



Venezuela's Grim Reaper – A Weekly Report

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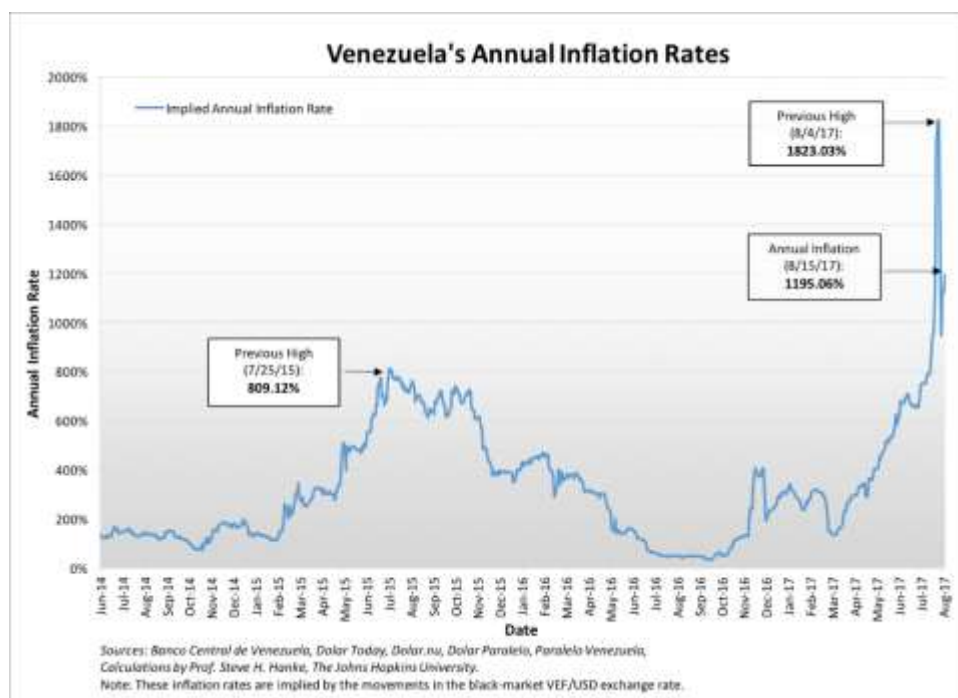
The Grim Reaper has taken his scythe to the Venezuelan bolivar. The death of the bolivar is depicted in the following chart. A bolivar is worthless, and with its collapse, Venezuela is witnessing the world's worst inflation.



As the bolivar collapsed and inflation accelerated, the Banco Central de Venezuela (BCV) became an unreliable source of inflation data. Indeed, from December 2014 until January 2016, the BCV did not report inflation statistics. Then, the BCV pulled a rabbit out of its hat in January 2016 and reported a phony annual inflation rate for the third quarter of 2015. So, the last official inflation data by the BCV is almost two years old. To remedy this problem, the Johns Hopkins – Cato Institute Troubled Currencies Project, which I direct, began to measure inflation in 2013.

The most important price in an economy is the exchange rate between the local currency and the world's reserve currency — the U.S. dollar. As long as there is an active black market (read: free market) for currency and the black market data are available, changes in the black market exchange rate can be reliably transformed into accurate estimates of countrywide inflation rates. The economic principle of Purchasing Power Parity (PPP) allows for this transformation.

I compute the implied annual inflation rate on a daily basis by using PPP to translate changes in the VEF/USD exchange rate into an annual inflation rate. The chart below shows the course of that annual rate, which peaked at 1823% (yr/yr) in early August 2017. At present, Venezuela's annual inflation rate is 1195%, the highest in the world (see the chart below).



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