



Weekly Report

Year 5, Number 40
Week IV, October 2009

By:
Asdrúbal Oliveros
Maikel Bello

ECONOMIC MEASURES AND THE UPCOMING ELECTION YEAR

Reproduction or distribution prohibited

A few weeks ago, on October 8, a press release was held to finally announce President Chávez' much heralded 40 economic measures, which in the end turned out to be 54 economic measures. The President delegated the responsibility of announcing these measures to the president of the BCV, Nelson Merentes, the Minister of Planning, Jorge Giordani, and the Minister of Economy and Finance, Alí Rodríguez, thereby letting the people know what the Government's economic plans for the future are.

A lot of hype surrounding the economic measures, but...

When it was announced that President Hugo Chávez wouldn't be announcing the measures, many speculated that some of the measures might be politically "costly" for the Government, affecting the President's popularity. The measures that were announced focused on three main areas: promoting economic growth, controlling inflation, and creating more jobs. Unfortunately, no reference was made to specific concrete measures, only strategies and goals were mentioned.

As we have stated in our Reports, at **Ecoanalítica**, we didn't expect any "severe" measures to be announced such as the devaluation of the



currency, or the price of gasoline, nor did we expect any major changes in the economic policies that the Government has been implementing during the last few years. Sadly, for the country's welfare, we were proven right.

Economic measures announcement = letter of good intent

The main feeling one took away from the “announcements” was that the Ministers revealed their good intentions with all these future plans without ever getting into specifics. They were all very earnest in wanting to promote economic growth, lower inflation, and create more jobs. Unfortunately, that was it, all good intentions. No specific and concrete measures were announced, and from one could gather, the main causes of the imbalances that have been accumulating in the Venezuelan economy are still not being attacked. They limited themselves in talking about strategies and goals, such as the exchange differential (between official and parallel exchange rate) shouldn't go over 60%, and that “productive” bank intermediation should be increased, and that a budget in US-dollars by sector is being designed (favoring priority sectors), and the intention of lowering CADIVI's debt to importers (streamlining the process and the liquidation of foreign currency).

Another fund was created to promote works in the areas of infrastructure, housing, energy, and food production. This new fund is almost identical in terms of its functions to FONDEN and the China Fund.

The day after the announcement, a second wave of announcements, the Minister of Science, Technology and Intermediate Industries, Jesse Chacón, announced to the media that a series of special subsidies will be granted to strategic sectors, the efficiency of granting loan will be increased, and national production will be stimulated. He also pointed out that one of the Administration's new plans was to reinstate capital goods exoneration, to stimulate construction, and to repair infrastructure.

These pseudo-measures are being introduced one by one, with every day bringing a new announcement.

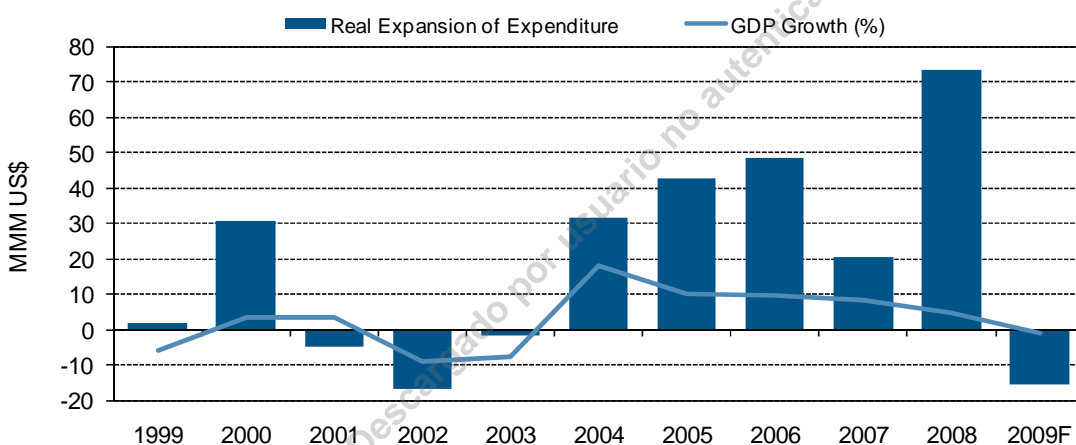
The most important measure is the same as always, the increase in spending

The most important measure the Government will implement in order to promote economic activity, a measure which was not mentioned, a strategy which has characterized this Administration: increase public spending. Once again, the Government plans to increase public spending in order to make the economy more dynamic. In our Weekly Report, “Public Spending and growth: Will it be enough?” released during the last part of August, we showed how the increase in oil prices has eliminated the budget restrictions that the Administration has been feeling since the beginning of the year. (At



Ecoanalítica, we estimate that the Venezuelan oil basket in 2010 will be at US\$71 per barrel, 33,7% higher than this year.) This will allow the Government to increase public spending looking to propel the economy forward. But, in today's Venezuela, an increase in public spending is not enough to sustain economic growth, a fact which places certain restrictions on the Government.

Real Expansion of Expenditure and GDP Growth



Sources: BCV, MF and Ecoanalítica

An election year once again on the agenda. The “measures” look to the election

One way these “measures” can be interpreted is that the Administration is looking to position itself as favorably as it possibly can before the upcoming election to be held in 2010. It needs to generate a feeling of wellbeing among the people again, especially among its followers. But given the degree of deterioration that the Venezuelan economy has suffered this year due to the world economic crisis and the Administration’s economic policies implemented these last few years, the Government has its work cut out for it to please the people, especially the low income bracket, which has suffered the most and represents most of the chavista voter base. It has to convince the people that it is working to solve the current situation that’s why there are 54 measures (the number of measures is more important that any impact they will have) and not four or five significant courses of action. This is why the Government is aware that it has to once again create a “consumer boom” scenario so that it can sell the idea that all is well, everyone is prospering, and that the Administration is working toward these goals and general well being.

In this strategy, increasing public spending is fundamental in order to create that “feeling” of wellbeing which will go a long way to achieving the end



result: increased acceptance among the people, and positive election results. In another one of our Weekly Reports, “The Magical State: Popularity and Public Spending: Will it be enough?” we show that over 80% of the President’s popularity, and whether it goes up or down, can be explained by increases or cutbacks in public spending.

The Opposition facing the same challenges as always

Despite the fact that President Chávez’ Administration has its work cut out for it with respect to the upcoming election year (turn the country’s economic recession around and create the impression of a consumer boom), it’s up against an Opposition which still hasn’t been able to solve most of the problems that has plagued it all these year, and especially the matter of unity.

For the Opposition, 2010 looks to be an uphill battle. Parliamentary elections will be held and historically these have always been very difficult periods in terms of process of negotiation and consensus among candidates (even during the IV Republic).

Coordination problems are already being felt as the parties being to propose different mechanisms to choose candidates. As has been the case in previous election years, this negotiation stage has taken a lot of time and effort (human and material). Given the situation the way it is, it is not out of the question that the Government may be considering moving the election up to the beginning of the second semester 2010, or even earlier. This will limit the Opposition’s time to get organized, choose candidates, and campaign.

What to expect in 2010

The Administration will promote two things for sure in 2010: increased public spending and an increase in polarization. These two factors have always worked well for President Chávez in past election years, and he will try to take advantage of them next year as well. Time will tell if it still works or not.





Economic Tips

2010 Budget: more of the same. Representatives, members of the National Assembly Finance Commission, Simón Escalona and Elvis Amoroso, have stated that the Budget will be studied by four work groups and then it will go before the Plenary Session where it will be approved. The 2009 Budget was set at VEF156.30 billion, while the 2010 Budget is being set at VEF 159.0 billion, in other words, only 1.7% more.

PDVSA bonds. Nelson Merentes recently stated that the Government has no plans to modify the PDVSA bond issue, despite the fact that in the market the word is that it will not produce much profit. Minister of Finance, Alí Rodríguez, declared that it was too soon to evaluate the demand for Petrobonos al 2014, 2015 y 2016. However it is known that the offer has been very low, so that PDVSA increased the time for investors to place their bids until Friday at noon and the deadline to deposit 100% of the amount awarded to Thursday 29 October settlement day of the bonds.

Could it be possible, greater regional integration and trade openings? Analysts from the Inter-American Development Bank (IDB) affirm that international integration and trade openings could be implemented by governments to stimulate economic growth. These analysts project that by 2015 around 85% of intra-regional trade in Latin America will be opened-up. Paolo Giordano, a specialist in economy and trade, and member of the IDB Integration and Trade sector pointed out that bilateral agreements are the beginning of a series of measures which generate more benefits for the people and more trade for the country and the region. He also mentioned that Venezuela did not seem to be aligned with economic expansion policies, because Venezuela has aligned itself with countries that do not bring it significant benefits in accordance with the country's needs.

ALBA Summit ends with new currencies and trade agreements. ALBA leaders agreed to implement economic and trade sanctions against the new Honduran Government. The group also approved the development of communications through the Simón Bolívar satellite which will improve telephone service for rural areas, and broadband satellite Internet service. They also approved creating a monetary compensation system for trade between member countries and to depend less on the US-dollar. The Sucre project will expect to begin by January 2010.

Interests Rates. In the latest BVC report, the interest rate for lending for the second week of October is 18,8%, these represents a decrease of 171 basis points if we



compare it with the week before. In other hand, the interest rate for long-term and short-term deposits is at 14,7% and 12,6%, these represents an increase of 23 basis points for the first one, although the short-term rate didn't change in the period.

Internationals Reserves. The international reserves increase in a 0.1 %, getting from US\$33.1 billions on second week of October, to US\$33.175 millions at the end of the third week of the same month. If we compare it to the results from the same period in 2.008 the reserves have decrease 17.1 %.

Monetary Liquidity. According to the latest reports from the BCV the monetary liquidity increase by a 9 % on the first week of October, compared with the fourth week of September, getting to VEF 241.4 billions. Through this year it have increase 24.3 % and if we compare it with the results of same period in 2.008 the increase is 43.5 %.

Oil Tips

After 5 months, PDVSA to negotiate with expropriated contractors. The appraisal of assets of contracting companies expropriated last May will be published through presidential decree within days, said the vice-president of Exploration and Production, Eulogio del Pino. He continued to say, *"once the decree is issued and the audit team has completed the appraisals, we will sit and negotiate with each one of the entrepreneurs to determine the right price of the expropriated assets. We will negotiate with any company that is willing to sit down with us and negotiate under just and economically-balanced terms."*

And Labor liabilities will be reduced. The president of PDVSA and Minister of Energy and Oil, Rafael Ramirez, stated that labor liabilities will be deducted out of the companies' assets' costs. He also pointed out that over 8,500 employees used to work for these contracting companies, *"of which severance payments are important and, in compliance with the law, we will make sure to recover all that before calculating what corresponds to the private sector."*

Protests continue... 19 PDVSA Gas Anaco workers, who went on strike last Tuesday to request the reinstatement and payment of lost salaries of 588 workers, called the protests off on Tuesday night after setting a meeting with a branch executive for next Friday. Also, delays in the monthly food allocation payments caused workers to protest in the Paraguaná Refinery Center.



Farmers too. Sucre State farmers protested in Caracas to demand payment for lands that were expropriated by PDVSA to develop the Industrial Complex Gran Mariscal de Ayacucho (CIGMA). Around 300 agricultural producers have been waiting since 2007 to receive payment for about 6,660 hectares they used to farm. So far, farmers have only received half of what was agreed, and they have not received the monthly allowances, lands, job offers and loans that had been agreed upon.

Natural Gas for Vehicles is still a goal for the Administration. The Minister of Energy and Oil said last Thursday that *"it is still possible for us to get at least 50% of our automotive fleet to use the natural gas system for free."* This measure would allow for the transformation of the automotive fleet's source of energy in order to save *"large amounts of gasoline which represent a large income for the nation."* In spite of that, the hurdles that automotive industry is going through, as well as the Administration's and PDVSA'S delays to fulfill the Autogas program, make it difficult for this goal to be achieved.

Repsol and ENI guarantee Natural Gas production. What could well be the most important natural gas deposit ever discovered in the history of Venezuela (and possibly the world) was confirmed by both energy companies. It is estimated that the Perla 1X natural gas deposit could contain recoverable natural gas reserves equal to 1 billion to 1.4 billion barrels of oil and the production tests resulted in a flow of 570,000 cubic meters of natural gas per day. PDVSA will acquire a 35% share in the consortium, in which Repsol and ENI will hold 32.5% each.

PDVSA invested in an electric power plant in Bolivia. According to the President of Bolivia, Evo Morales, that country's National Electricity Company (ENDE) and PDVSA invested US\$80 million to install a thermoelectric plant in Cochabamba, in which PDVSA holds 60% of shares. The Bolivian government also indicated that the Bolivian-Venezuelan company PETROANDINA will be investing this year and the next around US\$110 to US\$130 million to explore natural gas and oil to the north of La Paz.

Abandoning the US-dollar to trade oil? With regard to the controversy that arose around the use of the US-dollar for trading oil and accumulating international reserves, the Iranian Government, which since 2007 has been receiving 85% of its oil income in other currencies, has requested Japan to its oil business with Iran in Yen, and the Arab Emirates in Dirham and other countries to use the Euro. President Chavez restated his support for this initiative, indicating that said proposal was already under consideration in OPEC. Furthermore, according to an article in the British newspaper *The Independent*, the Arab Gulf states are in secret negotiations with Russia, China, Japan, Brazil and France to replace the US-dollar for a basket of foreign currencies when trading oil.



PETROBRAS is another Ally. Should the strategic agreements between PDVSA and PETROBRAS be settled this year, the bilateral commerce could exceed US\$10 billion in 5 years. The president of the Venezuelan-Brazilian Industry and Commerce Chamber (Cavenbra) estimates the current exports to Brazil of US\$500 million to be of US\$1 billion next year.

International baskets: WTI reach the US\$80/bl. The WTI opened on Thursday, the 22th of October in US\$80.9/bl reflecting an increase of 3.6% with regard to the US\$78.1/bl registered at the closing of last Thursday. For its part, the Brent also showed an increase, but in a slightly major proportion, rounding up 4.0% to place in US\$79.3/bl, in relation to the US\$76.2/bl of Thursday, the 15th of October. This increase on prices it's due by three key factors: the good expectations in relation to the world economic recovery (mainly by the outstanding performance of emerging markets like China and India); the improvement in all oil figures by part of the international organisms; and the good attitude from producers.

Local oil basket price. The Venezuelan oil basket price went up by US\$3.7 last week, to close on Friday, October 16 at US\$68.1/bl against US\$64.4/bl of the previous week. Meanwhile, the basket's annual average reached US\$53.3/bl, 33.3% over the budgeted value. For that reason, projections for the end of this year are aiming to an additional fiscal income of about US\$6 billion.

Business Sector Tips

Jesse Chacon in action with currency allocation. The Minister of Science, Technology and Intermediate Industries said that CADIVI'S allocation of foreign currencies has grown by 40% compared to the first semester of 2009. He also informed that the automotive, agricultural, chemical and textile sectors will know their official currency budgets for 2010.

The Venezuelan Government's goal is to assembly over 200,000 vehicles in 2010. The Minister of Science, Technology and Intermediate Industries, Jesse Chacon, announced the Government's plans to set an official exchange rate currency budget of US\$4 billion to boost the automotive sector in 2010. It is known that this budget includes both assemblers and auto-part manufacturers. It is worth mentioning that in 2007, when 172,417 units were assembled, the sector's CADIVI currency allocation was of US\$8 billion, although an important proportion of the US\$8 billion



went to the import of finished vehicles. Production for this year is estimated to be between 110,000 and 120,000 units.

CADIVI owes US\$100-120 million to auto-part manufacturers. Auto-part manufacturers need US\$500 million to import intermediate products in 2009. Out of this number, CADIVI owes between US\$100 million and US\$120 million in authorized but not liquidated currency. The Venezuelan Automotive Chamber said last week that CADIVI still owed US\$3 billion in authorized but not liquidated currency.

Loan portfolios increased in September. The financial system's loan portfolios grew by 4.8% in September, as compared to the previous month, reaching VEF 143.7 billion from VEF 139.2 billion in August. The banks that granted the most loans in September were: Occidental de Descuento, Banesco and Mercantil.

The banking system invests more and more in securities. Upon the end of September, the financial system's investment in securities reached VEF 90.4 billion, 59.1% more than September of 2008, thanks to the large number of domestic and foreign debt bond issuances this year. The bank with the largest investment in securities is Banco de Venezuela and those that have grown the most with this type of investment during the last 12 months have been Provincial, Inverunion and Banco de Venezuela.

IDB to grant a loan of US\$1.75 billion to the electric power sector. Corpoelec signed an agreement for US\$1.75 billion with the Inter-American Development Bank (IDB) for the construction of project Hydroelectric Center Manuel Piar in Tacoma, Bolivar State. This center's first generating unit will be operative by mid-2012 and the last unit by 2014. It is worth mentioning that the sum of this loan is the top amount granted by the IDB to any country.

Colombians wish to continue exporting vehicles to Venezuela. This year's automotive exchange between Venezuela and Colombia is estimated to be around US\$100 million, which represents less than 10% of its value in 2007. Colombia also states that the substitutions carried out through Ecuador and Argentina have not arrived to Venezuela yet, and that they have a higher cost due to the distance, so they consider a negotiation to be beneficiary for both.

Corpoelec sued due to power shutdowns. The National Association of Users and Consumers, represented by Alberto Leon Parilli, will appear at the Supreme Court's Constitutional Room on October 29 to reiterate the lawsuit application against Corpoelec by companies that have had losses due to power shutdowns. Likewise, Rafael Ramirez, Minister of Energy and Oil, requested the creation of an electric power consumption band for consumers who exceed the limit to be obligated to pay



higher rates and those who spend less to be exempted from paying, due to the fact that there is an excessive demand and adjustments need to be made.

Mercal workers threat with union and legal actions after several failed attempts to reach an agreement about the collective contract, since Mercal claims that due to the fact that they sell products below the regulated prices, they did not generate revenues in 2006 and 2007 and didn't take the necessary precautions in 2008, so it is impossible for them to comply with the collective labor agreement.

Portuguesa and Guárico States' corn producers warn about significant crop losses. The production of white corn came near 1,200,000 tons in 2008, while this year it is expected to be between 900,000 and 1,000,000 tons, representing a production decline of about 17%, which shall be compensated with imports, since the demand is near 1,300,000 tons. About yellow corn, an even bigger decline is expected, near 45%, but it is totally compensated with the government's stored imports of last year.

World Crisis Tips

US deficit hits record US\$1.4 trillion. Although this budget gap is almost three times last year's deficit (US\$459 billion), it was less than the White House had forecast in August (US\$1.58 trillion) when it reduced its original projection of US\$1.84 trillion, thanks to the fact that the US\$700 billion financial rescue was not completely executed.

Industrial production grows. US industrial production grew by 0.7% in September, much greater than the market expected (0.2% according to Reuters' polls). This is the third consecutive month industrial production shows growth, to accumulate a quarterly gain of 5.2% (Seasonally Adjusted Annual Rate, SAAR). This is the first quarterly gain since the first quarter of 2008, reinforcing the view that the recession ended in the third quarter of 2009.

Consumer confidence falls unexpectedly. The University of Michigan's consumer poll showed preliminary results indicating that American consumers' confidence is falling during October, with 69.4 points, down from 73.5 registered in September.

US Real estate foreclosures increase in the third quarter. Although the Case & Shiller Home Price Index indicated the worse of the mortgage crisis is over, since



home prices in 20 of the main cities in the US went up 4% compared to the previous month, real estate foreclosures increased by 4% during the third quarter as compared to the previous quarter, for a total 938,000 foreclosures, that is, one out of every 136 homes in the United States was foreclosed during the last quarter.

Retail sales fall after “cash for clunkers” ends. US retail sales declined in September by 1.5% as compared to the previous month. The main cause is the end of the Cash for Clunkers Program, in which buyers of new fuel-efficient vehicles received up to US\$4,500 if they gave away their old vehicles. Excluding car sales, retail sales improved by 0.5%, suggesting a future modest recovery of consumption, although compared to 2008, sales are still 5.7%.

UK to implement more strict rules to mortgage loans. British financial regulators are planning to reinforce mortgage loans regulations, forcing banks to confirm loan applicant's income. They will also implement mortgage attainability tests, in order to reduce the number of unpaid mortgage loans in the financial system. Mortgage loans currently represent 70% of the British financial system's loans portfolio, GBP 1.23£ trillion.

China to grow at least 9% in the third quarter. The Chinese Academy of Social Science predicted that the Chinese economy grew by at least 9% between July and September of 2009, and they expect to close 2009 with an 8.3% growth, well aligned with the Government's projections and slightly below the consensus for the Chinese Gross Domestic Product's growth of 9.1%.

Chinese commerce improved significantly in September. Commerce between China and the rest of the world maintained its declining trend in September, but the month's drop was the slightest of the last nine months. In y/y terms, commerce between China and the rest of the world is 15.2% smaller in September compared to September of 2008, which represents a significant improvement compared to the y/y drop of 23% reported in August.

Too much saving affects Japan's growth. The Japanese recovery is estimated to be one of the most lethargic, due to its high rate of savings and its great dependency on foreign demand. The second quarter of 2009's q/q growth, which was previously estimated at 0.9%, declined to 0.6%. This economy is expected to have a GDP contraction of 6.2% in 2009 and a growth of only 1.3% in 2010.





Political Tips

Opposition expects to turn tables at the National Assembly. The opposition is looking to seal agreements for the election method of independent candidates for 2010 Parliamentary election. The agreement contains three different methods to select the Democratic Union Table, namely: consensus, polls and primary elections. The method's choice will depend on the characteristics of the region. Primary elections will be avoided in those States that are more economically depressed, also to avoid the appearance of another list such as Tascon's. These actions aim to face the official party and to change the Assembly's strength correlation.

Union Table and CNE Meeting: Elections IISem2010. Upon his exit from the CNE, Omar Barboza, President of UNT, said the elections are set for the second semester of 2010. He said the CNE "showed its will to approve electoral circuits by the end of the current year and for the electoral regulation to be approved."

First case of political persecution being studied by the IACHR. The Inter-American Commission on Human Rights (IACHR) is now studying the first report of one of Venezuela's so called "political prisoners," Raul Diaz Peña, arrested in Disip since 2003 for the case of explosions at the diplomatic offices of Spain and Colombia. The IACHR'S request to prosecute the Venezuelan State recently became public. Also, in the admittance report number 23-09, the IACHR says it is presumed that the State violated the right of presumption of innocence established in the American Convention.

Reports delivered to embassies... Members of the Democratic Union's table for human rights and justice delivered a report to the embassies of Brazil, Costa Rica, Peru, Bolivia, Ecuador, Argentina, Nicaragua, Paraguay and Spain to denounce human right violations in Venezuela, especially violations of freedom-of-speech, freedom to work and presumption of innocence.

Possible answers to political prisoners. An answer should be given to at least 3 of over 40 political prisoners within days, including the most popular case of entrepreneur Eligio Cedeño who is incarcerated for the Microstar case. The decision lays on Judge Jesus Boscan, although he has violated due process, since the original term was for 3 days and no orders have been issued yet.





People getting tired of Chavez. Different public opinion studies show that people's discontent with the Chavez administration has increased progressively. All numbers report a drop in popularity by around 12%, due to the fact that people's perception is that society's main issues are still unresolved, so Chavez has begun to take measures to stop this trend, starting with the economic policy.

ULA under protests of workers' union. The University of Los Andes has suffered yet another attack of around 10 hooded people supporting that institution's workers' union, who demand the inclusion of a budgetary entry for contracted workers. These hooded people caused several damages to different areas of the university, while the rector, Mario Bonucci, points out this was not the first time this demand was made, but that an application had already been submitted to the Ministry of Higher Education and they are expecting an answer.

© Ecoanalítica – Descargado por usuario [unreadable]





ECONOMIC OVERVIEW

