Amid extreme inflation and severe shortages, Venezuela to revamp currency laws

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Scarcity of basic goods including staple foods and personal hygiene products, deteriorating infrastructure, along with an inflation rate currently the highest in Latin America are all having a profoundly negative effect on the living standards of the Venezuelan working class. In order to stop the free fall of the national currency, the bolivar, the government of President Nicolas Maduro and the ruling United Socialist Party of Venezuela (PSUV) plans to introduce a new foreign currency exchange system, removing most of the controls imposed since 2003 in order to limit capital flight.

According to reports submitted by the Central Bank of Venezuela (BCV) at the end of August, on average any given food item was unavailable in 19.2 percent of all stores, and 16 of the most basic foodstuffs were unavailable in 41 percent of stores. Some particular items exceeded this level, with 84.2 percent of shops lacking cooking oil and over 80 percent lacking either powdered or fresh milk. Besides food, there is also a growing shortage of 19 different personal care items including toothpaste, soap, and toilet paper.

Producers of food and other items have been hit by shortages of foreign currency, mainly the US dollar, which they need in order import basic ingredients and raw materials, and many factories are running at a reduced capacity. Empresas Polar, one of the largest food suppliers in Venezuela, owed its foreign suppliers $157 million as of August 11.

In an effort to alleviate the shortages, Venezuela and Colombia announced a deal to sell bonds in Venezuela's state-owned oil company, PdVSA, in exchange for $600 million in food products, including beef, milk, palm oil, and butter.

The country's annualized rate of inflation reached 45.4 percent in August, the highest level since the introduction of the bolivar *fuerte* five years ago. Since then the currency has experienced inflation of 323 percent. Prices for entertainment and culture saw the highest jumps, at 7.5 percent, while clothing and shoes increased by 4.4 percent.

Underscoring the level of inflation, the number of 100 bolivar notes—the largest denomination—in circulation has risen from 3 percent of total currency in circulation five years ago to 23.6 percent as of January. The government has struggled to keep up with demand for the notes, and just this year has increased the number in circulation by 79 percent. The 50 bolivar note has also seen an increase in circulation, and these two denominations now account for around 50 percent of the total in circulation.

Knowing that it sits on a social powder-keg, the government has been compelled to enact a series of minimum wage increases this year, with the second and most recent one—a ten percent increase—coming into effect at the beginning of September. An earlier increase of 20 percent was implemented in May, and another of either five or 10 percent is scheduled for November. The recent rise in the minimum wage brings it to 2,703 bolivars ($429 USD at the official exchange rate).

The increases in the minimum wage over the year only barely cover the rate of inflation. Furthermore, according to the government's own National Institute of Statistics (INE), monthly food for a family of five is estimated at 2,779 bolivars. Meanwhile, the wealthy are doing quite well, with the Venezuelan stock market up 120.54 percent in official dollar rate terms for the year. Assets in the banking system receive around a 4.1 percent return on average.

Venezuela's high inflation and shortages are the result of a high demand for US dollars brought on by deliberate devaluations of the bolivar by the government to overcome increasing budget deficits and mounting debt, as well as falling exports of oil and rising imports.

The devaluations have spurred a demand for the more stable and liquid US dollar among corporations and wealthy individuals who wish to protect their assets from the fall in value. That demand is now competing with the demand for dollars from companies which need them in order to import both finished goods and raw materials—a pressure exacerbated by a lack of dollars due to falls in oil production resulting from a deterioration in infrastructure.

The deterioration is evident in Venezuela becoming a net importer of finished fuel products, due to the shutdown of the country's largest refinery, Amuay, after an explosion killed at least 40 people and caused extensive damage. An internal report by PdVSA stated that refining capacity currently stands at 74 percent.

Although the official exchange rate between the bolivar and the dollar is 6.3 to 1 through the Central Bank of Venezuela's Commission for the Administration of Currency Exchange (CADIVI), the bolivar has been trading at up to 45 bolivars to the dollar recently on the black market. The nature of the official fixed exchange rate has also meant that as the discrepancy between the official and unofficial rates diverge, it has been more and more lucrative to exchange bolivars for dollars at the official rate and sell them for a profit on the black market.

In an effort ostensibly intended to make dollars more readily available to to companies requiring them for imports, the Venezuelan government has indicated it will be making massive changes to the country's foreign exchange laws, the most notable of which will be that the exchange rate with the dollar will be allowed to float. This will likely be accomplished by allowing PdVSA and other entities, possibly including banks and brokerage firms, to directly sell dollars, essentially ending the central bank's official monopoly on foreign exchange. Individuals will also be allowed to hold and sell dollars for the first time since 2003.

For its part, the Maduro administration have sought to shift the blame for the country's economic problems away from the capitalist system which it administers, placing it on sabotage by the right-wing opposition. This has resulted in the creation of a High Economic Commission which will investigate claims of sabotage, speculation, and hoarding. It has even involved setting up a toll-free hotline to take tips on sabotage from the public.

Maduro said to supporters in Caracas that he had “decided to create a top body for the coordination, inspection, control and guarantee of the total functioning of the economy,” and said the organization would “neutralize all factors that sabotage the economic life of the people.”

The claim of sabotage has been constant from the Venezuelan government, which also claimed it was the cause of last year's explosion and fire at the Amuay refinery. In response, José Bodas, general secretary of Venezuela’s Federation of Oil Workers Union, said "The overall commonality we're seeing is the lack of maintenance [and] investment, and the incompletion of security regulations."

A power outage on September 3 that hit two-thirds of the country, including the capital, Caracas also was met with official claims of sabotage, even though it likely resulted from a lack of investment in a relatively old distribution network, confirmed by energy minister Jesse Chacón's explanation that it was the result of a metal shield falling on a transmission line.

Under the cover of demagogy about sabotage, Maduro and the ruling layer in Venezuela's state and public-sector bureaucracy, the so-called *boliburguesia*, are positioning themselves to carry out massive attacks on the Venezuelan working class on behalf of the banks and largest companies, through cuts in social spending and and a relaxation of currency controls.