

## Briefing Paper

Committee: ECOFIN

Topic: The Question of International Collaboration to Aid Countries Dealing with Hyperinflation.

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### Summary

Hyperinflation is one of the most devastating economic phenomena a nation can endure. Defined economically as a monthly inflation rate exceeding 50%, it effectively renders a national currency worthless, wipes out the life savings of citizens, and paralyzes trade. However, the crisis is rarely confined to economics; it almost always precipitates a humanitarian emergency, leading to malnutrition, mass migration, and political instability.

Currently, nations such as Venezuela, Zimbabwe, Lebanon, and Sudan are grappling with severe inflationary crises that have severed their populations from global markets. The international community's response has historically been fragmented, often torn between the need for strict monetary conditionality (austerity) and the immediate necessity of humanitarian relief.

This briefing paper explores the mandate of ECOFIN to address these crises. It examines the structural causes of hyperinflation – ranging from unbridled money printing to supply-side shocks and sanctions – and evaluates how international bodies like the IMF, World Bank, and the UN General Assembly can collaborate more effectively. Specifically, it questions whether current debt restructuring mechanisms are sufficient and proposes new frameworks for international monetary aid that prioritize social stability alongside fiscal correction.

### Definition of Key Terms

**Hyperinflation** – In economics, hyperinflation is a very high and typically accelerating inflation. It quickly erodes the real value of the local currency, as the prices of all goods increase. The seminal definition by Phillip Cagan (1956) classifies hyperinflation as beginning when monthly inflation rates exceed 50%.

**Sovereign Debt** – Bonds or loans issued by a national government in a foreign currency. When a country enters hyperinflation, its tax base often collapses, making it impossible to service this debt, leading to default and exclusion from international capital markets.

**Fiscal Deficit** – A shortfall in a government's income compared to its spending. Hyperinflation often begins when a government attempts to fund a massive fiscal deficit by printing money (monetization of debt) rather than borrowing or taxing.

Special Drawing Rights (SDRs) – An international reserve asset created by the IMF to supplement its member countries' official reserves. SDRs can be exchanged for usable currencies, providing liquidity to countries in crisis without the immediate inflationary pressure of printing local currency.

Dollarization – The process by which a country abandons its own currency and adopts a stronger foreign currency (usually the US Dollar) as its legal tender to stabilize prices. This was famously done by Zimbabwe in 2009 and Ecuador in 2000.

Capital Flight – A large-scale exodus of financial assets and capital from a nation due to events such as political instability or currency devaluation. This accelerates the collapse of the local currency's value.

## **Background Information**

### **The Mechanics of Economic Collapse**

Hyperinflation is rarely an accident; it is almost always the result of a vicious cycle involving fiscal mismanagement, loss of confidence, and external shocks. The cycle typically begins with a government unable to pay its bills—often due to war, corruption, or a collapse in export prices (e.g., oil prices for Venezuela). Unable to borrow money globally due to poor credit ratings, the central bank begins "monetizing the debt" by printing money to pay government salaries and expenses.

As the money supply expands disproportionately to the supply of goods, prices rise. Citizens, anticipating further price rises, spend their money immediately, increasing the "velocity of money," which fuels inflation further. Eventually, confidence in the currency evaporates completely. Shopkeepers refuse to accept the local money, and the economy reverts to barter or the black-market use of foreign currencies.

### **The Humanitarian Cost**

The mandate of ECOFIN overlaps with humanitarian concerns when economic mismanagement leads to starvation and poverty. In Venezuela, hyperinflation reached an estimated 130,060% in 2018. This economic collapse led to the "Venezuelan refugee crisis," with over 7.7 million people fleeing the country as of 2024 to escape hunger and lack of medicine. In Zimbabwe, the 2008 hyperinflation crisis saw prices doubling every 24 hours, leading to a cholera outbreak as public infrastructure (funded by worthless tax revenues) collapsed.

### **The International Aid Dilemma**

Providing aid to hyperinflationary regimes is politically and technically complex.

The Fungibility Problem: International donors fear that financial aid given to a central bank will simply be used to pay off corrupt cronies or service bad debts rather than help the populace.

**Sanctions:** In cases like Venezuela or Iran, international sanctions aimed at pressuring the government restrict the ability of the IMF or World Bank to process transactions, inadvertently trapping the population in poverty.

**Austerity vs. Stability:** The IMF traditionally demands "structural adjustments" (cutting government spending) in exchange for bailouts. However, in a hyperinflationary environment where the population is already starving, cutting subsidies can lead to civil unrest and riots, as seen in Argentina.

## Major Countries and Organizations Involved

**Venezuela** – Venezuela represents the most prominent modern case of hyperinflation. Despite possessing the world's largest oil reserves, mismanagement and dropping oil prices led to a collapse. The government has attempted to introduce new currencies (the Bolívar Soberano and Digital Bolívar) and a state-backed cryptocurrency (The Petro), but these failed to curb inflation, which remains among the highest in the world.

**Zimbabwe** – Zimbabwe is the historical benchmark for modern hyperinflation, peaking in November 2008 with a monthly inflation rate of 79.6 billion percent. After abandoning its currency for the US Dollar, it recently reintroduced a new local currency, the Zimbabwe Gold (ZiG), in 2024, attempting to back it with gold reserves to restore trust.

**Argentina** – While not always meeting the strict "50% per month" definition, Argentina has suffered chronic high inflation (over 200% annually in 2023-2024). It is the largest debtor to the IMF. The country highlights the difficulty of international collaboration, as repeated IMF bailouts have failed to permanently stabilize the Peso, leading to "aid fatigue" among international creditors.

**Lebanon** – Since 2019, Lebanon has suffered a financial collapse described by the World Bank as one of the worst in 150 years. The Lebanese Lira lost 98% of its value. The crisis is compounded by political paralysis, preventing the government from enacting the reforms required to unlock international aid packages.

**The International Monetary Fund (IMF)** – The IMF is the primary international body for economic stability. Its role is to act as a "lender of last resort." It provides loans to countries with balance of payments problems, but these loans come with strict conditions (Conditionality) regarding fiscal policy, which are often controversial.

**United Nations Conference on Trade and Development (UNCTAD)** – Unlike the IMF, which focuses on stability, UNCTAD focuses on development. It has frequently argued that the debt burdens placed on developing nations are unsustainable and has called for a sovereign debt workout mechanism to allow bankrupt countries to "reset" their economies without aggressive austerity.

## Detailed Case Study:

### The Geopolitics of the Venezuelan Crisis

While Venezuela was mentioned previously, the complexity of its situation warrants a deeper look for ECOFIN delegates. The crisis in Venezuela is not just about printing money; it is a case study in how international political gridlock exacerbates hyperinflation.

**The Sanctions Loop:** The United States and European Union have imposed sanctions on the Venezuelan government and its state oil company, PDVSA. While intended to pressure the regime to restore democracy, these sanctions have effectively cut off the country from the SWIFT banking system. This means that even if the government wanted to import spare parts to fix its oil rigs (to generate revenue), it cannot pay for them.

**The "Dual Presidency" Dilemma:** For a significant period, many Western nations recognized opposition leader Juan Guaidó as the legitimate president, while the actual control of the Central Bank remained with Nicolás Maduro. This led to a legal battle over who controlled Venezuela's gold reserves stored in the Bank of England (\$1.95 billion). The resulting freeze meant that neither side could access the wealth to stabilize the currency, leaving the population in limbo.

**Digital Innovation vs. Reality:** Venezuela attempted to bypass sanctions and inflation by launching the "Petro," a state-backed cryptocurrency allegedly pegged to oil reserves. However, without international trust or an independent audit of the reserves, the Petro failed to gain traction. This serves as a critical lesson for delegates: Technology cannot replace trust in monetary policy.

### The Weimar Republic (Historical Precedent)

Delegates should look to history to avoid repeating mistakes. The hyperinflation of the Weimar Republic (Germany, 1921-1923) offers the most successful example of international collaboration to solve a crisis.

**The Problem:** Germany printed money to pay war reparations it could not afford.

**The Solution (The Dawes Plan, 1924):** This was a triumph of international diplomacy. The US loaned money to Germany to stabilize its economy; Germany used tax revenue to pay reparations to France/UK; and France/UK used that money to repay war loans to the US.

**Relevance to ECOFIN:** This proves that "bailouts" work best when they are part of a circular, coordinated restructuring of debt, rather than just throwing money at a problem.

## Bloc Positions:

### 1. The Western Group (WEOG)

**Stance:** Emphasizes "Conditionality." Countries like the USA, UK, and Germany generally believe that hyperinflation is caused by internal corruption and poor fiscal policy. They are hesitant to

provide aid unless the recipient country agrees to strict austerity measures, central bank independence, and democratic reforms.

Preferred Solution: IMF loans with strict oversight; sanctions on regimes that refuse to reform.

## 2. The Group of 77 (G77) and China

Stance: Emphasizes "Sovereignty" and "Structural Inequality." This bloc argues that the global financial system is rigged against developing nations. They argue that hyperinflation is often triggered by external shocks (like a sudden drop in commodity prices or predatory "vulture fund" lawsuits) rather than just bad governance.

Preferred Solution: Debt forgiveness without conditions; reform of the IMF to give developing nations more voting power; ending sanctions that hurt civilians.

## 3. The African Group

Stance: Focuses on "Resource-Backed Stability." Many African nations (e.g., Zimbabwe, Sudan) have vast natural resources but weak currencies. They often support proposals that allow them to monetize their resources (gold, diamonds, oil) to back their currency without interference from Western banks.

Preferred Solution: Regional cooperation (like the African Continental Free Trade Area) to reduce reliance on the US Dollar and Euro.

## Timeline of Events (Relevant UN Treaties)

1944 – Bretton Woods Conference: Established the IMF and World Bank to prevent the economic instability that contributed to WWII.

1989 – The Brady Plan: An international collaboration initiated by the US to restructure the debt of developing countries (mostly Latin American) facing high inflation and default.

2005 – Paris Club Debt Relief: Major creditor nations agreed to cancel \$18 billion of Nigeria's debt and significant amounts for other nations to help stabilize their economies.

2008 – Zimbabwe Crisis Peak: Inflation reaches 89.7 sextillion percent year-on-year. Zimbabwe abandons its currency in 2009.

2014 – UN General Assembly Resolution 68/304: Towards the establishment of a multilateral legal framework for sovereign debt restructuring. This resolution recognized that "vulture funds" (predatory hedge funds) were undermining attempts by countries like Argentina to solve their inflation and debt crises.

2015 – UN General Assembly Resolution 69/319: Adopted "Basic Principles on Sovereign Debt Restructuring," asserting that a state has the right to design its macroeconomic policy without being impeded by abusive measures from creditors.

2024 – Introduction of the ZiG: Zimbabwe introduces a gold-backed currency in an attempt to utilize natural resources to backstop hyperinflation.

## Previous Attempts to Solve the Issue

### 1. Structural Adjustment Programs (SAPs)

Historically, the IMF provided loans on the condition that countries cut spending, privatize state industries, and raise interest rates.

Success: Helped stabilize economies like Peru in the 1990s.

Failure: Often led to high unemployment and social unrest (e.g., the 2001 riots in Argentina), causing governments to collapse and inflation to return.

### 2. Currency Boards and Pegs

Countries like Argentina (in the 1990s) pegged their currency 1:1 to the US Dollar.

Pros: Stopped inflation immediately.

Cons: When the economy slowed down, the government could not print money to stimulate growth. This lack of flexibility eventually caused the peg to explode, leading to a worse crisis later.

### 3. Direct Humanitarian Intervention (Food vs. Cash)

UN agencies like the World Food Programme (WFP) often bypass local currencies entirely, distributing food directly or using "stablecoin" vouchers (US dollar-denominated vouchers). This prevents aid from being devalued by local inflation but does not solve the underlying economic rot.

### 4. Debt Forgiveness Initiatives (HIPC)

The Heavily Indebted Poor Countries (HIPC) initiative by the IMF/World Bank cancelled debt for the poorest nations. While successful in Africa in the 2000s, it did not address middle-income countries like Lebanon or Venezuela that are currently suffering most.

## Possible Solutions

### 1. International Sovereign Bankruptcy Court

Currently, there is no global bankruptcy law for countries. If a country goes broke, it is sued by creditors in New York or London courts. ECOFIN could propose a framework (building on Resolution 69/319) for a transparent, legal bankruptcy process. This would freeze debt payments immediately, stopping capital flight and giving the country breathing room to stabilize its currency without fearing lawsuits.

## 2. Cryptocurrency and Digital Assets for Aid

To bypass corrupt central banks and hyperinflated currencies, international aid could be distributed directly to citizens via digital wallets using stablecoins (cryptocurrencies pegged to the USD). This "crypto-aid" ensures that the value of the aid does not vanish due to local inflation before the recipient can spend it.

## 3. Commodity-Backed Currency Support

International collaboration could assist countries in setting up currencies backed by a basket of commodities (oil, gold, lithium) held in international escrow. Unlike the Venezuelan "Petro" (which lacked trust), an internationally audited resource-backed currency could instantly restore trust.

## 4. Special Drawing Rights (SDR) Reallocation

Rich countries hold billions in IMF SDRs they do not use. ECOFIN could propose a mechanism where developed nations "donate" or lend their SDRs to hyperinflationary countries specifically to backstop a new currency, rather than for general spending.

## 5. Regional Currency Unions

Encouraging small, unstable economies to join larger currency blocs (like the CFA Franc or a potential South American currency). While this reduces sovereignty, it provides the "imported credibility" of a larger central bank.

## Useful Links

1. IMF Data Mapper: <https://www.imf.org/external/datamapper/>
2. World Bank Global Economic Prospects:  
<https://www.worldbank.org/en/publication/global-economic-prospects>

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