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Venezuela Implements Devaluation

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Report Highlights:

On January 8, the Government of Venezuela implemented a currency devaluation and created a new foreign exchange rate. The US dollar moves from 2.15 Bolivars to 2.60 Bolivars, and a so-called "oil" dollar is created at 4.30 Bolivars.

Executive Summary:

Items classified as nonessential (partially listed below) now have an exchange rate of 4.3 Bolivars per dollar, up from 2.15, and compared with a new rate of 2.6 for essential imports such as food and medicine.

General Information:

Venezuelan President Hugo Chávez announced late on January 8 the implementation of a new exchange rate system that includes two official prices for the dollar. The first exchange rate will be 2.60 Bolivars per dollar, changed from 2.15, and the second a so-called "oil dollar" at 4.30 Bolivars.

These official rates will be in force for two different sectors of the economy. The 2.60 rate will be for food, health/medical items, machinery and equipment imports, science and technology items, as well as everything related to the public sector, family remittances, remittances of US dollars to Venezuelan students abroad, and for consulates and embassies in the country. It will include retirees, pensioners and special cases.

Meanwhile, the car industry, trade, telecommunications, chemicals, steel industries, computers, rubber and plastics, electrical appliances, textiles, electrical services, construction, electronics, graphics, and tobacco and beverages, among others, will be covered by the "oil dollar" at VEB 4.30 per dollar.

The Central Bank of Venezuela (BCV), jointly with the Executive Office, could step in the foreign exchange market to prevent speculative foreign exchange operations.

President Chavez also announced USD 7 billion will be transferred from the Central Bank to the National Development Fund (Fonden) in order to promote and encourage the development of national economy. Three special funds will be created in 2010 to manage Venezuelan resources. Such funds are to finance exports, import substitution and contingency plans to deal with an ailing domestic electrical sector. President Chavez said that the fund for exports would finance projects of cooperatives, small and medium-sized enterprises and entrepreneurship. The fund intended to substitute imports will benefit producers of finished goods, and the third fund will finance a National Energy Plan.