



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- President Nicolás Maduro announced on March 3, 2022, the increase of the minimum salary by a half-petro, equivalent to 126 bolívares soberanos per month (around US\$30), according to the official rate of the Central Bank of Venezuela (BCV). He also approved to compute the social vouchers delivered through the Sistema Patria (Homeland System) by his administration as part of the salary. Thus, the total amount would be 171.32 bolívares soberanos or US\$39.20 at the exchange rate.
- In February, the BCV reported the lowest monthly inflation increase since February 2014. The bank stated that the national Consumer Price Index (CPI) rose only 2.9 percent in the second month of 2022. So far this year, the accumulated variation stands at 9.88 percent, and the annual rise has been 340.44 percent.
- Only the communications and education services sectors stand out for variations high above the general average, with increases of 23.1 percent and 17.5 percent, respectively, in February. To a lesser extent, recreation and culture (8.4 percent), transportation (6.2 percent) and miscellaneous goods and services (4.6 percent) also exceeded the average.
- On the other hand, clothing and footwear (0.4 percent) and health (0.8 percent) showed minimal variations. Among other fundamental categories, such as food and non-alcoholic beverages (1.1 percent), alcoholic beverages and tobacco (2.2 percent), housing rentals (2.5 percent) as well as restaurants and hotels (2.7 percent) reported increases below the average CPI in the second month of 2022.
- According to BCV data for the last 12 months, monthly CPI variations have been below 10 percent for a consecutive semester but do not show a clear downward trend, except for February. It remains to be seen if low indicators of price movements will be maintained for the remainder of 2022, once President Maduro has announced an increase of more than 1,700 percent in the minimum wage, and tax burden also impacts companies' costs and results.
- The war in Ukraine and rising oil prices have shed new light on oil producing countries such as Venezuela and Iran. The United States has applied tough sanctions on Venezuela, limiting its access to foreign capital, international oil markets and even its ability to service its debt. It is extremely challenging to trade Venezuelan defaulted bonds. However, the world is awash with bonds issued before the sanctions. The rapprochement with the U.S. may represent a radical change for the country.
- Venezuela has the largest proven oil reserve in the world. In 1997, the country was producing almost 3 million barrels per day (bpd) and was on track to produce 4 million bpd. Unfortunately, oil production has fallen to 668,000 bpd due to a lack of investment, maintenance and management. Still, this is similar to oil production in Colombia. The Latin American country is rapidly running out of reserves. It will take some time and billions of dollars in investment



to repair the oil sector, but the West may be motivated to do so to replace much of the oil that will be displaced by the imposed sanctions on Russia. This motivation may shed new light on Venezuelan instruments.

- In this regard, President Maduro expressed willingness to supply oil and gas to the United States, as well as countries in Asia and Europe. With the current prices of a crude oil barrel, Venezuela could receive between US\$1.5 billion and US\$2 billion per month, figures 10 times higher than the earnings in 2020.

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## National Assembly of Venezuela Establishes New Law on Official Publications

By Holland & Knight

The National Assembly of Venezuela on Feb. 15, 2022, repealed the Law on Official Publications issued on July 22, 1941, in the *Official Gazette* of the Bolivarian Republic of Venezuela No. 20. In so doing, new rules were established to guarantee that all legal acts of the state of Venezuela are published according to the principles of honesty, transparency, responsibility and accountability.

In addition, these new rules aim to provide easy access to publications issued by government authorities so individuals (natural and legal) know what decisions are being made that may impact their activities, thus ensuring legal certainty through timely access to information. At the time of this month's Venezuela Update, the integral reform had not been published in the *Official Gazette* and will not take effect until it is published.

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# Venezuela Publishes Amendment to the Tax on Large Financial Transactions Law

By Tinoco Travieso Planchart & Nuñez

The National Assembly of Venezuela on Feb. 25, 2022, in *Official Gazette* Extraordinary issue No. 6,687, published the Reform of the Tax on Large Financial Transactions Law (LIGTF), which includes the following main aspects: 1) the incorporation of a new taxpayer category other than special taxpayers and 2) the establishment of differentiated rates for transactions in foreign currencies or cryptoassets not issued by the Bolivarian Republic of Venezuela.

## 1. Incorporation of a New Taxpayer Category

Before this law was reformed, only legal entities and individuals that qualified as special taxpayers incurred this tax. The reform incorporated the following persons as taxpayers:

- a) Individuals, legal entities and economic entities without legal capacity that make payments in the national banking system in a currency other than the legal tender or cryptocurrencies or cryptoassets other than those issued by the national banking system, without the intermediation of a foreign banking correspondent, under the policies, exceptional authorizations and parameters established by the Central Bank of Venezuela (BCV)
- b) Individuals, legal entities and economic entities without legal capacity that make payments in currency other than the legal tender, or cryptocurrencies or cryptoassets other than those issued by the national banking system, to persons that qualify as special taxpayers, without the intermediation of financial institutions

By reference to the first assumption –payments in foreign currency or cryptoassets not issued by the national banking system – in the Exoneration Decree published with the Reform on Feb. 25, 2022, in the *Official Gazette*, any payments authorized by the competent authorities issued by foreign currency accounts in bolívares soberanos with domestic and international debit or credit cards by individuals that do not qualify as special taxpayers were considered grounds of non-liability (non-taxable). This provision clarifies one of the most controversial aspects of implementing this reform.

## 2. Establishment of Differentiated Tax Rates for Transactions in Foreign Currencies or Cryptoassets Not Issued by the National Banking System

The reform established a range of tax rates for operations in foreign currencies or cryptoassets not issued by the Republic of Venezuela and authorized by the executive branch in the following terms:

- a) A tax rate between 2 percent and 8 percent for payments made in foreign currency or cryptocurrencies or cryptoassets other than official currency by individuals, legal entities and economic entities without legal capacity and the intermediation of a foreign banking correspondent
- b) A tax rate between 2 percent and 20 percent for payments made in foreign currency or cryptocurrencies or cryptoassets not issued by the national banking system by individuals,



legal entities and economic entities without legal capacity to persons that qualify as special taxpayers without the intermediation of financial institutions

The reform law stated that until the national executive branch does not establish a different rate, the tax rate for all transactions in foreign currencies and cryptoassets not issued by the national banking system will remain at 3 percent.

### 3. New IGTF Regime

Payer	Transaction	Aliquot	Liquidation
<b>Special taxpayer</b>	Payments made in currencies other than the legal tender in the national banking system.	3 percent	The bank would act as a tax collection agent.
	Payments made to persons that qualify as special taxpayers, in currencies other than the legal tender, or in cryptoassets not issued by the national banking system, without the intermediation of financial institutions.	3 percent	Correspond to special taxpayers according to the calendar issued by the National Service of Customs and Tax Administration (SENIAT).
<b>Natural or legal person that does not qualify as a special taxpayer</b>	Payments made in a currencies other than the legal tender in the national banking system.	3 percent	The bank would act as a tax collection agent.
	Payments made to persons that qualify as special taxpayers, in currencies other than the legal tender, or in cryptoassets not issued by the national banking system, without the intermediation of financial institutions.	3 percent	No legal or sub-legal regulation to date.

### 4. Unresolved Issues

The reform left many unresolved issues related to the determination and liquidation of the tax, including the following:

- liquidation of the IGTF for payments made outside the financial system by persons that do not qualify as special taxpayers



- liquidation of the tax for payments made outside the financial system by a special taxpayer to another special taxpayer
- mixed payments
- the inclusion of value-added tax (VAT) in the taxable base of the IGTF, and
- supporting documentation of the IGTF

## 5. Entry Into Force

This Law will take effect 30 calendar days after its publication, that is, on March 27, 2022.

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