The importance of currency devaluation and its effect on the economy

Literature, Russian Literature

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Almost every country has its own unique currency. The value of any currency is determined by comparing it against currencies from other countries. A country resorts to devaluation of its country if it cannot maintain a fixed exchange rate. The Venezuela government ought to use their foreign currency reserves to purchase the bolivar for it to maintain its exchange rate. There are various reasons for currency devaluation such as budget deficits, economic purposes, increase revenue, or attempt to increase exports. The main impact of devaluation is that it results to cheap domestic currency compared to other currencies. It also makes the country's exports relatively cheaper to foreign countries. Devaluation makes the cost of living expensive to the country's citizens as foreign products become expensive and, therefore, discourages imports. Food prices increase and become unaffordable to most people. Finally, it leads to an upsurge of foreign currency reserve and the exports become more than the imports.

1) The gains made by the Venezuelan regime due to its repeated devaluation of its currency

The Chavez administration took advantage of the devaluation of the bolivar. It increased its domestic monetary resources it gained from the sale of its oil exports. Upon the surge of devaluation, the Venezuelan regime received more bolivar for every dollar. It earned more from the sale of its oil exports and it, therefore, had enough money for domestic expenditure

2) Analysts predicting the future of the bolivar

The predicting analysts were correct. The Venezuela's currency recently traded at approximately 80 percent less of the official and fixed exchange rate. The Venezuelan government has of recent made several developments in its economy as it tries to ease the shortage of consumer goods and food, and make the dollar accessible. According to DolarToday. com, its new exchange rate stands at 64. 74 bolivars.