
In brief

A look at current financial reporting issues

6 January 2017

Hyper-inflationary economies at 31 December 2016

Issue

Paragraph 4 of IAS 29, 'Financial Reporting in Hyper-Inflationary Economies', requires the standard to be applied from the beginning of the period in which the existence of hyper-inflation is identified. This document explains the implications of that guidance and sets out the countries that are expected to be hyper-inflationary at 31 December 2016 (based on data from the IMF).

Impact

Entities with a functional currency that is the currency of one of the countries listed below should apply IAS 29 in 2016:

- South Sudan;
- Suriname;
- Syrian Arab Republic; and
- Venezuela.

The following economy ceased to be hyper-inflationary during 2016:

- Sudan.

The following economies are not expected to be hyper-inflationary in 2016, but should be kept under review in 2017:

- Angola;
- Argentina; and
- Ukraine.

Insight

Hyper-inflationary economies

South Sudan

IMF data shows that three-year cumulative inflation is expected to exceed 100% as of 31 December 2016 and to increase in future years. South Sudan is therefore a hyper-inflationary economy in 2016. Entities that have the currency of South Sudan as their functional currency should apply IAS 29 in 2016.

Suriname

IMF data shows that three-year cumulative inflation is expected to significantly exceed 100% as of 31 December 2016 and to increase in the following years. Local inflation data is consistent with the data from the IMF. Suriname is therefore a hyper-inflationary economy in 2016. Entities with the currency of Suriname as their functional currency should apply IAS 29 in 2016.



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Syrian Arab Republic

Syria's difficulties continue. Both the European Union and the United Nations have imposed trade sanctions. Information on the current inflation rate in Syria is difficult to obtain, but the information that is available suggests that Syria remains a hyper-inflationary economy in 2016. Entities with the currency of Syrian Arab Republic as their functional currency should continue to apply IAS 29 in 2016.

Venezuela

Venezuela became a hyper-inflationary economy in 2009. IMF data shows that three-year cumulative inflation significantly exceeds 100% as of 31 December 2016. Venezuela remains a hyper-inflationary economy in 2016. Entities with the currency of Venezuela as their functional currency should continue to apply IAS 29 in 2016.

Paragraph 4 of IAS 29 and paragraph 3 of IFRIC 7 require financial statements to be restated in the reporting period in which an entity identifies the existence of a hyper-inflationary economy. IAS 29 should be applied as if the economy had always been hyper-inflationary. Transactions in 2016 and non-monetary balances at the end of the year should be restated to reflect a price index current at the 2016 balance sheet date. The comparatives and the opening statement of financial position at the beginning of the earliest period presented should also be restated to reflect a price index current at the 2016 balance sheet date.

Paragraph 43 of IAS 21 requires the financial statements of a subsidiary entity that has the functional currency of a hyper-inflationary economy to be restated in accordance with IAS 29 before being included in the consolidated financial statements. Comparative amounts presented previously in a stable currency are not restated.

Economy that ceased to be hyper-inflationary during 2016

Sudan

Sudan became a hyper-inflationary economy in 2013. Annual inflation has decreased from about 42% in 2013 to about 26%, 13% and 16% in 2014, 2015 and 2016 respectively. The three-year cumulative inflation rate during 2016 is now well below 100%. Entities for which the currency of Sudan is their functional currency are not required to apply IAS 29 for the year ended 31 December 2016.

An entity should cease applying IAS 29 at the end of the reporting period that is immediately prior to the period in which hyper-inflation ceases. The amounts in the financial statements (including interim periods) as at the end of the reporting period that is immediately prior to the period in which hyper-inflation ceases are treated as the carrying amounts for the subsequent financial statements.

Economies to be kept under review in 2017

Angola

IMF data shows that three-year cumulative inflation is high for 2016 and is expected to significantly exceed 100% in 2017. Entities that have the currency of Angola as their functional currency should monitor inflation during 2017.

Argentina

Inflation in Argentina has been high for a number of years, and IMF data shows that three-year cumulative inflation is expected to marginally exceed 100% as of 31 December 2016.

Local inflation data has not been reported consistently, and no single general price index existed throughout the last three years. Various combinations of local indices suggest that cumulative inflation is close to or exceeds 100% at 31 December 2016.

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Inflation increased in the first half of 2016, following an exchange rate devaluation and the relaxation of utility price controls. However, local estimates suggest that inflation is now falling and that three-year cumulative inflation will be slightly below 100% by the end of 2017. The qualitative indicators are mixed, but they do not suggest that Argentina is a hyper-inflationary economy. A combination of inconsistent data, falling inflation and mixed qualitative indicators suggest that there is insufficient evidence to conclude that Argentina is a hyper-inflationary economy in 2016. Entities with the currency of Argentina as their functional currency should therefore not apply IAS 29 in 2016, but they should monitor inflation during 2017.

Ukraine

IMF data shows that three-year cumulative inflation exceeds, but is not significantly above, 100% as of 31 December 2016. Cumulative inflation is expected to fall back well below 100% in 2017. The qualitative indicators support the conclusion that Ukraine is not hyper-inflationary. Entities that have the currency of Ukraine as their functional currency should monitor inflation during 2017.



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