

IFRS Developments

Hyperinflationary economies

(Updated July 2018)

What you need to know

- ▶ We believe that IAS 29 should be applied in 2018 by entities whose functional currency is the currency of one of the following countries:
 - ▶ Angola
 - ▶ Argentina
 - ▶ South Sudan
 - ▶ Sudan
 - ▶ Syria
 - ▶ Venezuela
- ▶ We believe the following country which is considered hyperinflationary, may no longer be so, subject to further monitoring, at the end of 2018:
 - ▶ Suriname
- ▶ We believe the following countries are not currently hyperinflationary, but should be monitored in 2018:
 - ▶ Democratic Republic of the Congo (DRC)
 - ▶ Libya

Overview

Accounting standards are applied on the assumption that the value of money (the unit of measurement) is constant over time. However, when the rate of inflation is no longer negligible, a number of issues arise impacting the true and fair nature of the accounts of entities that prepare their financial statements on a historical cost basis, for example:

- ▶ Historical cost figures are less meaningful than they are in a low inflation environment
- ▶ Holding gains on non-monetary assets that are reported as operating profits do not represent real economic gains
- ▶ Current and prior period financial information are not comparable
- ▶ 'Real' capital can be reduced because profits reported do not take account of the higher replacement costs of resources used in the period.

To address such concerns, entities should apply IAS 29 *Financial Reporting in Hyperinflationary Economies* from the beginning of the period in which the existence of hyperinflation is identified. However, IAS 29 does not establish an absolute inflation rate at which an economy is considered hyperinflationary. Instead, it considers a variety of non-exhaustive characteristics of the economic environment of a country that are seen as strong indicators of the existence of hyperinflation. For further illustrative examples as to how to apply IAS 29 in practice, please refer to [Chapter 16 Hyperinflation in EY's International GAAP 2018](#).

This document sets out the basis on which we concluded that countries summarised in the following table are economies that are hyperinflationary for IFRS purposes as at 31 December 2018, as well as economies that are not currently hyperinflationary for IFRS purposes but should be monitored in 2018.

Hyperinflationary economies

Angola

In December 2017, Angola reached a 3-year cumulative inflation of 104.8% and was considered to be hyperinflationary for IFRS purposes. Although inflation in Angola appears to have peaked at 41.9% in 2016, we have seen little evidence to suggest any sharp decline since then. The International Monetary Fund (IMF) forecasts 24.6% inflation for 2018, which would result in a 3-year cumulative inflation rate of 123.3% up to 31 December 2018. Therefore, we expect Angola to remain as a hyperinflationary economy for accounting periods ending in 2018.

Argentina

Inflation in Argentina has been high for several years, but consumer price inflation (CPI) was not reported consistently. Given the differences in geographical coverage, weights, sampling, and methodology of various inflation series, the average CPI inflation for 2014, 2015, and 2016, and end-of-period inflation for 2015 and 2016 were not reported in the IMF's April 2018 World Economic Outlook.

The 3-year cumulative inflation using different combinations of retail price indices has been in excess of 100% since late 2017. However, the wholesale price index, which had been available consistently for the past three years, was about 75% on a 3-year cumulative basis in December 2017. Hence, there was no conclusive evidence that Argentina was hyperinflationary at the end of 2017.

During the first half of 2018, the Argentine Peso devalued significantly, interest rates were raised in excess of 40%, and wholesale price inflation accelerated considerably. Based on the statistics published on 17 July 2018, the 3-year cumulative rate of inflation for consumer prices and wholesale prices reached a level of about 123% and 119%, respectively. On that basis, we believe that Argentina should be considered hyperinflationary.

South Sudan

South Sudan continues to be hyperinflationary. The 3-year cumulative inflation rate rose above 2,500% in 2017 and is expected to remain above 2,300% in 2018.

Sudan

Sudan has been considered hyperinflationary since 2013. In 2016 and 2017, the 3 year cumulative inflation was around 85% and there was no strong evidence that the hyperinflationary period had ended. The IMF forecasts 42.0% inflation for 2018, which would result in a 3-year cumulative inflation rate of 131.9% up to 31 December 2018. Therefore, we expect Sudan to remain as a hyperinflationary economy for accounting periods ending in 2018.

Syria

There is no recent inflation data available, but the situation in the country has not changed and therefore the country remains classified as hyperinflationary.

Venezuela

Venezuela remains hyperinflationary with the 3-year cumulative inflation rate in excess of 30,000% in December 2017 and a projected 3-year cumulative inflation rate of in excess of 1,500,000% by December 2018. It should be noted that as the Bolivar is not freely convertible, the effect of inflation is not immediately reflected in the exchange rate. In addition, the central bank of Venezuela (BCV) has not published official inflation rates since December 2015. Therefore significant judgement is required in determining both the appropriate rate of exchange and rate of inflation to be used in preparing the financial statements.

Economies which may cease to be hyperinflationary by the end of 2018, subject to further monitoring

Suriname

In 2016, Suriname experienced a very high rate of inflation of 52.4%. The 3-year cumulative rate of inflation was 98.1% and 108.4% at the end of 2016 and 2017, respectively. Although the 3-year cumulative rate of inflation that the IMF expects at the end of 2018 remains high at 85.3%, the annual rate of inflation was 9.3% in 2017 and is expected to be 11.2% in 2018. Therefore, it is expected that Suriname will no longer be hyperinflationary at the end of 2018 subject to further monitoring.

Non-hyperinflationary economies subject to monitoring

Libya

Libya experienced rates of inflation of 25.0% and 30.0% in 2016 and 2017, respectively, and inflation is expected to be 20.0% in 2018. The 3-year cumulative rate of inflation was 88.0% at the end of 2017 and is expected to be 95.0% at the end of 2018, but is then expected to decline again in 2019. Therefore, we believe that Libya is currently not hyperinflationary for IFRS purposes.

Democratic Republic of the Congo

Inflation in the DRC has risen markedly, with the IMF reporting 55.0% inflation in 2017 and an expectation of 29.5% inflation in 2018. However, there is notable data inconsistency with regard to the Democratic Republic of the Congo's inflation rates, with local sources reporting much lower rates of inflation. In view of the data inconsistencies, we believe that it is too early to classify the country as a hyperinflationary economy for IFRS purposes, but that entities should monitor the situation in the Democratic Republic of the Congo closely.

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