



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- So far this year, the dollar price has gone through three stages. First, it rose almost uninterrupted until Feb. 24, 2021, accumulating a 58 percent increase. Then, it dropped for 16 days in which it decreased 6 percent, reinforced by tax collections. The dollar then rose 30 percent between March 22 and April 17, reporting a 106 percent increase this year.
- Under these conditions, a relaxation of the legal reserve requirement was expected, so the Central Bank of Venezuela (BCV), according to a circular issued on April 29, 2021, decided to adjust the methodology to determine the discount applied to the reserve requirements. In this sense, the BCV specified that the discount to the legal reserve will be calculated daily and will be determined by the sum of the interests paid to the issuing institution for the reserve requirement deficit from Jan. 4, 2021, and up to the banking business day before the evaluation of the reserve requirement compliance. The measure came into effect on April 30, 2021, and will remain in force until May 31, 2021.
- Two relevant news items for the external sector of the Venezuelan economy should be discussed.
- First, the media has reported that the Office of Foreign Assets Control (OFAC) has urged the Baltic and International Maritime Council (BIMCO) to impose penalties on ships that sail without keeping the Automatic Identification System (AIS) on during the entire voyage. According to International Maritime Organization rules, this measure violates the International Convention for the Safety of Life at Sea.
- OFAC's objective could be to affect the trade of Venezuelan oil in Asia, the destination to which Venezuelan crude oil shipments arrive after ship-to-ship transfer operations on the high seas. The AIS turned off prevents its identification as Venezuelan crude. Under this dynamic, Petróleos de Venezuela, S.A. (PDVSA) has been able to take advantage of the recovery of world crude oil demand, release significant accumulated inventories and raise production by 30 percent to 578,000 barrels per day (kbd) from 434,000 kbd in November, according to an official source reported by OPEC recently. Secondary sources also reported increased Venezuelan crude oil production, indicating a production level of 525,000 kbd (up 27 percent vs. November 2020).
- If this clause is included and implemented, it is expected that there will be a reduction in the volume exported from Venezuela and, at the same time, an increase in the discounts with which Venezuelan oil is sold.
- The second relevant news is related to the forthcoming approval of the allocation (donation) of \$650 billion in Special Drawing Rights (SDR) to be carried out by the International Monetary Fund (IMF) to all member countries. The goal is to strengthen international reserves and contribute to the global recovery after COVID-19. The IMF informed officials that Venezuela



would not be able to access the \$5.1 billion it would be entitled to because the executive board, in which 191 countries are represented, has not yet decided which government represents Venezuela.

- Until the country agrees to create a transitional government, this organization will not be entitled to carry out any procedures related to Venezuela. As a precedent, one may consider the case of the letter sent a year ago by Foreign Minister Jorge Arreaza requesting a \$5 billion loan, which could not be processed due to the institutional crisis the country is going through.
- Two additional aspects are relevant. When the time comes, Venezuela will have to fully reestablish its relationship with the IMF by remedying the noncompliance with Article IV, which dates to 2004. This article is a commitment to transparency to the IMF that all of its members must comply with information and data provision, regardless of ideologies. Despite this noncompliance, Venezuela had access to \$2.5 billion of SDRs allocated by the IMF in December 2009 to strengthen the economies of developing countries in the aftermath of the 2008 financial crisis. The Venezuelan government used those funds, quietly and without accountability since 2015, and it decreased the balance to its current level of \$12.6 million.
- Locally, on May 1, 2021, and as is customary in Venezuela, the Venezuelan government announced an increase in the legal minimum income. This measure is the second increase decreed this year. The minimum salary was increased by 289 percent, the food bonus by 67 percent and the legal minimum income by 178 percent. In the first four months of 2021, the Venezuelan government has incremented the overall minimum salary by 340 percent, food voucher by 150 percent and legal minimum income by 317 percent.
- Although the salary and minimum income increases exceed the estimated inflation for these four months (197 percent), the salary lag has been too protracted and far from the subsistence minimum, even in a family group where all members earn minimum income. Before the most recent increase, the minimum wage was equivalent to US\$0.60 and the legal minimum income to US\$1.30. Today, they are US\$2.50 and US\$3.50, respectively.
- Regarding domestic activity, Luis Prado, vice president of the National Cattle Breeders Association of Venezuela (Fedenaga), warned that the sector could be affected by the paralysis of the country's productive diesel supply activities if it is not regulated soon. According to Prado, around 80 percent of the equipment available to carry out work in the fields is affected by the lack of diesel.

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## Government Announces Lease Payment Suspension

### By Holland & Knight

The Venezuelan government announced on April 7, 2021, through Decree No. 4,577, a six-month rent suspension for lease payments of commercial and main residential properties. This measure was issued in an attempt to improve the economic and financial situation of tenants as a consequence of the economic impact derived from the COVID-19 pandemic.

The Decree states that the parties (landlord and tenant) may agree on special terms and deadlines within the six months outlined in the Decree to establish, if deemed necessary, payment restructuring or refinancing parameters. The Decree emphasizes that in no case will tenants be obliged to pay the lease payments accrued during the suspension term in a single payment.

In addition, the Ministry of People's Power for the Economy and Finance issued through Administrative Ruling SNAT/2021/000023 the readjustment of the tax unit from 1,500 bolívares soberanos to 20,000 bolívares soberanos. This tax unit will be implemented as the measurement unit to determine the national taxes, whose collection and control are under the jurisdiction of the National Integrated Service for the Administration of Customs Duties and Taxes (SENIAT).

Finally, on April 21, 2021, the Venezuelan government – through Administrative Ruling No. 044-2021 – issued administration and risk supervision rules related to money laundering, terrorism financing and financing for the proliferation of weapons of mass destruction. These rules are applicable to virtual asset service providers and to persons and entities that provide products and services through activities involving virtual assets in the Integral Cryptoasset System.

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## Venezuela Publishes Customs Tax Relief Measures

By Tinoco Travieso Planchart & Nuñez

The Presidency of the Republic published on May 1, 2021, in the Extraordinary *Official Gazette* No. 6,623, through Decree No. 4,412, tax relief measures from value-added tax (VAT), the customs regime classification tax and import taxes for the imports of certain goods and sectors established in the Decree.

- **Exonerations – New or used tangible personal property:** Until May 31, 2021, the imports of new or used tangible personal property, classified in the tariff codes set forth in Exhibit I of the Decree, drafted by the organs and entities of the National Public Administration, as well as tax payments carried out with the equity and the assets of individuals or legal entities of the private sector, will be exempted from the payment of the aforementioned taxes.
- **First-use movable capital, computer and telecommunications assets, their parts, pieces and accessories:** Until Dec. 31, 2021, the VAT payment will be exempted, and the 2 percent aliquot or zero percent ad valorem rate will be applied to the definitive imports of first-use capital, computer and telecommunications assets, their parts, pieces and accessories, not produced or with insufficient production in the country, classified as BK or BIT, in column three of Article 37 of the Customs Tariff.
- **Automobile imports:** Until May 31, 2021, final imports of tangible personal property carried out by legal entities whose business activity is linked to the automotive sector, whose tariff codes are outlined in Exhibit II of the Decree, are exempted from the payment of the indicated taxes, under the terms and conditions set forth in the "Certificate of Exemption of the Automotive Sector" issued by the Ministry of such industry or the "Import Authorization for Vehicle Assembly Materials" issued by the National Integrated Service of Customs and Tax Administration (SENIAT).
- **Movable tangible assets destined to avoid the spread of the COVID-19 pandemic:** The payments of import taxes, classification taxes and VAT, until Dec. 31, 2021, as well as any other tax or rate applicable under the current legal system, including the VAT applicable to sales carried out in the national territory, for the final imports of medicines and medical instruments outlined in the tariff codes of Exhibit III, drafted by the entities of the National Public Administration, destined to avoid the spread of the COVID-19 pandemic will be exempted.
- **Tariff Quota:** The goods outlined in the tariff codes set forth in Exhibit IV of the Decree are subject to a tariff quota until May 31, 2021, for which they may be partially or totally exonerated or exempted from the above-mentioned taxes in the amounts and terms outlined in the "Certificate of Exoneration of the Tariff Quota" to be issued by the People's Ministry of Economy, Finance and Foreign Trade (MPPEFCE).

In order to apply for the exoneration and tax relief, the Customs Administration requires beneficiaries to submit the following **standard requirements**:

1. a descriptive list of the goods to be imported
2. a commercial invoice issued on behalf of the beneficiary in charge of the acquisition of the goods
3. the certificates, licenses, registrations and permits applicable to the type of goods according to the Customs Tariff, set forth in the column indicating the respective legal tax regimes



The information must be submitted through the electronic format made available by the MPPEFCE.

Regarding the **specific requirements** requested by the Customs Administration to apply for the exoneration and tax relief, importers must submit together with the Customs Entry Form, according to each particular case, the following:

1. **Capital, computer and telecommunications assets, their parts, pieces and accessories:** The "BK or BIT Certificate of Exoneration."
2. **Automobile imports:** The "Certificate of Exoneration of the Automotive Sector" issued by the Ministry of such industry in the case of goods and assets corresponding to Exhibit II of this Decree, classified in the chapters of the Customs Tariff other than Chapter 98, which refers to "goods subject to special tariff treatment." If these codes apply to Chapter 98, the importer must submit the "Import Authorization for Automobile Assembly Materials."
3. **Movable tangible goods destined to avoid the spread of the pandemic COVID-19:** The "Certificate of Exoneration" issued by SENIAT.
4. **Tariff Quota:** The "Certificate of Exoneration of the Tariff Quota" issued by MPPEFCE must be certified.

The noncompliance of the beneficiaries of any of the conditions outlined in this Decree will cause the loss of the tax relief. In such circumstances, the imports of goods made subject to the benefit are considered taxed, without prejudice of the penalties that may apply, in accordance with the provisions of the Constituent Decree set forth in the Tax Code and the Constituent Decree set forth in the Organic Customs Law.

Decree No. 4,412, published on Dec. 29, 2020, in the Extraordinary *Official Gazette* No. 6,608, and the Resolutions issued in execution of said Decree were repealed.

In conclusion, the Decree was executed and published in the *Official Gazette* of the Bolivarian Republic of Venezuela.

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