The Foreign Exchange Policy in Venezuela. More than 100 Years of History

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Presentation

The high impact of oil on the Venezuelan economy has had a powerful influence on its foreign-exchange experience during the last several decades. The volatility of international oil prices has exposed this economy to a series of violent fluctuations in the value of its exports, which have, in turn, resulted in abrupt changes in its foreign currency earnings and levels of international reserves. Moreover, exchange-rate forecasts have shown a high correlation with the behavior of such prices, fostering a general conviction that the bolivar will appreciate during the periods in which they are high. In contrast, when they go down, devaluation expectations arise due to the belief that the decline in dollar revenues will result in a contraction of international reserves and a shortage of foreign currency. In turn, the latter triggers capital-flight processes that, in some cases, provoke drastic exchange-rate adjustments, with grave inflationary and recessive consequences.

Since the early twentieth century, both the oil price and that of the dollar have played fundamental roles in shaping Venezuela's economic, social, and political conditions. Therefore, it is critical to understand how these prices have evolved and how they intertwine to grasp the two starkly different realities experienced in Venezuela during the last one hundred years. A period of high stability and growth, which lasted until the early 1970s, was followed by another one characterized by many upswings followed by severe crises, having profound economic, social, and political consequences. This second period has lasted from the mid-1970s to this day.

Several foreign exchange policies were adopted in Venezuela during the last ten decades. In the first period, the gold-standard system prevailed, with the currency's value defined in terms of gold content, but a floating exchange-rate scheme between the bolivar and the dollar was applied. This system was in force until the 1930s and was followed by another one of multiple fixed exchange rates that mainly lasted until the early 1980s. During this prolonged period, free convertibility prevailed, except for two intervals of exchange control systems.

After that, beginning on February 18, 1983, and until today, a period of high foreign-exchange instability broke out with highly volatile exchange rates. Many decisions and very different exchange-rate policies have been implemented during these almost four decades, including several prolonged and ever-changing exchange-control systems, many devaluations, a system of periodic mini-valuations, or crawling peg, an exchange-rate band system, and another one of free exchange-rate flotation.

During the last ten decades, a fruitful debate over the most suitable foreign-exchange policy for Venezuela has been ongoing. With this study, we want to contribute to that discourse. We analyze the different foreign-exchange experiences implemented in Venezuela for more than 100 years, from 1918 to the beginning of 2020, and conclude the results and consequences of implementing those varied experiences on the economy. This analysis will also allow us to determine what foreign-exchange policy should, in our opinion, be applied in Venezuela. It will be an essential part of a sustainable and comprehensive development plan that will need to be implemented in the coming decades after the current severe crisis that Venezuela is suffering has been overcome.

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This book is destined to be a must-read for university study programs everywhere. It will enrich the libraries of economics schools, research centers, governments, companies, and international organizations. I have no doubt that it will be useful, not only for Venezuelans but also for analysts and academics worldwide. And for those for whom the Venezuelan phenomenon produces great perplexity (for, how did such a rich country become so poor?), it is an invaluable guide to mistakes to be avoided.

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