
In brief

A look at current financial reporting issues

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Hyper-inflationary economies at 31 December 2017

This In brief supersedes In brief INT2017-01 'Hyperinflationary economies at 31 December 2016' for reporting periods ending on or after 31 December 2017'.

Issue

IAS 29, 'Financial reporting in hyper-inflationary economies'

Paragraph 4 of IAS 29, 'Financial reporting in hyper-inflationary economies', requires entities to apply the standard from the beginning of the period in which the existence of hyper-inflation is identified.

This document presents the countries that are hyper-inflationary at 31 December 2017, and those that are not expected to be hyper-inflationary at that date but that should be kept under review in 2018. The quantitative data referred to in this document is based on International Monetary Fund data (World Economic Outlook database– October 2017).

Impact

Hyper-inflationary economies in 2017 and countries to be included in the 'watch list' for 2018

IAS 29 should be applied in 2017 to entities with a functional currency of one of the countries listed below:

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

The following economies are not expected to be hyper-inflationary in 2017, but should be kept under review in 2018:

- Argentina;
- Sudan;
- Libya; and
- Democratic Republic of the Congo.



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Insight

Hyper-inflationary economies

South Sudan

IMF data shows that the three-year cumulative inflation rate is expected to significantly exceed 100% at 31 December 2017 and expected to remain significantly above that threshold in future years. South Sudan continues to be a hyper-inflationary economy in 2017. Entities with the currency of South Sudan as their functional currency should continue to apply IAS 29 in 2017.

Suriname

IMF data shows that the three-year cumulative inflation rate is expected to continue to exceed 100% at 31 December 2017. Suriname continues to be a hyper-inflationary economy in 2017. Entities with the currency of Suriname as their functional currency should continue to apply IAS 29 in 2017.

Syrian Arab Republic

There is no reliable inflation data for the Syrian economy. However the situation in this country has not changed from last year. European Union and United Nations trade sanctions remain in force. The information that is available suggests that Syria remains a hyper-inflationary economy in 2017. Entities with the currency of Syria as their functional currency should continue to apply IAS 29 in 2017.

Venezuela

Venezuela became hyper-inflationary in 2009. IMF data shows that the three-year cumulative inflation rate is expected to significantly exceed 100% at 31 December 2017 and is also expected to increase in future years. Venezuela remains a hyper-inflationary economy in 2017. Entities with the currency of Venezuela as their functional currency should continue to apply IAS 29 in 2017.

Angola

IMF data shows that the three-year cumulative inflation rate is slightly above 100% and expected to remain so in 2018. Local inflation data is consistent with the IMF projections for 2017 and 2018. The qualitative indicators are mixed but also suggest that Angola is hyper inflationary. Angola shall be considered a hyper-inflationary economy in 2017. Therefore, IAS 29 should be applied to entities with a functional currency of the Angolan Kwanza in 2017. IAS 29 should be applied as if the economy had always been hyper-inflationary.

IAS 29 requires financial statements of an entity whose functional currency is from a hyper-inflationary country to be restated into the current purchasing power at the end of the reporting period. Therefore, transactions in 2017 and non-monetary balances at the end of the year should be restated to reflect a price index current at the 2017 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 2017 balance sheet date.



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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.

Watch list for 2018

Argentina

Inflation in Argentina has been high for a number of years, and local inflation data has not been reported consistently. The three-year cumulative inflation rate may be slightly above 100% (depending on the index used), but with a decreasing trend (2017 inflation rate is lower than inflation in 2016). The qualitative indicators are mixed, but they do not suggest that Argentina is a hyper-inflationary economy.

The National Wholesale Price Index, which is the only index reported consistently through the measurement period, suggests that 3-year cumulative inflation continues to be below 100%, and it is expected to be around 80% at 31 December 2017.

A combination of inconsistent data, falling inflation and mixed qualitative indicators suggest that the situation in Argentina is not substantively different to last year and therefore there is insufficient evidence to conclude that Argentina is a hyper-inflationary economy in 2017. Entities with the currency of Argentina as their functional currency should therefore not apply IAS 29 in 2017, but they should monitor inflation during 2018.

Sudan

Sudan became a hyper-inflationary economy in 2013. In 2016 it ceased to be hyper-inflationary as the three-year cumulative inflation rate at the end of that year was below 100% and forecast to remain below 100%. Based on IMF data for 2017, the three-year cumulative inflation rate is expected to be lower than in 2016, and is expected to remain below 100% in 2018. However, inflation in Sudan remains volatile and difficult to predict. Therefore, entities with the currency of Sudan as their functional currency should not apply IAS 29 in 2017, but they should monitor inflation during 2018.

Libya

IMF data shows that the three-year cumulative inflation rate is slightly above 100%, with a significant increase (more than 40%) when compared to the same index for 2016. Local data suggests lower inflation than the IMF statistics and the qualitative indicators are mixed. The inconsistent data suggests that entities with the currency of Libya as their functional currency should not apply IAS 29 in 2017. Such entities should monitor inflation during 2018.

Democratic Republic of the Congo

IMF data shows that the three-year cumulative inflation rate is below 100%, but growing rapidly. There is an increase of more than 60% in the three-year cumulative inflation rate in 2017. Qualitative indicators are not clear but suggest some indications of a hyper-inflationary economy. However, both local inflation data and IMF data project a three-year cumulative inflation rate below 100% in 2017. Entities with the currency of Democratic Republic of the Congo as their functional currency should not apply IAS 29 in 2017. Such entities should monitor inflation during 2018.

Ihre Ansprechpartner aus dem National Office



Guido Fladt

Leiter des National Office (Grundsatzabteilung HGB und IFRS)
Frankfurt am Main
Tel.: +49 69 9585-1455
g.fladt@pwc.com



Andreas Bödecker

Unternehmenszusammenschlüsse,
Joint Arrangements, assoziierte
Unternehmen und Impairmenttest
nach IFRS
Hannover
Tel.: +49 511 5357-3230
andreas.boedecker@pwc.com



Peter Flick

Bankspezifische Fragestellungen
nach HGB und IFRS
(Finanzinstrumente)
Frankfurt am Main
Tel.: +49 69 9585-2004
peter.flick@pwc.com



Karsten Ganssaug

Bilanzierung von Finanz-
instrumenten und Leasing
nach IFRS
Hamburg
Tel.: +49 40 6378-8164
karsten.ganssaug@pwc.com



Dr. Sebastian Heintges

Umsatzrealisierung, Mitarbeiter-
vergütungen und latente Steuern
nach IFRS
Düsseldorf
Tel.: - 49 69 9585-3220
sebastian.heintges@pwc.com



Alexander Hofmann

Bilanzierung von Versicherungs-
verträgen nach HGB und IFRS
Düsseldorf
Tel.: +49 221 2084-340
alexander.hofmann@pwc.com



Dr. Bernd Kliem

Handelsbilanzielle Fragestellungen
München
Tel.: +49 89 5790-5549
bernd.kliem@pwc.com