



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- On June 5, 2022, the news of the authorization to Eni and Repsol to restart crude oil swaps for debt was announced. The authorization will allow the progressive reduction of Petróleos de Venezuela, S.A.'s (PDVSA) debt with Cardón IV (owned by Eni-Repsol in equal parts), which produces natural gas and supplies the gas to the thermoelectric plants in the west of the country. This type of barter or transaction generated funds for the payment of PDVSA's debt with the companies, and they were interrupted at the end of 2020 by direct communication from the U.S. to them. According to Reuters, shipments may begin within a month. The position of the Venezuelan government appears to be favorable despite the fact that the proceeds of the exchanges would go exclusively to pay the debt with Eni-Repsol.
- The Central Bank of Venezuela (BCV) is determined to reverse the rise in the exchange rate through foreign exchange interventions, together with a modification of the conditions of the hedge titles that have been offered since March 2022. The new conditions of these hedge titles propose shorter terms, more attractive interest rates and a tax exemption. These conditions could be more attractive for financial institutions as well as for natural and legal persons.
- For banking, there will be five terms now ranging from 14 to 91 days, and rates ranging from 5 percent to 6 percent. Previously, only a 56-day term was offered with a rate of 1 percent. The minimum denomination for banks remains at 100,000 bolívars soberanos (approximately US\$20,000). On the other hand, for natural and legal persons, the terms range from 18 to 91 days and the yield rises from 8 percent for the minimum term to 10 percent for the maximum of 91 days. Previously, terms of 18 to 56 days were offered with interest rates of 3 percent and 3.25 percent, respectively. The minimum denomination being 50,000 bolívars soberanos (approximately US\$10,000).
- Bank credit has been rising steadily since mid-February. It is driven by the easing of the reserve requirement in February, exchange rate stability and the authorization of banks to grant loans settled in bolívars up to the equivalent of 10 percent of foreign currency accounts. Added to these measures was the obligation to allocate a minimum of 25 percent of the gross portfolio to the National Productive Single Portfolio as of April 1, 2022.
- On the other hand, the collection of the tax on large financial transactions (IGTF) on payments in foreign currency that came into force on March 28, 2022, interrupted the rise of deposits in dollars of the Exchange Agreement No. 1 in April. This new tax, coupled with the expansion of primary money, led to an expansion of the space for credit intermediation in April. Between March 28 and April 29, deposits in bolívars increased 40 percent and bank credit increased by the equivalent of US\$68 million. However, the space for intermediation continues to be limited by the reserve requirement and the prohibition on lending in foreign currency.



- During the first half of the year, several organizations have issued their opinions and estimates on the possible growth of Venezuela. The estimates are very diverse in a range from conservative to very optimistic: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), 5 percent; International Monetary Fund (IMF), 1.5 percent; Credit Suisse, 20 percent; Andres Bello Catholic University, 8.6 percent; Venezuelan Finance Observatory (OVF), 8.0 percent and Econanalitica, a private consulting firm, 8 percent.

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## Communities to Have Input on Renewable Energy and Strategic Minerals Bills

By Holland & Knight

Members of the National Assembly's Energy and Petroleum Commission reported that there is expected to be a first draft of the Renewable Energy and Strategic Minerals bills available by the end of this month. The purpose of completing the project drafts is to discuss them with the different communities throughout the territory to present later what would be the definitive text for the consideration and subsequent approval of the full National Assembly.

Deputy Ángel Rodríguez said that it is of utmost importance to discuss with the communities the content of the bills, given their relevance, and to get input regarding the different opinions, positions or objections that each community has in the formulation of its content and scope.

It is important to highlight that the reform related to Renewable Energy tends to diversify the energy matrix, including solar, wind, hydraulic, biomass energy and other nonconventional renewable energy sources. Similarly, the reform to the Mining Law seeks to include a new chapter in which aspects related to the so-called strategic minerals are regulated in conjunction with advancing further industrialization and development processes in Venezuela.

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# Relevant Tax Aspects in Reform of the Organic Law of Science, Technology and Innovation

By Tinoco Travieso Planchart & Nuñez

In the *Official Gazette* No. 6,693 Extraordinary of April 1, 2022, the Organic Law of Partial Reform of the Decree with Rank, Value and Force of Organic Law of Science, Technology and Innovation (LOCTI) was published, verifying in it, relevant changes in terms of the tax contribution established in Article 28 of the aforementioned law. A look at the key changes:

**1. Change in the definition of contributors:** Article 30 provides that those legal persons, private or public entities, domiciled or not in the Republic, that carry out economic activities in the national territory and have obtained annual gross income greater than 150,000 times the official exchange rate of the currency of greater value established by the Central Bank of Venezuela (BCV) in the immediately preceding fiscal year are considered contributors. In the previous law, it was established that the aforementioned subjects were contributors when they had obtained income greater than 100,000 tax units.

**2. Modification of the periodicity of the contribution:** The contribution declaration and payment period is modified, for which legal persons, private or public entities, domiciled or not in the Republic that carry out economic activities in the national territory will contribute a monthly percentage of their gross income in the fiscal year starting with the immediately preceding month. Similarly, it is provided that the contribution will be liquidated, paid and declared monthly in bolívares before the National Fund for Science, Technology and Innovation (FONACIT). In the previous law, it was established that the declaration and payment of the contribution was annual, during the second quarter after the closing of the corresponding fiscal year.

### 3. Proportion of contributions:

- 2 percent when the economic activity is one of those contemplated in the Law for the Control of Casinos, Bingo Halls and Slot Machines
- 2 percent for activities related to the production, trade and sale of ethyl alcohol, alcoholic species and tobacco
- 1 percent in the case of private capital companies, when the economic activity is one of those contemplated in the Organic Law of Hydrocarbons, the Organic Law of Gaseous Hydrocarbons and the Decree with Rank, Value and Force of Organic Law that reserves to the state the activities of exploration and exploitation of gold and other strategic materials
- 0.5 percent in the case of public capital companies when the economic activity is one of those contemplated in the Organic Law of Hydrocarbons, the Organic Law of Gaseous Hydrocarbons and the Decree with Rank, Value and Force of Organic Law that reserves to the State the activities of Exploration and Exploitation of Gold and other strategic materials



- 0.5 percent of the gross income actually received, in the case of companies engaged in any other economic activity not provided for in the above assumptions

**4. Expansion of the concept of gross income:** Changes the concept of gross income, indicating that these will be understood as the income, proceeds and flows that, habitually, accidentally or extraordinarily, accrue to the contributors for any activity they carry out, including income from exchange rate differences, income obtained from interest, dividends, by placement of bonds whatever their denomination and operating income, among others, as long as they are not obliged to repay them for any reason, without admitting costs or deductions of any kind.

**Validity:** The partial reform of the law became effective as of its publication in the *Official Gazette*, that is, as of April 1, 2022.

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