



In depth

Turkey is expected to become hyper-inflationary

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Key Points

- IAS 29 „Financial reporting in hyper-inflationary economies“ will most likely be applicable for entities with a functional currency of the Turkish Lira for annual and interim accounting periods ending on or after 30 June 2022.

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What is the issue?

Since the beginning of 2021, inflation in Turkey has increased significantly. Based on the current global economic environment, inflation is expected to continue to increase in the foreseeable future. Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Turkey is expected to be a hyper-inflationary economy, for accounting purposes, for reporting periods ending on or after 30 June 2022 (assuming that no contradictory information is obtained before that date, for example, inflation data issued by the IMF in April 2022).

What is the impact and for whom?

Turkey is expected to be a hyper-inflationary economy for accounting periods ending on or after 30 June 2022. Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyper-inflationary economy to apply the standard at the same date. Therefore, all entities with a functional currency of the Turkish Lira should prepare themselves to apply IAS 29 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 2022 and non-monetary balances at the end of the period would be restated to reflect a price index that is current at the balance sheet date.

Comparatives should also be restated to reflect a price index that is current at the balance sheet date. This is because IAS 29 is applied as if the economy had always been hyper-inflationary. Entities are not, however, required to present an additional balance sheet as at the beginning of the preceding period.

Multinational companies that have subsidiaries with the Turkish Lira as their functional currency should consider paragraph 43 of IAS 21. This 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.

When does it apply?

IAS 29 is most likely applicable for entities with the functional currency of the Turkish Lira for annual or interim reporting periods ending on or after 30 June 2022, and it should be applied as if the economy had always been hyper-inflationary.

Entities are not required to apply IAS 29 for periods ending 31 March 2022. An entity with a functional currency that is hyper-inflationary, or a group with a subsidiary that has a functional currency that has become hyper-inflationary in the current interim period, is not required to restate the previously issued interim reports in this situation. The application of IAS 29 is treated as a non-adjusting post-balance sheet event in the context of previous interim reports. Therefore, entities should consider describing the situation in Turkey, and the potential impact of hyper-inflation accounting in future periods, when preparing the financial statements for periods ended 31 March 2022.

Where do I get more details?

Please refer to the PwC publication, '<https://www.pwc.at/de/newsletter/ifrs/in-brief-in-depth/2018/ias29-indepth.pdf>', which explains the application of IAS 29.

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