

IFRS Developments

Hyperinflationary economies

(Updated October 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
 - ▶ Ghana
 - ▶ Haiti
 - ▶ Islamic Republic of Iran
 - ▶ Lebanon
 - ▶ Sierra Leone
 - ▶ Sudan
 - ▶ Suriname
 - ▶ Turkey
 - ▶ Venezuela
 - ▶ Yemen
 - ▶ Zimbabwe
- ▶ South Sudan may cease to be hyperinflationary by the end of 2023, subject to further monitoring
- ▶ We believe the following countries are not currently hyperinflationary, but should be monitored: Lao P.D.R., Malawi, Nigeria, Pakistan, 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 31 December 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 October 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 136% for 2023 and 70% for 2024, respectively. The Argentine national statistics office² reported a 3-year and 12-month cumulative rate of inflation of 506% and 124%, respectively, as of August 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 25% (2024: 19%) and a 3-year cumulative rate of inflation of 125% (2024: 97%). The Ethiopian national statistics office³ reported a 3-year and 12-month cumulative rate of inflation of 116% and 29%, respectively, as of June 2023. Therefore, we believe that Ethiopia remains hyperinflationary.

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 128% and 133% for 2023 and 2024, respectively. The Ghana Statistical Service⁴ reported a 3-year and 12-month cumulative rate of inflation of 106% and 40%, respectively, as of August 2023. Therefore, we believe that Ghana should be considered hyperinflationary as at 31 December 2023 and thereafter.

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 104% and 103% for 2023 and 2024, respectively. However, the central bank of Haiti⁵ reported a 3-year and 12-month cumulative rate of inflation of 105% and 40%, respectively, as of July 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 208% as of December 2022. For 2023, the IMF WEO forecasts an annual rate of inflation of 40% (2024: 25%) and a 3-year cumulative rate of inflation of 190% (2024: 170%). Therefore, we believe that Iran remains hyperinflationary.

Lebanon

The IMF WEO reported a 3-year cumulative rate of inflation of 1,671% as of December 2022 and noted in October 2023 that “data for 2021-22 are IMF staff estimates and not provided by the national authorities. Projections for 2023-28 are omitted owing to an unusually high degree of uncertainty.” The Lebanese national statistics office⁶ reported 3-year and 12-month cumulative rates of inflation of 1,953% and 230%, respectively, as of August 2023. Therefore, we believe that Lebanon remains hyperinflationary.

¹ *World economic outlook*, International Monetary Fund, October 2023.

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

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

⁴ Ghana Statistical Service, statsghana.gov.gh.

⁵ Banque de la République d'Haïti, www.brh.ht.

⁶ Central Administration of Statistics, www.cas.gov.lb.

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 123% and 130% for 2023 and 2024, respectively. Statistics Sierra Leone⁷ reported a 3-year and 12-month cumulative rate of inflation of 114% and 51%, respectively, as of August 2023. Therefore, we believe that Sierra Leone should be considered hyperinflationary as at 31 December 2023 and thereafter.

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 238% and 127% 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 248% and 160% for 2023 and 2024, respectively. Therefore, we believe that Suriname remains hyperinflationary.

Turkey

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 64% (2024: 54%) and a 3-year cumulative rate of inflation of 267% (2024: 316%). The Turkish Statistical Institute⁸ reported a 3-year and 12-month cumulative rate of inflation of 254% and 62%, respectively, as of September 2023. Therefore, we believe that Turkey remains hyperinflationary.

Venezuela

Venezuela remains hyperinflationary with the 3-year cumulative inflation rate of 80,263% 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 macroeconomic indicators should be interpreted with caution. Broad uncertainty surrounds these projections." 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 110% as of December 2022 and forecast 3-year cumulative rates of inflation of 76% for 2023 and 34% for 2024. 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 396% and 190% for 2023 and 2024, respectively.

⁷ Statistics Sierra Leone, www.statistics.sl.

⁸ Turkish Statistical Institute, www.tuik.gov.tr.

Economies which may cease to be hyperinflationary by the end of 2023, subject to further monitoring

South Sudan

South Sudan has been considered hyperinflationary since 2011. In April 2023, the IMF WEO reported a 3-year cumulative rate of inflation of 172% as of December 2022. However, in October 2023, the IMF WEO revised the 3-year cumulative rate of inflation down to 67% as of December 2022. The IMF WEO forecasts an annual rate of inflation of 46% and 6% for 2023 and 2024, respectively. Therefore, it is expected that South Sudan will no longer be hyperinflationary at the end of 2023 subject to further monitoring.

Non-hyperinflationary economies subject to monitoring

Lao P.D.R.

The IMF WEO reported a 3-year cumulative rate of inflation of 51% as of December 2022 and forecast 3-year cumulative rates of inflation of 71% and 68% for 2023 and 2024, respectively. Lao P.D.R. is not currently considered to be hyperinflationary, but entities should continue to monitor the situation.

Malawi

The IMF WEO reported a 3-year cumulative rate of inflation of 51% as of December 2022 and forecast 3-year cumulative rates of inflation of 81% and 87% for 2023 and 2024, respectively. Malawi is not currently considered to be hyperinflationary, but entities should continue to monitor the situation.

Nigeria

The IMF WEO reported a 3-year cumulative rate of inflation of 62% as of December 2022 and forecast 3-year cumulative rates of inflation of 83% and 83% for 2023 and 2024, respectively. Nigeria is not currently considered to be hyperinflationary, but entities should continue to monitor the situation.

Pakistan

The IMF WEO reported a 3-year cumulative rate of inflation of 45% as of December 2022 and forecast 3-year cumulative rates of inflation of 72% and 85% for 2023 and 2024, respectively. Pakistan is not currently considered to be hyperinflationary, but entities should continue to monitor the situation.

Sri Lanka

The IMF WEO reported a 3-year cumulative rate of inflation of 81% as of December 2022. The IMF WEO noted that "for Sri Lanka, certain projections for 2023-28 are excluded from publication owing to ongoing discussions on sovereign debt restructuring." However, the Sri Lanka Department of Census and Statistics⁹ reported a 12-month cumulative rate of inflation of 1.3% as of September 2023. Sri Lanka is not currently considered to be hyperinflationary, 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 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.

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ED None

⁹ Sri Lanka Department of Census and Statistics, www.statistics.gov.lk.