



Venezuela is pegging its economic recovery to a cryptocurrency that's widely considered a scam

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August 20, 2018

Venezuela is doing something completely unprecedented. Some even say illegal.

As part of an attempt to stop skyrocketing inflation, the country is issuing a new fiat currency called the "sovereign bolivar," which will be backed by a cryptocurrency. But that cryptocurrency called the "petro" does not trade, and Venezuela's own parliament says it's being illegally used to mortgage the nation's cash-strapped oil reserves.

"This is a smoke and mirrors operation typical of Venezuela — I'll believe it when I see it," said Steve Hanke, professor of applied economics at Johns Hopkins University and one of the world's leading experts on hyperinflation. "The problem with the petro is it's a scam, it doesn't even trade.

In February, President Nicolas Maduro unveiled the oil-backed "petro" digital currency as a means to raise cash amidst an ongoing economic meltdown and economic sanctions. Maduro said each petro token, which are not in circulation yet, would be backed by a barrel of the state's national petroleum. He also said about 100 million petro tokens would be issued — estimated to be worth around \$6 billion.

Crypto rating site ICOindex.com, which rates initial coin offerings, labeled the petro "scam status." The site evaluates coins based on their white papers, and said while petro promised to be backed up by oil resources, "the technology and mechanisms to do so are not adequately explained." Another site, ICObench, gives it a 1.6 out of 5 stars.

There's no evidence backing Maduro's claim on Twitter to have raised \$735 million in an initial coin offering. Venezuela opposition-led parliament called the cryptocurrency's sale as "unconstitutional" and way to illegally mortgage the country's oil reserves.

Maduro has said he's aiming to peg wages, prices and pensions to the petro, which he said would equal \$60 or 3,600 sovereign bolivars. The end goal, he said, is a single floating exchange rate in the future tied to the digital currency.

In March, President Donald Trump issued an executive order banning any transactions within the United States involving any digital currency issued by, for, or on behalf of the Government of Venezuela.

Venezuela's banks closed Monday in preparation to release the sovereign bolivar bills, which will have five fewer zeros than the current bolivar currency. The launch of a new fiat currency is at the center of Maduro's strategy to stem hyperinflation, which the International Monetary Fund predicted would jump to 1 million percent by the end of the year. The IMF also forecasted an 18 percent shrink in the economy as oil production falls significantly.

Hanke, also a senior fellow at the Cato Institute, said essentially all Venezuela doing is exchanging 100,000 old bolivars for one new bolivar which won't make "any difference whatsoever" towards stopping an inflation rate that has exceeded 40,000 percent.

"They're not changing policy in any way nothing will change," Hanke said. "All things will revert back to the course they were on before this so-called currency changed."

On Friday, Maduro announced a 3,000 percent hike in the minimum wage, along with the new currency that kick in Monday. Opposition leaders called for a nationwide strike and protest this week in hopes to draw masses into the streets against Maduro's socialist ruling party.

The country has been in turmoil since Maduro took office in 2013. Caracas' financial transactions have been crippled by Western sanctions, and citizens are coping with widespread food shortages as their traditional currency collapses.

Cryptocurrency uses encryption to verify the transfer of funds, and operates independently of a third party like a central bank. The first, and best-known example is bitcoin, which skyrocketed to almost \$20,000 last year. Since then, it's lost more than 60 percent of its value, according to data from CoinDesk.