

## Bitcoin May Be Preferred to Venezuelan Bolivar's 140% Inflation

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When it comes to adopting Bitcoin as money, it's always been known that there are certain countries where adoption makes a lot more sense than it does in a place like the United States. There are nearly 200 fiat currencies in the world today, and it makes sense that Bitcoin would compete with the most unstable currencies before it could go up against the big boys. This brings us to Venezuela. Although the official annual inflation rate in the country is hovering around 60%, the Cato Institute estimates that the real rate of inflation in the South American country is closer to 140% per year. We all know that Bitcoin has been prone to volatility over the years, but is it really too volatile to compete with a currency losing more than half of its value over the course of 12 months?

### Bitcoins vs Venezuelan Bolivars: Which is the Better Money?

One of the main properties of money is that it needs to be a good store of value. Short term stability is great for planning daily expenditures, but it also makes sense for the money to hold its value over a long period of time. It would not make sense to hold an asset that lost value over time as savings. Some economists believe that it's better for the economy if a money is inflationary because people will tend to spend more and stimulate growth, but this has nothing to do with how different forms of money compete in a free market. People don't care about what helps or hurts the economy as a whole when they're trying to figure out what they should use as money.

|                        | Bitcoin  | Venezuelan Bolivar |
|------------------------|----------|--------------------|
| March 1 Price          | \$566.50 | \$0.01672          |
| August 24 Price        | \$511.41 | \$0.01330          |
| High                   | \$719.25 | \$0.01672          |
| Low                    | \$340.00 | \$0.01330          |
| USD Price % Change     | -9.72%   | -19.34%            |
| Max USD Price % Change | -52.72%  | -19.34%            |

Sources: Bitfinix, dolartoday

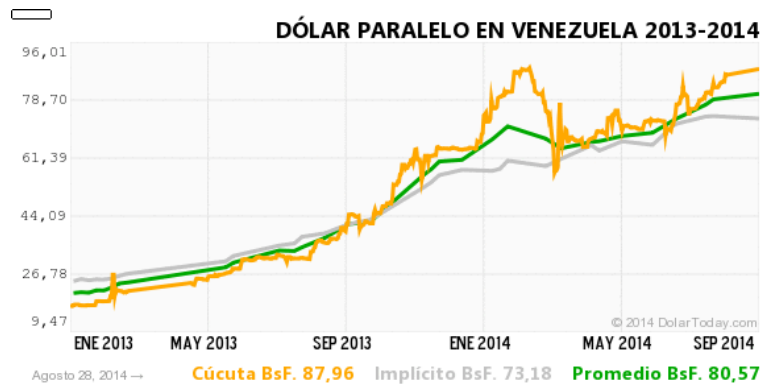
To figure out whether bitcoins or Venezuelan bolivars are the better form of money, we must first take a look at the relative stability of each option over a certain period of time. Due to the fact that we can't be sure that the trades associated with MtGox were actually legitimate up to the point when the exchange collapsed, it makes sense to compare these two forms of money only after that whole fiasco finally ended. Although the effects of the MtGox debacle did not allow Bitcoin to find a new bottom nearly a month after the exchange filed for bankruptcy in Japan, let's go ahead and use March 1, 2014 as the starting point of the window. We can then compare the nearly six months of data up to the time of writing this article to see which currency is the better form of money. Since there is no Bitcoin CPI, we will be using the exchange rate with dollars to compare bitcoins and bolivars.

## **Store of Value vs Stability**

Although bitcoins turned out to be a much better store of value than bolivars over the nearly six month period, short term volatility is still an issue with the world's most popular cryptocurrency. The reason the bolivar is able to remain more stable over the short term has to do with liquidity. It takes a much larger amount of money to move the bolivar market as it does the Bitcoin market, with the "market cap" of bolivars being estimated at around \$144 billion in 2011. That's over 20 times the size of the Bitcoin market at current prices. Bitcoin is also an extremely young currency and payment system in the grand scheme of things, so there's also the problem of any statement from a regulator in the United States, China, or any other country moving the price up or down. At this point in time, it seems it would be best to use bitcoins for long term savings and bolivars for cash flow in Venezuela. It's possible that bitcoins could also eventually become a viable option for regular expenses, but the digital currency needs much more liquidity than it has right now for that to happen. Obviously, merchants also have to start accepting Bitcoin to give more people a reason to hold bitcoins.

## **Getting Venezuela into Bitcoin**

Although most people assume that Venezuela would be the perfect place to adopt Bitcoin as a currency, the reality is there aren't many Bitcoin users in the country. SurBitcoin recently launched as the first Bitcoin exchange in the country, but we'll have to wait to see if this entry point into the Bitcoin ecosystem is eventually blocked off by the government. Bitcoins are currently considered a good, which means Bitcoin exchanges will not run into the same problems as forex sites in Venezuela for now. If regulated Bitcoin exchanges are not allowed to operate in the country, then Venezuelans could always turn to the P2P black market. This is how US dollars have been traded in the country for many years. Certain merchants could also be an entry point for bitcoins in Venezuela through partnerships with BitPagos.



It takes many more bolivars to purchase one US dollar over time. *Chart via dolartoday.*

## Cheap Electricity Means Profitable Mining

Another interesting option for entering the bitcoin market in Venezuela could be through mining. According to John Villar, a software developer and creator of the Bitcoin Venezuela subreddit living in Caracas, cryptocurrency mining is a lucrative business in the South American country due to the low costs of electricity. It usually costs between \$2 and \$6 to keep the lights on for a month, which means mining profits can be calculated without having to take into account the cost of electricity. Even if mining bitcoins could be a costly proposition for someone living in Venezuela, there are plenty of altcoins that can be mined with cheaper hardware. Those altcoins could then turn into on-ramps for the Bitcoin ecosystem.

## Why Should Venezuelans Use Bitcoin?

Bitcoin arguably has some advantages as a store of value in Venezuela, but people who decide to only use it as a payment system are also adding value to the network. Venezuelans are currently limited to spending \$300 per year by electronic means, which means only \$300 can be sent to an account denominated in a foreign currency on an annual basis. Bitcoin offers a new method for the people of Venezuela to get money out of the country and protect their wealth. Plenty of people in the country already exchange their bolivars for dollars on the street, but they can't send those cash dollars to anyone else in the world through the Internet. In a country where the currency is dropping in value and attempts to avoid that devaluation are blocked, it could make sense to go for a more private option.