



# **INSTITUTE OF CHARTERED ACCOUNTANTS, GHANA (ICAG)**

## **UPDATE - DIRECTIVE TO ACCOUNTANTS IN BUSINESS AND ACCOUNTANTS IN PRACTICE ON APPLICATION OF IAS 29 IN GHANA**



## 1.0: INTRODUCTION

Institute of Chartered Accountants, Ghana (ICAG) has sighted publications by the Big 4 firms which considered Ghana, as a hyperinflationary economy. They have consequently recommended the application of IAS 29 Financial Reporting in Hyperinflationary Economies to financial statements for the period ending December 2023. Their publications mainly referenced the International Practices Task Force (IPTF) report, which also references the IMF World Economic Outlook report. ICAG respects such views but declares that such publications are **neither determinative nor represent the official position of the Institute for Ghana.**

The argument that Ghana's economy is hyperinflationary for financial reporting purposes seems 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 the end of December 2023. The Institute has held a series of meetings with local firms, regulators, and other international accountancy bodies on the applicability of IAS 29 in Ghana for December 2023 financial reporting and subsequently provided a Guide and also a directive to Accountants in Business and Accountants in Practice. Following the issuance of the guide and directive, the Institute has received positive and negative feedback from various stakeholders, and the Institute had indicated in the Guide that it would continue to monitor the situation in the country. **This paper is an update on the Guide which was issued in November 2023 and the directive issued in January 2024.**

## 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 the restatement of financial statements in accordance with IAS 29 becomes necessary. Paragraph 3 of IAS 29 provides **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 IAS 29 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, exercising professional judgment on whether Ghana’s economy is hyperinflationary or not will have to consider all 5 indicators as prescribed in IAS 29.** To guide stakeholders in reaching such a conclusion, the following are to be considered for each indicator.

**Table 1: Questions to Guide Professional Judgment**

IAS 29 INDICATOR	QUESTIONS TO GUIDE PROFESSIONAL JUDGMENT
<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"> <li>• 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?</li> <li>• Are deposits of banks and specialised deposit-taking institutions declining consistently over the last 3 years?</li> <li>• Are investments in non-monetary assets such as precious metals, real estate, foreign currencies, (FOREX trading) and digital currency (crypto) etc. increasing significantly over the last 3 years at the expense of monetary investments?</li> </ul>
<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"> <li>• Are general goods and services priced on the basis of foreign currency such as the US dollar over the last 3 years (other than the legacy US dollar priced goods and services such as international schools, real estate and foreign consultancy services)?</li> </ul>
<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"> <li>• Do retailers price their goods on expectation of increased prices due to rapid inflation?</li> <li>• Have most trade credit providers ceased or significantly minimised credit sales and moved to cash sales?</li> </ul>
<p>Interest rates, wages and prices are linked to a price index</p>	<p>Is there an increasing trend of foreign currency-indexed pricing in wages and cost of capital over the last 3 years?</p> <ul style="list-style-type: none"> <li>• Are interest rates on loans indexed to foreign currency such as the US dollar?</li> <li>• Are salaries and wages indexed to foreign currency such as the US dollar (other than those of legacy institutions such as multinationals)?</li> </ul>

The cumulative inflation rate over three years is approaching, or exceeds, 100%.	Has cumulative inflation rate for the last 3 years approached or exceeded 100%?
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### 3.0: ICAG's ASSESSMENT OF GHANA'S HYPERINFLATIONARY STATUS

#### 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 2023 actual as provided by Ghana Statistical Service; and 2024 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			
	8.0%	10.0%	15.0%	23.2%	54.1%	12.6%	10.4%	7.9%
CUMMULATIVE [(1+y3)*(1+y2)*(1+y1)]-1	36.6%	55.8%	118.3%	113.8%	91.6%	34.1%		
AVERAGE FOR PERIOD	8.0%	11.5%	23.2%	40.5%	31.9%	10.0%	9.9%	7.1%
CUMMULATIVE [(1+y3)*(1+y2)*(1+y1)]-1	48.4%	92.9%	128.2%	103.8%	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>

Ghana's 3-year cumulative inflation rate (2021 to 2023) stands at 113.8% (when end-of-period is used) and 103.8% (when average-for-period is used). 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 December 2023 at 23.2% compared with 54.1% for 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 . In reaching a professional judgment, it is important to note the following **country-specific circumstances:**

- The cumulative inflation for 2023 is catalyzed by 3 months spike in 2022. It is therefore arguable that 2022 was an **exceptional/transitional year.**
- Ghana is considered by IPTF and other global bodies to be hyperinflationary in 2023 and 2024 when the actual inflation rate for 2023 is 23.2% and projected inflation for 2024 is expected to be 15%. This is a sharp contrast with most hyperinflationary economies whose inflation rates are typically above 50% in the years they are declared hyperinflationary.

- c. The inflationary trend in Ghana has been downwards since January 2023 and is expected to reach a single digit by close of 2026.

### 3.2: Qualitative Assessment

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 and increase the amount raised. For example, Tender 1868 held on 15th September 2023 (Q3) targeted GHS 3.35 billion and raised GHS 3.35 billion; Tender 1883 held on 29th December 2023 (Q4) targeted GHS 4.08 billion and raised GHS 4.21 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 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 quotations of prices in foreign currency in the country.</p>

<sup>1</sup> <https://www.imf.org/external/datamapper/PCPIPCH@WEO/GHA>

<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 of 2022 and the first 2 months of 2023 when inflation was about 50%, retailers were seen to be charging prices that compensated for 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 US dollar is interest on US 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 at reduced interest rate instead of a US dollar mortgage.</p> <p>c. Other than some multinational companies whose salaries are traditionally indexed to the US dollar, the Institute is yet to learn of any widespread new indexing of wages and salaries to the US dollar.</p>

Though the above 4 factors are largely qualitative, existing data and anecdotal evidence suggests that those 4 indicators have either not occurred or where they seem to have occurred, they were not widespread.

#### 4.0: CONSIDERATION FOR 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, ICAG declares that IAS 29 will not be applicable for the December 2023 financial reporting period since Ghana is not operating in a hyperinflationary economy. ICAG further does not expect the wording of Audit Opinions to be amended in respect of this assessment. **All accountants in business and accountants in practice are therefore required not to apply IAS 29 to 2023 financial statements. Failure to comply with this directive would attract appropriate sanctions.**

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

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### ISSUED BY COUNCIL OF ICAG



**SENA DAKE**  
**PRESIDENT, ICAG**

## 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 the 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. It has the regulatory mandate to approve, adopt and promote the implementation of standards and its members are the only persons recognised under the Companies Act, 2019 (Act 992), for the purpose of audit of company accounts. It is governed by an eleven-member Council. 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 Institute of Chartered Accountants, Ghana or any other standards approved or adopted by the Institute.