

Venezuela creating digital currency amid financing crisis

December 4 2017



Over the past year, the Venezuelan bolivar has plummeted 95.5 percent against the dollar on the black market

Venezuela is creating a digital currency to combat a financial blockade by the United States, President Nicolas Maduro announced Sunday.

The Petro will be backed by Venezuela's oil and [gas reserves](#) and its gold and diamond holdings, the president said in his weekly television

program.

"This is going to allow us to move toward new forms of international financing for the country's economic and social development," the president said.

The government also announced the creation of a "blockchain observatory"—a software platform for buying and selling [virtual currency](#).

Although the president did not offer many details, analysts such as Henkel Garcia see the possibility of success as limited.

"You can build it, but trust, acceptance and use is what will determine the cryptocurrency's success. For me, it will be quite limited. The bolivar is also backed by reserves and has no strength," Garcia, director of consultancy Econometrica.

"Confidence in a country is going to depend on the levels of production and the wealth it generates. For example, people trust the dollar for the levels of wealth associated with it," he said.

The announcement comes as Venezuela faces acute financing problems after creditors and ratings agencies declared the government and state-run oil firm PDVSA to be in partial default for missing interest and principle payments on bonds.

Maduro blames sanctions imposed by the United States in August barring American citizens and companies from buying any new Venezuelan government or PDVSA bonds.

Venezuela is mired in a deep economic crisis triggered mainly by a fall in [crude oil prices](#) and a drop in oil production. Petroleum is its main

source of hard currency.

Over the past year, the Venezuelan bolivar has plummeted 95.5 percent against the dollar on the black market.

Virtual currency is not new for Venezuela—considered by specialists a haven for bitcoin production with minimal costs.

It is estimated that tens of thousands of people mine bitcoin to protect themselves from inflation—set to surpass 2,300 percent in 2018—by exchanging earnings for dollars or more bitcoin.

In Venezuela, a the law does not expressly prohibit mining bitcoin—experts say officials are involved—but the authorities persecute those who do it for power theft.

© 2017 AFP

Citation: Venezuela creating digital currency amid financing crisis (2017, December 4) retrieved 26 April 2024 from <https://phys.org/news/2017-12-venezuela-digital-currency-crisis.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.