

# SABATINO PIZZOLANTE

## *Circular for P & I Clubs*

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**Correspondents for:**

**North of England (through Globalpandi), Steamship Mutual, American Club (through Globalpandi), Nordisk Defence Club, British Marine Managers (through Globalpandi), Charterers Mutual Assurance Association Limited, Through Transport Club (TTC), ITIC, Raets P&I and InterCoastal P&I.**

### *Currency redenomination process implemented in Venezuela*

As part of the price stability policy undertaken by the Central Bank of Venezuela (BCV) and the government, a currency redenomination process is underway from 1<sup>st</sup> October 2007 onwards. The "currency redenomination" is a process by means of which zeros are eliminated from the national currency of a country, so that starting from a specific date, all amounts of money will be expressed in a new and smaller monetary scale. In Venezuela, the redenomination will be implemented by eliminating three zeros from the current currency, this experience being carried out for the first time in the contemporary history of the country.

The currency redenomination process is said to pursue greater efficiency in the payment systems, aiming to reduce the per capita holdings of paper currency, simplify the calculation of economic transactions, facilitate the accounting record of transactions and simplify the financial and budgetary management of the country.

Article 1 of the Decree-Law on Currency Redenomination states that as of 1<sup>st</sup> January 2008, the Venezuelan official currency will experience a changeover (redenomination) to a unit equivalent to Bs. 1,000.00 current Bolivars. The Bolivar resulting from this redenomination will continue being represented with the "Bs." symbol and will be divisible in one hundred (100) cents. Therefore, charges expressed in national currency before that date shall be converted into the new currency by dividing them by 1,000 and then rounding the amount off. The regulation also states that if the fraction resulting from this changeover is less than zero point five (0.5) cents, it shall be rounded down to the nearest cent; but if it is equal or higher to zero point five (0.5) cents, it shall be rounded up to the nearest cent.

From 1<sup>st</sup> October up to 31<sup>st</sup> December 2007, there will be a process of general information to the public in order to educate the population about the use of the new monetary scale, especially in respect of the current currency, so that prices will be exhibited in current bolivares (Bs.) and in bolivares fuertes (Bs.F.) Two examples may be of help to understand the new system: 1) In the case of corn flour, it will be indicated that 1 Kg (2.2lb) costs Bs. 1,400 or Bs.F. 1.40; and 2) A liter of 95 octane gasoline costs Bs. 97. If 30 liters are bought, the total amount to be paid would be Bs. 2.910. As of January 1st, 2008, after implementing currency redenomination, the price of a liter of gasoline will be re-expressed with three decimals; that is to say, Bs.F. 0,097 and the total amount to be paid for those 30 liters would be Bs.F. 2, 91.

Nevertheless, as of 1<sup>st</sup> January 2008 the country will have a new family of banknotes and coins that, for a period of transition, will be called Bolivar Fuerte and will be represented as "Bs.F". As it has been explained by the BCV currency redenomination doesn't boil down to a simple process of issuing new currency (banknotes and coins) or eliminating others (demonetization), it also implies a redenomination of the nominal prices of goods and services, wages and salaries, loans and debts, adjustments in accounting processes and in calculation systems, among others.

The redenomination process does not entail devaluation of the Bolivar, as the same conversion factor of 1 to 1,000 will be applied to foreign exchange operations, i.e. There will be no difference in the relationship between the Bolivar and other currencies. It is also expected that the introduction of this process does not lead to inflation, taking into account that as claimed by the BCV this only implies the redenomination of the currency, not affecting the level of prices at all.

**Should you need any assistance or further information regarding the topic stated above, please feel free to contact:**

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