



Venezuela Economic Outlook

By Arca Análisis Económico

Here is our monthly summary of recent economic developments in Venezuela:

Gross Domestic Product: Economic Growth

- The Gross Domestic Product (GDP) of Venezuela at constant prices, according to official sources, registered a rebound of 17.73 percent from January to September 2022, compared to the same period in 2021. However, the nominal figures to date are not known.
- The estimate of the Venezuelan economy by private consultants is approximately US\$60 billion. Venezuelan GDP in nominal terms for 2014 was approximately US\$482 billion.
- Tax collection for 2022, according to official sources, was US\$4.744 billion, a growth of 97 percent compared to the figure collected in 2021 of US\$2.408 billion.

Money Market and Inflation

- Since 2018, the national money market is the main instrument to control inflation. Historically, inflation in Venezuela is highly correlated with increases in liquidity. Therefore, strong measures have been applied to restrict it; measures such as reducing public spending and increasing the reserve requirement legal measures to banks to reduce the issuance of credit are among the most significant.
- Currently, the legal reserve positions that banks must maintain in the Central Bank of Venezuela (BCV) is 73 percent; by March 2020 it reached 100 percent.

Accumulated annual inflation (percentage) in Venezuela	
2018	130,060.2 percent
2019	9,585.5 percent
2020	2,959.8 percent
2021	686.4 percent
2022	334.0 percent
2023 (December to April)	53.5 percent



Exchange Market

- The exchange market in Venezuela is determined primarily by the balance between the offers of monetary liquidity in national and foreign currency. Weekly attempts are made to control the exchange rate by injecting foreign currency into the national banking system.
- By 2022, it is estimated that interventions of this nature reached US\$5.4 billion. This speaks of an average of US\$450 million each month.

Oil Situation

- According to the Organization of the Petroleum Exporting Countries (OPEC) figures, 810,000 barrels per day (bpd) are being produced. In April 2022, it was 707,000 bpd and for the same month of 2021, it was 445,000 bpd.
- A major catalyst in the industry is the recent entry of U.S. oil producer Chevron Corp., which estimates that from this point it could increase its production in Venezuela this year by as much as 50 percent, to 150,000 bpd without significant new investments, Chief Executive Michael Wirth said on April 28, 2023. The company is producing about 100,000 bpd in Venezuela, and growth, Wirth said, is limited by the terms of its U.S. license, which includes limits on the activities it can carry out.

External Debt Situation

- The balance owed by foreign debt bonds as of May 29, 2023, stands at US\$88.1 billion – US\$58.9 billion (64.6 percent of the total) corresponds to callable capital, US\$26.6 billion (31.9 percent) to accrued interest and US\$2.6 billion (3.4 percent) to default interest. In June, US\$100 million will be added for the maturity of interest corresponding to bonds of the Republic.

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OFAC License Authorizes Transactions Under Settlement Negotiations with Venezuelan Government

By Holland & Knight

The Office of Foreign Assets Control (OFAC) on May 1, 2023, issued General License 42, which has important implications for transactions related to Venezuela. This license authorizes specific transactions that are necessary and ordinarily incidental to the negotiation of settlement agreements with the IV National Assembly of Venezuela and other designated individuals.

Under this license, transactions related to the negotiation of settlement agreements involving the IV National Assembly of Venezuela, its Delegate Commission, any entity established by or under the direction of such Assembly, as well as any individuals designated by these entities, are permitted. These transactions may be related to debts of the Venezuelan government.

Importantly, this license also covers the negotiation of settlement agreements with individuals appointed by entities of the IV National Assembly to serve on boards of directors, including ad hoc boards of directors, or as executive officers of entities of the government of Venezuela, including those owned or controlled directly or indirectly by the government.

However, this license has certain restrictions. No transactions are authorized involving the National Constituent Assembly of Venezuela convened by President Nicolás Maduro or the National Assembly installed on Jan. 5, 2021, including their respective members and staff. In addition, any transaction prohibited by the Venezuela Sanctions Regulations (VSR) is not authorized, unless a separate authorization is obtained.

It is important to note that this license does not cover transactions involving persons blocked under the VSR, except for those blocked persons specifically described in Paragraph (a) of this general license.

It is critical that all interested parties consult the VSR and the latest OFAC updates to fully understand the implications and limitations of this license.

In a press release issued on May 3, 2023, the Bolivarian government of Venezuela expressed its denunciation and rejection of General License 42 issued by OFAC. Foreign Minister Yvan Gil considers that this license goes against international legislation and the Bolivarian Constitution. Furthermore, the Venezuelan government interprets this license as an obstacle to the progress achieved in the international conference on the political situation in Venezuela called by the president of Colombia. Likewise, it sees it as an attempt to steal the Venezuelan oil industry in the United States. The Venezuelan government affirms that it will continue to inform international chancelleries about this situation and the perceived sanctions by the United States.

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SENIAT Readjusts the Value of the Tax Unit

By Tinoco Travieso Planchart & Nuñez

Through Administrative Ruling No. SNAT/2023/000031 (the Ruling), dated April 13, 2023, published in the *Official Gazette* of the Bolivarian Republic of Venezuela No. 42,623, dated May 8, 2023, issued by the National Integrated Customs and Tax Administration Service (SENIAT), the value of the tax unit is readjusted.

Within the aforementioned Ruling, it is established:

- The readjustment of the value of the tax unit from 0.40 bolivars to 9.00 bolivars.
- The value of the tax unit may only be used as a measurement unit for the determination of national taxes whose collection and control are within the competence of SENIAT, and may not be used by other bodies and entities of public power to determine labor benefits or special fees and contributions derived from the services they provide.
- In the case of taxes that are settled for annual periods, the applicable tax unit will be the one in force at the end of the respective fiscal year. For taxes that are settled for periods other than annual, the applicable tax unit will be the one that is in effect at the beginning of the period.

It is important to highlight that this readjustment represents an increase of 2,150 percent.

This new increase affects the payment of income tax, which is used by the tax unit for the purposes of the referential base for its calculation. In the withholding of income tax, therefore, the withholdings of workers must be adjusted.

This increase in the tax unit will not have an impact on tax penalties, since by virtue of the 2020 Organic Tax Code, they are established in the highest value currency, except in cases of updating fines based on the value of the tax unit at the time of payment. Those expressed in percentage terms are converted to the equivalent of the tax unit at the time of the commission of the crime.

In general, there is a tendency for the legislator to resort to these new ways of calculating the amount of administrative sanctions and fees for services, different from the tax unit, so that the impact of their increase will be reduced in these areas.

The readjustment entered into force on May 8, 2023, from the publication in the *Official Gazette* of the Bolivarian Republic of Venezuela.

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