



## Venezuela Economic Outlook

By Arca Análisis Económico

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

- The Central Bank of Venezuela (BCV) seeks to drastically curb bank lending. Through a circular published on Feb. 7, 2025, the BCV doubled the penalty for reserve requirement deficits, raising it from 28 percent to 60 percent per year. Additionally, surcharges for recurring deficits are maintained, with increases of 2 and 4 percentage points depending on the number of defaults in a period of 30 continuous days.
- The increase in the effective reserve requirement rate and high penalty costs will hurt lending activity, which could generate a recessionary effect. This measure is in addition to the long-standing stabilization policy based on monetary restraint.
- The circular also introduces changes to the discounts applied to the calculation of the reserve requirement. The BCV eliminated the discount for foreign exchange coverage securities (*títulos de cobertura cambiaria* or TCC), considering that it is no longer a priority, as well as the discount for foreign exchange intervention, which has lost relevance.
- These dynamic discounts were replaced by a static discount, equivalent to the current deficit balance, resulting from the elimination of the previous discounts. The new discount, being an amount in absolute terms, will be diluted over time and will particularly benefit banks that are in a reserve deficit as of Feb. 10, 2025.
- With the implementation of this circular, it is estimated that the reserve deficit will be reduced to levels close to zero. This measure represents a transition toward a system that seeks to guarantee the effectiveness of the reserve as a mechanism to curb bank lending. As monetary liquidity increases, the reserve requirement will increase and the discount will be diluted. It is estimated that the effective reserve requirement rate will soon reach the 73 percent set in the regulation, a value higher than the 60 percent recorded with the previous discounts.
- The elimination of the TCC discount reflects the BCV's interest in reducing the balance of the TCC in circulation. This measure eliminates the incentive for banks to channel their clients' bolivars into investments in the TCC. It remains to be seen whether the BCV will seek to reduce the losses this policy may generate or eliminate the TCC.
- It is important to note that this measure reflects that the costs associated with the absorption of liquidity through the TCC have far exceeded the income that the issuing institution has received due to the failure of banks to comply with reserve requirements.
- On the other hand, the supply of foreign currency in the formal market continues to be insufficient to satisfy the existing demand, despite this being a quarter of strong tax collection. Although the BCV's foreign currency sales have increased slowly, public spending, measured in dollars, is higher than that recorded last year at this same time. Additionally, the BCV has limited investment in hedging bonds, freeing up bolivars that are largely destined to the demand for foreign currency.



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## Tensions Increase for Venezuela's International Relations

**By Holland & Knight**

Venezuela's international relations are currently in a tense state, with several recent events capturing global attention, including a deterioration of diplomatic relations with the United States.

The most recent development in the relations between the two countries is the accusation made by Venezuela against U.S. Secretary of State Marco Rubio following the seizure of one of its government planes in the Dominican Republic. This is the second Venezuelan plane confiscated in less than a year as part of the economic sanctions imposed by the U.S. in an effort to pressure a democratic transition. U.S. authorities claimed legal grounds for the seizure, citing violations of sanctions, export controls and money laundering.

On another front, with the news that deportation flights to Venezuela will resume in March, questions arise about the treatment of deportees and the conditions they will face upon their return to Venezuela, a country still mired in a deep economic and social crisis exacerbated by the ongoing economic sanctions.

However, U.S. President Donald Trump announced that Venezuela President Nicolás Maduro has agreed to receive deported Venezuelans, including members of the criminal group Tren de Aragua, a criminal organization that was declared a terrorist organization in the U.S. as of Jan. 20, 2025. This is despite President Maduro's government's claim that the organization had been dismantled in 2023 when the country regained control of the prison where the organization was created. Last July, the Venezuelan foreign minister stated that the Tren de Aragua was "a fiction created by the international media."

On the international stage, countries such as Israel have expressed their recognition of Edmundo Gonzalez as the legitimate president of Venezuela. Israel's foreign minister went as far as extending him an invitation to visit Israel.

Finally, opposition leader María Corina Machado continues to seek international support to remove President Maduro from power, urging the international community to take more forceful measures to help restore democracy in Venezuela. The situation in Venezuela remains tense and volatile, with international actors playing a crucial role in continuing to pressure Venezuela for democratic change.

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## Venezuela Publishes New NGO Regulation Law

By Tinoco Travieso Planchart & Nuñez

The Law on Supervision, Regularization, Action and Financing of Nongovernmental Organizations (NGO) and Nonprofit Social Organizations is published in the *Official Gazette* No. 6,855 Extraordinary, of Nov. 15, 2024.

Its purpose is to establish the regime of constitution, registration, operation and financing of NGOs and nonprofit social organizations, as associative forms oriented towards the co-responsible participation of society, under the provisions of the Constitution and treaties. The law establishes the following:

- **Scope of Application:** The provisions of the law shall apply to NGOs and nonprofit social organizations, regardless of their name, that have been established or carry out their activities in or from Venezuela. Those whose constitution and operations are governed by special laws, due to the nature of their object, are excluded from the application of the law.
- **The Law's Purpose is to:** 1) facilitate the exercise of the right to association, 2) generate certainty and legal security regarding the procedures applicable to the organization, operation and financing of NGOs and nonprofit social organizations and 3) contribute to the fight against money laundering, organized crime and the financing of terrorism.
- **Definitions:** NGOs and nonprofit social organizations are understood to be any group of persons, regardless of their name, of a private nature, established for charitable, social, altruistic, humanitarian, artistic, community, cultural, educational, sports, environmental or similar purposes, whose objective is not oriented towards obtaining economic gain nor for partisan purposes. Likewise, it is indicated that NGOs and nonprofit organizations acquire their legal personality with the notarization of their articles of incorporation.
- **Obtaining Legal Personality:** To obtain legal personality, the representatives of the NGO or nonprofit social organization must present to the Autonomous Service of Registries and Notaries (SAREN), the statutory constitutive act of the organization, accompanied by a copy of the identity card and tax information registry of each person who is part of the organization, after verifying the availability of the name provided for the institution.
- **Contents of the Articles of Incorporation:** The statutory constitutive act of the NGO or nonprofit social organization must indicate the 1) name, nature and address, 2) object and purposes, 3) duration of the organization, 4) territorial scope of the organization, 5) identification of the founding members and/or associates, 6) membership and exclusion regime of the members and/or their rights and obligations, 7) organization, internal structure and powers, 8) assets and resource management regime, 9) inventory of assets at the time of incorporation, 10) disciplinary regime, 11) regime for modifying the statutory constitutive document, 12) regime for extinction, dissolution and liquidation of the organization, 13) detail of the allocation of assets (in the case of foundations) and 14) whether its financing is or will be carried out, totally or partially, through foreign natural or legal persons.
- **About Illicit Objects:** Registration will not be allowed for NGOs and nonprofit social organizations whose object and purposes 1) promote fascism, intolerance or hatred for racial, ethnic, religious,



political, social, ideological, gender, sexual orientation, gender identity, gender expression or any other reason that constitutes incitement to discrimination and violence, and 2) are contrary to an express provision of Venezuela's Constitution or the law.

- **Registration of Associations:** The Ministry of People's Power for Internal Relations, Justice and Peace shall establish and maintain a national registry of NGOs and nonprofit social organizations, which shall contain a systematized and updated record of the information relating to the constitution, operation, financing and modification of these organizations, and shall issue the administrative acts necessary to regulate said national registry.
- **Duties of Associations:** NGOs and nonprofit social organizations have the following duties: 1) comply with the national Constitution and its bylaws, the law and other current regulations, including regulations on prevention, control and oversight of organized crime and financing of terrorism, 2) keep and maintain updated books and records in accordance with civil and tax legislation, 3) notify the competent body about the financing or donations that will be received in order to ensure the legality of the funds and compliance with the provisions of the law, 4) comply with the obligations assumed with the state and with society for the design, execution, control of programs and projects for the benefit of the community, 5) limit its activities to the corporate purpose defined in its constitutive instrument or its duly registered modifications, 6) render accounts to its members at least once a year (the obligation of the directors to render accounts will be fulfilled with respect to the period of their functions, even when these have ended) and 7) exercise control and supervision over the operation and compliance of its statutory obligations through its own internal control and oversight bodies.
- **Prohibitions:** NGOs and nonprofit social organizations are prohibited from 1) receiving financial contributions for organizations with political purposes or making financial contributions to such organizations, as well as receiving contributions for the financing of terrorism or committing terrorist acts, 2) carrying out activities typical of political parties or organizations with political purposes, 3) promoting fascism, intolerance or hatred for racial, ethnic, religious, political, social, ideological, gender, sexual orientation, gender identity, gender expression or any other reason that constitutes incitement to discrimination and violence, and 4) any other act prohibited or sanctioned by law.
- **Annual Declaration:** Once legal personality has been obtained, NGOs and nonprofit social organizations must declare the following acts for registration purposes with SAREN through minutes of ordinary or extraordinary meetings: 1) annual update of the organization's asset inventory, with express determination of the sources thereof, 2) accounting balance sheets, financial statements and books that must be kept in accordance with the legislation, 3) list of donations received with full identification of the donors, indicating whether they are national or foreign, accidental or permanent, 4) modifications to the statutes, 5) appointments and/or dismissals of members, associates, administrators, liquidators, auditors and secretaries, 6) general powers and delegations of powers, 7) opening and closing of headquarters, 8) modification, expansion or reduction of the corporate purpose and 9) modification, extension or termination of the term of validity of the social organization.
- **Causes for Dissolution:** The following are grounds for dissolution of NGOs and nonprofit social organizations: 1) those established in the organization's bylaws, 2) the end of the term established in its bylaws, 3) incurring in the prohibitions established in the law, declared by judicial decision and 4) failure to pay any fine imposed under the law, once the available judicial remedies have been exhausted.



- **Foreign Organizations:** NGOs and nonprofit social organizations domiciled outside of Venezuela that intend to carry out activities in the country must first register in the registry of nondomiciled organizations kept by the Ministry of People's Power for Foreign Affairs. Said ministry will also dictate the norms that regulate the organization and operation of the registry of NGOs and nonprofit social organizations not domiciled in the Republic.
- **Formal Illicit Acts:** The following are considered formal offenses: 1) failure to comply with the obligation to timely register the acts and events provided for in the law, 2) failure to comply with the obligation to notify the competent body of the financing or donations that will be received, to ensure the legality of the funds and compliance with the provisions of the law, 3) failure to keep the books, in accordance with the form adopted by the social organization, that it is required to maintain and preserve, 4) failure to comply with the obligation to assist and cooperate with the state in its control and oversight activities and 5) failure to comply with the obligations provided for in the transitional provisions of the law.
- **Deadlines for the Fulfillment of Formal Duties:** Within 90 days of the entry into force of the law, NGOs and nonprofit social organizations already established and, with legal personality, must submit to the Public Registry Office corresponding to their domicile, updated information on the acts provided for in Article 26 of the law. The registration of the minutes of the assembly is exempt from the payment of fees and tariffs provided for in the law and/or order that regulates SAREN. Likewise, they must amend the constitutive acts to adapt them to the requirements and provisions of this law within 180 days of its entry into force. Failure to comply with this obligation will result in the nullity of the organization's registration.

**Validity:** The law came into force on Nov. 15, 2024, upon its publication in the *Official Gazette*.

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