Venezuela Weakens Currency for 1st Time in 5 Years

Chavez devalues Venezuelan currency, inflation to rise as gov't aims to boost spending

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CARACAS, Venezuela

President Hugo Chavez' decision to devalue Venezuela's currency for the first time in nearly five years aims to stretch his government's oil earnings further and counter a recession by increasing spending.

The devaluation of the bolivar lessens a wide gap with the black-market exchange rate for dollars and will unavoidably push inflation — already the highest in Latin America at 25 percent — to even higher levels.

Opposition leaders on Saturday called the devaluation a blow to Venezuelans that will make them pay through inflation while letting the government instantly convert its oil earnings into more cash domestically to boost spending ahead of congressional elections.

"Venezuelans' standard of living has been devalued," said Antonio Ledezma, Caracas' opposition mayor.

Finance Minister Ali Rodriguez said the devaluation announced by Chavez on Friday night should add to inflation by 3 percent to 5 percent this year. Some economists predict a much bigger leap.

Dozens of Venezuelans lined up in Caracas on Saturday outside stores that sell electronics and appliances, trying to buy items that they fear soon will be considerably more expensive.

"When I heard about the dollar, I didn't think twice about it. I got some of the last cash out of my account and I came to buy my washing machine," said Iraima Rodriguez, a 31-year-old secretary. "Whenever they devalue, the prices go sky-high."

With the devaluation, Chavez also set a new two-tiered exchange rate in an attempt to hold down prices of priority imports like food to counter inflation.

The currency's official exchange rate had been held steady by the government at 2.15 bolivars to the dollar since the last devaluation in March 2005. Chavez said the bolivar will now have two government-set rates: 2.6 to the dollar for transactions deemed priorities by the government, and 4.3 to the dollar for other transactions.

The higher rate, which he called the "oil dollar," now doubles the paper value of Venezuela's oil earnings when converted to local currency. Oil accounts for about half the government budget, but that income has been squeezed by lower world oil prices and declines in output in the last year.

Chavez said the priority exchange rate will be allotted for food, health care products, school supplies, machinery and equipment for economic development, among other things.

He said the new rates aim to boost the economy — which fell into a recession last year after five years of oil-fueled growth — while also "braking imports that are not strictly necessary."

Imports now falling under the less favorable rate include automobiles, telecommunications goods, computers, appliances, alcohol and tobacco.

The government has maintained strict currency exchange controls since 2003 to try to diminish capital flight, setting a fixed exchange rate that varies widely from the bolivar's real value on the black market and in bond trading.

Lately the bolivar has fetched little more than one-third of its official rate in market trading, hovering at about 6 bolivars to the dollar.

Chavez said the government and the Central Bank will also intervene in the lucrative parallel bond market to control "speculative increases in dollars." He didn't elaborate, but the aim is apparently to further narrow the gap between official and unofficial rates.

Economist Pedro Palma, of the Caracas consulting firm MetroEconomica, said the government was forced to accept that such a large disparity between the two rates was no longer viable.

"Inflation is going to shoot up, but it's a necessity to correct a tremendous accumulated imbalance," Palma said.

The finance minister said that moving to one single rate of 4.3 to the dollar would have increased prices excessively on key imports.