



Written by [Michael Tennant](#) on August 17, 2018

## Venezuela's Hyperinflation Solution? Drop Zeros From the Currency

Having already inflated its currency into practical worthlessness, the Venezuelan government is now trying to mask the inflation by lopping zeros off the currency, reported the [New York Times](#).

President Nicolas Maduro announced that the new currency, known as the "sovereign bolivar," will be introduced Monday to replace the existing bolivar, which is currently experiencing a 32,714-percent inflation rate. The sovereign bolivar will officially be worth 100,000 times the bolivar. In Caracas, a cup of coffee costs 2 million bolivars; it will cost only 20 sovereign bolivars at the time of the new currency's introduction.



This is just the latest bid by Maduro's regime to cover up the effects of its nonstop money printing. That, in turn, is an attempt to prop up the country's enormous welfare state, which, given that it is dependent on oil revenue for funding, cannot be maintained in the face of the state oil company's mismanagement that has reduced production to 1947 levels.

Earlier, the government "changed the color of the bank notes and increased their denomination," wrote the *Times*. Then it decided to start deleting zeros from them:

At first, the government said it would remove three zeros from the bills. But on July 25, with the dollar trading for nearly 3.5 million bolívares on the black market and continuing to lose value, the government said it would lop off five instead.

The bolívar has only continued to lose value in the time since, with the dollar now approaching 6 million bolívares.

Few people are fooled by Maduro's monetary manipulations.

"It's a cosmetic thing that's happening, the zeros," Johns Hopkins University applied economics professor Steve Hanke told the *Times*. "It means nothing unless you change economic policy."

Hanke, who has advised other governments in the throes of hyperinflation, calculates that Venezuela is currently experiencing the [23rd-worst hyperinflation in history](#).

That the sovereign bolivar is, according to Maduro, backed not by precious metals or a more stable currency but by the "petro" cryptocurrency Maduro introduced in February hardly induces confidence in the new currency. The petro, after all, is backed by the country's declining petroleum output, which is already pledged to pay debt to China and Russia.

"You're pegging a currency to a toxic asset which no one wants," Daniel Lansberg-Rodríguez, a political



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columnist for the Venezuelan newspaper *El Nacional* and finance lecturer at Northwestern University's Kellogg School of Management, told the *Times*.

Ordinary Venezuelans are also skeptical. Yosmar Nowak, owner of a Caracas coffee shop, told the paper, "We're expecting an increase in more than 1,000 percent for the minimum wage, and of course, more inflation." Nowak, who has raised prices at least 40 times this year, expects another round of zero-slashing within months. Moreover, because of the confusion attending the introduction of the new currency, she said, she's not even going to bother opening her shop on Monday.

Adding to the chaos is Maduro's plan to force Venezuelans to register themselves and their cars with the government if they want to continue buying gasoline at extremely low, state-subsidized prices. Those who do not comply will have to pay the international market price. The move, observed Lansberg-Rodriguez, is "a bid for loyalty."

That would be bad enough, but it is made worse by the fact that the government isn't giving gas-station owners any guidance on how to implement the new policy. "Alejandro Bolívar, a station supervisor in the [Caracas] suburb of El Hatillo, said no one from the government had come to reset the machines to the new currency or to explain when they would need to start verifying if buyers had government ID cards," penned the *Times*.

The truth is that all of these policy changes are just smoke and mirrors to conceal the fact that nothing is really changing. The Maduro regime remains wedded to the socialist ideology of Maduro's predecessor, Hugo Chavez, which demands that the state provide everything for the people regardless of cost; and with little income of which to speak, the government has no alternative but to print the money it needs. Unfortunately, while Maduro continues to uphold a failed philosophy, the people in whose name he claims to govern must — both literally and figuratively — pay the price.

Image: Originally published by the Banco Central de Venezuela



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