



Hyperinflationary Economies Update 31 October 2022

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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 2022, the list of hyperinflationary economies has continued to evolve rapidly 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 latest IMF's forecasts, available [here](#), below is an updated snapshot of countries which were hyperinflationary in 2021 and which ones have become hyperinflationary or are expected to become hyperinflationary in 2022. Also included are the countries which are on the watchlist for 2022 and onwards.

For details on hyperinflationary economies, BDO issues a list annually as at 31 December. The 2021 publication may be accessed [here](#). BDO will issue an updated publication closer to 31 December once the hyperinflationary status of these economies is confirmed for 2022.

ACCOUNTING IMPACT

With the increasing inflation rates and declining economic conditions around the world, more and more countries are turning hyperinflationary, including 3 new jurisdictions that are hyperinflationary or expected to become hyperinflationary by the end of 2022.

BDO will issue an updated publication closer to 31 December once the hyperinflationary status of these economies is confirmed for 2022.

<i>Economies which were hyperinflationary as at 31 December 2021</i>	<i>Economies which have become or are expected to become hyperinflationary in 2022</i>	<i>Economies that have a risk of becoming hyperinflationary watchlist for 2022 and onwards</i>
<ul style="list-style-type: none"> ▪ Argentina ▪ Iran ▪ Lebanon ▪ South Sudan ▪ Sudan ▪ Suriname ▪ Venezuela ▪ Yemen ▪ Zimbabwe 	<ul style="list-style-type: none"> ▪ Turkey: from 30 June 2022 periods onwards* ▪ Ethiopia: expected from 31 December 2022 period ends** ▪ Sri Lanka: expected from 31 December 2022 period ends*** 	<ul style="list-style-type: none"> • Angola • Haiti • Liberia

* Inflation rates in Turkey were high throughout 2021 and rates increased significantly in early 2022. Both the IMF and the Turkish Statistical Institute have reported the 3-year cumulative inflation rate exceeding 100% as of 31 March 2022. Projections of the 3-year cumulative inflation rate up to 31 December 2022 also exceed 100%. Turkey is considered hyperinflationary for reporting periods ending on or after 30 June 2022.

** The World Economic Outlook issued by the IMF reported the 3-year cumulative inflation rate at 91% as of 31 December 2021. The IMF and the Ethiopian national statistics office have both reported the 3-year cumulative inflation rate exceeding 100% as of 31 August 2022. Ethiopia is likely to be considered hyperinflationary for reporting periods ending on or after 31 December 2022. Ethiopia's hyperinflationary status will be confirmed in an IFR Bulletin to be issued in late 2022.

*** The Central Bank of Sri Lanka has reported the 3-year cumulative inflation rate at 93% as of 31 August 2022. Inflation rates have increased significantly in recent months, and assuming they continue for the remainder of 2022, it is expected that the 3-year cumulative inflation rate will exceed 100% in 2022. Sri Lanka is likely to be considered hyperinflationary for reporting periods ending on or after 31 December 2022. Sri Lanka's hyperinflationary status will be confirmed in an IFR Bulletin to be issued in late 2022.



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