Venezuela's Black Market Comeback Hints at Looming Devaluation

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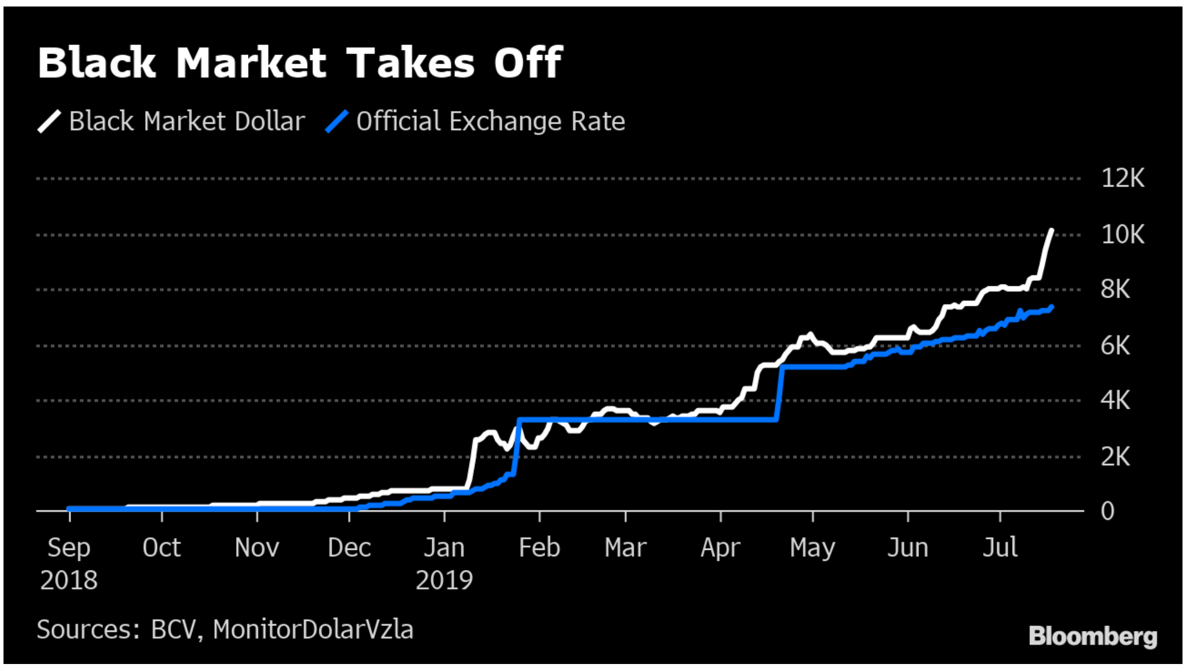
After months looming in the background, Venezuela's black market is back.

The difference between the black market price to buy dollars and the official rate is blowing out after months of relative stability. In just one week, the bolivar has depreciated 18% against the dollar on the streets where the currency is traded informally, now costing 10,130 bolivars, according to MonitorDolarVzla, which compiles the average of a myriad of sources. That compares with 7,336 bolivars at the official rate.



After years of an artificially strong official rate, President Nicolas Maduro's government has overseen a dramatic devaluation in the past few years to essentially price the bolivar in line with the black market.

To keep the relationship from gaping out again, the government implemented tight monetary requirements on banks earlier this year to keep bolivars on lock down at the central bank. The efforts were designed to drain liquidity and to keep local currency out of the hands of Venezuelans who typically swap them for dollars to retain purchasing power amid hyperinflation.

While those controls are still in place, the gap is widening. Under the current exchange regime, Venezuela has swung drastically to become expensive in dollars.

While the reason behind the sudden increase in price is unclear, some economists point to pressure built up from an overvalued bolivar and an increase in public spending.

“The currency wasn’t depreciating at the same rate as inflation and now we’re seeing that relationship normalize,” said Henkel Garcia, director of the Caracas-based consultancy Econometrica, who thinks the real value of the bolivar should be around 25,000 to 30,000 per dollar.

— *With assistance by Alex Vasquez, and Fabiola Zerpa*