



Venezuela Economic Outlook

By Arca Análisis Económico

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

- During the first nine months of 2025, the evolution of the foreign exchange market has highlighted the urgent need to strengthen the availability of foreign currency, especially with a goal to reduce the gap between the official and parallel exchange rates. In the first quarter, that gap narrowed, albeit at the cost of an accelerated depreciation of the bolivar. To achieve that result, it was necessary to intensify the adjustment of the official rate, increasing its weekly variation from 2 percent to 3 percent, which temporarily reduced the difference from 30 percent to 20 percent.
- In March, a fiscal year-end month characterized by low monetary expansion, the exchange rate gap widened and exceeded the official rate by 45 percent. To contain this imbalance, multiple market interventions were carried out through the sale of foreign currency, briefly reducing the gap to below 30 percent.
- In June and July, the depreciation process accelerated. Although interventions were irregular, the growing volume helped keep the gap below 40 percent. Beginning in August, pressure on the exchange rate continued to intensify and the allocation of cash foreign currency steadily declined, stabilizing in a range of \$20 to \$30 million per week – a figure that remains the same to date.
- The gradual introduction of the cryptocurrency Tether (USDT) by the public sector, which began in late June and was formalized through auctions in September, has failed to reverse the exchange rate gap. A common factor behind these developments is the complexity of the external environment and the persistent demand for foreign currency. Added to this are specific factors related to the crypto asset and the mechanisms used for its distribution.
- Businesses still need time to adapt to the implications of operating in the USDT market in Venezuela. Additionally, the supply of this asset is characterized by its opacity, irregularity and lack of predictability. It is primarily aimed at sectors considered a priority, while many other participants must turn to the parallel market – contributing to the widening of the exchange rate gap since late July. Another relevant aspect is that the auctions foster competition among buyers, suggesting a seller's intention to raise the price, thereby canceling out any stabilizing effect that could result from this new source of supply.
- Looking ahead to the next quarter, a seasonal monetary expansion is expected, as is typical during the Christmas holidays. The current market dynamics, combined with the limited information available, suggest that new peaks in the exchange rate gap could be reached unless a strategy is implemented to close the year with a more controlled differential. The scale of a potential increase in the allocation of cash foreign currency will be key in determining the pace of the gradual exchange rate adjustment needed to contain the growth of the gap.

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- At the same time, a policy of import substitution appears to be taking shape, aimed at reducing the influx of finished goods from abroad and, consequently, preventing further depreciation of the bolivar. An increase in tariffs is also being considered as a protective measure for less competitive productive sectors. Concrete steps have already been taken in that direction. The Minister of Industries and National Production, who also chairs the International Center for Productive Investment (CIIP), announced the reactivation of a former cleaning product plant in Carabobo. The facility will produce cleaning and household care products, with a national investment exceeding 8 million euros (more than US\$9 million). Similarly, the government announced the launch of a home appliance plant in Aragua state, financed with national capital. The Inelec plant, located in Maracay, is expected to produce 200,000 fans per year, according to the minister.

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Sovereignty, International Law and Trade: The New Landscape Between Venezuela and the U.S.

By Holland & Knight

In recent weeks, the relationship between Venezuela and the United States has seen a significant increase in tensions, reflected in military actions and diplomatic statements that have raised concerns within the international community. U.S. President Donald Trump has highlighted U.S. Navy operations against Venezuelan cartels, stating that virtually no vessels linked to drug trafficking remain in Caribbean waters. The Venezuelan government, for its part, has denounced the presence of U.S. combat aircraft near its coast, describing these events as provocations and threats to national security.

In response, Venezuela has sought international support, particularly from Russia, and has reinforced its discourse on the defense of sovereignty and respect for international law. Venezuela's National Assembly recently approved a strategic partnership with Russia aimed at strengthening cooperation and high-level political dialogue in a context of increasing militarization in the region.

From a legal standpoint, the presence of U.S. military ships and aircraft in Venezuela's exclusive economic zone (EEZ), even if outside its territorial waters, raises questions regarding the interpretation of the United Nations Convention on the Law of the Sea (UNCLOS) and the principle of non-intervention. U.S. military actions, justified by the fight against drug trafficking and designation of cartels as terrorist organizations, have been the subject of debate among legal experts and lawmakers, who question the legality of the attacks and classification of traffickers as "unlawful combatants."

In this context, Venezuela's Ministries of Defense and Foreign Affairs denounced and rejected the "illegal incursion" of U.S. combat aircraft, detected approximately 75 kilometers off its coast, within the Flight Information Region (FIR) of Maiquetía. According to the official statement, the maneuver was identified by the Comprehensive Aerospace Defense Command (CODAI) and, in the view of Venezuelan authorities, constitutes a provocation that threatens national sovereignty and violates both international law and the Chicago Convention on International Civil Aviation.

The Venezuelan government said that the incursion endangered the operational safety of civil and commercial aviation in the Caribbean Sea. The government maintains that the incident adds to other similar illegal incursions previously recorded and reported, forming a pattern of harassment that, according to its authorities, cannot be tolerated. In the same statement, the Venezuelan government demanded that U.S. Secretary of Defense Peter Hegseth immediately cease what it described as reckless and warlike behavior, which, according to Venezuela, endangers regional stability and undermines the Latin America and Caribbean peace zone.

Furthermore, the Venezuelan government announced it will file a complaint with the United Nations secretary general, Security Council, International Civil Aviation Organization and Community of Latin American and Caribbean States, with the aim of having these organizations take measures to prevent the recurrence of actions that are considered illegal and dangerous. Finally, the government reiterated it will not accept intimidation or aggression from any foreign power and will exercise its right to defend

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national sovereignty, whereas the Bolivarian National Armed Forces (FANB) said they will remain vigilant in protecting the country's airspace through its aerospace defense system.

In the same context, Venezuelan President Nicolás Maduro announced the organization of exercises to further refine territorial defense mechanisms in response to the U.S. military presence in the Caribbean, which the government describes as a threat aimed at promoting regime change. According to statements broadcast on state television, the event will be a special organizational day focused on command, leadership and communication across the professional structure of the FANB and the militia without involving the movement of weaponry. The recently established Communal Militia Units and so-called "Popular Integral Defense Bases" will also be included.

This scenario creates legal uncertainty for companies and individuals with commercial interests in the region. Commercial relations between Venezuela and the U.S. – traditionally complex but functional in sectors such as energy, food and services – are threatened by the risk of additional sanctions, the possibility of new emergency measures by Venezuela and increased militarization – factors that may affect the legal security of bilateral operations.

Consequently, companies and commercial operators are advised to closely monitor legal and diplomatic updates, review current agreements regarding *force majeure* and dispute resolution clauses, and consider diversification strategies to mitigate the impact of possible restrictions. The evolution of the relationship between both countries will continue to be a key factor in bilateral trade, making specialized legal advice and ongoing regulatory analysis essential tools for informed decision-making and the protection of business interests.

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Income Tax (ISLR) Exemption Decree: Application to Cooperative Associations

By Tinoco Travieso Planchart & Nuñez

Decree No. 5,162, published on Sept. 4, 2025, in the *Official Gazette* No. 43,206 of the Bolivarian Republic of Venezuela, establishes the exemption from payment of income tax (ISLR) on net taxable income territorial source income earned by cooperative associations formed in accordance with the provisions of the Special Law Decree on Cooperative Associations.

Requirements to Access the Tax Benefit

To qualify for the exemption established in the decree, cooperative associations must update their Single Tax Information Registry (RIF) and present a valid compliance certificate issued by the National Superintendency of Cooperatives (SUNACOOB).

Determination of Exempt Income

The determination of exempt income will be carried out in accordance with the provisions contained in the Income Tax Law Decree, applicable to income, costs and deductions, as appropriate.

In cases where the beneficiary simultaneously carries out activities subject to and exempt from income tax under the decree, shared costs and deductions must be proportionally allocated based on the income attributable to each type of activity.

Formal Obligations of Beneficiaries

Beneficiaries of the exemption must file an annual declaration of global net income, including both taxable and exempt income, in accordance with the terms and conditions established in the Regulations of the Income Tax Law.

During the validity of the benefit, losses derived from exempt activities may not be applied, in any fiscal year, to income generated from activities subject to income tax.

Grounds for Loss of the Tax Benefit

The exemption will be revoked in the event of noncompliance with the requirements and obligations established in the decree, as well as the Income Tax Law, its regulations and other applicable tax regulations.

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Validity and Application

The decree entered into force upon its publication in the *Official Gazette* on Sept. 4, 2025, and will remain in effect for one year, renewable for an equal period. The exemption applies to the fiscal year in progress at the time the decree became effective.

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