

Threat of hyperinflation haunts Venezuela

Government moves to scrap small-denomination notes that have become worthless

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Long queues continued to form outside banks across the Venezuelan capital Caracas on the day President Nicolás Maduro was set to do away with smaller denomination bank notes, amid mounting evidence the country had entered a dangerous hyperinflation spiral.

The embattled president shocked Venezuela four days ago when he announced plans to scrap the 100 bolívar bill that makes up about half of all the country's currency, but which has become increasingly worthless in an economy where annual inflation is forecast to top 1,600 per cent next year.

The plan, which the government insists is necessary to fight currency hoarders and counter an "economic war", is to replace the old money with new high denomination notes, including 10,000 and 20,000 bolívar bills, but as of Thursday they had yet to come into circulation.

But the measures, which risks leaving ordinary Venezuelans cashless in the run-up to Christmas, led to stampedes by citizens already wrestling with a plummeting currency and ravaging food scarcities, who this week joined others outside banks to deposit or exchange sackloads of money.

"This is crazy, Christmas is here and now we have to deal with this madness," said Maritza Pacheco, 59, who said she had been waiting for hours outside the state-run Banco de Venezuela in eastern Caracas to swap her scrapped bills. "Now we have to queue for food and for money. This could only happen in Venezuela."

Mr Maduro, who has also shut the border with Colombia, insists that getting rid of the smaller bills was necessary to fight the smuggling "mafias" that he said sought to destabilise the nation. The Venezuelan army confiscated 88m bolívares worth of 100 bolívar notes close to the Colombian border, the state news agency said this week.

The currency move echoes the shock decision last month by India's prime minister Narendra Modi to scrap 500 and 1,000 rupee notes as part of a crackdown on "black money", which has posed a huge challenge to India's economy by removing about 86 per cent of all circulating cash.

However, India's problems are nowhere near as bad as Venezuela's, which is suffering a lethal combination of the world's deepest recession and fastest inflation. The International Monetary Fund has said 2017 inflation will be 1,660 per cent.

“Venezuela, welcome to the record books,” wrote Steve Hanke, a hyperinflation expert with the Cato Institute, the US think-tank, adding that the country’s monthly inflation was above 50 per cent.

“You have now entered the inglorious sphere of hyperinflation. It is a world of economic chaos, wrenching poverty, and death. Its purveyors should be incarcerated, and the keys should be thrown away.”

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Maritza Pacheco, Caracas citizen

But Francisco Rodríguez, chief economist at Torino Capital, a US-based investment bank, disagreed with this doomsday scenario, saying the 60 per cent slump in the value of the bolívar in November was in part due to “a sizeable expansion in liquidity and excess bank reserves associated with the payment of year-end bonuses”.

“We see these increases in liquidity as unlikely to be repeated in the near term, and expect the currency to stabilise,” Mr Rodríguez added.

The introduction of the bills is aimed at alleviating the runaway inflation. Caracas-based consultancy Ecoanalítica said the range of notes reflected inflation of 17,011 per cent since the older notes were first launched in 2008.

Mr Hanke dismissed the move, saying Mr Maduro’s remedy would do nothing to fix the underlying problems causing Venezuela’s economic implosion. “When inflation goes to the moon, you physically cannot re-denominate bills fast enough — you can only add zeroes to notes so quickly,” he said.

The Venezuelan mathematician and pollster Luis Vicente León has a different view, saying: “This is not about putting or removing zeros from the currency, but to rescue the only thing that backs it — confidence.”

José Toro Hardy, a Venezuelan economist, asked: “The US dollar bills have a motto: ‘In God we trust’. In who could we trust when it comes to the bolívar bills?”

Those hoping the rampant inflation may hasten the demise of Mr Maduro’s government could be in for disappointment. Galloping prices did speed the departure of the democratic government of Argentina’s Raúl Alfonsín in 1989.

But Robert Mugabe, who has ruled Zimbabwe since independence from Britain in 1980, held on to power even after hyperinflation crippled the economy of the southern African nation in 2008-09. The comparison has led some Venezuelans to wryly refer to the country, which has larger crude reserves than Saudi Arabia, as “Venebabwe” or “Zimbazuela”.

Yet as Mr Maduro’s increasingly dictatorial government controls most of the country’s main institutions, including the supreme court, the electoral council and the armed forces, one Venezuelan private sector businessman was sceptical about whether the latest economic crisis would lead to a change of direction.

“Hyperinflation need not necessarily bring down this government,” the businessman said.
“Venezuela is a petrostate with some very special characteristics . . . For one, all government revenues are in dollars and that’s what counts.”