Zero Hedge

Venezuela's Inflation Surges to A New High: 7459%

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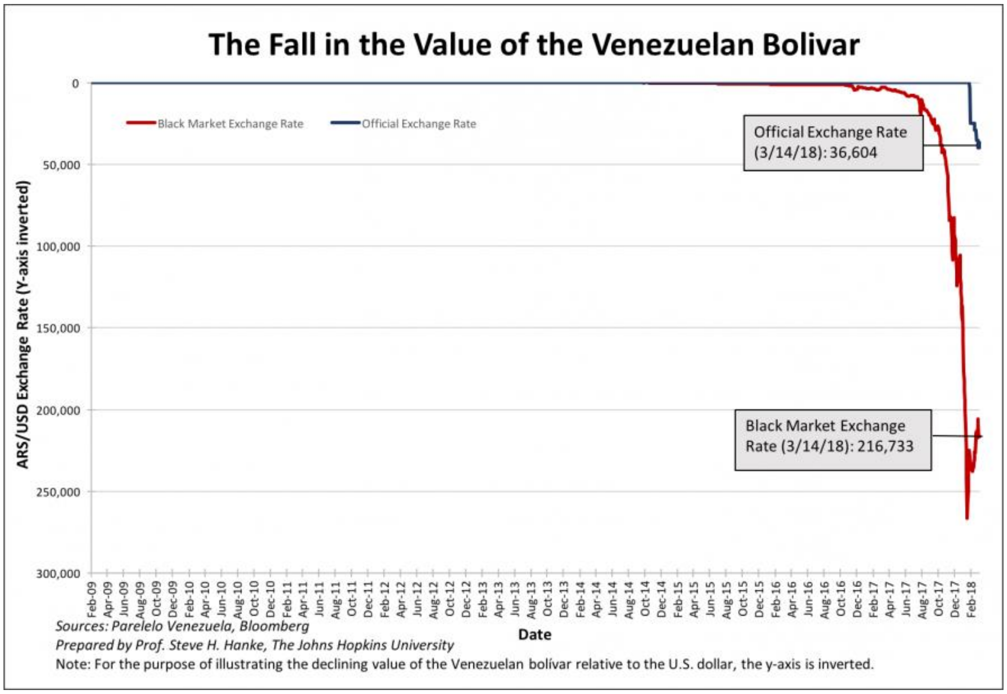
After backing off over the past month and a half, Venezuela's hyperinflation is surging again, making a new high of 7459% yr/yr.

The Grim Reaper has taken his scythe to the Venezuelan bolivar. The death of the bolivar is depicted in the following chart. On the black market (read: free market), a bolivar is worthless, and with its collapse, Venezuela is witnessing today the world's worst inflation.

On January 29th, Venezuela announced that one of its two official exchange rates was being eliminated. So, now the bolivar "trades" at one rate, under new auction rules. The official rate is now B/USD = 24,968, for those lucky enough to obtain it. But, following the elimination of Venezuela's official multiple exchange-rate system on January 29th and Maduro's announcement that the Petro raised $735 million on its ICO in late February (02/20/2018), the hapless bolivar staged something of a rally. In consequence, the currency has come off its lows and Venezuela's hyperinflation has come off its highs.

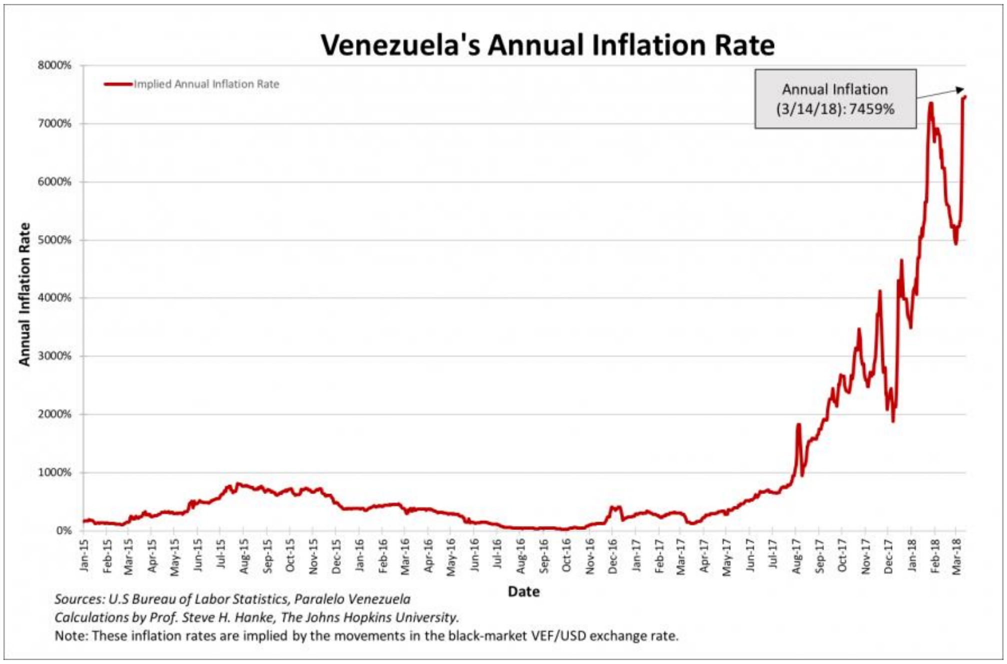
Some have applauded Maduro's recent moves, claiming that they will stabilize the bolivar and eliminate inflation. This, of course, is nothing more than a pipe dream. While the bolivar has strengthened a bit and inflation has temporarily abated and stabilized, the bolivar bounce is nothing more than a classic dead cat bounce.



As the bolivar collapsed and inflation accelerated, the Banco Central de Venezuela (BCV) became an unreliable source of inflation data. However, 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. Nonetheless, the last official inflation data reported by the BCV is still almost two years old. To remedy this problem, the Johns Hopkins – Cato Institute Troubled Currencies Project, which I direct, began to measure Venezuela's inflation in 2013. We measure the monthly and annual inflation rates on a daily basis. We measure. We do not forecast.

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.

We 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. Today's implied annual inflation rate is 7459%/yr, the highest in the world (see the chart below).



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