



INSTITUTE OF CHARTERED ACCOUNTANTS, GHANA (ICAG)

GUIDE TO ACCOUNTANTS IN BUSINESS AND ACCOUNTANTS IN PRACTICE ON APPLICATION OF IAS 29 IN GHANA

1.0: INTRODUCTION

Ghana has featured in various global publications, particularly by the Big 4 firms to be considered as a hyperinflationary economy and have consequently recommended the application of IAS 29 *Financial Reporting in Hyperinflationary Economies* to financial statements for the period ending December 2023. The argument that Ghana's economy is hyperinflationary for financial reporting purposes seem to have been based **on a quantitative factor** that suggests that Ghana's 3-year cumulative inflation will be close to, or exceed 100% by end of December 2023. Institute of Chartered Accountants, Ghana has sighted these publications, mainly referenced from International Practices Task Force (IPTF), which report also references the IMF World Economic Outlook report. Institute of Chartered Accountants, Ghana welcomes such views. It should however, be noted that such publications are neither determinative nor represent the official position of the Institute. The Institute has held series of meetings with local firms, regulators and other international accountancy bodies on the applicability of IAS 29 for December 2023 financial reporting, and wishes to provide Accountants in Business and Accountants in Practice (stakeholders) with guidance on whether Ghana can be categorised as operating in a hyperinflationary economy.

2.0: BASIS FOR HYPERINFLATION UNDER IAS 29

IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise. The standard provides guidance and encourages **professional judgment** when restatement of financial statements in accordance with IAS 29 becomes necessary. Paragraph 3 of IAS 29 provides at least 5 indicators based on which professional judgment of hyperinflation can be reached:

1. 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;
2. 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;
3. 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;
4. Interest rates, wages, and prices are linked to a price index; and
5. The cumulative inflation rate over three years is approaching, or exceeds, 100%.

It is instructive to note that the standard does not place premium on the quantitative indicator over the other qualitative indicators nor does it place premium on the qualitative indicators over the quantitative indicator, thus the need to exercise professional judgment on whether Ghana's economy is hyperinflationary or not having considered all the factors. To guide stakeholders in reaching such conclusion, the following are to be considered for each indicator.

TABLE 1 - QUESTIONS TO GUIDE PROFESSIONAL JUDGEMENT

IAS 29 INDICATOR	QUESTIONS TO GUIDE PROFESSIONAL JUDGEMENT
<p>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</p>	<p>Are people moving their investments away from monetary investments for fear of loss of value?</p> <ul style="list-style-type: none"> • Has investment in monetary assets such as treasury bills, mutual funds, fixed deposits, and other short-term monetary assets decreased significantly over the last 3 years? • Are deposits of banks and specialised deposit-taking institutions declining consistently over the last 3 years? • Are investments in non-monetary assets such as precious metals, real estate, foreign currencies, (FOREX trading) digital currency (crypto) etc. increasing significantly over the last 3 years at the expense of monetary investments?
<p>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</p>	<p>Is there an escalation of price quotations in foreign currency?</p> <ul style="list-style-type: none"> • Are general goods and services priced based on foreign currency such as the dollar over the last 3 years (other than the legacy dollar-priced goods and services such as international schools, real estate, and foreign consultancy services)?
<p>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</p>	<p>Is there an increasing practice of “inflation-induced pricing” in the market over the last 3 years?</p> <ul style="list-style-type: none"> • Do retailers price their goods in expectation of increased prices due to rapid inflation? • Have most trade credit providers ceased or significantly minimise credit sales and moved to cash sales?
<p>Interest rates, wages, and prices are linked to a price index</p>	<p>Is there an increasing trend of dollar-indexed pricing in wages and cost of capital over the last 3 years?</p> <ul style="list-style-type: none"> • Are interest rates on loans indexed to the dollar? • Are salaries and wages indexed to the dollar (other than those of legacy institutions such as multinationals)?
<p>The cumulative inflation rate over three years is approaching or exceeds, 100%.</p>	<p>Has the cumulative inflation rate for the last 3 years approached or exceeded 100%?</p>

3.0: ASSESSMENT OF GHANA'S SITUATION

3.1: Quantitative Assessment

Presented in **Table 2** is a summary of inflation rates for both **end-of-period** and **average-for-period** for 2019 to 2022 actual as provided by Ghana Statistical Service; and 2023 to 2026 projected as provided by the IMF. A 3-year cumulative inflation has been computed for both end-of-period and average-for-period inflation.

Table 2: Summary of Inflation and Hyperinflation Computation

END OF PERIOD	PROJECTED				ACTUAL			
	2026	2025	2024	2023	2022	2021	2020	2019
	8.0%	10.0%	15.0%	31.3%	54.1%	12.6%	10.4%	7.9%
CUMULATIVE [(1+y3)*(1+y2)*(1+y1)]	36.6%	66.1%	132.7%	127.8%	91.6%	34.1%		
AVERAGE FOR PERIOD	8.0%	11.5%	23.2%	42.2%	31.9%	10.0%	9.9%	7.1%
CUMULATIVE [(1+y3)*(1+y2)*(1+y1)]	48.4%	95.3%	131.1%	106.3%	59.5%	29.5%		

Source: Ghana Statistical Service Actual Data

[-https://www.statsghana.gov.gh/nationalaccount_macros.php?Stats=MTE2MTIyMjQ5Ni41NjY=/webstats/7163p83s71](https://www.statsghana.gov.gh/nationalaccount_macros.php?Stats=MTE2MTIyMjQ5Ni41NjY=/webstats/7163p83s71)

IMF Projected Data - <https://www.imf.org/external/datamapper/PCPIPCH@WEO/GHA>

Quantitatively, Ghana's inflation is projected to exceed 100% by the close of 2023 and 2024 using both **end-of-period** and **average-for-period** data. Ghana's inflation began to cross 20% in April 2022 and spiraled to 54.1% in December 2022. From January 2023, Ghana began to witness a downward inflationary trend closing September 2023 at 38%. Ghana's inflation is projected by IMF to close December 2023 at 31.3% compared with 54.1% in the same period in 2022. Subsequently, Ghana's inflation is projected by IMF to fall to 8% by 2026 meeting the 6-10% target of the Bank of Ghana. It is important to note the following:

- The high levels of inflation for 2023 and 2024 are catalysed by the 2022 inflation rate. It can be argued that 2022 was a year of transition with exceptional circumstances.
- Ghana's inflation will cumulatively remain above 100% in 2024 when the actual inflation rate for that year will be closing at 15%, in sharp contrast with most hyperinflationary economies whose inflation rates are typically above 50% every year.

c. More importantly, the inflationary trend has been downwards since January 2023 and is expected to reach a single digit by the close of 2026.

3.2: QUALITATIVE ASSESSMENT

Table 3 - IAS 29 Indicators and Ghana's actual situation

IAS 29 INDICATOR	GHANA'S ACTUAL SITUATION
<p>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</p>	<p>a. Bank of Ghana's Q2 2023 statistical bulletin reveals that private sector deposit has increased by over 45%. That is, from GHS 116.5 billion in June 2022 to GHS 169.2 billion in June 2023. Annual increase in 2019 averaged 18.7%.</p> <p>b. The Bank of Ghana continues to meet its weekly auctions. For example, Tender 1869 held on 22nd September 2023 targeted GHS 3.25 billion and raised GHS 3.1 billion while Tender 1868 held on 15th September 2023 targeted GHS 3.35 billion and raised GHS 3.35 billion.</p> <p>c. The 2022 PwC Ghana banking survey report attributed banks' growth in operating assets to investment in liquid assets such as treasury bills and bonds. Indeed, the top 5 banks alone increased their investment in government securities by GHS 8.3 billion.</p> <p>d. In contrast, Bank of Ghana reports that annual growth in foreign exchange savings remained unchanged from the pre-pandemic level. For example, foreign exchange savings grew by 22.4% in 2019 and 22.1% in 2023.</p> <p>The above data suggests that the general population continues to keep their wealth in monetary assets and growth in foreign currency assets has not witnessed extraordinary change compared with pre-high inflationary levels.</p>
<p>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</p>	<p>a. The Bank of Ghana, the regulatory institution responsible for monitoring compliance with price quotation in local currency, reports that 90% of price quotes in the country are in the local currency.</p> <p>b. Other than real estate, international schools, and international consulting firms who have traditionally quoted in foreign currency, the Institute is not aware of wide-spread quotation of prices in foreign currency in the country.</p>

<p>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</p>	<p>a. During the last 3 months to 2022 Christmas and first 2 months of 2023 when inflation was about 50%, retailers were seen to be charging prices that compensated for the expected loss of purchasing power in the next purchase. Most of them were importers who attributed that type of pricing to the rapid depreciation of the cedi.</p> <p>b. The Institute does not have any evidence to suggest that outside those 5 months, the practice continued.</p>
<p>Interest rates, wages and prices are linked to a price index</p>	<p>a. The most commonly known interest rate indexed to the dollar is interest on dollar mortgages.</p> <p>b. To the contrary, Republic Bank, one of the leading mortgage finance institutions in Ghana, is aggressively promoting a cedi mortgage instead of a dollar mortgage.</p> <p>c. Other than some multinational companies whose salaries are traditionally indexed to the dollar, the Institute is yet to learn of any widespread new indexing of wages and salaries to the dollar.</p>

While the above four (4) factors are largely qualitative, available data and anecdotal evidence suggest that those four (4) indicators have either not occurred or, in cases where they seem to have happened, they were not widespread.

4.0: ECONOMIC THEORIES OF HYPERINFLATION

Given that IAS 29 does not give a direct definition of hyperinflation, it may be prudent to consider some economic views on hyperinflation since inflation is largely an economic issue.

1. Cagan (1956): “Defined a hyperinflationary episode as starting in the month that the monthly inflation rate exceeds 50%, and as ending when the monthly inflation rate drops below 50% and stays that way for at least a year” – ***By this definition, Ghana was hyperinflationary from November 2022 to February 2023 and exited hyperinflation thereafter.***
2. Fisher, Sahay and Vegh (2002): “Defined hyperinflation as inflation rate above 100% per annum” – ***By this definition, Ghana has not been hyperinflationary in the last 3 years.***
3. Frankel, J (2010): “Defined hyperinflation episodes by a threshold in the rate of increase in prices of 50% per month by one definition and 1000% per year by another definition” – ***By this definition, Ghana has not been hyperinflationary in the last 3 years.***
4. Saboin-García (2018): “Proposed a threshold of inflation between 50 and 500% per annum as hyperinflation” – ***By this definition, Ghana has not been hyperinflationary in the last 3 years.***

5.0: CONCLUSION

Based on the above analysis, it is ICAG's considered view that Ghana is not operating in a hyperinflationary economy for the December 2023 financial reporting period. As a result, IAS 29 will not be applicable. The Institute of Chartered Accountants, Ghana will continue to monitor the economic situation in the country and advise stakeholders accordingly.

Comments or views from stakeholders can be shared per the following contact details:

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ISSUED BY COUNCIL OF ICAG



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About ICAG

Institute of Chartered Accountants, Ghana (ICAG) was established by an Act of Parliament, Chartered Accountants Act 1963, (Act 170). On the passage of Institute of Chartered Accountants, Ghana, Act, 2020 (Act 1058) on 29th December 2020, Act 170 was repealed. The object of the Institute is to promote the study of accountancy; to regulate the accountancy profession and practice and to provide for related matters. Section 127 (5)b of the Companies Act, 2019 (Act 992), also requires companies to prepare their financial statements in compliance with International Financial Reporting Standards adopted by the Institute of Chartered Accountants, Ghana, or any other standards approved or adopted by the Institute. ICAG therefore has the regulatory mandate to approve, adopt, and promote the implementation of standards and its members are the only persons recognized under the Companies Act, 2019 (Act 992) to audit company accounts. It is governed by an eleven-member Council.