



Venezuela Economic Outlook

By Arca Análisis Económico

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

The last four-month period of the year started with Venezuela's third monetary reconversion over the previous 13 years. The prices of products and services in commercial establishments had to be published as of Sept. 1, 2021, in their current form and the new monetary scale. Six zeros will be eliminated from the current currency. This measure will be enforced one month before the Central Bank of Venezuela (BCV) announces the new monetary reconversion. With this financial institution requirement, there will be three values to consider when paying for products and services: 1) the bolívar soberano, 2) the digital bolívar, and 3) the U.S. dollar. For transactions with the new coinage system, the BCV explained that the new monetary unit is obtained by dividing the sum by 1 million, equal to the elimination of six zeros. The new monetary scale consists of bills of 5, 10, 20, 50 and 100 bolívares soberanos and a 1 bolívar soberano coin. These currencies will circulate for an indefinite period, along with the current coinage system, to facilitate the population's adaptation and to be able to make accurate payments.

Despite attaching "digital" to the bolívar soberanos, the BCV's official announcement only clarifies the intention of increasing retail payments made through digital mechanisms, considering the high costs involved in the logistics of constantly issuing bills and coins for circulation in an inflationary environment. The reasons are obvious: hyperinflation has been systematically wiping out circulating coins and bills, and their replacement is costly. The ratio of cash to monetary liquidity today is barely 2.15 percent.

One of the main consequences of this cash shortage dynamic caused by high inflation has led the country's banks to close branches and reduce the number of ATMs. As a result, citizens have to wait in long lines or make longer trips every day to find bolívares soberanos.

Claudio Rivas, the secretary general of the Federation of Bank and Related Workers (Fetrabanca), said that in December 2019, Fetrabanca registered 7,512 ATMs in the country. However, a year later, there were 5,762, representing a 23 percent drop. This figure has decreased due to high inflation, de facto dollarization and the maintenance of these ATMs, which need foreign currency to be changed or importation of the parts required to adapt or perform maintenance to these machines.

Rivas assured banks that they have the resources to repair ATMs. "You gain nothing with having the ATMs in good condition if you don't provide the tools, such as cash, to fill it with," he said. For this reason, he indicated that the ATMs had lost their functionality, given the lack of bolívares soberanos. According to data published by the Superintendency of Banking Sector Institutions (SUDEBAN), in March 2014, there were 9,542 ATMs in the country. However, in the last report published in March 2021, SUDEBAN reported the existence of only 2,275.

Due to this exact situation and the COVID-19 pandemic, banks have also been forced to close branches. For example, the secretary general of Fetrabanca pointed out that in 2019 there were more than 7,400 bank branches, but now there are 3,700 left; a 50 percent decrease.



In this regard, it is believed that the logical consequence of the bolívar soberano cash dynamic will gradually diminish in the short and medium term. There are few bastions left for the use of bolívares soberanos in cash as a retail payment. The most significant goods and services for which bills and coins were used were petrol and public transport. The former has been significantly dollarized after incorporating petrol pumps at international prices; those that maintain subsidized prices can only be paid for through sales outlets. Public transport is still primarily cash-based, but there are clear intentions to migrate to digital payments.

It is important to note that although it seems that Venezuela is heading toward a cashless economy with this new reconversion, this is not entirely true. Cash is still used for most everyday payments, but cash payments are in U.S. dollars. According to a report on dollarization presented by Asdrúbal Oliveros, director of the Caracas-based consulting firm Ecoanalítica, 51.4 percent of transactions were made with foreign currency in cash, a lower figure than the 80 percent obtained in a previous study. A significant part of payments is still carried out with U.S. dollars. However, dollars are losing ground to digital dollar payments through Zelle, PayPal and even cryptocurrency payments.

The total elimination of cash payments in bolívares is not a realistic goal, but Venezuela is heading in that direction despite all potential setbacks. For instance, a field study conducted by Ecoanalítica (in 10 cities and 291 establishments) in November 2020 indicates that 33 percent of Venezuela's total transactions are still made in bolívares soberanos.

Reducing the small percentage of remaining bolívar soberano payments in cash will depend on how fast and effective the mechanism is devised to facilitate payments for purchasing or providing services, such as gasoline and passenger transport.

To expect digitalization, it will require relying on stable information and communication technology services. Therefore, the deployment of telecommunications infrastructure, the penetration of such infrastructure throughout the national territory and the investment in new generation networks will be needed for the potential development and implementation of the digital economy in Venezuela.

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Venezuela Issues Regulations for Management and Disposal of Insured, Seized, Confiscated or Forfeited Assets

By Holland & Knight

The Ministry of Interior, Justice and Peace published on May 21, 2021, Administrative Ruling No. 1 in *Official Gazette* No. 42,191 of Aug. 16, 2021, whereby the Internal Regulations (Regulations) of the National Service for the Management and Disposal of Insured, Seized, Confiscated or Forfeited Assets (National Service) were issued. The purpose of the Regulations is to establish the rules for the organization and operation of the National Service.

According to the Regulations, the National Service will be a decentralized and specialized service without legal capacity. However, this service will have technical autonomy and administrative, operational, budgetary, financial management capacity and disposition. The National Service will be in charge of the planning, organization, administration, custody, inspection and surveillance of movable and immovable property, capital, ships, aircraft, motor vehicles, works of art, jewelry, livestock, assets, bank assets, shares and rights, as well as any other property that has been used or is related to the commissioning of crimes, or if there are elements of conviction about its illicit origin.

The National Service will be composed of 4 levels: 1) Superior Level, 2) Support Level, 3) Substantive Level and 4) Territorially Deconcentrated Operative Level. Each level will have specific, particular and previously identified functions, according to the Regulations.

Additionally, through the Regulation, the repeal of Administrative Ruling No. 1 of 2014 was ordered, establishing the Internal Regulations of the National Service for the Administration and Disposal of Insured, Seized, Confiscated or Forfeited Assets (the Regulation that precedes the current Regulation). Another particular feature of the Regulation is that the National Service was ordered to execute the plan for the implementation of the organizational structure of such service within a term of no more than six months as from the publication of the *Official Gazette* (Aug. 16, 2021), according to the provisions of the Regulation, including the adaptation and registration of the corresponding positions.

The National Anti-Drug Superintendence and the board of directors of National Service will be in charge of the execution of the Regulations.

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Legal and Tax Outlook for Venezuela's New Monetary Reconversion

By Tinoco Travieso Planchart & Nuñez

The President of the Republic published on Aug. 6, 2021, Decree No. 4,553 in *Official Gazette* No. 42,185, which establishes the issuance of the digital bolívar and the norms related to the issuance thereof.

Monetary Restatement: As of Oct. 1, 2021, the expression of the unit of the national monetary system is the equivalent of 1 million bolívares. The bolívar will continue to be represented with the symbol "Bs," being divisible in 100 cents. All amounts expressed in local currency before said date should be converted to the new unit, dividing its sum by 1 million.

Rounding Off: The Central Bank of Venezuela (BCV) is the competent entity to regulate rounding off; therefore, through the Resolutions of its board of directors, it shall establish the rounding off rules.

Obligations: As of Oct. 1, 2021, any obligations incurred in local currency shall be expressed in the new bolívar soberano system. Likewise, as from this date, payment obligations in local currency must be settled with the new bolívar soberano. Similarly, prices, salaries and other social benefits, taxes and any amounts in local currency must be outlined according to the bolívar soberano at its new exchange rate in financial statements or other accounting documents, debt instruments and any transaction or reference of local currency.

Legal Acts and Businesses: Any legal instrument, action or transactions expressed in bolívares soberanos executed until Sept. 30, 2021, which shall remain in force after such date, will be automatically understood to be expressed in the new expression beginning Oct. 1, 2021. Therefore, it will not be necessary to grant or execute a new instrument or perform any procedure to such effects before the Autonomous Service of Registries and Notaries (SAREN).

PRINCIPLES

- a) **Nominal Equivalence:** Any amount expressed before Oct. 1, 2021, shall be equivalent to the monetary sum expressed in bolívares soberanos as soon as the new expression becomes effective.
- b) **Fungibility:** The expressions in any medium or instrument shall maintain their validity and effectiveness once expressed in the new exchange rate according to the equivalence.
- c) **Free of Charge:** The operations established in this Decree shall be free of charge for consumers and users.

Powers of the Central Bank of Venezuela: BCV is hereby empowered to regulate by means of a Resolution everything related to the execution of the new monetary expression in this Decree, as well as to carry out all activities for the circulation of the new cash equivalents.



Sanctions for Noncompliance: Those who refuse to carry out the new expression or fail to comply with any of the obligations established in this Decree, affecting the regular operation of the national payment system, shall be administratively sanctioned by the BCV, pursuant to Article 135 of the Law of the Central Bank of Venezuela.

TAX EXEMPTIONS

a) Value Added Tax

1. Activities or operations that constitute a taxable event must be performed to produce and distribute the new cash equivalents to be issued.
2. Sale of goods, service provision and imports necessary to manufacture the new cash equivalents.
3. Activities necessary for the formulation and execution of the informative strategy.

b) Income Tax

1. Net income obtained by persons supplying goods and services exclusively destined for executing the new monetary expression.

Validity of the Currency Sets: The bills and metallic coins issued by the BCV, representing the monetary unit in force before this Decree, will circulate simultaneously with the new cash equivalents until the BCV determines otherwise.

Goods and Services Offering: As of Sept. 1, 2021, and until the BCV indicates otherwise, all instruments that establish the prices of goods and services will jointly include in their reference the current and the new monetary expressions.

Validity: From the publication date hereof, this decree was executed in the *Official Gazette* of the Bolivarian Republic of Venezuela on Aug. 6, 2021.

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