PLANNING / FORECASTING

How to build a reliable forecast in an inflationary environment

Under high inflation, the classic annual forecast is stale before it's printed. The answer is not to stop forecasting — it's to forecast differently.

Why the traditional forecast breaks down under inflation

The most common mistake is projecting in nominal currency by applying a single growth percentage to last year. That shortcut blends two very different realities: how much more the company sells (volume) and how much prices rise. When revenue grows 40% but inflation ran at 50%, the business celebrates growth that is actually a decline.

The second mistake is treating macro assumptions — inflation, exchange rates, interest rates — as certainties. In volatile environments no single number will be right; what management can do is know in advance what happens to cash and profitability under every plausible scenario.

The method: four design decisions

1. Project by drivers, not percentages

Volume × price, line by line. Every relevant revenue and cost line is modeled with its physical driver (units, customers, hours) and its price driver, each with its real adjustment frequency.

2. Explicit, centralized macro assumptions

One single table of inflation and FX assumptions. Every model consumes the same assumptions, sourced from a single reference. Change the assumption once and the whole model updates.

3. Scenarios, not a single number

Base, upside and downside — with pre-agreed actions. Every scenario combines inflation, FX and demand assumptions, and defines in advance which decisions it triggers: pricing, purchasing, hedging, headcount.

4. A double read: nominal and constant currency

Nominal pays the salaries; units tell the truth. The nominal P&L drives cash and commitments; the constant-currency read shows whether the company is truly growing and whether prices are beating costs.

From the annual snapshot to the rolling forecast

Under inflation, frequency matters as much as method. A **rolling forecast** — a projection that absorbs actuals every month and always looks 12 months ahead — replaces the annual snapshot with a continuous movie. The annual budget remains as the control benchmark, but decisions are made on the living projection.

78%

of financially top-performing companies already use rolling forecasts to complement or replace the static annual budget.

Source: Gartner, Finance Transformation Research (2022)

The operational key is to keep it light: you update the 15 or 20 drivers that move the result, not the 500 lines of the chart of accounts. And you systematically track **forecast accuracy** — how much you missed by, and why — because that is the only way the model learns.

Exchange rates: operational hedging before financial hedging

For an SME with dollarized costs and local-currency revenue (or vice versa), the forecast must expose the **net foreign-currency position** month by month. That visibility enables operational decisions — bringing purchases forward, renegotiating terms, adjusting price lists with predefined rules — which are only possible if the model surfaces them in time.

> ***"Under inflation, the goal of the forecast is not to guess the number: it's to know before everyone else what you'll do in each scenario."***

Sources: Gartner, Finance Transformation Research (2022); AFP, FP&A Guide to Scenario Planning; Anthony & Govindarajan, Management Control Systems (2007).