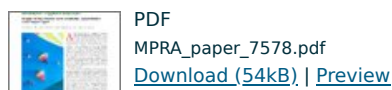


The Realities of Modern Hyperinflation

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Abstract

Policymakers would do well to bear in mind the seven lessons that emerge from this overview of modern hyperinflations. Hyperinflations seldom materialize overnight and are usually preceded by a protracted period of high and variable inflation. Stabilization may take years if fiscal policies are not adjusted appropriately. Even when fiscal adjustment is implemented, it takes time to achieve low inflation, especially when money is used as the nominal anchor. Sharp reductions in fiscal deficits are always a critical element of a stabilization program, regardless of the choice of monetary anchor. Unifying exchange markets and establishing currency convertibility are often essential ingredients of stabilization, irrespective of the choice of main nominal anchor. Output collapses during, and sometimes in the run-up to, hyperinflation. Although stabilization measures cap the implosion in economic activity, there is little evidence to suggest that they kindle a robust rebound in economic activity. Hyperinflations are accompanied by an abrupt reduction in financial intermediation. Stopping a hyperinflation does not restore demand for domestic money and domestic currency assets to the levels that prevailed before the hyperinflation began. Capital returns to the country when high inflation stops, but dollarization and other forms of indexation dominate financial intermediation for many years.

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