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Cryptocurrencies: Investment, Money, or Gamble? (B)

After his March 1, 2018 meeting with the Suprabanco investment committee, investment analyst Juan Perez was commissioned with further work related to cryptocurrencies. Suprabanco President Jorge Gomezⁱ—who had attended Perez’s presentation about blockchain, cryptocurrencies, and the history and present condition of bitcoin—had just heard the Venezuelan government’s announcement about the initial coin offering (ICO) of the petro, the first sovereign cryptocurrency that would be backed by the country’s oil assets and storehouses of gold and diamonds.

Gomez was especially interested in the petro because Suprabanco had credit exposure through a loan to Venezuela, where severe problems had multiplied since the loan was made in 2016. The ICO would end on May 18, 2018, so Gomez assigned Perez to determine if investing in the petro was worth the reputational risk to the firm, due to the Venezuelan government’s behaviors, and how United States (US) sanctions on Venezuela might impede the efforts (see **Exhibit 1**). Would the petro turn out to be fiat money—of value only as supported by the Venezuela government? Additionally, Perez was commissioned to analyze sovereign cryptocurrency assets in other countries as potential investments.

Venezuela’s Situation

Venezuela had more oil than Saudi Arabia and more poverty than Brazil.¹ Its previous leader, Hugo Chávez, had declared he would use the country’s oil reserves to chart a leftist path to prosperity for Latin America’s poor. He did not get far along that trail, and matters worsened under his protégé and successor, Nicolas Maduro, who was impeded by US sanctions. With reduced oil prices, the country—once one of Latin America’s most prosperous—was plagued with shortages of everything from toilet paper to antibiotics and food, and Venezuelans lived amid hyperinflation, widespread violent crime, and corruption.

ⁱ Juan Perez, Suprabanco, and Jorge Gomez are fictional names.

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