

IFRS Developments

Hyperinflationary economies

(Updated November 2021)

What you need to know

- ▶ We believe that IAS 29 should be applied in 2021 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
 - ▶ Venezuela
 - ▶ Yemen
 - ▶ Zimbabwe
- ▶ We believe the following countries are not currently hyperinflationary, but should be monitored:
 - ▶ Angola
 - ▶ Haiti
 - ▶ Liberia
 - ▶ 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 31 December 2021, 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 2021.

Hyperinflationary economies

Argentina

The IMF WEO reported a 3-year cumulative rate of inflation of 209% as of December 2020. The IMF WEO did not include a forecasted rate of inflation for 2021 and 2022, but the Argentine national statistics office² reported a 3-year and 12-month cumulative rate of inflation of 229% and 51%, respectively, as of August 2021. Therefore, we believe that Argentina remains hyperinflationary.

Islamic Republic of Iran

The IMF WEO reported a 3-year cumulative rate of inflation of 170% as of December 2020 and a forecast annual rate of inflation of 30% for 2021 and 25% for 2022. The Iranian national statistics office³ reported 3-year and 12-month cumulative rates of inflation of 165% and 43%, respectively, as of August 2021. Therefore, we believe that Iran remains hyperinflationary.

Lebanon

The IMF WEO reported a 3-year cumulative rate of inflation of 178% as of December 2020, but noted that “for Lebanon, projections for 2021-26 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 430% and 138%, respectively, as of August 2021. 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 242% as of December 2020 and a forecast annual rate of inflation of 8% and 8% for 2021 and 2022, 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 903% as of December 2020 and forecast annual rates of inflation of 115% and 27% for 2021 and 2022, respectively.

Suriname

Suriname was previously considered hyperinflationary from 2000 to 2005 and again from 2016 to 2017. The IMF WEO reported a 3-year cumulative rate of inflation of 77% and an annual rate of inflation of 61% as of December 2020. For 2021, the IMF WEO forecasts an annual rate of inflation of 49% (2022: 25%) and a 3-year cumulative rate of inflation of 149% (2022: 199%). The Suriname General Bureau of Statistics⁵ reported 37% inflation for the 8 months ending 31 August 2021. Therefore, we believe that Suriname should be considered hyperinflationary going forward.

¹ *World economic outlook (International Monetary Fund)*, International Monetary Fund, October 2021.

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.

⁵ General Bureau of Statistics, statistics-suriname.org.

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ED None

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Venezuela

Venezuela remains hyperinflationary with the 3-year cumulative inflation rate in excess of 385,000,000% in December 2020 and a forecast annual inflation rate of 2,700% and 2,000% for 2021 and 2022, 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, companies 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 70% as of December 2020 and forecast 3-year cumulative rates of inflation of 115% for 2021 and 139% for 2022. Therefore, we believe that Yemen should be considered hyperinflationary going forward.

Zimbabwe

Zimbabwe has been considered hyperinflationary since 2019 and continues to be hyperinflationary. The IMF WEO reported an annual rate of inflation of 349% for 2020 and forecast annual rates of inflation of 41% and 23% for 2021 and 2022, 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 73% as of December 2020 and forecast a 3-year cumulative rate of inflation of 78% for 2021 and 69% for 2022. 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 70% as of December 2020 and forecast 3-year cumulative rates of inflation of 72% and 67% for 2021 and 2022, respectively. Haiti is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation.

Liberia

The IMF WEO reported a 3-year cumulative rate of inflation of 75% as of December 2020 and forecast 3-year cumulative rates of inflation of 46% and 38% for 2021 and 2022, respectively. Liberia is not currently considered to be hyperinflationary for IFRS purposes, but entities should continue to monitor the situation.

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.