

IFRS Developments

Hyperinflationary economies

(Updated April 2023)

What you need to know

- ▶ We believe that IAS 29 needs to be applied by entities whose functional currency is the currency of any one of the following countries:
 - ▶ Argentina
 - ▶ Ethiopia
 - ▶ Haiti
 - ▶ Islamic Republic of Iran
 - ▶ Lebanon
 - ▶ South Sudan
 - ▶ Sudan
 - ▶ Suriname
 - ▶ Turkey
 - ▶ Venezuela
 - ▶ Yemen
 - ▶ Zimbabwe
- ▶ We believe the following countries are not currently hyperinflationary, but should be monitored: Angola, Ghana, Sierra Leone, Sri Lanka, and Syria.

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 is 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.

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. This publication only discusses the absolute inflation rates.

This publication sets out a summary of the inflation data of countries that are considered to be hyperinflationary for IFRS purposes as at 30 June 2023, as well as economies that are not currently hyperinflationary for IFRS purposes, but which should be monitored. The inflation data is based on the International Monetary Fund (IMF) World Economic Outlook (WEO)¹ that was published in April 2023.

Hyperinflationary economies

Argentina

The IMF WEO reported a 3-year cumulative rate of inflation of 300% as of December 2022 and a forecast annual rate of inflation of 88% for 2023 and 50% for 2024, respectively. The Argentine national statistics office² reported a 3-year and 12-month cumulative rate of inflation of 334% and 103%, respectively, as of February 2023. Therefore, we believe that Argentina remains hyperinflationary.

Ethiopia

The IMF WEO reported a 3-year cumulative rate of inflation of 114% as of December 2022. For 2023, the IMF WEO forecasts an annual rate of inflation of 29% (2023: 19%) and a 3-year cumulative rate of inflation of 133% (2024: 105%). The Ethiopian national statistics office³ reported a 3-year and 12-month cumulative rate of inflation of 119% and 34%, respectively, as of March 2023. Therefore, we believe that Ethiopia remains hyperinflationary.

Haiti

The IMF WEO reported a 3-year cumulative rate of inflation of 96% as of December 2022 and forecast 3-year cumulative rates of inflation of 106% and 105% for 2023 and 2024, respectively. However, the central bank of Haiti⁴ reported a 3-year and 12-month cumulative rate of inflation of 120% and 49%, respectively, as of January 2023. Therefore, we believe that Haiti should be considered hyperinflationary as at 30 June 2023 and thereafter.

Islamic Republic of Iran

The IMF WEO reported a 3-year cumulative rate of inflation of 200% as of December 2022. For 2023, the IMF WEO forecasts an annual rate of inflation of 35% (2024: 25%) and a 3-year cumulative rate of inflation of 173% (2024: 153%). Therefore, we believe that Iran remains hyperinflationary.

Lebanon

The IMF WEO reported a 3-year cumulative rate of inflation of 173% as of December 2020 and noted in April 2023 that “for Lebanon, data and projections for 2021-28 are omitted owing to an unusually high degree of uncertainty.” The Lebanese national statistics office⁵ reported 3-year and 12-month cumulative rates of inflation of 2,227% and 190%, respectively, as of February 2023. Therefore, we believe that Lebanon remains hyperinflationary.

South Sudan

South Sudan has been considered hyperinflationary since 2011 and continues to be hyperinflationary. The IMF WEO reported a 3-year cumulative rate of inflation of 172% as of December 2022. For 2023, the IMF WEO forecasts an annual rate of inflation of 14% and a 3-year cumulative rate of inflation of 65%. Therefore, we believe that South Sudan remains hyperinflationary.

¹ *World economic outlook (International Monetary Fund)*, International Monetary Fund, April 2023.

² National Institute of Statistics and Censuses, www.indec.gov.ar.

³ Ethiopian Statistics Service, www.statsethiopia.gov.et.

⁴ Banque de la République d'Haïti, www.brh.ht.

⁵ Central Administration of Statistics, www.cas.gov.lb.

Sudan

Sudan has been considered hyperinflationary since 2013 and continues to be hyperinflationary. The IMF WEO reported a 3-year cumulative rate of inflation of 2,793% as of December 2022 and forecast annual rates of inflation of 65% and 49% for 2023 and 2024, respectively.

Suriname

The IMF WEO reported a 3-year cumulative rate of inflation of 299% as of December 2022 and forecast 3-year cumulative rates of inflation of 218% and 128% for 2023 and 2024, respectively. Therefore, we believe that Suriname remains hyperinflationary.

Turkey

Turkey was previously considered hyperinflationary, for the purpose of IAS 29, until 2005. The IMF WEO reported a 3-year cumulative rate of inflation of 156% as of December 2022. For 2023, the IMF WEO forecasts an annual rate of inflation of 45% (2024: 30%) and a 3-year cumulative rate of inflation of 224% (2024: 210%). The Turkish Statistical Institute⁶ reported a 3-year and 12-month cumulative rate of inflation of 182% and 51%, respectively, as of March 2023. Therefore, we believe that Turkey remains hyperinflationary.

Venezuela

Venezuela remains hyperinflationary with the 3-year cumulative inflation rate in excess of 98,573% as of December 2022 and a forecast annual inflation rate of 250% and 230% for 2023 and 2024, respectively. However, the IMF WEO noted that, "the effects of hyperinflation and the paucity of reported data mean that the IMF staff's projected macro-economic indicators need to be interpreted with caution." 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, entities generally use estimated rates of inflation as there are no reliable official inflation rates available that are representative of the situation in the country. Therefore, significant judgement is required in determining both the appropriate rate of exchange and the rate of inflation to be used in preparing the financial statements.

Yemen

The IMF WEO reported a 3-year cumulative rate of inflation of 95% as of December 2022 and forecast 3-year cumulative rates of inflation of 76% for 2023 and 57% for 2024. However, statistics reported by the Central Bank of Yemen⁷ indicate that food price inflation remains high. Therefore, we believe that Yemen remains hyperinflationary, but entities should continue to monitor the situation.

Zimbabwe

Zimbabwe has been considered hyperinflationary since 2019 and continues to be hyperinflationary. The IMF WEO reported a 3-year cumulative rate of inflation of 2,379% as of December 2022 and forecast annual rates of inflation of 182% and 120% for 2023 and 2024, respectively.

Non-hyperinflationary economies subject to monitoring

Angola

Angola was considered hyperinflationary before 2019. The IMF WEO reported a 3-year cumulative rate of inflation of 81% as of December 2022 and forecast 3-year cumulative rates of inflation of 62% for 2023 and 40% for 2024. Angola is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation.

⁶ Turkish Statistical Institute, www.tuik.gov.tr.

⁷ Central Bank of Yemen (Aden), english.cby-ye.com.

Ghana

The IMF WEO reported a 3-year cumulative rate of inflation of 92% as of December 2022 and forecast 3-year cumulative rates of inflation of 125% and 129% for 2023 and 2024, respectively. Ghana is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation and make preparations to be able to apply IAS 29 in the event the country is subsequently considered to be hyperinflationary based on future developments.

Sierra Leone

The IMF WEO reported a 3-year cumulative rate of inflation of 79% as of December 2022 and forecast 3-year cumulative rates of inflation of 110% and 117% for 2023 and 2024, respectively. Statistics Sierra Leone⁸ reported a 3-year and 12-month cumulative rate of inflation of 86% and 43%, respectively, as of February 2023. Sierra Leone is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation and make preparations to be able to apply IAS 29 in the event the country is subsequently considered to be hyperinflationary based on future developments.

Sri Lanka

The IMF WEO reported a 3-year cumulative rate of inflation based on the Colombo Consumer Price Index (with a base of 100 in 2013) of 84% as of December 2022. The corresponding 3-year cumulative rate of inflation based on the National Consumer Price Index (with a base of 100 in 2013) was 90% as of December 2022. For 2023, the IMF WEO forecasts an annual rate of inflation of 15% (2024: 7%) and a 3-year cumulative rate of inflation of 103% (2024: 93%). In addition, the cumulative inflation in the six months ending in February 2023 as published by the Sri Lanka Department of Census and Statistics was approximately 1%.

Sri Lanka is not yet considered to be hyperinflationary for IFRS purposes, but entities should monitor the situation and make preparations to be able to apply IAS 29 in the event the country is subsequently considered to be hyperinflationary based on future developments.

The Sri Lanka Department of Census and Statistics⁹ has published its inflation indices with a base of 100 in 2021 since January 2023.

Syria

Syria may have a 3-year cumulative rate of inflation rate that exceeds 100%, but the necessary data to conclude on the status of the country is not available in the IMF WEO report nor from the national statistics office. As the country was previously considered hyperinflationary, entities should continue to monitor the situation and apply significant judgement before reaching a conclusion on the status of the country.

⁸ Statistics Sierra Leone, www.statistics.sl.

⁹ Sri Lanka Department of Census and Statistics, Technical note on Base year revision - National Consumer Price Index (NCPI) (Base: 2021=100), www.statistics.gov.lk.

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ED None

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