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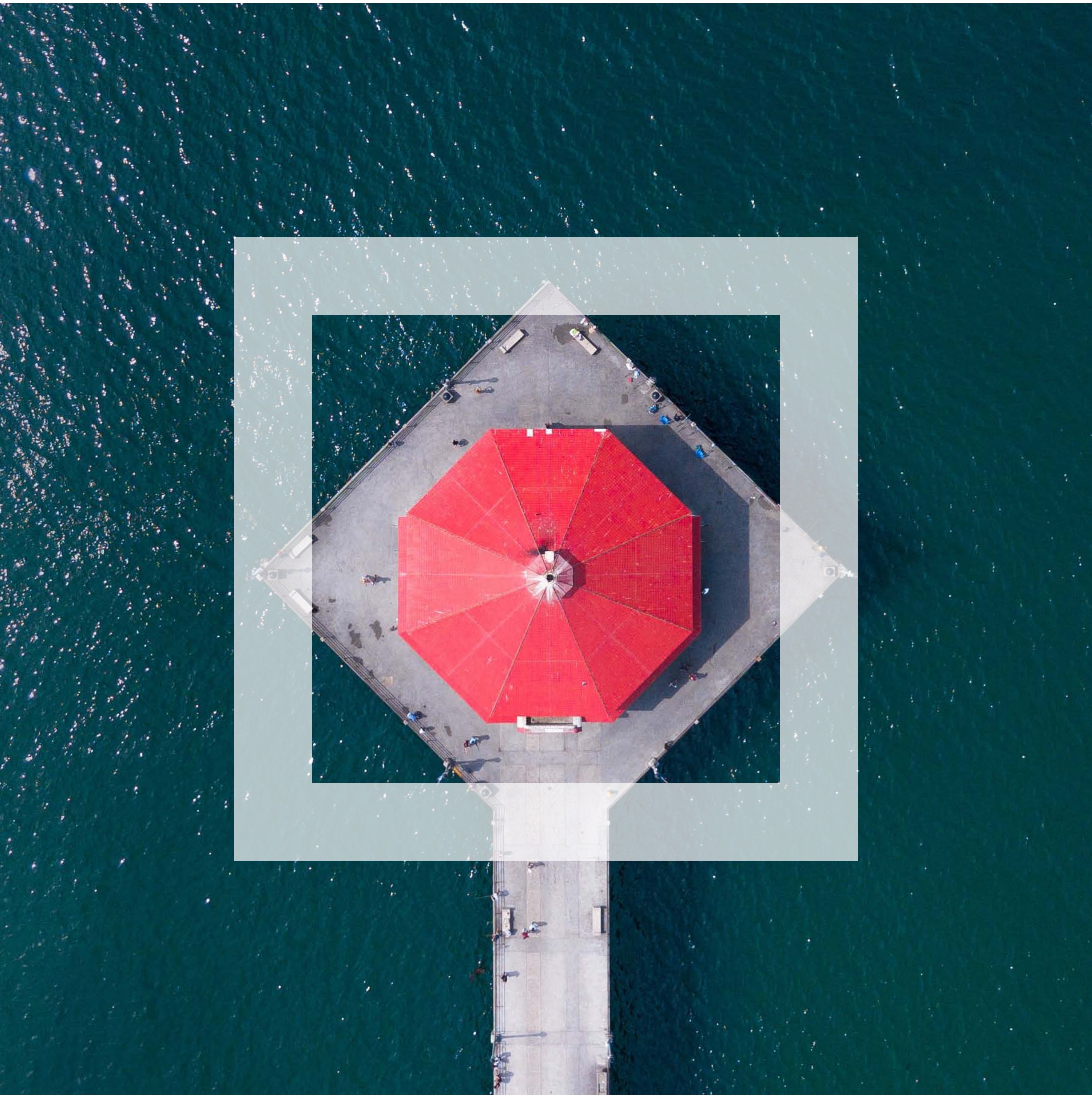

GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q4, 2021**

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.

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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.

For more information about IMA, please visit: www.imanet.org

January 2022

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 2021 Q4 survey took place between 24 November and 8 December 2021 and attracted 2,471 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 Q4 GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) GIVES A SIMILAR MESSAGE TO THE PREVIOUS SURVEY; GLOBAL GROWTH WILL CONTINUE BUT AT A MODEST PACE.

The Q4 Global Economic Conditions Survey (GECS) gives a similar message to the previous survey; global growth will continue but at a modest pace. This GECS was conducted in late November/ early December at the same time as the Omicron COVID variant was beginning to spread rapidly in some regions. This may have been a factor in the fall in global confidence. The global orders index, which is less volatile than the confidence measure, was little changed in the Q4 survey as indeed were other activity indicators, such as employment and capital spending. This is consistent with steady global growth early in 2022, although in the short term the impact of Omicron points to downside risks.

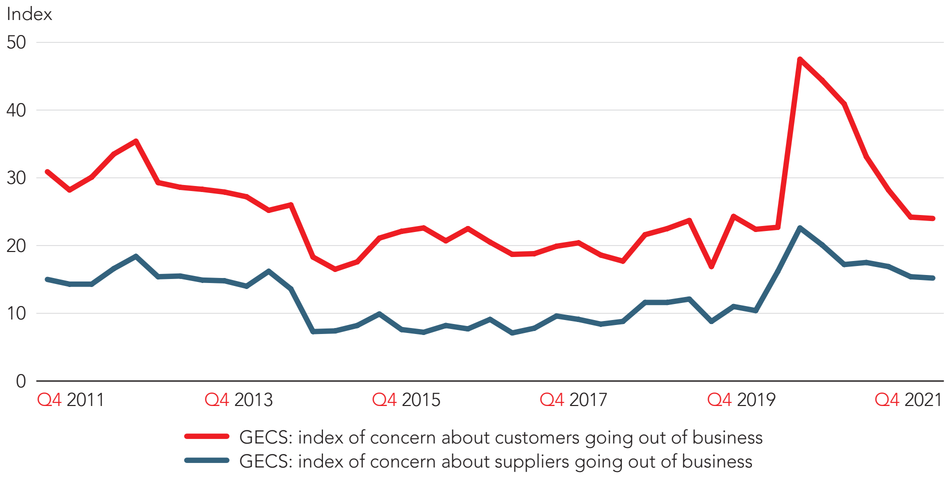
The two 'fear' indices – measured by concern that customers and suppliers may go out of business – were little changed in the Q4 survey. Both indices have fallen back from extreme levels seen in 2020, but are still above pre-pandemic levels. (Chart 2.) These measures reflect only the early stages of the effect of the Omicron variant so they may understate the perceived level of economic risk early in 2022.

CHART 1: Modest pace of global growth early in 2022

Source: OECD (2021). ACCA/IMA (2012–21)

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' steady above pre-pandemic levels



Source: ACCA/IMA (2012–21)

Only North America and Asia-Pacific recorded improved confidence in Q4 and the increase was modest in both cases. The biggest drop in confidence occurred in Western Europe. The region was the only one to suffer a significant and rapid spread of Omicron during the sampling period of the survey and this may explain the fall in confidence. Elsewhere, South Asia and Africa also showed falls in confidence too, underlining the continuing challenges faced by emerging markets (EMs). (Chart 3).

The message from the orders balances – the proxy for real economic activity – is one of relatively little change across regions. Only the Middle East recorded a fall in Q4, while all other major regions showed modest gains. This leaves the regional picture unchanged; orders indices in advanced regions are above those for EM regions (Chart 4).

Section 2 of this report is a thematic piece entitled 'Digital services and green investment – EMs catch-up potential.

The article highlights these two areas where significant productivity gains are possible, allowing EMs to boost real incomes and re-establish the catch-up trend lost during the pandemic. Not only can digital services boost domestic demand but in the field of digitally-deliverable services, EMs also have a comparative advantage over advanced economies facing a costly transition from the traditional 'bricks and mortar' approach. Indeed, EMs are already taking an increasing share of the expanding

ONLY NORTH AMERICA AND ASIA-PACIFIC RECORDED IMPROVED CONFIDENCE IN Q4 AND THE INCREASE WAS MODEST IN BOTH CASES. THE BIGGEST DROP IN CONFIDENCE OCCURRED IN WESTERN EUROPE.

CHART 3: A varied regional picture on confidence

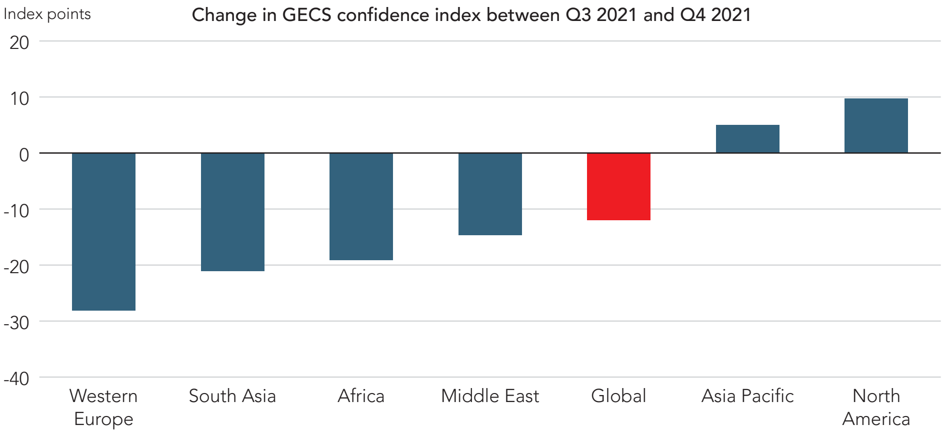
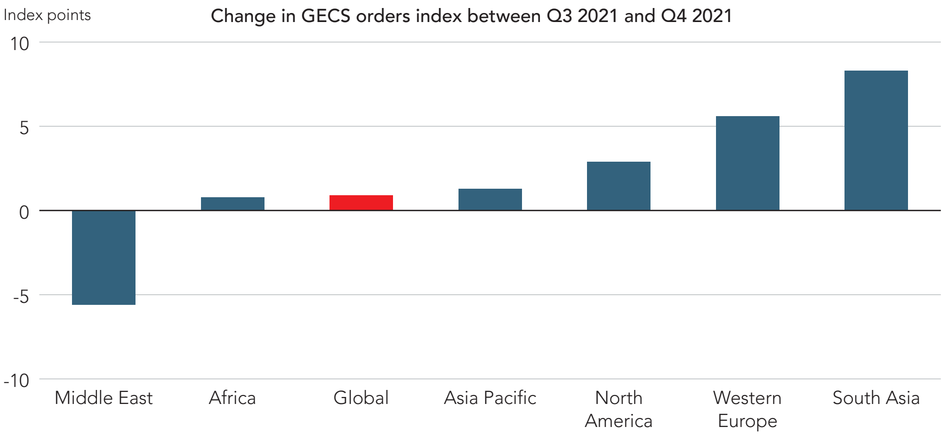


CHART 4: Orders little changed overall, dip only in Middle East



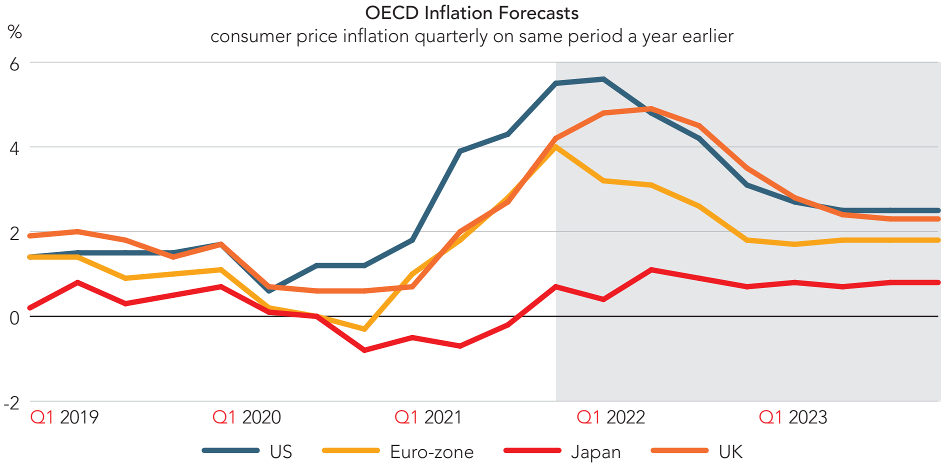
trade in digital services. At present, reliable internet access is not universally available across all EM regions, Africa being a particular laggard in this respect. Increased investment in this area could yield significant returns. In addition, EMs should benefit from a big increase in sustainable investment in the coming years as efforts are made to reach net zero carbon emissions by 2050. Given the scale of investment required, especially in energy transition, much of the investment will come from overseas private sources. There will be significant spill-over benefits to the wider economy.

Section 3 gives a detailed view of global economic prospects for the year ahead. For now, the highly transmissible Omicron variant is clouding near-term economic prospects. Looking beyond this, there is the prospect of approaching a more normal global economy over the course of 2022. Among advanced economies this would mean sustained consumer demand supported by spending of accumulated savings and rising employment as COVID fiscal support measures are withdrawn. In addition, easing of supply bottlenecks is likely, as supply and demand adjust to post-pandemic conditions. In turn, this may help bring inflation down from current elevated levels towards the 2% target adopted by most central banks. But even in this scenario the year ahead will see some tightening of monetary policy in most cases, including by the U.S. Federal Reserve. Meanwhile, for many EMs progress with vaccinations and a waning of the health crisis offer the prospect of a more substantial and significant recovery than has so far been achieved.

But there are plenty of risks and two loom particularly large. First, the COVID virus is here to stay: it is to be hoped that new variants will pose less of a health risk, assisted by further progress with vaccinations, allowing for economic conditions to return to normal. But there is always a risk of a vaccine-resistant variant that again results in restrictions that harm economic activity. Meanwhile, the biggest economic risk is that inflation (Chart 5) stays higher for longer, partly because of prolonged supply shortages. Upside surprises to inflation would trigger a greater degree of monetary tightening than is currently discounted by financial markets. The effect would be to slow global economic growth, preventing a return to its pre-pandemic trend.

THE BIGGEST ECONOMIC RISK IS THAT INFLATION STAYS HIGHER FOR LONGER, PARTLY BECAUSE OF PROLONGED SUPPLY SHORTAGES.

CHART 5: An optimistic inflation profile?



Source: OECD 2021

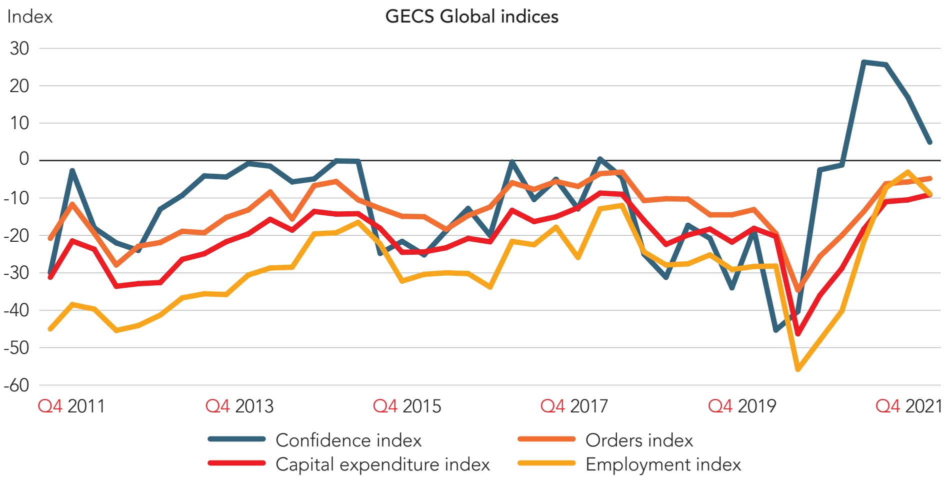
1. Global and regional analysis

GLOBAL CONFIDENCE HURT BY OMICRON BUT ACTIVITY INDICATORS HOLD UP.

This GECS gives a message consistent with the previous survey; global economic growth continues but at a more modest pace than in mid-2021 (Chart 6). The global confidence index fell back in Q4, probably influenced by the onset of the Omicron COVID variant. The key orders index edged higher in Q4, pointing to steady growth early in 2022. The employment index fell back, having registered a large gain in Q3. Supply shortages and the Omicron variant are constraining output growth in many countries where underlying demand nonetheless remains strong. More advanced economies are likely to join the US and regain the pre-pandemic level of output early in 2022 (see Section 3).

With little change in orders indices in the Q4 survey (Chart 7), the distinctive regional pattern that emerged last year is maintained with growth prospects generally better in advanced economies than in EMs. North America and Western Europe record the highest orders balances, ahead of the Middle East and Africa.

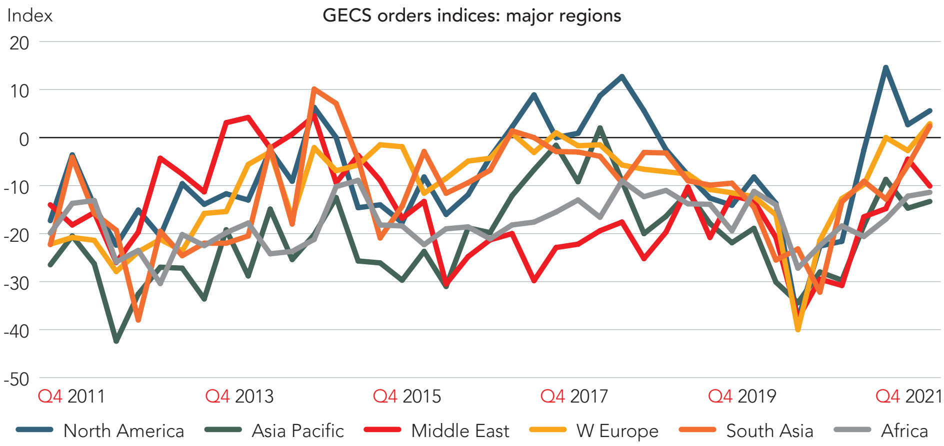
CHART 6: Global activity indices trending sideways



Source: ACCA/IMA (2012–21)

WITH LITTLE CHANGE IN ORDERS INDICES IN THE Q4 SURVEY, THE DISTINCTIVE REGIONAL PATTERN THAT EMERGED LAST YEAR IS MAINTAINED WITH GROWTH PROSPECTS GENERALLY BETTER IN ADVANCED ECONOMIES THAN IN EMS.

CHART 7: Orders little changed in most regions in Q4



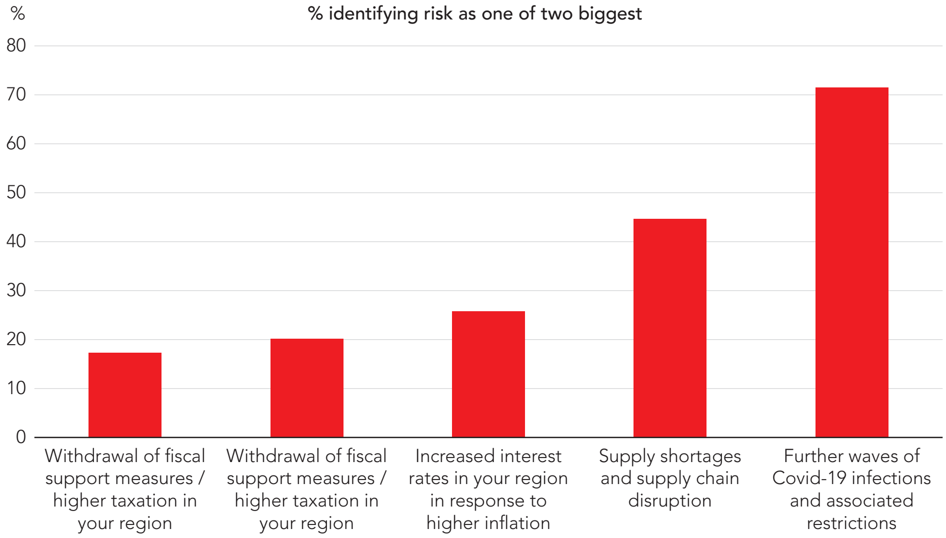
Source: ACCA/IMA (2012-20)

In the Q4 survey respondents were asked to identify what they perceived to be the two biggest risks from a list of five. The results are shown in Chart 8. Perhaps not surprisingly, by far the biggest risk is seen as COVID and new waves of infections with over 70% of respondents saying this was a key risk. Supply shortages are the second–ranked risk, the issue having already slowed economic growth in late 2021. Policy tightening, either monetary or fiscal, is of less concern, along with policies to address climate change.

The GECS index of concern about operating costs increased again in the latest survey and is now at its highest level since Q1 2019 (Chart 9). Cost concerns on this measure more than doubled over the course of last year and seem likely to stay elevated in early 2022. Energy and transport costs have driven input costs up in recent months. In addition, some sectors are now experiencing rising wages as employers attempt to fill vacancies. As wages are the largest element of costs for most firms, sustained rises here would add further to cost – and inflation – concerns.

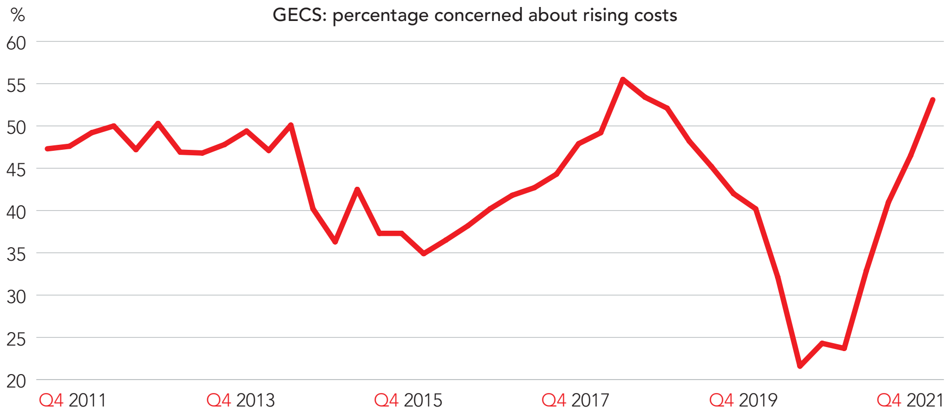
SUPPLY SHORTAGES ARE THE SECOND–RANKED RISK, THE ISSUE HAVING ALREADY SLOWED ECONOMIC GROWTH IN LATE 2021.

CHART 8: Economic risks in 2022



THE GECS INDEX OF CONCERN ABOUT OPERATING COSTS INCREASED IN THE LATEST SURVEY AND IS NOW AT ITS HIGHEST LEVEL SINCE 2019 Q1.

CHART 9: Concern about operating costs continues to increase



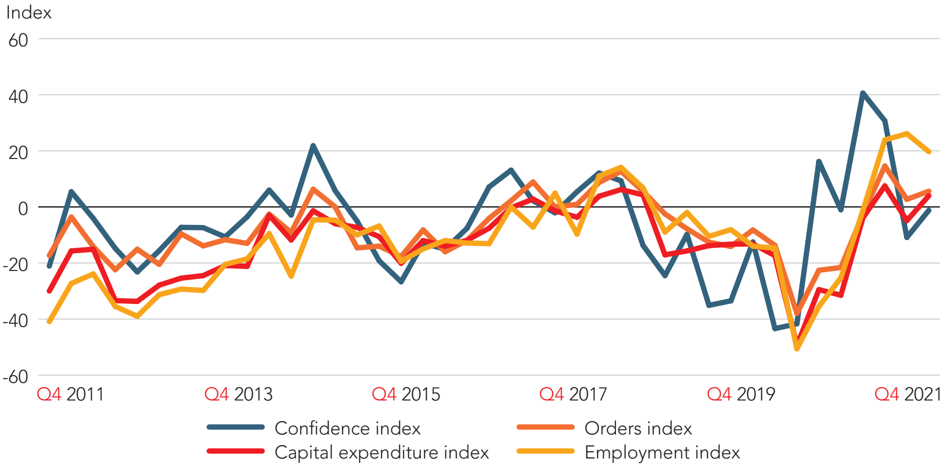
Source: ACCA/IMA (2012-21)

Regional picture

NORTH AMERICA

Confidence and orders improved slightly in the latest survey, but the message of continued modest GDP growth in the region is unchanged from the Q3 survey. The combined effect of waning fiscal support measures and significant supply shortages in certain sectors has taken the steam out of the recovery. Supply shortages in particular are a downside risk early this year. In addition, the Omicron COVID variant is spreading rapidly and the supply of workers is being affected in the short term. Overall, the North America GECS indices are consistent with continued steady growth in the early months of 2022.

CHART 10: North America

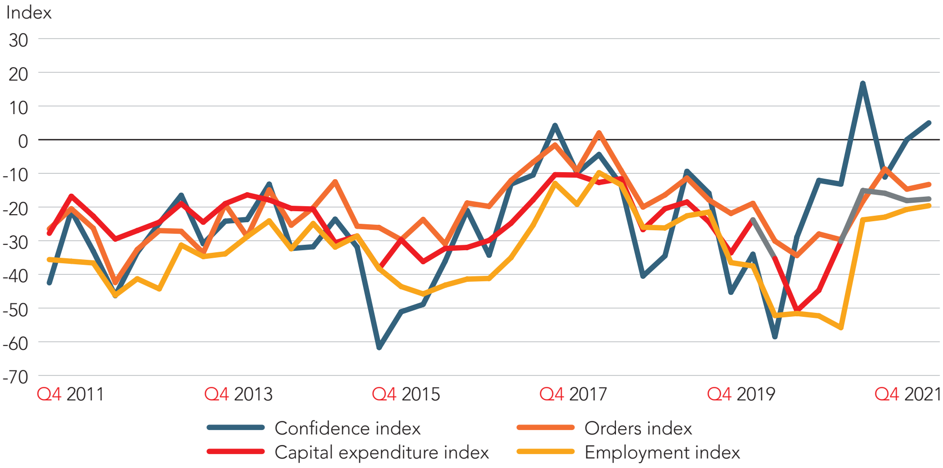


Source: ACCA/IMA (2012-20)

ASIA-PACIFIC

All the main indicators increased in Q4, although only modestly. The overall picture is one of moderate growth in early 2022. Slower growth in China is affecting the outlook across the region, given its high degree of trade integration. But demand for the region's exports from Western countries remains buoyant and this should sustain steady overall growth in the coming months. COVID risks persist, especially with relatively low rates of vaccination in some countries.

CHART 11: Asia-Pacific

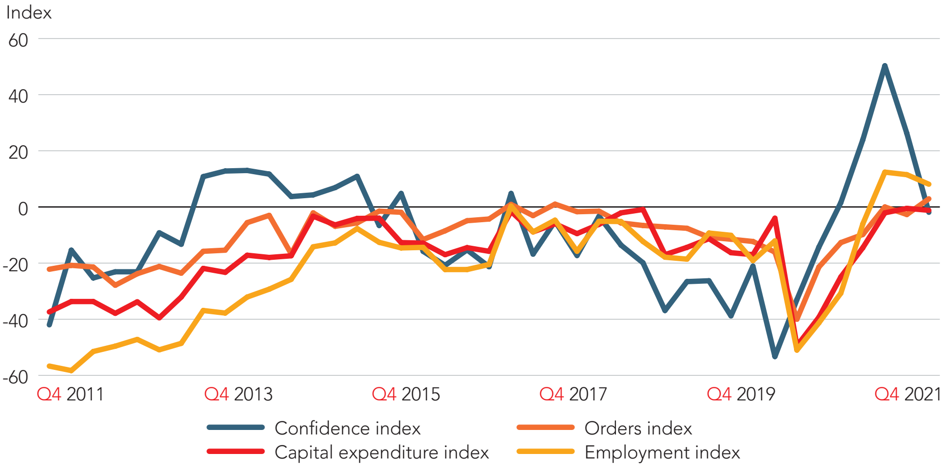


Source: ACCA/IMA (2012-20)

WESTERN EUROPE

Confidence fell in Western Europe, by the most among major regions. The Omicron COVID variant spread first and rapidly in the region and this is likely to have been a drag on confidence. But activity indicators were broadly flat in Q4, remaining above pre-pandemic levels. Since the survey was completed in mid-December the COVID situation has deteriorated further and renewed restrictions are in place in several countries. The impact of this on growth is likely to be relatively modest and short-lived but does suggest a soft patch at the turn of the year. Beyond this the regional GECS is consistent with modest growth..

CHART 12: Western Europe

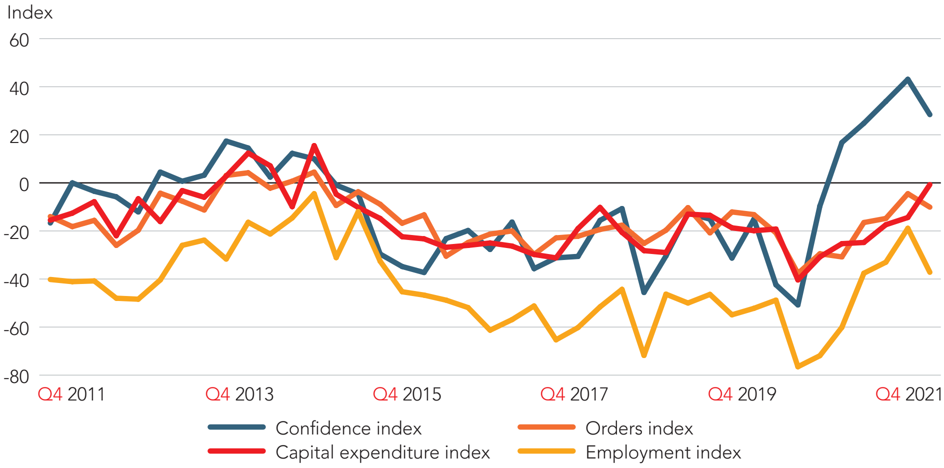


Source: ACCA/IMA (2012-20)

MIDDLE EAST

Confidence in the Middle East region fell back in Q4 although it is still at a high level. After a very strong rebound to around $85 per barrel (p/b) by October, oil prices have since declined to below $75 p/b by early this year. This dip in prices came as rising COVID infections raised renewed concerns about economic prospects. As well as reducing confidence in the region, this may have pushed the orders balance lower, although it remains consistent with continued economic recovery.

CHART 13: Middle East

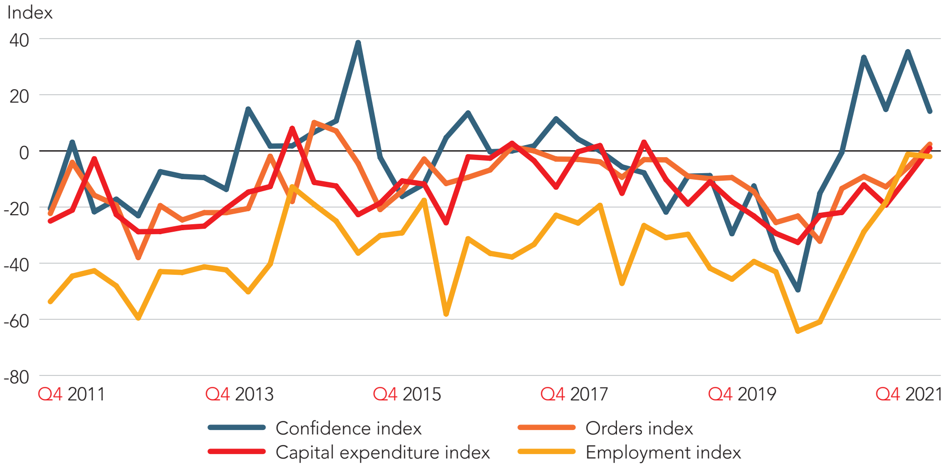


Source: ACCA/IMA (2012-20)

SOUTH ASIA

Confidence fell back in Q4 but remains at a high level. Moreover, orders increased again in Q4 – and by the most among all regions. The orders balance is at its highest level in almost seven years. An improved outlook is due mainly to better prospects in India, following a surge in COVID-19 infections earlier last year. (Quarterly real GDP in India jumped by over 12% in Q3.) In South Asia as a whole, the pace of vaccination remains slow, leaving the region vulnerable to further COVID-19 waves. The legacy of the health crisis will be a significant increase in the numbers living in extreme poverty.

CHART 14: South Asia

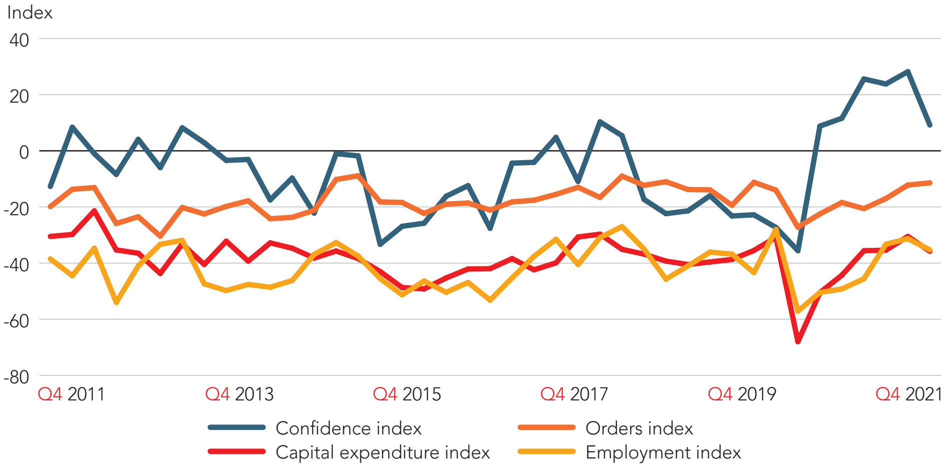


Source: ACCA/IMA (2012-20)

AFRICA

In the Q4 survey confidence fell back from its record high recorded in the previous survey. Along with most regions, activity indicators (orders, employment and capital spending) were little changed in the latest survey. Even so, the slight increase in the orders balance has taken it back within a whisker of its pre-pandemic level. COVID-19 infections remain at a high level and the vaccination rate is extremely low. Health and 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 and demand..

CHART 15: Africa



Source: ACCA/IMA (2012-20)

2. Thematic analysis

EMERGING MARKETS (EMs) ARE FACING THEIR BIGGEST CHALLENGES FOR DECADES AS THEY SEEK TO CATCH UP THEIR INCOMES PER HEAD WITH DEVELOPED ECONOMIES.

Digital services and green investment – EMs catch-up potential

Emerging markets (EMs) are facing their biggest challenges for decades as they seek to catch up their incomes per head with developed economies. In recent years greater protectionism and slower growth in world goods trade have eroded a traditional route by which EMs boosted per capita incomes – through manufacturing goods for export. But the COVID-19 pandemic has made matters considerably worse. While the entire global economy suffered as the pandemic hit, EMs recovery has been much weaker than in most advanced economies. First EMs lacked the fiscal capacity to support the incomes of households and companies during lockdowns, resulting in a rather modest rebound in activity once lockdowns were lifted. By contrast developed economies saw a very strong recovery as generous fiscal support measures created pent up demand. In addition, the much faster vaccination rate in advanced economies during the course of 2021 meant that these economies were able to open up and return economic conditions closer to normal sooner than in many EMs, kept vulnerable to further waves of COVID infections by low vaccination rates.

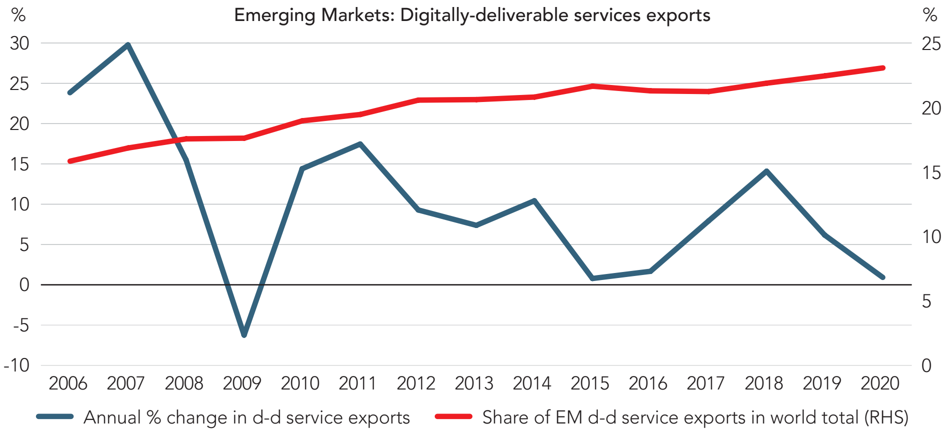
As well as adding to global poverty these developments mean that EMs are not expected to have regained their pre-pandemic growth trend, even by 2024. (Advanced economies are likely to have achieved this by late this year or early in 2023.) This article focuses on two areas where EMs have opportunities for economic development and growth – and where they have certain advantages over advanced economies.

The digital revolution

Adoption of digital technology by EMs can drive down costs and stimulate domestic demand and productivity – the driver of long-term economic growth. The advantage EMs have is that, in many areas, they can bypass the bricks and mortar stage of development and move directly to digital provision. This affords EMs an advantage over developed markets, where consumers can be slow to transition away from the bricks and mortar way of conducting business, keeping costs high. Banking and financial services are perhaps the best example of this. Among the top 30 nations by revenue from digital services as a share of GDP, 16 are in the emerging world. By this measure, Indonesia is further advanced than France or Canada. And since 2017, digital revenue has been growing in emerging countries at an average annual pace of 26%, compared with 11% in the developed ones.

As well as boosting domestic demand, the adoption of digital technology can offer EMs a competitive advantage in exporting digital services. While manufacturing exports may no longer be the route to prosperity, services - and digital services in particular offer growth opportunities for EMs. Indeed, this is already taking place. Data from United Nations Conference on Trade and Development (UNCTAD) show annual growth in the export of digitally-deliverable services[1] from EMs averaging 10% a year between 2006 and 2020, raising their share of the global total of such services exports to 23% from 15% over the period (Chart 16). Globally this trade was worth US$3.17 trillion in 2020, representing 64% of total services exports. (UNCTAD 2021a).

CHART 16: Digital service exports give a boost for EMs



Source: UNCTAD (2021a)

1 Digitally-deliverable services are services that can be provided online, such as insurance, business processes and financial services.

Despite this progress, there remains a need for basic infrastructure investment in EM countries, notably in fast and reliable internet access. This is not universally available across EMs at present. According to the World Economic Forum, of the 25 least connected countries in the world, 21 are in Africa. (World Economic Forum 2020) This has led to initiatives such as the African Union's Digital Transformation Agenda 2030, the aim of which is to digitally connect every household, business and government in Africa by 2030. The potential for greater use of internet services domestically is illustrated in Chart 17, showing smartphone penetration in selected global regions with projections for 2025. The use of smartphones for payment services is already widespread in many EMs and this will increase, providing access to banking, health and other services at low cost.

Investing to meet net zero carbon emissions

Climate change represents both great risks and opportunities for EMs. Global warming would impose greater costs on EMs than developed markets (DMs), through its effect on agriculture and migration and because of more limited fiscal resources with which to fund adaptation measures.

But the declared goal of achieving net zero emissions by 2050 offers investment opportunities that would bring wider economic benefits and help boost potential growth. This investment needs to be concentrated in the energy sector, the source of a large proportion of current EM CO_2 emissions. Moreover, as EM economies grow their energy consumption is set to rise strongly. The International Energy Agency (IEA) estimates that on current policies EM carbon emissions will grow by 5 gigatonnes (Gt) over the next two decades, compared with a fall of 2 Gt in advanced economies. To prevent this rise and reach the net zero target by 2050, the IEA projects that investment in clean energy in EMs needs to rise from its current level of around US$150 billion a year to at least US$1 trillion a year by the end of the current decade – a seven-fold increase. (IEA 2021.)

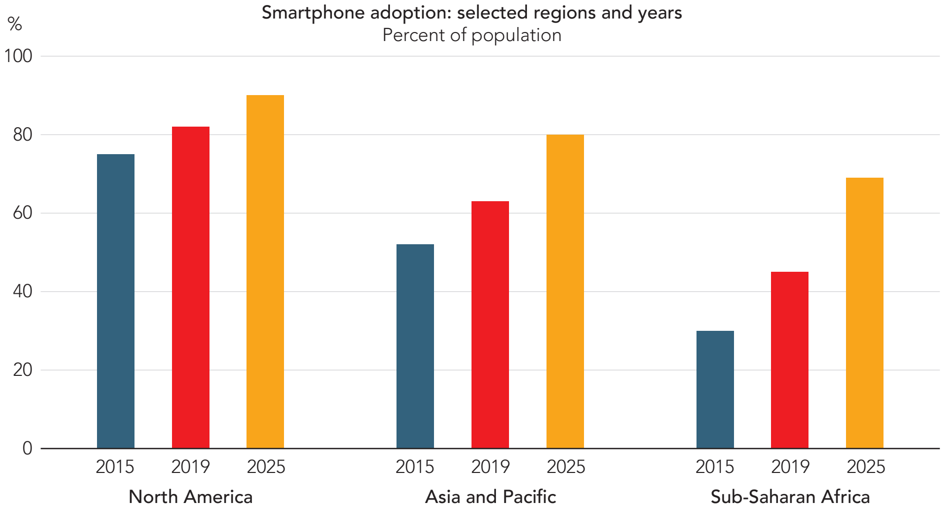
Such a dramatic increase in investment will require a much greater role for the private sector as the IEA (2021) estimates that at least 70% of new investment will come from international private sources. To attract such investments EMs will need the appropriate domestic infrastructure and regulatory environment. This is the area where the public sector and international development groups will play a major role, creating the right conditions for attracting private investment.

A major area for investment is in renewable energy. Electricity consumption in EMs is likely to grow three times faster than in developed economies in coming decades. Current electricity generation is often dominated by the use of fossil fuels, usually coal. But the low cost of wind and solar power make them the obvious choices for meeting future energy demand. Wind and solar have low marginal costs of electricity supply once established but require large upfront capital costs.

Energy transitions bring major economic benefits, including through the creation of new jobs associated with clean energy investments and activities. Spending on more efficient appliances, electric and fuel cell vehicles, building retrofits and energy–efficient construction provides further employment opportunities. Global companies in DMs that have targeted commitments on emissions may ask their suppliers in EMs to take action on emissions. This would represent an opportunity for new partnership arrangements. Thus, for EMs in aggregate, the challenge of meeting net zero by 2050 represents an opportunity to attract overseas investment with significant spill-over benefits to their economies and potential growth.

THE USE OF SMARTPHONES FOR PAYMENT SERVICES IS ALREADY WIDESPREAD IN MANY EMs AND THIS WILL INCREASE, PROVIDING ACCESS TO BANKING, HEALTH AND OTHER SERVICES AT LOW COST.

CHART 17: Smartphone adoption to rise in EMs



Source: UNCTAD (2021b)

3. The global economic outlook

AT THE START OF 2022, THE GLOBAL ECONOMY IS IN MUCH BETTER SHAPE THAN A YEAR AGO WHEN THE SOLE FOCUS WAS ON DEALING WITH RENEWED WAVES OF COVID INFECTIONS.

Beyond Omicron, a more normal global economy?

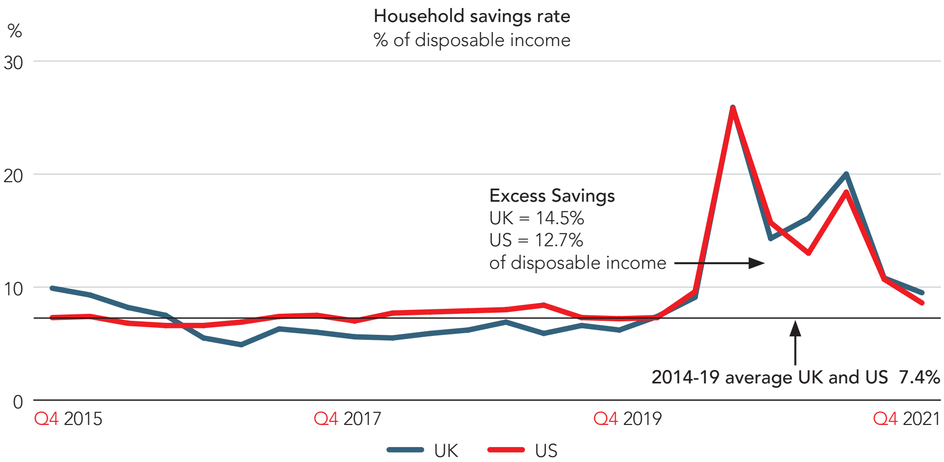
At the start of 2022, the global economy is in much better shape than a year ago when the sole focus was on dealing with renewed waves of COVID infections. A year later and the global economy has grown by around 5.5% and unemployment in advanced economies has fallen back to close to pre-pandemic levels. Our central view is that the year ahead will see further progress towards a more normal economic environment, with global GDP growth of around 4%. Features of this return to normalcy include reduced household savings offsetting withdrawal of COVID fiscal support (Chart 18), easing of supply shortages, continued growth in levels of employment and waning of the COVID crisis helped by progress with vaccinations. A more normal global economy will also mean tightening of monetary policy by major central banks in an attempt to deal with persistent above-target inflation. The picture for EMs is mixed with some making progress, while others, such as South Africa and Indonesia, have suffered renewed economic contraction. Overall, their recovery to the pre-pandemic trend rate of growth remains hampered by a lack of fiscal capacity and slow progress with vaccination.

There are headwinds for the global economy early in 2022. The immediate concern is the spread of the highly transmissible Omicron COVID variant, which has prompted renewed containment measures in several countries, beginning in Europe. In the near term, this may slow economic growth through the effect on consumer spending and worker absenteeism. But the impact on economic activity should be modest and is likely to be relatively short-lived.

Another issue is that of supply shortages and the jump in transport and energy costs. These had already resulted in a loss of momentum in many advanced economies in late 2021 and the effect continues. For example, cuts in car production due to a shortage of semiconductors are having a material negative effect on GDP in several countries. At the time of the Q3 GECS report, it looked likely that most advanced economies would join the U.S. and China in regaining their pre-pandemic level of economic activity by the end of 2021. Omicron and supply bottlenecks now point to this being pushed into early this year, although this will still be a very quick recovery from the deep recession of 2020.

HOUSEHOLD SAVINGS ACCUMULATED DURING LOCKDOWNS ARE NOW A SOURCE OF BUOYANT CONSUMER DEMAND.

CHART 18: Accumulated savings a source of consumer demand



Excess savings are defined as total savings from Q1 2020 to Q3 2021 above pre-pandemic average (2014 to 2019), as a percentage of disposable incomes.

Source: OECD 2021

US

Having lost momentum in Q3 2021, the economy looks set to grow strongly into Q4. Overall, for the year as a whole GDP growth will be around 5.5%, boosted by a surge in household consumption of close to 8%. But early in 2022 record numbers of COVID infections may disrupt economic activity, notably through the effect on participation in the jobs market and worker absenteeism. These effects should unwind early in the year and the outlook for 2022 is for more moderate GDP growth of around 3.5%, supported by investment – both public and business – as much as by consumption. In the coming months household spending will rely on the spending of accumulated savings and employment income since generous fiscal support measures have now been withdrawn.

Inflation remains the major policy challenge, with annual headline US consumer price inflation at 6.8% in November 2021, a near-40–year high. In December, the Federal Reserve increased the pace at which it is scaling back monthly asset purchases, paving the way for higher interest rates. The Federal Reserve acknowledged that not all the rise in inflation could be attributed to temporary factors such as supply shortages and that there has been an increase in price pressures more generally. At least three quarter–point interest rate rises are likely this year.

China

While the economy expanded by around 8% in 2021 as a whole, this masks a significant slowdown over the second half of the year. Renewed COVID infections and strict containment measures and power shortages were contributory factors in the loss of momentum. But the dominant influence has been weakness in the property sector, which accounts for around one-quarter of Chinese GDP. Extreme levels of indebtedness in several large property developers and fears of default have undermined confidence in the sector, reducing real estate investment and triggering falls in new home prices. GDP growth slowed to a quarterly rate of just 0.2% in Q3 2021 (4.9% year-on-year); Q4 is not likely to have seen a significant rebound. Monthly data for November showed disappointing retail sales, up just 3.9% on a year earlier, while housing starts are down by 22.4% over the same period. In December the People's Bank of China (PBoC) reduced its reserve requirement ratio and a key lending rate (albeit by just 5bps) in an effort to boost liquidity and stimulate the economy. Further easing measures are likely in the first half of this year. But the headwinds from weakness in the property sector are likely to be a major drag on economic growth this year. For the year as a whole GDP growth may be close to 5%, the rate now viewed as its long-term trend.

Euro-zone

After a lockdown-induced recession at the start of 2021, the euro-zone economy rebounded strongly growing by over 2% in both Q2 and Q3. But growth is likely to have slowed sharply in Q4 and early this year. Europe is a hotspot of the Omicron variant outbreak, with both Germany and France reporting record number of infections in late December. Many euro-zone countries have imposed new restrictions on hospitality, audience limits for events, etc. Although modest compared with the lockdowns imposed at the start of the pandemic in 2020, such measures are undermining confidence and slowing consumer spending. In addition, supply shortages have hampered the manufacturing sector - especially car production where a semiconductor shortage has triggered significant cuts in production. This has had a particular effect on the German economy, which last year saw GDP growth of 3%, less than half that in France and Italy, for example. The OECD estimate that cuts in car production knocked one and a half percentage points off annual German GDP growth last year (OECD 2021).

Over the first few months of 2022 we expect the Omicron wave to subside and for there to be some improvement in supply shortages. Overall GDP growth is likely to pick up from Q2 onwards, driven in particular by a recovery in domestic demand. After GDP growth in 2021 of close to 5%, a modest slowdown to around 3.5% is pencilled in for 2022. Unlike in the U.S. and UK, a rise in policy interest rates is unlikely this year, although the European Central Bank (ECB) has announced a moderation in the pace of asset purchases over the course of the year.

UK

In 2021 the UK economy grew by almost 7% (Q4 data yet to be published), a significant recovery after the 9.7% contraction of 2020. After strong growth following the lifting of lockdown measures in July, there was a loss of momentum towards the end of the year as first supply shortages affected certain sectors and then the Omicron variant spread rapidly. Early this year GDP will regain its pre-pandemic level, as steady growth continues, helped by strong business investment and consumption. GDP growth of around 4.5% this year is likely. Business investment will be boosted by a large tax incentive and will benefit from diminished uncertainty about both COVID and Brexit.

A significant downside risk is rising inflation eroding real disposable incomes and squeezing consumer spending. Already consumer price inflation has reached 5.1% (November) and higher energy prices are set to push it above 6% after April. While much of the rise in inflation can be attributed to one-off supply factors, there is a demand-pull element too. For example, households have accumulated a large stock of 'excess' savings during periods of lockdown restrictions and these savings are a source of consumer demand (Chart 18). Broad money growth is running at an annual rate of 7%, also an indicator of buoyant demand. In addition, a tight jobs market, with a record number of vacancies, may result in upward pressure on wages that mitigates the real squeeze on incomes – but adds to worries about inflation. In December, the Bank of England raised interest rates to 0.25% (from 0.1%) and further increases are likely in the coming months.

Emerging markets

The outlook for EMs remains challenging with most still a long way from regaining their pre-pandemic trend rate of growth (Chart 19). Slow progress with vaccinations and stretched fiscal resources have resulted in EMs lagging behind advanced economies in the pace of their recovery. Prolonged economic weakness may undermine long-term potential growth through so-called scarring effects, especially if unemployment stays at a high level. (See Section 2 for potential catch-up opportunities for EM countries.)

Many EMs are facing tighter monetary conditions at a time when recovery is incomplete and growth at a below-trend rate. As elsewhere in the global economy, inflation has risen sharply in recent months. In the six largest EM economies (excluding China)[2] annual inflation increased to around 8% by late 2021. Rising food and energy prices were significant upward influences. The response of many EMs, including Brazil, Mexico and Russia, has been to raise interest rates. (Turkey has lowered interest rates despite above-target inflation.) Further rate increases in the coming months may undermine recovery in these EMs. Moreover, the likely rise in US interest rates in the first months of the year will raise debt-servicing costs for those EMs with large external dollar-denominated debt, putting further strain on already stretched fiscal resources.

Risks to the global outlook

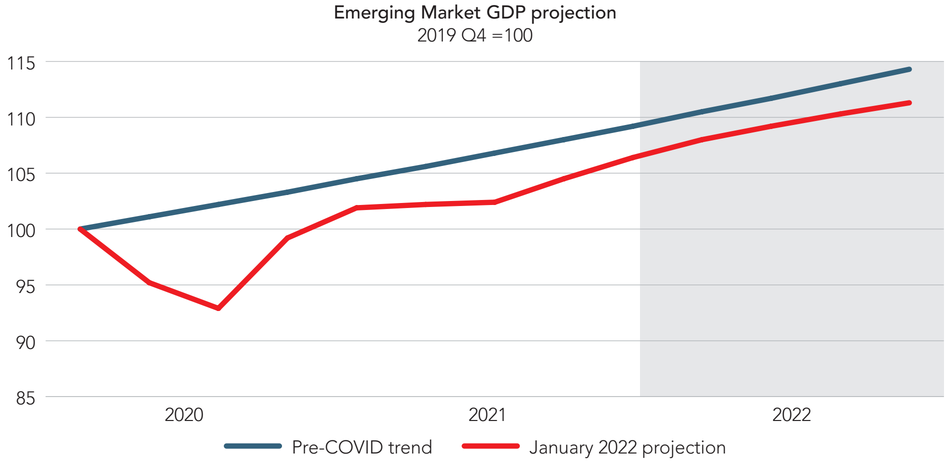
There are always risks around any economic outlook but for 2022 the risks are both significant and skewed heavily to the downside. As demonstrated by the recent, rapid spread of the Omicron variant, the health crisis is far from over as it enters its third year. The economic impact of new variants and associated containment measures has been much less than in the early days of the pandemic in 2020. Nevertheless, some effect on consumer and business confidence and spending is inevitable in the event of further, highly transmissible COVID variants.

The biggest economic risk is that inflation remains higher for longer, triggering more aggressive monetary tightening by major central banks. The current consensus is that inflation will peak in the first half of this year and then fall back gradually into 2023. The premise for this view is that much of the recent rise in inflation was due to temporary factors rather than a more general increase in price pressures. These factors were higher energy and commodity prices as well as a surge in transport costs associated with increased cost of container shipments. Such price spikes are due to the combined effects of a post-lockdown surge in demand and constrained supply, unable to respond in the short term. The argument runs that as demand cools and supply conditions improve, prices will at least be steady and more likely fall. In either case inflation follows the glide path down towards 2% (Chart 5).

But deviations from this benign scenario could occur for several reasons. First supply shortages may persist and become more widespread rather than abate. This could occur if Omicron or another COVID variant results in manufacturing closures or disruption to trade through closure of ports, especially in Asia. At the same time, demand may strengthen, boosted

THE OUTLOOK FOR EMs REMAINS CHALLENGING WITH MOST STILL A LONG WAY FROM REGAINING THEIR PRE-PANDEMIC TREND RATE OF GROWTH.

CHART 19: EMs failing to regain pre-crisis growth trend



Source: OECD 2021, and ACCA projections (unpublished)

2 Brazil, Mexico, Russia, Turkey, India, Indonesia.

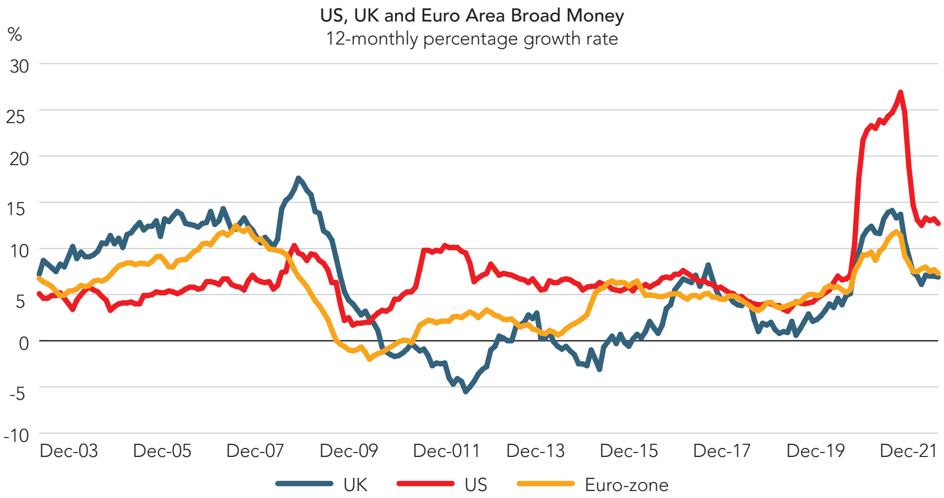
by accumulated savings and increased employment income. Buoyant housing markets may also fuel demand. Easy monetary policy, including quantitative easing, pushed broad money growth to extremely high rates early in the pandemic and they remain high and consistent with upward pressure on demand and inflation (Chart 20). The effect would be a broadening of price pressures across a wider range of goods and services, resulting in upside surprises to inflation.

Entrenched inflation would then be reflected in inflation expectations and wage settlements, fuelling a wage-price spiral.

Central banks have already begun to adjust policy marginally to reflect the persistence of higher-than-expected inflation. If inflation does persistently surprise on the upside in the coming months, then the consequence will be a much greater degree of monetary tightening than is currently discounted by financial markets. In turn, this would probably cause a loss of growth momentum later this year and into 2023. For advanced economies this would delay the return of the economy to its pre-pandemic trend rate, while for EMs significantly higher U.S. interest rates would exacerbate rises in debt-servicing costs and could put upward pressure on inflation through exchange rate effects.

EASY MONETARY POLICY, INCLUDING QUANTITATIVE EASING, PUSHED BROAD MONEY GROWTH TO EXTREMELY HIGH RATES EARLY IN THE PANDEMIC AND THEY REMAIN HIGH AND CONSISTENT WITH UPWARD PRESSURE ON DEMAND AND INFLATION.

CHART 20: Broad money growth still buoyant



Source: FRED

TABLE 1: OECD GDP forecasts December 2021

% CHANGE ON A YEAR EARLIER*	2020a	2021e	2022f	2023f
World	-3.4	5.6	4.5	3.2
US	-3.4	5.6	3.7	2.4
Euro-zone	-6.5	5.2	4.3	2.5
Germany	-4.9	2.9	4.1	2.4
France	-8.0	6.8	4.2	2.1
Italy	-9.0	6.3	4.6	2.6
Spain	-10.8	4.5	5.5	3.8
UK	-9.7	6.9	4.7	2.1
Canada	-5.3	4.8	3.9	2.8
Japan	-4.6	1.8	3.4	1.1
China	2.3	8.1	5.1	5.1
India	-7.3	9.4	8.1	5.5

a= actual, e = estimate f = forecast

Source: OECD 2021

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Appendix I:

Economies covered by Q4 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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