



Weekly Report

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*Chávez reelected
What can we expect?*

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The most important event in Venezuela this year has come and gone, the presidential election, and last Sunday President Chávez was once again elected President of Venezuela. With his new term about to begin, it is important now to take stock and evaluate what is in store for us with respect to the economy in the short term.

A bitter pill to swallow

In our last Weekly Report, we stated that the October 7, 2012, presidential election would be close, without discarding the possibility that President Chávez could win. Evidently we were wrong. President Chávez once again wins the presidential election with a comfortable margin of more than 10 percentage points, which points to his leadership being as strong as ever.

At **Ecoanalítica**, we have been stating that, with respect to the economy, if President Chávez were to win, a close victory (by 4 percentage points or less) would not mean the same as winning by a comfortable margin. A close victory would have opened the door to the possibility of the current economic model becoming more flexible, especially with respect to



exchange issues (possibly opening up the parallel market) and relaxing restrictions on the private sector. The pragmatic wing of the chavista Administration would have used a close victory as an excuse to review how the economy was being managed, and suggesting that certain players be relieved of their post (for example: Minister Giordani).

The opposition was not the only one defeated...

The official figures released by the National Electoral Council (CNE) with 98.0% of the ballots counted show that Chávez received 1,636,416 votes more than Capriles, which means a difference of 11.1 pp. This significant margin of votes is seen by the Administration, and especially the radical wing of the Administration, as not only support and approval of President Chávez, but also as a sign of approval of the current economic model being implemented. In our opinion, the comfortable margin by which Chávez has won the election, more firmly entrenches the radical wing of the Administration in power, and throws overboard any attempts by the pragmatic wing of the Administration to introduced changes.

During the campaign, both groups faced each other, since the pace and the way of the campaign was controlled by the radical wing. A number of actions were carried out that were very significantly motivated by ideology, and by some, could have been categorized as inconvenient and not strategic to be carried out during a campaign year. The radical wing chose to go forward with the Great Housing Mission Venezuela (instead of other types of transfer of resources that would have stimulated consumption); they chose to go forward and severely regulate the medicine sector, restricting their supply of foreign currency via Cadivi even more; mid level public sector employees didn't receive significant bonuses or salary; the push to implement the gasoline chip in a sensitive state such as Zulia went forward.

It was a very risky strategy, and they won, and not by a small margin. Therefore, the design of the campaign as well as the election results proved the radical wing of the Administration to be right, and in our opinion, firmly fixed them in their positions.

Will the pragmatic wing disappear?

This is a question that must be asked, and we believe the answer is no. The pragmatic wing, which we have mentioned in one of our previous reports (Weekly Report 029: *"Who's running the State?"*), will continue to occupy key positions but with a fundamental difference: they will be left out of political actions, in other words, they will be in operative positions, but not strategic or planning positions.



Economic and political dynamics are not static, and especially in Venezuela. This correlation of forces (pragmatics vs. radicals) or of players, does not rule out changes in the medium term depending on the impact of two important variables: President Chávez' health and the evolution of oil prices.

**Clear
as water...**

If President Chávez' Administration is characterized for its lack of transparency and being opaque in a number of areas. But when it comes to his economic and political projects, it's quite the contrary. Chávez has always clearly defined the path that is to be followed and pointed to the elements that make up the base of his 21st Century Socialism, as can be attested to by the two socialist plans that he has introduced: 2006-2012 and 2013-2019. After being reelected, his now former vice-president, Elías Jaua, pointed out that this model will continue to be implemented and more firmly anchored, in accordance to the will of the people as demonstrated by this recent victory. He continued to state that the nationalization and expropriation policies would continue, without getting into specifics.

With Chávez reelected, the Administration will proceed to implement the Second Socialist Plan of the Nation, as much as circumstances permit, concentrating on three fundamental areas: 1. Increasing the State's role in the economy; 2. Developing new forms of property (social, communal), but clearly dependent on the State; and 3: continuing to restrict the private sector, limiting its range, with no guarantees regarding the respect for private property. .

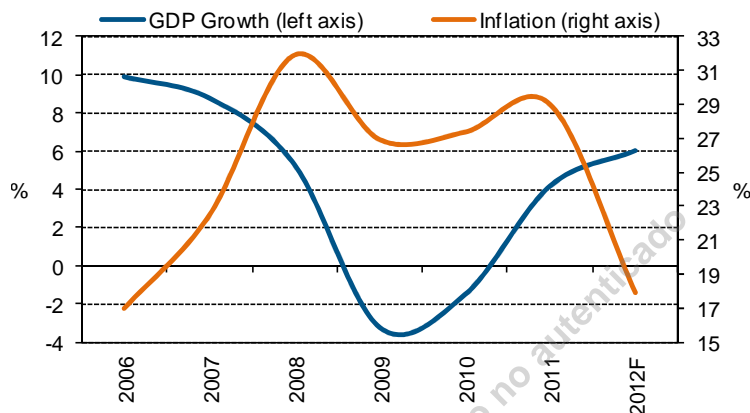
**The short term:
until December**

It's clear that the Administration will have to make adjustments, after having increased public spending so much due to the presidential election and due to oil prices stabilizing at a relatively modest level, without showing signs that they will increase in the short and medium term. These adjustments won't be made immediately. The fourth and final quarter of the year should be more of the same, in essence, much like the previous quarter. We believe that public spending will continue at relatively high levels until the close of the year which will have a positive impact on the economy. And in our opinion, and according to our analysis, we continue to back our figures which point to the economy growing this year by 6.0% and closing the year out with inflation at 17.9%.





GDP Growth vs. Inflation



Sources: BCV and Ecoanalítica

The situation does not look so good with respect to exchange matters. We don't expect the supply of foreign currency authorized for the private sector via Cadivi to increase, rather, the hope is that current levels will be maintained. With respect to the Sitme, according to the information that we have been able to gather, points to the placement of bonds which feed the Sitme to remain at current levels until the end of November. It's very probable that in the coming weeks, a new bond placement by Pdvsa will be announced, most likely exclusively to feed the Sitme in order to cover its needs up until the first quarter of next year.

For the final quarter of the year, we recommend to our clients that they manage their inventory efficiently and to have coverage strategies in place given the possibility that there will be a devaluation at the beginning of the coming year.

The medium term: 2013

Within the framework of the Administration beginning its new term on January 10, 2013, and after have held the Governor's elections in December 2012, the Administration is all prepped and ready to announce its new economic measures. We don't think they will go as far as to announce a new "economic package," but there will no doubt be a number of important announcements made. An adjustment made to the exchange rate will most likely be the most important announcement made. As we have mentioned before, we expect that the Cadivi exchange rate will be adjusted from VEB4.3/US\$ to VEB 6.3/US\$ and the Sitme exchange rate will be adjusted from VEB5.3/US\$ to VEB7.5/US\$. With respect to the weighted exchange rate (which includes all transactions carried out within the economy), the devaluation will reach up to XX% compared to 2011.

A devaluation of this magnitude will have a recessive impact on the economy in terms of growth and increasing inflation. For 2013, we



estimate that the Venezuelan economy will grow by around 1.5% and the inflation rate at the close of the year will be at around 24.8%.

With the radical wing of the Administration calling the shots, we don't expect to see the exchange market opening up any time soon, so we expect that in 2013, the foreign currency supply will continue to be controlled through Cadivi and the Sitme, and the illegal parallel exchange market will continue to operate. Debt issuances will continue to take place (we expect two issuances in each semester), mainly focused on feeding the Sitme, in other words, private issuances, not for the public or the private sector.

With respect to the oil sector (an issue we will expand upon in a future Weekly report), we believe that changes may be in the works to increase oil production. It's difficult for the chavistas to continue to advance in the implementation of their socialist model if oil prices stabilize and don't continue to increase. So the answer is to increase production in order to increase revenues so that their revolution can continue to be funded. Pdvsa may begin to loosen the reins on its partners, once the campaign cycle finally winds down.

**Item one:
the President's
illness**

Now that President Chávez has won his reelection, doubts about his health begin to be a relevant topic, especially in the short and medium term. If in fact President Chávez is sick and suffers a relapse, internal disputes and rivalries among the different factions within chavismo will become more heated as the question of who is to succeed the President becomes more relevant. In this context, a weak and absent Chávez may lead to inaction in terms of managing the economy, as has been the case when his illness has forced him to be absent.

Chávez' illness is the element that creates the most uncertainty with respect to the Administration and this new term it is about to begin. If this issue doesn't get put to rest, with absolute proof as to the state of the President's health, the issue of who's to succeed and the possibility of having to hold another presidential election before it is scheduled to be held, will be on the table and very much on everyone's mind.

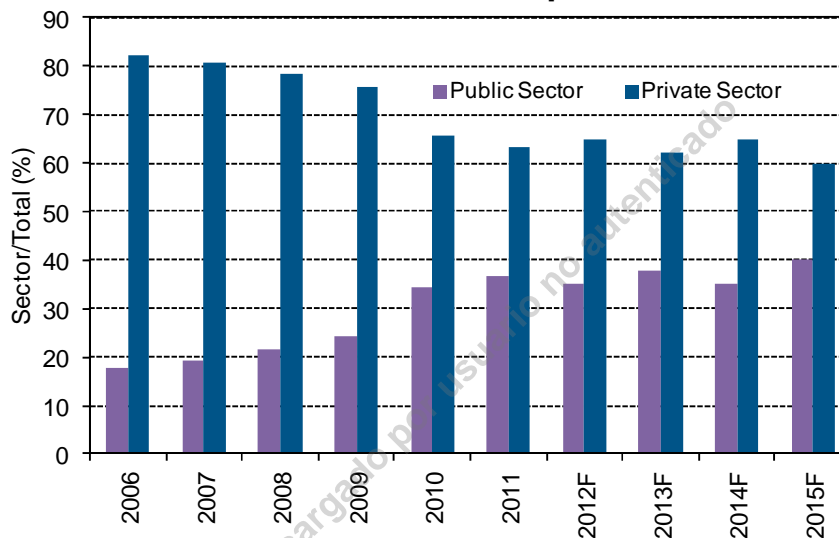
**Second item:
Accelerating
towards socialism**

Within the framework of continuing to further implement the 21st Century Socialist model, we expect that certain sectors will be subject to increased control by the State. These sectors are: health (especially in matters related to medicines), finance, automobile and spare parts. Control of these sectors is fundamental since they are considered strategic. We also consider that the State will continue to increase its role as importer. By



2015, the State will be importing 50% of total imports. We will be analyzing this item further in a future Weekly Report.

Trend of total imports



Sources: BCV and Ecoanalítica

Conclusion: Investment is worrying

Despite the fact that at Ecoanalítica we are convinced that the government will not abolish private property or do anything that remotely resembles this, we do believe that the Administration, now more firmly in the grips of its radical wing, will move forward with implementing its 21st Century Socialist revolution. This will most certainly create waves within the private sector and will be one of the main obstacles when it comes to private sector investments. The Administrations posture towards this seems to be the same as it has always been these past few years: the lack of private sector investment will be compensated for by public sector investment through fiscal policies which are clearly heavy on public spending and committed to increasing public sector imports.





Economic Tips

Inflation to reach 18%. According to figures from the BCV, the variation of the National Consumer Price Index (INPC for its Spanish name) was 1.6% in September. The accumulated inflation of the first 9 months of the year is 11.5%, while the y/y reached 20.7%. Despite this, the group of non-alcoholic beverages, which is among the most weighted inside the INPC, registered a variation of 1.9% in September, while the 9-months-accumulated was of 11.5%.

But the NCPI Core experienced a 0.4 pp reduction between August and September of the current year, reaching 1.4%. The 12-month variation of the NCPI Core was of 20.7% and the cumulative variation was 11.5%.

The poorest suffer inflation the most. While the NCPI grew by 3.1% in the same month, the inflation of the social stratum I, which concentrates the poorest families of the country, increased by 19.9% in one year. This behavior corresponds to the food costs.

The inflation rate of price-controlled products is less strong, since their price rocketed 16.8% y/y, while non-controlled products reached 18.8%.

Caracas with the highest inflation rate. NCPI's geographic results show that the area with the biggest variation was Caracas with 1.9, followed by Ciudad Guayana with 1.8 and San Cristóbal with 1.7%. The areas with the smallest variations were Maturín and Mérida, both with 1.3%.

Product Scarcity index decreased. This index fell from 13.7% to 13.6%, while the Product Diversity Index grew 0.4% compared to the previous month.

The new social property. The prevalent capitalist socio-economic structure and rentist that currently exist in Venezuela, according to the Socialist Bolivarian Management plan, will be substituted by socialism, which has barely begun to implement its own internal dynamics. The new management plan considers that it is fundamental to promote modalities such as social and communal properties, thereby taking space away from private property without going as far as completely abolishing it.

Pdvsa continues to be the driving force. Despite the fact that the Administration wants to get away from the rentist model, and accelerate the diversification of



production, the base for the socialist model continues to be bankrolled by Pdvsa. Between 2013 and 2019, the state-run oil company must increase its political and social contributions, which translates to increased contributions to social programs promoted by the State. It's expected that the fiscal regimen will be strengthened; assuring revenue being collected from oil profits that will be earmarked for the development of the country under the management of the Bolivarian Government.

A more than extraordinary contribution. The high level of oil prices that are currently at US\$100.5/bl has led to a more significant contribution by Pdvsa to Fonden in accordance to what is established in the Special Contribution Law for Extraordinary and Exorbitant Prices of Hydrocarbons. So far this year, contributions have reached US\$21.80 billion, of which in September the oil industry transferred US\$2.30 billion.

Black cloud. With President Hugo Chávez winning his bid for reelection, Fitch, the risk classifying agency remains uncertain as to whether Venezuela will be able to control its fiscal debt. The company assured that "the reelected Administration faces a challenge of having to adjust its exchange policies" and that there is an underlining question as to whether the Administration will be able to manage its fiscal deficit and sustain economic growth while fighting inflation.

VEB 77.40 billion in debt to workers. The reform of the Organic Labor Law and the changes it introduced with respect to social benefits has led to a change in the value of public sector social benefits owed that at the close of August 2012 were estimated to be at VEB 77.40 billion (US\$18.0 billion), much more than the VEB24.50 billion estimated in May 2011. Despite the fact the this figure represents a projection, official sources have pointed out that the quantification of the debt hasn't finished.

Most of the debt is owed to education and health. Even though the economic cabinet has implemented the mechanism of the so-called "Petrorinocos" in order to begin to pay off some of the debt to workers in the university sector, the education and the health sector are still where most of the labor debt is owed, according to a report released by the government and presented to the U.S. security exchange (SEC) regarding its management in 2011. The situation is similar with the regions where the gathering of information of the debt with Governor's offices and Mayor's offices has yet to be defined.

Interest rates. The lending rate for the fourth week of September was at 16.4%, down by 1.0 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 4.8%, going from US\$24.76 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 2.3% in the fourth week of September compared to the previous week, settling at VEB 580.15 billion. The M2 has increased 57.0% in relation with the same period last year.

Sitme figures. So far this year, US\$8.05 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.5 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.63 billion (25.4%) over the same period of 2011, when US\$6.42 billion were negotiated. Lastly, during the first week of October the amount traded reached US\$182.5 million, US\$15.5 million less than the previous week when US\$198.0 million were traded, with a daily average of US\$36.5 million.

Oil Tips

Imported gasoline. Engineer Nelson Hernández, states that in Venezuela there is an energy crisis that became worse with the explosion at the Amuay refinery and that Pdvsa has refused to recognize that due to the explosion, the production of oil by-products has been affected and that in order to cover the domestic demand for gasoline it has had to be imported. "Pdvsa is buying 4 million barrels every 15 days abroad, 3 million of gasoline and 1 million of diesel, said Hernández.

Increasing subsidy. Nelson Hernández also pointed to fuel subsidy figures. Before the accident at the Amuay refinery, Pdvsa was not cashing in on US\$13.10 billion in gasoline due to domestic consumption and US\$8.50 billion in diesel. Hernández estimates that these figures will probably double now due to the amount of fuel Pdvsa is having to buy abroad. "It needs to be done (the calculation) taking into account the opportunity cost that Pdvsa is losing by not selling then fuel at international market prices; it's more than double this year's budget for health and education," he stated.

Doubts about Amuay. Hernández continued to say that experts don't believe that Amuay is operating at a little over 50% capacity and with 80% of its installations, as



the Minister of Petroleum and Mining, Rafael Ramírez assured two weeks ago. "Storage tanks aren't operating, they can't do mixes, and the olefin spheres are working despite the fact that they say that they were not damaged," he says.

Pdvsa denies new fire. The executive secretary of Futpv, Robert González, clarified that the "flames that were reported Monday night from the El Palito refinery were due to product burn-off which occurs regularly." He continued to state that the line that burns the hydrocarbons found in some of the pipelines was being cleaned and the flare that results from the burn-off is close to the docks. From a distance, this could look like some kind of an accident.

The chip is here to stay. Now that the election is over, the Minister of Petroleum and Mining is ready to push forward and complete the installation of chips in vehicles in the state of Zulia, though it won't be until 2013 that gasoline sale controls will be in place. The idea is to allow private car owner to fill up to a maximum of three tanks of gasoline a week (every other day) in an attempt to control gasoline contraband.

China and its crude oil consumption to slow down in 2013. Fears surround an economic slowdown of China have led to estimates in the amount of crude oil demand for 2013 to be adjusted downward. The Center for Global Studies in Energy recently adjusted its estimates for 2013, stating that crude oil demand next year will only increase by 476,000 barrels a day (kb/d) instead of the 506 kb/d it had previously estimated. Worldwide crude oil demand is at 90.4 million barrels a day (mb/d) and there is the possibility that it may reach 91 mb/d by 2013.

JP Morgan calculates crude oil production for 2013. JP Morgan calculates that crude oil production for Venezuela, including the Orinoco Oil Belt, will be at around 2.4 mb/d in 2013 and will drop slight to 2.3 mb/d in 2014. The company believes that oil production increases will depend on how much foreign investment the country can attract in order to pursue new projects, and if the amount the oil company is financing for social programs can be reduced.

International baskets. Last Friday, October 5th in New York, WTI closed at US\$91.3/bl, which shows a decrease of 0.4% compared to US\$91.6/bl recorded the previous week. Meanwhile, Brent grew by 0.6% to reach US\$ 111.4/bl compared to the previous week when it reached US\$110.8/bl.

Local basket price. On Friday, October 5th the Venezuelan oil basket price closed at US\$100.7/bl resulting in an increase of 0.1% compared to US\$100.6/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.0/bl.



Business Sector Tips

New car sales up by 11.2%. According to figures from the Venezuelan Automotive Chamber (Cavenez), September's new car sales grew 11.2% compared to the same period of 2011. 99,318 units have been commercialized from January to September, 9,997 more vehicles than the same period of 2011. Out of the total sales, 83,122 vehicles were manufactured inside the country, while 16,916 were imported. Both groups registered an increase of 7.3% and 365.9% respectively.

Car production down by 21.0%. Cavenez' figures also show that Venezuelan car production was of 8,038 units in September. This represents a decrease of 21.0% when compared to the same period of 2011. The accumulated production from January to September reached 83,790 units, 5.0% higher than the same period of 2011, when 79,798 vehicles were produced.

Can prices go up now? With labor and transportations costs increasing by more than 200%, a 40% increase in packaging material, monthly losses in production due to power outages of between 4% and 8%, and increases in raw material prices authorized by the government, regulated food processing companies are expecting that this month the review of their production costs will take place and prices will be adjusted.

Expropriations continue to be the order of the day. In an interview given to Reuters, the vice-president of the Republic, Elías Jaua, stated that the expropriation of strategic companies in Venezuela will continue to be on President Hugo Chávez' agenda; "the aim is to strengthen the control over strategic elements of our economy, such as energy, food, and construction materials," he explained.

Businessmen want dialogue and respect. The Chamber of Trade, Industry, and Services of Caracas, and Real Estate of Venezuela gave post-election statements wanting to establish an effective dialogue in order to solve the problems of the country. "The results show a more even country, therefore both visions of Venezuela have to find a way to initiate and maintain a dialogue (...) in order to guarantee the governability of the country and the prosperity of the people," said the executive director of the Chamber of Caracas, Victor Maldonado.



Power outages break record. During all of 2011, there were 503 power outages that interrupted normal service. At the close of the month of September 2012, 550 power outages have been registered, thereby breaking the previous record, according to the statistics of engineer, Miguel Lara, former manager of the old Office of Operations of Interconnected Systems. According to Lara, between the years 2000 and 2004 the yearly number of power outages weren't more than an average of 52. Between 2009 and 2010, over 300 power outages that interrupted normal service were registered, and during the last two years, more than 500 power outages have been registered, and it's possible that 2012 may close the year out with more than 600 power outages registered.

Delays in ports affects delivery of merchandise. The director of Consecomercio, Cipriana Ramos, denounced that the delays in unloading ships by the Venezuelan port system was affecting the delivery of merchandise coming into the country, and what makes it worse is that costs generated by the delays are attributed to the importer. The director continued to say that "we have not been able to make the Bolivarian Port System and the Seniat understand that they have to find a way to reduce delays in delivery, even though certain imports will increase."

Chinese equipment for Maracaibo. Equipment (12) from Chinese arrived at the Maracaibo Port. The equipment is to reinforce port activities. The information released by the Capitan of the ship, Vladimir Quintero, points out that this is the first shipment of equipment that arrives at the port that are part of the agreements between China and Venezuela. The equipment will be used to move loose cargo, empty and full containers, pipes, and move paper.

Good-bye Hyundai. MMC Automotriz confirmed the news that this month is the last month that the company will be assembling Hyundai automobiles in its plant located in Anzoátegui state. Jorge Díaz Del Castillo, senior vice-president for commerce of MMC Automotriz, made official what has been a rumor for a month now within the industry. Hyundai chose not to renew its licensing agreement, and though no clear reason was given for not doing so, he assured that the company was looking to manufacture its car in its own plant.

Government to acquire 100% shares of the Marcelo and Rivero coffee-roasting plant. The government authorized the Venezuelan Coffee Corporation to buy up 100% of the shares that constitute the Marcelo and Rivero coffee-roasting plant that produces brands such as: Café Madrid, Aroma and El Peñón. The purchase was to also include its affiliate companies: Transcasa, Central Valle Verde, and Cofemca, according to the resolution published in the *Gaceta Oficial* No. 40.020 dated October 2. The resolution points out that once the acquisition is achieved, the coffee-roasting



plant will pass into the hands of the State and will be called Empresa Nacional del Café (National Coffee Company).

Conviasa looks to expand. The state-run airline, Conviasa, is looking to increase its domestic as well as international destinations, after the arrival of the new planes purchased from the Brazilian company, Embraer. Such was the statement released by César Martínez, president of Conviasa. "We currently fly to 14 domestic destinations and would like to increase this to 18," said Martínez. He continued to say that the airline also had plans to fly to other international destinations such as Guayaquil, in Ecuador; or Lima, in Peru. Conviasa currently flies to six countries.

The Administration urges airlines to improve their service. The Administration is strongly urging airlines to improve their service and to present projects to renew their fleets. "We want these private companies to do their part and we are being patient, without neglecting to do what we as the State must do to ensure a better quality of service," stated Elsa Gutiérrez Graffe, Minister of Air and Sea Transportation.

...But it won't give them dollars. The lack of foreign currency in the economy has severely affected the domestic airline industry. At the close of the third quarter 2013, around 23 airlines, transporting passengers and cargo, are waiting for Cadivi to authorize and/or liquidate their foreign currency requests. In some cases, they have been waiting 9 months, for foreign currency requests submitted at the end of 2011. Information from sources from the airline sector say that Cadivi looks suspiciously on foreign currency requests that average around US\$35 or US\$40 million because the entity feels that these amounts are too high.

Beef imports from Brazil up by 51.5%. The president of the Federation of Cattle Ranchers of Venezuela, Manuel Cipriano Heredia, informed that the import of live cattle from Brazil increased by during the first semester 2012, according to statistics from the Foreign trade Department of Brazil. The same thing is happening to the import of beef, up by 46.7% during the same period. Heredia pointed out that the value of beef (meat and on the hoof) imported from Brazil went up by 32.9%, going from US\$147.2 million in 2011 to US\$195.5 million up until June 2012.

Legislative Tips

Deaths in Barinas will be investigated. At the regular session of the National Assemble (AN) on Tuesday, October 2nd, Representative Andrés Eloy Camejo requested that violent events, which occurred in Barinas during an opposition political rally and in which three followers of Henrique Capriles Radonski were killed, be discussed in AN. Representative Elvis Amoroso regretted the events and proposed the investigation to be conducted through the AN Interior Politics Committee. The plenary session approved Amoroso's request.



Investigation into Minister of Health's affairs is requested. AN representatives Dinorah Figuera, Miguel Ángel Rodríguez and Bernardo Guerra requested a criminal investigation to be opened against officials that have been associated with the Ministry of Health, including the current Minister Eugenia Sader, on alleged embezzlement, corruption and misuse of funds allocated for the national health system since 2007. The representatives presented a number of videos and photos showing the state of deterioration and abandonment of hospitals in Venezuela and denied government propaganda showing alleged improvements in the health sector.

As if there wasn't any job to do...The AN board suspended last Tuesday, October 9th regular session, as informed in a press note posted on the AN's official portal. Representatives are expected to meet in a regular session next week

World Economy Tips

The IMF is more pessimistic. In its October World Economic Outlook report (WEO), the International Monetary Fund (IMF) lowered its prospects for global economic growth to 3.3% for 2012 and 3.6% for 2013, lower than 3.5% and 3.9% rates forecast in July. The IMF is forecasting that recession in the euro zone will become deeper, closing 2012 with a 0.4% drop in GDP.

Big economies are slowing down. In its report, the IMF also forecasts lower growth rates for China and India, two big emerging economies of the BRICS group, with an adjustment of -0.2% and 1.3% with respect to July forecast, closing the year with 7.8% and 4.9% rates, respectively. The U.S., in turn, would close 2012 with 2.2% growth (up 0.1% from estimates three months ago), whereas Latin America would post a growth close to 3.2% this year, lower than July's 3.4% estimate.

Additional cuts in the UK. As part of its austerity measures, the British government has announced new plans to cut social spending by an additional US\$16.0 billion, over the next four or five years. At a press conference, George Osborne, Britain's Finance Minister, reaffirmed their commitment to a program to cut spending and increase taxes, intended to lower budget deficit in the U.K., because budget cannot be balanced "*with rich people's pockets only.*"





The new euro zone's weapon. The so-called European Stability Mechanism (ESM), designed to assist troubled economies and banks in the euro zone, entered into force this week, upon the signing of an agreement by Finance Ministers of the European Union in Luxemburg. This new “weapon” against the crisis will replace the European Financial Stability Facility, which has run out of funds after having lent EUR 200,0 billion to Greece, Ireland and Portugal.

Good start. The European Stability Mechanism has had a good start: Moody's and Fitch Ratings have granted it the highest credit ratings for short- and long-term debt to be issued by the mechanism. This rating was based on the low leverage expected, its large intervention capacity (EUR 500.0 billion), credit worthiness of its members, and its capital management and liquidity policies which “with their early warning system” guarantee that funds will be available in time.

Asia: worse in 2012; better in 2013. The World Bank (WB) has lowered its growth forecast for Asia and has warned that if Europe's situation worsens, growth in the region could drop by 2% in 2013. The WB expects Asian GDP to growth 7.2% this year, which is lower than the 7.6% rate estimated in May. However, a rebound, which would be driven by a strong demand from developing economies, is expected in 2013. The lower demand for exports from the East of Asia has decelerated growth in the region, which remains solid in comparison with that of other regions in the world.

Mega-deficit. Upon closing of 2012 fiscal year, the U.S. Federal Government has recorded a deficit that, for the fourth year in a row, exceeds US\$1 trillion. The U.S. fiscal deficit was at US\$1.1 trillion, about 7% of the American GDP, which is lower than the 8.7% registered in the same period of 2011. The lower deficit is largely attributable to an increase of 6% in tax collection, and a 2% drop in spending, due to changes in disbursement schedules.

Credit boom. According to the last data released by the Fed, consumer credit in August grew US\$18.1 billion, way above the expected increase of US\$6.3 billion. In an environment in which salaries aren't enough to make ends meet, consumers have had to resort to credit so as to increase consumption, which in August reflected an accelerated growth of 5.5% with respect to the same period in 2011.

Earlier retirement: Unemployment solution? The International Labor Organization (ILO) called upon developed economies that are facing an increase in youth unemployment rates and an aging population, simultaneously, assuring that an early retirement policy isn't the solution to the problem. The ILO points out that the retirement of an old worker doesn't imply the worker's immediate replacement with a younger one, partly due to the lack of skills and experience of the latter.



Work for all. ILO also stated that the changing dynamic of labor market is another factor that has rendered early retirement policies ineffective. The Organization sustains that both young and older people need to work and, therefore, supporting campaigns in favor of youth work is not only necessary, but also fostering work among older people.

Political Tips

Chávez until 2019. Presidential election in which President Hugo Chávez got 55.1% (8,062,056 votes), thus ratifying his mandate for the 2013-2019 term, registered the highest turnout in Venezuela's democratic history (80.9%), The Democratic Unity Panel's candidate, Henrique Capriles Radonski, in turn, got 6,468,450 votes (44.2%).

In spite of the defeat, the outcome is not discouraging for the opposition, which given the 19.8% increase in the voters' roll, in 2006-2012 gained 50.7% of votes as compared with the previous presidential election. The government party, in turn, recorded a 10.3% increase in the number of votes with respect to 2006 and, even though it won in almost all of the states in the country, the government party lost positions throughout the national territory.

Recognizing the winner. Presidential candidate Henrique Capriles, in a public appearance one hour after the CNE had announced the election results, congratulated President Chávez and reminded him that *"being a good President means working for the unity of all Venezuelans, working for the solution of all problems."* When asked if he would phone President Hugo Chávez, Capriles said that he would do it, *"I'm here to admit and respect the will of our people,"* he stressed.

Respect for the other half of the country. In his concession speech, the "defeated" candidate, Henrique Capriles, asked those that will remain in power to *"have respect and consideration for and to recognize almost half of the country"* that voted for a different alternative. Capriles also emphasized his desire that *"a project that has been developing for 14 years assumes and understands that almost half the country doesn't"* agree with the option that remains in power.

There shouldn't be a defeated people. Henrique Capriles delivered a message to those who supported him with their votes for them not to feel alone or like losers because he didn't win on October 7th election. Capriles pointed out that *"those more*



than 6 million" (of voters) "aren't alone" and then he stressed that "I was the one who didn't win".

A perfect victory. Since the so-called "*Balcón del Pueblo*" of the Miraflores presidential palace, on national radio and TV, President Hugo Chávez celebrated "the perfect victory," as he described his triumph in presidential elections, which will allow him to rule the country in 2013-2019 term. Accompanied with relatives, close friends and members of his Cabinet, the Head of State asked God for live and health "to be able to continue serving more and better the Venezuelan people."

"I congratulate the opposition". Reelected president, Hugo Chávez, congratulated all those who voted against him, on their democratic mood and their civic behavior. He also congratulated the opposition leaders on "*having recognized the truth; they have recognized the people's victory.*" Chávez greeted the opposition leaders and held out his hands and his heart to them; he also reiterated his commitment to "be a better president than he has been the previous years."

Successful 1 x 10 strategy. The PSUV government party recognized the work of all its members, which contributed to the success of the 1 x 10 voter strategy and to the subsequent victory of President Hugo Chávez. The first PSUV vice-president, Diosdado Cabello, underscored that thanks to the party's machinery, the "revolution" won in 22 states in the country. Cabello took the opportunity to demand respect for the 8 million of people that voted for Chávez and also for those who didn't exercise their right to vote.

These are the "homeland candidates". The PSUV announced the list of candidates nominated by President Hugo Chavez, who will contest to the country's governor elections in December. In the list, the highlight candidates for reelection are: Adan Chavez in Barinas, Francisco Rangel Gomez in Bolivar, Stella Lugo in Falcon, Wilmar Castro Soteldo in Portuguese, Hugo Cabezas in Trujillo, Jorge Luis Garcia Carneiro in Vargas and Julio Leon Heredia in Yaracuy.

In the rest of the list of candidates for the governor elections we find: Nicia Maldonado (Amazonas), Aristóbulo Istúriz (Anzoátegui), Ramón Carrizález (Apure), Tareck El Aissami (Aragua), Francisco Ameliach (Carabobo), Érika Farías (Cojedes), Lizzeta Hernández (Delta Amacuro), Ramón Rodríguez Chacín (Guárico), Luis Reyes Reyes (Lara), Alexis Ramírez (Mérida), Elías Jaua Milano (Miranda), Yelitze Santaella (Monagas), Carlos Mata Figueroa (Nueva Esparta), Luis Acuña (Sucre), José Vielma Mora (Táchira) y Francisco Arias Cárdenas (Zulia).

Capriles was "short of time". Political analyst John Magdaleno stated that the outcome of the presidential election was more or less predictable, although the gap



between Chávez and Capriles had been expected to be smaller. Magdaleno pointed out that President Hugo Chávez' strength continues to be his social policies, whereas he described as "*positive*" Capriles' strategy of addressing moderate *Chavistas* and added that maybe Capriles lacked more time, because his popularity grew vertiginously.

"This isn't the end of the world". After Henrique Capriles' defeat, the executive secretary of the Democratic Unity Panel (MUD), Ramón Guillermo Avelado, pointed out the "*this isn't the end of the world*" and that "*we have to move on.*" Avelado said that mistakes have to be corrected and assured "*to those that believe that Unity is over due to Chávez' victory, that, on the contrary, we need unity the most precisely at this time.*"

Chinese are rubbing their hands. After the announcement of the results of the presidential election and of President Chávez reelection, Chinese were swift to react; the spokesperson of the Chinese Foreign Ministry, Hong Lei, stated that "*China is pleased about and wishes for Venezuela to reach new goals under the mandate of President Hugo Chávez.*" Lei also assured that China will continue with its efforts for bilateral relations between both nations to reach a new level.

Uruguay also. Reactions in the Americas were also swift; Uruguay's president, José Mujica, described Hugh Chávez' victory as significant. "*It's important; Venezuela is a country with which Uruguay has many things in common and our relation grows every day,*" Uruguay's President said to local media. Mujica highlighted that trade exchange with Venezuela is essential, because it offers Uruguay energy and oil security; Venezuela is a country with "*huge oil reserves and an important food consumer market.*"

A little hug for Venezuelan institutions. In a communiqué, the European Union (EU) congratulated President Hugo Chávez on his reelection and, at the same time, asked him to strengthen Venezuelan institutions and promote fundamental freedoms. The head of the European diplomatic mission in Venezuela, Catherine Ashton, expressed the EU satisfaction for the high turnout registered in presidential election and for the "*peace climate*" that reigned in the electoral journey, once the results were known.

The election process was "outstanding". In a press conference, at which Unasur electoral escort mission presented the CNE with its report on October 7th election, Carlos Álvarez, head of the mission, described as "outstanding" the election process that took place past October 7th. Álvarez highlighted the willingness of the Venezuelan opposition to dialogue with Unasur mission and thanked delegates from the different countries who contributed with their experience in election processes.



Legislative Tips

Deaths in Barinas will be investigated. At the regular session of the National Assembly (AN) on Tuesday, October 2nd, Representative Andrés Eloy Camejo requested that violent events, which occurred in Barinas during an opposition political rally and in which three followers of Henrique Capriles Radonski were killed, be discussed in AN. Representative Elvis Amoroso regretted the events and proposed the investigation to be conducted through the AN Interior Politics Committee. The plenary session approved Amoroso's request.

Investigation into Minister of Health's affairs is requested. AN representatives Dinorah Figuera, Miguel Ángel Rodríguez and Bernardo Guerra requested a criminal investigation to be opened against officials that have been associated with the Ministry of Health, including the current Minister Eugenia Sader, on alleged embezzlement, corruption and misuse of funds allocated for the national health system since 2007. The representatives presented a number of videos and photos showing the state of deterioration and abandonment of hospitals in Venezuela and denied government propaganda showing alleged improvements in the health sector.

As if there wasn't any job to do... The AN board suspended last Tuesday, October 9th regular session, as informed in a press note posted on the AN's official portal. Representatives are expected to meet in a regular session next week.





ECONOMIC OVERVIEW

