



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- In a context marked by a very high abundance of funds which made it easy to predict strong demand for foreign currency, in the order of US\$200 million, the Central Bank of Venezuela (BCV) on Aug. 22, 2022, presented itself with a sale of foreign currency for only US\$15 million at \$6.18 bolívar soberanos. Almost simultaneously, BCV announced doubling the interest rates of the indexed Currency Hedge Securities (TCC). When the market perceived the deficit of foreign currency supply in the banking system, a portion of the demand went to the parallel market, where the exchange rate closed that day at \$6.94 bolívar soberanos (up 3.3 percent).

Aug. 23 began without an announcement from the BCV to the public or the banks explaining its new policy. It simply sold the banks a lower amount than the previous day (US\$10 million) at \$6.24 bolívar soberanos. The exchange rate in the parallel market rose to \$7.27 bolívar soberanos (up 4.7 percent).

Uncertainty was exacerbated on Aug. 24 by the deficit in the foreign currency supply. The usual intervention of the BCV, which usually informs the banks of the amount allocated at around 8:15 a.m., did not occur. The BCV called the banks to a foreign currency auction one hour later. The amount to be auctioned was not known, and the pricing strategy seemed to seek a "sincere" dollar price by setting a floor of \$7.10 bolívar soberanos, 13 percent above the Aug. 23 official closing and 2 percent below the average of the parallel markers. It allotted US\$38 million at \$7.10 bolívar soberanos, but the parallel was on the rise and on the day increased 19.8 percent to \$9.17 bolívar soberanos, while the official closing rose 11.7 percent to \$7.01 bolívar soberanos. The gap between both rates widened to 24 percent, the week's highest level.

On Aug. 25, the BCV tried to stop the spiral. It auctioned US\$93 million at \$7.88 bolívar soberanos, but did not clarify whether the auctions would become the usual method of foreign currency allocation. The pace of depreciation slowed. In the parallel market, the exchange rate closed with an increase of 5.3 percent, while the official exchange rate rose 11.7 percent. The gap narrowed to 17 percent.

On Aug. 26, the BCV finally managed to push back the exchange rate. It resumed the intervention mechanism and raised the sale of foreign currency to US\$100 million. The parallel closed at \$8.57 bolívar soberanos, a drop of 6.6 percent and the official rate remained virtually stable at \$7.85 bolívar soberanos. The gap closed at \$9.12 bolívar soberanos.

It is inferred that the BCV was looking for a formula that would allow it to defend the bolívar with less foreign exchange sacrifice but underestimated (or dismissed) the strength of the demand for foreign exchange as it overestimated the attractiveness of the TCC. The pattern of the first two days of the week was aimed at dosing daily sales and making TCCs more attractive in order to attract excess bank liquidity to the BCV. The abrupt drop in the amount of foreign currency sold and the decision to experiment on Aug. 24-25 with the auction technique added to the confusion. The damage was mitigated when the BCV returned to the allocation technique and flooded the market on the last business day of the week with US\$100 million.



The episode allows interpreting that TCCs are not effective instruments to attract large amounts of funds, even more so in periods when the exchange rate seems unstable, because of the unattractive conditions of TCCs. Therefore, dispensing with a managed exchange rate policy so conditioned by the BCV's currency sales is a challenge.

- Reuters reported that oil exports rose to 760,000 barrels per day (bpd) in August. This is an increase of 37 percent over July 2022 and 22 percent over August 2021. This is good news, but it is not accompanied by elements indicating that this is a sustainable upward trend. The news points out that high inventories persist, which reflects marketing difficulties rather than increases in unplaced production.
- Approximately 46 percent of this volume has not generated cash: 10 percent has gone to Cuba, 24 percent to pay Iran for the supply of diluents, and 7 percent to pay the debt with China.

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## Venezuela Issues Instructions for Automation of Inventories of Public Assets

By Holland & Knight

Administrative Ruling No. 018 of 2022 (the Ruling) of the Superintendence of Public Property was published Aug. 11, 2022, in the *Official Gazette* No. 42438 of 2022, whereby an instruction was adopted for the automation of the inventories of assets of the General Registry System of Public Property.

The purpose of such instructions is to establish the parameters to register the organs and entities that make up the public sector and the respective registry of their assets. Thus, the registration of assets before the Superintendence of Public Property must be carried out by the public sector entities listed in Article 2 of the Ruling, which include all entities and agencies exercising public power at the state, regional and district levels.

Likewise, among the contemplated obliged entities are the commercial companies in which the Venezuelan state holds more than 50 percent of the capital stock and all those, of any nature, that are contemplated in the law that regulates the matter of the people's power.

Thus, the Ruling requires that the obligated entities have a person in charge of assets registered in the General Registry System of Public Property, who is in charge of recording the inventory of public assets of its respective entity, and subsequently, providing and updating the information required on the entity to which it belongs.

Once the obligated entities and bodies have submitted the inventories, the General Registry System of Public Property will be created, which may be consulted and updated by those parties responsible for the assets.

Finally, in the event of noncompliance with the registration and reporting obligations contemplated in the Ruling, the obligated parties may be sanctioned in accordance with the guidelines of the Administrative Sanctioning Procedure and other applicable norms in the Venezuelan legal system.

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## National Superintendence Mandates Registration of Merchants

By Tinoco Travieso Planchart & Nuñez

The National Superintendence for the Defense of Socioeconomic Rights (SUNDDE) on Aug. 22, 2022, reiterated the mandatory nature of the registration of persons (natural or legal, national or foreign, public or private) who carry out activities in the territory of the Bolivarian Republic of Venezuela, in the Single Registry of Economic Activities (RUPDAE), an obligation provided for in Articles 18, 19 and 20 of the Organic Law of Fair Prices, published in the *Official Gazette* No. 40,787 dated Nov. 12, 2015.

The RUPDAE is an information registry that facilitates the analysis of the cost structure and the demand for items that exist in the market, seeking to guarantee the balance of operations and stimulate productive activity.

Enrollment process steps:

- Visit SUNDDE [website](#)
- Click on the RUPDAE section
- Register the new user and enter the requested data or update the previously entered data
- Subsequently, an electronic certificate will be issued and must be downloaded

Failure to comply with this obligation entails the sanction of closing warehouses, deposits or establishments for a period of 48 hours or a fine of between 500 and 10,000 tax units.

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## Decree Exonerates Taxes to Help Strengthen Production and Distribution Systems of Drinking Water

By Tinoco Travieso Planchart & Nuñez

Through an extraordinary *Official Gazette* No. 6,713, Decree No. 4,711 of the Presidency of the Republic was published on July 26, 2022, which exempts the payment of value added tax (VAT), import tax and tax for determination of the regime customs the final imports of personal property carried out by the organs and entities of the National Public Administration, destined to strengthen the production and distribution systems of drinking water at the national level, through the Ministry of People's Power of Attention of the Waters. In addition, the Decree allows national sales operations of tangible personal property made to the organs and entities of the National Public Administration, strictly necessary for the execution of the projects for the rehabilitation and operation of the drinking water production systems at the national level that are indicated therein.

In the same way, the provision of independent services executed or used in the country for consideration, including those that come from abroad, contracted by the bodies or entities of the National Public Administration, is exempt from the payment of VAT, intended for the execution of projects for the rehabilitation and operation of drinking water production systems at the national level.

The Decree provides for the exemption of 367 tariff codes, with their respective tariff and commercial description. The exemptions are subject to a quarterly evaluation, in accordance with what is determined by the National Integrated Customs and Tax Administration Service (SENIAT). This decree has a duration of one year and will become effective as of its publication in the *Official Gazette*.

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