PRESS RELEASE

FINANCIAL REPORTING COUNCIL OF NIGERIA'S POSITION ON IAS 29-FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

The Financial Reporting Council of Nigeria ("FRC" or "the Council") is a Federal Government regulatory agency established by the Financial Reporting Council of Nigeria Act 2011 (as amended) that is charged with, amongst other things, issuing and enforcing financial reporting (accounting, auditing, valuation, actuarial) and corporate governance standards and guidelines across the public and private sectors in Nigeria.

The FRC has extensively engaged various stakeholders such as the Professional Accounting Bodies in Nigeria, external auditors, government regulatory agencies, and significant public interest entities, where an objective evaluation of the five indicators of the economic environment of a country as stipulated in ***IAS 29: Financial Reporting in Hyperinflationary Economies*** were undertaken especially to determine the relevance and applicability of the standard in Nigeria in light of the inflationary trend in the country.

IAS 29 outlines the accounting requirements for entities in hyperinflationary economies. It does not specify when hyperinflation arises or is deemed to arise but rather outlines several indicators of hyperinflation that includes a preference for non-monetary assets, pricing in stable foreign currencies, credit sales adjusting for inflation, and a cumulative inflation rate approaching or exceeding 100% over a three (3) year period.

The FRC's analysis of these indicators for Nigeria is as follows:

1. **The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency are immediately invested to maintain purchasing power:**

   Data shows that Nigerians continue to transact in local currency and invest in Naira-denominated assets, indicating confidence in the local currency.

   There is no indication that the general population prefers to keep its wealth in non-monetary assets or in any other relatively stable foreign currency. Data from the Central Bank of Nigeria (CBN) and the financial statements of Nigerian financial institutions continue to show that investment in monetary assets such as treasury bills, mutual funds, fixed and current deposits and other short-term monetary assets have been increasing over the last 3 years. Data from the National Pension Commission shows that the Nigerian pension assets which are predominantly held in monetary assets have also continued to increase. The pension assets totaled N22.25 trillion as at November 2024 compared to N18.35 trillion as at December 2023. The currency in which most of these non-monetary assets is denominated is in the Naira. There is no rejection of the local currency as a medium of exchange in Nigeria as the Naira still serves as its base currency for all transactions.

2. **The general population regards monetary amounts not in terms of the local currency but in terms of relatively stable foreign currency. Prices may be quoted in that currency:**

   Monetary amounts in Nigeria are in Naira being the local currency. Salaries and wages for labour are paid in Naira. Goods and services are quoted in Naira as well. This is evident from a review of the major e-commerce platforms and shopping malls in Nigeria such as Jumia, Slot, Konga, Jiji etc. The prices of general goods and services are determined and charged in Naira. Monetary amounts are predominantly regarded in terms of the Nigerian Naira by the general population and not in terms of any other foreign currency suggesting that this indicator is not met.

3. **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:**

   There is no evidence that the price of credit transactions is adjusted for inflation as sales and purchases on credit do not take place at prices that compensate for the expected loss of purchasing power during the credit period.

   Following from our review of the financial statements and other relevant documents of reporting entities in Nigeria, our understanding from business entities in Nigeria is that they offer credit terms to their customers based on the terms of the contract, the risk appetite of the business and the risk profile of the customer.

   Based on our consultations, we know that expectations on inflation or speculations do not drive the pricing of goods and services. Since there is no publicly available data about details of contracts with customers from businesses in Nigeria, the evidence available to us at the micro level does not indicate that sales and purchases on credit take place at prices that are driven by inflation to compensate for the expected loss of purchasing power during the credit period.

4. **Interest Rates, Wages, and Prices Linked to Price Index:**

   Historical data show that wages and prices are not consistently linked to a price index, and interest rates are adjusted primarily to control inflation.

   In Nigeria, historical evidence shows that minimum wage when negotiated, remain fixed for average of 4 to 5 years and are not updated on annual basis. For example, in 2019, minimum wage increased from N18,000 to N30,000 after 8 years since the last revision. The minimum wage remained N30,000 until July 2024 when it was increased to N70,000 after another 5 years.

   On interest rates, the CBN has increased the monetary policy rate over time in a bid to curtail inflation. The interest rate in Nigeria is currently at 27.50% but prime lending rate is currently 18.39%.

   On the prices of commodities, prices are determined based on the cost of inputs (raw materials and directs costs) and the margin charged by businesses to recover their operational costs. There is no evidence that suggests that other than the recovery of direct costs and operating margin, that businesses charge prices that are inflation-linked or linked to a price index. Based on these factors, this indicator does not support that Nigeria is a hyperinflation economy.

5. **the cumulative inflation rate over three years is approaching, or exceeds, 100%:**

   Nigeria's three-year cumulative inflation rate according to data released by the Nigeria Bureau of Statistics (NBS) is 110.9% as of 31st December 2024. This exceeded the threshold specified in 1AS 29. Nigeria experienced a marginal decline in its month-on-month inflation rate in July 2024, dropping from 34.2% in June to 33.4% in July. However, the increase towards the end of 2024 was predictable and in line with previous patterns which is largely attributable to year-end festivities. Inflationary pressures in Nigeria are driven by a combination of global and domestic factors, such as the global inflationary crisis and the impact of domestic policy reforms.

   The International Monetary Fund's (IMF) report in October 2024 suggests that Nigeria's inflation rate is expected to stabilize at 21% by the end of 2025. This projection indicates that Nigeria's economy is on track to recover from the current inflationary pressures.

The Central Bank of Nigeria (CBN) has also implemented a series of monetary tightening measures aimed at controlling the money supply and curbing inflationary pressures. This is evident in the recent contraction in the growth rates of both the money supply (M2) and credit to the private sector.

6. **Other Relevant Factors:** We have considered other relevant factors that have significant impact on the Nigerian economy. The structural reforms implemented by the present government have led to short-term economic shocks and do not necessarily translate to hyperinflationary situation. These reforms including the floating of the naira and ending fuel subsidies led to month-on-month inflation.

   Factors that are expected to contribute to a decline in inflation and a positive economic outlook in Nigeria, includes:

   a) **Operationalization of Dangote Refinery, Port Harcourt and Warri refineries:** The emergence of Dangote Refinery and recommencement of operation of Port Harcourt and Warri Refineries will help reduce inflation in the following ways:

      i Reduction in Fuel Import Cost: Local production of fuel will significantly reduce Nigeria's dependence on imported refined petroleum products. Reduction of cost associated with fuel importation will reduce the local pump price which can contribute to reducing the prices of goods and services that are heavily dependent on fuel, thereby reducing inflationary pressures.

      ii. Reduction in demand for Foreign Exchange: 40% of the country's forex needs are channeled to the importation of fuel. By reducing the need for fuel import, it helps to conserve our foreign exchange reserves which in turn help to stabilize the Naira by reducing import-related inflation.

   b) **Increased crude oil production:** Crude oil production: Nigeria's crude oil production increased to 1.8million bpd which meets the nation's

OPEC allocation and significantly reduce the nation's need for the importation of crude

c) **Agricultural Initiatives:** Food inflation contributes about 16.7% to the overall inflation. The government is promoting agricultural productivity through various programs aimed at boosting local food production. This includes providing support to farmers and improving agricultural infrastructure. Measures to boost agricultural productivity could help lower food prices, which are a significant component of the inflation basket.

e) **Import Policies:** To ease food inflation, the government has adjusted its food import policies, allowing for more imports to stabilize food prices. This is in addition to removing import duties on some food items.

f) **Structural Reforms:** While recent structural economic reforms implemented have led to short-term economic shocks, Nigeria cannot be deemed a hyperinflationary economy. These reforms, including floating the Naira and ending fuel subsidies, contributed to rising year-on-year inflation which reached 34.8% in December 2024. However, there are signs that these inflationary effects are beginning to stabilize. Forecasts suggest a gradual disinflationary trend in 2025, supported by moderating food price growth relative to other sectors, according to the Economic Intelligence Unit (EIU). The EIU projects an average inflation of 26.5% for 2025, with potential for further reduction due to the upcoming rebasing of GDP and CPI data by the National Bureau of Statistics (NBS) in January 2025.

Table 1: SUMMARY OF THE INDICATORS AS PER 1AS 29 – ASSESSMENT OF FACTORS

Paragraph	Factor	Conclusion
3(a)	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;	Not met.
3(b)	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;	Not met.
3(c)	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;	Not met.
3(d)	Interest rates, wages and prices are linked to a price index; and	Not met.
3 (e)	The cumulative inflation rate over three years is approaching, or exceeds, 100%.	Met.

CONCLUSION

Determining hyperinflation requires significant judgment and consideration of all relevant indicators. After thorough analysis of the above indicators, **the FRC concludes that Nigeria is not yet a hyperinflationary economy. Therefore, IAS 29 should not be applied in the preparation of financial statements for the 2024 financial year. The FRC will continue to monitor economic developments and update this position when necessary.**

DR. RABIU OLOWO
EXECUTIVE SECRETARY/CEO

22nd January 2025.