SHISHUKUNJ MUN

INDORE

2021

Study Guide

International Monetary Fund

Agenda: Hyperinflation with Special Emphasis on Venezuela

Bureau: Bhavya Modi | Anora A Kulin | Khushi Agrawal

Table of Contents

Letter from the Bureau

It is our pleasure to welcome you all to the 6th iteration of the Shishukunj Model United Nations. We are honored to serve as the Bureau for the International Monetary Fund and look forward to creating consensus, finding solutions to the pressing world issues, and above all, learning and growing and creating memorable moments.

The agenda that we have chosen for this committee addresses one of the most crucial problems faced by the world today- *hyperinflation*. The ongoing hyperinflation in Venezuela is considered as one of the worst hyperinflations ever occurred and has led to severe socio-economic and political turmoil in the country. We would like to see all of you channel your inner diplomat and use all your creative thinking and make full efforts to understand not only the agenda but also the related issues and topics from as many perspectives as possible. We encourage discussions in the committee over topics necessary to answer the questions the world poses to you today. The more you lobby and discuss with delegates, the more are the perspectives you get to see through.

We also suggest all delegates research well over the agenda as the agenda is quite diverse. The guide provided is just an introductory document to the agenda. We suggest you get to the core of the problem, by making full use of all the information and websites provided in the guide. Further, you may go through the previous UN documentation from previous conferences held on the same matter. If you are well-researched, it will aid in your participation and confidence in the committee.

During the conference, we expect you to have substantive discussions and move forward with a common goal- the solution. It is the ultimate goal of the committee to initiate negotiations and reach a consensus.

We will to the best of our capability ensure that this conference will be a memorable and learning experience for all the delegates. We look forward to meeting you all soon! Reach out to us about any doubts or inquiries at imf@shishukunj.in or personally message them to us on the WhatsApp group link for which has been shared on your school email id. In case you have already been added to the group, you may ignore the link sent. We also encourage you to join the WhatsApp group as soon as possible if you have not already been added as all important updates shall be posted there.

Regards,
Bhavya Modi, Chairperson
Anora Ankur Kulin, Vice Chairperson
Khushi Agarwal, Rapporteur

Glossary

1. **Liquidity** - Liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price. Cash is the most liquid of assets, while tangible items are less liquid. The two main types of liquidity include market liquidity and accounting liquidity.
2. **Cost-push inflation** - Cost-push inflation occurs when overall prices increase (inflation) due to increases in the cost of wages and raw materials. ... Since the demand for goods hasn't changed, the price increases from production are passed onto consumers creating cost-push inflation.
3. **Reverberated** - To be repeated several times as a result of a certain action.
4. **Real positive interest rates** - The real interest rate adjusts the observed market interest rate for the effects of inflation. The real interest rate reflects the purchasing power value of the interest paid on an investment or loan and represents the rate of time-preference of the borrower and lender.
5. **Depreciated** - To become less valuable over a while
6. **Financial security** - Financial security refers to the peace of mind you feel when you aren't worried about your income is enough to cover your expenses. It also means that you have enough money saved to cover emergencies and your future financial goals.
7. **Cryptocurrency**: A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. It is based on a network that is distributed across a large number of computers. This decentralized structure allows them to exist outside the control of governments and central authorities.

*The words added in the glossary have been written as blue text throughout the document.

Introduction to the Committee and the Agenda

Mandate

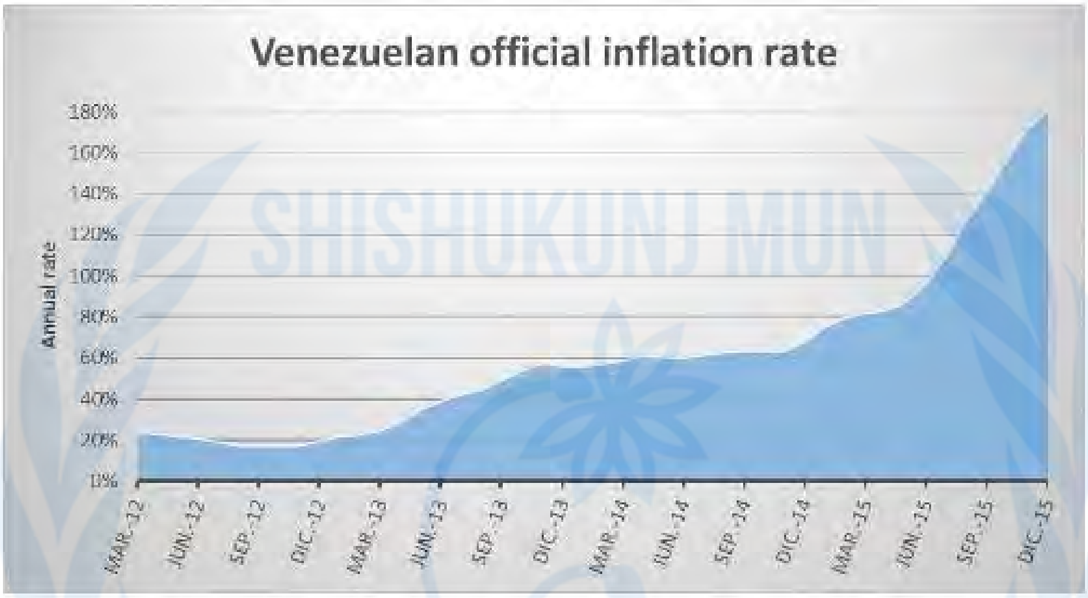
The International Monetary Fund, commonly known as the IMF is an international financial institution with 190 member nations. The main purpose of the IMF is to promote international monetary cooperation, facilitate international trade and most importantly, prevent international financial crises and assist in recovering from them. The current Chairwoman and Managing Director of the IMF is the Bulgarian Economist Kristaline Georgia (1 October 2019 - Current).
The IMF receives most of its funds from its member nations in the form of Quotas. Member nations that are experiencing problems related to balance of payments can borrow money from the IMF. In other words the IMF acts as a self help group of nations. The IMF has three lines of funding:-
The first line of funding, and the primary one is the **quota system** of the IMF. Each member nation of the IMF is assigned a quota that they pay annually, based broadly on its relative position in the world economy.
The second line of funding of the IMF is **Multilateral borrowing, or New Arrangements to Borrow (NAB)**. Several member nations are ready to support the IMF with additional resources.
The third and final line of funding of the IMF consists of the **Bilateral Borrowing Agreements (BBAs).** The 2020 round of BBAs included 38 creditors.

What is hyperinflation?

Hyperinflation is an economic phenomenon that occurs when inflation increases rapidly, resulting in excessive general price increases in an economy. It can be caused by an oversupply of paper currency without a corresponding rise in the production of goods and services. During these ongoing episodes of hyperinflation, the value of the rate currency drops drastically. Ultimately, the currency devalues rapidly and the economic status of an economy worsens extensively. While unemployment increases rapidly, the tax revenues are likely to decrease.

Hyperinflation in Venezuela

At present, the biggest problem faced by the Venezuelans in their day-to-day lives is hyperinflation. This economic catastrophe refers to currency instability that began in Venezuela, in 2014 and has worsened over the years. Under President Nicolas Maduro, the entire economy collapsed. With the inflation



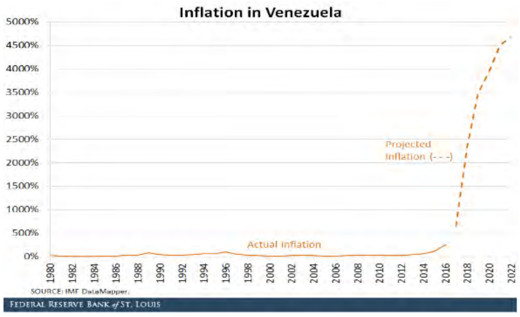
rates rising rapidly, the country surpassed others with an annual inflation rate of 1,000,000%. At that rate, the price of a cup of coffee doubles between your weekly paychecks. The crisis continued to increase in the following years. This is the economic reality that underpins Venezuela's current political crisis. That is what the citizens of Venezuela are facing, according to a recent report from the IMF.

The financial conditions of the citizens had deteriorated excessively by 2018. According to the IMF report, in terms of real GDP, Venezuela's economy contracted by 35 percent in 2019. The projections for 2021 are negative ten percent and are likely to be underestimated considering the extent to which international sanctions, and the economic, and diplomatic isolation of the Maduro regime are accelerating the free fall of the country with the world's largest oil reserve. The shrinking economy is leading to large fiscal deficits which the World Bank estimates to be greater than 20 percent as of 2015. This economic crisis has crumbled the value of the national currency, the **Bolivar.** The country's minimum monthly wage is now just $3.30 per month. About 3 million Venezuelans – a tenth of the population – have fled the country. This is the largest human displacement in Latin American history, driven by shortages of everything including food as well as the Maduro regime's oppressive treatment of dissent. President Nicolas Maduro issued the informal dollarization as an "escape valve" to survive the economic crisis which he blames on international sanctions.

As per IMF's projections, the inflation rate is likely to be 4684.8 percent in 2022, as the standard of living in the country is not expected to improve significantly anytime soon. However, if Venezuela adjusts its large debts and establishes some fiscal disciplines to restore people's trust in the financial system, the continuous hyperinflation episodes could likely come to an end.

History of hyperinflation in Venezuela

The Venezuelan economy is highly dependent on global oil prices and has been this way for decades. When global oil prices were high in the 1960s and the 1970s, the Venezuelan economy was soaring. During this period, Venezuela had the best economy in the whole of South America. A sharp drop in oil prices internationally in the 1980s delivered a massive blow on the Venezuelan economy.



With oil prices being extremely low, Venezuela was not able to gain enough revenue through the exportation of oil, causing a liquidity crisis. The Venezuelan government resorted to printing more money, causing a drop in the value of the currency, resulting in a sharp hike in the annual inflation rates along with a massive contraction of the economy. The annual inflation rates were generally around 6 to 12% between 1982 and 1986, reaching their peak at 84% in 1989.

Over the next few years, under the Caldera administration, the inflation rates were over 50% between 1993 and 1997. The rates peaked at 1005% in 1996. Along with this, the poverty levels in Venezuela also saw an 83.3% rise between 1984 and 1995, from 36 to 66%. With the presidential elections in 1998, Hugo Chavez became president. Over the next 12 years, during the Chavez presidency, the Venezuelan economy improved significantly. The inflation rates went from 35.8% to 12.5% in just three years. The situation remained calm for the following years up until 2010. The Venezuelan economy contracted by 5.8% in just the first three months, the inflation rates also shot up to 30.5%.

The Venezuelan economy experienced a constant rise in annual inflation rates, becoming the highest inflation rates in the world at 69% in 2014. By December of 2016, Venezuela was experiencing monthly inflation rates of 50%, making it the 57th country to experience hyperinflation.

Venezuela experienced one of the worst hyperinflations in history. The inflation rates in 2017 were at 493.6% and skyrocketed into the millions over the next few years. By the end of 2018, the annual inflation rates reached an astounding 1,000,000%, after which the Venezuelan government refused to publish inflation rates. However, IMF estimates show the Venezuelan economy to have experienced 10 million percent inflation in the year 2019.

Current Scenario

The Humanitarian, health and economic challenges have worsened significantly due to the ongoing political turmoil, while President Maduro denies the existence of the Humanitarian crisis and blames international sanctions for existing issues. Venezuelan citizens are deprived of food, health, and medical requirements. The crisis has led to high unemployment rates and difficulty in access to necessities. The value of the Bolivar has deteriorated significantly. Contemporarily, the U.S. dollar is being used yet it cannot be transferred to banks. A recent survey on the workers' salaries found out that while the private-sector workers make around $70/month, public workers just make $4.70/month, thus exposing the economic condition of the government.

These circumstances have created a complex humanitarian emergency (CHE). Due to the COVID-19 pandemic, many refugees were initially forced to move back to Venezuela, but the lack of electricity, drinkable water, and shortages of fuel have renewed emigration in the fall of 2020. As of March 2021, more than 5.6 million citizens have migrated to other countries primarily Colombia, Peru, Chile, and Ecuador. According to the UNHRC, less than 145,000 Venezuelans have received refugee status, almost 800,000 have asylum claims pending, and another 2.5 million have received temporary residency permits since 2014.

Despite having the world's largest oil reserves, Venezuela is experiencing a lack of refining resources. According to UNICEF, 3.2 million children require humanitarian assistance across the country wherein 1.3 million face challenges in accessing education. .Food aid and nutritional support for malnourished children is badly needed. The richer middle class has long ago left the country and settled elsewhere while among the poorer section, those who are still in the country are barely able to feed themselves.

The minimum monthly wage being less than $4.7, many families don't even have access to 2 meals a day and therefore have to sell everything to fulfill their basic requirements. In response to this, the government is simply a passive viewer. Many government services, like health care, are no longer functional and the lack of medicines and medical care workers only makes the situation exacerbate. As a result, people suffering from chronic health conditions, pregnant and nursing women, infants, and those living with disabilities are among the most vulnerable in this situation. To earn money as sex workers, the worst-hit community are traveling for hours or days to cross the border into Colombia. Thousands of Venezuelans cross the borders of neighboring countries every day, after walking for days, sometimes weeks in exhausting conditions just in the hope that they will be accepted as refugees in the destination country. Among the immigrants are many pregnant women, children, and single mothers. Many children are malnourished and a lot of the women experienced sexual abuse. This simply worsens the situation in the host country, in this case especially Columbia, The refugees compete with the natives of the host country for job opportunities, while the government also has to divert some of its resources from the natives to these immigrants, who otherwise won't have an option rather than to steal money and food, thus creating problems for the indigenous peoples. As a result, Colombia faces one of the biggest IDP (international displacement) crises in the world. Yet, like other countries in the region, it has opened its arms to Venezuelan refugees although the reception capacities are sorely overstretched. On February 8, 2021, over **1.7 million additional displaced Venezuelans received temporary legal status in Colombia despite lacking the resources and infrastructure to accommodate all of the Venezuelan refugees entering the country.**

The Covid-19 pandemic worsened the Venezuelan migration crisis. Although the outflow slowed down since the border was sealed and mandatory confinement, these measures increased the difficulties faced by Venezuelan migrants and refugees and, therefore, posed a threat to their survival with several Venezuelan migrants dying every day due to lack of basic health care facilities.

Hyperinflation cannot be arrested overnight once it has started. The government as well as crypto creators have been trying to stem the rot with digital tokens. Gabriel Jimenez, a programmer had been striving to push a cryptocurrency revolution in his country with a coin called 'Reserve'. Jimenez saw this digital currency as a way out of this economic catastrophe, completely transparent and not regulated by any central authority. The crypto-currency transition could also regain freedom for ordinary Venezuelans.

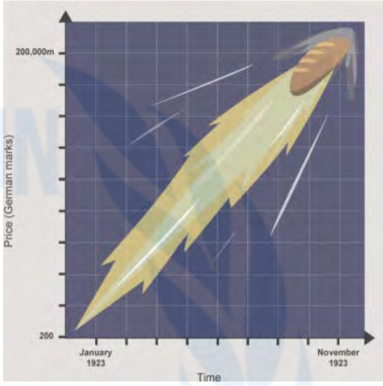
The Venezuelan government issued a national cryptocurrency named **petro** (**₽**), or petromoneda, in February 2018, backed by the country's oil and mineral reserves, which is intended to supplement their earnings and provide them financial security, as a means of circumventing U.S. sanctions and accessing international financing. According to the Venezuelan think tank Ecoanalitica, 66% of financial transactions are already made in the US currency. On the other hand, data from the crypto trading platform, "**Local Bitcoins" proves that cryptocurrency trades paid for Venezuelan bolivar have been surging.**

Although the crypto trend is surging steadily, the ones which are using digital coins are better off than the others and are regaining their financial freedom. As of January 2020, Venezuelan president Nicolás Maduro decreed it mandatory to pay with petro for government document services,And even if the risk of wild swings in their value is high, cryptocurrencies are still a worthwhile investment, given the seemingly never-ending slide of Venezuela's official currency.

Past Instances of Hyperinflation

Germany

At present the most famous case of hyperinflation, though not its worst example, is that of Weimar Germany. Following World War I, Germany suffered extreme economic and political setbacks, of the Treaty of Versailles drawn up at the end of the war. As per the treaty, Germany was required to pay for the war reparations through the bank for international settlements to compensate for the damage caused by the conflict to the victorious countries.



- Due to increasing government debt and caught up in the after-effects of the war, Germany was already suffering from high inflation rates.

- ‘Passive resistance,' a term Germany was becoming familiar with, meaning that whilst the workers were on strike, industrial production reduced significantly ; this weakened the economy still further.
  To pay the striking workers, the government naturally printed more notes. This flood of currency ultimately resulted in hyperinflation as more currency was printed which led to prices increasing further. The prices were uncontrollable and as a result the prices of basic commodities flushed to millions. The vulnerability of the situation can be assumed by the fact that it cost more to print a note than the note was worth. During the hyperinflation, workers had to be paid twice a day because prices rose so fast, their wages were virtually worthless by lunchtime.

Prohibited from making payments in their currency, the Germans left with no choice but to trade it for an acceptable 'hard currency' at unfavorable rates. As they printed more notes to make up for the difference, the inflation rates worsened, and hyperinflation grew upon them. At its peak, the rates rose more than 30,000% per month, which caused prices to double every few days.

Zimbabwe

The hyperinflation of Zimbabwe is said to be one of the most devastating ones of the 21st century. The Zimbabwean economy wasn’t functioning that efficiently before its hyperinflation period began in 2007. The nation's annual inflation rate had reached 47% in 1998, and the trend continued until hyperinflation set in. Their exchange rate **depreciated** due to various attempts on the country's currency. The situation caused a rise in import prices, which in turn caused hyperinflation. The country experienced **cost-push inflation**, a syndrome caused by increased costs for labor, raw materials, or both.

Things took a turn for the worse in 2000 after the impact of the government's land reform initiatives **reverberated** through the economy. Implementation of the agricultural reforms was not up to the mark and agricultural production suffered greatly for many years. Food supplies were low, making prices even higher.

The government printed more notes into circulation instead of trying to increase farm produce, which naturally reduced the value of the currency. The situation led to the prices rising again, and to combat the rise in prices, more notes were printed over and over again in a cycle.

In response, the Government implemented a **tight monetary policy.** Initially thought of as a success because of the reducing inflation rates, the policy had unintended consequences. It caused an imbalance in the country's trade, generating a different kind of inflation called **demand-pull inflation**, in which the prices increase due to supply shortages.

At its peak, the money printed in Germany lost its value before it got to Zimbabwe. It was after Zimbabwe abolished its currency and started using foreign currency as a legal tender that the country's hyperinflation could be dealt with.

Hungary

World War II had a devastating impact on the economy of European country, as a result the country's industrial capability was reduced to half, along with having a devastating effect on the infrastructure of the country. This reduction in production capability created a shortage in the supply of goods, combined with a stable stock of cash, was the start of the Hungarian hyperinflation. Corresponding to the hyperinflation in Germany, the hyperinflation that started in Hungary was an outcome of the need to pay reparations for the recent war. Economists estimate that the rate of inflation in the Hungarian Republic reached 41.9 quadrillion % per month which resulted in prices doubling every fifteen hours. By August of 1946, the entire price of all Hungarian banknotes in circulation was valued at one-tenth of the US dollar.

Rather than making an attempt to cut back inflation by reducing the cash flow and increasing the rates of interest, the govt. attempted to channel cash through the banking sector towards entrepreneurial activities that will facilitate the revival of productive capacity, infrastructure, and economic activity within the country.

The arrangement was successful, the maximum amount of their pre-war industrial capability was renovated by the time the steadiness of costs was finally established with the introduction of the Hungarian monetary unit, Hungary's new currency, in August 1946.

Past international action taken by countries which suffered from hyperinflation

Germany

On Sept. 26, 1923, amid hyperinflationary chaos, the Chancellor suspended seven articles of the Weimar constitution and declared the State of Emergency resulting in the country becoming a dictatorship for the time being. Rentenmark Ordinance, published on Oct. 15, authorized the creation of a new currency issued by a new institution, Rentenbank, with a value equal to that of the pre war gold mark. Schacht was appointed to the position of Commissioner of National Currency on Nov. 13.

As of Nov. 15, the devalued mark was no longer printed. On Nov. 16, rentenmarks with gold parity were issued. By Nov. 20, a trillion devalued marks were equal to one rentenmark.

The country was back on a gold standard system after hyperinflation ended. The essential feature of the Rentenmark was that its value was equivalent to the gold mark (the pre-war currency). This was achieved by reducing its issuance in case of inflation, with a simple mechanism of adjustment of supply.

We learn that it takes almost no resources to adopt a gold standard system. The Rentenbank held very little gold, the Rentenmark was not convertible into gold, also it didn't require any preparation beforehand.The only necessary thing was a transparent policy, namely to maintain the value of the rentenmark equivalent to a pre-war gold mark, and a means to accomplish this result, by limiting the provision of rentenmarks to keep up its worth.

Zimbabwe

In 2007, the government refused to accept inflation and arrested numerous company officials who raised the prices of goods. The policy amounted to a price freeze that is sometimes ineffective at halting inflation. However, transactors may evade the value freezes and also the mandate to use Zimbabwean greenbacks. In the absence of a legal market for daily use products like soap and bread, grocery stores that operated in the law did not sell things whose costs were strictly controlled by the government/ authorities or charged customers a lot if they paid in Zimbabwean Dollars. In this situation the black market was the sole choice left. At one purpose, a loaf of bread was 550,000,000 Zimbabwean greenbacks within the regular market, once bread was even available; excluding a visit to a different country, the black market was the sole choice for pretty much all products, and bread may cost a little Z$10,000,000,000. In 2009, the government abandoned printing the Zimbabwean greenbacks in the least. The {choice} implicitly resolved the chronic issue of lack of confidence within the dollar by permitting individuals to use the foreign currency of their choice. Since then, Zimbabwe has used a mix of foreign currencies, majorly U S Dollars.

In 2014, the Federal Reserve Bank of Zimbabwe unveiled convertible coins in denominations of US$0.01 through US$0.50. The Bank stated that 80% of Zimbabweans use the United States of America dollar, and because of the native lack of coins, retailers spherical costs up to successive higher dollars. The coins extend the employment of the dollar as a factual currency in full service. Banks repeatedly assured that it doesn't bring back a national currency. In Gregorian calendar month 2015, the Federal Reserve Bank of Zimbabwe similarly began a method to devalue (i.e., to formally price an enactment currency at zero). The set up was to complete the switch to the United States of America dollar by the tip of Sep 2015. As of might 2016, the liquidity of the USD had speedily decreased and John Mangudya, the governor of the Federal Reserve Bank of Zimbabwe, same Zimbabwe would print a brand new bond note, that he said would be at par with the present US dollar. This was to be done during the subsequent 2 months. In Gregorian calendar month 2016, 9 currencies were tender in Zimbabwe however it was estimated that 90% of transactions were in US dollars and 5% in Rand.

Brazil

In 1993, Brazil was coping with extremely high inflation, peaking at around 2500%. Brazil was determined it was not going to dollarize. Instead, it selected to reform its monetary system in a very broad and ingenious way – an initiative known as the Plano Real, or the "Real Plan." First, Brazil needed to seek out an answer to runaway fiscal deficits. As a result of the country having been scuffling with hyperinflation for so long, politicians were open to approving deep fiscal reforms that would place an end to continuous years of cash printing to finance debts and deficits – this was phase one of the Real Plan.

Phase two- and this is where things get a bit complex - was the creation of a virtual currency named the URV, or "unidade real de valor" ("real unit of value"). The URV was not an actual bank note, but a unit of account: From the time of its creation, all prices in stores, supermarkets were needed to list costs in URVs. However, since there had been no actual URVs in circulation, folks would buy product by changing URVs into their holdings of the previous currency – then the "cruzeiro real." The speed of conversion of URVs into cruzeiros reais would be amended daily according to the market forces.

Once enough confidence within the URV had been established, phase three of the Real Plan went into effect: the cruzeiro real was destroyed, and the URV became the real, which is Brazil's legal tender to this day. The ingenuity of this arrangement was to mix deep reforms to zfiscal nd financial policies with an understanding of behavioural factors influencing trust in a very given currency – initially the URV, a virtual currency at a time virtual currencies were very exceptional. The arrangement was a hit, as inflation fell from monthly rates of 45% in March and Apr 1994 to merely 2% in July, the month the real was launched. Inflation in Brazil has been largely within the single digits ever since.

Hungary

Hungary didn't suffer from much destruction in world war II until 1944 when Russia and Germany fought against each other in Hungary. This destroyed almost half of their industrial capacity and damaged 90% of infrastructure and industry. Transport came to a standstill because the rail lines and locomotives were incapacitated or destroyed. The little which was left had either been taken away by the Nazis back to Germany or paid as reparations to the Russians. The Hungarian government decided to stimulate the economy by printing money and providing loans to the companies through their banks at low-interest rates so that they may improve their economy. The government hired workers directly, provided loans to consumers, and provided money to people. The government flushed the country with money to get the economy going again. Money doesn't grow on trees, but it definitely flew off the printing press.

The Milliard Bilpengo is the highest denomination note ever printed since it was equal to a Billion Trillion Pengö. Sadly, at the end of the crisis, it was only worth 12 cents USD. The hyperinflation eventually raised Hungary's industrial capacity and replaced most of the capital stock. However, workers lost 80% of their wages, and creditors were wiped out.

Yugoslavia:

In 1988 the European nation owed US$21 billion to Western countries, which was to increase significantly every year. The collapse of the Yugoslavian economy can be partly blamed on its non-aligned stance that had caused the taking of loans from each power bloc on totally different terms. This contact with the U.S. and also the West globalised Yugoslav markets sooner than in the rest of Europe. In 1989, before the fall of the Berlin Wall, Yugoslav federal Prime Minister Ante Marković visited Washington to meet President H. W. Bush, to talk about an economic help package. In return, the European nation agreed to sweeping economic reforms, including a replacement for the degraded currency, another price freeze, sharp cuts in government payment, and also the elimination of social, worker-managed corporations.

The basic measures envisaged by this program were restrictive fiscal policy and real positive interest rates, independence of the commercial bank of European nation, proclaiming the interchangeableness of the dinar and fixing the dinar rate against the Deutsche Mark at a magnitude relation of 7:1, rehabilitation of banks and firms through a special fund that may be fashioned with foreign backing, negotiations with the Paris Club of Creditors regarding debt restructuring, and also with the IMF and the International Bank for Reconstruction and Development for a loan to assist and stabilize the economy. However, expectations weren't met and the costs recorded significant growth, which resulted in an increase in wages that grew quicker than value growth. In circumstances wherever this happens, one in every one of the key components of the Program persists – a set exchange rate. All this led to a weakening of the fight of the domestic economy, as exports became economically impossible, and imports were profitable. Bearing in mind that there had been a relief of imports, the domestic market flooded with foreign merchandise that was absorbed by increasing domestic demand, virtually solely for trade goods fuelled by speedy wage growth. Imports of products became cheaper than domestic ones, therefore there was a decline in production as a result of Yugoslav merchandise wasn't competitive in the least. It took only a year and a half after the implementation and the industrial capacity was reduced by 25% along with the employment rate increasing to 18%. This led to robust recession movements within the economy, deterioration of the foreign trade gap, and (after initial increase) a speedy reduction in foreign currency reserves, that prevented any further protection of the foreign interchange rate.

In 1990 Markovic introduced a privatization program, under which new federal laws were created permitting company management boards to initiate privatization, mostly through internal share-holding schemes. Yugoslavian authorities used the term "property transformation" for the method of reworking public possession into non-public hands. As a result of applying this program, by April 1990, the monthly inflation rate declined to zero, exports and imports increased, whereas foreign currency reserves increased to US$3 billion. However, higher taxes made the industrial production fall till a certain level.

Venezuela

What has Venezuela done so far?

There is no magic pill to end Venezuela's hyperinflation, though over the past many years we see the use and implementation of virtual currencies and half-baked currency reforms, none of which solved the matter. The South American nation entered the Hanke-Krus World Hyperinflation Table in 2016 as prices were rising by 219% a month and doubling every few days. Stopping hyperinflation isn't that easy. It needs significant institutional and political stability that Venezuela currently lacks. As a result of greenbacks partially replacing the bolivar as Venezuelans' currency of selection, and once they receive them, it would be very difficult to replace the old devalued tender with new legal tender. For this reason, some countries that have suffered from hyperinflations have decided to completely dollarize their economies once political and institutional stability has been achieved. For now, we look toward the delegates to come up with a comprehensive and effective solution for the ongoing crisis in venezuela.

Effects of Hyperinflation on economy and citizens

People begin **hoarding** to avoid paying more tomorrow, which leads to stockpiling, which causes more shortages. It starts with durable commodities like cars and washing machines, and if inflation persists, consumers will stockpile perishable goods like bread and milk. The economy collapses when these **daily supplies become scarce**.

People **lose their life savings** when cash becomes worthless, and the elderly are the most vulnerable to hyperinflation, losing all of their money and sometimes even losing their pensions.

Due to the loss of value of their loans, **banks and lenders go bankrupt** quickly. In foreign exchange markets, hyperinflation causes the **currency's value to drop**. Exporting businesses are the most fortunate in this situation. **Exports become cheaper** for importing countries as the currency depreciates, increasing in volume.
In contrast to this, the **imports of the country become more costly**. Domestic firms halt imports due to depreciated domestic currency, causing importers to go out of business as the cost of foreign goods skyrockets.

As businesses fail, **unemployment rises**, causing many people to become homeless. The government's tax revenues plummet, and it **struggles to provide basic services to its citizens**. As a result, the **government prints more money** to pay its bills, worsening hyperinflation because money becomes worthless if it is printed in excess and inflation occurs when the money supply grows faster than real output.

In other words, a flood of unconfidence pours into the domestic currency's value and stability. In such a case, citizens attempt to **invest in more stable assets** or financial security and may divert their investments out of the country. As a result, the **demand for gold rises** in this situation.
Commodities and real estate are also more stable than currency. **Foreign investors are also among the first to withdraw their funds** and exit the market. Unless they are compensated with a higher interest rate to compensate for the sinking currency.

If hyperinflation continues for an extended length of time, the economy will eventually collapse. It can **also lead to a barter system**, which involves exchanging something for something else but not accepting money in exchange, and thus adds to the financial system's demise.

In the worst-case scenario, not only the country suffering from inflation is in difficulty, but also the countries that assist it or are its neighbors, who accommodate the refugees and provide them with basic requirements, suffer from a scarcity of goods.

Viable solutions to tackle inflation

There are a variety of ways for controlling inflation; some work effectively, while others may have unfavorable consequences. For example, controlling inflation through wage and **price controls** can cause a **recession** and cause job losses. To combat inflation, governments might utilize a contractionary monetary policy, which aims to **reduce the money supply** inside an economy by **lowering bond prices and raising interest rates**. This aids in the reduction of expenditure because when there is less money in circulation, people who have it will keep it and save it rather than spend it, and reducing spending is a key factor during the time of inflation. There are four main tools to carry out a contractionary policy:-

Bank rate policy - The first is to increase interest rates through the central bank. In the case of the U.S., that's the Federal Reserve. The Fed Funds Rate is the rate at which banks borrow money from the central bank. When the Federal Reserve increases its interest rate, banks then have no choice but to increase their rates as well. When banks increase their rates, fewer people want to borrow money because it costs more to do so as that money accrues at a higher interest. So spending drops, prices drop and inflation slows.
Cash Reserve Ratio- The second tool is to increase reserve requirements on the number of money banks are legally required to keep on hand to cover withdrawals. The more money banks are required to hold back, the less they have to lend to consumers. If they have less to lend, consumers will borrow less, which will decrease spending.
Open Market Operations: Open market operations refer to the sale and purchase of government securities and bonds by the central bank. To control inflation, the central bank sells government securities to the public through the banks. This results in the transfer of a part of bank deposits to central bank accounts and reduces the credit creation capacity of commercial banks.
Fiscal measures- to control inflation this method include taxation, government expenditure, and public borrowings, which directly or indirectly reduce the money supply by enacting policies that encourage the reduction of the money supply. For example, Sukanya Samriddhi Yojna in India is a small deposit scheme for girl children till she turns 10, where you will have to deposit a minimum of Rs 250 and a maximum of Rs 1.5 lakh can be deposited during the ongoing financial year. The account will remain operative for 21 years from the date of its opening or till the marriage of the girl after she turns 18. So, under this policy, the government indirectly soaks money from people for 21 years. So in the end there are generally two steps that need to be taken simultaneously to solve hyperinflation. The first is to stop printing money to reduce cash flow, thereby artificially increasing the value of the currency. The second is to restore public trust in the stability of the currency which would help reduce hoarding of the goods.

Questions a Draft Resolution must answer:

1. What could be some long-term and short-term measures to overcome the present Economic crisis in Venezuela?

2. How can humanitarian aid and rehabilitation be provided to the refugees/ migrants from Venezuela in countries such as the Netherlands or Latin American countries?

3. How can hyperinflation of an economy be prevented in the coming years taking into account the various technological and social developments taking place all over the world?

4. What policies can the current government of Venezuela take to resolve the balance of payments crisis?

5. Why should sanctions be imposed on certain officials and not the whole nation and its populace?

6. How funds can be allocated in the case of Venezuela to ensure economic stability and tackle various crises like declining health care?

7. What sub-commission under the jurisdiction of the IMF would be best suited to implement these solutions? What will be the duration of functioning and jurisdiction of this organization? How will officials in charge of the organization be appointed and made accountable? How will they receive the necessary support and expertise to create long-lasting and positive change in the countries affected?

Bibliography

1. https://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money
2. https://www.imf.org/en/News/Articles/2020/03/31/pr20123-imf-executive-board-approves-framework-for-new-bilateral-borrowing-agreements#:~:text=The%20IMF%E2%80%99s%20Executive,of%20%241%20trillion.
3. https://www.bu.edu/gdp/2020/10/20/what-the-imf-world-economic-outlook-reveals-about-venezuela-and-the-world/
4. https://www.stlouisfed.org/on-the-economy/2018/january/venezuela-address-hyperinflation
5. https://sites.krieger.jhu.edu/iae/files/2017/04/Venezuela_Enters_the_Record_Book.pdf
6. https://www.hrw.org/world-report/2021/country-chapters/venezuela
7. https://www.hrw.org/world-report/2021/country-chapters/venezuela
8. https://www.cordaid.org/en/news/humanitarian-response-to-the-crisis-in-venezuela/?gclid=Cj0KCQjw4eaJBhDMARIsANhrQABc0LFou8zSDnvSTpJYuLzY0WQMxM3dcFoe5dnd6rxAijK0upAYKQcaAiMOEALw_wcB
9. https://www.bbc.co.uk/bitesize/guides/z9y64j6/revision/5
10. https://www.bbc.com
11. https://www.investopedia.com
12. https://www.dallasfed.org/~/media/documents/institute/annual/2011/annual11b.pdf
13. https://www.investopedia.com/articles/personal-finance/122915/worst-hyperinflations-history.asp
14. https://www.bbc.com/news/business-45523636
15. https://www.researchgate.net/publication/347277277_Venezuela_Hyperinflation_Causes_and_Solutions/fulltext/5fe6187345851553a0ef3e4b/Venezuela-Hyperinflation-Causes-and-Solutions.pdf?origin=publication_detail
16. https://www.bbc.com/news/business-45523636
17. https://repositories.lib.utexas.edu/handle/2152/81586
18. https://www.investopedia.com/ask/answers/111314/what-methods-can-government-use-control-inflation.asp
19. https://www.tutor2u.net/history/reference/effects-of-hyperinflation
20. https://study.com/academy/lesson/what-is-hyperinflation-definition-causes-effects.html
21. https://efinancemanagement.com/economics/hyperinflation

Links for Further Research

- https://www.heritage.org/index/country/venezuela
- https://www.forbes.com/sites/garthfriesen/2018/08/07/the-path-to-hyperinflation-what-happened-to-venezuela/?sh=4ffc25d715e4
- https://www.bbc.com/news/world-latin-america-46999668
- https://www.bbc.com/news/world-latin-america-48121148
- https://disasterphilanthropy.org/disaster/venezuelan-refugee-crisis/
- https://www.stlouisfed.org/on-the-economy/2018/january/venezuela-address-hyperinflation
- https://www.nasdaq.com/articles/venezuela-monthly-inflation-accelerates-to-24.6-in-april-central-bank-says-2021-05-18
- https://www.bu.edu/gdp/2020/10/20/what-the-imf-world-economic-outlook-reveals-about-venezuela-and-the-world/
- https://www.dw.com/en/venezuelans-try-to-beat-hyperinflation-with-cryptocurrency-revolution/a-57219083
- https://www.investopedia.com/terms/h/hyperinflation.asp
- https://www.stlouisfed.org/on-the-economy/2018/january/venezuela-address-hyperinflation