Inflation Could Skyrocket in Venezuela Next Year

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With the worldwide drop in oil prices, Venezuela has slipped into another recession. Now experts warn the country's already high levels of inflation could skyrocket next year.

Francisco Rodriquez, a former economist for the Venezuela's National Assembly who is now an analyst for Bank of America, tells Bloomberg, "If we don't see a large adjustment of the exchange rate, we're almost certain to have triple-digit inflation and I wouldn't be surprised to see the economy veering into four-digit annual inflation."

Venezuelan President Nicholas Maduro has been struggling with the country's socialist economy since he was elected to take the place of Hugo Chavez. Last year the official rate of inflation was 53 percent but as of August the official annualized rate was up to 63 percent, currently the highest in the world.

And the official numbers don't tell the whole story. Prof. Steve Hanke, director of the Troubled Currencies Project at the Cato Institute, has a method of estimating the actual rate of inflation based on the black market exchange rate between the Venezuelan bolivar and the US dollar. Hanke believes the real rate of inflation in Venezuela is 183 percent.

The result of the high rates of inflation has been chronic shortages of basic goods. Everything from toilet paper to milk has been in short supply for most of 2014. President Maduro has taken a series of short-term steps to fight the problem such as sending government inspectors to check prices and announcing reduced prices at a major electronics outlet. Anyone found charging too much can be arrested.

With the shortages of basic goods continuing, President Maduro announced a new rationing system in grocery stores. Fingerprint scanners were added at check stands to insure people were only buying basic staples once a week. Maduro also demanded landlords sell property which had been rented for more than 20 years.

The exchange rate has also led to other serious problems, including failure to pay major airlines what they are owed in dollars at the official exchange rate. Initially President Maduro claimed the airlines were part of an “economic war” against his country, but he eventually agreed to pay the $3.8 billion dollars Venezuela owed the carriers after some of them cut flights or canceled service entirely.

President Maduro has promised to make an announcement about changes to the country’s economic system this month. He is expected to announce a change in the exchange rate which will effectively devalue the country’s currency in relation to the US dollar. At present, one US dollar is worth 173 bolivars on the black market.