



Weekly Report

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***2012 Presidential Elections:
Will there be a photo finish?***

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The most anticipated moment of the year has finally arrived. This Sunday, October 7, the presidential election will take place. Some have classified this election as the most important presidential election in Latin America, because the outcome will not only have an impact on the Venezuelan economy, but on the economy of the whole region. At **Ecoanalítica**, we agree with this statement.

From our stand point at **Ecoanalítica**, after a very atypical campaign by the government party, and compared to the far reaching campaign carried out by the opposition, we can say that the final effort put forth by both candidates during this last month of campaigning was focused, positively or negatively, on influencing those voters that are still undecided. These voters, for the first time since Hugo Chávez has been a candidate for president, may tip the scale and cost him the election. In this Report, we present our view regarding the presidential election.





How did the candidates close their campaign?

The candidate for the opposition, Henrique Capriles Radonski (HCR), with a total of 20 campaign closing events around the country, focused on contrasting his proposals with those of his opponent, emphasizing on his programs for solving the problems facing Venezuelans, as well as pointing out the deteriorated state of this Administration's management of the government. He called on voters, those not happy with President Chávez, to overcome their fears and not let themselves be manipulated.

Hugo Chávez and the chavista campaign, with a number of tactical errors and a very limited number of appearances by the candidate, focused on tearing apart the political image of the opposition, generating fear for the supposed economic package HCR plans to implement if elected, that would supposedly hurt the poor and those with the lowest income; and saying he was sorry for the mistakes made in managing the government, all the while planting the seeds of fear in all sectors, quoting Luis XV, King of France: "After Me, the deluge." Some government projects and works were finished during these last few weeks and very few ideas were presented to solve the country's problems, in what one would have expected to be the moment when the "killing blow" would have been delivered, as Chávez would say.

What's on the table?

At *Ecoanalítica*, we have pointed out for some time now, independently of how the election turns out, that the chavista movement is in a very vulnerable position, not only with respect to the election, but also beyond October 7. By the same token, the contrary is happening to the opposition.

Since the Administration decided to implement its 21st Century Socialist model in Venezuela, specifically since 2007, with the approval of the 2007-2012 First Socialist Plan of the Nation, its economic and social results have been politically counterproductive. As a result of this, it's important to see how the opposition has grown and positioned itself compared to 2006. Lastly, but not any less important, there is President Chávez' illness and how the campaign has been managed; also to be included in factors that have had a negative effect.

But, these signs don't necessarily means that the chavista party is not strong, and a political victory, well managed by Chávez could once again catapult him to the height of his popularity. This is our appreciation of how things strand:

- 1. The model is inefficient.** While between 2007 and 2012, the price of crude oil increased by 13.9% in real terms, the Venezuelan



economy only grew by 10.0%. The tradable sector decreased by 3.1% while the non-tradable sector increased by 19.0%. As the State becomes more and more involved in the country's economic activity, the deficit of the consolidated public sector has increased by 6.6 percentage points, and the foreign public debt has doubled. Meanwhile, inflation has been at around 26.3% and salaries are 14.0% below the level they had in 2007. Poverty and extreme poverty indicators used by the National Statistics Institute (INE) has only gone down by 1.2 and 0.4 percentage points respectively, compared to the previous period (2000-2006) when the same two indicators went down 9.7 and 8.0.

Macroeconomic variables	1999-2006	2007-2012
Venezuelan Oil Price (US\$/bl)	30.8	81.4
Oil Exports (MB/D)	2.8	2.5
Oil Exports (MMUS\$, Average)	31.1	75.5
Average Growth (%)	2.9	2.9
Average Inflation Rate (%)	19.3	26.7
Poverty (% variation)	-13.3	-3.9
Extreme Poverty (% variation)	-8.0	-2.1
Unemployment (% variation)	-1.4	-1.6
Fiscal Deficit (% GDP)	-2.0	-8.5
Primary Deficit (% GDP)	1.3	-6.6
Debt (MMMUS\$, variation)	13.5	104.2

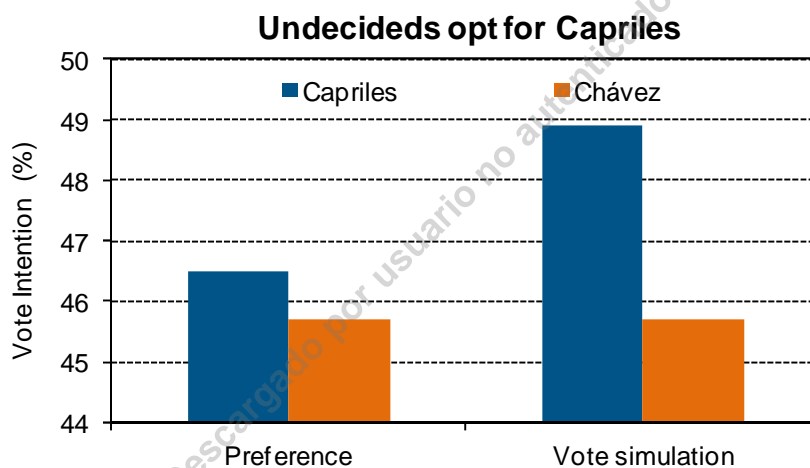
Sources: Barclay's Capital and Ecoanalítica

Despite the fact that the Venezuelan economy is currently growing and historically the correlation between an economic that is growing and voter intention for the sitting government is high, the Venezuelan economy is in a very vulnerable situation, needing inevitable adjustments with respect to fiscal and exchange matters, that we have mentioned in past Reports. These problems will be difficult to solve without the help and participation of the private sector in developing policies, and this, according to surveys, has become a relevant issue with voters.

2. Chávez isn't the undisputed leader anymore. In 1998, Chávez won the election by more than 16 points; in 2000, he won by more than 22 points; and in 2006, he won by 26. For this election, despite the differences between all the polls that are coming out, the more respected and traditional ones show that the lead that Chávez usually enjoys is less, though he is still ahead and



the favorite to win. A Capriles win is not out of the question. According to the last survey by Datanálisis (data that was released during a forum that we attended last September 25), Chávez was ahead of Capriles by 10 points (49.4% to 39.0%), with 11.6% of undecided voters, most of which are leaning towards Capriles (83.6%).



Sources: Consultores 21 and Ecoanalítica

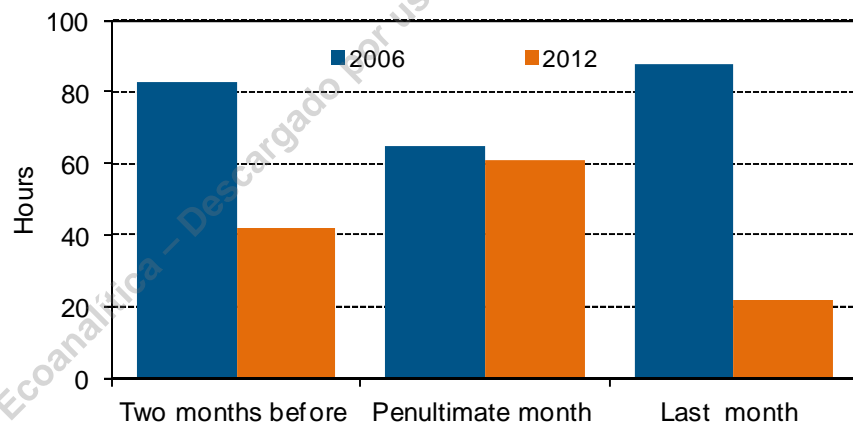
3. The opposition has grown. The surveys that we mentioned before also point to an opposition that is growing, with members occupying public offices and now unified in a single block and backing one candidate, the strong leadership of Henrique Capriles Radonski, who according to surveys is perceived as a young and strong leader (40 years old), energetic, and that is not an old-school style politician nor a chavista style politician. Furthermore, the opposition candidate is popular among the masses more than any other opposition leader as well as chavista leaders.

Let's not forget that on December 16, regional elections will be held; in April, 2013, municipal elections will be held; and in 2015, legislative elections will be held. Furthermore, as of 2016, a recall referendum could be requested; and between 2013 and 2017, if the President were to be forced to permanently step down due to health reasons, anew presidential election would have to be held. In other words, in the next few years, Venezuelans could be having an important election every year, a difficult task for any Administration in power, but more so for the chavismo, in our point of view.



4. Chávez' health has deteriorated. In October 2011, after President Chávez had his first operation (June 2011), Salvador Navarrete, a surgeon that was part of the President's medical team in 2003, said that the "the President suffers from an aggressive malignant muscular tumor located in the area of the pelvis" and "and the life expectancy in these cases is up to two years." After this, the President Chávez underwent chemo and radiation therapy, as well as another operation during the middle of February, on a tumor in the same area that the first one was in. After this, no more information has been released regarding the President's health, but his limited appearance in public or via the media during the campaign suggest that Chávez' health is deteriorated.

Total hours of Chávez' interventions on TV



Sources: ODH, Barclays Research and Ecoanalítica

5. The campaign: What happened to spending?

Furthermore, from an economic point of view, in a very atypical electoral campaign due to President Chávez's illness, what stands out the most is how public spending has been managed. With a candidate that is not able to be as mobile as he would wish he could be, you'd think that this tool would be used as much as possible (in other words increased public spending) to promote the President's image. But, at the moment this Report is being written, public spending in real terms is only up by 2.9% compared to public spending used during the same in 2006, when the last presidential election was held. And if you look at the increase in public spending during the last month of the campaign in 2006 compared to this

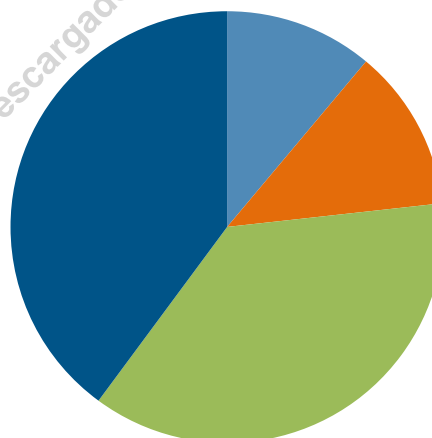


year, the amount is much less, 11.3% vs. 46.6%. This is very important if you take into consideration how much the public sector has grown in the last 6 years.

What one would have expected, with a public sector that has become so much larger is that the Chávez' campaign should have looked to increase public spending by a lot more than what was used in 2006. But, this was not the case. The Administration's campaign was focused on two fronts: the Great Housing Mission (investment spending), and controlling and reducing inflation, both not tied to increased spending in order to influence demand. At this point, all we can do is to wait for the results of the election in order to see if the strategy was effective or not.

Public expenditure through additional credits

■ Administrative expenses ■ Missions ■ Staff costs ■ Projects



Sources: ONT and Ecoanalítica

What could happen?

From this analysis, an element stands out that goes beyond whoever wins the election, and this is that Venezuelan's could be equally divided in terms of political preferences. This is why it's going to be very important by how much the election is decided and how the victor and/or loser will accept or reject the outcome. At **Ecoanalítica**, we have defined these possible scenarios that could occur in the short term:

A chavista victory means...

If Chávez wins by a slim margin his Administration could be quite difficult. The President could move forward to radicalize his socialist model with negative political consequences; or he could ease up and implement a more moderate socialist model and gain lost space. In our opinion,



chavismo will look to implement a more pragmatic model, in other words, more active in terms of the economy than political issues, something that is already beginning to happen; moderate public spending; fewer expropriations; and more foreign currency supply for the exchange market. However, we do not see any significant changes with respect to opening up markets.

In this scenario, Capriles' challenge will be to keep the opposition united, especially if the coalition begins to split, or disagrees with regard to accepting the result of the election or not. This would generate instability and uncertainty in the beginning, but in the end, if Chávez' victory is legitimate, it could seriously affect the opposition, as it has done in the past.

If Chávez wins by a big margin, he will push to further implement his socialist model, following the plans outlined by the Administration. This will increase the States presence in the sectors denominated "strategic" and the private sector will continue to be fenced in, working with the communal sector and mixed companies. This means that radicalism will prevail.

In this scenario, the opposition has to remain united in order not to lose the spaces that it has already taken over, and to try to gain other spaces. The chavismo movement will continue to be vulnerable.

A Capriles victory means:

If the opposition wins by a slim margin, and the chavistas recognize their victory, Capriles needs to pull through there period between October 8 and January 10, 2013, when he would take office, to then govern in a very difficult environment due to the amount of power that will still be in chavista hands. It will be very difficult for the Administration to function under such conditions, but Capriles experience as Governor of Miranda state, where his managing skills helped him positively deal with a similar situation, now applied on a national level, could help the opposition win more spaces in a relatively short period of time.

In this scenario, chavismo will be more active than ever, still holding plenty of spaces in public office, and now working as the opposition in the National Assembly (Asamblea Nacional). The key here will be how cohesive the movement will be if Chávez is forced to relinquish his leadership role due to his illness. Taking into account the divisions that exist within chavismo (radicals vs. pragmatics) it's very probable that the chavista party would split, and this may also happen if Capriles were to win by a wider margin or become more popular with the people.



If the chavista movement doesn't recognize Capriles' victory, this would generate instability and very much uncertainty within chavismo, many of the government positions (held by chavistas) would have to side with Capriles. In the end, a Capriles victory could affect a deteriorated chavista movement with a leader who if failing in strength (not only by his health), much like what has happened to the opposition in the past. This would mean the deepening of chavista radicalism.

If the opposition wins by a big margin, which is not totally out of the question, considering how the undecided voters are flocking around Capriles, the scenario would be ideal for moving forward quickly to dismantle Chávez socialist model, specially at the institutional level, which, accompanied with good management, would consolidate the opposition as the main political force in the country.

Photo finish

There is no doubt that the future of Venezuela is full of uncertainties. Most of the surveys show that the number of undecided voters is gravitating in favor of the candidate for the opposition, Henrique Capriles Radonski. Equally clear is that the chavista candidate and current President of Venezuela, Hugo Chávez is still ahead with a solid support base.

The candidates are preparing for the closing moments of the campaign and everything indicates that the final tally will be very close, one way or the other. Both candidates have a chance of winning; the key will be to mobilize the undecided voters. Both candidates have declared that they will respect the "will of the people." Now all that's left to do is to wait and see.





Economic Tips

Venezuelan economy will grow by 5%. ECLAC forecasts that the Venezuelan economy will grow by 5% in 2012 and 3% in 2013, according to its latest Economic Survey of Latin America and the Caribbean. Venezuela's growth is above the average for the region, which will be 3.2%. The report states that the countries with the highest rates of growth will be Panama (9.5%), Haiti (6.0%), and Peru (5.9%).

Cadivi is not releasing dollars. According to a press release posted on Cadivi's web page, the agency stated that, in the first eight months of the year, it authorized US\$16.41 billion for imports, an increase of 4.4% in the allocation of foreign currency for this item, which clearly indicates that the supply of dollars is stagnating at a time when consumption is growing and there is a greater need for imports to compensate for the scant supply of domestically produced goods.

Increased liquidity puts pressure on the black market. The increased injection of bolivars into the economy, accompanied by growing government spending, has resulted in people seeking dollars at Cadivi and SITME as well as the alternative dollar, where pressure has increased with the elections just days away. At **Ecoanalítica** we consider that, besides the pressure of demand, a reduction in the supply of dollars by the Central Bank could be affecting the alternative market and putting pressure on the price of the dollar.

No revenue, no missions: In an interview for the television channel *Venezolana de Televisión (VTV)*, Oil and Mining Minister Rafael Ramírez commented that "*the past 40 or 50 years have shown that the ministries cannot maintain those social programs,*" which means that "*there is no way of maintaining the missions and continuing to boost the non-oil productive sector without reaping the oil revenue.*" The oil boom and tax reforms have allowed the State to finance both the social programs and a much weightier bureaucratic structure.

The reserves are recovering. According to Central Bank figures, the international reserves posted a recovery of US\$1.5 billion in just three days. At the close of business on September 25, the Central Bank's total reserves were estimated at US\$24.44 billion, their lowest level in five years, and on September 28 they rose to US\$25.94 billion. The behavior of the reserves so far this year has depended on the discretionary nature of foreign currency transfers between the Central Bank and the National Development Fund (Fonden).



Express borrowing: In an operation that did not pass through the hands of the National Assembly, the Finance Ministry speeded up the approval of an additional credit in the sum of VEB 2.5 billion for the National Working Class Savings Fund. This money will be used to pay labor liabilities. The funds were obtained under the Complementary Borrowing Act. In order to approve the operation, the government apparently used the powers granted under the Public Sector Financial Administration Act.

The bonds are more attractive without Chávez. With just a few days to go to the presidential elections, a change in perception regarding President Hugo Chávez' possible reelection, which financial brokers now see as less likely, has made Venezuelan bonds more attractive. As a result investors have shown more interest in these bonds, pushing up the price. According to estimates by Barclays Capital, if President Chávez is reelected, the price of Venezuelan bonds would fall and take some time to recover.

Work Mission full steam ahead: Minister for Industry Ricardo Menéndez announced that the Great Knowledge and Work Mission has provided 72,000 people with a variety of jobs generated by projects being undertaken by the Venezuelan Government in different states. Menéndez stated that 10,000 people have been hired for the construction of works and productive projects; 19,000 in Education; 8,500 in the Orinoco Oil Belt and energy projects; and more in other sectors where the State needs to *"drive development with the support of our workers."*

Homes for the middle class: The Venezuelan Government signed an agreement with the banks and construction companies that contemplates the production of homes for the middle class with a maximum price of VEB 540,000. The established price is higher than the maximum amount allowed to be financed with funds from the compulsory mortgage portfolio (VEB 500,000). The homes will be for middle class families with an income of more than four minimum wages (VEB 8,188).

Interest rates. The lending rate for the third week of September was at 17.5%, up by 0.5 percentage points compared to the previous week. The time deposit rate remained unchanged since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves increased 4.6%, going from US\$24.75 billion during the third week of September to US\$25.9 billion during the fourth week of September. Compared to the same period last year, international reserves have decreased by 16.6%.





Monetary liquidity. Monetary liquidity (M2) grew by 1.1% in the third week of September compared to the previous week, settling at VEB 566.95 billion. The M2 has increased 53.6% in relation with the same period last year.

Sitme figures. So far this year, US\$7.87 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.8 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.65 billion (26.6%) over the same period of 2011, when US\$6.2 billion were negotiated. Lastly, during the fourth week of September the amount traded reached US\$198.0 million, US\$4.4 million less than the previous week when US\$202.4 million were traded, with a daily average of US\$40.5 million.

Oil Tips

New issue in the works... this time in bolivars: PDVSA President Rafael Ramírez was interviewed last Thursday, September 27, regarding a possible bond issue, to which he replied that the idea is for PDVSA's next debt issue to be in local currency and that this is something they are coordinating with the Finance Ministry.

Whereas J P Morgan... In its recent report on Venezuela, the firm J P Morgan estimates that PDVSA will be making another bond issue before the end of 2012. The report, which focuses on the situation generated by the upcoming elections in Venezuela, notes that the oil company could issue US\$3 billion before year-end, which would be used for the Great Venezuela Housing Mission, and adds that this operation would be a direct sale by PDVSA to the Central Bank.

Amuay, 80% start-up: Oil Minister Rafael Ramírez announced that 80% of the plants at Amuay Refinery are operating. *"We've got 80% start-up. There's still Distillery Number 5, where we're verifying some things to guarantee its safety."* Ramírez also said that the refinery is currently processing 360,000 barrels a day of crude derivatives and announced that *"another 80,000 b/d from the area of distillation are expected to be incorporated"* shortly.

...but 43% below capacity: Amuay Refinery is currently processing 360,000 b/d, according to Minister Ramírez, which implies that there has been an increase of 9% in the volume processed in nearly two weeks. Even so, this is still 43.3% below the refinery's capacity, which is 635,000 b/d.



A month later... and still no news. Although PDVSA claimed a few days ago that the reports by the insurance companies on the accident at Amuay were already more than 75% complete, it is still not known exactly what caused the accident. Upon being questioned about the findings of the investigation, Minister Ramírez said, “*We already have several possible places where the massive (gas) leak occurred that caused (the cloud) to build up so fast,*” but he did not go into further details.

They estimate that the tank lost 10% of its load. According to Minister Ramírez, the investigations have already determined “*how many barrels leaked from the sphere,*” but he warned that “*We’re not going to give a figure until we’re sure.*” In the opinion of Javier Larrañaga, a former assistant manager at Paraguaná Refining Complex, the sphere that lost the gas contains some 15,000 barrels of olefins, which is equivalent to 1,400 tons of hydrocarbons in liquid state. “*I can’t say for sure that it emptied completely but, given the size of the explosion, I’d say that 10% of the sphere had to have been discharged.*”

Sales to the USA up 9.6%: According to US Department of Energy figures, in July, Venezuela sent an average of 1.04 million barrels a day of crude and derivatives to the United States, which implies an increase of 9.6% compared to the average of 954,000 b/d in July 2011. Even so, total shipments for 2012 to date show a drop of 12.3%, going from an average of 1.02 million b/d between January and July 2011 to 895,000 b/d over the same period in 2012.

...and derivatives fell by 39%. As for exports to the United States of derivatives produced at refineries and that have a greater market value, in July they posted an average of 47,000 b/d, in other words a drop of 39% compared to the 77,000 b/d reported in July 2011. The United States is still the first destination for Venezuelan crude, but there has been a marked decline in exports owing to the policy of diversifying markets to the benefit of allies of the Venezuelan Government such as China or India.

Venezuela: a net importer of derivatives. In short, US Department of Energy data indicate that Venezuela has become a net importer of US oil derivatives as, in July, while it imported 59,000 b/d, its exports of refined products to the United States came to 47,000 k/b; in other words, there was a negative balance of 12,000 b/d. In the case of gasoline in particular, 26,000 b/d were imported for final consumption, the highest level since December 2011, when 32,000 b/d were purchased.

Drop in coke exports: The piles of coke that have been accumulating at Jose Complex in Anzoátegui in recent years indicate the problems PDVSA is having in shipping this byproduct from the heavy and extra-heavy crude upgrading process. Although PDVSA announced a plan to solve this problem in August 2011, a report by



Energy Publishing in July indicates that the global coke market has felt the effects of the drop in shipments from Venezuela.

The ghost of PDVSA past: Despite the fact that PDVSA itself stated two months ago that, *"thanks to the successful execution of work on the Restoration of the Solids Handling System,"* it had achieved an increase in the rate of shipments, the fact of the matter is that the low level of coke exports continues and PDVSA has attributed this to the "old PDVSA," pointing out that use was not made of the byproduct and that, besides, no maintenance was given to the conveyor belts used to carry the coke to the shipping ports.

Central Bank is towing PDVSA. Central Bank monetary base figures reveal that, in August 2011, the financial assistance that the Central Bank gave to the state-owned oil company amounted to VEB 55.27 billion, whereas at the close of August 2012, it came to VEB 122.57 billion. This means that, in just one year, this financial assistance increased by 121.8%. As can be seen, despite the fact that the price of crude has been at US\$100/bl on average, the flow of revenues is insufficient for PDVSA owing to the increasing burdens that the government is imposing on the state-owned company.

Now it's India's turn. PDVSA and the Indian company Reliance Industries signed two cooperation agreements last Tuesday, September 25. Oil and Mining Minister Rafael Ramírez stated that one of the agreements allows Reliance to participate, as a mixed enterprise with the Venezuelan State, in oil exploration and production activities in Blocks Boyacá 4 and Ayacucho in the Orinoco Oil Belt. A contract for supplying the Indian company with between 300,000 b/d and 400,000 b/d of heavy Venezuelan crude over a period of 15 years was also signed.

Iraqi exports at their maximum: Iraq's oil exports grew by 1.2% month-on-month to 2.6 million barrels a day on average in September, compared to 2.57 million b/d in August, according to a spokesperson at the Iraqi Oil Ministry. This is the highest level of exports since 1979, when this member of OPEC managed to export 3.24 million b/d.

International baskets. Last Friday September 28th in New York, WTI closed at US\$91.6/bl, which shows a decrease of 3.5% compared to US\$95.0/bl recorded the previous week. Meanwhile, Brent fell by 1.2% to reach US\$ 110.8/bl compared to the previous week when it reached US\$112.1/bl.

Local basket price. On Friday, September 28th the Venezuelan oil basket price closed at US\$100.6/bl resulting in a decrease of 2.1% compared to US\$102.8/bl



recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.1/bl.

Business Sector Tips

Pulling down the shutters because of the elections: The Venezuelan Shopping Mall Chamber (Caveco) suggested that its members not open for business on October 7, on account of the presidential elections. However, in a press release, Caveco added that it respects the autonomy of each shopping mall when it comes to deciding whether or not to open and the times they will be open for business. *“It is our duty to call on the entire business sector, regardless of their political persuasions, to join a mass participation in these elections responsibly, peacefully and with enthusiasm.”*

Shortfall in pharmaceutical sector: According to the bulletin issued by the Pharmaceuticals Industry Chamber (CIFAR), companies in the sector were able to meet only 73% of their customers’ requirements in July. Sources contacted in the pharmaceutical sector gave as the first cause of this situation a reduction in the allocation of foreign currency, which fell by 3.3% in the 1S2012 compared to the same period last year, and the fact that it is impossible to obtain allocations in a timely manner. Estimates from different sectors indicate that, as at September, companies owed their suppliers US\$2.1 billion.

Christmas imports at risk: The president of Consecomercio, Carlos Fernández, denounced that delays in unloading merchandise at the ports and delays at Cadivi could complicate the arrival of merchandise for next Christmas. Conindustria stated in a report that there are delays of more than 25.8 days at Puerto Cabello, more than 26.3 days at La Guaira, and more than 19.4 days at Maracaibo. On top of that, the commerce sector has been experiencing delays of between 125 and 130 days in being allocated foreign currency by Cadivi, which is becoming a serious problem, it claimed.

Food shortages in border towns: As a result of the measure imposed by the national government to put a brake on smuggling, there are now shortages of basic basket products in the border towns. *“Between 35% and 40% of the permits for transporting food products to Táchira, Zulia, Mérida, and Apure are being rejected by the Superintendency of Agricultural Silos, Warehouses and Storage Depots, which is*



preventing the transportation of goods from flowing,” explained the former president of Fedecámaras Táchira, José Rozo.

Síragon for MERCOSUR: Last Tuesday, September 25, the Minister of Science, Technology, and Innovation, Jorge Arreaza, conducted the opening ceremony of a new production line for Síragon electronic equipment in Carabobo state, which will expand the plant's production capacity and make it possible to export technological products to MERCOSUR under an agreement between the State and the technology company. *“The correct policies are making us enthusiastic about continuing to work in the country and to happily accept the opening up of the borders to Marcos,”* said Síragon's president, Passam Yusef.

Progress on Tocoma 96%: The People's Power Minister for Electricity, Héctor Navarro, announced that progress on the Manuel Piar Hydroelectric Power State (“Tocoma”), which will generate 1,260 megawatts (MW) for Venezuela's electricity system, is at 96%. According to official information, it is planned that Tocoma will produce a yearly average of 12,100 gigawatts per hour. Work started in 2002 and is expected to be completed in 2014 when the power station to be gradually put into service.

Electricity demand has grown by 4.7%. According to sector sources, on September 20, electricity demand posted a record high reaching 17,965 MW, 4.7% higher than the historical maximum reported in September 2011, when it reached 17,157 MW.

Planta Centro operating at 34% of installed capacity: Planta Centro, located in Puerto Cabello, is the country's largest thermoelectric power station and has five 400 MW units for a total installed capacity of 2,000 MW. However, the grid only receives 680 MW of that amount of electricity or 34% of the power station's capacity. Power station workers said that, as at the last week of September, only three of the power station's units were working: I, III, and IV.

Western region accounts for 49% of power outages in 2012. According to unofficial data provided by the engineer and international analyst José Aguilar, as at September 10 this year, the National Electricity System had received reports of more than 2,220 power outages countrywide. The western region, covering eight states, has suffered most as a result of these problems, with a total of 1,104 blackouts over that period and accounting for 49% of the total. Barinas and Falcón are the places that have been hardest hit by the cuts in the service, with 184 blackouts each.

Black marks for infrastructure: The general public continues to object to the quality of the infrastructure and services. A survey of construction sector indicators



conducted by Datanálisis indicates that 74.7% of the population gives a negative score for the quality of the country's infrastructure (streets, roads, freeways, and bridges). The company's director, Luis Vicente León, explained that *"people consider that the infrastructure is getting worse and, for that reason, their negative view at the close of August increased, as in the last poll, conducted in May, it was 72.4%."*

Coffee roasters waiting for price increase: After the administration authorized a 33.3% increase in the price of green coffee, the coffee processing industry did its sums and is hoping that consumer prices for ground coffee will be revised in the first two weeks of November, since there are only sufficient stocks of raw materials to last until then. Nelson Moreno, the president of Asicaf, said that the small and medium coffee roasters are of the opinion that the kilo of ground coffee should cost VEB 48.7.

World Economy Tips

Latin America will grow less. The Economic Commission for Latin America and the Caribbean (ECLAC) has lowered its projection for growth in the region for 2012 to 3.2% from the 3.7% announced in June. The survey published by ECLAC maintains that the weakness of the world economy, caused by the difficulties facing Europe, the United States, and China, has had an impact on growth in Latin America and the Caribbean and, for that reason, the region will experience lower growth in 2012 than in previous years.

Falling far short of the goals: According to a report published by the European Union's Statistics Office (Eurostat), the European Community is apparently a long way from meeting agreed goals for 2020 in the areas of growth, employment, research and development, education, and poverty. The report highlights the decline in the employment rate, where the goal is to achieve employment of 75% of the active population between the ages of 20 and 64, and that is currently at 68.6%, below the rate for 2010 (69%), as a consequence of the intensification of the crisis in the region.

More bad news: According to figures published by the Banco de España, Spain's Gross Domestic Product (GDP) fell by 1.3% year-on-year in the second quarter of 2012 and 0.4% compared to the preceding quarter. The Spanish economy's lower rate of growth was accompanied by a drop of 1.4% year-on-year in aggregate



demand resulting from a 0.9% decline in private consumption and a 0.7% reduction in public consumption. The deep recession and restricted access to credit have forced the Spanish Government to implement unpopular cuts and economic reforms.

Spanish banks need funds. In a communiqué, Spain's Ministry of Economy and Competitiveness stated that the capital needs of Spain's banking system come to US\$76.3 billion (nearly 6% of its GDP), according to an independent audit conducted by the firm Oliver Wyman. This amount represents the capital that needs to be injected in order to absorb the losses that the banks could suffer as a result of loans granted during the real estate boom of the last decade.

Worth saving: Despite its considerable capital needs, the Oliver Wyman report indicates that *"the Spanish banking sector is solvent and viable for the most part, even in an extremely adverse macroeconomic context."* Seven banking conglomerates, which hold more than 62% of the Spanish banking system's credit portfolio, do not have additional capital needs. For the remaining groups, additional capital needs, over and above those posted at the close of 2011, of around US\$76.3 billion have been identified.

France: the rich are to foot the bill. The French Republic's budget plans for 2013 include increasing taxes for taxpayers with higher incomes, announced French Prime Minister Jean-Marc Ayrault. According to Ayrault, with this measure, which will not affect nine out of 10 French people, the State plans to collect an additional US\$26 billion and combat the country's growing debt, which is currently equivalent to 90% of its GDP.

Fresh accusations leveled at China. The European Commission is to open an investigation of the Chinese conglomerate UE Pro Sun, given the European photovoltaic industry's concerns over the effects of alleged Chinese dumping. The commission apparently has evidence showing that dumping by some Chinese companies, by exporting articles to the European market, could be the cause of the reduction in the European photovoltaic companies' share of the market and be responsible for the closure and sale of many of them to Chinese investors.

Breaking open the piggy bank: In August, private consumption in the United States, which accounts for three quarters of the country's economic activity, grew by 0.5%, according to data supplied by the US Department of Commerce. Americans have had to dip into their savings in order to be able to spend more, as personal income grew by only 0.1% in the eighth month of the year, due to the weak job market. Today, American workers save US\$3.7 for every US\$100 they earn in wages.



Surviving: The International Air Transport Association (IATA) improved its outlook for 2012 and announced that the industry expects a net profit of US\$4.1 billion, up from the US\$3 billion forecast in June. This revision of US\$1.1 billion in an industry that generates revenues of US\$630 billion is nothing to get excited over; even so, it is viewed as good news given the adverse environment the airlines have been facing.

Hoisted with her own petard. During her latest tour of the United States, Argentine President Cristina Fernández attended a forum at the Harvard Kennedy School of Government hoping to sell a good image of her “successful” model. However, the Argentine President chose to confront and discredit those who asked the most compromising questions, responding in an irritated tone of voice. Fernández wasted a great opportunity; she was hoisted with her own petard in a scenario where some of her homologues, such as Dilma Rousseff, have come through looking good.

Political Tips

An exciting close to the campaign: The close of presidential candidate Henrique Capriles’ campaign started off with emotion-filled marches by thousands of people in Caracas, Maracay, San Juan, San Cristobal, Coro, Valencia, Valera, Tucupita, Cumaná, San Felipe, and Maturín. The masses of people who thronged to support him, even in areas previously considered “*Chavista*,” encountered a deeply moved and impressed Capriles, who did not hesitate to recall everything the present administration has not done, constantly reminding them that “*there is a way*,” referring to his program of government.

A future, without electricity and without water? During a speech aimed at *Chavista* “nonconformists” in Maturín (Monagas), President Hugo Chávez, who is running for reelection, maintained that what is at stake on October 7 is the future of the nation. Chávez pointed out that there may be people who are unhappy with his administration’s failings, with the fact that “*there’s no electricity, the water’s turned off, I can’t get a job, that they haven’t given me my house*” and he insinuated that that is not a reason for not voting for him, as at the upcoming elections what is at stake is “*the life of the fatherland*.”

You are the most important. During the close of his campaign in Coro, the 300th place he visited on his travels around Venezuela, presidential candidate Henrique Capriles took the opportunity to contrast what he offers with what Hugo Chávez, who



is running for reelection, proposes. “Yesterday, (...) two options were made clear,” one where it does not matter if there are jobs, homes or services; where what is important is the government. “I’ve come to tell you that you are the most important (...). Let’s fight for Venezuela,” said Capriles, after recalling the promises that have not been kept by the present administration.

A better future: In Cumaná, the Democratic Unity candidate insisted time and again that voters reflect on their decision. “Each of you has in his or her hands the most important decision, because the decision we’re going to take is about the future. This administration doesn’t represent the future; it represents the past and a present that is behind the times. We can’t have six more years of these terrible regional and local governments (...) I’ve come today to ask Sucre to have confidence in me (...) I’m reading what the people have handed to me and I assume the commitment of doing that. And when I make a commitment, I carry it through; and if I don’t carry it through, then let the people give the word!”

A new administration would complicate Venezuela’s future. During an interview for a Uruguayan newspaper, the President of Uruguay, José Mujica, wished the Venezuelan President, Hugo Chávez, good health and said that he hopes that “Chávez lives, that he’s strong, and that he carries on. And I think he’s going to win.” Mujica maintained that Venezuela’s future without Chávez could be “complicated” and that that concern was one of the reasons why he favored Venezuela’s joining Marcos as soon as possible.

Chávez’ petro-checkbook”: The opposition’s campaign team, *Comando Venezuela*, held an event called “Chávez’ Petro-checkbook,” at which leaders from different political organizations showed giant mockups of checks showing the numerous contributions that the Hugo Chávez administration has made to 26 countries at the expense of meeting the needs of Venezuelans. According to *Comando Venezuela*, which based the information presented at the event on articles in the press and official announcements, the amount of aid given to other countries is in the region of US\$82 billion.

Shuffling the same deck: As for the head of *Comando Carabobo* (the government’s campaign team), Jorge Rodríguez, he once again denounced the so-called neo-liberal package being offered by presidential candidate Henrique Capriles and accused the opposition of getting ready to cry fraud. Rodríguez maintained that Capriles would implement in Venezuela the same program that Spaniards are suffering from under Mariano Rajoy’s conservative administration. He also stressed that Capriles intends to reduce the size of the State, eliminate the missions (social programs), and privatize PDVSA.



Fidel, “the people’s heart”: In the view of Venezuela’s ambassador in Cuba, Edgardo Antonio Ramírez, voting on October 7 for the candidate to reelection, Hugo Chávez also means “*voting for Fidel*,” whom he described as “*a great man who has fought, will continue to fight, and is fighting for the perpetuity of the human species and for respect for Mother Earth.*” Ramírez claimed that the majority of Venezuelans will vote for “*a president who is sensitive; for the full exercise of democracy in Latin America.*”

Let no one not turn out to vote. At a campaign meeting in Coro, Chávez called on his followers to fill up the ballot boxes on October 7. “*Let not a single popular, Bolivarian vote not go to the ballot boxes,*” exclaimed the President, who also explained that it is necessary for his project to be the winner “*by the biggest margin possible to neutralize the bourgeoisie’s destabilizing plans.*” Chávez took the opportunity to ask young “Bolivarians” to persuade people they come into contact with and, in particular, their families to vote for him.

Is the bourgeoisie good or bad? During a ceremony to inspect homes built by the Great Venezuela Housing Mission at Fuerte Tiuna, the President of the Republic and candidate to reelection, Hugo Chávez, “winked” at the middle class saying that “*the bourgeoisie isn’t bad in itself,*” but that “*the bourgeois state is bad,*” as in such a state the bourgeoisie takes control of the branches of government and the laws for the benefit of its sector.

Legislative Tips

A new National Public Assets Superintendent: Last Tuesday, October 2, the appointment of Huáscar Castillo as National Public Assets Superintendent was published in *Gaceta Oficial* No. 40,019. It will be recalled that the Public Assets Act was passed in June under the Special Powers Act, and that this law created the new Public Assets Superintendency. The main duties of this new agency are to quantify and qualify the real estate needs and surpluses of the Venezuelan public sector.

The Caldera case goes to the Public Prosecutor’s Office. The Special Committee appointed by the National Assembly to investigate Deputy Juan Carlos Caldera for having allegedly received money from the businessman Wilmer Ruperti met this Tuesday with the Prosecutor General of the Republic, Luis Ortega Díaz. Deputy Elvis Amoroso, who chairs the Committee, stated that they talked about the way the



investigation was going in the event that the Committee decides to request the impeachment (*antejuicio*) of Deputy Caldera.

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ECONOMIC OVERVIEW

