INTERNATIONAL
Herald Tribune

Venezuela's currency plummets

By Alex Kennedy and Matthew Walter
Bloomberg News

Monday, September 3, 2007

CARACAS: The Venezuelan economy, under the direction of President Hugo Chávez, is starting to unravel in the currency market.

While Venezuela earns record proceeds from oil exports, consumers face shortages of meat, flour and cooking oil. Annual inflation has risen to 16 percent, the highest in Latin America, as Chávez tripled government spending in four years.

Exxon Mobil and ConocoPhillips are pulling out after Chávez demanded that they cede control of joint venture projects.

The bolivar has tumbled 30 percent this year to 4,850 per dollar on the black market, the only place it trades freely because of government controls on foreign exchange. That compares with the official rate of 2,150 per dollar set in 2005. Chávez may have to devalue the bolivar to reduce the gap and increase oil proceeds, which make up half the government's revenue.

"This has been the worst-managed oil boom in Venezuela's history," said Ricardo Hausmann, a former government planning minister who now teaches economics at Harvard University. "A devaluation is a foregone conclusion. The only question is when."

JPMorgan Chase and Merrill Lynch expect Chávez to devalue the bolivar 14 percent in the first quarter of 2008 after he introduces a new currency Jan. 1 that will lop three zeros off all denominations.

The new currency, to be called the strong bolivar, will have an exchange rate of 2.15 per dollar, the equivalent of the current rate, Finance Minister Rodrigo Cabezas said last week. Analysts forecast that the official rate will decline 13 percent by the end of 2008, according to a Bloomberg survey.

"We're not going to devalue, no matter how much they pressure us," Cabezas said last week. "The so-called parallel market doesn't dictate our fiscal, exchange or monetary policies."

Chávez, an ally of President Fidel Castro of Cuba, weakened the currency 11 percent in 2005. Chávez imposed restrictions on foreign exchange in 2003 to halt the capital flight that has driven down the bolivar more than 70 percent since he took office in 1999.

A devaluation would give the government more bolivars from its oil export tax receipts, helping fund Chávez's policies to provide free health care, housing and discounted food to millions of Venezuelans. The government says social programs helped cut the poverty rate to 34 percent in the first half of 2006 from 49 percent eight years earlier.

Oil, which has risen 155 percent in the past five years, accounts for about 90 percent of Venezuela's exports.

As the gap between the official exchange rate and the black market rate has increased, so has the incentive to exploit rules, like a regulation that allows people to spend $5,000 a year on their credit cards while traveling abroad.

Some Venezuelans travel to nearby Curaçao, where they buy $5,000 of casino poker chips with their credit cards, exchange the chips for cash and then sell the dollars on the black market back in Caracas.

"People are invoking their right to circumvent what are very, very stiff controls," said Alberto Ramos, senior Latin America economist at Goldman Sachs Group in New York.

The foreign exchange regulations are part of the controls that Chávez has created in his "march to socialism." The government sets retail prices on hundreds of consumer products and fixes both the maximum rate at which banks can lend and the minimum interest they can pay depositors.

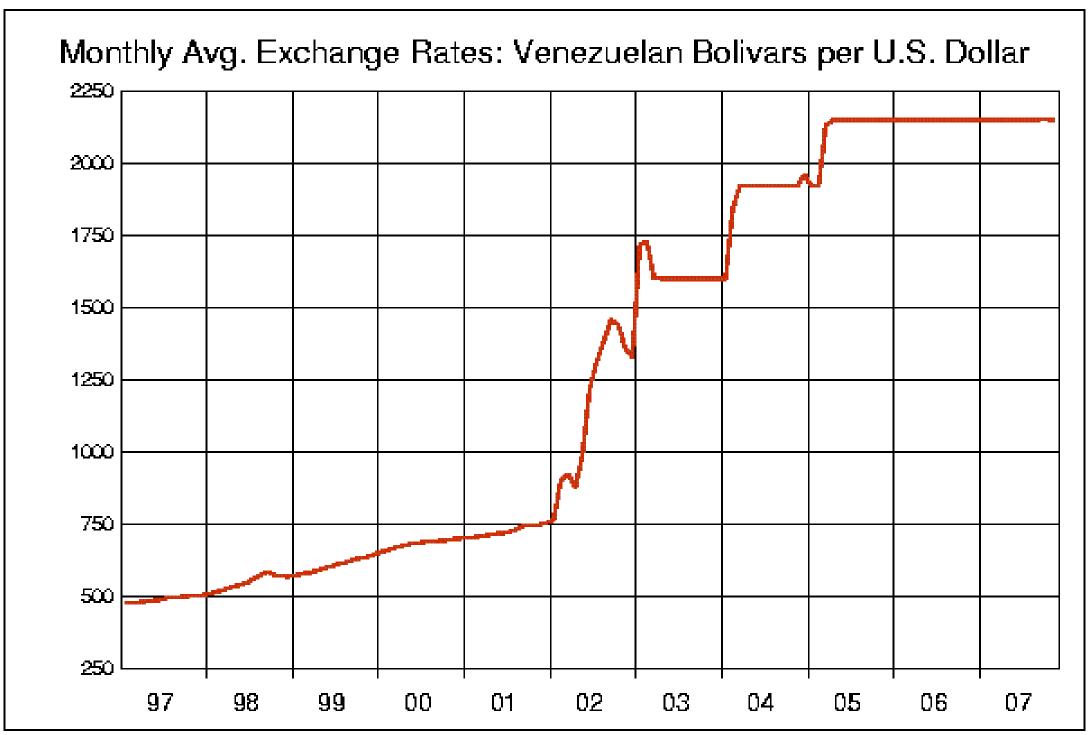
Chávez, who is seeking to end presidential term limits, has taken $17 billion of foreign reserves from the central bank and expropriated dozens of farms that he deemed underutilized.

He nationalized Venezuela's biggest private electric and telephone utilities and took majority stakes in oil projects owned by Exxon and ConocoPhillips. Foreign direct investment was a negative $881 million in the first half as foreign companies pulled out money.

Chávez terminated the broadcast license of the country's most-watched television network in May, sparking weeks of student protests. He has threatened to take over cement makers, hospitals, banks, supermarkets and butcher shops, saying they were not obeying price controls.

"It's like our director of marketing, our director of sales, our director of manufacturing is President Chávez," said Edgar Contreras, who runs international operations at Molinos Nacionales, a Caracas-based food manufacturer that employs 1,500 people. "We can't go on like this."

Contreras called the government-set prices on many products "fantasy prices" that are below production costs. Milk, chicken, coffee and flour have disappeared from store shelves in Caracas at times this year.



INTERNATIONAL
Herald Tribune

Venezuela shows off new currency

The Associated Press Wednesday, October 24, 2007

CARACAS, Venezuela: Venezuela rolled out the design of its new currency on Wednesday, showing off bills with images of national heroes and wild animals.

The new currency, the "strong bolivar," is to begin circulating in January, simplifying denominations by lopping off three zeros from the current currency, the bolivar.

South American independence leader Simon Bolivar — the monetary unit's namesake — is pictured on the 100-denomination strong bolivar bill and 1 strong bolivar coin.

Each bill bears a different figure from Venezuelan history on the front, with rare or endangered animals pictured on the back, including the harpy eagle and the spectacled bear.

The Central Bank, which displayed images of the bills and coins at a news conference, said in a statement that the strong bolivar should "reinforce confidence" in the currency.

The official exchange rate is fixed at 2,150 bolivars to US$1 (€.70), but in black market trading the bolivar has been weakening against the dollar. On Tuesday, it dipped to a new record, with US$1 (€.70) fetching more than 6,000.

The rate was hovering at a similar level Wednesday, according to Veneconomia, a business publication that closely tracks trading in Venezuela.

Venezuela has had a fixed exchange rate since February 2003, when President Hugo Chavez imposed currency and price controls. The government has said it is not considering a devaluation any time soon, and that rate of the strong bolivar will be fixed as 2.15 per dollar.