

IFRS Developments

Hyperinflationary economies

(Updated April 2022)

What you need to know

- ▶ We believe that IAS 29 should be applied as at 30 June 2022 by entities whose functional currency is the currency of any one of the following countries:
 - ▶ Argentina
 - ▶ 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
 - ▶ Ethiopia
 - ▶ Haiti
 - ▶ 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 June 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 April 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 48% for 2022 and 42% for 2023. The Argentine national statistics office² reported a 3-year and 12-month cumulative rate of inflation of 228% and 55%, respectively, as of March 2022. Therefore, we believe that Argentina remains hyperinflationary.

Islamic Republic of Iran

The IMF WEO reported a 3-year cumulative rate of inflation of 144% as of December 2021 and a forecast annual rate of inflation of 30% for 2022 and 25% for 2023. The Iranian national statistics office³ reported 3-year and 12-month cumulative rates of inflation of 144% and 35%, respectively, as of March 2022. 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 due to an unusually high degree of uncertainty.” The Lebanese national statistics office⁴ reported 3-year and 12-month cumulative rates of inflation of 795% and 215%, respectively, as of February 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 146% as of December 2021 and a forecast annual rate of inflation of 10% and 15% for 2022 and 2023, respectively.

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 244% and 69% for 2022 and 2023, respectively.

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 26% and 18% for 2022 and 2023, respectively. Therefore, we believe that Suriname remains hyperinflationary.

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

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

³ Statistical Center of Iran, www.amar.org.ir.

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

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 52% (2023: 30%) and a 3-year cumulative rate of inflation of 138% (2023: 169%). The Turkish Statistical Institute⁵ reported a 3-year and 12-month cumulative rate of inflation of 109% and 61%, respectively, as of March 2022. Therefore, we believe that Turkey should be considered 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 500% and 500% 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 175% as of December 2021 and forecast 3-year cumulative rates of inflation of 265% for 2022 and 240% 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 86% and 42% 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 a 3-year cumulative rate of inflation of 88% for 2022 and 68% for 2023. Angola is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation.

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 25% (2023: 12%) and a 3-year cumulative rate of inflation of 113% (2023: 131%). Ethiopia 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 77% and 58% 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.

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 or 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.

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