BUENOS AIRES—Argentina's foreign-exchange market is going underground. As the government restricts access to foreign currencies, Argentines seeking hard-to-get dollars have been pushed into cuevas, or caves—clandestine operations where customers pay dearly to exchange pesos for greenbacks.

A customer who visited one in a Buenos Aires suburb recently described a cramped antique shop where an improbable group of would-be customers milled about, surrounded by stained-glass lamps and plush love seats.

When their turn came, they approached a stern-faced shopkeeper and were directed to the back of the store, according to the customer.

Once inside, the customer recalled, dollar seekers did business under the watchful eye of a tough-looking "caveman." Those fortunate enough to have greenbacks in hand can buy 60% more pesos than they could at the official rate, while those buying dollars pay a premium just as steep.

The caves' popularity is a result of the government's drive to curb the public's use of foreign currencies in an attempt to stem capital flight brought on by inflation and currency depreciation.

Buying dollars for savings is banned, and authorities make only small amounts of foreign currency available for travel abroad. Travelers must submit an online request to the national tax authority just days before leaving, and they usually receive approval for much less than they requested. Businesses need government approval to import equipment and materials at the cheap official exchange rate. The national tax agency has even posted dollar-sniffing dogs at border crossings to catch those traveling with undeclared currency.

As a result, people are getting increasingly creative at skirting controls.

Dollar-flush Argentines traveling overseas will rack up purchases on their credit cards, which are converted into pesos at the official exchange rate. Once back home, they pay their credit-card bills with pesos bought on the black market, for a savings of about 40%.

The government raised the tax on overseas credit-card purchases to 20% from 15% last month to...
discourage the transactions, but the spread between the official exchange rate of 5.14 pesos to the dollar and black-market rates of around 8.44 is so wide it is still a profitable trade.

Credit-card cash advances taken from ATMs in neighboring Uruguay or Chile are another popular way of playing the system.

Loose monetary policy and inflation that most private-sector economists put above 20% annually are at the root of Argentina's currency problems.

A spokeswoman for the Economy Ministry didn't respond to calls seeking comment.

Even those Argentines not in the market for dollars have a tangible example of how value has deteriorated in the once-lofty 100-peso bill, Argentina's largest-denomination bank note, which is now worth just $19.50 at the official exchange rate, or $12 in a cave.

For most of the 1990s, when Argentina had a fixed exchange-rate system that pegged the peso at one to the dollar, an Argentine with a 100-peso note had 100 dollars in his or her pocket. Now, the bill pales in comparison with the top-denomination bank notes other Latin American nations have in circulation. Mexico's 1,000-peso note is worth about $81, Peru's 200-soles bill buys $77, Brazil's 100-real bill fetches $50, Chile's 20,000 pesos brings in $42, and Colombia's 50,000-peso bill is worth $27.

"Before, you could get by for two days with 100 pesos. Now, you can hardly buy five things," said Hugo Meza, a 46-year-old carpenter who lives on the outskirts of Buenos Aires. "A hundred pesos in your wallet is nothing."

A kilo (a little over two pounds) of cured ham, which Argentines drape on everything from sandwiches to pizza, sold for just over 29 pesos in March 2008. The same cold cut is now advertised for 87 pesos a kilo at the popular Coto supermarket chain. "Before, you'd come in with 10 pesos and leave with change," said Rodolfo Estevez, proprietor of a small shop in the Buenos Aires suburb of Martinez. "Now, you come in with 100 pesos and maybe leave with a little change."

The peso has floated against other currencies ever since the so-called convertibility currency regime collapsed along with Argentina's economy and banking system in the early 2000s, a crisis marked by a historic default on about $100 billion of sovereign debt. But the central bank now intervenes almost daily to limit swings in the exchange rate.

President Cristina Kirchner rarely mentions inflation. And, with fines and threats of jail time, her
government has tried to silence some economists who have questioned official data. That data put 12-month inflation at 10.8% in February, compared with private-sector estimates around 25%.

Presidential spokesman Alfredo Scoccimarro didn't respond to requests for comment.

Many gripe that it is time for larger-denomination bank notes, but a central-bank spokesman said no such plans are in the works.

Critics of the government say printing bigger-denomination bills would be an implicit recognition that inflation is a problem. For now, Argentines carry larger wads of bills to pay rent and cover day-to-day purchases in an economy where cash is still king.

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