

IFRS Developments

Hyperinflationary economies

(Updated October 2022)

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
 - ▶ 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
 - ▶ Haiti
 - ▶ Sri Lanka
 - ▶ 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 document sets out a summary of the inflation data of countries that are considered to be hyperinflationary for IFRS purposes as at 30 September 2022, 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 October 2022.

Hyperinflationary economies

Argentina

The IMF WEO reported a 3-year cumulative rate of inflation of 216% as of December 2021 and a forecast annual rate of inflation of 95% for 2022 and 60% for 2023, respectively. The Argentine national statistics office² reported a 3-year and 12-month cumulative rate of inflation of 280% and 78%, respectively, as of August 2022. Therefore, we believe that Argentina remains hyperinflationary.

Ethiopia

The IMF WEO reported a 3-year cumulative rate of inflation of 91% as of December 2021. For 2022, the IMF WEO forecasts an annual rate of inflation of 32% (2023: 26%) and a 3-year cumulative rate of inflation of 111% (2023: 126%). The Ethiopian national statistics office³ reported a 3-year and 12-month cumulative rate of inflation of 107% and 33%, respectively, as of August 2022. Therefore, we believe that Ethiopia is hyperinflationary as at 31 December 2022 and thereafter.

Islamic Republic of Iran

The IMF WEO reported a 3-year cumulative rate of inflation of 144% as of December 2021. For 2022, the IMF WEO forecasts an annual rate of inflation of 45% (2023: 35%) and a 3-year cumulative rate of inflation of 190% (2023: 164%). 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, but noted that “for Lebanon, data and projections for 2021-27 are omitted owing to an unusually high degree of uncertainty.” The Lebanese national statistics office⁴ reported 3-year and 12-month cumulative rates of inflation of 1,270% and 162%, respectively, as of August 2022. 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 150% as of December 2021. For 2022, the IMF WEO forecasts an annual rate of inflation of 28% and a 3-year cumulative rate of inflation for 2022 of 147%.

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 2,325% as of December 2021 and forecast annual rates of inflation of 129% and 49% for 2022 and 2023, respectively.

¹ *World economic outlook (International Monetary Fund)*, International Monetary Fund, October 2022.

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

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

⁴ Central Administration of Statistics, www.cas.gov.lb.

Suriname

The IMF WEO reported a 3-year cumulative rate of inflation of 169% as of December 2021 and forecast annual rates of inflation of 35% and 23% for 2022 and 2023, 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 74% and an annual rate of inflation of 36% as of December 2021. For 2022, the IMF WEO forecasts an annual rate of inflation of 73% (2023: 37%) and a 3-year cumulative rate of inflation of 171% (2023: 223%). The Turkish Statistical Institute⁵ reported a 3-year and 12-month cumulative rate of inflation of 145% and 83%, respectively, as of September 2022. Therefore, we believe that Turkey is hyperinflationary as at 30 June 2022 and thereafter.

Venezuela

Venezuela remains hyperinflationary with the 3-year cumulative inflation rate in excess of 2,330,000% in December 2021 and a forecast annual inflation rate of 220% and 150% for 2022 and 2023, 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 no reliable official inflation rates are 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 135% as of December 2021 and forecast 3-year cumulative rates of inflation of 176% for 2022 and 120% for 2023. Therefore, we believe that Yemen remains hyperinflationary.

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 4,379% as of December 2021 and forecast annual rates of inflation of 547% and 100% for 2022 and 2023, 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 86% as of December 2021 and forecast 3-year cumulative rates of inflation of 83% for 2022 and 62% for 2023. Angola is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation.

Haiti

The IMF WEO reported a 3-year cumulative rate of inflation of 69% as of December 2021 and forecast 3-year cumulative rates of inflation of 86% and 71% for 2022 and 2023, respectively. Haiti is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation.

⁵ Turkish Statistical Institute, www.tuik.gov.tr.

Sri Lanka

The IMF WEO reported a 3-year cumulative rate of inflation of 23% as of December 2021, but inflation increased significantly from April 2022 onwards. For 2022, the IMF WEO forecasts an annual rate of inflation of 70% (2023: 9%) and a 3-year cumulative rate of inflation of 98% (2023: 108%). The Central Bank of Sri Lanka⁶ reported 3-year and 12-month cumulative rates of inflation of 93% and 70%, respectively, as of August 2022.

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.

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.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's International Financial Reporting Standards Group

A global set of accounting standards provides the global economy with one measure to assess and compare the performance of companies. For companies applying or transitioning to International Financial Reporting Standards (IFRS), authoritative and timely guidance is essential as the standards continue to change. The impact stretches beyond accounting and reporting, to key business decisions you make. We have developed extensive global resources – people and knowledge – to support our clients applying IFRS and to help our client teams. Because we understand that you need a tailored service as much as consistent methodologies, we work to give you the benefit of our deep subject matter knowledge, our broad sector experience and the latest insights from our work worldwide.

© 2022 EYGM Limited.
All Rights Reserved.

This publication contains copyright material of the IFRS® Foundation in respect of which all rights are reserved. Reproduced by EY with the permission of the IFRS Foundation. No permission granted to third parties to reproduce or distribute. For full access to IFRS Standards and the work of the IFRS Foundation please visit <http://eifrs.ifrs.org>

EYG No. 008960-22Gbl

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

⁶ Central Bank of Sri Lanka, www.cbsl.gov.lk.