



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- The Central Bank of Venezuela's (BCV) foreign exchange allocation has intensified since the end of March 2022, when the salary increase took effect. Since then, the average weekly allocation has been US\$85 million, an amount that exceeds the market's foreign exchange absorption capacity. Between January and mid-March, weekly gross allocation averaged US\$60 million.
- In the field of internal taxation, the adaptation of the systems for the collection of the tax on large financial transactions (IGTF) for payments in foreign currency has been progressive. According to statements by Consecomercio, 50 percent of affiliated companies are able to collect the tax.
- In the coming weeks, a significant expansion of primary money is expected, generated by the payment of the unique compensatory bonus for 10,000 bolívares soberanos (US\$2,200) announced on May 1, 2022, by the president. The beneficiaries will be retirees in the public sector between January 1, 2018, and May 1, 2022. The payment will be divided into three parts; neither the date of payment nor the precise number of beneficiaries is known. It is likely to be an unprecedented increase in payments to retirees, leading to a significant increase in public spending. These payments will translate into increases in bank deposits in bolívares and will amplify the space for credit intermediation.
- Since the end of March, deposits in bolívares have increased thanks to the expansion of primary money and, more recently, the IGTF stimulus applied to foreign currency payments. As of April 22, 2022, according to BCV figures, banks can only intermediate 56 percent of deposits in bolívares.
- This dynamic will continue to translate into increases in upward pressure on the dollar price so that the defense of the bolívar will require a greater effort from the BCV in foreign exchange intervention operations. Between January and April, it is estimated that net foreign exchange sales were around US\$580 million compared to US\$130 million in the same period in 2021.
- Bank credit has been gaining momentum since March. Between March and April 22, it increased by the equivalent of US\$72 million, according to official figures. The cost of indexed credit will rise as the nominal depreciation of the bolívar accelerates. In March 2022, the rate on commercial loans and microcredits rose to the range of 8 percent to 16 percent (from 4 percent to 10 percent), and that on loans from the single national productive portfolio (CUPN) rose to 6 percent from 2 percent.
- The expansion of credit rests on the measures implemented as of February 2022: reduction of the reserve ratio from 85 percent to 73 percent, which allowed banks to overcome the prolonged noncompliance with reserve requirements, and the authorization of banks to grant credits settled in bolívares up to the equivalent of 10 percent of foreign currency accounts.



- In addition, on March 10, 2022, the increase in the minimum capital required for banks to 3 percent of the assets in their balance sheet as of Dec. 31, 2021, came into effect.
- The new capital requirement for banks increases their credit capacity by 537 million bolívars soberanos (US\$121 million), the equivalent of the fresh money requirement. This amount represents 60 percent of the capital increase that must be carried out with shareholders' own resources. The rest can be done by capitalizing on accumulated results.

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## Attorney General Creates Office to Combat Terrorism and Kidnapping

By Holland & Knight

Through the *Official Gazette* No. 42,362 dated April 25, 2022, the Office of the Attorney General of the Republic of the Public Ministry issued Resolution No. 757 of April 5, 2022, (Resolution), through which the National Prosecutor's Office 99 was created, specializing in matters against terrorism and kidnapping, which will be attached to the Directorate Against Organized Crime. The Resolution provides that it will conserve the goods, furniture, supplies, and professional and administrative equipment of the Prosecutor's Office 119 of the Public Ministry of the Judicial District of the Metropolitan Area for its operation Caracas.

Per the considerations of the Resolution, the creation of the National Prosecutor's Office 99 responds to the need of the Public Ministry to strengthen the processes that contribute to achieving effective, accessible and social justice and a fairer society. Specifically, it seeks to strengthen the quality of the fight against terrorism and kidnapping at the national level as an effective and timely response to protect the social and democratic state of law and justice.

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## SENIAT Readjusts the Tax Unit Value

By Tinoco Travieso Planchart & Nuñez

In *Official Gazette* No. 42.359 dated April 20, 2022, the Administrative Ruling issued by the National Integrated Customs and Tax Administration Service (SENIAT) No. SNAT/2022/000023 was published, through which the value of the Tax Unit is readjusted from 0.02 bolívares to 0.40 bolívares.

In this sense, the value of the Tax Unit may only be used as a unit of measurement for the determination of national taxes whose collection and control are within the competence of SENIAT, and may not be used by other bodies and entities of the public power for the determination of labor benefits or rates and special contributions derived from the services that they provide.

In the case of taxes that are settled for annual periods, the applicable Tax Unit will be the one in force at the end of the respective fiscal year. For taxes that are settled for periods other than annually, the applicable Tax Unit will be the one that is valid for the beginning of the period.

This new increase affects the payment of income tax, which uses the Tax Unit for the purposes of the reference base for its calculation. In regard to income tax, therefore, the withholdings of the workers must be adjusted.

Unlike previous periods, by virtue of the Organic Tax Code of 2020, this new increase in the Tax Unit will not have an impact on tax penalties, which are established in the Currency of Greater Value, except in the cases of updating fines based on the value of the Tax Unit at the time of payment. It also will not have an impact on tax penalties expressed in percentage terms, which are converted to the equivalent of the Tax Unit at the time of the commission of the offense.

In general, there is already a clear tendency for the legislator to use new ways of calculating the amount of administrative penalties and fees for services, other than the Tax Unit, so that the impact of their increase will be reduced in these areas.

Thus, the amounts of the fees for the provision of services of the Mercantile Registries, Principal Registries and Public Notaries will not be impacted by virtue of the Law of Registries and Notaries of 2021, which establishes that they will be calculated based on the Petro.

Nor will the amounts of the fees for the issuance and renewal of passports be impacted by this adjustment of the Tax Unit.

This adjustment was effective on April 20, 2022, the date of its publication in the *Official Gazette*.

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