PanAm POST
NEWS & ANALYSIS IN THE AMERICAS

Not Worth a Penny: Venezuelan Bolívar Crumbles to Record Low

Peter Sacco

September 29, 2014 at 4:48 pm

The black-market currency exchange for Venezuelan bolívares passed a milestone on Friday, and not in a good way. The troubled currency has fallen in value to such a degree that one now needs more than 100 for each US dollar, as documented by DolarToday.com.

The bolívar rate of 100.7 per US dollar on the black market — worth less than a single penny — highlights rampant inflation, given that one year ago it was 40 Bs. That comes after the Chavista regime eliminated three zeros from the currency in 2008 and called it the bolívar fuerte (strong), a label that did not stick for very long. It also places great pressure on the President Nicolás Maduro, since the prime official rate of 6.3 Bs. overstates the underlying market value, as expressed on the street, by a factor of 16.

While DolarToday is the most prominent and commonly used reference for informal exchanges, there are others. One such website is Aguacate Verde, and it places the bolívar rate not far behind at 94.5, as does Lechuga Verde.

The persistent decline of the bolívar reflects the eagerness of Venezuelans to get their hands on US dollars, rather than forfeit their purchasing power amid 142 percent inflation, as calculated by Steve Hanke of the Cato Institute. This month, the nation's central bank even confessed to 63.4 percent inflation over the past year, in spite of many repressive price-control and rationing policies.

"To paint a picture, the highest denomination of Venezuelan currency is the 100 Bs.," says Cassandra Izaguirre, cofounder of SOS Worldwide and director of operations with SOS Venezuela. "Today that bill is worth less than one US dollar. That goes to show the magnitude of the economic crisis that Venezuela faces."

Under the direction of Maduro, the availability of US dollars has declined steadily throughout the country. In fact, the central currency board, known as Cencoex, has introduced nearly 30 percent less US currency into the domestic economy this year than it did from January to August in 2012. As international currency reserves at Venezuela's central bank have fallen, by 29 percent since the start of 2013, regulations on access for Venezuelan citizens have risen.

"[Black market inflation] translates to higher scarcity, higher all-around inflation, and a lower overall quality of life for Venezuelans," says Izaguirre. "While the government does not like to admit it, Venezuela is completely dependent on imports. [Since] the parallel dollar is used as a price indicator for many goods, merchants will raise prices, and the Venezuelan citizen's purchasing power will decrease more than it already has."

Venezuela currently utilizes three different official exchange rates for the dollar. Importers of basic necessities such as food and medicine receive a rate of 6.3 Bs. to the dollar, while a rate of 11 Bs. is applied to imports of less essential consumer goods.

This year, the regime introduced SICAD II, a new way to acquire foreign currency and an attempt to reign in the black-market exchange rate — the only exchange rate in Venezuela that fluctuates in accordance with the free market. However, the SICAD II rate of 50 Bs. has failed to achieve the desired affect.

Venezuela's complex monetary system has proved a deterrent to domestic production, raising the cost of inputs and contributing to the country's scarcity of basic consumer products.

Izaguirre says the inflation is a result of economic policies "that have all been 'quick fixes' to maintain popularity and appear proactive." Even if the official rate doesn't show it, she explains, the informal market reveals that imports have simply become more expensive due to the devalued currency.

In the face of intense criticism, Maduro maintains that the devaluation of the bolívar has been precipitated by an ongoing "economic war." He points the finger at people in western countries, who he believes want to destabilize the proudly socialist regime.