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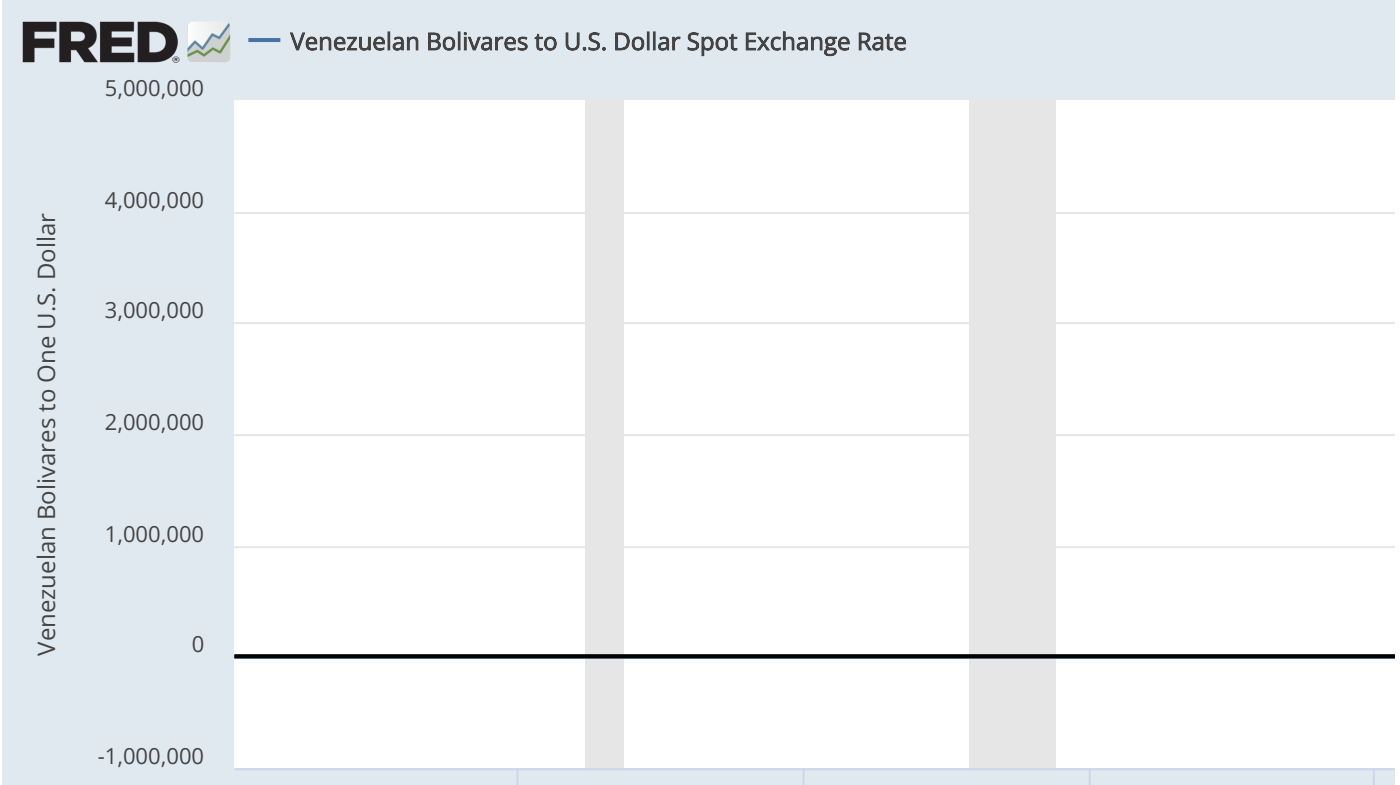
Hyperinflation in Venezuela

Using exchange rates to measure out-of-hand inflation

Posted on August 20, 2018



There's inflation and then there's *hyperinflation*, which is when inflation gets out of hand. There's no official definition, but economists tend to use the "if it looks like hyperinflation, then it is" dictum. When price changes occur rapidly—say, several times within the same day—that's hyperinflation. When bank notes don't have denominations large enough to make payments easy, that's hyperinflation. And measuring hyperinflation isn't easy, as no statistical office can keep up with the rapid changes in price. One way to track this phenomenon, though, is to look at exchange rates.

The first graph shows the exchange rate between the Venezuelan bolívar fuerte and the U.S. dollar. Quite obviously, something out of the ordinary happened. The bolívar lost value rapidly—so much so that the graph allows us to see only a few recent data points.

[U**pdate 8/20/2018:** The Venezuelan government announced economic policies designed to stem hyperinflation. The immediate impact is to raise the exchange rate to 6 million bolívars to the U.S. dollar (up from about 200,000). Time will tell whether these policies are successful.]

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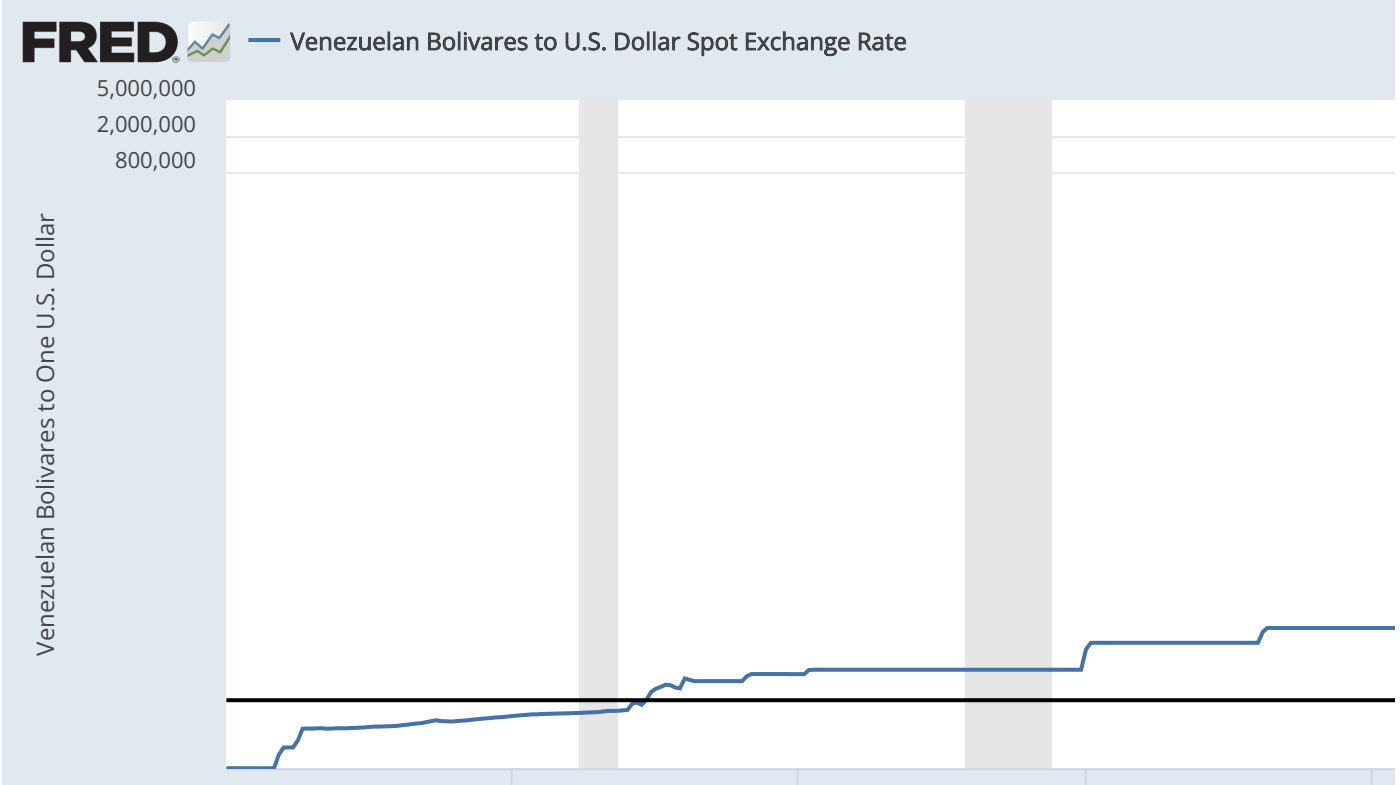

One remedy for visualizing the wide range of values is to use a log scale, as the second graph does. A graph with a log scale will show with a straight line any data that increase at a constant rate. If the data increase at an increasing rate, the line moves steeper (i.e., it becomes convex). A few things are remarkable. First, there have been long periods of constant exchange rates, owing to the government's policy of setting those rates. (See the several straight lines.) But recently, the rise in the exchange rate has been accelerating. (See the several steps up and eventually the vertical line.) This behavior in the data is characteristic of hyperinflation, which is obviously not sustainable.

How these graphs were created: For the first graph, search for and select "Venezuela exchange rate" (the monthly series) and click on "Add to Graph." For the second graph, adjust the first graph in the "Edit Graph" section: Use the "Format" tab to select "Log scale" on the left.

Suggested by Christian Zimmermann.
View on FRED, series used in this post: EXVZUS