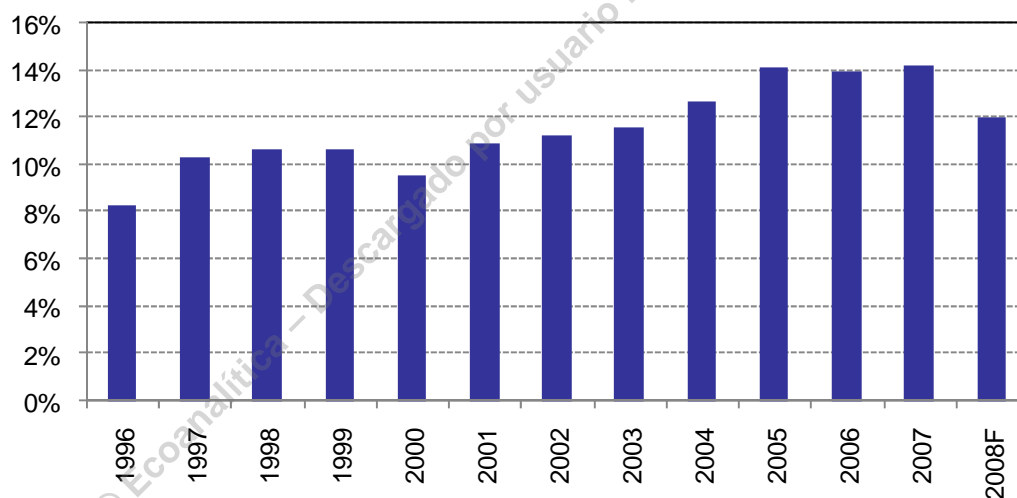
However, at **Ecoanalítica**, we have received information that the Ministry of Finance has begun to worry about these numbers and that they may be planning an offensive move for next year, a package of tax measures to increase the SENIAT's collection. Said measures would be focused on increasing the Income Tax, creating a personal asset, and maybe even Bank Debit Tax IDB. We feel that if there were any kind of coordination between PDVSA and the Ministry of Finance (SENIAT), there would be no reason for the Government to raise taxes in the middle of an oil bonanza, with prices well over US\$ 100 per barrel. Besides, the strategy to increase taxes for next year will come into conflict with the Government's aim to lower inflation.

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### A structural problem

Since the SENIAT was created in Venezuela in 1994, there's been a conscious effort to increase non-oil tax collection which has always been quite low, averaging just 7.8 points of GDP during the 90s. One of the positive points which can be attributed to Chávez' Administration is that it has been able to increase non-oil tax collection from 10.7 points of GDP in 1998 to 14.2 points in 2007. Of course, this admirable achievement has been overshadowed, and in fact neutralized, by the much more pronounced increase in public spending during the same period, which continues to make us totally dependent on oil revenues in order to sustain it. This leaves us pretty much where we've always been.

**Non Oil Collection (% GDP)**



Sources: SENIAT and Ecoanalítica

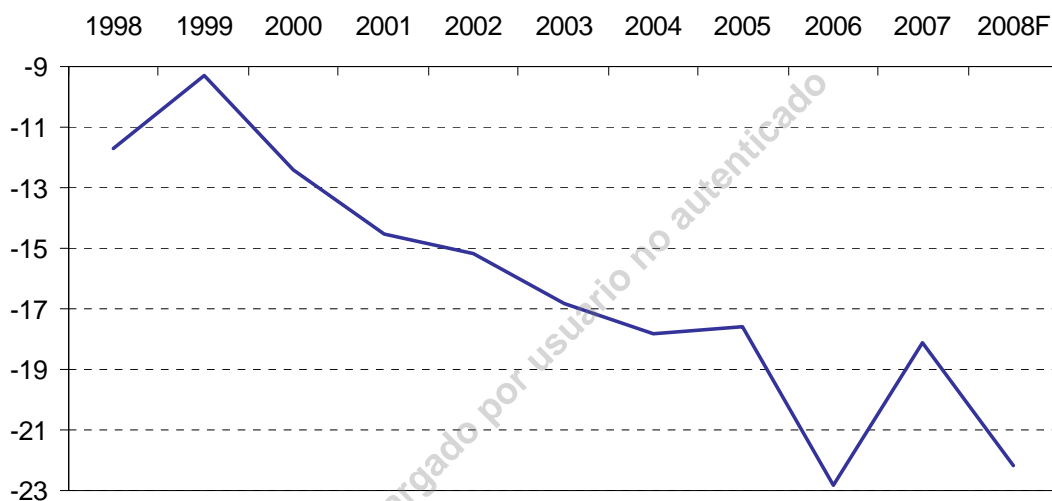
### The non-oil quasi-public spending deficit has more than doubled in 10 years

When we analyze the non-oil quasi-public spending deficit, the situation becomes much more alarming. This indicator measures the part of total public spending which has to be financed by oil and debt. In 1999, it was at 10.1 points of GDP, or approximately US\$ 8.40 billion, which represented 50.5% of total public spending. This year, the non-oil quasi-public spending deficit is expected to reach 22.2 points of GDP, or US\$ 65.98 billion. In other words, of this year's total public spending, oil will have to finance US\$ 65.98 billion which is equivalent to 78.7% of expected total public spending. So, it's clear to see that today's fiscal accounts are much more dependent on oil revenues than they were in

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1999. Furthermore, fiscal voracity is such that most of the surplus revenue produced by the historically high oil prices has already been spent, and the Administration has even managed to accrue more debt.

### Non-Oil Quasifiscal Deficit (% GDP)



Sources: BCV and Ecoanalítica

On a number of occasions we have pointed out the need for fiscal accounts to reduce their dependency on oil, and the unpredictable volatility of the international oil market. This is achieved by increasing non-oil tax collection and cutting back on fiscal spending. During the last few years the Government has made important strides towards increasing non-oil tax collection, but unfortunately, at the same time it has significantly increased public spending, so much so, that it has left the country in a much more vulnerable fiscal situation. In this context, with an Administration that is simply content to manage an ever expanding and inefficient Government, meddling in the domestic economy as well as other economies in the region, tax reform is clearly a bad idea since it won't have any real effects on the sustainability of fiscal policies.

### *Economic Tips*

**Chávez announced the nationalization of the Banco de Venezuela.** In spite of the fact that the financial Spanish group Santander demonstrated his change of seeming with regard to the sale of the Banco de Venezuela, the president informed that his government wanted to acquire it, because it is a bank with big earnings that ends in other countries, for what he proceeded to nationalize it. The intention of purchase this bank was not a secret for anybody by the owner of the BOD, Víctor Vargas, nevertheless, this acquisition was rejected by the Government, who proceeded to buy it directly.

**New extraordinary resources fund.** The Government created a new Fund called "ALAN", which will use 2007 surplus resources to finance new projects and a number of commitments. The Fund, which began to operate about a month ago, financing a number of supplemental appropriations approved by the National Assembly, will operate alongside other similar mechanisms like the Miranda Fund and the Simón Bolívar Fund, as well as FONDEN.

**Greater lack of transparency.** At *Ecoanalítica*, we believe that the creation of these types of Funds only serve to gather up all the out of budget resources that the Government has floating around and it also gets in the way of any possibility of truly monitoring and calculating public spending. On the other hand, these Funds also allow the Government to avoid turning over to the regions their part of the extraordinary oil resources for example.

**And more money for FONDEN.** During the President's Sunday television program, Hugo Chávez Frías pointed out that in almost three years, FONDEN has received around US\$ 37.70 billion in resources and that by the end of this fiscal year, the total amount it will have received will reach US\$ 50.0 billion. This leads us to believe that the President is expecting to transfer around US\$ 13.0 billion into the Fund during the second semester, transfers which will be carried out by PDVSA, since the BCV has already transferred the international reserve surplus which was at US\$ 1.50 billion.

**So much hype...** After making a number of preliminary announcements, the Minister of Finance announced that the Venezuelan debt buy-back "will be carried out at the appropriate time (...) nothing has been set yet." But, back when the Government began to announced this supposed buy-back, it had a very important impact on the market, which the Government used to its advantage to

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back the Venezuelan debt yield curve. This most recent announcement by the Ministry of finance is very negative, not only because it further damages the credibility of the Venezuelan Government in the international market, but that given the current oil bonanza, the buy-back was not only a positive move, but a necessary one.

**Against inflation.** The Minister of Economy and Finance, Alí Rodríguez Araque, announced that he is studying the way to apply policies and guidelines jointly with the BCV to control inflation. The first step will be to control prices, and then lower them to levels that, in the words of the Minister, won't affect the population and economic activity so much. The Minister explained that part of the plan would consist in developing the production of those component which most drive prices up, which implies introducing measures in the area of foods, restaurants, transportation, and medical services.

**Ministry of Finance to control sale of notes from banks.** The Ministry of Finance continues to look over the banks' plans to sell off their structured notes. Minister Rodríguez Araque announced that some banks have already gotten rid of all their notes and some are in the process of selling them and others still have them. He also announced that for those banks that have still not been able to get rid of their holding in structured notes that the Ministry is considering extending the deadline and ordering them to increase their capitalization levels. At **Ecoanalítica**, we have received information that some banks have already been granted an extended period to get rid of their structured notes authorized by the Ministry of Finance.

**Argentinean bond sale put on hold.** The Ministry of Finance initially offered the financial system US\$ 500 million to be sold in increments of US\$ 100 million weekly. Everything was all set and the bonds were being sold, but a few weeks later, the sales stopped. According to sources in the financing system, this was due to the banks beginning to sell structured notes. But, according to an article published in the newspaper *El Nacional*, the sale of Argentinean bonds resumed towards the end of last week.

**National Statistics Institute changes methodology.** According to Elías Eljuri, president of the National Statistics Institute (INE), the Institute is introducing changes to the methodology in calculating the informal sector of the economy. The change is expected to include all those people that work in companies that employ less than 5 employees that pay Income Tax and deduct Social Security as being part of the formal economy. Preliminary calculation made by the INE,

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suggest that with this change the informal sector of the economy would drop from 42.9% to 32.9%.

**The Ministry of Energy and Petroleum talks about inflation.** The Ministry of Energy and Petroleum, in its Semester Report on the National Economy, the Oil market, and International Geopolitics, when referring to inflation pointed out that “the January-June accumulated variation was at 15.1%. Even though the indicator for the month of June showed inflation slowing down, given what inflation has already jumped to during the first semester of the year, it’s not very probable that the Administration’s inflation goal for 2008 will be met (19.5%).”

**Interest Rates.** For the fourth week of July, the active interest rate of the six mayor banks of the country descended in 0.86 %, with regard to the previous week to be located in 23.20 %, equally the fixed deposits diminished in 0.02 %, to close the week in 17.18 %

**International reserves.** The international reserves in the fourth week of July have located in US\$34.809 Million, Increasing in US\$906 Million or in 2.60% with regard to the previous week, continuing this way his rising conduct that already has come experimenting in the last weeks of this year.

### Oil Tips

**Venezuelan oil basket down.** Last week, the Venezuelan crude oil and oil by-products basket dropped US\$ 9.00 per barrel, which equals a 7% drop in only 7 days, at settled at US\$ 117.50. According to the MENPET the steep drop was due to the unraveling of the U.S. economy and reports regarding a drop in U.S. fuel demand.

**But, the accumulated price is still at record levels.** Despite this most recent drop, the accumulated price for a barrel of Venezuelan crude oil so far for the month of July is going for US\$ 123.70 which is higher than the averages registered between January and June. The yearly average is at US\$ 102.60 per barrel, almost US\$ 38.00 (58.5%) over the 2007 price which was US\$ 64.70 per barrel.

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**Extraordinary revenues.** PDVSA is accumulating windfall revenue for around US\$ 30.65 billion, calculated based on an average export of 2.2 million b/d and don't include barrels sold by mixed companies working the Orinoco Oil Belt.

**Diving.** The WTI price continued to dive closing the week out at US\$ 123.20. A barrel of Brent oil, the reference price in Europe, dropped US\$ 2.30 and settled at US\$124.20.

**PETROCARIBE countries decide how to use.** The Ministers of Agriculture of the PETROCARIBE member countries will analyze how to allocate the US\$ 450 million that they will receive every year from Venezuela to help reactivate their production systems this week in Honduras. The members will decide where the funds that have been saved will be invested as part of the contract signed with the Government of President Hugo Chávez. The investment may be used to acquire fertilizer, support for research and the development of projects, among other things.

**Investments in refinery projects.** Representatives from the National Assembly approved that PETROCARIBE carry out at least 7 crude oil refining projects with a total investment of around US\$ 15.0 billion.

**PETROCARIBE, in Cuba.** It's expected that it will take an investment of around US\$ 3.60 billion until 2013 in order to expand the Camilo Cienfuegos refinery which is expected to process around 150,000 b/d. However, since it started to operate in January 2008 it has processed more than 5.5 million barrels of oil and its current capacity is at 72,000 b/d, which according to official figures is about 7,000 more than was planned.

**Cheap oil for Spain.** During President Chávez' last visit to Spain he agreed with his counterpart, José Luis Rodríguez Zapatero, to create a work group so that Venezuela could sell 10,000 b/d of oil to Spain at US\$ 100 in exchange for investments and technology.

**New fund.** The work group for the new agreement between Venezuela and Spain will be led by the Minister of Industry of Spain, Miguel Sebastián, and the Minister of Energy and Petroleum of Venezuela, Rafael Ramírez, and it will be focused on creating a fund where the funds for the oil purchases will be deposited in order to finance projects in Venezuela related to technology, medical equipment, and infrastructure. Spanish construction companies may also participate in the initiatives which are financed with this fund.

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**Projects underway.** The President of the Energy Commission of the National Assembly, Ángel Rodríguez, announced that three of the seven projects introduced within the framework of the PETROCARIBE agreement will be developed in Cuba, the other three in Jamaica, Nicaragua, and Haiti, and one is under study in Dominica.

**Investments in Jamaica.** In Jamaica, they are moving forward with their expansion of the Kingston Refinery which is supposed to be ready in 2008 and will require an investment of at least US\$ 706 million. On the other hand, in Nicaragua, construction is underway on the Supremo Sueño de Bolívar refinery with an investment of US\$ 4.42 billion and a processing capacity of 150,000 b/d.

**Others in Haiti.** In Haiti, construction is underway on a refinery which should be operational in 2011, with an investment of US\$ 340 million, which will focus on refining light and medium crude oil for domestic use. In Dominica, a project to build a refinery is being studied which will depend on a preliminary environmental impact study. The project will require an initial investment of US\$ 220 million.

**New phase.** The mixed company scheme that PDVSA has been promoting with transnational companies has a new stage with regard to the domestic private sector which has ties to the hydrocarbons sector. PDVSA is now looking to become a majority shareholding partner with some local companies or with companies it can create with Venezuelan capital.

**Moving forward.** According to unofficial sources, it's been confirmed that PDVSA is moving forward to acquire 60% shareholdings in Inelectra and also in Jantesa. However, both companies are being extremely closed lipped about saying anything to do with negotiations with PDVSA.

**Venezuela and Argentina divorce.** According to the Argentinean press, the plan between the Argentinean oil company Enarsa and PDVSA to build a joint network of 600 gasoline stations in Argentina due to a number of differences of opinion and management criteria, plus the low profit margin.

**Licenses with Barbados being reviewed.** The Minister of Energy and Petroleum, Rafael Ramírez, announced that the documents which deal with the sale of license to exploit off shore oil in Venezuelan waters by Barbados are in the hands of the Foreign Affairs Ministry. "We direct the communication to the appropriate channels, the Foreign Affairs Ministry is doing what they do, it's happened in the past when countries have, well, granted licenses in areas where

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they have no authority to do so, and talking, being in direct communication, things get sorted out into their proper place,” said the official.

**New assets.** PDVSA announced the purchase of Argentinean oil company Rhasa’s assets and a part of Sol Petróleo’s assets, a company in the hands of Uruguayan Ancap.

### *Business Sector Tips*

**The new CADIVI.** At the close of the first semester 2008, the adjustments made by CADIVI are quite evident. The president of the commission, Manuel Barroso, announced that while with regard to industry and the import of foods 83% more US-dollars were authorized compared to the first semester 2007, the automotive sector only received 8% more. According to Barroso, no sector has been denied the authorization of the US-dollars they require, what has been done is a re-distribution.

**Technology isn’t priority either.** According to the Ministry of Telecommunications and Information Technology and CADIVI, the TELECOM sector is expected to request almost US\$ 4.0 billion in 2008. This represents almost US\$ 2.0 billion more than the figure estimated by the Government for the year. The Ministry explained that for the first semester 2008, the sector requested more than US\$ 1.30 billion. Based on this figures, the sector is expected to request more than US\$ 1.99 billion for the second half of the year. If the Ministry of Light Industry doesn’t begin to streamline the authorization and delivery of No Production Certificates, it could lead to a deterioration of service.

**Plan to recover the industry will increase demand.** Conindustria board members say that with the recovery of the manufacturing industry it would participate more in the growth of the economy. According to figures released by the BCV, the deficit between the placement of products on the market and domestic demand is at 10.3% for 2007. This could be corrected if the industry sector were recovered. According to the National Statistics Institute, the sector has shrunk by 35% between 1998-2006.

**Successful tour.** President Hugo Chávez announced that his tour through a number of European and Asian countries was successful in the sense that it strengthened the National Plan for the Development of the Nation. According to

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the information released, a number of fruitful cooperation agreements were signed regarding agriculture, science, technology, infrastructure, and military equipment sales with Russia, Belarus, Portugal, and Spain.

**The BIV in the red.** The financial balance of the *Banco Industrial de Venezuela* (BIV) at the close of the first semester 2008 show the bank sustained losses for VEF 16 million. This translates to total losses for VEF 68 million during the last three semesters. The percentage of loans that are delinquent is at 16%, while the average for delinquent loans for the rest of the financial system is at 1.97%. The bank's level of capitalization is at 3.7% which is also below the national average of 10%.

**Slow Budget implementation for the construction of housing units.** The original budget was earmarked at VEF 2.7 billion for the construction of homes, but this amount was increased through supplementary appropriations to VEF 6.1 billion. At the close of the first semester 2008, only VEF 2.9 billion have been disbursed from the total budget, which account for 35% of the scheduled amount. Meanwhile, implementation of other agencies with high budgets surpassed 40%. It's clear that resource implementation will significantly increase over next months.

**Obstacles for the real estate sector.** A provision issued by the Minister of the Interior and Justice establishes that the payment of notary and registry services concerning purchase or sale of real estate properties must be made in State-owned banks exclusively. Representatives of the Venezuelan Real Estate Association have pointed out that this network of banks doesn't have the required infrastructure and that this measure will only lead to backlogs in the purchase/sale operations.

**Infrastructure boom?** A total of US\$ 566 million was authorized by President Chávez to finance and implement a number of infrastructure works in the country, intended to boost social development. US\$ 82 million was approved to complete the San Agustín cable car system; US\$ 226 million was authorized to complete the El Valle-La Rinconada stretch of Line No. 3 of the Caracas Subway; the amount approved to complete the Capuchinos-Plaza Venezuela stretch of Line No. 4 of the Caracas Subway was US\$ 74 million; and finally, to complete the works that are pending for 2008 concerning the Caracas-Guarenas-Guatire Subway system, which is expected to be finished in September 2012, US\$ 184 million was approved.

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**On urban transportation system.** According to a survey conducted by the Metropolitan Transportation Institute (INMETRA), 56% of the inhabitants of the Caracas Metropolitan Area use the public transportation system, 26% travel in privately owned vehicles and 18% go on foot. Public transportation is the means most used in the Libertador, Sucre and Chacao Municipalities, whereas private vehicles are the most used in Baruta and El Hatillo.

**Domestic flights increase.** Humberto Figuera, Executive President of the Venezuela Airlines Association (ALAV), stated that flight tickets sales for domestic flights increase 32% in the first semester 2008 in comparison to first semester of 2007. Tickets sold for international flights increased 17% in the same period.

**The government is promoting social property.** Chávez highlighted in his Sunday TV and Radio show that *“primary productive units have to be created; it is a must to develop the social property model instead of private property model and community property also has to be promoted.”* These new property models were rejected in the December 2<sup>nd</sup> referendum; however, the president maintains that the scheme will be applied.

**Community economy is producing corn.** The Minister for Community Economy, Pedro Morejón, informed that, thanks to the process launched to consolidate food sovereignty, eight corn processing plants will be opened, which, together with the two that are already operating, could process 10% of the national corn production.

**More funds for MERCAL.** The Ministry of Food will receive extraordinary resources up to VEF 1.7 billion to address the financial situation of the MERCAL network and to proceed to buy food products abroad.

**Pharmaceutical industry isn't operating properly.** The vice chairman of the Pharmaceutical Chamber pointed out that the industry is currently operating at 50% of its capacity, mainly due to the unfair competition resulting from massive drug imports by the government.

**Investment in the power sector.** Presidents of Corpoelec and EDC presented a schedule according to which Termozulia II Plant and the first stage of Josefa Camejo Plant will start operating during second semester of 2008, with a combined capacity of 700 MW. Investments planned for the national power sector amount to approximately US\$ 9.5 billion from 2008 to 2013.

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**Domestic cement demand grows.** According to figures published by the Venezuelan Cement Producer Association, cement exports have dropped by 93% between the first semester of 2007 and the first semester of 2008, because cement companies decided to earmark almost their entire production to meet domestic demand, which grew 8% over the same period.

**General Motors stops operations indefinitely.** General Motors informed off the record that production would be stopped for around six weeks as a result of the lack of inputs due to problems obtaining permits to import auto parts. Now, after 2 weeks with its production paralyzed, the company prefers not to say when its activities could resume, since they haven't received any answer from the government.

**Spare parts import nightmare.** Importing auto parts in Venezuela has become a nightmare for the National Chamber of Auto Parts Commerce (Canidra), because multiple government entities have imposed requirements to be met by the companies in this sector, but there is apparently no administrative coordination among them.

**SIVENSA profits increase.** SIVENSA informed that it sold US\$ 349 million during the first semester 2008, 44% more than in the same period in 2007. This allowed them to obtain operative profits of VEF 64 million, up 48% from a year before. This increase is due to the jump in prices of briquettes, steel and other products in general.

**CANTV signs collective contract.** The Minister for Labor, Roberto Hernández, and CANTV's president, Socorro Hernández, announced that the collective contract was signed with the workers of the telecommunication company. They also assured that great changes were made in order to achieve "*unprecedented improvements*" for workers. Socorro Hernández said that "*improvements never seen before*" were included in all clauses and she pointed out that the coverage of hospitalization, surgery and maternity insurance policies was increased from VEF 10,000 to VEF 30,000 and that Social Security, special services, bonuses and licenses, and pensions were improved as well as scholarships and school texts and supply delivery programs, among others.

### *Political Tips*

**33,000 for the world.** Norman Bailey, president of the Institute for Global Economic Growth, stated that the Venezuelan government has spent at least US\$33.0 billion in aid for other countries, such as bond purchased, contributions for elections in Latin America, financial support for irregular groups, among others; all of this intended to influence politics in other countries. We at **Ecoanalítica** believe that the exact amount of the “help” that Chávez has given abroad is difficult to estimate because there isn’t any reliable record of these disbursements. Furthermore, it’s a mistake to include investments in Argentinean bonds in this figure.

**The “morochas” have been backed.** Directors of the National Electoral Council (CNE) backed the electoral practice known as the “morochas” for the regional elections of next November 23<sup>rd</sup>. This practice consists of dissociating the nominal vote from the vote for a list for the 23 legislative assemblies, which leads to majority political parties obtaining votes that, according to the apportionment principle, could correspond to minority parties.

**PSUV still choosing.** With the nomination by the socialist battalions of candidates for local legislative councils and for metropolitan councilmen for the Partido Socialista Unido de Venezuela, the procedure for choosing the candidates that will take part in the November 23<sup>rd</sup> elections started. According to PSUV leadership, 60% of the candidates were selected by the grassroots; 20% will be chosen by the local political activity teams and 20% will be nominated by the party’s national direction as part of the negotiations with the Alianza Patriótica.

**100 Petrocasas were opened in Peru.** Families, victims of the last year’s earthquake in Peru, received Petrocasas donated by Chávez through the Ministry of Foreign Affairs and the state-owned Pequiven. The current housing crisis in Cuba is also being overcome with Venezuelan support, whereas housing situation in Venezuela looks quite critical.

**Fedecámaras demands respect for the Constitution.** During the Fedecámaras annual assembly, the Executive and the Legislative branches of government were requested to respect the Constitution of the Republic, which, in the opinion of Fedecámaras, “*has been violated by decrees, regulations, provisions and laws that put a gag on and frustrate regional development and free enterprise.*”

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**Venezuela-Colombia relations.** According to the Colombian Minister of Foreign Affairs, Jaime Bermúdez, Colombia must cross their fingers and bet on “transparency” with regard to President Chávez’ stance toward Bogota, in order to consolidate the re-establishment of bilateral relations. The Minister is waiting for a meeting with his Venezuelan counterpart, Nicolás Maduro, to resume the bilateral agenda.

**Leopoldo López will continue to run for the Caracas Mayor’s Office.** The opposition candidate Leopoldo López announced in a press conference that he will continue to run as a candidate for the Caracas Mayor’s Office. He added that on next August 5<sup>th</sup> he will go to the CNE to register his candidacy, as long as there isn’t any ruling by the TSJ concerning the decision made by the General Comptroller to declare some potential candidates as ineligible.

**Mercosur is discussing the matter of the Venezuelan candidates that were declared ineligible.** In a session of the Mercosur Parliament, Gustavo Penadés, representative of the opposition party “Partido Nacional de Uruguay”, rejected the decision of declaring a number of candidates for the next November elections in Venezuela as ineligible. Penadés will propose voting a declaration to express “their concern about any action that may undermine the consolidation of democracy in the region.”

### Other Tips

**Caracas goes down.** The ranking prepared by Mercer, consulting firm on Human Rights, ranked Caracas in 89<sup>th</sup> place among the cities with the highest cost of living in 2008. Last year, Caracas was in the 119<sup>th</sup> place. The report considers 143 cities throughout the five continents, with position 1 representing the most expensive city. Among the Latin American cities, the most expensive are Sao Paulo (25), Rio de Janeiro (31) and Bogota (87).

**It wasn’t admitted.** The Constitutional Chamber, with a draft award prepared by its president, Justice Luisa Estella Morales, declared as inadmissible the annulment request, filed last May 14<sup>th</sup> by attorneys Alejandro González and María Estela Zannella. This request was filed on the grounds of unconstitutionality against the 2007-2013 General Guidelines of the National Economic and Social Development Plan, which had been approved by the

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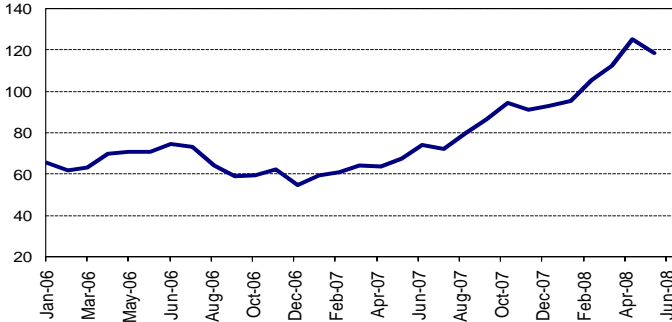
National Assembly on December 2007. Justice Pedro Rondón Haaz issued a dissenting vote.

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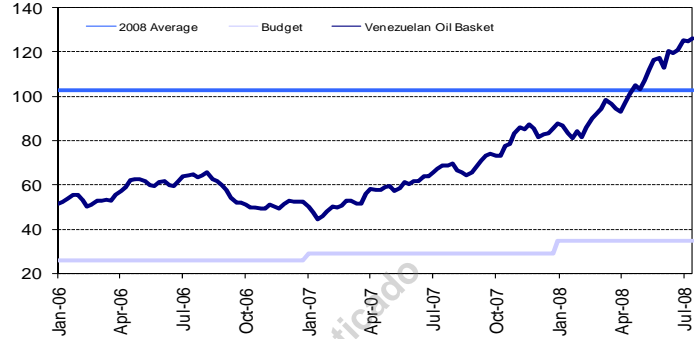
# Weekly Report

## ECONOMIC OVERVIEW

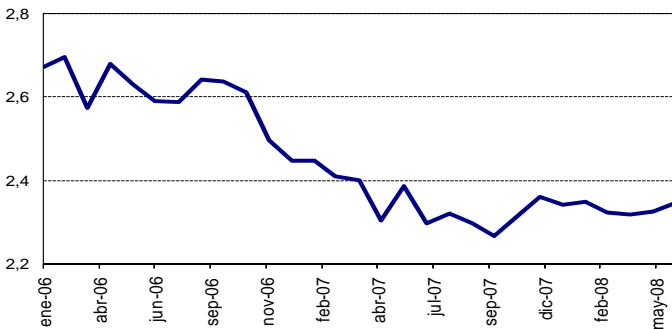
**Oil Prices (WTI US\$pb)**



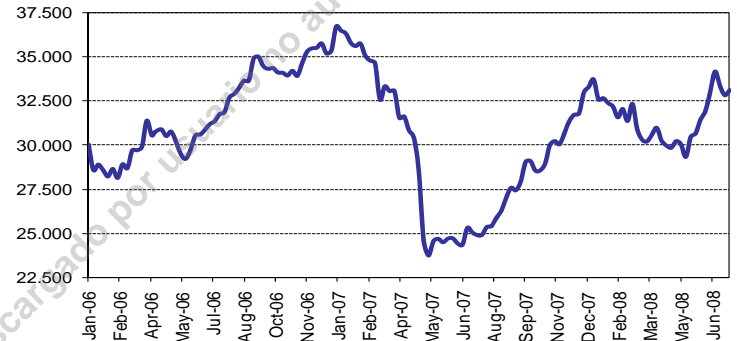
**Oil Price (Venezuelan Basket US\$/pb)**



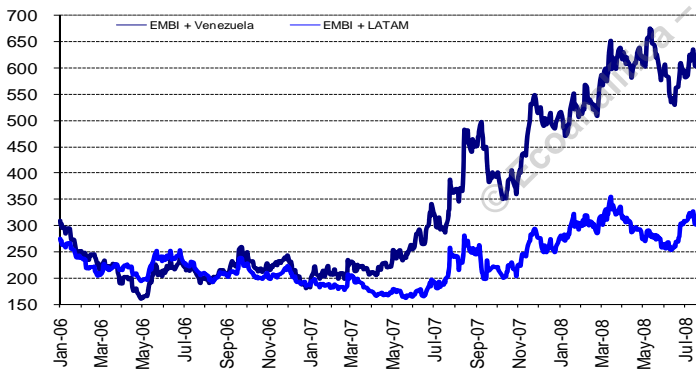
**Oil Production MMBD**



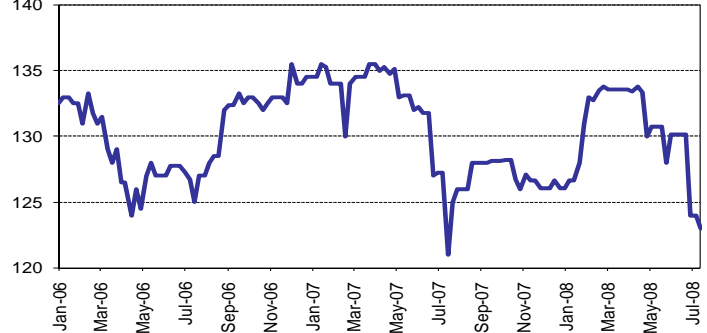
**Fx Reserves - BCV (US\$ Million)**



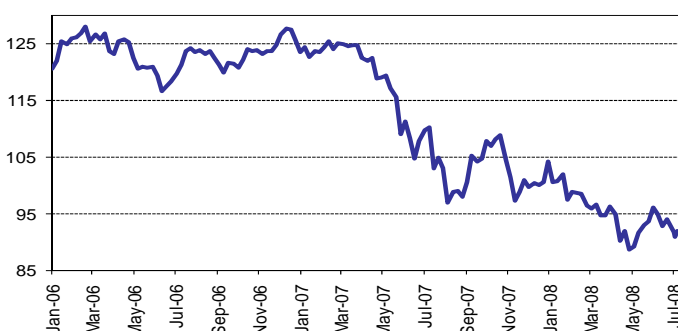
**EMBI**



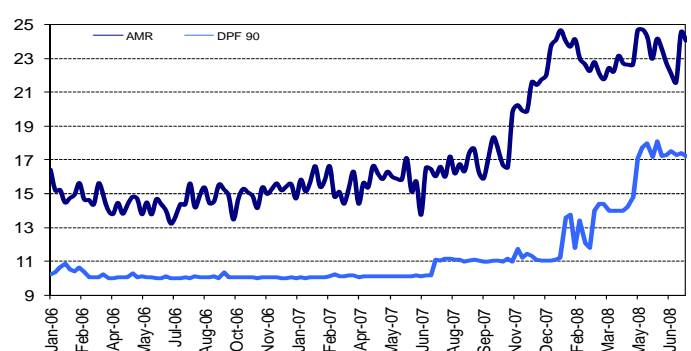
**Venezuelan Global 18 Close Price**



**Venezuelan Global 27 Close Price**



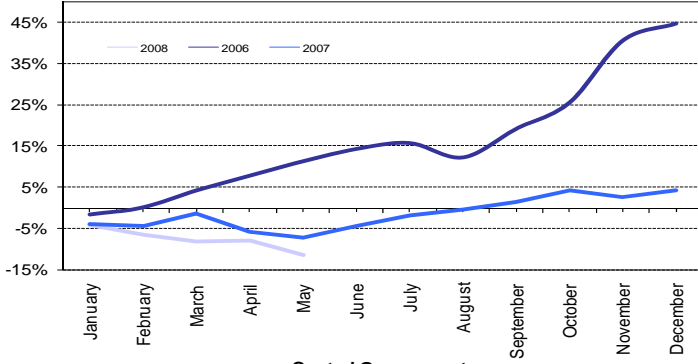
**Interest Rate (Six Principal Banks)**



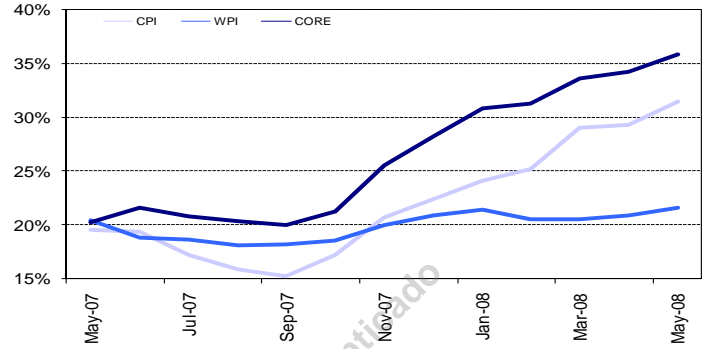
# Weekly Report

## ECONOMIC OVERVIEW

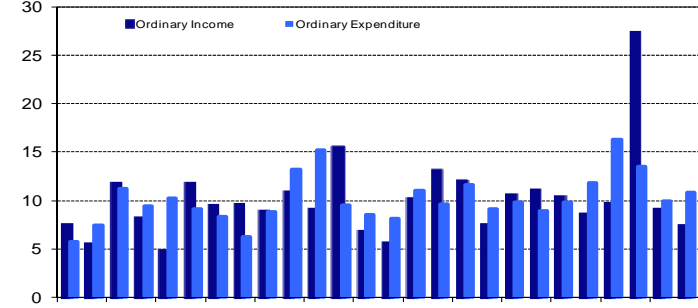
**Real Expansion (M2)**



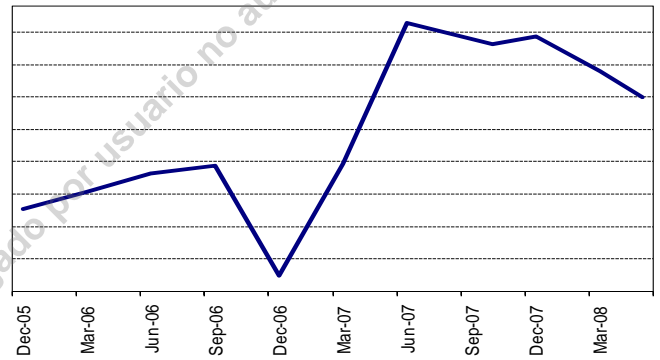
**Inflation (Last 12 Months)**



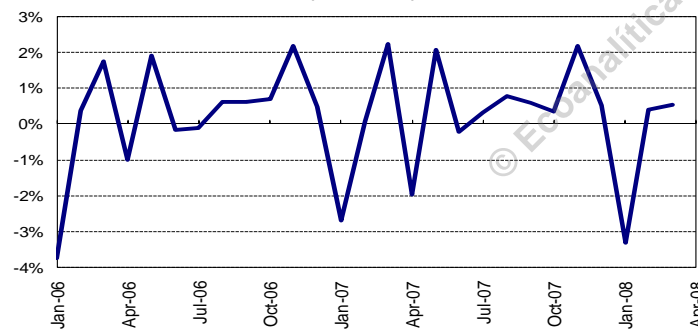
**Central Government (VEB Billion)**



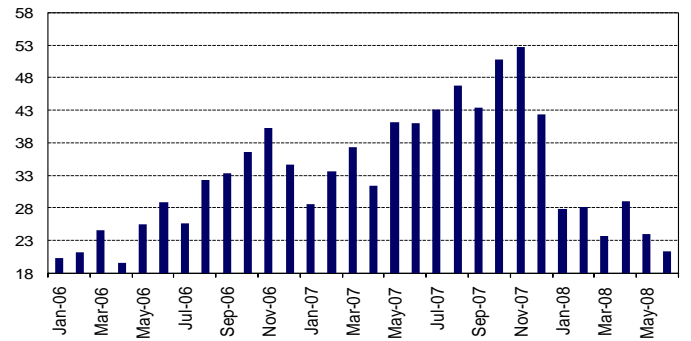
**Resources of the State (US \$ MM)**



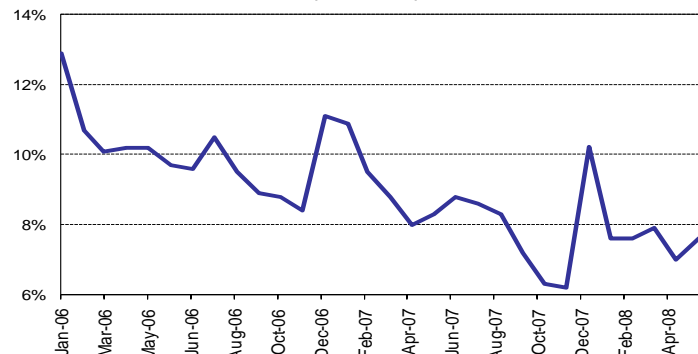
**Volume of Sales (% Variation)**



**Sale of Vehicles (Thousands of Sold Units)**



**Rate of unemployment (% Variation)**



**Disbursement (US\$ Million)**

