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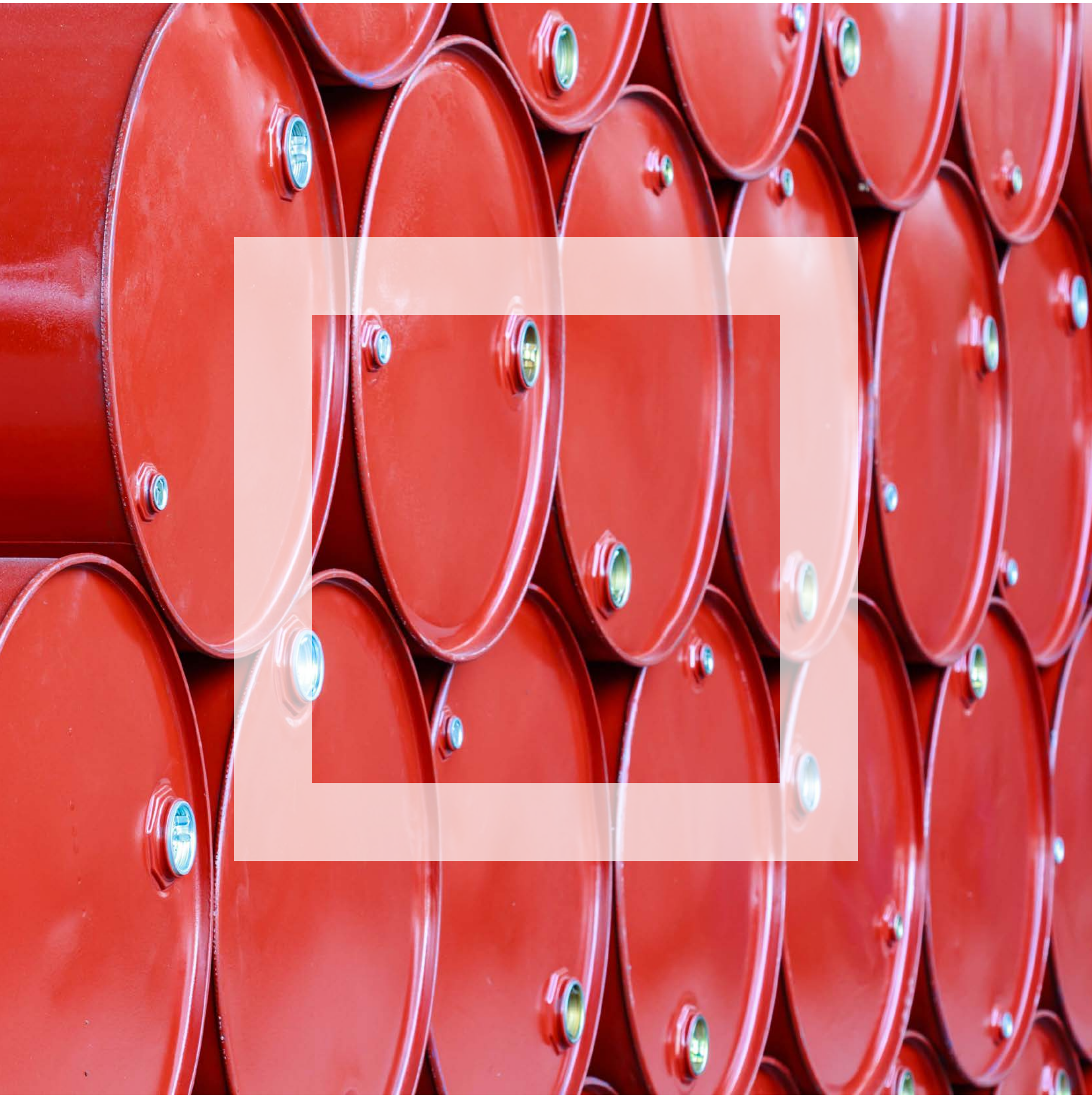

GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q1, 2022**

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. In December 2020, we made commitments to the UN Sustainable Development Goals which we are measuring and will report on in our annual integrated report.

We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

Find out more at www.accaglobal.com

About IMA® (Institute of Management Accountants)

IMA® is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) and CSCA® (Certified in Strategy and Competitive Analysis) programs, continuing education, networking, and advocacy of the highest ethical business practices. Twice named Professional Body of the Year by *The Accountant/International Accounting Bulletin*, IMA has a global network of about 140,000 members in 150 countries and 350 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe and Middle East/India.

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Introduction

THE GLOBAL ECONOMIC CONDITIONS SURVEY (GECS), IS THE LARGEST REGULAR ECONOMIC SURVEY OF ACCOUNTANTS AROUND THE WORLD.

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA (the Association of Chartered Certified Accountants) and IMA (the Institute of Management Accountants), is the largest regular economic survey of accountants around the world, in terms of both the number of respondents and the range of economic variables it monitors.

The GECS has been conducted for over 10 years. Its main indices are good lead indicators of economic activity and provide a valuable insight into the views of finance professionals on key variables, such as investment, employment and costs.

Fieldwork for the 2022 Q1 survey took place between 14 February and 1 March 2022 and attracted 1,016 responses from ACCA and IMA members, including over 150 CFOs.

ACCA and IMA would like to thank all members who took the time to respond to the survey. It is their first-hand insights into the fortunes of companies around the world that make GECS a trusted barometer for the global economy.

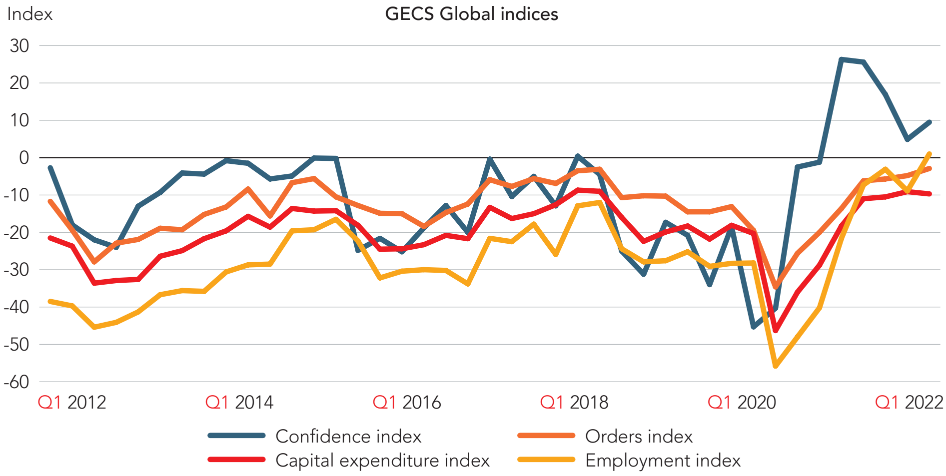
Executive summary

THE Q1 GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) AGAIN GIVES A LITTLE-CHANGED MESSAGE FROM THE PREVIOUS SURVEY; GLOBAL GROWTH WILL CONTINUE BUT AT A MODEST PACE.

The Q1 Global Economic Conditions Survey (GECS) again gives a little-changed message from the previous survey; global growth will continue but at a modest pace. This GECS was conducted both just before and after the Russian invasion of Ukraine. As discussed throughout this report, the conflict will have global economic consequences and the results here may not fully capture the likely effects. Both global confidence and global orders improved modestly in the Q1 survey. Other activity indicators, such as employment and capital spending, also increased. This is consistent with steady global growth through into Q2 2022, with the caveat about the likely impact of war in Ukraine on activity.

The two 'fear' indices – measured by concern that customers and suppliers may go out of business – were little changed in the Q1 survey. Both indices have fallen back from extreme levels seen in 2020, but are still above pre-pandemic levels (Chart 2).

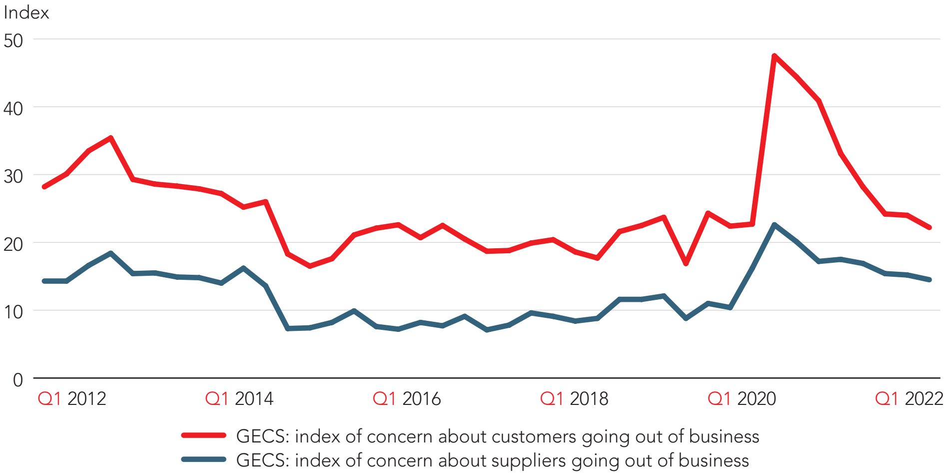
CHART 1: Flat trend in global indicators in Q1



Source: ACCA/IMA (2012–22)

THE TWO 'FEAR' INDICES HAVE FALLEN BACK FROM EXTREME LEVELS SEEN IN 2020, BUT ARE STILL ABOVE PRE-PANDEMIC LEVELS.

CHART 2: The 'fear' indices on a gradual declining trend



Source: ACCA/IMA (2012–22)

North America and Asia-Pacific recorded dips in confidence in Q1, reversing gains made in the Q4 survey. All other regions showed modest increases in confidence, with the biggest gain in the Middle East. Much of these regional jumps in confidence in Q1 may reflect the waning of the 'Omicron effect.' At the time of the last survey, the rapid spread but uncertain virulence of the Omicron variant may have weighed on confidence in several regions. That effect has now been replaced with another potentially confidence sapping event (Chart 3).

The message from the orders balances – the proxy for real economic activity – is one of relatively little change across regions. There was an even split between falls and rises among major regions. Only the Middle East recorded a significant increase in Q1, possibly a reflection of rising oil prices. But the regional picture in terms of the levels of orders is unchanged. Orders indices in advanced regions are above those for EM regions (Chart 4).

Section 2 of this report is an early attempt to assess the economic effects of Russia's invasion of Ukraine in February. The duration and scope of the war, plus the ultimate level of sanctions, are highly uncertain. But it is already clear that effects will be felt across the global economy. The main channel is through higher energy and food prices. Russia is a big exporter of oil and natural gas and Russia and Ukraine together account for 30% of global wheat exports. The conflict triggered a surge in oil, gas and wheat

NORTH AMERICA AND ASIA-PACIFIC RECORDED DIPS IN CONFIDENCE IN Q1, REVERSING GAINS MADE IN THE Q4 SURVEY.

CHART 3: A varied regional picture on confidence

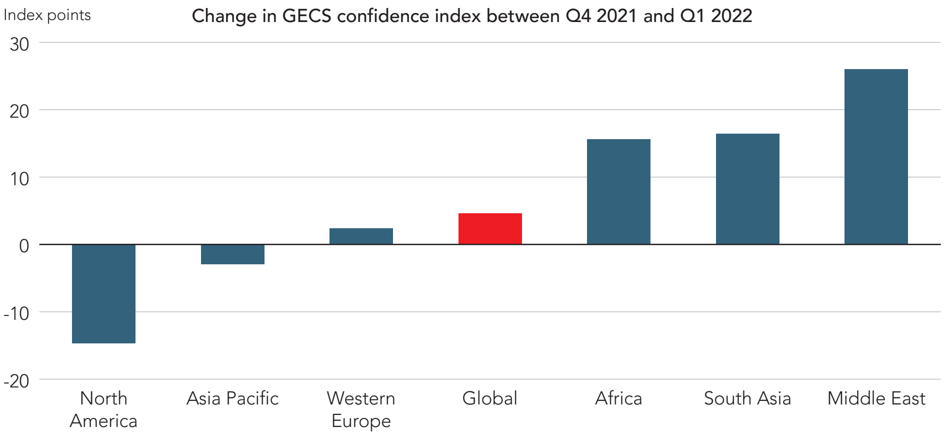
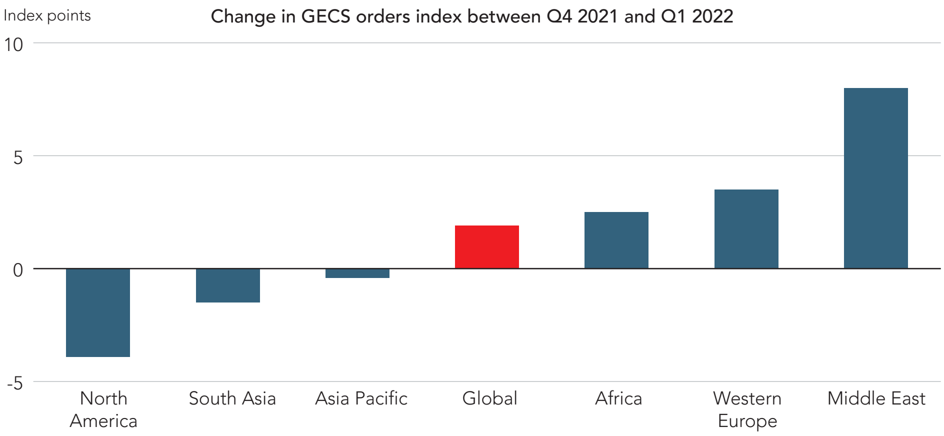


CHART 4: Orders little changed overall



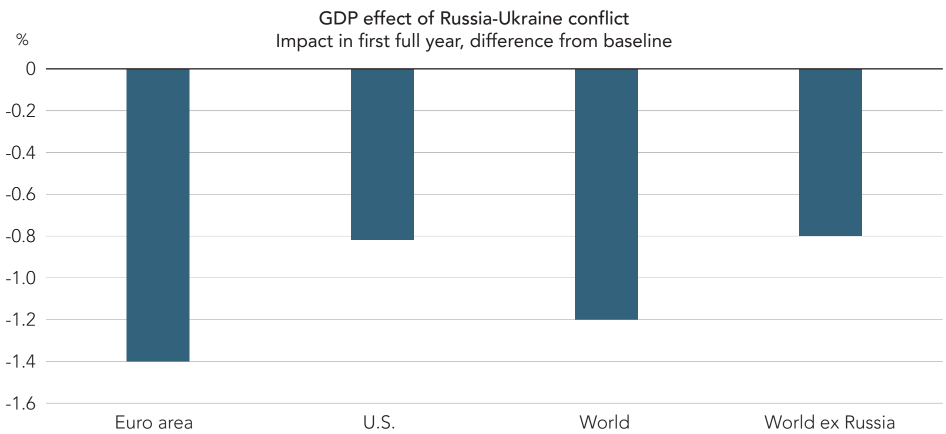
prices that is likely to be sustained. The effect is to push up inflation from already elevated levels in most economies. This will exacerbate a squeeze on real incomes, slowing economic growth. Early estimates suggest that among advanced economies, growth this year will be reduced by around one percentage point to 3%. Inflation will now peak around one percentage point higher than previously forecast and is likely to stay higher for longer. Meanwhile, the Russian economy will be plunged into a deep recession as sanctions, especially on the central bank, led to a doubling of interest rates to 20% and a 40% collapse in the value of the rouble. But a cushion of sorts will be provided for as long as Russia can continue to sell its oil and gas into Western Europe.

Section 3 gives a detailed view of global economic prospects. Before the Russian invasion of Ukraine in February, the outlook for the global economy had been one of continued growth but with high inflation in most economies. In response to inflation, central banks, notably the U.S. Federal Reserve, were expected to tighten policy steadily through this year. The latest shock will push inflation even higher, through the effect of higher commodity prices. By squeezing real incomes, this in turn will reduce economic growth. But central banks in the U.S. and UK have so far indicated that they will tighten policy to deal with inflation, both raising interest rates in March.

The negative effect on EMs is potentially greater, at a time when they are attempting to regain growth momentum after the Covid pandemic. Food and energy have bigger weights in consumer expenditure than they do in advanced economies, which means the inflation impact will potentially be greater too. But generous subsidies for bread and fuel in some countries means that government finances will be harmed rather than households. Commodity exporters among EMs will benefit through higher prices.

EARLY ESTIMATES SUGGEST THAT AMONG ADVANCED ECONOMIES, GROWTH THIS YEAR WILL BE REDUCED BY AROUND ONE PERCENTAGE POINT TO 3%.

CHART 5: War takes its toll on the global economy



Source: OECD (2022)

1. Global and regional analysis

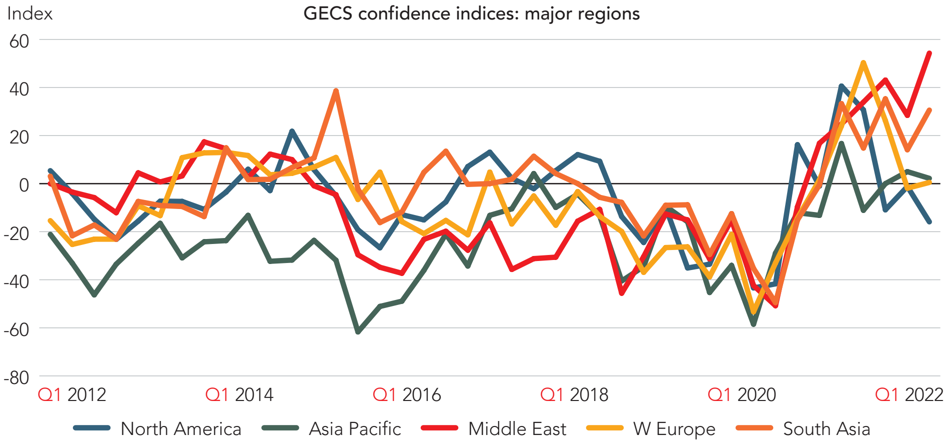
THIS GECS ONCE AGAIN GIVES THE MESSAGE THAT GLOBAL ECONOMIC GROWTH WILL CONTINUE, BUT AT A MODEST PACE.

This GECS once again gives the message that global economic growth will continue, but at a modest pace. The strong rebound of mid-2021 lost momentum as demand ran into supply shortages and a sharp rise in inflation (Chart 6). Both the global confidence and orders indices increased in Q1, but by relatively small amounts. However, the employment index showed a large increase and is now at its highest level on record. Jobs markets proved exceptionally resilient over the course of the pandemic and many economies have very high vacancy rates.

Prospects were always for slower growth this year than in 2021, as economies regain pre-pandemic levels of activity and returned to more normal conditions. The headwinds facing the global economy have increased considerably as a result of the Russia-Ukraine conflict. (See Section 3.)

With little change in orders indices in the Q1 survey (Chart 7), the distinctive regional pattern that began with the post-pandemic recovery is maintained with growth prospects generally better in advanced economies than in EMs. North America and Western Europe recorded the highest orders balances, ahead of the Middle East and Africa.

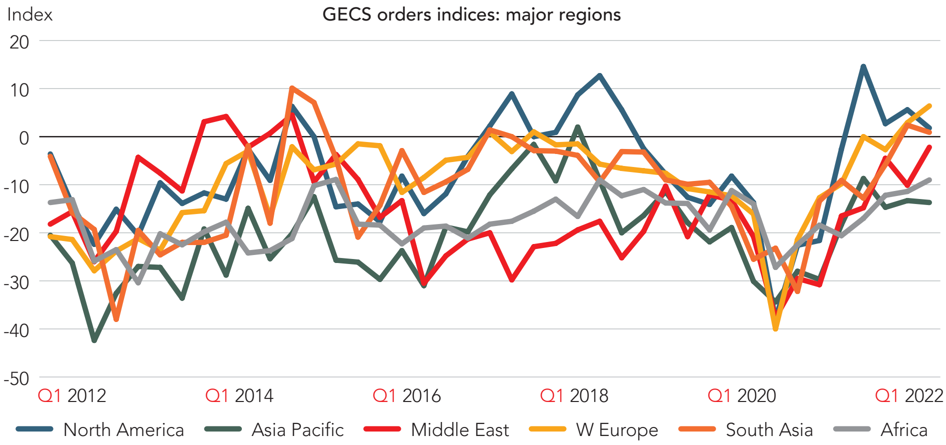
CHART 6: Global confidence indices diverging



Source: ACCA/IMA (2012–22)

WITH LITTLE CHANGE IN ORDERS INDICES IN THE Q1 SURVEY, THE DISTINCTIVE REGIONAL PATTERN THAT BEGAN WITH THE POST-PANDEMIC RECOVERY IS MAINTAINED WITH GROWTH PROSPECTS GENERALLY BETTER IN ADVANCED ECONOMIES THAN IN EMs.

CHART 7: Orders continue to trach sideways in Q1



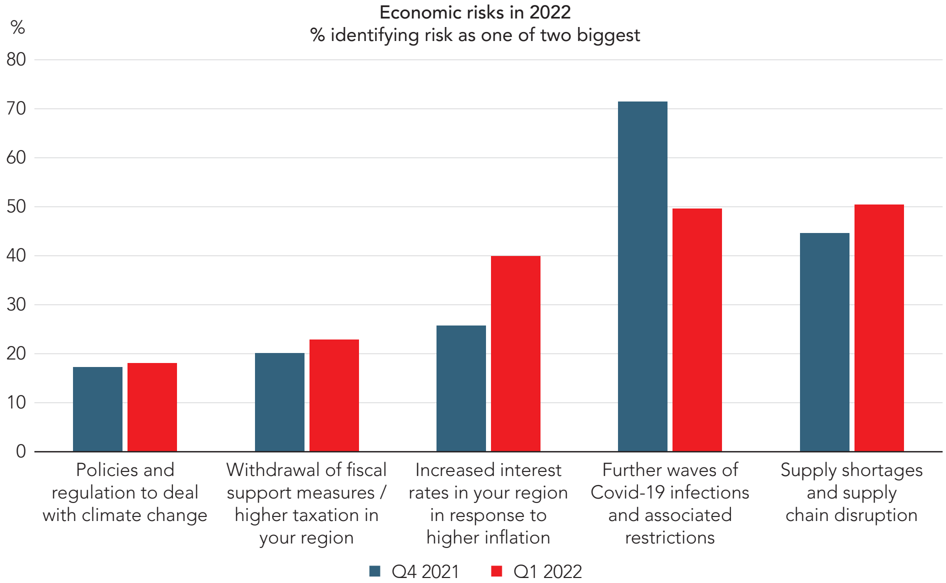
Source: ACCA/IMA (2012–22)

In the Q1 survey respondents were asked to identify what they perceived to be the two biggest risks from a list of five. This question was also asked in the Q4 survey. The results are shown in Chart 8. Perceived risks are broadly the same between the two surveys. There has been a fall in concerns about Covid, not surprising given that Omicron was emerging at the time of the Q4 survey, but has subsequently proved to be milder than earlier variants. Risks associated with higher interest rates and inflation have increased. But supply shortages are now marginally the highest ranked risk, the issue having already slowed economic growth in late 2021.

The GECS index of concern about operating costs jumped again in the latest survey and is now at its highest level on record. (Chart 9). The dramatic rise in cost concerns over the last year or so has tracked the effect of rising energy and transport costs caused by supply shortages. Energy costs have already risen further since the Q1 survey was conducted. Rising wages as employees seek compensation for high inflation in a tight jobs market may add a further upward twist to cost – and inflation – concerns.

SUPPLY SHORTAGES ARE NOW MARGINALLY THE HIGHEST RANKED RISK, THE ISSUE HAVING ALREADY SLOWED ECONOMIC GROWTH IN LATE 2021.

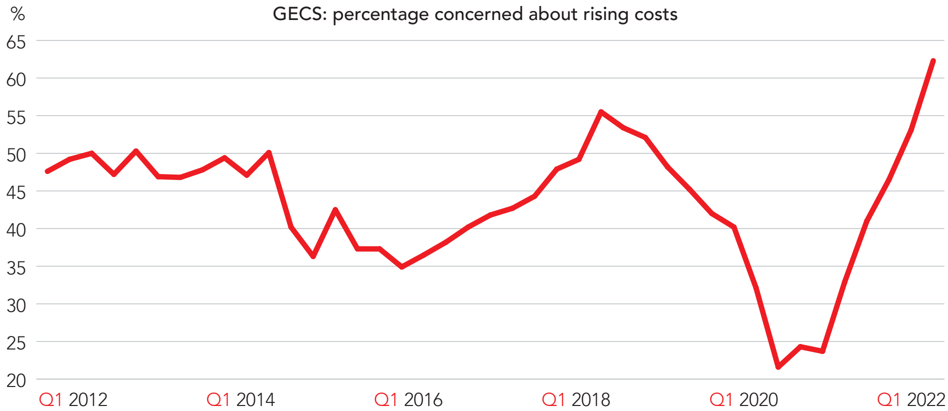
CHART 8: GECS perceived economic risks



Source: ACCA/IMA (2022)

THE GECS INDEX OF CONCERN ABOUT OPERATING COSTS JUMPED AGAIN IN THE LATEST SURVEY AND IS NOW AT ITS HIGHEST LEVEL ON RECORD.

CHART 9: Concern about operating costs hits record high



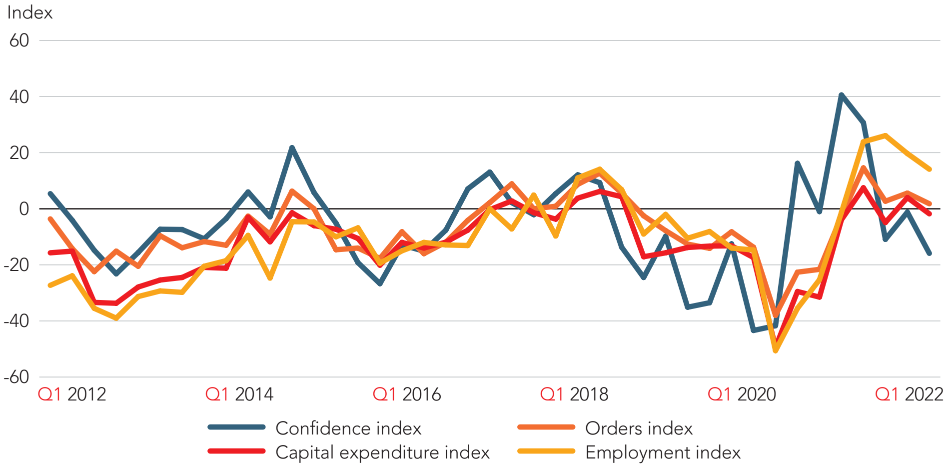
Source: ACCA/IMA (2012–22)

Regional picture

NORTH AMERICA

Confidence and orders both fell back in the latest survey, indicative of a loss of growth momentum in the region after a strong rebound through much of 2021. Growing expectations of higher U.S. interest rates early this year may have undermined confidence. In addition, the rise in U.S. inflation to a 40-year high will hurt real incomes and domestic demand. The employment and capital expenditure indices also fell in Q1, but are in line with long-run averages. Overall, the North America GECS indices are consistent with continued steady growth through the first half of 2022.

CHART 10: North America

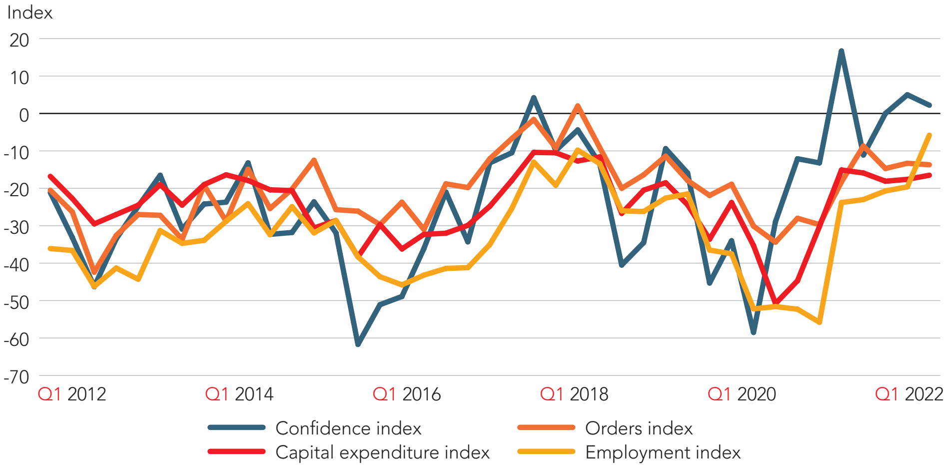


Source: ACCA/IMA (2012–22)

ASIA-PACIFIC

The main indicators were little changed in the Q1 survey, apart from the employment index which improved significantly. The overall picture is one of continued moderate growth. But there are increasing headwinds to this growth. The region is not immune to the effects of the Ukraine conflict, despite minimal direct trade links. But commodity importers will face higher prices and demand for the region's exports will be hit to the extent that Western economies suffer slower growth.

CHART 11: Asia-Pacific

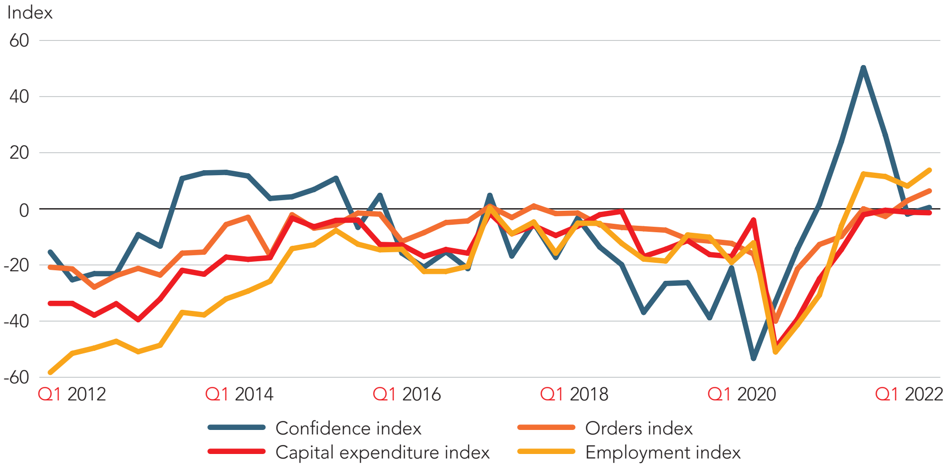


Source: ACCA/IMA (2012–22)

WESTERN EUROPE

Confidence recorded a slight recovery in Q1 after a Covid-induced drop in the previous survey. The activity indicators – orders, capital expenditure and employment – have been much less volatile and were again little changed in Q1. While overall the message is steady growth, there are large variations between some of the big economies. For example, Germany is likely to be in recession in Q1, while France and Italy had strong momentum going into 2022. Western Europe is most exposed to Russia in terms of trade links for oil and gas and the Q1 survey does not fully reflect the likely economic impact of the war in Ukraine on the region.

CHART 12: Western Europe

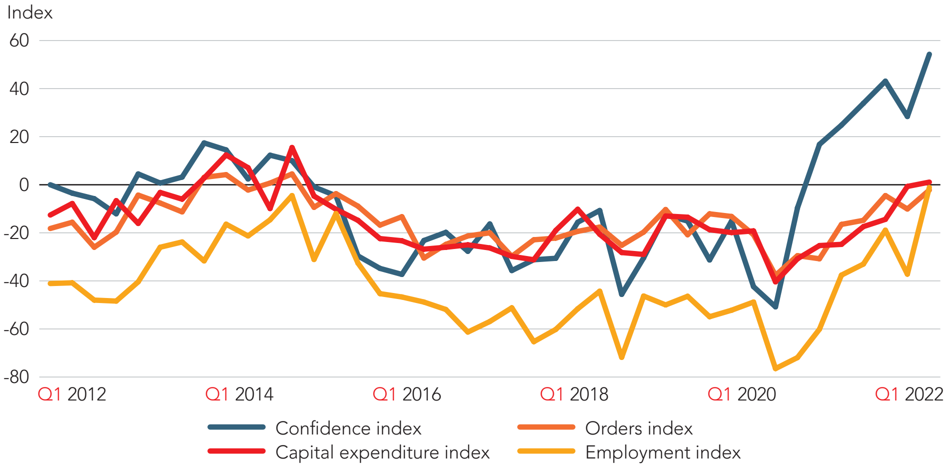


Source: ACCA/IMA (2012–22)

MIDDLE EAST

The Q1 survey in the Middle East is the most positive across all major regions, recording the biggest rise in both confidence and orders. Much of this can be attributed to movements in the oil price which have increased dramatically since the start of the year when Brent crude was around $75 per barrel (p/b). By the eve of the war in Ukraine the oil price had reached $100 p/b. If sustained prices at this level will lift virtually all oil exporters in the region into fiscal and current account surplus.

CHART 13: Middle East

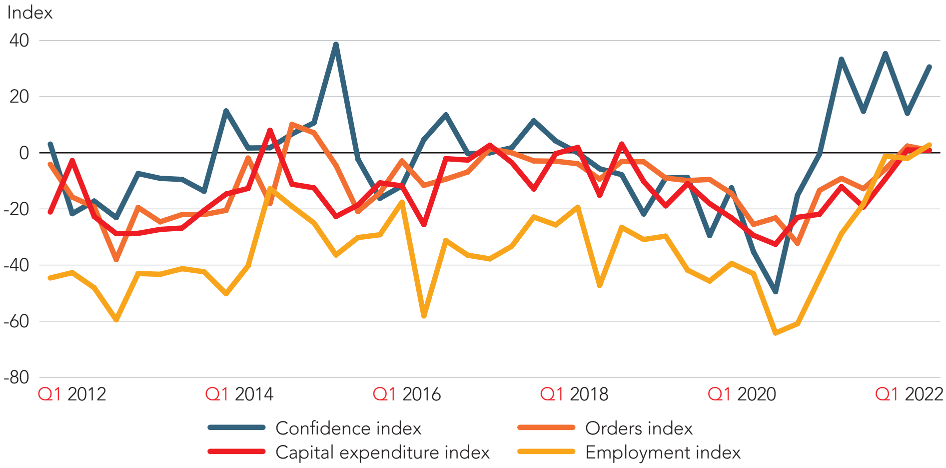


Source: ACCA/IMA (2012–22)

SOUTH ASIA

Apart from a jump in confidence the South Asia GECS indicators were relatively little changed in the Q1 survey. The Indian economy was on course for 9% GDP growth this year as it recovered from Covid lockdowns. But as a big importer of oil inflation will rise above the current 6% in coming months and drag real incomes lower. A similar effect is likely elsewhere in the South Asia region. The legacy of the health crisis will be a significant increase in the numbers living in extreme poverty.

CHART 14: South Asia

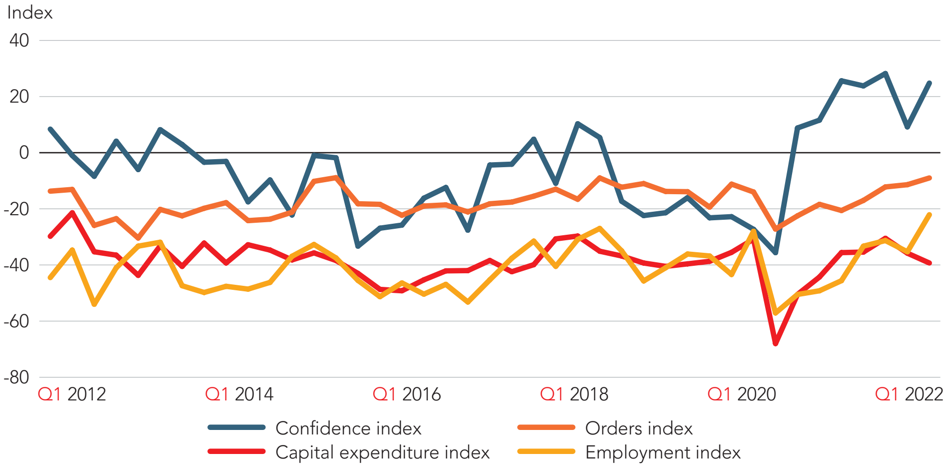


Source: ACCA/IMA (2012–22)

AFRICA

In the Q1 survey, confidence bounced within range of the record high recorded in the Q3 2021 survey. Along with most regions, activity indicators (orders, employment and capital spending) were little changed in the latest survey. But the modest rise in the orders balance has now lifted it above its pre-pandemic level. But the region will be affected by the Russia-Ukraine conflict because of both higher oil and wheat prices. Indeed, the region is dependent on wheat from the Black Sea ports so it is also vulnerable to supply disruption. Fiscal resources remain extremely stretched. There will be no strong rebound in activity across the region, with the possible exception of commodity exporters benefiting from higher prices.

CHART 15: Africa



Source: ACCA/IMA (2012–22)

2. Thematic analysis

THIS ARTICLE EXAMINES THE BROAD ECONOMIC EFFECTS OF THE RUSSIA-UKRAINE CONFLICT, AS WELL AS THE IMPACT ON THE RUSSIAN ECONOMY.

The economic effects of the Russia-Ukraine conflict

Russia's invasion of Ukraine is a humanitarian disaster that in its first month created over three million refugees. There will be long-term implications, especially for energy policy in continental Europe. More immediately there are significant consequences for the global economy. This is not because Russia and Ukraine are big economies – together they account for barely 3% of global GDP – but because of their role as major exporters of vital commodities. This article examines the broad economic effects of the conflict, as well as the impact on the Russian economy. The outlook for the major economies is discussed in Section 3 below.

The global economy

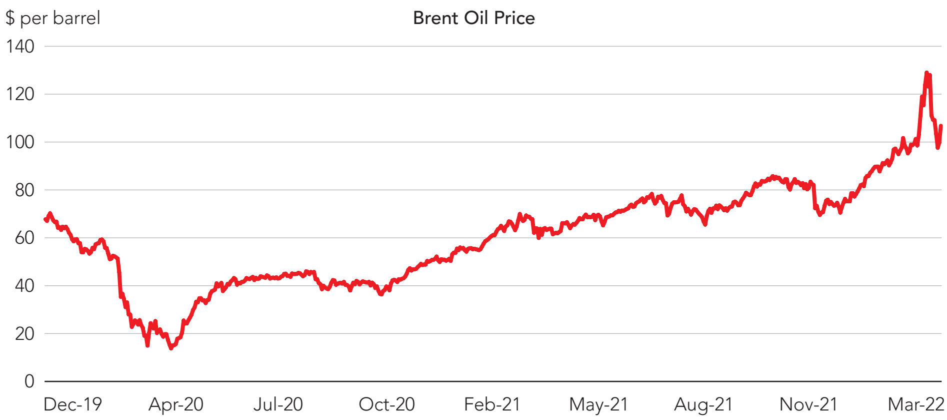
The largest effect on the global economy will come through higher prices for globally-traded commodities. Russia is a large producer and exporter of oil and natural gas. Oil prices surged by a third to over $100 per barrel as tensions increased ahead of the Russian invasion on 24 February. Since then, prices have been both high and volatile (see Chart 16). Wholesale gas prices have also reached record highs in Europe, the main destination for Russian gas exports. In addition, Russia and Ukraine are major exporters of basic foodstuffs, such as wheat, corn and sunflower products. Together the two countries account for 30% of global exports of wheat, the price of which has jumped by over 50% since February. Other commodities exported by Russia, such as nickel and palladium used in car production, have also seen big price increases post-invasion.

The effect of higher oil, gas and commodity prices will be to push inflation higher at a time when most economies are already suffering from elevated inflation rates caused by supply shortages in the wake of the Covid pandemic. For example, U.S. and UK consumer price inflation is likely to peak around 9% in the coming months, rather than 7% to 8% expected previously. Much is uncertain but if high commodity prices are sustained then inflation too will remain at a higher rate for longer in most economies. In its preliminary assessment of the economic effects of the war the OECD estimate that consumer price inflation would average around two percentage points higher over a full year in developed economies (OECD 2022). This higher inflation then exacerbates an existing squeeze on real incomes adding to the headwinds for consumer and corporate spending and slowing economic growth.

Europe is clearly the most exposed region and vulnerable to disruption in supply of oil and gas. Russia supplies 40% of the EU's gas, with particular dependence in Germany, Italy and some Eastern European countries. (The UK gets 5% of its gas from Russia, the U.S. none.) In March the EU announced a plan to reduce gas imports from Russia by two-thirds within a year. This is to be achieved through greater use of liquefied natural gas (LNG), more renewable energy – and use of coal for longer than previously planned. In the meantime, if Russia cut off gas supplies to the EU this would have a significant negative effect on output. The European Central Bank (ECB) estimates that a 10% gas supply shock would reduce

OIL PRICES SURGED BY A THIRD TO OVER $100 PER BARREL AS TENSIONS INCREASED AHEAD OF THE RUSSIAN INVASION ON 24 FEBRUARY. SINCE THEN, PRICES HAVE BEEN BOTH HIGH AND VOLATILE.

CHART 16: Oil prices spike above $100 per barrel



Source: FRED

euro-zone GDP by 0.7% (ECB 2022a). On this basis sudden elimination of the 40% of EU gas that comes from Russia would send the euro-zone into recession. Meanwhile, Russia supplies 26% of the EU's oil, although alternative supplies would be more readily available if supply from Russia was cut. However, removal of Russian oil from world markets would inevitably push oil prices to even higher levels, exacerbating the squeezed real income effects discussed above.

Assuming Russia becomes increasingly cut off from Western markets, exports to Russia will fall significantly. This direct trade influence will be modest but have the biggest effect in Europe. Latest data (2020) show total EU exports to Russia of €79bn which is around 4% of total EU goods exports and 0.6% of EU GDP. The corresponding figures for the U.S. are $4.9bn of exports, 0.3% of the total and 0.05% of U.S. GDP. (NIESR 2022). Hence the withdrawal of many Western-based companies from trading with Russia will have only a marginal impact on world GDP ex-Russia. But certain sectors, such as luxury goods, may suffer a noticeable drop in export sales.

Finally financial markets are often an important transmission mechanism when there are global shocks. This invariably takes the form of a switch to safe haven assets such as the U.S. dollar and gold, equity market volatility and portfolio outflows from EMs. So far, the Russia-Ukraine conflict has not resulted in such moves, other than some increase in equity market volatility. This probably reflects the view that, while growth prospects have been damaged by the conflict, outright recession is not likely.

The economic consequences of Russia's invasion of Ukraine are yet to fully emerge. But it is now apparent that 2022 will be a year of so-called 'stagflation' – a period of weak economic growth combined with high rates of inflation. The OECD estimates that global growth may be reduced by 1.2 percentage points over the course of a full year (Chart 18). This would imply global GDP growth this year of around 3.25% to 3.5%, rather than the 4.5% forecast by the OECD in January (OECD 2022).

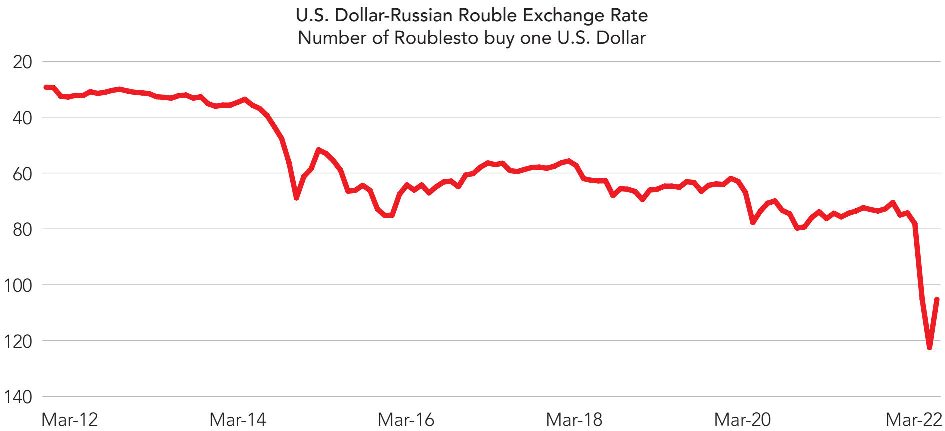
The Russian economy

Whatever the political effects of the sanctions imposed on Russia, there is no doubt that the economic effects will be severe. The freezing of the assets of the central bank of Russia (CBR) will be especially harmful. This measure denies the CBR access to a large proportion of the $650bn of foreign exchange reserves it has built up in recent years. Its effect was to force the CBR to double interest rates to 20%, a move which nonetheless did not prevent the collapse in the Russian rouble. (See Chart 17.) This collapse in the exchange rate will contribute to a surge in inflation. Other financial measures will also hurt the Russian economy: measures taken jointly by the U.S., EU, UK, Canada and Australia will effectively prevent Russia from trading its debt on global capital markets. The exclusion of several Russian banks from the international payments system, SWIFT, will curtail Russia's ability to pay or receive payment for traded goods. The departure from Russia of many Western brands, such as McDonalds, Starbucks and IKEA will reduce employment adding to the downward forces on output.

Crucially though, not all Russian banks have been excluded from SWIFT. This is to permit the continued payment by the EU for oil and gas imports from Russia. With extremely high prices currently prevailing for oil and gas, Russia's continued ability to sell into the EU provides its economy with a positive offset to the negative impact of sanctions. Oil accounts for around one-third of all Russian exports and up to half of government revenue (NIESR 2022). If matters escalate such that Russia no longer sells to the EU, then the economic damage would be much greater – and the EU would suffer too. In January the IMF forecast Russian GDP to increase by 2.8% this year, slowing after 4.5% expansion in 2021 (IMF 2022).It is uncertain by how much GDP will fall, but a peak-to-trough collapse in activity of at least 10% this year looks likely.

THIS COLLAPSE IN THE EXCHANGE RATE WILL CONTRIBUTE TO A SURGE IN INFLATION.

CHART 17: The collapsing Russian rouble



Source: FRED

3. The global economic outlook

THERE ARE ECHOES OF 2020 THIS YEAR AS RUSSIA'S INVASION OF UKRAINE HAS CAUSED A RAPID RE-EVALUATION OF GLOBAL ECONOMIC PROSPECTS FOR THIS YEAR AND BEYOND.

Another shock to send the global economy off course?

Back in 2020 year-ahead economic forecasts made in January of that year were rendered irrelevant by March as the Covid-19 pandemic took hold and plunged almost every economy in the world into recession. There are echoes of 2020 this year as Russia's invasion of Ukraine has caused a rapid re-evaluation of global economic prospects for this year and beyond. True, the outlook has not changed as dramatically as it did in 2020 – global recession is not likely – but it has changed significantly (Chart 18).

Prior to Russia's invasion of Ukraine on 24 February, the outlook for this year was one of a return to a more normal global economy after two years of turmoil caused by the Covid-19 pandemic. There would be some policy tightening to deal with high inflation, but steady economic growth would continue with most advanced economies on track to regain their pre-pandemic trend by early 2023. Emerging markets were set to continue to recover, making progress with vaccinations and benefitting from global growth, although for most there was little prospect of regaining their pre-pandemic trend any time soon.

Section 2 above discusses the likely economic costs of the conflict; the basic conclusion is that growth will be slower and inflation higher than expected previously. The combination of weaker growth and higher inflation – stagflation – poses a policy dilemma for central banks – higher interest rates to fight inflation risk recession, while easing policy to support growth can exacerbate inflation, resulting in much tighter policy later on. Before the Russia-Ukraine conflict there were firm expectations this year of increased interest rates in the U.S. and UK and an end to asset purchases by the ECB. This was to deal with the sharp rise in inflation generated by demand-supply imbalances as economies recovered from pandemic-induced lockdowns. The Russia-Ukraine conflict has increased the policy challenges facing central banks by making the growth-inflation trade-off more acute. Actions to date suggest central banks remain focused on addressing the inflation side of the dilemma.

THE OUTLOOK HAS NOT CHANGED AS DRAMATICALLY AS IT DID IN 2020 – GLOBAL RECESSION IS NOT LIKELY – BUT IT HAS CHANGED SIGNIFICANTLY.

CHART 18: War takes its toll on the global economy

Source: OECD (2022)

U.S.

The economy grew by 5.7% in 2021, lifting the level of economic activity well above pre-pandemic levels. After a strong 7% annual rate in Q4, the spread of the Omicron Covid variant early this year had resulted in a moderation in growth as mobility declined. But continued strong employment growth this year as well as the spending of excess savings, accumulated during lockdowns, will underpin GDP growth in the coming months. The major risk to this view is high inflation, eroding real incomes and squeezing consumption. By February, inflation had reached a 40-year high of 7.9%. The recent surge in oil prices will push inflation even higher in coming months, possibly approaching 9%.in March the U.S. Federal Reserve reduced its 2022 GDP forecast from 4% to 2.8% (U.S. Federal Reserve Board 2022).

At its March meeting the U.S. Federal Reserve began to raise interest rates, lifting the policy rate from 0% to 0.25%. Previously the Federal Reserve has made clear its intention to increase rates steadily through this year and into 2023. There is no indication that the Russia-Ukraine conflict has changed this view. Indeed, material published with the interest rate announcement indicated a peak in interest rates next year of 2.75% to 3%.

China

The economy lost momentum late in 2021, dragged down by a zero-Covid policy, energy shortages and especially by the effects of a slowing property market as heavily indebted property developers defaulted on payments. Annual GDP growth had slowed to 4% by the end of 2021. In January, both the IMF and OECD forecast close to 5% growth for 2022, reflecting the continued effect of weakness in the property sector, which accounts for around 25% of economic activity. The Chinese economy will be affected by the Russia-Ukraine conflict in two main ways: to the extent that the conflict slows economic growth in Western economies this in turn will reduce the demand for Chinese exports. In addition, as a net importer of commodities, China will suffer a terms of trade loss through having to pay higher prices for the affected commodities. It is against this backdrop that the official GDP growth target for 2022 of 5.5% announced by Premier Li Keqiang in March can be judged as rather optimistic. (This is despite the fact that a growth target of 5.5% is the lowest in 30 years.)

China's 'Zero Covid' policy is a further downside risk to growth this year. The policy involves City-wide lockdowns with mass testing following even a small number of Covid cases. In March lockdown was imposed in Shenzhen, the centre of China's tech industry. The effect was to halt production at several factories, including the production of the latest iPhone. With reported Covid cases at the highest level since the start of the pandemic, repeated lockdowns in major cities could reduce GDP growth this year by restraining both production and consumption.

Euro-zone

Renewed Covid restrictions contributed to slower growth in Q4 last year with just 0.3% quarter on quarter growth, compared with 2.3% in Q3. This effect was especially pronounced in Germany where GDP contracted by 0.7% in Q4. Prospects for this year had looked reasonable with the lifting of Covid restrictions and gradual easing of supply shortages. The lifting of Covid restrictions early this year points to a rebound in the first quarter, with German retail sales up 2% in the month of January. In December the ECB forecast 4.2% GDP growth this year. But, as discussed in Section 2, the euro area has the greatest exposure to Russia in terms of energy dependence and other trade links. The effect of soaring energy prices and negative confidence effects will be to slow domestic demand growth. At its meeting in March the ECB cut its 2022 GDP growth forecast to 3.7% from 4.2% previously (ECB 2022b). Meanwhile inflation this year is now expected to average 5.1%, a significant upward revision from the 3.2% forecast made in December 2021. For now, concerns about inflation predominate and the ECB remains committed at least to phase out its asset purchase scheme later this year. But there is extreme uncertainty about developments in the conflict and the wider economic effects. The ECB also published a 'severe' scenario GDP projection, which includes the effect of energy supply disruptions and significant financial market volatility and a prolonged period of geopolitical tensions: in this scenario euro-zone GDP growth in 2022 is reduced to 2.3% and average inflation reaches 7.1%.

UK

The economy grew by 7.5% in 2021, a major rebound from the sharp contraction of 2020. Quarterly data still show UK GDP slightly below its pre-pandemic level, but the monthly GDP series registers this level being reached late last year. Data for January recorded a strong 0.8% monthly rise in GDP as activity revived after the Omicron restrictions. Growth this year will slow, partly as a result of a squeeze in real disposable incomes caused by higher inflation. The Bank of England had expected inflation to peak at just over 7% by April and then decline gradually to around 5% by year-end. The surge in oil and gas prices since February means that peak inflation will probably be between 8% and 9% this year. Despite the major hit to real incomes, consumer spending is still expected to grow by at least 3% this year, supported by excess savings, accumulated during lockdowns. In March, the Bank of England increased interest rates by 0.25 percentage points to 0.75%, taking rates back to the level immediately before the pandemic. It is worth noting that the unemployment rate fell back to its pre-pandemic rate of 3.9% in January, along with a record number of vacancies. A tight jobs market and inflation at multi-decade high suggest that further rate increases are likely in coming months, with Bank Rate reaching around 1.5% by the end of 2022.

Emerging markets

The economic shock caused by Russia's invasion of Ukraine will be felt especially strongly in many EMs. Food and energy form a greater share of consumer spending than in advanced economies, adding to upward pressure on inflation in many cases. Central banks are likely to have to raise interest rates further to control inflation and support their exchange rates. But this will hamper recovery from the pandemic, at a time when most EMs are struggling to regain their pre-pandemic growth trend. In addition, EMs have little fiscal capacity to offset the effects of this latest shock, having deployed significant resources in supporting economies during the Covid pandemic.

There will be significant variations in the economic effects across EMs. Of course, some EMs will benefit, notably commodity exporters. If sustained to any extent, the surge in the oil price will enable most oil exporters to run fiscal and current account surpluses this year. (But where fuel subsidies exist e.g., Nigeria the cost of maintaining these will reduce the fiscal benefit.) For commodity importers higher prices represent a deterioration in the terms of trade and a headwind to growth. Moreover, the effect will be to push external indebtedness even higher, adding to concerns about debt sustainability.

As well as the spill-over effects from higher global commodity prices, some EMs have direct trade links with Russia/Ukraine that may further undermine their growth prospects. The Middle East and Africa is especially reliant on the Black Sea ports for wheat imports. For example, Egypt and Lebanon are dependent on Russia/Ukraine for over 80% of their wheat imports. Sub-Saharan Africa imports 85% of its wheat supplies, 35% of which come from Russia or Ukraine (IMF 2022). Supply disruptions could have serious consequences for food security in many African countries.

Risks to the global outlook

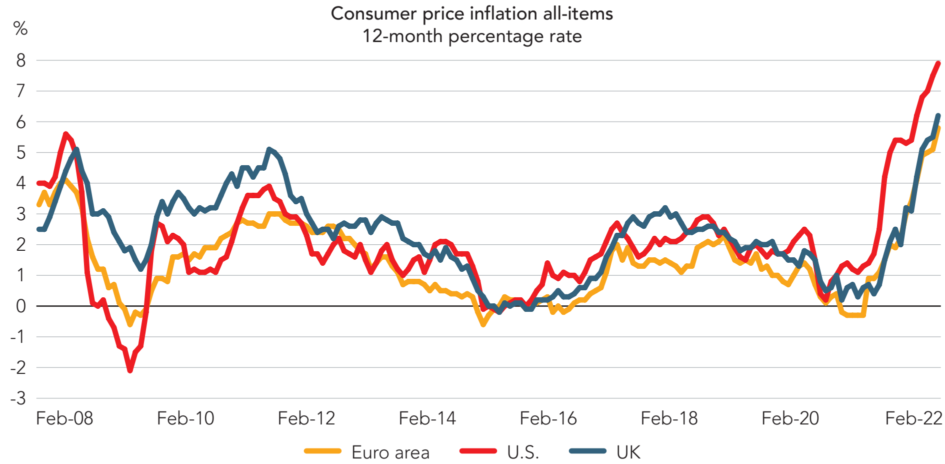
The uncertainty surrounding the Russia-Ukraine conflict is extreme, its duration and whether it escalates with intensifying sanctions are unknown. A big downside risk is if the Russian supply of oil and (especially) gas was cut off to Western Europe. This may be sufficient to send the euro-zone into recession. Volatility in commodity prices also represents a risk in terms of spill-over effects; oil at $130 per barrel has a much greater effect on inflation and growth than at $100 per barrel or less and it is not yet clear to where the price will gravitate.

Other risks include renewed Covid infections and associated restrictions. The highly transmissible but very mild Omicron variant has resulted in the adoption of 'living with Covid' policies in an increasing number of countries. The emergence of a more virulent yet equally transmissible variant could result in a reversal of this policy and renewed restrictions. In the meantime, China's Zero Covid policy is a downside risk to both the Chinese economy and global supply chains.

Finally, and by no means least, there is the risk of policy mistakes. Removing the exceptional policy ease introduced to mitigate the effects of the pandemic was always going to be tricky. Over the last year supply shortages and now the Russia-Ukraine conflict have resulted in a stagflation scenario reminiscent of the 1970s. Central banks in advanced economies face a difficult judgement that could result either in over-tight policy causing recession or too easy policy embedding inflation and inflation expectations.

CENTRAL BANKS IN ADVANCED ECONOMIES FACE A DIFFICULT JUDGEMENT THAT COULD RESULT EITHER IN OVER-TIGHT POLICY CAUSING RECESSION OR TOO EASY POLICY EMBEDDING INFLATION AND INFLATION EXPECTATIONS.

CHART 19: Inflation to rise from high levels



Source: FRED

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Appendix I:

Economies covered by Q1 survey responses

NORTH AMERICA	MIDDLE EAST	ASIA PACIFIC	CENTRAL & EASTERN EUROPE	SOUTH ASIA	WESTERN EUROPE	AFRICA	CARIBBEAN	CENTRAL & SOUTH AMERICA
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	Mainland China	Czech Republic	Bangladesh	Finland	Ethiopia	Bermuda	Brazil
USA	Iraq	Hong Kong SAR	Hungary	India	Germany	Ghana	Grenada	Columbia
	Israel	Indonesia	Moldova	Kazakhstan	Greece	Ivory Coast	Guyana	Costa Rica
	Jordan	Japan	Poland	Maldives	Ireland, Republic of	Kenya	Jamaica	
	Kuwait	Korea, Republic of	Romania	Nepal	Italy	Liberia	Puerto Rico	
	Lebanon	Malaysia	Russia	Pakistan	Luxembourg	Malawi	St Vincent	
	Oman	New Zealand	Slovakia		Malta	Mauritius	Trinidad & Tobago	
	Palestine	Philippines	Ukraine		Netherlands	Namibia		
	Qatar	Singapore			Spain	Nigeria		
	Saudi Arabia	Vietnam			Switzerland	Sierra Leone		
	United Arab Emirates				Turkey	South Africa		
					UK	Sudan		
						Tanzania		
						Uganda		
						Zambia		
						Zimbabwe		

ACCA, IMA and the global economy

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Global economic conditions continue to dominate business and political life. News and debates on economic issues are almost constantly the focus of media attention. While most national economies are now growing once again, it is far from clear how sustainable this growth is or how long it will be before a sense of normalcy returns to the global economy.

ACCA and IMA have been prominent voices on what the accounting profession can do to help turn the global economy around. Both bodies have published extensively on a range of topics, from the regulation of financial markets or the prevention of fraud and money laundering, to fair value or the role of international accounting standards, to talent management and the development of an ethical business culture.

ACCA and IMA aim to demonstrate how an effective global accountancy profession contributes to sustainable global economic development; to champion the role of accountants as agents of value in business; and to support their members in challenging times. Both professional bodies believe that accountants add considerable value to business, and never more so than in the current environment.

Accountants are particularly instrumental in supporting the small business sector. Small and medium-sized enterprises (SMEs) account for more than half of the world's private sector output and about two-thirds of all employment.

Both ACCA and IMA focus much of their research and advocacy efforts on articulating the benefits to SMEs of solid financial management and reliable financial information.

WHERE NEXT?

As countries around the world continue to consider strategies to promote stability and stimulate growth, the interconnectedness of national economies, and how they are managed and regulated, is now under close scrutiny. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of the interconnected global economy. The fortunes of the two are tied. ACCA and IMA will, therefore, continue to consider the challenges ahead for the global economy, and focus on equipping professional accountants for the uncertain future.

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GECS-Q1-2022

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