



Hyperinflationary Economies Update 31 October 2023

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BACKGROUND

IAS 29, *Financial reporting in hyperinflationary economies* applies when an entity's functional currency is 'hyperinflationary'.

IAS 29 requires the financial statements (including any comparative periods) to be stated in terms of the measuring unit current at the end of the applicable reporting period. This is because the currency of a hyperinflationary economy loses a significant amount of purchasing power from period to period such that presenting financial information based on historical amounts, even if only a few months old, does not provide relevant information to users of financial statement.

The term 'hyperinflation' is not defined in IAS 29, as it is a matter of judgment. IAS 29 provides the following characteristics of a hyperinflationary economy (IAS 29.3):

- (a) *the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;*
- (b) *the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;*
- (c) *sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;*
- (d) *interest rates, wages and prices are linked to a price index; and*
- (e) *the cumulative inflation rate over three years is approaching, or exceeds, 100%.*

International Monetary Fund (IMF) publishes historical and projected inflation data by country.

During 2023, the list of hyperinflationary economies has continued to evolve due to deteriorating economic conditions and high inflation in several countries. These jurisdictions must apply IAS 29, which results in financial statements (both current and prior comparative periods) being restated to reflect current inflation rates.

Based on the IMF's [October 2023 World Economic Outlook](#) (IMF WEO), below is an updated snapshot of countries which were hyperinflationary in 2022 and which ones have become hyperinflationary or are expected to become hyperinflationary in 2023. South Sudan, which was considered hyperinflationary as at 31 December 2022, is likely not to be hyperinflationary by 31 December 2023. Also included are the countries which are on the watchlist for 2024 and onwards.

ACCOUNTING IMPACT

With increasing inflation rates and declining economic conditions around the world, more countries are becoming hyperinflationary, including three new jurisdictions that are expected to be hyperinflationary by the end of 2023.

<i>Economies which were hyperinflationary as at 31 December 2022</i>	<i>Economies which have become hyperinflationary in 2023</i>	<i>Economies that have a risk of becoming hyperinflationary watchlist⁵ for 2024 and onwards</i>
<ul style="list-style-type: none"> ▪ Argentina ▪ Ethiopia ▪ Iran ▪ Lebanon ▪ South Sudan¹ ▪ Sudan ▪ Suriname ▪ Turkey ▪ Venezuela ▪ Yemen ▪ Zimbabwe 	<ul style="list-style-type: none"> ▪ Ghana² ▪ Haiti³ ▪ Sierra Leone⁴ 	<ul style="list-style-type: none"> • Angola • Lao People's Democratic Republic • Liberia • Malawi • Pakistan • Sri Lanka⁶ • Syria

¹ South Sudan had previously been classified as a hyperinflationary jurisdiction in our past publications. The October 2023 IMF WEO revised its forecast of the 3-year cumulative inflation rate to be 67% as of December 2022. In our view, South Sudan is likely to no longer be considered hyperinflationary by 31 December 2023.

² The October 2023 IMF WEO forecasts the 3-year cumulative inflation rate to be 128% and 133% for 2023 and 2024 respectively. Given that the 3-year cumulative inflation is expected to be well beyond 100% by 31 December 2023, in our view, Ghana is to be considered hyperinflationary as at 31 December 2023 and beyond.

³ The October 2023 IMF WEO forecasts the 3-year cumulative inflation rate to be 104% and 103% for 2023 and 2024 respectively. Local information from the central bank of Haiti indicates 12-month cumulative inflation to be at 105% in July 2023. In our view, Haiti is to be considered hyperinflationary as at 30 June 2023 and beyond.

⁴ The October 2023 IMF WEO forecasts the 3-year cumulative inflation rate to be 123% and 130% for 2023 and 2024 respectively. Given that the 3-year cumulative inflation is expected to be well beyond 100% by 31 December 2023, in our view, Sierra Leone is to be considered hyperinflationary as at 31 December 2023 and beyond.

⁵ Jurisdictions on the watch list are where inflation has been high in recent periods, however, inflation is not yet expected to result in the jurisdiction being classified as hyperinflationary.

⁶ The IMF WEO had previously reported the 3-year cumulative inflation rate to be 81% as at 31 December 2022. Sri Lanka was placed on our watch list in 2022, however, the October 2023 IMF WEO notes that 'Sri Lanka's projections for 2023-28 are excluded from publication owing to ongoing discussions on sovereign debt restructuring', meaning that no forecast of the 3-year cumulative inflation rate as at 31 December 2023 is available. The Sri Lanka Department of Census and Statistics has reported low 12-month inflation of 1.3% in September 2023. Sri Lanka is not currently considered to be hyperinflationary, but its hyperinflationary status should continue to be monitored.



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