



## Panorama económico en Venezuela

By Arca Análisis Económico

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

- The year 2020 was characterized by quarantine restrictions that marked 75 percent of the year, together with severe pre-existing vulnerabilities, the continuation of sanctions and a stabilization policy focused on fiscal and monetary restriction in Venezuela. However, the government declared the suspension of the confinement during December, arguing that statistics show that COVID-19 infections are under control and support the decision to avoid forced breaks in dozens of economic sectors.
- One of the most relevant events of the year has to do with the suppression of fuel subsidies and the advance of the "currency substitution/dollarization" of the Venezuelan economy. This action caused families to increase average dollar-denominated spending and has allowed certain segments of the commercial and service sectors to take a breath after years of trying to manage inventories and pricing policies in an environment where the only currency to trade was the Venezuelan bolívares soberanos, which continues to be the currency with the greatest hyperinflationary crisis in the world.
- In 2020, spending grew less than the situation required and the government refrained from granting fiscal benefits in order to avoid accentuating the already substantial monetary financing of fiscal management. No tax exemptions were granted and no tax deferrals were allowed. In September, six months after the beginning of the quarantine, the government allowed value-added tax (VAT) payments every two weeks, instead of every week as was originally established in August 2018. This relief did not reactivate the economy.
- Another key fiscal effort carried out was in direct transfers to the population through Patria System subsidies, whose weight in domestic public spending rose significantly from 24 percent in 2019 to 43 percent in 2020, but this relief is also notoriously insufficient. The value of the special subsidies transferred to 10 million Venezuelans only exceeded US\$5 per person on two occasions.
- The monetary policy relaxation was also discreet: the reserve requirement was unified and reduced to 93 percent in April and two discounts to the reserve requirement were implemented (in April and September) whose effect has been diluted by the high inflation. This reserve policy has stifled bank credit, which remains out of reach for most of the country's production and trade units. Suffice it to say that the bank credit multiplier rose only 1.8 percent in 2020 (reflecting the relief in the reserve requirement) after having fallen 21.5 percent in 2019.
- In summary, the authorities did not substantially change the restrictive direction of their fiscal and monetary policy. Inflation, while decelerating significantly to 2,800 percent from 9,800 percent in 2019, remains very high, difficult for the population and businesses to cope with, and the stabilization gains are increasingly tenuous and fragile.



- With respect to the events carried out in the last month of the year, the parliamentary elections were held on Dec. 6, 2020, with the intention of renewing all the seats in the National Assembly and electing the legislators who will be in office for the period 2021-2026. This national process was characterized by significant absenteeism and abstention, with just 31 percent of voters participating, more than 40 percentage points below the 2015 parliamentary elections won by the opposition. The control of the National Assembly is expected to provide President Nicolás Maduro's administration with the necessary legitimacy to carry out certain economic reforms.
- As for Venezuela's oil production, it reported contradictory behavior in the last two months of 2020. According to the latest report issued by The Organization of the Petroleum Exporting Countries (OPEC), direct communications from Petr6leos de Venezuela, S.A. (PDVSA) indicated a 8.3 percent drop in production in November, after reporting a significant increase of 19.1 percent in October (473,000 barrels per day or bpd). At the end of November, production reached 434,000 bpd.
- In 2018, Venezuela produced approximately 1,510 million bpd, the figure reached 1,013 million bpd by 2019, this implies a drop in production of 57 percent by November 2020 with respect to 2019. This production decrease is reflected in the government's inability to supply the domestic fuel market. Thus, it is to be expected that fuel shortages will continue and will also justify an increase in the gasoline price (or that the distribution of subsidized gasoline be limited to a small number of sectors).

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## Supreme Court Decision on Interim President Juan Guaidó's Mandate

By Holland & Knight

The Venezuelan Supreme Tribunal of Justice declared on Dec. 30, 2020, through Decision 0274, the "Partial Reform of the Statute governing the Transition to Democracy in order to Restore the Validity of the Bolivarian Republic of Venezuela" (Reform), of Dec. 26, 2020, null and void. The reasons for the court's decision are based on the fact that, in the court's judgment, the deputies of the National Assembly under Interim President Juan Guaidó usurped the powers of the Board of Directors, simulated an ordinary session and ignored the provisions set forth in the Constitution of the Bolivarian Republic of Venezuela in order to illegally extend the constitutional period and office of the deputies.

In this sense, the court pointed out that the Reform lacks any legal validity since it sought to "perpetuate, extend, continue, or prolong the investiture or the office of deputies of the National Assembly, of those citizens who were deputies for the national legislative period that just expired, and with it attempt to or undermine the investment of deputies of the National Assembly for the new constitutional period 2021-2026, to begin on January 5, 2021."<sup>1</sup>

Likewise, the ruling states that any action carried out by the National Assembly in disregard of what was resolved is considered null and void, and that the Comptroller General of the Bolivarian Republic of Venezuela was requested to initiate the corresponding investigations to implement criminal, civil or administrative responsibilities against the deputies who established the Reform.

This decision was enforced amid tensions within the opposition parties (since the Reform was rejected and considered by some members of the opposition as unconstitutional) and – in the framework of elections held on Dec. 6, 2020 – in the absence of international support, the deputies who will be members of the National Assembly for the period 2021-2026 were elected.

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<sup>1</sup> [Constitutional Chamber of the TSJ Declared Null the Alleged "Partial Reform of the Statute Governing the Transition to Democracy to Restore the Validity of the Constitution of the Bolivarian Republic of Venezuela,"](#) The Constitutional Chamber of the Supreme Court of Justice, Dec. 30, 2020



## Decree Establishes Import Tax and Value Added Tax Exemptions

By Tinoco Travieso Planchart & Nuñez

The Venezuela government on Dec. 29, 2020, published Decree No. 4,412 in the *Official Gazette*, which establishes exonerations from Import Taxes, Value Added Tax (VAT) and the Tax for the Determination of the Customs Regime for the goods and sectors indicated below:

1. Until April 30, 2021, the final imports of products, new or used, classified in the tariff codes set forth in Appendix I of the aforementioned decree, the imports related to the automotive sector, and the final imports carried out by the entities of the National Public Administration, destined to avoid the spread of COVID-19 cases are exempted.
2. Until Dec. 31, 2020, the VAT payment is exempted and the rate of 2 percent or zero percent *ad valorem* will be applied to the final imports of movable capital assets, computer and telecommunication goods, their parts, pieces and accessories, not produced or with insufficient production in the country, of first use, identified as Capital Assets (BK) or Computer and Telecommunications Assets (BIT) in compliance with Article 37 of the Customs Tariff.
3. The final imports carried out by the National Public Administration agencies of the goods classified in the tariff codes set forth in the decree, corresponding to electric and electronic material for telecommunication uses, are exonerated for a period of 90 days.

Finally, the Decree is in force with its publication in the *Official Gazette* of the Bolivarian Republic of Venezuela.

### **Constitutional Chamber of the Supreme Tribunal of Justice lifts temporary suspension of application of tax regulations issued by municipalities and states**

By means of the decree issued on Nov 20, 2020, by the Constitutional Chamber of the Supreme Tribunal of Justice, 14 municipalities were authorized to resume the collection of municipal taxes. The Constitutional Chamber had suspended the collection of municipal and state taxes while the aforementioned political-territorial entities reformed the tax law instruments to adapt tax harmonization regulations and tax rates were reduced.

In this sense, the Constitutional Chamber found that the regulatory instruments issued by the municipal tribunals of the municipalities of Maneiro (Nueva Esparta), Sucre, Chacao, Guaicaipuro and Zamora (Miranda), Vargas (La Guaira), Libertador (Capital District), Valencia and Los Guayos (Carabobo), Girardot (Aragua), Caroní (Bolívar), Lima Blanco (Cojedes), Agua Blanca and Sucre (Portuguesa), complied with the tax harmonization regulations suggested by the Chamber.

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