



Venezuela Economic Outlook

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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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