



Venezuela Economic Outlook

By Arca Análisis Económico

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

- May closed with a downturn in the rising pace of the dollar price (16 percent vs. 36 percent in April), and June began with the prospect that the Central Bank of Venezuela (BCV) will extend the validity of the discount to the legal bank reserve, reducing the default and penalty amount, but without eliminating it.
- It is important to remember that legal reserve requirements are part of a policy aimed at stabilizing inflation and the bolívar soberano's depreciation rate through the credit multiplier. Additionally, the government may use the public expenditure policy and tax collection, and the BCV may also intervene with the sale of foreign currency in cash (foreign exchange intervention) to sterilize bolívares soberanos. All of these measures aim to slow the monetary base's growth in concert with credit paralysis to decelerate the expansion of monetary liquidity.
- The expansionary monetary policy has been carried out in parallel with a significant reduction in the fiscal deficit. Although the latter was influenced by the increase in public sector salaries in May, the last five months demonstrated a modest acceleration in expenditure, while tax collection is growing faster.
- On the other hand, the dollar equivalent of the social transfers received by the population through the Patria system continues to decrease. The 10 special bonuses paid on a biweekly basis have been reduced by half in their dollar equivalent so far this year, going from US\$5 in December 2020, to US\$2.40 per beneficiary in May 2021.
- As for the banking sector, Banco de Venezuela (BDV) was positioned as the largest entity in the system because of its total assets. At the end of April, this figure amounted to 10.757 trillion bolívares soberanos (approximately US\$3.9 billion), which represented 67.4 percent of the total assets of the industry. This institution has gained market power and distinguished itself as the flagship of the state banking system.
- BDV's loan portfolio amounted to approximately 140 billion bolívar soberanos (approximately US\$51 million). Last April, its loan portfolio reported an increase of 24.2 percent in the month and interannual terms of 5,847.9 percent, the second-largest increase in this account with respect to the previous year. However, it ranked third in this item, surpassed by the private entities BBVA Banco Provincial and Banesco Banco Provincial. As has been noted, its levels of financial intermediation are low compared to the general average system. In April 2021, this factor stood at 6.35 percent, while the general average for the banking system was 18.58 percent. However, in interannual terms, the BDV's credit intermediation almost doubled at the end of April.



- On the oil front, crude oil prices rose as a result of the Organization of the Petroleum Exporting Countries' (OPEC) decision to maintain its plan to gradually restore supply to the market. Along with the prospect of a fuel demand recovery following the COVID-19 vaccination campaigns, OPEC and its allies agreed to meet to plan for a gradual reduction in supply restrictions. So far, the market has absorbed the production increase without problems, and future increases are not expected to pose significant problems either. According to the International Energy Agency (IEA), the excess supply resulting from the pandemic has disappeared.
- During this period, there was a substantial absence of information on Venezuelan production according to direct communications in the OPEC's monthly report. Data from secondary sources indicate a 15 percent drop in oil production to 445,000 barrels per day (bpd), from 525,000 bpd in March. Oil experts believe that the production cutbacks are related to the Orinoco Belt production cutbacks caused by the little availability of diluents and light crude, which were destined to reactive the Puerto La Cruz refinery and fuel production. According to Reuters, exports remained at 700,000 bpd, suggesting that inventories are being depleted even with the potential production cutbacks.
- Curaçao's state-owned refinery services company, Curaçao Refinery Utilities (CRU), plans to auction about 865,000 barrels of crude oil and products to settle part of its claims against the local entity of the Venezuelan state-owned Petróleos de Venezuela, S.A. (PDVSA). CRU and other creditors currently seized all the products destined for sale in the idle Isla refinery storage tanks, which have a processing capacity of 335,000 bpd and were operated by PDVSA under a long-term lease.
- At the end of May, Venezuela reported 1,402 new COVID-19 infections and 15 deaths, bringing the total count of cases and deaths to 235,567 and 2,661, respectively, since the beginning of the pandemic. On May 29, 2021, a new vaccination phase was initiated. According to national and international organizations, the country continues to be at the bottom of the Latin America index in terms of immunization against COVID-19.
- In this new stage, the government assures that it is moving toward "mass vaccination," inoculation points have been multiplied in all the states to accelerate the process. To date, the total number of vaccines available in the nation is unknown due to the authorities' contradictions when announcing the quantities. However, according to the Minister of Health Carlos Alvarado, a little more than 1 million vaccines have been applied.
- Despite the measures enforced to maintain quarantine restrictions in the country, according to the Vice Minister of Commerce Daniel Morales, since the spread of the COVID-19 pandemic began in Venezuela until now, 13,400 small and medium-sized companies (SMEs) have been created, which has increased and strengthened formality in this sector. The National Council of Commerce and Services (Consecomercio) requested to establish a digital invoicing system to guarantee compliance with tax obligations by traders. In this regard, the vice minister pointed out that meetings are being held between the private and public sectors to build a "healthy" and productive economy, which is one of the issues under consideration.



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National Assembly Publishes Agreement to Support the Constitutional Anti-Blockade Law

By Holland & Knight

Venezuela's Socialist party-controlled National Assembly ratified and published on May 13, 2021, in the *Official Gazette* No. 42,126, the "Agreement to support the implementation of the Constitutional Anti-Blockade Law for National Development and the Guarantee of Human Rights" (Agreement).

By means of the Agreement, the Venezuelan National Assembly acknowledged the Constitutional Anti-Blockade Law (published on Oct. 12, 2020, in *Official Gazette* No. 6,583) as a law of public order and interest and preferential application with respect to other legal and sub-legal norms.

It is important to mention that the Constitutional Anti-Blockade Law empowered the National Executive Power to create or authorize new financing mechanisms for public policies for food, health, social security and basic services, among others.

The Venezuelan National Assembly requested the National Executive Power to adopt all necessary measures to favor and stimulate national and international investment in Venezuela, and thus increase the flow of foreign currency, and the efficiency and productivity of public enterprises. This measure is issued to *"promote the recovery and harmonious development of the national economy and the satisfaction of the social and economic rights of the Venezuelan people."*

Likewise, the Agreement warned and acknowledged the importance of protecting national and international investors, and the economic activity developed in the country, against possible threats or the imposition of unilateral coercive measures and other restrictive or punitive measures.

The Venezuelan National Assembly also specified in the Agreement that it is essential to establish a special confidentiality regime to protect national and international investors, economic activity and the effectiveness of the decisions made by the Public Power.

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Regulations Issued for Contributions to Science, Technology and Innovation and Electronic Certificate of Solvency

By Tinoco Travieso Planchart & Nuñez

The presidency of Venezuela's National Fund for Science, Technology, and Innovation (FONACIT) issued Administrative Ruling No. 015-029 on April 15, 2021, in the *Official Gazette* of the Bolivarian Republic of Venezuela No. 42,128, dated May 17, 2021. Because of a material mistake, the ruling was reprinted on May 20, 2021, in the *Official Gazette* No. 42,131 of the same date. This ruling establishes the regulations for the settlement, filing and payment of the Contributions for Science, Technology and Innovation and the procurement of the Electronic Solvency Certificate of the contribution.

Purpose: To inform the items to calculate the contribution for science, technology and innovation and the procedure to obtain the Electronic Solvency Certificate of the contribution.

Applicants must [register](#) in the System for the Declaration and Control of the Contribution in Science, Technology and Innovation (SIDCAI) and following the steps indicated in the ruling to obtain the electronic solvency certificate of the contribution.

After registering in the SIDCAI portal, taxpayers that have obtained an annual gross income that exceeds 100,000 tax units (T.U.) must settle, file and pay the contribution of science, technology and innovation during the second quarter after the closing of the corresponding fiscal year to obtain the electronic solvency certificate of the contribution.

FONACIT will rely on the data provided by the taxpayer in the Form DPJ 99026 Legal Entity Definitive Income Tax Return (ISLR) filed before the National Integrated Service of Customs and Tax Administration Service (SENIAT) to determine the amount of the contribution, by totaling boxes 711: total net income (territorial income), 780: net income (extraterritorial income) and 970: income proper to the activity (exempt/exonerated income).

The taxpayer will calculate the contribution by multiplying the percentage of the aliquot between 0.5 percent, 1 percent and 2 percent depending on the economic activity carried out by the taxpayer and the above mentioned sum in accordance with the provisions of Article 26 of the Decree with Status, Validity and Force of Law for the Reform of the Organic Law on Science, Technology and Innovation.

Incomes that must necessarily be reimbursed in their entirety, without admitting costs or deductions, will not be part of the taxable base for calculating the contribution. Therefore, the exchange rate differential, interest income, dividend income, fixed income through bond placement, whatever their denomination may be and operating income, among others, will be part of the taxable base for the contribution.

The exonerations established for income tax or any other type of tax, rate or contribution will not apply for contribution payments for science, technology, innovation and its applications.

In the event of failure to pay the contribution, FONACIT and the taxpayer shall incur a tax liability, when this occurs, and should be paid in the following order: 1) fine; 2) default interest and 3)



contribution, according to the provisions of Article 44 of the Constituent Decree through which the Organic Tax Code was issued.

At the end of the second quarter following the closing of the corresponding fiscal year or as soon as the extension, if any, has expired, and the taxpayer has not settled, filed and paid the contribution, the taxpayer will be fined an equivalent of 50 percent of the outstanding contribution according to law, pursuant to the provisions of Article 50 of the Decree with Status, Validity and Force of Law for the Reform of the Organic Law on Science, Technology and Innovation, based on Form DPJ 99026 Legal Entity Definitive Income Tax Return (ISLR) filed before SENIAT, corresponding to the taxpayer.

The administrative sanctioning procedure established in Article 57 of the Decree with Status, Validity and Force of Law of the Reform of the Organic Law on Science, Technology and Innovation shall proceed exclusively in cases that FONACIT carries out on-site control, inspection, supervision and investigation of the taxpayers and finds evidence that leads to presume the noncompliance of the contribution as follows:

1. the taxpayer has not filed the tax return before the SENIAT
2. the taxpayer argues *force majeure* or an act of God before the expiration of the fiscal year
3. the information in Form DPJ 99026 Legal Entity Definitive Income Tax Return is inaccurate

The extensions and payment facilities granted to the taxpayers will incur interests on the amounts financed. If the taxpayer fails to pay the contribution within the term established at the closing of the corresponding fiscal year, the taxpayer will incur default interests until the total repayment of the debt, according to Articles 46 and 66 of the Constituent Decree through which the Organic Tax Code was enacted.

The payment of the contribution, fine and default interest must be made by bank deposit or electronic transfer to the collection accounts established by FONACIT.

If SIDCAI portal failures prevent payment notification, the payment must be reported within three business days by email to locti.fonacit@gmail.com.

The requirements to request the electronic solvency certificate of the contribution for the first time are the following:

1. Register of Commerce and the last statutory Assembly
2. Tax Information Registry
3. Income Tax Returns (ISLR) for the last three years
4. Bank deposit or electronic transfer of the contribution payment

The above documents must be uploaded to the SIDCAI portal in PDF format.

After the first certificate was issued, the ISLR and the bank deposit or electronic transfer of the contribution shall be enough to request the electronic solvency certificate of that fiscal year's contribution.

The companies that do not apply as taxpayers may request the electronic solvency certificate of the contribution after complying with the requirements outlined in Nos. 1, 2 and 3 above.



The information filed by the taxpayer at the registration date must be updated in the SIDCAI once a year, or each time it is modified.

FONACIT's Collection Management shall issue a report reflecting the taxpayer's status within three business days following the receipt date of the request for the electronic solvency certificate of the contribution.

The FONACIT Collection Management will inform the applicant of the electronic solvency certificate of the contribution via email of any omission or fault observed within five business days following the application receipt date. The applicant must rectify the omissions or faults within five days following its notification to continue with the application for the electronic solvency certificate of the contribution.

The FONACIT Collection Management shall issue the electronic solvency certificate of the contribution once it has verified and validated compliance with the formalities and requirements outlined in the ruling, within eight business days following the receipt date of the request for said certificate.

The electronic solvency certificate of the contribution shall include certain formalities, and its issuance shall be endorsed with the electronic signature of the president of FONACIT.

According to the ruling, the electronic solvency certificate of the contribution issued shall be valid for one year in accordance with the fiscal year to which the contribution obligation corresponds.

This ruling repeals Administrative Ruling No. 015-002 dated June 18, 2015, as well as repeals the content of Administrative Ruling No. 015-003, dated June 18, 2015, both published in *Official Gazette* No. 40,804, dated Dec. 7, 2015.

Validity: This ruling became effective as of its publication on May 17, 2020, in the *Official Gazette* of the Bolivarian Republic of Venezuela.

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