ADDENDUM

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.

This publication is an addendum to the Council's earlier position on the above subject released on the 22nd January, 2025 and sequel to the release of the World Economic Outlook Report by the IMF on 22nd April, 2025 and the rebasing of the Economy in January 2025 by National Bureau of Statistics (NBS) that has impacted the GDP and Inflation Rate, the FRC has again engaged various stakeholders such as the External Auditors, Government Regulatory Agencies etc., 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:**
   In addition to the explanations provided to support that Nigerians continue to transact in local currency, as stated in the January 2025 Press Release, Investment in Local Currency continue to grow. Thus:
   - In February 2025, 670 billion treasury bills issued were oversubscribed to 3.1 trillion
   - In April 2025, the FGN Saving Bond issued by the DMO in two types: 2-Year and 3-Year tenors had 1.135 trillion and 3.2 trillion subscriptions, respectively.

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

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. Nothing has changed compared to the previous position of the Council, as monetary amounts are predominantly regarded in terms of the Nigerian Naira by the general population and not in terms of any other foreign currency.

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 to support the premise 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.
   Business entities in Nigeria continue to 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.

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:**
   Interest rates, wages, and prices are not linked to a price index. The prices of goods and services are determined based on production cost, rather than being linked to a specific price index or reference point. Wages paid by the government are based on an agreed minimum wage negotiated and it's not subject to frequent changes. Wages in the private sector are based on industry benchmarks, which are also relatively stable and not linked to a price index. Interest rates applicable to market players in Nigeria are mainly benchmarked to the Central Bank of Nigeria's Monetary Policy Rate (MPR). There is relative stability of the Interest Rate, which suggests that the CBN is prioritising price stability and inflation management, rather than indexing interest rates, prices and wages to a specific external price benchmark or index.

5. **The cumulative inflation rate over three years is approaching or exceeding 100%:**
   There is a slight reduction in the 3-year cumulative inflation rate from 110.9% to 107.02%, given the rebasing by the National Bureau of Statistics (NBS) and reflected in the IMF World Economic Outlook Data that takes into account the rebased CPI.
   Even though it exceeded the threshold specified in IAS 29, the marginal reduction of 3.88% in the cumulative rate revealed easing of the inflation pressure in the economy.

Other Relevant Factors:

Return of Crude Oil Sale in Naira to Dangote Refinery: The initial rise in the prices of refined petroleum products, as a result of NNPC stopping the sale of crude to Dangote Refinery in Naira, has been reversed by the return of the policy culminating in stability and slight reduction in the price of the products across the country.

SUMMARY OF THE INDICATORS AS PER IAS 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 exceeding 100%.	Met

CONCLUSION

As stated in the earlier release on 22nd January, 2025, determining hyperinflation requires significant judgment and consideration of all relevant indicators. **The FRC concludes that Nigeria is not yet a hyperinflationary economy due to the positive economic outlook that has strengthened the Council's earlier position. Therefore, IAS 29 should not be applied in the preparation of financial statements for the 2025 financial year. The FRC will continue to monitor economic developments and update this position when necessary.**

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