



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- The end of the year is approaching and some of the country's macroeconomic figures are already beginning to come into focus. For example in August, the Central Bank of Venezuela (BCV) announced the growth figures of the national economy, which in the current year registers an 18.70 percent increase in the gross domestic product (GDP). Calixto Ortega, the president of the BCV, revealed such figures before the National Council of Productive Economy, which was headed by President Nicolás Maduro.
- According to what the council reported, in the third quarter of 2021, the GDP grew 14.65 percent and the fourth quarter of 2021 increased to 19.07 percent compared to 2020's fourth quarter.
- In 2022, the first quarter had a year-on-year growth of 17.04 percent. For the second quarter of this year, the president of the BCV said that regarding only the private sector, the growth is estimated at 18.70 percent and does not include the public sector and the oil activity.
- Venezuela's economic position this year comes from a very bad pandemic year, in addition to the fall in economic activity since 2014. That places the country in a more optimistic situation, in which local companies are producing more than the previous year, there are better conditions and greater initiative on the part of the private sector.
- Venezuela has reached prepandemic levels of oil production, but has not reached 1 million barrels of production. In this context, the price of oil is of vital importance since it determines what the government can receive in the future for its main export product.
- On the other hand, the executive vice president of the Republic, Delcy Rodríguez, pointed out that supermarket activity in Venezuela grew 19 percent between 2021 and 2022. Likewise, the number of stores in Venezuela has grown by 120 percent so far this year compared to 2021, increasing from 11,228 to 24,748 establishments.
- The president of the Pharmaceutical Industry Chamber (CIFAR), assured that the pharmaceutical industry in Venezuela managed to grow by 14.5 percent in units during the first eight months of 2022, emphasizing that there is a greater variety of products in pharmacies, so the patient has more options than four or five years ago.
- Regarding financing in Venezuela, as mentioned above, the offer is reduced. However, the credit portfolio increased by 106 percent, as a result of the easing of the credit restriction policy that the government has been applying to curb inflation, according to experts. Loans are still far from the level required by the economy.
- According to the Superintendence of Banking Sector Institutions (SUDEBAN), in August the credit portfolio reached US\$597.97 million, when in the same month of last year it closed at US\$289.96 million.



- Credit has been responding to a relaxation of the policy applied by the authorities to contain the exchange rate, which consists of controlling the demand for dollars by reducing the issuance of bolívar soberanos – necessary to purchase foreign currency – through the reduction of public spending and funding restriction.
- Foreign currency allocations made from January to October of this year, amount to US\$3 billion, practically three times the amount placed in 2021. Everything indicates that the BCV will maintain its recent strategy of optimizing foreign exchange intervention by distributing the sale of foreign currency throughout the week, as required by the behavior of the parallel exchange rate.

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## National Assembly Approves Agreement in Repudiation to Paris Arbitral Award of 1899

By Holland & Knight

Through the *Official Gazette* No. 42,481 of Oct. 11, 2022, the National Assembly of Venezuela issued the Agreement in Repudiation of the Paris Arbitral Award of 1899 (Agreement).

The Agreement seeks mainly to reject recent developments that aim to reestablish the legal validity of the Paris Arbitral Award of 1899 (Award) by which a territorial dispute between Venezuela and British Guyana was resolved. According to the Agreement, the Award is illegal, and violates the principles and norms of public international law, and deprives Venezuela of 159,000 square kilometers (Km<sup>2</sup>) of land.

The Agreement considers that Guyana accepted through the Geneva Agreement of 1966 that the Award is invalid and null. In addition, the Geneva Agreement is the binding tool of international law, since it was subscribed by the parties to find an amicable solution to the controversy, leaving behind what was resolved by means of the Award. It further states that the Geneva Agreement was breached by Guyana due to foreign influences, and that this resulted in a unilateral claim before the International Court of Justice by Guyana, which, according to the Agreement, lacks jurisdiction.

Finally, the Agreement insists on resuming negotiations between the parties within the framework of the Geneva Agreement, and to reject acts considered to be intrusive by foreign powers, such as the declarations of the U.S. government that affirm the Award is valid until a legal body determines otherwise, referring to the anticipated process before the International Court of Justice.

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## Venezuela Approves Organic Law for Harmonization of Tax Powers of States and Municipalities

By Tinoco Travieso Planchart & Nuñez

The Organic Law for the Harmonization of the Tax Powers of the States and Municipalities (The Bill) was approved in first discussion on Aug. 25, 2022. The purpose of this Bill is to avoid double taxation and tax overload of taxpayers by establishing principles, parameters, limitations, tax rates and aliquots to guarantee the coordination and harmonization of the tax powers corresponding to the states and municipalities. The main points of the Bill are:

**Legality and Proportionality of Taxes.** The Bill prescribes that taxes, rates or contributions not provided for in state laws or ordinances may not be levied, respecting the limits set in the Constitution and the Law. Consequently, the collection of amounts required under different concepts, such as contributions, duties, consideration and similar or equivalent items, will be null and void. Likewise, it is established that taxes may not be confiscatory in nature, nor allow multiple interjurisdictional taxation or become an obstacle to the harmonious development of the national economy.

**Collection and Calculation of Taxes, Sanctions and Interest.** Regarding collection, taxes, their accessories and sanctions may only be collected in bolívar soberanos. However, the states and municipalities may use as a dynamic unit of account for the calculation of taxes, accessories and sanctions, the exchange rate of the highest value currency published by the Central Bank of Venezuela (BCV). With respect to the sanctions, such penalties may not exceed the maximum limits set in the Organic Tax Code. Regarding interest, the states and municipalities may not apply an interest rate higher than the average rate applicable to commercial credits, established by the BCV, in the determination and collection of late interest fees.

**Duration of Licenses to Carry out Economic Activities.** The licenses or authorizations for the exercise of economic, industrial, commercial, service and similar activities subject to this law, shall have a minimum term of two calendar years, counted from the date of their issuance by the corresponding authority.

**Aliquot of the Tax on Economic Activities, Harmonized Classifier and Undertakings.** The Bill determines an aliquot for the tax on economic activities of industry, commerce, services or of a similar nature, which may not exceed 3 percent of the gross income obtained. The minimum annual taxable amount for this tax may not exceed the equivalent of 20 times the exchange rate of the highest value currency published by the BCV.

In order to encourage entrepreneurships, the sum of all the municipal taxes applicable to the undertakings, established in accordance with the special law governing the matter, may not exceed 2 percent of the gross annual income obtained by the taxpayers.

**Tax on the Extraction, Exploitation, Use and Commercialization of Non-Metallic Minerals.** The aliquot of the tax on the extraction, exploitation, use and commercialization of non-metallic minerals, not reserved to the National Executive and which correspond to the states, will be between 1 percent and up to a maximum of 3 percent on the value of the commercialized cubic meter of mineral reflected in the invoice, dispatch guide, circulation guide or any other equivalent commercial document.



**Tax on Vehicles.** Tax on vehicles shall be paid exclusively in the jurisdiction of the municipality where the owner has his/her domicile, residence or permanent establishment. The tax on vehicles is determined and liquidated on an annual basis. The municipalities will fix the annual aliquot within the limits established in the Bill.

**Harmonization of Rates.** The states and municipalities may not establish rates different from those indicated in the Bill.

**Proportionality and Rate Limits.** The Bill establishes that due proportionality must be guaranteed between the cost of the public service rendered and the benefit effectively received or realized for the taxpayer. The applicable values for the rates will be set forth in the Law, adjusted to a Table of Values by typology and may not exceed the limits set in the Law.

**Fines or Sanctions for Lack of Timely Payment of Service Fees.** In the case of sanctions for infractions consisting of nonpayment of service fees, the states and municipalities may not establish fines higher than 100 percent of the equivalent value of the unpaid tax, without prejudice to any late interest fees that may correspond, which shall be determined in accordance with the provisions of this Law.

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