New Data Reveals Venezuela's Inflation in Excess of 300 Percent

Despite Official Claims, Bolívar Fuerte Is Approaching Hyperinflation

By: Fergus Hodgson - November 7, 2013

EspañolVenezuela may have an official exchange rate of 6.3 Bsf. (bolívares fuertes) per US dollar, but that doesn't mean anyone believes it. New data out today from the Troubled Currencies Project reveals the black market rate, which reflects current supply and demand, to be 57.32 Bsf. per US dollar — almost 10 times the official rate.

The project of the libertarian Cato Institute documents the world's most unstable currencies, and right now Venezuela leads the pack. The nation's reported inflation rate was 42.6 percent, as of July, but taking into account the more accurate black market value, economist Steve Hanke finds it to be 320 percent. Syria is next in line with inflation of 67 percent, followed by Argentina (59), North Korea (30), and Egypt (19).

Country	Black-Market Exchange Rate	Official Exchange Rate	Annual Implied Inflation Rate (Percent)	Annual Official Inflation Rate (Percent)
Argentina	9.96	5.94	59	10.61
Egypt	7.12	6.89	19	10.28
North Korea	8090.00	129.48	30	N/A
Syria	123.00	139.63	67	40.23
Venezuela	57.32	6.30	320	42.6

Source: Steve H. Hanke, The Troubled Currencies Project, Cato Institute – Johns Hopkins University. Retrieved on 11/7/2013 from http://www.cato.org/research/troubled-currencies-project.

Although the threshold is imprecise, economists generally label inflation beyond 50 percent per month as hyperinflation. Venezuela's annual rate of 320 percent translates to approximately 13 percent per month, so the nation hasn't reached that point yet. However, it has worsened since the August release, when the annual rate was 241 percent, and it shows no sign of turning around.

Such rapidly changing prices cause severe problems, particularly because they undermine long-term contracts and international trade. Already, Venezuela has earned a reputation for widespread shortages of everything from toilet paper to basic food items.

In response, the central government has blamed the CIA, taken over factories, instituted price controls, and prohibited "hoarding." Less than two weeks ago, President Nicolás Maduro also created the Viceministerio para la Suprema Felicidad del Pueblo (Ministry for the Supreme Happiness of People). Then yesterday he announced a government venture to control imports, the Centro Nacional de Comercio Exterior, to crack down on violations of the currency and import restrictions.

Jorge Redmond, ex-president of the Venezuelan Council of Industries, believes many residents are seeking to avoid inflation by denominating contracts in dollars and at the unofficial "free dollar rate."

"The fact that the free rate is ten times the official rate is a distortion the government had never planned on, and it is driving them nuts," he says. "The hard liners want more controls to punish those who raise prices and the end result will be greater scarcity. It would seem that the government has everything to lose because of its unwillingness to face reality."

María Diaz, a corporate social responsibility specialist based in Caracas, says the worst part of the controls associated with prices and the currency market is that they generate more opportunities for corruption.

Regarding the newly-announced trade center, it is "a way to control imports and restrict companies' access to foreign currency at the official rate, [but it] will only increase the instability in the economy, the scarcity of basic products, and thus, the distrust in the economy."