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## **HOW LONG CAN THE GOVERNMENT TAKE OIL PRICES FALLING?**

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The President Chávez' recent rash of nationalizations has coincided with a substantial drop in the international price of commodities, particularly oil prices. For example, the Venezuelan oil basket had dropped 15% in the last 4 weeks. This report will make a brief analysis of whether Venezuelan fiscal management is vulnerable to a significant drop in oil prices.

### **Looking forwards towards 2009**

The first thing we would like to point out is that this analysis is looking forwards to what will happen in 2009. We are convinced that for what's left of 2008, the Government's fiscal management will not be faced with any major problems. To date, the Venezuelan oil basket has accumulated an average price of more than US\$ 100 per barrel which has generated a surplus of more than US\$ 30.0 billion.

With regard to the second semester, at **Ecoanalítica** we believe that given how oil prices have performed this year that supplemental appropriations will continue to be authorized as they have been this year and that the 2008 Budget for public spending could reach VEF 185.00 billion. This would mean that public spending during the second semester

## Weekly Report

would equal around VEF 106.48 billion, representing an increase of 35.6% compared to first semester spending, and following the trend of an election year with significant amounts being transferred to Governor's and Mayor's offices and for personnel spending.

The question that we are trying to answer is: How will Chavez's Government do in 2009 with a scenario plagued by low oil prices.

### Our base scenario

High oil prices have allowed for an expansion in public spending without precedence. However, this hasn't represented any structural change. The health and stamina of our fiscal accounts is dependent upon the ups and downs of the international oil market.

We estimate that the Central Government will spend the equivalent of approximately 29.0 points of the GDP in 2009 and close the year out with a slight deficit of 0.1 points of GDP. This scenario is based on an average price for oil for Venezuela of US\$ 96.50 per barrel.

### Central Government Fiscal Balance

% of GDP

	2008	2009
<b>Fiscal Revenue</b>	29.6	28.6
<b>Non Oil Revenue</b>	12,0	13.1
<b>Oil Revenue</b>	17.6	14.8
<b>Total Expenditure</b>	28.2	29,0
<b>Fiscal Balance</b>	1.4	(0.1)
<b>Primary Fiscal Balance</b>	3.4	2.2
<b>Non - Oil quasi-fiscal balance</b>	(22.2)	(20.1)
<b>Amortization</b>	2.7	2.3
<b>Government Financing Requirements</b>	1.3	2.4

Source: Ecoanalítica

### The key is in the extraordinary funds

In order to sensibly analyze next year's fiscal management and evaluate how vulnerable it may be to oil prices, one has to calculate the magnitude of out-of-budget funds that Administration has accumulated. Our latest figures show that for the close of the first semester, these funds reached US\$ 57.0 billion, down US\$4.90 billion compared to the month of May. According to unofficial sources within the Ministry of Economy and

## Weekly Report

Finance, the reason for this drop in the funds is due to a “cleaning” operation of all the assets that *Banco del Tesoro* and *BANDES* have.

<b>Government Resources</b>	<b>Ago-08 (US\$ MMM)</b>
<b>Central Government</b>	<b>24.5</b>
Treasury (BCV)	4.8
Treasury (Foreign Currency)	2.5
FONDEN	10.6
Fondo Miranda	0.6
Other funds	6,0
With China	4.5
With Irán	1.5
<b>PDVSA</b>	<b>1.3</b>
<b>BANDES</b>	<b>6.7</b>
<b>BDT</b>	<b>7.6</b>
<b>Financial System Deposits</b>	<b>16.9</b>
<b>TOTAL</b>	<b>57,0</b>

Source: Ecoanalítica

Even taking this into account, the figure is considerable and in a way explains why President Chávez doesn't seem to be showing any signs of letting up with the nationalizations. In order to forecast what the scenario will be like in 2009, we have stipulated the following:

- Extraordinary resources will be at around US\$ 57.0 billion at the close of 2008.
- We are estimating the cost of the nationalizations the Administration is carrying out at around US\$ 11.20 billion (this figure is less than our first estimate in view of the agreement reached with the cement companies). This amount will weigh significantly in next year's fiscal budget.
- Funds are being managed at the sole discretion of the Administration, even changing the allocation of said funds after they have been earmarked for certain projects.
- We have established 3 different oil prices to base next year's National Budget on: US\$ 85, US\$ 70, and US\$ 50 in order to see how it will affect the Government's fiscal management.

## Weekly Report

- The possibility of a devaluation of the currency nor how much the economy may or may not grow is being considered, though these factors may be relevant and affect certain variables involved.

### Our dependency out in the open

Logic dictates that as oil prices drop, the deterioration of fiscal accounts becomes more and more evident. With an oil basket price at US\$ 85 per barrel, the Central Government will have a deficit of 2.3 points of GDP in 2009, and it will have financing needs for around 4.4 points of GDP. In the extreme case that oil prices drop to US\$ 50 per barrel, the deficit would multiply by 4 and reach 8.9 points of GDP with financing needs around 11.4 points of GDP.

<b>Fiscal Balance of the Central Government</b>				
	<b>% (GDP)</b>			
	<b>US\$ 96,5</b>	<b>US\$ 85</b>	<b>US\$ 70</b>	<b>US\$ 50</b>
	<b>b/p</b>	<b>b/p</b>	<b>b/p</b>	<b>b/p</b>
Total Income	28.9	25.2	20.8	16.9
Non Oil Income	13.1	12.2	10.1	9.2
Oil Income	14.8	13.0	10.7	7.7
Total Expenditure	29,0	27.5	26.2	25.8
Fiscal Balance	(0.1)	2.3	(5.4)	(8.9)
Primary Fiscal Balance	2.2	0.0	(2.9)	(6.4)
Non - oil Quasi-fiscal Balance	(20.1)	(19.8)	(20.5)	(21.0)
Amortization	2.3	2.1	2.3	2.5
Government Financing Requirements	2.4	4.4	7.7	11.4
<b>Obligations of the Central Government</b>				
	<b>Millions US\$</b>			
Financing Requirements	7.710	13.570	20.440	29.875
Extrabudget Expenditure	16.070	12.250	10.870	8.500
Nationalizations Expenditure	11.200	11.200	11.200	11.200
<b>Total Obligations</b>	<b>34.980</b>	<b>37.020</b>	<b>42.510</b>	<b>49.575</b>

Source: Ecoanalítica

### It all depends on how you look at it

The scenario which has oil prices dropping to US\$ 70 per barrel, as well as the one that has prices dropping to US\$ 50, are literally explosive, even though in both scenarios one assumes a certain amount of pragmatism on behalf of the Administration, since one expects a cutback in public spending, in the National Budget as well as in out-of-budget spending. Though it's not the focus of this analysis, it's clear that both

## Weekly Report

these scenarios would have a devastating effect on the general population's wellbeing with respect to a devaluation of the official exchange rate, sustaining exchange controls, the growth of the economy, and inflation.

The point that could minimize this, at least in the short term, meaning 2009, are the extraordinary resources. In that case, this "nest egg" would finally have a legitimate reason for being. In the following table, what we have done is to subtract the Central Government's obligations (a portion of the financing needs, out-of-budget spending, and costs of the nationalizations) from the extraordinary funds that the Government has. This would be a survival scenario, one that this Administration has been considering and been preparing itself for.

<b>Extraordinary resources of the State</b>				
<b>Millions US\$</b>				
	<b>US\$ 96,5</b>	<b>US\$ 85</b>	<b>US\$ 70</b>	<b>US\$ 50</b>
	<b>b/p</b>	<b>b/p</b>	<b>b/p</b>	<b>b/p</b>
<b>TOTAL</b>	57.0	57.0	57.0	57.0
Obligations of the Central Government	31.1	33.0	39.7	46.6
<b>Net Position</b>	<b>25.9</b>	<b>24.0</b>	<b>17.3</b>	<b>10.4</b>
Risky Investment of BANDES and BDT	10.2	10.2	10.2	10.2
Total resources BANDES + BDT	14.3	14.3	14.3	14.3
<b>Available Resources - Case A</b>	<b>15.7</b>	<b>13.8</b>	<b>7.1</b>	<b>0.2</b>
<b>Available Resources - Case B</b>	<b>11.6</b>	<b>9.7</b>	<b>3.0</b>	<b>(3.9)</b>

Source: Ecoanalítica

### The crash won't come in 2009

It's a fact that with the extraordinary resources that this Administration has been accumulating for current spending, it will be able to face even the most unlikely scenario of an oil price drop of down to US\$ 50 per barrel. We extended this analysis and added two more restrictions: first we eliminated some of the riskier securities held by BANDES and BDT from the pool of extraordinary resources. We estimated these securities to equal around US\$ 10.20 billion. In other words, we reduced existing extraordinary resources from US\$ 57.0 billion to US\$ 46.80 billion (Case A). In this case, as can be seen in the table, out-of-budget resources can still cover what's needed.

## Weekly Report

Then we took it one step further and eliminated the resources accumulated in BANDES and BDT, which add up to US\$ 14.30 billion (Case B), from the extraordinary resource pool. After this adjustment, the situation becomes critical only in the scenario when oil prices drop to US\$ 50 per barrel and which would cause the deficit to reach US\$ 3.90 billion.

### **Nothing to cheer about**

Something that our clients should keep in mind is that the relative drop that the Venezuelan oil basket has suffered during the last few weeks is not a prelude to a fiscal crisis, at least not in the short term. Not even a 25% structural drop in oil prices would represent problems (in terms of a collapse) that the Government couldn't handle in 2009.

But the import point to focus on is: What happens after the extraordinary resources run out? The answer to this question is something that we have been saying for quite some time now. The illusion of harmony that the Administration has been so careful to cultivate will vanish. The Government will be forced to carry out a max-devaluation of the official exchange rate in order to adjust public spending. A depreciation of the exchange rate substantially improves fiscal accounts, but at a high cost in terms of inflation and economic growth.

This adjustment could be avoided. In order to do so, it is extremely urgent to neutralize most of the volatility which comes from the oil market. This mainly requires that a stability fund strengthened and re-designed which would allow it to absorb shocks coming from the oil market.

### **A time bomb**

It's very clear and a fact that Venezuela is sitting on a time bomb, but there is still time to maneuver. In other words, in the medium term, in a scenario where oil prices drop substantially, fiscal imbalances will begin to appear and they will create a ripple effect throughout the rest of the sectors of the economy.

The fiscal adjustments that have been taking place in Venezuela based on frequent corrections made to the exchange rate and permanent cutbacks in spending have created a permanent situation of fiscal tension which has been very damaging in terms of long term economic growth and stability. Adjustments carried out in Venezuela lead to public investment shrinkage, inflexible public spending, high inflation, and a population which is slowly but steadily becoming poorer.

## Weekly Report

### *Economic Tips*

**Economic growth.** According to the latest figures published by the Central Bank of Venezuela (BCV), the Gross Domestic Product (GDP) increased by 7.1% during the second quarter 2008 compared to the second quarter 2007. The accumulated growth for the first semester 2008 is at 6.0%. During the aforementioned period, the oil sector grew by 3.2%, while the non-oil sector expanded by 7.8%. Activities with the highest level of growth were: communications (24.6%), construction (11.7%), community services, social and personal (9.4%), commerce (8.9%), transportation services (6.5%), manufacturing industry (4.5%) and agriculture (3.9%).

**Balance of Payments.** A surplus of US\$ 2.92 billion has been reported in the balance of Payments during the second quarter 2008 as a result of the positive balance of the current account of US\$ 16.83 billion which contrasted the negative balance reflected in the financial accounts of US\$ 12.79 billion. The BCV says that the high commercial surplus is due to the increase in oil exports and the fact that oil prices were high (the price of a barrel of oil was on average 79.7% over the price during the second quarter of 2007) and that the quantities exported increased (volumes exported increased by 3.3% in one year) with the total amount settling at US\$ 28.01 billion. Non-oil exports dropped by 5.8% and settled at US\$ 1.63 billion.

**Budget increases by 23%.** Supplemental appropriations approved by the National Assembly between January and the beginning of August added up to VEF 32.40 billion. This, added on to the projected spending for this year (VEF 137.50 billion), ordinary spending, and extraordinary spending all totals VEF 169.90 billion for the year, up 23% compared to the figure approved in the 2008 National Budget Law.

**Risk in Latin America due to drop in raw materials.** Due to the global drop in the price of grain and crude oil, Latin American countries could suffer sudden changes to the economic surge they are experiencing; especially Venezuela and Argentina. These countries have taken advantage of extraordinary revenues and used it in public spending without applying any sort of cautionary measures in case these revenue ceased to come in. On the other hand, countries like Brazil, Chile, and Mexico have been applying policies that could absorb the impact a sustained drop in prices may bring.

## Weekly Report

**Venezuela's risk country rating is higher than Argentina's.** Venezuelan bonds are riskier than Argentinean ones despite the fact that the neighbor country has received approximately US\$ 7.0 billion from the Venezuelan Government and in 2001 it declared itself incapable of paying its foreign debt. At the close of the second week in August, Venezuela's risk country indicator (EMBI+) was at 666 pb, surpassing Argentina (664 pb) and the other Latin American countries like Peru (200 pb), Colombia (225 pb) and Brazil (239 pb). Venezuela's market weakness, according to experts, is due to the excessive supply of paper.

**The Government recognizes.** The Minister for Planning and Development, Haiman El Troudi, pointed out that only through investment in the country's productive sector that promotes self sufficiency will inflation truly be attacked from a structural point of view. But the Minister didn't recognize that the drop in the levels of investment have been affected by decisions made by the Administration.

**International Reserves.** International reserves closed Wednesday, August 20<sup>th</sup> at US\$36.56 billion, up by 3.07% compared to the previous week when they were at US\$35.47 billion.

**Interest rates.** Interest rates for the six main banks around the country were at 23.94% on Friday, August 15<sup>th</sup>, up 6.88% compared to the previous week when they were at 22.40%. Time deposits were down by 0.29% and settled at 17.12% during the same week.

**Monetary liquidity.** For the week ending on Friday, August 8<sup>th</sup>, monetary liquidity was at VEF 162.63 billion, down by 0.33 percentage points compared to the previous week when it was at VEF 163.17 billion.

### *Oil Tips*

**The slide continues.** For the fourth week-in-a-row, Venezuelan crude oil has dropped to close out the second week in August at US\$ 107.90 per barrel, down US\$ 5.60 compared to the close of the first week. The cumulative drop during the last four weeks has been for US\$ 18.50, in other words, 14.6%.

## Weekly Report

**Accumulative totals still high.** At the close of the second week in August, the accumulative price for Venezuelan basket was at US\$ 103.60 per barrel, which is US\$ 68.60 higher than what the National Budget was based on.

**International markers also drop.** OPEC crude oil basket dropped by US\$ 7.10 to close out last week at an average price of US\$ 110.40 per barrel. WTI dropped US\$ 6.10 and Brent lost US\$ 7.10 to close the week out at US\$ 114.70 and US\$112.70 respectively.

**Possible cutback.** The Research Center for Global Energy indicated that the OPEC could cutback on its crude oil production if prices continue to drop.

**Drop in the increase of demand for 2008.** For the fifth consecutive month, the OPEC has reduced its forecast concerning the increase of oil demand (going from 1.20% to 1.17%) for 2008 due to the weakening state of world economy, and it pointed out that production was than sufficient to cover demand.

**Food treaty.** PETROCARIBE's Secretariat of the Minister's Council for Food met in Havana in order to draft a food security treaty for the 18 PETROCARIBE member countries. The meeting will be focused on: (i) analyzing the mechanisms to administer the *Fondo Petrolero* (Petroleum Fund) which will be earmarked for food production, agriculture and livestock innovations, and integral agriculture development plans and, (ii) strategies for facing the food crisis and worldwide high food prices.

**The fund was approved.** At the PETROCARIBE's Minister's Council for Food, a fund for US\$ 2 million for each of the 18 member countries was approved for a total of US\$ 36 million aimed at financing food projects in order to achieve food security for the members of the group.

**Gas-oil to Paraguay.** Venezuela supplies Paraguay with 75% of the gas-oil it consumes through an energy contract which allows the country access to up to 18,600 barrels daily of diesel. According to Cibara Granada, future president of the state-run *Petróleos Paraguayos* (PETROPAR), Venezuela will supply an additional 70,000 cubic meters of gas-oil in order to ensure the country's fuel reserves.

**Exports to Colombia to resume.** As a result of the meeting between Uribe and Chávez, Venezuela expects to resume the official export of fuel to Colombia on August 21<sup>st</sup>. According to the Office of Domestic Markets of the Ministry of Energy and Petroleum, the operation will begin by exporting 8 million liters a

## Weekly Report

month, progressively increasing up until reaching a maximum 19 million liters a month.

**EXXON vs. PDVSA.** The International Center for Settlement of Investment Disputes announced that the arbitration tribunal which will hear the ExxonMobil and PDVSA case was constituted on August 8<sup>th</sup>. The Frenchman, Gilbert Guillaume was appointed president of the tribunal while the Egyptian, Ahmed Sadek El Kosheri, and Swiss, Gabrielle Kaufmann were appointed as arbitrators.

**Only exceptional cases.** No consensus has been reached in the Constitutional Chamber of the TSJ regarding the interpretation appeal which was introduced by PDVSA lawyers regarding the scope the use of the figure of international arbitration must have in solving controversies. PDVSA proposes that the use of arbitration regarding its contracts as a state-run company should be left as an exception and only to be used if agreed to with the other company, but never decided by a unilateral decision as was the case with the U.S. oil company Exxon Mobil and Conoco Phillips.

**U.S. becoming more distant.** Bernardo Álvarez, Venezuela's Ambassador to the United States, acknowledged the United State's interest in becoming less involved in its energy relationship with Venezuela. This has become quite evident not only because of the implementation of new economic programs aimed at cutting back on the use of oil, but also on its dependency of crude oil imports from countries that do not qualify as secure allies.

**However, this doesn't make sense.** Álvarez pointed out that this plan doesn't make much sense for the U.S. since the cost of producing a barrel of oil from the Gulf of Mexico installations is about US\$ 80, while producing one from the Orinoco Oil Belt is around US\$ 7.00 or US\$ 8.00 per barrel.

**And besides, we are climbing.** In one year, Mexico has dropped from second to fourth place in the list of largest suppliers of crude oil to the U.S., while Venezuela has climbed from fourth place to third. The monthly report from the Department of Commerce on the trade balance of goods and services to the U.S. shows the change in positions regarding its main oil exporters. Canada continues to be the main exporter of oil to the United States followed by Saudi Arabia, Venezuela, Mexico, and Nigeria.

## Weekly Report

### *Business Sector Tips*

**Cemex expropriated.** The deadline set by the Administration to finalize negotiations with the cement industry has arrived. The small companies, France's Lafarge and Switzerland's Holcim accepted the conditions imposed by the Government and they will remain as minority shareholders. According to vice-president Carrizalez, the acquisition of 89% of Lafarge was negotiated for US\$ 257 million, and 85% of Holcim for a total of US\$ 572 million, both sums very much along the lines previously calculated by **Ecoanalítica**. However, the Government did not reach any type of agreement with the largest company, CEMEX, and therefore proceeded to expropriate it. At **Ecoanalítica**, we have valued CEMEX at US\$ 950 million.

**Mexican Government intervened.** The Mexican Government has made a request to Venezuela that it should continue to negotiate with the cement company Cemex, announced the Mexican Ambassador to Venezuela, Jesús Mario Chacón. The request was made through a note sent to the Venezuelan Ministry of Foreign Affairs whereby Mexico requests that negotiations with Cemex continue in order to reach a satisfactory agreement for the sale of its shares and avoid the whole expropriation mechanism.

**Temporarily suspended.** On Tuesday, the Venezuelan National Securities Commission ordered that trading of Cemex stock be suspended for 24 hours after the announcement of the Government's expropriation plans.

**Unemployment drops.** According to National Statistics Institute figures, unemployment in July dropped by 1.6% compared to July 2007, going from 8.8% in July 2007 to 7.2% in July 2008. Formal sector employment went from 56.8% in July 2007 to 57.5% in July 2008, while the informal sector dropped from 43.2% to 42.5% during the same period.

**Surpass goal.** The national superintendent for Customs and Taxes, José David Cabello, announced that the SENIAT has a tax collection goal of VEF 40.0 billion for the third quarter of 2008 which represents 65% of the tax collection goal set for the year (VEF 60.20 billion). It's expected that the total tax collected for the year will surpass the goals set by the Government by 14%.

## Weekly Report

**CADIVI improved response time.** CADIVI announced at the end of the second week in August that thanks to the information being exchanged between it and the Ministry of Food, it has been able to issue foreign currency request authorizations for the food sector in just 48 hours after the importer has introduced the proper documents.

**Just words.** Despite the fact that it was repeatedly announced that the goal for houses to be built per year was 100,000 units, so far during the nine years of Chávez' presidency, only 233,000 houses have been built. With the nationalization of the cement industry, Chávez announced that "the country's housing and construction plan will continue with renewed strength."

**Eight years to eradicate the deficit.** The Minister of Housing, Farruco Sesto, announced that the housing deficit was at an estimated 1.8 million units which could be eradicated in eight years if houses were built at a rhythm of 200,000 houses a year. The Minister didn't reveal any figures regarding the number of houses built this year but said that construction was slow during the first semester but that measures had been taken to improve delays.

**Full supply.** The vice-minister of Agriculture and Land, Richard Canán, referring to the recent authorized increases in some regulated prices and the deregulation of other food products, indicated that these measures would have a positive effect in attaining the full supply of food items given that profit margins were guaranteed.

**CAVIDEA satisfied with increase.** The Venezuelan Chamber of Food Industry announced that it was satisfied with the Government's decision to adjust regulated prices. It also announced that during the period the prices were regulated at such low levels the Chamber has been making significant efforts to maintain supply at normal levels, despite the losses being generated.

**Impositions of the agriculture sector will make problems worse.** According to agriculture sector analyst, Rodrigo Agudo, the approval of the Food Security Law seems to indicate that the situation in the sector will get worse since the way to resolve the differences that exist is through agreements between producers and the State and through Laws which focus on intervention, confrontations, and impositions.

**Airlines flying high.** The Association for Airlines announced that so far this year, the sale of domestic tickets has increased by 26% and international tickets by

## Weekly Report

17%, which by the end of the year should translate into around 4 million passengers for the year.

**Destinations.** The airlines report that the most popular international destinations during the current summer vacation season have been: Aruba, Curacao, Dominican Republic, Spain, Italia, Portugal, and Miami. The most popular domestic destinations have been: Margarita, Mérida, and Barcelona.

**The District Attorney's Office to investigate banking sector.** At the request of the Venezuelan Federation of Users and Consumers, the District Attorney's Office assigned a prosecutor to specifically look into any irregularities having to do with credit card commissions charged. They will also look into any irregularities that have to do with card cloning.

**Socialism through the State bank.** The president of the *Banco del Tesoro*, César Giral, promised to strengthen the socialist model by further promoting community banking. He added that a special effort is being made to include social sector of the population that have traditionally been excluded from the banking system.

**Two radio stations intervened.** CONATEL announced two administrative procedures against the radio station Rumbera Network and Llanera 91.3 FM, located in San Juan de Los Morros, Guárico state, because they are broadcasting without having an authorized broadcast license.

**Mercosur with internal problems.** According to the former President of Uruguay, Julio Sanguinetti, the limitations to economic and commercial advancement within the Mercosur community continue to exist. The lack of macroeconomic coordination and the weaknesses revealed when it comes time to solve controversy may cause future problems due to not having resolved these issues in time. Furthermore, he considers that the meeting held by the Presidents of Brazil, Argentina, and Venezuela last week in Buenos Aires, far from strengthening Mercosur, divide it even more and exclude some of its members.

**Chávez asks "let's get along."** During an act which would pardon all existing agriculture loans to around 18,000 farmers for a total amount of VEF 247 million, President Chávez said that "private produces have to get along with the public sector (...) that profits should be distributed in an egalitarian manner. In socialism, we should all live equal, under equal circumstances, no one should be extremely rich or extremely poor."

## Weekly Report

**Problems in GM Venezuela.** The strike being held at the entrance of the Valencia GM plant by a socialist union and a group of GM workers forced management to inform its workers not to come to work after their collective vacation period since they would not be able to guarantee their safety. This conflict could make the automotive crisis in the country become much worse.

**Ford Motor in the same boat.** Sources from the Ford assembly plant say that the company will also stop operations in September due to the irregular flow of foreign currency authorized by CADIVI. They report that they do receive foreign currency, but with such irregularity that it makes it difficult to keep operations flowing smoothly. Sometimes, foreign currency requests can take up to 180 days for the authorization to come through.

### *Political Tips*

**Partial “Unity.”** According to the figures released by the president of the National Electoral Council (CNE), Tibisay Lucena, the CNE received more than 950 candidate entries for the 23 Governor’s races to be held in the upcoming regional elections in November, and for the 602 Mayor’s races to be held, 4,000 candidates submitted entries. Despite both group’s efforts to present “unity” candidates, the opposition only presented unity candidates in 19 jurisdictions while the Government backed party only presented unity candidates in 11.

**Military Law against civilian life.** According to the expert in conflict management, Josué Fragachán, with regard to the Organic Law of the National Armed Forces (LOFAN), “the President’s aim with this Law is to elevate military control into the everyday life of Venezuelans, assigning political positions in institutions that have traditionally been part of local society. And, in the same fashion, it categorically forces civilians, without any say in the matter, and the military to unite under a single role of citizen, and it promotes militarism without limits into the everyday routine of the residents of this country.”

**LOFAN degrading for the military.** Retired Colonel, José Machillanda, “it’s incredible how the professional military career will be reduced to its absolute lowest level by introducing political thought into its ranks which violates the democratic percepts of our current Constitution. Quite simply, with the LOFAN, all members of the military will be bound to the decision of the hierarchies, without

## Weekly Report

attributing any value to the merits obtained by any of the military ranks and the preparation and training of the military officer's academy.”

**National Assembly to explain new Law bundle.** The National Assembly made a schedule by which the representatives will take to the streets in Caracas and around the country to explain the 26 new Laws approved during the last day of the Special Powers.

**William Ojeda for Mayor.** Leopoldo López, potential candidate to run for the Greater Caracas Mayorship, having been declared ineligible to run, has announced his endorsement and support of William Ojeda from the *Un Nuevo Tiempo* party. Antonio Ledezma, also a candidate running for this office, insisted that Manuel Rosales, as leader of the *Un Nuevo Tiempo*, enforce the unity agreement that was made.

**CNE hasn't released its accounts.** The TSJ ordered the CNE to submit its 2007 year-end accounts and balances, after the suit introduced by Súmate on March 25 had gone through all the required steps of the judicial process. The accounts should have been released 60 days after the end of the CNE fiscal year.

**Rodríguez Araque with a new appointment.** The appointment of Minister of Finance, Alí Rodríguez Araque, to the post of main governor before the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) and as alternate governor before the World Bank was published in the GO N° 38.996.

**No problem with personal safety.** According to Minister Rodríguez Chacín, “more than 80% of Venezuelans haven't been victims of crime,” thanks to the plans implemented by the Government. He continued to say that “personal safety is not among the main worries of the people, it's fourth or fifth.” The fact that personal safety is the main problem for Venezuelans is because “the media, with their bad intentions, make sure this opinion is rooted in the people.”

### Other Tips

**First Venezuelan satellite will be put into orbit.** As part of Venezuela's plan to be “technologically and scientifically independent,” its first satellite baptized Simón Bolívar will be put into orbit this coming November 1<sup>st</sup>. The satellite is being made

## Weekly Report

jointly with a Chinese company and it will cost approximately US\$ 241 million. To put this figure in perspective, it's the same amount as the total yearly budget of the Sucre Municipality.

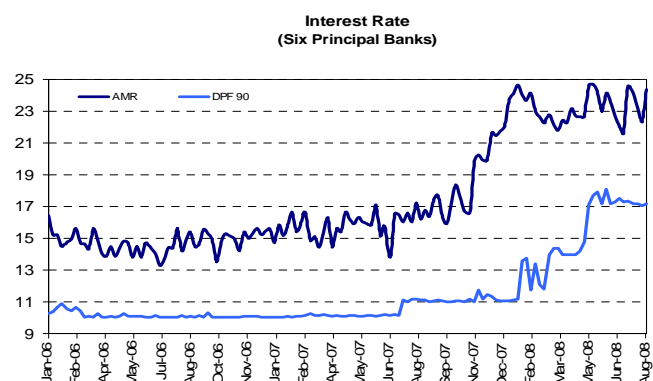
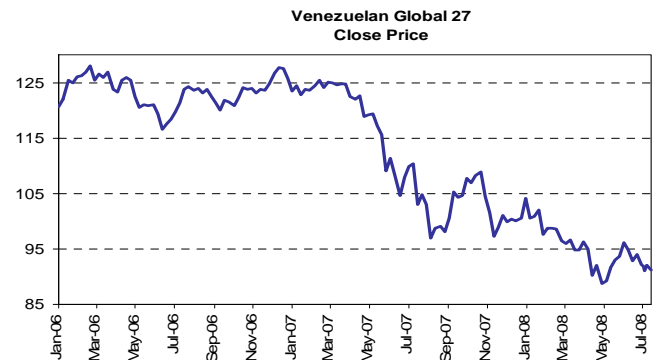
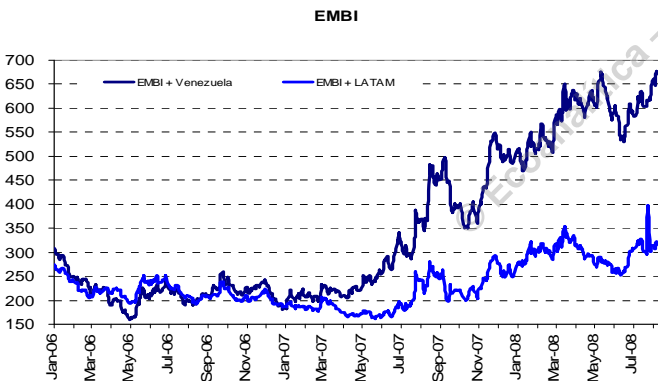
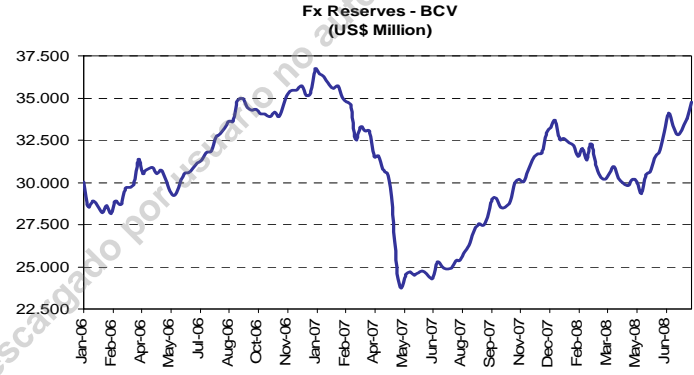
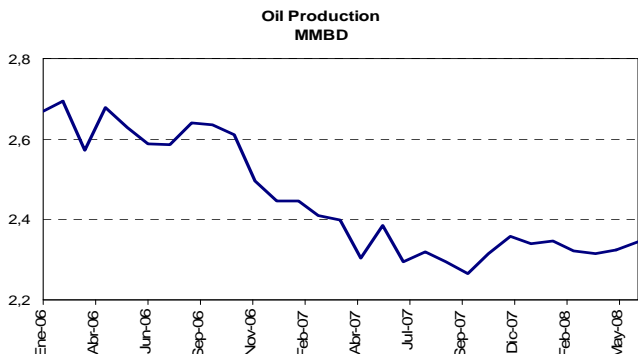
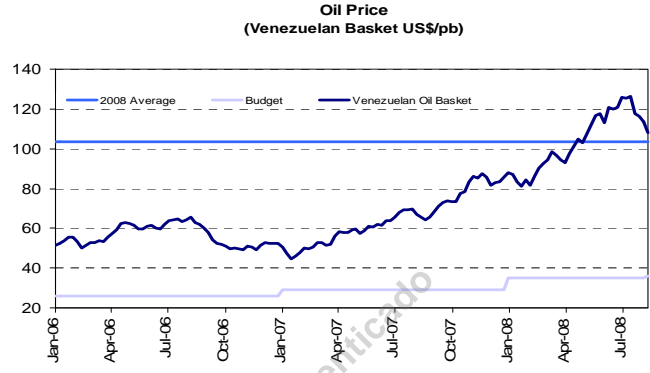
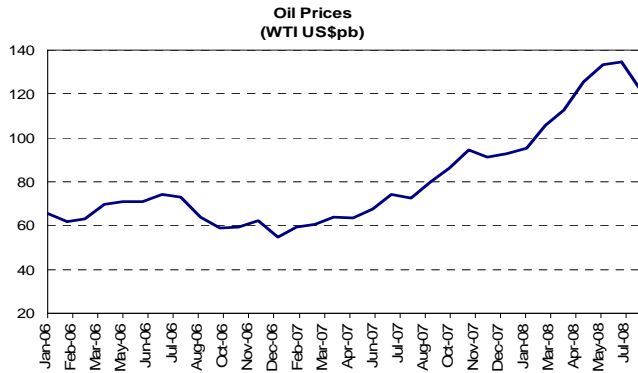
**Risk in increase in poverty.** The Inter-American Development Bank announced that if worldwide high food prices were to continue, especially wheat, rice, and soy bean, Latin America will run the risk of having 26 million people slip into extreme poverty living conditions, to be added to the 71 million poor that already exist in the region.

**In favor of the middle class.** Latin America requires public policies in order to avoid the middle class falling into the so-called "new poverty" level. This is defines the impoverishment which affects social groups whose integration into social groups far from poverty levels are almost assured. In Argentina, Chile, Costa Rica, Cuba, Mexico, and Uruguay, middle class sectors have been becoming poorer in the last few years before recent economic crises, revenue concentrations, private services becoming more expensive, loss of quality in private services, and an uncertain job market; all this according to the *"La nueva pobreza urbana: dinámica global, regional y argentina en las últimas dos décadas"* (New Urban Poor: global, regional, and Argentinean dynamic in the last two decades), published in the CEPAL magazine, No. 95.

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# Weekly Report

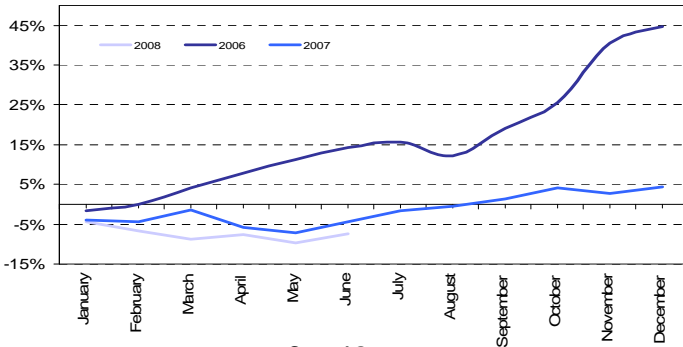
## ECONOMIC OVERVIEW



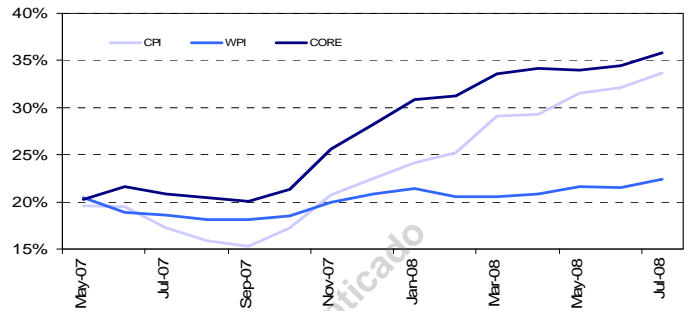
# Weekly Report

## ECONOMIC OVERVIEW

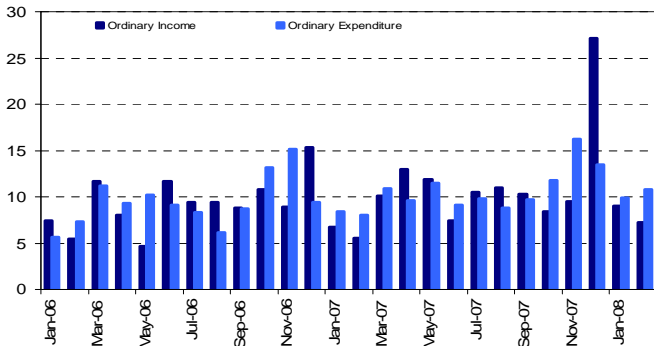
**Real Expansion (M2)**



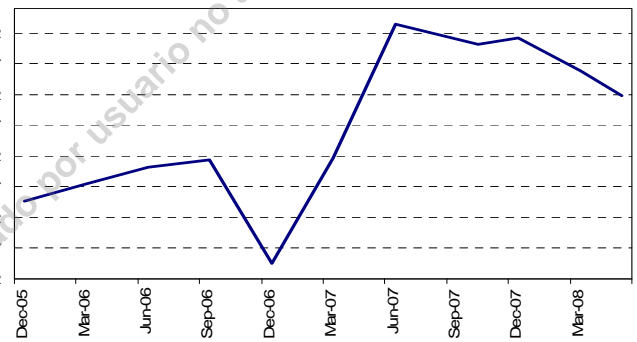
**Inflation (Last 12 Months)**



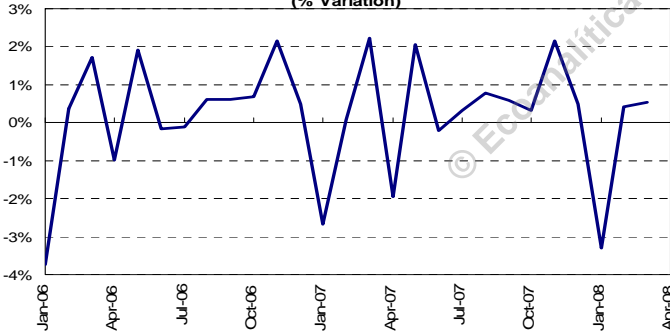
**Central Government (VEB Billion)**



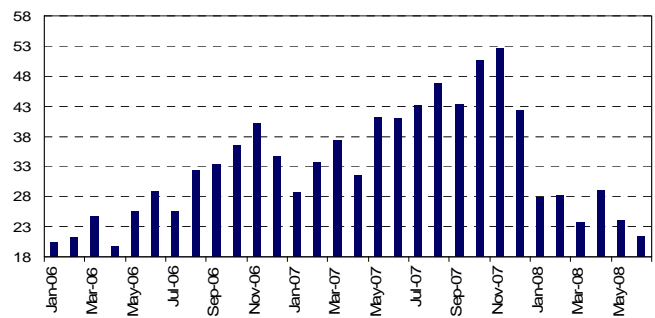
**Resources of the State (US \$ MM)**



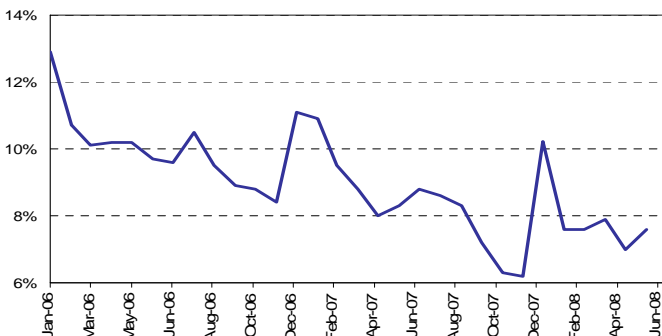
**Volume of Sales (% Variation)**



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



**Rate of unemployment (% Variation)**



**Disbursement (US\$ Million)**

