

Venezuelan central bank sues US data website

Central bank accuses black market data website of artificially raising the rate of inflation in the country

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The Central Bank of Venezuela has filed a lawsuit against DolarToday (DT), a US-based currency data website, accusing it of raising inflation within the country.

In a statement released on October 23 the central bank accused the website of providing false information which distorted the price of the Venezuelan bolivar against other currencies. DolarToday tracks the black market value of the bolivar, which currently stands at 820.59 against the dollar; the official rate is just 6.3 to the dollar.

"Defendants are not reporting on a market," the central bank's complaint states. "Rather, by posting an artificial DT Rate daily, defendants are deliberately misrepresenting and effectively manufacturing a market."

The Venezuelan central bank accuses DolarToday of conspiring to use a form of "cyber-terrorism" to do economic harm to Venezuela and reputational harm to the central bank. DolarToday did not respond to multiple requests for comment.

Spiralling inflation

The central bank has been struggling to keep a lid on inflation over the past year. It stopped publishing official figures back in December 2014.

Pedro Tuesta-Soria, senior Latam economist at 4CAST, said there are really only two options for those looking to measure inflation: "One is to rely on local economists... which use a limited collection of market prices, made difficult by shortages and price controls. Another way is to track data available like tax collections."

Steve Hanke, professor of applied economics at Johns Hopkins University, believes the Venezuelan government is trying to shut down unofficial estimates in an attempt to hide what is actually happening to the bolivar.

"The big question is why they have brought the case," he said. "The last time the government released an inflation estimate was in December. They are desperately trying to shut down any reporting of inflation. That is the real story."

Hanke, also a senior fellow at the Cato Institute, regularly uses black market data on exchange rates to calculate an inflation figure for the Venezuelan economy.

"The central bank has inquired about my methodology and studied it, as well as my estimates. They are smart enough to know that, without black market exchange rate data, one cannot make accurate estimates of inflation, using my purchasing power parity methodology," he said. "If inflation moves much higher, the legacy of Hugo Chavez's Bolivarian Revolution will be that Venezuela joins the rather select hyperinflation club as the 57th member," Hanke added.

'Vocal opponent'

The central bank's complaint focuses on three individuals, all of whom have sought asylum in the US from Venezuela. Gustavo Díaz Vivas, director of DolarToday, is a former colonel in the Venezuelan Army who was involved in the 2002 coup that led to the brief presidency of Pedro Carmona. The complaint describes him as a "visibly vocal opponent of the elected government". Ivan Dario Lozada-Salas and José Enrique Altuve Lozada are also named, both of whom work for DolarToday.

Adam Fox, a partner at Squire Patton Boggs - the US-based law firm representing the Central Bank of Venezuela - said "I have every confidence that the court will decide the claims based on the evidence and the law, rather than an immediate, knee-jerk reaction by those who have had less than a day to two even to become acquainted with the case."

Neither Hanke nor Tuesta-Soria believe there is a risk of Venezuela's problems spilling over to other economies. "Venezuela is isolated from the rest of the region from the economic point of view," said Tuesta-Soria, "There might be lack of support for similar policies in countries like Ecuador or Bolivia and to a minor degree in Argentina, but the negative impact on trade has done the damage already."

Hanke agreed, emphasising the situation in Venezuela had not changed markedly over the last few months. His main concern was how Venezuela was going to deal with the problem. "Venezuela should officially dollarise its economy. This is exactly what Ecuador did in 2001, when I was the adviser to the minister of finance," he said. "It solved Ecuador's inflation problem and has worked like a charm ever since."

The original version of this article incorrectly stated Steve Hanke's latest estimate of Venezuelan inflation was 45% - in fact he estimates inflation is now somewhat lower. The article has been amended to remove the figure.