

# NATIONAL REVIEW

## Iran Is Not Hyperinflating

Steve Hanke

February 6, 2020

Each and every day we read that Iran is hyperinflating or about to hyperinflate. The same is written about Zimbabwe and Venezuela, as well as a potpourri of other countries that are experiencing inflation flare-ups. While Iran came close to hyperinflating in the fall of 2012, it has never experienced an episode of hyperinflation. And while Zimbabwe experienced episodes of hyperinflation in 2007–08 and in 2017, it is not experiencing one now. At present, Venezuela is the only country experiencing hyperinflation.

It's clear that journalists and those they interview tend to play fast and loose with the word "hyperinflation." To clean up the hyperinflation landscape, we must define the word. So, just what is the definition of the oft-misused word "hyperinflation?" The convention adopted in the scientific literature is to classify an inflation as a hyperinflation if the monthly inflation rate exceeds 50 percent. This definition was adopted in 1956, after Phillip Cagan published his seminal analysis of hyperinflation, which appeared in a book edited by Milton Friedman, *Studies in the Quantity Theory of Money*.

Since I use high-frequency data to measure inflation in countries where inflation is elevated, I have been able to refine Cagan's 50 percent per month hyperinflation hurdle. With improved measurement techniques that I developed when I was studying Zimbabwe's record hyperinflation, I now define a hyperinflation as an inflation in which the monthly rate exceeds 50 percent per month for at least thirty consecutive days.

After years of research with the help of many assistants, I have documented and ranked 58 episodes of hyperinflation, which are presented in the *Routledge Handbook of Major Events in Economic History*. Hungary holds down the top spot. Its peak hyperinflation occurred in July 1946, when prices were doubling every 15 hours. Zimbabwe's November 2008 hyperinflation peak is second highest, but way behind Hungary's. At their peaks, the daily inflation rates were 207 percent in Hungary and 98 percent in Zimbabwe. The most memorable hyperinflation was Germany's in 1923. But, it only ranks as the fifth highest, with a peak daily inflation rate of 20.9 percent — way lower than the top four rates.

Now, let's turn to the world's only current hyperinflation: Venezuela. It ranks as the 14th most severe episode in history. Today, the annual rate of inflation is 2,986 percent. While this rate is modest by hyperinflation standards, the duration of Venezuela's episode, as of today, is long: 38 months. Only two episodes of hyperinflation have been more long-lived.

Even though we can measure hyperinflation very accurately, no one has ever been able to forecast the magnitudes or durations of hyperinflations. But that hasn't stopped the International Monetary Fund (IMF) from producing forecasts for hyperinflation in Venezuela. Even though the IMF does not *measure* Venezuela's hyperinflation, something that can be reliably done, the IMF does *forecast* hyperinflation, something that cannot be reliably done.

Surprisingly, the press dutifully reports the IMF's forecasts for Venezuela's annual inflation rate. For example, as late as October 2019, the IMF was forecasting that Venezuela's annual inflation rate would hit a whopping 200,000 percent by the end of the year. Well, the IMF's "guestimation" was a bit off. I measured Venezuela's annual inflation rate on December 31, 2019, and it was 6,869 percent.

But it turns out that the IMF isn't the only one making finger-in-the-wind forecasts of hyperinflation. The Trump administration's special envoy for Iran, Brian Hook, recently asserted that U.S. sanctions against Iran would fuel a hyperinflation. Well, even though Iran came close to a hyperinflation in October 2012, it failed to jump over the hurdle. And today, Iran isn't even close to the hyperinflation threshold. Indeed, since the New Year, the Iranian rial has been very stable against the greenback on the black market, and the official annual inflation rate is 38.6 percent. And, according to my most recent measurements, Iran's inflation rate is falling.