
In brief

A look at current financial reporting issues

December 2018

Hyper-inflationary economies at 31 December 2018

This In brief supersedes In brief INT2018-01 'Hyper-inflationary economies at 31 December 2017' for reporting periods ending on or after 31 December 2018

Issue

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

Paragraph 4 of IAS 29 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 2018, and those that are not expected to be hyper-inflationary at that date but that should be kept under review in 2019. The quantitative data referred to in this document is based on International Monetary Fund data (World Economic Outlook database– October 2018).

Impact

Hyper-inflationary economies in 2018 and countries to be included in the 'watch list' for 2019

IAS 29 should be applied in 2018 to entities with a functional currency of the countries listed below:

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

The following economies are not hyper-inflationary in 2018, but should be kept under review in 2019:

- Democratic Republic of the Congo;
- Iran;
- Libya; and
- Suriname.

Other potentially hyper-inflationary economies:

- Yemen.

Insight

Hyper-inflationary economies

Angola

Angola was classified as a hyper-inflationary economy at the end of 2017. IMF data shows that the three-year cumulative inflation rate is expected to remain above 100% in 2018. Local inflation data is consistent with the IMF projections for 2018. The qualitative indicators are mixed, but they also suggest that Angola is hyper-inflationary. Entities with the currency of Angola as their functional currency should continue to apply **IAS 29** in 2018.

Argentina

Inflation in Argentina has been high for several years, and local inflation data has not been reported consistently. Inflation increased significantly in 2018. The three-year cumulative inflation rate, using different combinations of retail price indices, exceeded 100% during the first half of 2018. Local forecasts also suggest that three-year cumulative retail price inflation at the end of 2018 will be above 100%. Three-year cumulative inflation using the wholesale price index has also exceeded 100%, and it is unlikely to fall significantly below 100% in 2019.

The qualitative indicators are still mixed; however, taking into account the developments in the country, including the devaluation of the currency, they do not contradict the conclusion that Argentina is now a hyper-inflationary economy for accounting purposes.

Argentina should be considered a hyper-inflationary economy for accounting periods ending after 1 July 2018. Therefore, **IAS 29** should be applied by all entities with a functional currency of the Argentine peso from that date, and it should be applied as if the economy had always been hyper-inflationary.

IAS 29 requires financial statements of an entity whose functional currency is the currency of a hyper-inflationary country to be restated into the current purchasing power at the end of the reporting period. Therefore, transactions in 2018 and non-monetary balances at the end of the period should be restated to reflect a price index that is current at the 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 that is current at the balance sheet date. Entities are not required to present an additional balance sheet as at the beginning of the preceding period.

Multinational companies that have subsidiaries with a hyper-inflationary currency as their functional currency should consider **paragraph 43 of IAS 21**, which 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.

For further details about the initial application of IAS 29, please refer to '[PwC In depth INT2018-13 – IAS 29 becomes applicable in Argentina](#)'.

South Sudan

IMF data shows that the three-year cumulative inflation rate is expected to significantly exceed 100% at 31 December 2018 and is expected to remain significantly above that threshold in future years. South Sudan continues to be a hyper-inflationary economy in 2018. Entities with the currency of South Sudan as their functional currency should continue to apply IAS 29 in 2018.

Sudan

Sudan became a hyper-inflationary economy in 2013. In 2016, it ceased to be hyper-inflationary, because the three-year cumulative inflation rate at the end of that year was below 100% and was forecast to remain below 100%. Based on IMF data for 2018, the three-year cumulative inflation rate has increased significantly and is expected to be above 100% in 2018, and to remain above that threshold in 2019. Therefore, IAS 29 should be applied by all entities with the currency of Sudan as their functional currency in 2018, and it should be applied as if the economy had always been hyper-inflationary. For further details about the initial application of IAS 29, please refer to the section about Argentina above.

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 2018. Entities with the currency of Syria as their functional currency should continue to apply IAS 29 in 2018.

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 2018 and is also expected to increase in future years. Venezuela remains a hyper-inflationary economy in 2018. Entities with the currency of Venezuela as their functional currency should continue to apply IAS 29 in 2018.

Watch list for 2019

Democratic Republic of the Congo

IMF data shows that there was a significant increase in the expected three-year cumulative inflation rate for 2018, and that cumulative inflation might exceed 100% by the end of 2018. However, recent local data from the Central Bank and the National Statistics Institute indicates an expected cumulative inflation rate below 100% at 31 December 2018. The inconsistent data suggests that entities with the currency of Democratic Republic of the Congo as their functional currency should not apply IAS 29 in 2018. Such entities should monitor inflation during 2019.

Iran

IMF data shows that the three-year cumulative inflation rate for 2018 is below 100%, but there was a significant increase when compared to the same index for 2017. Entities with the currency of Iran as their functional currency should not apply IAS 29 in 2018. Such entities should monitor inflation during 2019.

Libya

IMF data shows that the three-year cumulative inflation rate is slightly above 100%, but it is expected to decrease in 2019. Local data suggests that cumulative inflation is lower than the IMF estimates. The inconsistent data suggests that entities with the currency of Libya as their functional currency should not apply IAS 29 in 2018. Such entities should monitor inflation during 2019.

Suriname

IMF data shows that the three-year cumulative inflation rate is below 100% at 31 December 2018. Local inflation data does not show recent high levels of inflation. Entities with the currency of Suriname as their functional currency should cease to apply IAS 29 in 2018. Such entities should monitor inflation during 2019.

Paragraph 38 of IAS 29 states that the amounts in the financial statements as at the end of the previous reporting period are considered as the carrying amounts for the subsequent financial statements. That is, the restated amounts are the cost bases of the non-monetary items in subsequent financial statements.

Other potentially hyper-inflationary economies

Yemen

IMF data shows that the three-year cumulative inflation rate is close to 100%. Local data also shows a cumulative inflation rate below 100%. There is currently not enough information to determine whether Yemen has become a hyper-inflationary economy. Entities with the currency of Yemen as their functional currency should monitor developments in inflation at the end of 2018 and during 2019.

Ansprechpartner in Ihrer Nähe



Raoul Vogel
Tel: +43 1 501 88-2031
raoul.vogel@pwc.com



Katharina Maier
Tel: +43 1 501 88-2034
katharina.maier@pwc.com



Bettina Szaurer
Tel: +43 1 501 88-1833
bettina.szaurer@pwc.com

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Medieninhaber und Herausgeber: PwC Österreich GmbH Wirtschaftsprüfungsgesellschaft, Donau City Straße 7, 1220 Wien
Für den Inhalt verantwortlich: Raoul Vogel, Katharina Maier
Kontakt: IFRS.Aktuell@at.pwc.com

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