



Venezuela central bank curbs fuel fears over hyperinflation

Andres Schipani

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A decision by Venezuela's president to curb legislative oversight of the central bank has increased the embattled country's prospects of sliding into hyperinflation, according to analysts.

The tactic is the latest in a power struggle between the incumbent Nicolás Maduro and the new opposition-led legislature due to be sworn in on Tuesday and comes as the oil-rich country is gripped by a tumultuous political, social and economic crisis.

Mr Maduro's decree, published on Monday but dated from last week, strips away the legislature's controls over the central bank, including the power to appoint and sack directors.

"The full discretionary presidential control over the central bank is the ultimate tool for sliding into hyperinflation in Venezuela," said Francisco Monaldi, a Venezuelan economist and visiting professor at Harvard University.

"Maduro made the central bank his personal minting ministry, in a country where the constitution establishes an independent central bank."

Inflation data had been kept under wraps, until last month when Mr Maduro said it was close to 100 per cent. But Asdrúbal Oliveros, head economist at the Caracas-based consultancy Ecoanalítica, said December ended with inflation surpassing the 200 per cent barrier, fuelled by the government printing money to fund a fiscal deficit estimated at 20 per cent of gross domestic product.

Steve Hanke, a hyperinflation expert with the Cato Institute, argues the scenario is even worse, estimating annualised inflation at 382 per cent. Hyperinflation is often defined as monthly inflation of more than 50 per cent.

Mr Maduro's decree allows the bank to classify data and to finance state institutions without legislative approval — dashing widespread hopes the oil-dependent nation would take a more pragmatic turn this year amid a severe cash-crunch.

Venezuela, which holds the world's largest oil reserves, has been badly hit by a combination of the falling price of crude oil and years of economic mismanagement and government paralysis.

Francisco Rodríguez, a senior Venezuelan economist at Bank of America, expects inflation to hit four digits in 2016 if the government doesn't change course.

Critics have cited Mr Maduro's latest decree as an attempt by the socialist government to curtail the rise of the opposition a day before new lawmakers take the helm of the National Assembly.

José Guerra, an incoming opposition lawmaker and former head of economic research at the central bank wrote on Twitter: “The reform is a legal monstrosity to protect a highly questioned president. It goes against the constitution.”

In last month's national elections, Venezuelans disenchanted by food shortages and galloping inflation granted the opposition a supermajority in the legislature. But the outgoing congressional leadership, supportive of Mr Maduro, had granted him special powers to legislate by decree until the start of 2016.

Henry Ramos Allup, the newly elected president of the legislature, who is set to take control on Tuesday, said that “many ministers and government officials will be called in for questioning”.

He added legislators will review the decree, “and if necessary, we will modify it.”