

Venezuela's digital coin makes debut

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(L to R) Venezuelan Minister of Science, Technology and University Education Hugbel Roa, the president of the Central Bank of Venezuela (BCV) Ramon Lobo and Venezuelan Cryptocurrency Superintendent Carlos Vargas, deliver a press conference at the Central Bank's (BCV) headquarters in Caracas on January 31, 2018

Venezuela on Tuesday was set to become the first country to launch its

own version of bitcoin, a move it hopes will provide a much-needed boost to its credit-stricken economy.

Officials say the so-called petro is backed by Venezuela's crude oil reserves, the largest in the world, though it hasn't released any details on how this will be guaranteed.

"My advice would be to tread very carefully with this—especially considering the track record of the Venezuelan government," said Federico Bond, co-founder of Signatura, a digital startup based in Argentina.

Socialist President Nicolas Maduro late last year announced he was creating the digital currency to outmaneuver U.S. sanctions preventing cash-strapped Venezuela from issuing new debt. In a white paper, the government said it will release 100 million digital petro coins during the first year, with the initial 38.4 million expected to go on sale Tuesday at a value of \$60 per token.

If all the initial coins offered for sale are grabbed by investors, it could potentially bring several billion dollars into a government mired by cash shortfalls and skyrocketing inflation. The government has promised that Venezuelans will be able to use the coins to pay taxes and public services. But with the Venezuelan minimum wage hovering around \$3 a month, it's unlikely citizens will buy in large amounts.

The U.S. Treasury Department has warned U.S. citizens and companies that buying the petro would mean violating sanctions, putting another damper on the release.

Cryptocurrency experts are looking at Venezuela's foray into digital currencies with a mix of intrigue and suspicion, excited by the prospect of a government willing to accept cryptocurrency for payments like taxes

but also concerned about the potential lack of oversight.

Bobby Ong, the co-founder of CoinGecko, a cryptocurrency ranking website, said the sale of the petro fits into a growing trend of asset-backed cryptocurrencies as investors look for digital coins backed by real-world assets. But he cautioned that significant questions remain, like whether a third-party auditor will be able to verify exactly how many barrels are on hand to back each petro and how.

"What if the government decides one day not to fulfill its obligations?" he asked.

Maduro was expected to announce further details with the digital coin's official launch Tuesday evening and has touted the petro as the fulfillment of the late Hugo Chavez's dream of upending global capitalism away from the dominance of the U.S. dollar and Wall Street.

"Petro will be an instrument for Venezuela's economic stability and financial independence, coupled with an ambitious and global vision for the creation of a freer, more balanced and fairer international financial system," the government said in a 22-page white paper, translated into English, outlining its plans.

Raising further doubts, Maduro has said that the undeveloped Orinoco oilfield will back the digital currency, creating no tangible barrels of oil that investors can cash in, said Jean Paul Leidenz, a senior economist at Caracas-based EcoAnalitica.

Bitcoin and other digital tokens are already widely used in Venezuela as a hedge against hyperinflation and an easy-to-use mechanism for paying for everything from doctor visits to honeymoons in a country where obtaining hard currency requires transactions in the illegal black market.

The use of computers for bitcoin mining has also taken off, spurred by some of the world's cheapest electricity rates and widespread desperation prompted by a recession deeper than the U.S. Great Depression.

Cryptocurrencies by design are decentralized financial systems, so one created by a government runs contrary to that spirit and creates an opportunity for manipulation, said Leidenz. And Venezuela's inflation rises faster in a day than that in stable countries does in a year, he said, adding that dreaming up a new currency alone isn't the answer.

"You cannot stop hyperinflation by creating a new currency and doing nothing else," Leidenz said. "The government has no plans of undertaking structural reform."

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