



Venezuela Economic Outlook

By Arca Análisis Económico

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

- The International Monetary Fund (IMF) executed on Aug. 31, 2021, the assignment to Venezuela of 3.611 million Special Drawing Rights (SDRs) equivalent to US\$5.130 million. This is Venezuela's portion of the global US\$650 billion allocation provided by the IMF to the 190 member countries, distributed according to their quota size. It should be noted that these resources are an allocation and not a loan.
- The use of this money is not subject to any economic policy condition that is to be expected in lending programs. Kristalina Georgieva, managing director of the IMF, has stated that this allocation is intended to strengthen the countries' reserves to avoid further internal or external public indebtedness due to the crisis generated by the COVID-19 pandemic.
- The money allocation is accompanied by an exhortation to developed countries to channel these resources to low-income countries through existing Poverty Reduction or Resilience and Sustainability Trusts as well as direct them to project financing through multilateral banks.
- Venezuela will not be able to mobilize these resources until the IMF board of directors reach an agreement as to which government is recognized as the official government of Venezuela. Therefore, the Central Bank of Venezuela (BCV) has recorded these SDRs as reserve assets and has included them in the international reserve balance in its balance sheet as of Sept. 8, 2021. However, this is an accounting record pending resolution by the IMF board of directors to use the funds.
- One of the events that singled out September was that the Bank of Venezuela (BdV) platform presented a failure that lasted five days and caused delays in the validation of operations for several more days. The BdV is the largest bank in the country, with 43 percent of the banking system's deposits and 16 million customers. Consequently, the bank system setbacks significantly impacted all kinds of payment transactions, as Sept. 15.
- BdV is the most important bank in the public banking system because it is used to pay the payrolls of state companies, pensions and bonds linked to the Patria system. Despite this, the consequences of the platform failure were not critical for most transactions since currently, more than 60 percent of bank deposits are in dollars, and more than two-thirds of the commercial transactions are made in dollars. Moreover, the dollar liquidity is five times higher than the liquidity in bolívares soberanos.
- September closed with the highest activity in the fixed income market this year regarding the local securities market. Total of 8.8 million bolívares soberanos and US\$124.903 million were offered compared to US\$2.3 million and 4.9 million bolívares soberanos expired, the third-highest amount of the year.



- Because of what could be expected shortly, Credit Suisse published an article on Oct. 1, 2021, entitled "Venezuela: A new phase?" In this article, they set out their expectations for the Venezuelan economy by the end of 2021, noting that they are raising their forecast for real gross domestic product (GDP) growth for 2021 to 5.5 percent from 4 percent. This upward adjustment to the GDP forecast is essentially a consequence of the favorable conditions expected in the oil market production, and the return to normalcy in mobility levels, which is expected to occur faster than what was expected.
- Available data shows that oil GDP is likely to increase between 3 percent and 5 percent year-on-year in 2021 instead of its previous expectation of no growth.
- Although mobility appears higher than in the rest of the region (relative to pre-pandemic levels), Venezuela's growth is likely lower than Latin America's in 2021. Other assumptions supporting Credit Suisse's estimates include a favorable external context and the recovery of Petróleos de Venezuela, S.A. (PDVSA) production, likely leading to a current account surplus in 2021. As a result, for 2022, Credit Suisse is considering its actual GDP growth forecast at 4.5 percent, up from 3 percent previously. In this case, the bank's estimate for next year presumes stability in oil production, and non-oil GDP growth of approximately 4 percent.
- According to Reuters, Venezuelan oil exports increased on average to 670,000 barrels per day (bpd) in July/August 2021, up from 410,000 bpd a year ago. According to the Merey price basket and various assumptions, it is estimated that Venezuelan exports could reach around US\$15 billion this year. Meanwhile, imports are considered likely to total approximately US\$7.5 billion. Therefore, the merchandise trade account is expected to tip the current account balance into a surplus of US\$3.4 billion, plus a few billion in remittances.
- A set of conditions in the U.S. energy market kept oil prices up, favoring Venezuelan oil revenues. One of these is Hurricane Ida, the most devastating hurricane in history regarding oil production disruption, with outages throughout September. The most brutal zone hit by Hurricane Ida, the Gulf of Mexico has not yet fully recovered from the 1.7 million bpd supply disruption. As of Sept. 17, an estimated one-quarter of the initial shut-in remains offline, causing a further drop in U.S. stocks and supporting higher prices. In addition, Hurricane Nicholas made landfall in Texas in mid-September and caused less damage than expected.
- According to the September report issue published by OPEC, Venezuelan production increased by 27,000 bpd in August. This third consecutive month with production above 600,000 bpd displays a slow, sustainable production estimated by several analysts to be between 650,000 and 700,000 bpd.
- According to direct sources, production increases were reported during six of the eight months of 2021. Secondary sources indicated no variation in Venezuelan production, which reported 523,000 bpd in July and August. In October, Standard and Poor's (S&P) noted that PDVSA offered upgraded crudes for sale, leaving behind Merey16, whose production fell



from 400,000 bpd in July to 90,000 bpd in August. According to S&P, Venezuela depleted its Merey inventories after exporting seven cargoes to Asia in August (10.3 million barrels; up 18.4 percent vs. July). Consequently, for October, it plans to export Morichal 16, Zuata Dulce 22 and Mezcla Especial de Hamaca 17.2, as a result of the restart of activities of the upgraders Petromonagas, Petrocedeño, and Petropiar.

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National Assembly Enacts Law on Transparency and Access to Information of Public Interest

By Holland & Knight

The National Assembly enacted the Law on Transparency and Access to Public Information on Sept. 20, 2021, in the *Official Gazette* 6,649. The purpose of this law is to guarantee citizens' right to access information of public interest and thus allow them to participate in the design, formulation and strengthening of the state. To this end, it establishes that natural persons, without any discrimination, have the right to access information of public interest, which is defined as any data or document that is necessary for citizens to participate in the public agenda of the state, and that is under control or has been filed before organs and entities of the national, state and municipal government, as well as the institutions of the Popular Power so long as they exercise administrative functions.

In this sense, the law establishes that if a citizen requests public information that is not subject to nondisclosure (the corresponding public entity must duly substantiate the nondisclosure of information according to law), it must be delivered within 20 business days from the date the request was filed, if legal requirements have been met. Furthermore, if the requested information is denied in whole or in part, the public entity to which the request has been filed must duly substantiate this decision.

For the legislative session of September, the National Assembly also enacted the Organic Law for the Reform of the Organic Code of Criminal Procedure, the Law Approving the Ratification of the Protocol to Eliminate Illicit Trade of Tobacco Products, and the Law for the Safeguarding of Intangible Cultural Heritage.

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General Aspects of the Constitutional Law that Creates the Tax on Large Assets

By Tinoco Travieso Planchart & Nuñez

The National Integrated Service of Customs and Tax Administration (SENIAT) established that through Oct. 1 and Nov. 31, of each year, taxpayers qualified as special taxpayers will be required to determine and pay the Tax on Large Assets, a tax published on Aug. 16, 2019, by the former National Constituent Assembly in the *Official Gazette* No. 41.696. The following is a summary of the most relevant aspects of this tax.

- **Purpose:** It will tax the net worth of taxpayers' assets whose net worth value equals or is greater than 150 million tax units (U.T.), equivalent to approximately US\$600,000.
- **Taxpayers:** Special taxpayers will be understood as natural persons and legal entities whose assets value equals or exceeds 150 million U.T.
- **Taxable Event:** A taxable event will be understood as the ownership or possession of any patrimony attributable to special taxpayers. The taxable event will be enforced on Sept. 30 of each year.
- **Territoriality:** It will be understood as the patrimonies of special taxpayers domiciled in Venezuela, including the assets, rights and obligations situated in or outside of Venezuela. The patrimonies of special taxpayers located abroad will consist of the taxpayers' assets, rights and obligations situated in Venezuela. The patrimonies of Venezuelan citizens located abroad that qualify as special taxpayers will be constituted by the assets and encumbrances situated in Venezuela.
- **Tax Exemptions:** The following items and individuals will be exempt from this tax:
 1. The Republic and other territorial political entities
 2. The Central Bank of Venezuela
 3. Decentralized entities
 4. Primary registered residences
 5. Personal and household effects, household utensils and other personal property for the taxpayer's private use
 6. Social benefits and other benefits derived from labor relationships
 7. State property and rights
 8. Assets invested in agricultural, livestock, aquaculture, fish farming and fishing activities used as primary activities
 9. Artists' creative work as long as it's the author's property, and
 10. Assets located in the country, belonging to foreign diplomatic and consular missions, adhering to the limitations established by the applicable international agreements
- **Taxable Base:** The taxable base shall result from adding the total value of the assets, rights, obligations and debts.



- **Regulations on Property Valuation:** For real property located in Venezuela, its value will be the greater sum obtained from any of the following parameters:
 - the value assigned in the municipal cadastre
 - the market value
 - the value obtained after updating the acquisition price, as established by SENIAT

For property located abroad, the tax will be the highest value based on that country's tax rules or the current market price at the closing of each tax period.

Shares – including those issued in foreign currency – traded in stock exchanges will be valued at the end of each tax period according to their closing price. The share values not traded in stock exchanges will be divided between the number of shares and the amount of capital stock and reserves in the last approved balance sheet at the closing of the income tax period.

According to the regulations issued by the SENIAT, assets and rights with no special valuation rule will be taxed according to the higher value obtained from the current market price and the updated acquisition price.

- **Tax rate:** According to Article 23 of the Constitutional Law, the tax rate will be between 0.25 percent and 1.50 percent of the net worth value. However, the Second Transitory Provision of said regulation establishes that, for the entry into force of said tax, the applicable tax rate will be 0.25 percent, so long as the National Executive makes no modifications to this provision.
- **Taxation period:** The tax will be carried out annually every Sept. 30 based on the net worth value.
- **Declaration and Payment Date:** The tax declaration and payment must be carried out between Oct. 1 and Nov. 30 of each year.
- **Non-deductible from Income Tax:** The amount paid for Tax on Large Assets shall not be deductible from income tax.

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