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Ukraine Hyperinflates

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Since the New Year, Ukraine's currency -- the hryvnia -- has collapsed, losing 51 percent of its value against the U.S. dollar. To put this rout into perspective, consider that the Russian ruble has only lost 8 percent against the greenback during the same period.

Like night follows day, the hryvnia's meltdown has resulted in a surge of inflation. The last official Ukrainian year-over-year inflation rate is 28.5 percent. This rate was reported for January and is out of date. That said, the official inflation rate has consistently and massively understated Ukraine's brutal inflation. At present, Ukraine's implied annual inflation rate is 272 percent. This is the world's highest inflation rate, well above Venezuela's 127 percent rate (see the accompanying chart).

When inflation rates are elevated, standard economic theory and reliable empirical techniques allow us to produce accurate inflation estimates. With free market exchange-rate data (usually black-market data), the inflation rate can be calculated. Indeed, the principle of purchasing power parity (PPP), which links changes in exchange rates and changes in prices, allows for a reliable inflation estimate.

To calculate the inflation rate in Ukraine, all that is required is a rather straightforward application of a standard, time-tested economic theory (read: PPP). At present, the black-market UAH/USD exchange rate sits at 33.78. Using this figure and black-market exchange rate data that the Johns Hopkins-Cato Institute for Troubled Currencies Project has collected over the past year, I estimate Ukraine's current annual inflation rate to be 272 percent -- and its monthly inflation rate to be 64.5 percent. This rate exceeds the 50 percent per month threshold required to qualify for hyperinflation. So, if Ukraine sustains its current monthly rate of inflation for several more months, it will enter the record books as the world's 57th hyperinflation episode.

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