

Notice No. PN2025-5

UPDATE ON THE APPLICATION OF IAS 29 *Financial Reporting in Hyperinflationary Economies* (“IAS 29”)- IN MALAWI

As at 30 November 2025

INTRODUCTION

In 2001 Malawi adopted International Financial Reporting Standards (IFRSs), **IFRS Accounting Standards** as the basis for financial reporting. The standards provide guidance on how entities should report under certain conditions. In the case of a hyperinflationary economy, the accounting standard that deals with reporting in such a condition is IAS 29 – *Financial Reporting in Hyperinflationary Economies*. This standard applies when an entity's functional currency is that of a hyperinflationary economy and comparability of financial data becomes questionable.

1. Determining Whether an Economy is Hyperinflationary

Establishing when an economy becomes hyperinflationary and more importantly, when it ceases to be so, requires careful consideration of the prevailing economic indicators. **The Standard does not place premium on quantitative factors over qualitative indicators or vice versa. In this context, determining** whether an economy is hyperinflationary, in accordance with IAS 29, requires **professional judgement**. The following characteristics of a country's economic environment are considered strong indicators of the existence of hyperinflation (IAS 29.3):

- a) The general population prefers to keep its wealth in non-monetary assets or a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- 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;
- 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;
- d) Interest rates, wages, and prices are linked to a Consumer Price Index (CPI); and
- e) The cumulative inflation rate over three years' approaches, or exceeds, 100%.

2. The Situation of the Malawi Economy

2.1 Cumulative Inflation

The computation of cumulative inflation is based on CPI statistics released by the National Statistical Office (NSO) every month, the latest as of the date of the assessment being November 2025 publication.

The three-year assessment points were from November 2022. The cumulative inflation as of November 2025 was **116.2%** (CPIs for the assessment points being: 122.3 for November 2022, 168.7 for November 2023, 216.10 for November 2024, and 264.4 for November 2025 [calculated as $(264.4/122.3)-1$] (*Source: National Statistical Office, November 2025*).

2.2 The Impact of a Once-off Alignment of the Malawi Kwacha in Relation to Other Foreign Currencies

The impact of the devaluation of the Malawi Kwacha against the United States Dollar from USD/MK1,180.29 to USD/MK1,700.00 in November 2023, and a further devaluation in March 2024 to USD/MK1,751.00 has significantly influenced the cost of goods and services. This is because Malawi is predominantly a net importer, such that adverse movements in foreign exchange rates influence upward adjustment of prices. However, while the official rate has remained stable for the past 2 years, scarcity of foreign currency has pushed up the exchange rate in informal currency markets thereby exerting pressure on non-food inflation.

3. Observations

Applying due professional care and judgement, the Institute has observed as follows regarding each of the determining factors of hyperinflation:

| Indicator | Observation |
|--|---|
| a) The general population prefers to keep its wealth in non-monetary assets or a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power | <p>(i) There is high growth in investments in government securities including treasury notes, treasury bills and other money market liquid assets as reflected in the half year financial results to June 2025 of all the top banks in Malawi as well as some listed entities. A review of financial information published by the Reserve Bank of Malawi (RBM) in the October 2025 Monthly Economic Review indicates an increase in bank deposits which is indicative that the general population still saves money in local currency.</p> <p>(ii). The general population's decisions to invest in non-monetary assets are driven by long term objectives and not short-term economic circumstances.</p> <p>The above factors are indicative that the general population continues to keep their wealth in monetary assets in local currency.</p> |
| 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 | <p>In the ordinary course of business, prices are quoted in Malawi Kwacha, and the general population regards monetary amounts in the local currency. There is no wide-spread use of multiple currencies in trade taking place in the local markets patronised by the general population and maintained by local councils. Some sections of the market have traditionally quoted in foreign currency mainly related to real estate, international consultants and international schools but all payable in MWK.</p> |

| Indicator | Observation |
|---|--|
| 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 | <p>(i) The market observable data does not indicate that sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power even in the short term or charging of interest on financial instruments payable over a short period of time even in cases of delayed payments.</p> <p>(ii) Sales and purchases of imports linked to exchange rate trends are not subjected to further adjustments to compensate for loss of purchasing power.</p> |
| d) Interest rates, wages, and prices are linked to a Consumer Price Index (CPI) | <p>(i) Wages are fixed as part of annual or semi-annual or specific project budget processes and there have been no frequent wage related hikes linked to the CPI. The majority of the population is employed in the Agricultural sector and wages are determined on a seasonal basis. Salaries are still generally adjusted on an annual basis and often premised on respective companies' financial performances and are paid fully in local currency.</p> <p>(ii) One-off adjustments of salaries and wages are made outside normal budget processes to compensate for the loss in purchasing power arising mainly due to the impact of significant devaluation of the local currency.</p> <p>(iii) There is no market observable data to suggest that prices are linked to the CPI. Prices are rather determined largely by forces of demand and supply. Typically, this is observed on food pricing especially the staple grain, maize, which is a seasonal crop.</p> <p>(iv) Interest rates for commercial banks as well as mortgage rates are linked to the policy rate. The policy rate is one of the tools that the RBM utilises to check inflation and is currently lower than the CPI. As of 30th November 2025, the policy rate was 26%; the minimum mortgage rates were 20.67%; and inter-bank market rate was 23.98%, whereas all these are lower than the prevailing inflation rate of 27.9%.</p> |
| e) The cumulative inflation rate over three years' approaches, or exceeds 100% | <p>(i) The cumulative inflation rate over a three-year period has exceeded 100 percent (116.2 percent as of 30th November 2025), based on statistics released by the NSO. There has been a downward trend of 4.4 points from our last assessment of August 2025 which was at 120.6 percent. The year-on-year inflation as of November 2025 was 27.9%</p> |

| Indicator | Observation |
|-----------|--|
| | <p>representing a 1.2 percentage point decline from 29.1 percent recorded in October 2025. This has been influenced mainly by food inflation which was around 30.1% recording a drastic decline of 2.3 percentage points. Non-food inflation was at 24.8% with a slight increase of 0.4 percentage point from 23.8% recorded in October 2025.</p> <p>The slowdown in food inflation was largely driven by declining maize prices on the market following Government's initiatives to improve availability of the staple food on the market as well as distribution of food rations to the vulnerable communities.</p> <p>(ii) A large contribution to the elevated cumulative Inflation comes from the once-off exchange rate adjustments undertaken in May 2022 and November 2023 plus the premium at which forex is accessed in view of foreign currency scarcity. Minus these shocks, inflation would not have risen abnormally in the country.</p> <p>(iii) Since weather shocks have affected food production thereby pushing up food inflation, there are significant efforts to sustain food supply and production which will help to stabilise and bring down food inflation in the short to medium term.</p> <p>(iv) The International Monetary Fund (IMF) terminated the Extended Credit Facility on 14th May 2025. Even though the ECF arrangement was ended, the IMF continues engagement with Malawi, with particular emphasis on urgent reforms to stabilize inflation, strengthen fiscal discipline, and rebuild reserves.</p> <p>(v) The Government, through RBM, is taking measures largely focussed on improving production which would in turn stabilise foreign currency reserves.</p> |

4. Conclusion

Whilst the quantitative factor remains above the threshold at 116.2%, the detailed assessment of qualitative factors indicates that Malawi does **not meet the full criteria of a hyperinflationary** economy under IAS 29. In this regard, the directive on the application of IAS 29 issued on 27 December 2024 remains in force.

ISSUED BY COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI



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ICAM President
29 December 2025