



Weekly Report

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*Syrian economic model:
Is it the way to go?*

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In conversations that we have had with a number of different analysts, many have commented that the *chavista* economic model is very much like the economic model implemented in Syria. After some research, we have discovered that this is true, that there are a number of similarities between the policies being implemented by the Venezuelan government and the decisions made a few decades ago in Syria. In this Report, we will present a comparative analysis of both economies in order to see where the policies implemented by the Chávez Administration are taking us and their long term viability.

An oil exporting country, with an Administration that is trying to dominate the political scenario as well as the economic scene

The Syrian Arab Republic is a country in the Middle East which lies between Lebanon, Turkey, Iraq, Jordan, Israel, and the Mediterranean Sea. It is an oil exporting country, though it exports much less crude oil than Venezuela does. Like Venezuela, its crude oil production levels have shown a tendency to drop, going from producing 583 kb/d in 1996 to 368 kb/d in 2009. Its economy is much smaller than ours with its nominal GDP at US\$52.50 billion in 2009, according to International Monetary Fund (IMF) estimates, compared to Venezuela's US\$337.30 billion. Syria has a



population of 20 million people which puts its GDP per capita at US\$2,578 compared to Venezuela's US\$11,789 (IMF figures, 2009). Syria's population is estimated to be growing at an accelerated rate of 2.75% per year and the average growth rate of its economy during the last ten years (4%) hasn't been enough to keep the unemployment rate down which is at around **11%**.

An Authoritarian political regime

Syria's political system is described by international observers as being a hereditary dictatorship; however, the country has legislative and judicial institutions, though they are very weak. There are five main political parties in Syria, with 15 other smaller weaker political parties operating in the country, but the Baath party has totally dominated the political scene since the 50's. There are also around 14 Kurdish political parties that are considered illegal. Constitutionally, the country elects the leader of the Baath to be the President of the Republic, and in turn, the President is the leader of the National Progressive Front (a coalition of 10 political parties authorized by the Government). The President has the power to choose his Ministers, issue laws (though they have to be approved by the People's Council), he can also make amendments to the Constitution, appoint officials to the government and appoint military personnel. The Government declared Emergency Law in 1963, which suspended most of the people's constitutional rights, and it has been in effect since then. The justification given for this is the ongoing military conflict with Israel.

The current President of Syria is Bashar al-Assad, and he has been in power since the middle of 2000, when his father died, the former President of Syria, Harfiz al-Assad, who was President for 30 years. In order for Bashar al-Assad to become President, the Parliament introduced an amendment to reduce the minimum age one had to be to become President, from 40 to 34. He was elected for a 7 year term by referendum without an opposing candidate. He received 97.3% of the votes. His regime, just like his father's regime, has been much criticized for human rights violations, such as: censoring the Internet, arresting blogger, restricting travel permits, unjustified detentions, torture, and people having gone missing. But, unlike his father, Bashar al-Assad has shown that he is progressive in economic matters, something we will focus on further on in this Report. There is an Opposition movement, which believes in gradual and peaceful change towards democracy.

Priority to control the strategic sectors of the economy

The main similarity in terms of policies is in the control of the so-called strategic sectors of the economy. At *Ecoanalítica*, we believe that this is essentially what analysts here in Venezuela are referring to when they say



that Venezuelan economic policies are following the Syrian economic model.

In Syria, nationalization policies began in the 60s when the Baath party took power, and continued well into the 80s. Nowadays, just as is the case in Venezuela, the Syrian government continues to control the priority sectors of the economy, such as: oil refining, port operations, air transportation, electric power generation, water distribution, etc. For ideological reasons, it refuses to privatize these sectors despite the fact that it represents a significant fiscal load for the Government.

But the similarities stop here

However, politically, between Syria and Venezuela, there are very big differences. An authoritarian regime can be sustained over the long term, with less difficulty, when the society being submitted to its authority has never had a firsthand experience with democracy, such as the case with Cuba, North Korea, the Soviet Union, and a number of Middle Eastern countries. Venezuelans, on the other hand, have had the experience of living under a democracy for over five decades, and the idea of a single leader remaining in power for perpetuity and the implementation of radical political policies will not be so easily accepted by the people in general.

With respect to the economic challenges that face both countries, there are interesting similarities and some differences

Based on the 2010 World Economic Forum's Survey of Opinions of Business Executives we can see some interesting similarities and differences in terms of the economic challenges both countries face.

For businessmen, in Venezuela as well as in Syria, the inefficient bureaucracy of the Government, restrictive labor laws, and corruption are among the main problems cited for doing business. These are three typical problems of big (over-inflated) governments that are at the helm of a highly regulated economy which doesn't allow the markets to adjust freely, thereby generating distortions and the inefficient use of resources. This situation, taken to its extreme, can be seen in a centralized government planned economy.





The most problematic factors for doing business

Venezuela 127 (Competitiveness rank: 127/138)	%	Syria 97 (Competitiveness rank 97/138)	%
Foreign currency regulations	24.0	Inadequately educated workforce	16.2
Policy instability	15.2	Inefficient government bureaucracy	15.2
Restrictive labor regulations	12.4	Restrictive labor regulations	14.4
Inefficient government bureaucracy	12.1	Access to financing	10.7
Inflation	8.7	Corruption	9.4
Corruption	8.4	Poor work ethic in national labor force	9.0
Crime and theft	7.5	Tax regulations	6.6
Tax regulations	2.8	Inadequate supply of infrastructure	6.1
Inadequate supply of infrastructure	2.3	Tax rates	4.6
Access to financing	2.2	Foreign currency regulations	4.0
Poor work ethic in national labor force	1.5	Inflation	2.3
Inadequately educated workforce	1.0	Policy instability	0.8
Government instability/coups	1.0	Poor public health	0.8
Tax rates	0.8	Government instability/coups	0.0
Poor public health	0.0	Crime and theft	0.0

Sources: WEF Global Competitiveness Report and Ecoanalítica

The big difference is that Venezuela has three very serious problems to deal with while it moves forward with the nationalization process and the State taking control that Syria didn't have to face: Inflation, exchange policy problems, and crime and theft.

Change of strategy

After almost five decades of Baath party rule, the Syrian Arab Republic continues to be a poor country lagging behind the average wellbeing of other Middle Eastern countries with 30% of its population living in poverty and 11.4% of the population living below the subsistence level.

President Bashar al-Assad has introduced certain changes to the country's economic policies, changes that are a bit progressive and pro-market oriented in order to achieve sustainable development in his country. He has also been less radical than his father, in terms of politics. In his first years in power, he released a number of political prisoners and eased up on government repression against the media.

In the Ministry of Economy and Commerce of Syria* web-page, we can see the latest economic guidelines implemented by the government since Bashar al-Assad took power in 2000:

Economy: Implement open-door economic policies, develop laws to promote investment, maintain an environment for investment, adopt transparent financial policies, adopt economic management principles, free market mechanisms and price development, develop public sector, create

* <http://www.syrecon.org>



opportunities for private sector, increase competitiveness of Syrian products.

International trade: Importing commodities that used to be monopolized by the public sector, now can be imported freely through the private sector, export taxes exonerated for agriculture products and there is a proposal to eliminate export licenses, meet requirements to join World Trade Organization, update foreign trade dispositions to be unified with customs tariffs.

Free trade zones and investments: guarantee loans for trade and investment, finance projects that generate jobs, increase volume of foreign currency allowed for private importers, make it easier to open foreign currency accounts, establish new free trade zones.

As can be seen, these and a number of other measures published on the Ministry of Economy and Commerce of Syria web-page are totally pro-market measures, reversing decades of state-economy policies.

Is this really what the Venezuelan government wants?

There is no doubt that the Chávez Administration is focused on making the State the main player in the economy of the country, leaving the private sector to dabble in those areas that the Administration considers non-strategic, and always heavily regulated.

But in the long term, centralized government planning of the economy and big (inflated) government, heavily regulating economic activity, leaving little or no room for market adjustments, always end up giving way to the world economy, as President Bashar al-Assad is gradually doing, and as the Cuban government will eventually do someday, be it under the leadership of Raul Castro, who has taken some steps in this direction, or some other future leader.

The big question is: Is it going to be necessary for the Venezuelan State to continue to grow until it gobbles up all the space traditionally left to the private sector, virtually eradicating it; only to then begin releasing its strangle hold on the economy? Or, will Chávez be more pragmatic than this in the near future?





Economic Tips

Market waiting for PDVSA bond issuance announcement. After voting on Sunday, September 26, the president of PDVSA, Rafael Ramírez, announced that on Monday the 27th the company would announce the conditions governing the upcoming issuance of PDVSA bonds for US\$3.0 billion, however, the announcement wasn't made. The announcement could be delayed because President Chávez said in a previous public announcement that the issuance would be done through the Public Stock Exchange, which hasn't been constituted yet, while Minister Ramírez had announced that the issuance would be carried out through the SITME.

Venezuelan bonds are up due to election results. The outcome of the Sunday, September 26 election, better than expected results for the opposition, pushed Venezuelan sovereign debt bonds up. The 2022 bond went up by 5.5%, going from 82 on Thursday 23, to 85.5 on Wednesday 29. All the other Venezuelan sovereign bonds followed a similar trend, so the CDS went down 9% from 1089 on Thursday 23 to 1089 on Wednesday 29.

The banking system requested that the BCV lower the legal bank reserve. The private finance system requested that the Central Bank of Venezuela (BCV) lower the legal bank reserve level by 2 or 2.5 percentage points (it's currently at 23%), in order to better take advantage of the upcoming PDVSA bond issuance.

INE food basket up 1.4% in August to settle at VEB 1,330.79. The National Statistics Institute announced that the food basket increased in August by 1.4% to settle at VEB 1.330,79 compared to the month of July. During the last 12 months the food basket has increased by 33.6%. The current minimum wage salary (VEB1,223.89) only covers 92% of the food basket, despite the fact that the minimum wage has been adjusted twice this year, increasing by 26.5%. According to INE figures, basic spending for a family of five including education, health, food, and housing is at VEB 2,661.58. A single minimum wage salary only covers 45.9% of these expenses.

5260.89 VEB school basket costs. According to data from the Social yAnálisis Documentation Center of the Venezuelan Federation of Teachers (Cendas), the cost of school supplies shopping equivalent to 4.3 minimum wages (VEB 1223.89). A year ago the school shopping 4260.59 VEB cost, ie accumulated an increase of 23.5% in 12 months.





Sitme figures. To date, US\$2,466.4 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$31,2 million a day, with an implicit exchange rate of VEB 5.3/US\$. Last week the traded amount reached US\$229.8 million, US\$15.0 million less than last week when braided US\$214.8 million.

Interest rate. The lending rate for the fourth week in September was at 17.8%, up by 17 base points compared to the previous week. Time deposits and savings rates were steady at 14.5% and 12.6%, respectively.

International reserves. International reserves decreased by 0.9% going from US\$29,204 million during the third week in September to US\$28,927 million during the fourth week in September. Compared to the same period last year, international reserves dropped by 13.4%.

Monetary liquidity. Monetary liquidity for the third week in September was up by 0.9% compared to the previous week settling at VEB 258.18 billion, and up by 9.9% year to date in nominal terms and 17.5% in the last 12-months.

Oil Tips

New issuance. Pdvsa's new issuance of Petrobonos (Oil bonds) for US\$3 billion to take place during the first half of October will leave Pdvsa's total debt at US\$24.42 billion. All funds collected after the upcoming issuance will be used to cover the execution of several investment projects of the "Plan Siembra Petrolera," reaching US\$14 billion in 2010.

British Petroleum requested a negotiation. British Petroleum (BP) asked for Venezuela's authorization, through the Ministry of Energy and Oil, to negotiate its assets in Venezuela. The president of Pdvsa, Rafael Ramirez, said Venezuela would be interested in acquiring 100% of BP's assets, but they need to review the proposal.

Pdvsa only slightly affected by fires. The Chinese state-owned oil company, PetroChina, issued a press release announcing they would be receiving a shipment of 2 million barrels of fuel oil from Venezuela, without major delays. However, it'll be shipped from a different terminal in the Caribbean, since they usually come from Bonaire, where a Pdvsa pier remains shut down after being affected by a fire nearly two weeks ago.



Former owners of expropriated companies begin to assess their options. The former owners of 105 companies expropriated by Pdvsa in the Zulia state are beginning to positively assess their getting paid by their assets at book prices, since the longer it takes, the worse their indemnification will be after the effect of inflation. The president of Pdvsa, Rafael Ramirez, said in recent statements that the ministry was currently carrying out appraisals and that they would honor their commitments. However, former company owners are not only worried about the debt for their expropriated assets, but also about the due payments for services provided to Pdvsa, of which they have only received 30%.

Autogas program continues, but doesn't move forward. President Chavez announced the release of the plan called "Mi carro a gas" (My Natural-Gas-Operated Car) to trade old, highly gasoline-consuming cars for cars operated with Natural Gas for Vehicles (GNV). However, even though President Chavez has said this is a very strategic project for the Government, the program's goals have not been achieved, since it was first announced on January 5 of 2009. Chavez also mentioned that 107 natural-gas-conversion centers had been installed so far, when it should have been 126 between 2006 and 2009. Also, only 43.000 vehicles have been equipped with a dual-fuel system, not even 1% of the national automotive fleet and, as of 2009, this number should have represented 12.5%, and 32% by 2012. The importance of this project lies in the fact that the country fails to gain about US\$10,000 million annually, for the price subsidy, this said by Rafael Ramirez, president of PDVSA.

Change ruled out. The Organization of Petroleum Exporting Countries will not modify its production quota in the next meeting scheduled for October 14 in Vienna, so was stated by the minister of Oil of Kuwait, sheik Ahmad al-Abdulah al-Sabah, since member countries are comfortable with the current production levels and prices. Meanwhile, Rafael Ramirez, president of Pdvsa, said Venezuela was not interested in modifying its production quota either and that its target price was 100 US\$/bl, even though many may think it's overrated.

Collective labor agreement ready. Negotiations for the oil sector's collective labor agreement seem to have concluded and, according to Will Rangel, president of the Venezuelan federation of oil workers (Futpv), the agreed on a good social salary and other benefits such as especial emergency loans with no interests, loans to acquire computers for up to VEB 10 thousand, and a 100% funeral coverage. These measures will be effective as of February 2 of 2011.

Earnings for the second quarter. The earnings of major natural gas and oil producers in the United States during the second quarter of 2010 increased significantly to reach US\$18.5 billion, compared to the US\$10.1 billion of the same



period in 2009, according to the US Energy Information Administration (EIA). However, profits are still below the average levels of second quarters of the last five years. American refineries paid an average price of US\$74.33 per barrel in the second quarter of 2010, while during the same period of 2009 the average price per barrel was US\$57.92. Nonetheless, they were able to exceed the earnings (US\$200 million) obtained in the second quarter of 2009 and even the ones obtained in the same period of 2008 (US\$3.1 billion), to reach US\$5 billion in the second quarter of 2010.

Investments grew too. The US EIA reported capital expenses increased during the second quarter of 2010, reaching US\$21.2 billion, compared to the US\$18.3 billion of the same period of 2009, a 15.8% increase. This capital investment number is higher than the quarterly average since 2005, when it reached US\$17.84 billion, an 18.8% fall.

Savings in oil. During the act, President Chavez said he trusted the State could “*be open to the participation, not of the high-class, but of workers, so that they are able to invest their savings in development plans.*” Chavez expressed he agreed that “*public employees should invest in the Orinoco Oil Belt. Their money would be safer there than in any bank. They could receive dividends. That’s a source to capture people’s investment.*”

International oil baskets. At the close of the New York market last Thursday, September 30, the WTI was at US\$79.8/bl, showing a 8.8% increase compared to the US\$73.4/bl of the previous Thursday. The Brent decreased by 5.2% to reach US\$82.5/bl, compared to US\$78.5/bl of Thursday, September 23.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$67.7/bl on Friday September 24, up by US\$1.5 from the US\$69.2/bl registered the previous week. Meanwhile, the basket’s annual average kept constant in US\$69.5/bl.

Business Sector Tips

Stagnant consumption. According to a study carried out by the consultancy firm Nielsen, the sales of mass consumption products decreased during the last year. The firm assesses demand volumes and price levels of 102 categories found in supermarkets, grocery stores, drug stores, personal care stores, newsstands, bakeries, liquor stores and hardware stores. 49% of these 102 products assessed



reported a reduction in sales volumes by 11.5%. However, the study reveals customers overpaid by 39% in average, due to the increase of regulated product prices. By product type, dairy products showed the slightest decrease between July of 2009 and July of 2010, with a 7.6% reduction of sales volumes. Candy and impulsive products, that is, products consumed by impulse, not by need, reported a significant decrease by -4.3%. Even though personal care products presented a 61.6% increase in price, reflected only a 2% demand reduction.

How are sales distributed? As to sales distribution, Nielsen's study states that out of every VEB 100 spent, VEB 29 were destined to food, VEB 10 for miscellaneous articles (plastic bags, aluminum foil, pots, kitchenware, etc), VEB 9 for housekeeping products (detergents and cleaning products), VEB for impulsive products, VEB 17 for personal care products and VEB 25 for non-alcoholic beverages such as sodas and juices.

Leaders in consumption. According to data released by Nielsen at the economic outlook forum of the Venezuelan American Chamber (VenAmCham), Venezuela consumes 7 times more liters of whiskey per capita that the rest of Latin America, 4 times more corn meal, 2 times more tuna, milk powder, rum and dog food. In this sense, Nielsen finds that Venezuela leads per capita consumption of the region in a variety of categories.

Hard to meet the mortgage portfolio. Last May, the Ministry of Public Labors and Housing modified the terms of the mortgage portfolio so that a large part of home loans would be oriented to low-income families, but the demand by these groups has been low and banks have not yet been able to meet that portion of the mandatory portfolio.

How does the mechanism work? The objective of the mandatory mortgage portfolio is to favor families that, due to their low income levels, are not able to apply for the loans granted through the Mandatory Savings Fund, the mechanism provided by the Law of Housing that benefits those earning up to VEB 7,000. A government subsidy is also granted by this mechanism. In contrast, financial institutions are obligated to destine 10% of their total loans portfolio to mortgage loans, and out of those funds, 58% must be for loans to purchase homes, 32% for construction and 10% to finance remodeling and home improvements. Out of this 58% contemplates for the acquisition of homes, 80% needs to go to families earning up to three minimum wages (VEB 3,672) and 20% to families earning more than three minimum wages, more than VEB 3,672.

A bank is not the State. Financial sources explain the portion of the mandatory mortgage portfolio set for higher-income families was already met and that the



difficulties to meet the mandatory portfolio were reported in low-income groups. One of the reasons for the low demand is that through the mortgage portfolio, lower-income families do not enjoy the direct subsidy offered by the State, and therefore they do not apply for loans through that mechanism.

75% of Banco Federal accountholders have been reimbursed. Last Friday, during the act in which former Banco Federal accountholders received their payment certificates, President Hugo Chavez reminded that out of the total number of payment certificates given to this bank's accountholders, the Government has already paid 75%, that is, VEB 1.59 billion. Chavez also guaranteed jobs to Banco Federal's 2,600 former employees. *"We need you. Count on us and be sure we won't leave you on the streets."*

What is the cost of the banking crisis? According to information revealed by the Deposits Guarantee Fund (Fogade), a total of VEB 2.45 billion have been paid to former accountholders of the banks Federal, Canarias, Banpro, Baninvest, Sol, Real and Inverunion. According to the fund's president, David Alastre, if all deposit holders with up to VEB 30,000 demand their guarantee, the cost of the banking crisis will reach VEB 3.26 billion. Looking closely at these numbers, in the case of Federal, 74.3% of all amounts due by guarantee have already been paid; in Canarias, 78.6%; Banpro, 75.3%; Baninvest, 69.2%, Sol, 53.4%; and Inverunion, 41.2%.

Liquidation process of Banco Real begins. Alastre indicated the liquidation process of Banco Real had already begun, that means that those people or companies who had more than VEB 30,000 in their accounts, or those who were owed payments by Banco Real, must introduce the necessary requirements for the liquidating board to evaluate whether there are assets available to pay them. Natural persons and companies have until October 7th to introduce the requirements. After that, the people in charge of liquidating Banco Real will not receive any more documents regarding debts. VEB 80 million are already available for the liquidation process of Banco Real, and asset appraisals aim to another VEB 53 million coming in.

Seguros Banvalor closed for audit. The Superintendence of the Insurance Activity ordered the shutdown and audit of Seguros Banvalor. The resolution, published in *Official Gazette* N° 39,516 of September 23, 2010, indicates the audit was ordered because the company had insufficient reserves for VEB 89.9 million and had public securities for VEB 180.5 million in a financial institution that was not an authorized depositor.

Iron production in decadence. The results of basic industries between 2005 and 2009 indicate that iron production, 22 million metric tons in 2005, closed 2009 in 13.8 million metric tons, a 37% decrease in only four years. This behavior was also seen in



other supplies, such as alumina, with 1.9 million metric tons produced in 2005 and 1.3 million in 2009, for a 32% decrease. Aluminum production reached 632,000 tons in 2005 and 569,000 tons in 2009, a 9% reduction.

Subsidized food: VEB 9 billion. The Venezuelan Government invests over VEB 9 billion per year to subsidize the products sold in the distribution network Mercal and other programs addressed to guarantee food to the less fortunate, said the minister of Nutrition, Carlos Osorio. He also said the only official food distribution network that was subsidized was Mercal. He specifically said, 17 fields of the basic basket are subsidized, between 60 and 70% of their price. He finally revealed the intention was to cover up to 50% of the food demand.

Problems in the electric sector continue. The electric sector's national commissioner of distribution and commercialization, Joaquin Osorio, in a recently released sector balance report, informed of the detection of some irregular situations occurred in electric plants. The public clerk was talking about the failures that had been reiteratively affecting the electric service in the country's east and west sides due to structural problems of the system, as well as other events of alleged "sabotage."

Is this sabotage real? Osorio said that two home-made explosive devices had been activated at the hydro-electric center Uribante-Caparo (Tachira), and that approximately 8 hooded people had fired shots at security guards and representatives of the Bolivarian Armed Force guarding the Masparro dam (Barinas). He also mentioned other irregular situations reposted at the country's central region distribution networks, specifically in the San Mateo circuit, in the Aragua State, and at the San Diego-Los Guayos line, in Carabobo, in which metallic objects had been used to tamper with the service.

Refractory's Socialistas de Venezuela. The Venezuelan Government published a decree in *Official Gazette N° 39.514* of September 21 authorizing Corporacion Venezolana de Guayana (Venezuelan Corporation of Guayana, CVG) to purchase 100% of Refractarios Orinocos's shares. The company will be called Refractarios Socialistas de Venezuela, and its objective will be to manufacture, sale and import-export refractory products.





World Crisis Tips

Latin American regional commerce fell 1/3 in 2009. The world crisis produced a 27% contraction of inter-regional commerce in 2009 in all 12 countries of the Latin American Integration Association (Aladi), compared to 2008. Commerce in 2009 reached US\$106 billion. However, even though the fall of the activity was surprising due to its speed and depth, signs of recovery have been reflected in a slow but steady increase of the world's industrial production since the second quarter of 2009, so a 24.5% growth in imports and a 25.2% growth in exports are expected for 2010.

World's monetary liquidity still under control. The monetary stimuli in the United Kingdom remain strong. However, even though the economy shows signs of weakness, the Bank of England cannot implement a new stimulus. The growth of the monetary demand has increased by 6.2%, while the inflation has remained under control. In the United States the results are different since liquidity has not increased so much and has in fact shown a slow growth, reporting a 1.6% increase in the last twelve months, much below the average of the last 5 years. The European Union's case is similar to the United States', with an increase of only 0.8% due to the large fiscal cutbacks implemented in many countries of the region.

Confidence collapses. The Conference Board Consumer Research Center revealed its consumer confidence index had dropped by 8.8% in September, when analysts' consensus expected a 1.9% fall. The level reported in September is lower than that of February of this year.

Mortgages keep falling. According to the Mortgage Bankers Association of America, mortgage applications keep decreasing, showing a 1.4% contraction in the last week, after having reported an 8.9% fall the previous week. However, mortgage applications still register an 18.3% increase compared to the same period of 2009.

Rate remains stable. In a meeting held by the Federal Reserve's (FED) Open Market Committee, the interest rate for federal funds was maintained at 0.125%, where it has been since December of 2008. The discount rate also remained constant at 0.75%. In the same announcement, the FED said the growth rate had become slower in the last few months, especially in terms of production and unemployment, while they expect inflation to remain stagnant for a while, until the Committee considered it needs to be increased.

Indicators show unrest. Financial indicators show signs of unrest since the yield of 10-year treasury bonds has dropped from 3.85% in April to 2.72% today, and the





currency value has decreased by 6.0% since it peaked in July. The growth of monetary liquidity also showed signs of deceleration by reaching a 0.9% increase for the last 13 months, after having presented a 1.7% increase in July, under the same terms. This proves a weak consumption spending and a shortage of demand for money.

Home sales recover from lowest level. Built-home sales showed slight signs of recovery since last month, when they reached their lowest historic levels due to the expiration of the Federal Government's home purchasers' loan. Sales increased by 7.6% in August, after having dropped by 27.0% in July, according to the National Association of Realtors. This result in August was slightly better than analysts expected. It is worth mentioning that, even though the sales of built homes improved, the average price of this kind of home unit decreased by 1.9% compared to the previous month to reach US\$178,600. However, they are still 8.6% over the lowest mark reported this year in January, and remain close to 25% from their peak reached in 2007.

Durable goods orders also suffering. The numbers released by the United States Department of Commerce indicate that during August, durable goods orders fell by 1.3% after a 0.7% increase reported in July. This drop exceeded analysts' expectations, which were waiting for a 1.0% fall. This result reinforces the decreasing trend, reflected in the quarterly index where the fall reached 3.0%. Durable goods shipments have also weakened but continue to register an 8.6% y/y increase. Inventory accumulation continues to grow reporting a 0.4% increase in August, compared to the previous month, and a 4.1% y/y increase.

Capital goods orders also weaken. According to the United States Department of Commerce, capital goods, excluding defense-related goods, reported a 0.9% contraction after a 0.7% fall reported in July. However, they are still growing, since they report a 21.2% y/y growth, when a 26.8% loss was reported in 2009. Also, the quarterly indicator shows an 8.8% growth.

Political Tips

Win while losing. The Venezuelan parliamentary election was celebrated last Sunday, September 26, with a better-than-expected result for the opposition, though the Government party was favored by a majority of representatives. After several partial announcements, CNE announced the official results on Monday, September 27,



with a nationwide abstention of 33.5%, 98 PSUV candidates, 65 candidates of the Democratic Unity Table (MUD) and 2 PPT candidates were elected. In summary, 98 PSUV representatives, 67 opposition representatives including the 2 of PPT.

Opposition Majority. Analyzing by number of votes for a political force, MUD obtained 5,448,864 valid list votes (47.9%), PSUV got 5,259,998 (46.3%), PPT got 330,260 (2.8%) and all other minority parties obtained 339,952 (3.0%). Including minority parties, the opposition obtained 53.7% of votes and the government party obtained 46.3%.

Bye-bye to the two thirds majority. With opposition candidates occupying more than one third of the parliament seats, the process of reforming and approving laws to favor President Chavez's socialist project will now lose some momentum, since in order to authorize constitutional reforms and appoint the main public officials such as Supreme Court members, the Attorney General, the Ombudsman and electoral authorities, the National Assembly needs a qualified majority (two thirds).

Clear reduction of the Chavez regime. The results of Sunday's parliamentary elections show a decline in the Chavez popular vote between 890,485 and 1,021,120 votes. On February 15, 2009, the President and his re-election bid received the support of 6,290,059 people. However, in Sunday's parliamentary elections, candidates to the National Assembly backed by the Government were voted by 5,399,574 people, while the board nominated by the Latin American Parliament President received 5,268,939 votes. This means that, in the worst case scenario, Chavez lost 1,021,120 votes, which means a drop of 17 points in popular vote with respect to the indefinite re-election bid in February 2009.

Results of Latin American Parliament. In terms of electoral strength that elected Members of the Latin American Parliament, the results revealed that the board nominated by the PSUV received 5,268,939 votes. The parties belonging to the MUD were able to convince 5,077,043 people that they were the best option, while Review showed 288,899 votes capitalized and Pro-Parlatino arrived at 85,835 votes. This means that votes for the three plates of opposition to the Latin American Parliament recorded 5,451,777 votes, allowing them to be declared winners of the popular vote. However, this victory only represent growth of 4.9 points (compared to 2009), that is to say, that the growth of the opposition as an electoral force is slower compared to the fall registered by Chavez, so that might infer that the opposition did not capitalized on everything that Chavez lost.

Three forces are consolidated. Un Nuevo Tiempo (A New Era), Accion Democratica (Democratic Action) and Primero Justicia (Justice First) were the organizations that played the opposition vote in the presidential elections of 2012. These three parties



won votes of around one million votes, which constitute 54.4% of those achieved by the opposition. A New Era took 995,567 votes, First Justice 972,687 and 919,814 for Democratic Action. The fourth political force in the opposition Copei, won 579,385 votes, representing a significant growth in relation to the outcome of regional elections of 2008 when it reached around 430,000 votes. A New Era and Democratic Action would be the ones that will count with more representatives. According to leaders of these parties, each organization took 16 seats.

AD is alive and kicking. Democratic Action showed more national scope as the first opposition party in 15 states: Anzoátegui, Apure, Barinas, Cojedes, Delta Amacuro, Falcon, Guarico, Lara, Merida, Monagas, Nueva Esparta, Portuguesa, Sucre, Trujillo and Vargas. The white awning finished in second place in the democratic alternative in five states and third in three others.

PJ and UNT: urban forces. Justice First (PJ) consolidated its electoral force in urban areas as the first opposition party in the Capital District, Miranda and Aragua, the balance also reflects a notable increase over the vote in 2008. The party A New Era (UNT) again showed its strength in Zulia, where he received 66.8% of the national total. In this state, this opposition organization won 12 of the 15 seats contested.

Everyone is present in their regions. Copei showed its strength in Táchira, where he received 149,186 votes, the Causa R said its leadership in Bolivar, where it was the main opposition party with 54,770 votes, Proyecto Venezuela returned as a majority of votes in Carabobo, with a total of 219,033; Convergence and gathered the preferences of Yaracuy state voters, which accounted for 47,132 votes.

By candidates ... The opposition candidates that received the most votes were, Maria Corina Machado with 235,259 votes and 234,272 Enrique Mendoza, both of Miranda state circuit 2, as well as Michelle Cocciolo, who ran for district 3 in Carabobo state, with a total of 161,294 votes. In the case of the United Socialist Party of Venezuela (PSUV) the three candidates who received the most votes were Jose Avila, who got the preference of 148,113 voters, the candidate for reelection Saul Ortega, a total of 147,945 votes, and Asdrubal Colina, with 147,893 votes, this were the three PSUV representatives of the circuit 5 of Zulia state.

However, not everything is as good as it seems. At *Ecoanalítica*, we would like to point out that there is still a whole quarter remaining for the current structure of the National Assembly, so there's a chance they could radicalize the agenda in the upcoming months to approve a number of laws that would not be easy to approve once the new Assembly comes into effect. The approval of an Empowering Law for President Chavez is not ruled out either, as well as a reform in the Internal and Debate Bylaws authorizing the approval of laws by a simple majority.



There are always some irregularities. Within the framework of the Zero Impunity Operation carried out by the civilian organization Sumate, 931 reports of irregularities throughout the country were received until 6 pm on Sunday. Most cases reported occurred inside voting centers, with 567 reports, out of which 278 (49.0%) were related to *“problems with the voting machine,”* 48 (8.5%) to *“delays in the voting process,”* and 34 (6.0%) to *“incompliance in the voting process,”* and 30 (5.3%) to *“advantage and propaganda inside the voting center.”* All other reports (210) corresponded to situations outside voting centers, out of which 131 (62.4%) referred to *“advantage and electoral propaganda”* and 58 (27.6%) to *“violence and intimidation.”*

The people responsible. Regarding the people responsible (according to those complaining) of the situation that originated the report, Sumate indicated that the National Electoral Council was top of the list with 290 cases for 31.2%, political activists outside voting centers were made responsible for 142 reports for 15.3%, voting table assistants were made responsible for 142 cases for 15.3% and members of Plan República received 98 reports for 10.5%.

By geographic area. As to the geographic distribution, most reports came from 232 voting centers in Carabobo, 39.3% of the total authorized voting sites in that State, something that potentially impacted 440,089 electors. 152 voting centers were reported in the Miranda state, 15.5% of the total in that state, potentially affecting 337,416 voters. Approximately 135 reports came from voting centers in Distrito Capital, 16.7% of the total in that area, possibly impacting 294,101 electors. The fourth place went to the Bolívar State, with 114 voting centers reported, 18.6% of the total in that entity, potentially affecting 184,793 voters; and 69 voting centers in Nueva Esparta, equivalent to 34.0%, possibly affecting 68,621 voters.

Even theft. Near 11:30 pm on Friday, September 24, subjects entered the electoral center located in the Brigido Iriarte Soccer Stadium across from B street in the Loira urbanization, in El Paraiso, and took part of the equipment that had been left there by Plan Republica. The Chief of the Strategic Operational Commando (CEO), Gral. Henry Rangel Silva, confirmed that four fingerprint scanners had been subtracted from the aforementioned voting center and said the stolen devices only contained information regarding the voters authentication system and were not directly linked to the election. He mentioned the devices had been electronically disabled.

Unity party clean sweep in the Zulia state. After the results of the parliamentary election were released, the Governor of the Zulia State, Pablo Perez Alvarez, pointed out the overwhelming win obtained by the Unity Table in the western state. He highlighted the victory of the people of Zulia, for obtaining 12 seats in the National Assembly (out of a total of 15 candidates), plus the indigenous candidate for a total of



thirteen seats. Perez said *“Zulia wants a better life, with better economic possibilities, with development and progress, understanding the vote as the only democratic instrument to speak up with certainty and firmness.”*

PPT a future alternative. PPT only obtained two seats, both in the Amazonas State, Governed by Liborio Guarulla. It didn't obtain anything in its former bastion, Guarico, or in Lara, despite the drive of Henri Falcon. However, the party's Secretary General, Jose Alborno, expressed with optimism: *“we feel like winners!” “PPT appears as an independent force in the country, a center force that presents itself as a real mid and long term alternative,”* said the party leader, proud of the strategy developed. Though he accepted he was not satisfied with the amount of seats obtained in the parliament, Alborno said they had reached 330,260 votes, and restated his criticism to the Organic Law of Electoral processes, which he branded as *“discriminatory.”*

For the Spanish PP: “the beginning of a political change.” The Spanish Popular Party (PP) (the main political opposition force in Spain), assured yesterday that the voting victory of the Democratic Unity Table (MUD) in Venezuela was a *“historical change”* for this country and *“the beginning of a political change to take place in 2012.”* The Coordinator of Presidency and International Affairs of PP, Jorge Monagas, understands these results *“do not match the desires”* of President Hugo Chavez, because he has not gone out to celebrate his victory from Miraflores.

From the White House... United States expressed its congratulations to the Venezuelan people for the legislative election of last Sunday, from which they will be able to *“deepen the dialogue”* and prove their *“respect for diversity of opinions,”* according to the US Department of State's spokesman, Charles Luoma-Overstreet. The official in charge of US diplomacy in Latin America, Arturo Valenzuela, branded last Sunday's election as *“very important”* for Venezuela, admitting their relations with this country are the most complicated ones in the region.

Fidel, as usual... Cuban leader, Fidel Castro, said *“the enemy,”* United States, had prevented the Venezuelan President, Hugo Chavez, from achieving two thirds of the seats in the parliamentary election, but in spite of that his ally had obtained a *“great victory.”* Fidel added, *“the Bolivarian Revolution now has the Executive Power, a wide majority in the Parliament and a party that is capable of mobilizing millions of socialist defenders,”* in his text called: *All they want is Venezuela's oil.*

What does OAS say? The Secretary General of the Organization of American States (OAS), Jose Miguel Insulza, said the election results *“invite everyone to reflect and dialogue to continue moving forward with the democratic process... the Government did not obtain the expected majority.”*



President Santos to come to Venezuela in October. Colombian President, Juan Manuel Santos, highlighted last Monday the democratic process that took place in Venezuela, and announced he would be traveling to that country in October in response to an invitation from his homologue, Hugo Chavez, as part of the process to improve diplomatic relations between both countries. Regarding the parliamentary election, President Santos said: *"We celebrate the completion of such an important democratic process in the Bolivarian Republic of Venezuela in peace and with enthusiasm."* He expressed satisfaction for the peaceful way in which the election took place.

Ecuador is in the midst of instability. The police today have been protesting in the main streets of Quito and Guayaquil in rejection of a legal reform that eliminates wage benefits (i.e. bonus payments and elimination of decoration). Additionally military on Thursday took the air bases of Quito and Guayaquil. Correa showed up in one of the police riot and he was answered with tear gas.

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ECONOMIC OVERVIEW



