



The Association of
Accountants and
Financial Professionals
in Business

Think Ahead



Global economic
conditions survey report:
Q4, 2015



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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 95 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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Global economic conditions survey report: Q4, 2015

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

Its main indices are good predictors of GDP growth in the OECD countries and daily trend deviations correlate well with the VIX or 'fear' index, which measures expected stock price volatility.

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Fieldwork for the fourth quarter of 2015 took place between 27 November and 25 December, and attracted more than 2,500 responses from ACCA and IMA members around the world, including over 200 CFOs. Nearly half the respondents were

from small and medium enterprises, while the majority were working for large firms of more than 250 employees.

ACCA and IMA would like to thank all members who responded to the survey. It is their first-hand insights into the fortunes of companies around the world, which make the GECS a trusted barometer for the global economy. We would also like to thank the following for their time and expertise:

- Dr. Howard Archer, Chief European and UK Economist of the Country Analysis and Forecasting Group, IHS Economics
- Andrew Kenningham, Capital Economics
- Dario Perkins, Chief European Economist, Lombard Street Research

The final Global Economic Conditions Survey (GECS) of 2015 shows that businesses remain gloomy about their prospects.

- The final Global Economic Conditions Survey (GECS) of 2015 shows that businesses remain gloomy about their prospects. Globally, 44% of respondents said they were less confident than they had been three months earlier, only slightly fewer than in Q3, when businesses were at their most pessimistic in four years.
- Compared with the previous quarter, firms reported fewer investment opportunities; a greater reluctance to hire new workers; increased difficulty accessing finance; along with a fall in revenue.
- In keeping with the slowdown in the global economy, declining income is now clearly the biggest concern of businesses, with 46% reporting it as a problem, up from 41% in Q3.
- Businesses faced a host of risks at the end of last year. Chief among them was the first US rate hike in almost nine years, which was anticipated by finance professionals surveyed and which arrived shortly after this survey was completed. Nervousness about the health of China's economy and a fresh fall in global commodity prices also weighed on sentiment.
- Confidence remained especially weak in non-OECD economies. China's slowdown has grabbed most of the headlines and it is affecting business confidence around the rest of the world. It is contributing to serious problems in other major emerging economies, especially those that rely on commodity exports, most notably Brazil and Russia.
- Even those oil producers that were relatively well prepared for a drop in energy prices, such as Saudi Arabia and the UAE, are now facing weaker growth as governments in those countries turn their attention to repairing their finances.
- Businesses in OECD economies are more upbeat. Most advanced economies are net importers of energy and have benefitted from declines in oil prices. The US economy continues to perform relatively well, even if business confidence was undermined last quarter by the strength of the US dollar and the prospect of a rate hike.
- The most significant improvement in business confidence was in the eurozone, where the risk of a near-term break-up of the currency area has faded into the distance after the latest Greek bailout.

Globally, businesses remained gloomy about their prospects in the last quarter of 2015.

HEADLINE RESULTS

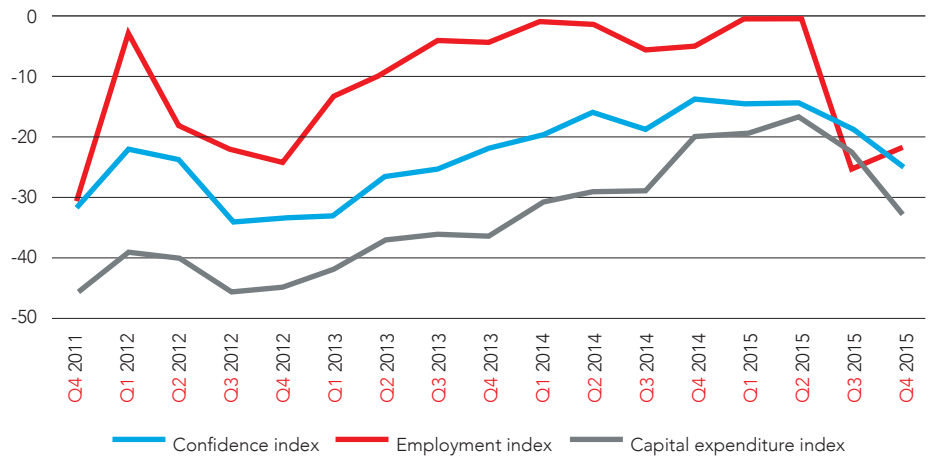
Globally, businesses remained gloomy about their prospects in the last quarter of 2015. Despite picking up slightly from Q3, business confidence was still close to its lowest level in three years, with 44% of respondents saying they were less upbeat about their prospects than they were three months earlier, compared to only 22% that had become more optimistic.

Concerns about China's economy continue to cloud the global outlook, while conditions for commodity producers deteriorated further in Q4, as prices took another tumble. The US economy still appears to be in reasonable health but businesses are worried about the impact of monetary tightening and exporters are struggling to cope with the strong dollar.

This uncertainty has meant that businesses have continued to scale back their investment and employment plans. The capital expenditure index dropped for the second quarter in a row, as 40% of businesses reported that they had scaled back their investment plans. Understandably, commodity producers have been among the quickest to make cuts. The capital expenditure index is now at a record low in the Middle East and Africa and very low in most other economies that are reliant on commodities.

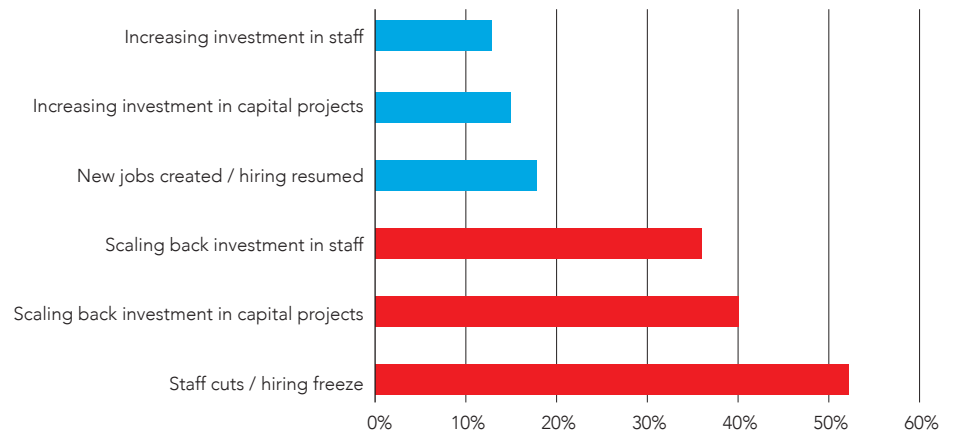
Employment intentions have deteriorated even more sharply than investment plans. More than half of businesses globally (52%) and 61% in the Middle East and Africa now have a hiring freeze in place or are cutting their workforce.

Chart 1: Businesses remain gloomy



Source: GECS

Chart 2: Firms' responses to the global economy, Q4 2015



Source: GECS

The collapse in commodity prices has affected the revenue of firms in the resources sector and weak global growth is hurting businesses in most sectors.

BOTTOM LINES BEING SQUEEZED

Declining income is now clearly the biggest business concern, with nearly half of respondents (46%) reporting it as a problem, up from 41% in Q3. Income has been hit on several fronts. The collapse in commodity prices has affected the revenue of firms in the resources sector and weak global growth is hurting businesses in most sectors. Exporters are having a particularly tough time. Global trade was up by just 1.4% in three-month year-on-year (yoy) volume terms in October, which means that it is growing at a much slower rate than global growth. In US dollar terms, trade is falling at double-digit rates. The global trade slowdown has hit large firms – which are more likely to export than SMEs – the hardest, with 49% reporting a decline in income last quarter. Their higher exposure to the global trade downturn could also help explain why 58% of large firms were cutting or freezing employment and 44%

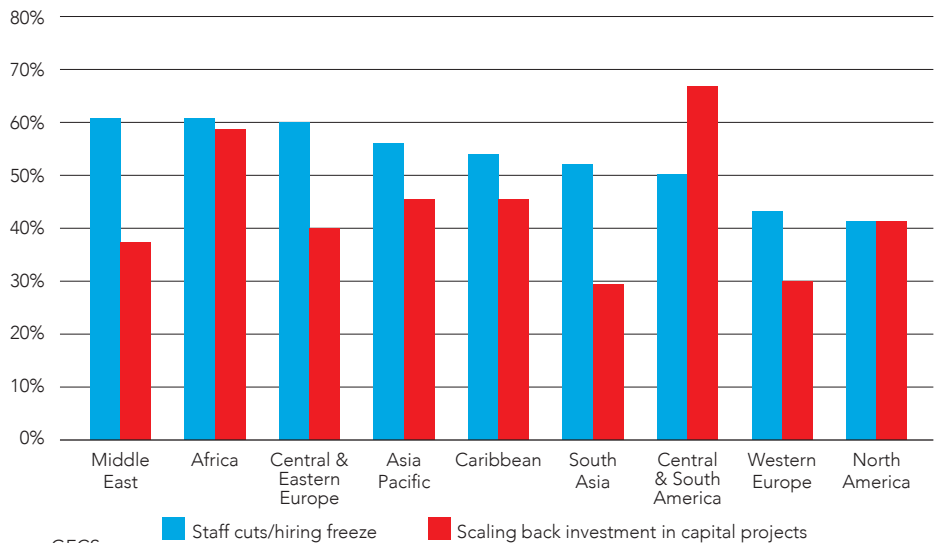
were scaling back investment, compared with only 45% and 36%, respectively, of SMEs.

Businesses still cited rising costs as their second biggest concern. Globally, 40% of firms said rising costs were a problem. This may seem odd given the fresh falls in commodity prices. However, firms in many parts of the world, most notably Asia and Africa, still have to deal with rapidly rising wages. Unsurprisingly, far fewer firms were worried about rising costs in Western Europe and North America.

The renewed strength of the US dollar ahead of the US Federal Reserve (the US Fed) rate hike will also have put upward pressure on the cost of imports and servicing US dollar-denominated debts in a number of economies. Dollar appreciation also accounts for the negative impact of foreign exchange rate movements being businesses' third-biggest problem last quarter.

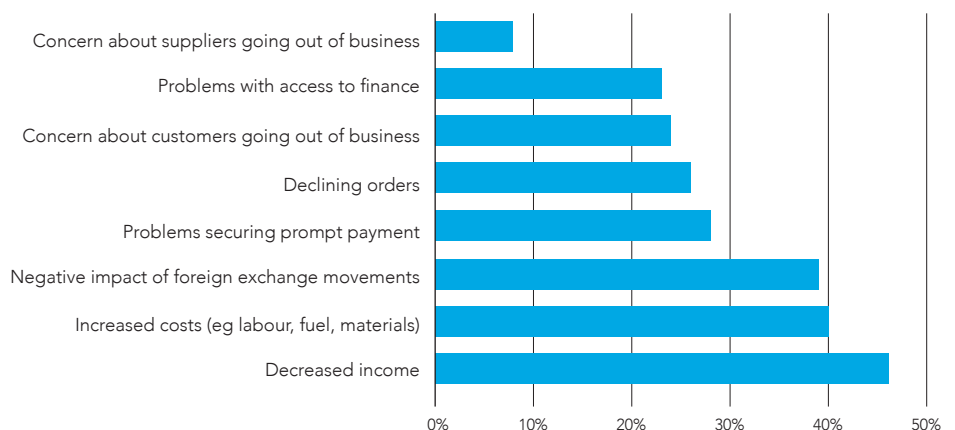
46%
of respondents report that declining income is now the biggest business concern

Chart 3: Weak hiring and investment intentions



Source: GECS

Chart 4: Main negative effects of global macroeconomic changes



Source: GECS

Most businesses in the Caribbean, Central & South America and the Middle East, as well as Western Europe, said they are now expecting government spending cuts.

GOVERNMENTS STILL ON THE SIDELINES

Despite concerns over global growth, businesses are not expecting much response from governments. In fact, the global government expenditure index fell to its lowest-ever level last quarter. Governments which are reliant on revenue from the commodity sector to fund their spending, such as those in Saudi Arabia, the UAE, Brazil, Russia and Malaysia, could easily be forced to tighten their belts. Most businesses in the Caribbean, Central & South America and the Middle East, as well as Western Europe, said they are now expecting government spending cuts.

Most notably, there was a marked improvement in confidence in Western Europe, where 33% of businesses said they were more optimistic about their prospects (up from 27% in Q3).

There have also been some encouraging signs that Australia's economy is weathering the fall in commodity prices better than expected, with labour market conditions looking particularly strong and with businesses in Australia saying they have become much less pessimistic. In fact, business confidence across the OECD as a whole showed a marked improvement in Q4.

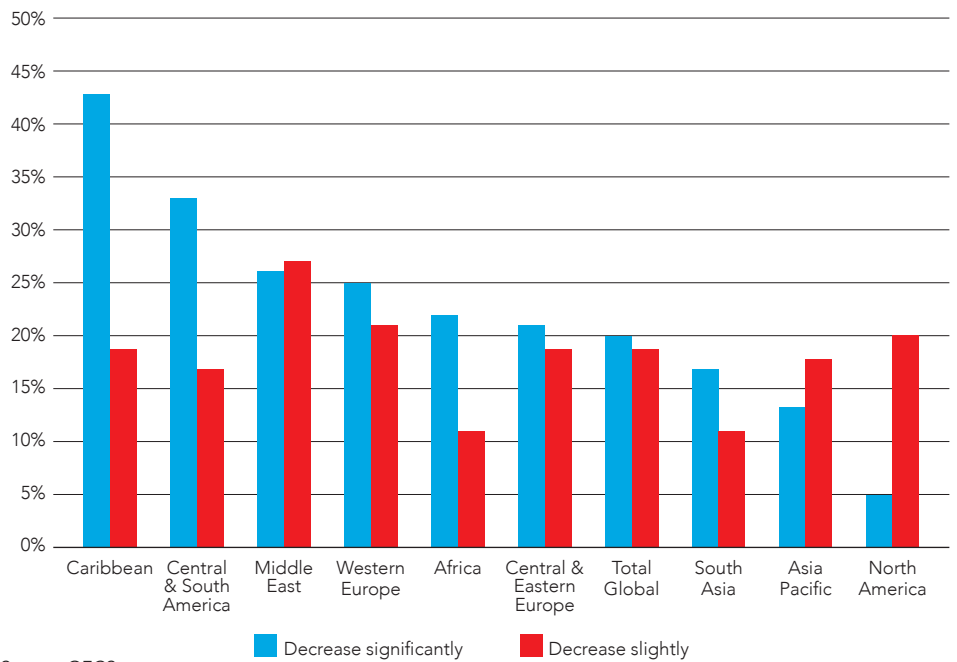
In stark contrast, confidence in the emerging world remained close to rock bottom. Emerging market (EM) economies have been slowing for a number of years.

EMERGING MARKET WOES CONTINUE

Although global business confidence remained downbeat last quarter, there were pockets of optimism.

33%
of businesses in Western Europe said they were more optimistic about their prospects

Chart 5: Expectations of government spending



Source: GECS

Given the rocky start that financial markets have made to 2016, it would be no surprise if business confidence in the emerging world worsens before it gets better, even if potentially there is some relief on the horizon.

The World Bank estimates that, collectively, they grew by just 4.3% in 2015, down from 4.9% in 2014 and around 8% in 2010. The most significant slowdown, in terms of its contribution to the global economy and its demand for commodities, has been in China. But Russia, Brazil and South Africa, three more of the biggest emerging markets, have also run into trouble.

Adding to the general uneasiness around the emerging world is the prospect of further tightening by the US Fed. EMs with large current account deficits or hefty holdings of foreign currency debt are most at risk. Given the rocky start that financial

markets have made to 2016, it would be no surprise if business confidence in the emerging world worsens before it gets better, even if potentially there is some relief on the horizon.

“Our forecast is that commodity prices will stabilise or even recover somewhat over the next year or two,” says Andrew Kenningham of Capital Economics. “That is in turn partly driven by our expectation that China will do better than most people fear. If that proves to be accurate, then emerging economies as a whole should at least stabilize; in other words, their growth rate will probably stop falling.”

Chart 6: Business confidence at rock bottom in non-OECD



Source: GECS

The latest fall in oil prices: winners and losers

THE LATEST FALL IN OIL PRICES: WINNERS AND LOSERS

In mid-January the price of Brent crude was just US \$28 a barrel, down from around US \$45 at the start of Q4 and more than US \$100 in mid-2014. A combination of increased supply and weak global demand have driven prices lower, and expectations for a rebound are low. The Saudi government, for example, appears to be basing its latest budget on an oil price of around US \$38 a barrel, while the International Energy Agency (IEA) has warned that prices could fall even lower than they are now, with the oil market “drowning in oversupply” following the lifting of sanctions on Iran.

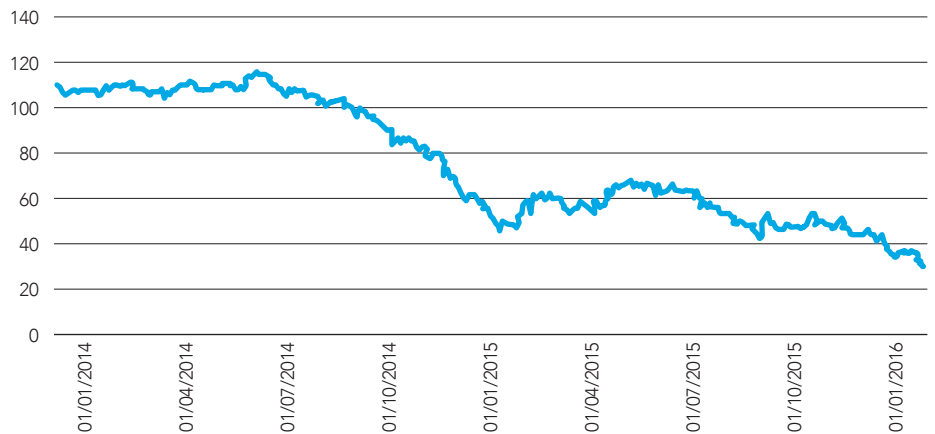
A drop in oil price obviously creates winners and losers. For net energy importers, a fall means there will be less money leaking out of the economy and the savings can be spent on other goods and services, giving the economy a lift. The

reverse is true for net energy exporters. The chart below shows net energy imports for a range of economies. The losers are to the left, the winners to the right.

But what does this mean for the global economy? According to Capital Economics, a US \$10 drop in oil prices transfers income worth around 0.4% of global GDP from net oil producers to net oil consumers. Since net oil consumers (like the US and Western Europe) tend to save less of their income than oil producers (like Saudi Arabia and the UAE), the result should, in theory, be an eventual boost to global growth.

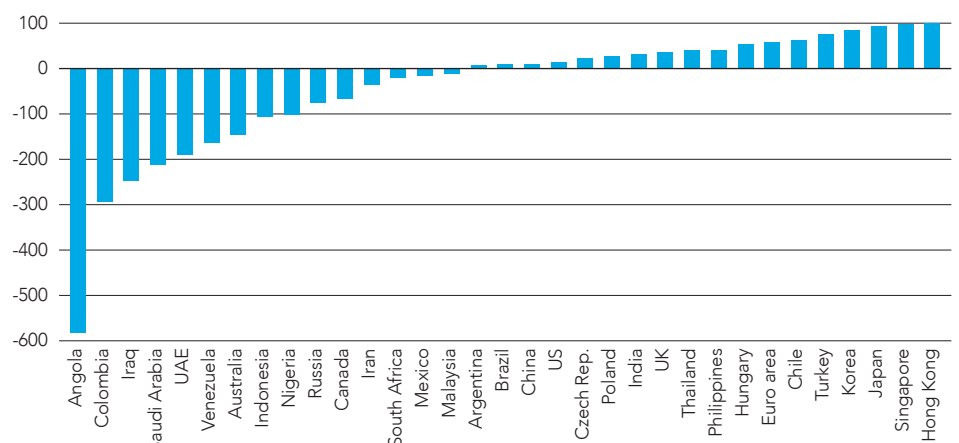
However, this has not been borne out in practice. It is true that consumer spending appears to have been given a lift by lower oil prices in some countries. Consumer spending in the developed world grew at its fastest rate since the global financial crisis in 2015. But many households are choosing to save their windfall from lower oil prices – at least for now.

Chart 7: Oil prices tumble again



Source: Bloomberg

Chart 8: Net energy imports (% of energy use)



Source: World Bank

Already, inflation is close to zero in the eurozone, the US, the UK and Japan. In a number of emerging markets, mostly in Asia and Central & Eastern Europe, inflation was negative for most of 2015.

It may be that spending will pick up further as households become more confident that low oil prices are here to stay, but for now the negative effects of lower oil prices are dominating the global economy.

Unlike the winners from lower oil prices, energy producers have responded to the downturn in their fortunes quickly. Energy firms, in particular, have slashed investment in new capacity. For example, fixed investment in Russia was down by 4.9% yoy in November, which helped to send its economy into recession. It is a similar story in Brazil, where fixed investment contracted by 15% yoy in Q3. The one consolation for these economies is that the latest fall in oil prices was far less dramatic than the collapse in late 2014 and firms had already adjusted their plans. If anything, investment by energy firms should soon start to contract less sharply, creating less of a drag on economic growth.

That said, there are some energy-exporting economies that may still need to adjust to lower oil prices.

Governments in the Middle East, for example, were relatively well prepared to offset the effects of the oil price collapse, having built up healthy fiscal reserves. But further adjustment is now needed, with governments in both Saudi Arabia and the UAE having laid out plans for belt tightening in 2016. Saudi Arabia, for example, is planning to cut spending by 14% this year.

IS DEFLATION BECOMING A THREAT TO THE GLOBAL ECONOMY?

The latest fall in global prices has also increased fears that large parts of the

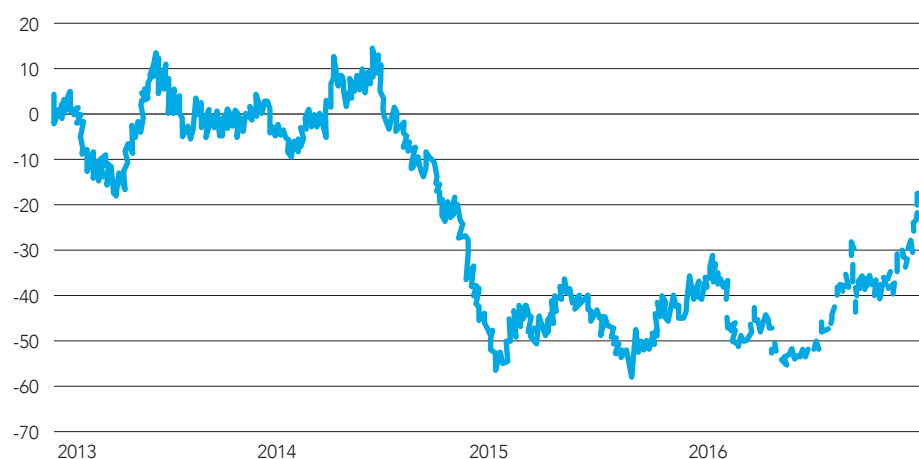
global economy might be facing a period of prolonged and damaging deflation. Already, inflation is close to zero in the eurozone, the US, the UK and Japan. In a number of emerging markets, mostly in Asia and Central & Eastern Europe, inflation was negative for most of 2015.

However, a bout of deflation does not have to be bad news. If it is the result of a supply-side shock, like a fall in commodity prices, rather than weak demand, it can actually have positive effects. Some of those positive effects were apparent in the survey, with almost half of respondents globally seeing an opportunity to reduce costs last quarter.

“At the moment it’s a pretty benign kind of deflation; it’s an oil price deflation,” says Dario Perkins, Chief European Economist, Lombard Street Research. “Inflation numbers are below where central bankers want them to be, but I don’t think people should be too concerned: it’s not a liquidity trap deflation. It’s coming from commodity prices, it’s boosting real incomes and consumers are spending, particularly on cars – just look at the sales in the US or Europe. I take that as a bullish signal.”

Importantly, core inflation and inflation expectations have not turned negative in most economies. There is also reason to think that inflation will start to rise in 2016, as downward pressure from commodity prices starts to fade. The chart below shows the annual yoy change in the Brent crude oil price. The dotted line shows that even if oil prices remain at their current lows, oil price deflation will ease this year. This should calm deflation fears.

Chart 9: Oil price deflation should fade during 2016



Source: Bloomberg

Globally, there was an increase in the number of businesses reporting that the availability of capital had decreased last quarter, with almost every region affected.

FED TIGHTENING: WHAT ARE THE RISKS?

The US Fed's first rate hike in almost nine years was greeted with relative calm in the markets (at least initially), with some investors even taking it as a vote of confidence in the global economy. Much of the market adjustment, however, took place in the lead up to the rate rise, and the US dollar still ended Q4 2% stronger in trade-weighted terms than it began the quarter. Indeed, ACCA and IMA survey respondents reported an increase in negative effects from currency movements last quarter, as the dollar appreciated against most currencies.

US rate hikes will create undoubted strains, as borrowing in international markets becomes more expensive. Globally, there was an increase in the number of businesses reporting that the availability of capital had decreased last quarter, with almost every region affected.

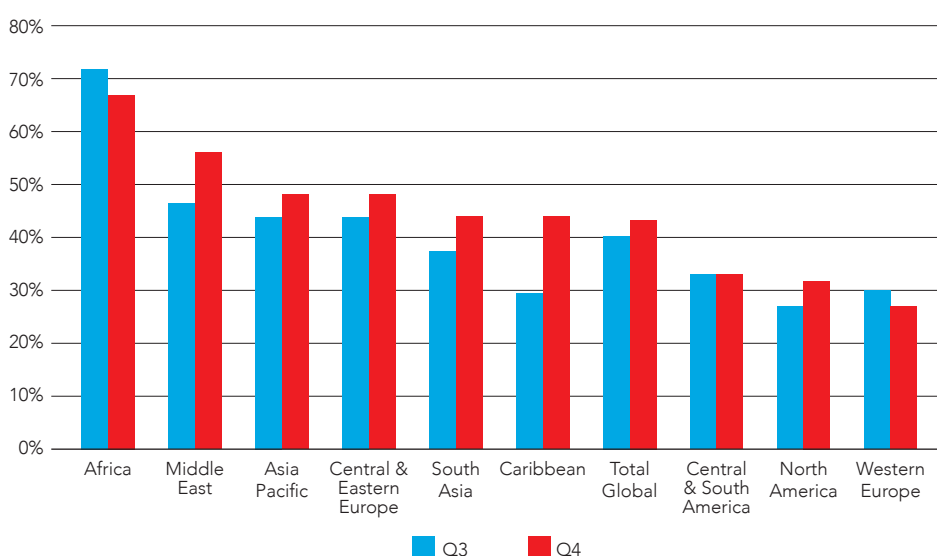
There are also no guarantees that markets will take further US rate hikes in their stride. Fed officials themselves are projecting another 100 basis points of rate hikes in 2016, taking the Fed funds rate to 1.4%. Market expectations around this forecast are likely to be a key source of volatility this year.

Some forecasters are expecting hikes to be more aggressive, arguing that inflation is set to pick up faster than the Fed is anticipating. The US economy is now close to full employment, and it would be surprising if wage growth did not eventually strengthen as a result. Meanwhile, downward pressure on inflation from oil prices and the strong run of the US dollar should start to fade.

"Of all the things to worry about this year the federal interest rate isn't one of them," says Dario Perkins, Chief European Economist, Lombard Street Research. "They are fairly rational policymakers, they're not going to do something crazy and suddenly ramp up interest rates regardless of what happens with the rest of the world. The Fed will respond to what's happening elsewhere."

The economies that are most at risk as a result of US tightening are those with poor external positions which make them dependent on foreign funding. Turkey, South Africa, Malaysia, Indonesia and Colombia all fall into this category, either because of current account deficits or large amounts of short-term external debt (or both). Turkey's hefty holdings of US dollar-denominated debt add to its risks, since this debt will rise in value if the Turkish lira takes another tumble.

Chart 10: Firms reporting that the availability of capital has decreased (%)



Source: GECS

“The metaphor of China being the engine of world growth isn’t a very good one – it implies that it alone is pulling the rest of the world along. That’s not the case. If China grows more slowly, the US, for example, would still be fine.”

SHOULD WE WORRY ABOUT A BIG FALL IN THE RENMINBI?

The start of 2016 was dominated by concerns over China’s economy. Its stock market went back into freefall and the renminbi depreciated against the US dollar by around 1% within a week.

A significant devaluation could have wide-ranging implications for the global economy. It would boost the competitiveness of Chinese goods, making it even more difficult for firms in other economies to retain market share. This would be a particular problem for manufacturing-based economies, especially those such as Taiwan and Korea which are already struggling as China moves up the value chain to produce more of the sophisticated components that it used to import from its more developed neighbours. A sharp fall in the renminbi would also reduce pressure on lower-end manufacturers to look for alternative low-cost locations for their factories, such as Vietnam and Bangladesh.

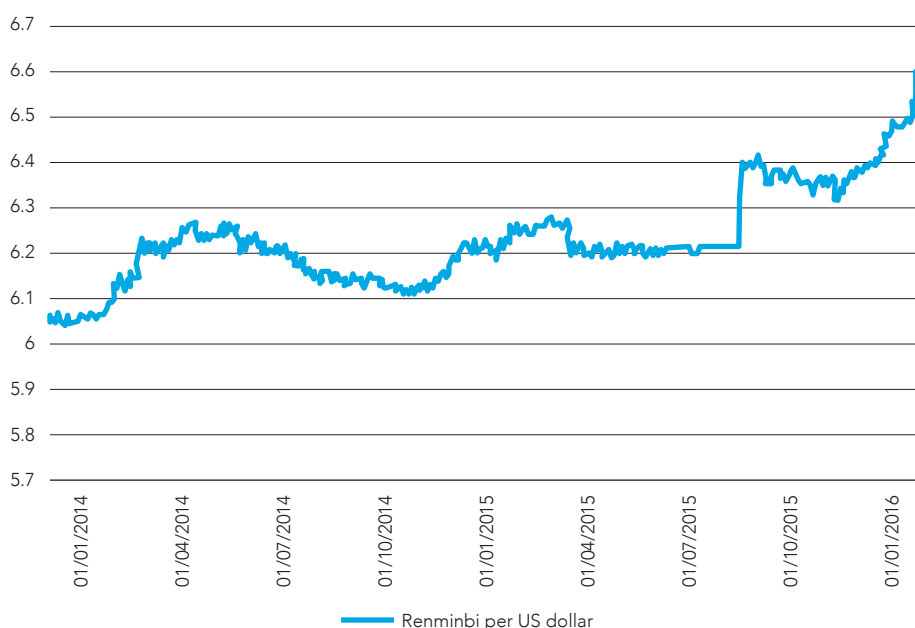
Other central banks would almost certainly try to follow suit and push their own currencies down. One implication would be another round of general US dollar strength and probably another leg down in commodity prices – pushing down global inflation further.

“China is going through a very long adjustment period. It is a slow burn crisis: demand is going to be significantly weaker than it has been for a number of years. What are the spillovers? There is trade, investment and commodity price links,” says Dario Perkins, Chief European Economist, Lombard Street Research. “If you are a commodity producer then a slowdown is a massive problem. Companies like Anglo American are really struggling. Even in Germany the export numbers have been very soft and a lot of that is coming from outside the Eurozone. We don’t properly understand the financial implications yet.”

“We think the slowdown has already happened,” says Andrew Kenningham of Capital Economics. “Our view is that the threat to the world economy is much less than the headlines suggest.”

“The metaphor of China being the engine of world growth isn’t a very good one – it implies that it alone is pulling the rest of the world along. That’s not the case. If China grows more slowly, the US, for example, would still be fine. Even its imports from China are only about 2.5% of its GDP and its exports to China very small, at just 1% of US GDP or less. Capital inflows to China from portfolio investors and through the banking sector are quite low. US banks have negligible exposure: equivalent to only half a percent of GDP.”

Chart 11: Renminbi continues its slide



Source: Bloomberg

Business confidence fell again in North America last quarter, to its lowest point since the survey began in 2011.

NORTH AMERICA: MIXED FORTUNES

Business confidence fell again in North America last quarter, to its lowest point since the survey began in 2011, with 44% of businesses saying they had become less confident over the preceding three months, compared with just 18% saying they had become more confident. But while confidence dipped only slightly in the US, where the economy still appears to be growing at a healthy rate, confidence plummeted in Canada, which is far more vulnerable to the renewed fall in global oil prices.

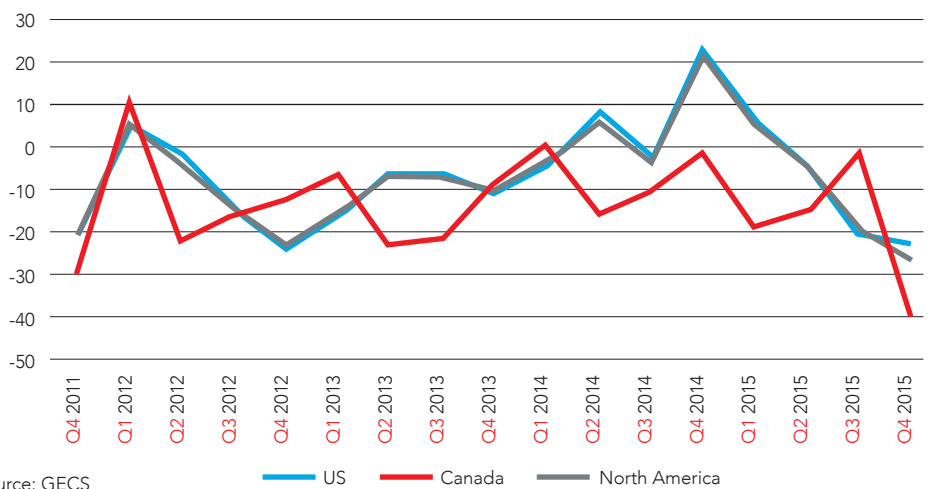
Michigan consumer confidence index rose in each month of the fourth quarter. Perhaps, most importantly, concerns that the labour market was losing momentum were eased by strong employment gains. In October to December, non-farm payrolls increased by an average of 284,000 a month, up from an average of 174,000 in the third quarter.

Nevertheless, it is not hard to see why business confidence fell again in Q4 and why businesses scaled back their investment and employment plans (see chart above). While markets responded well (at least initially) to the Fed rate rise, much of this survey was conducted in the build-up to the Fed's meeting, when there was considerable nervousness about the potential effects of a hike. Businesses also reported that it was becoming harder to access finance even before the Fed hiked rates, with 15% of North American firms reporting problems accessing finance, up from 12% in Q3.

US IN FOCUS

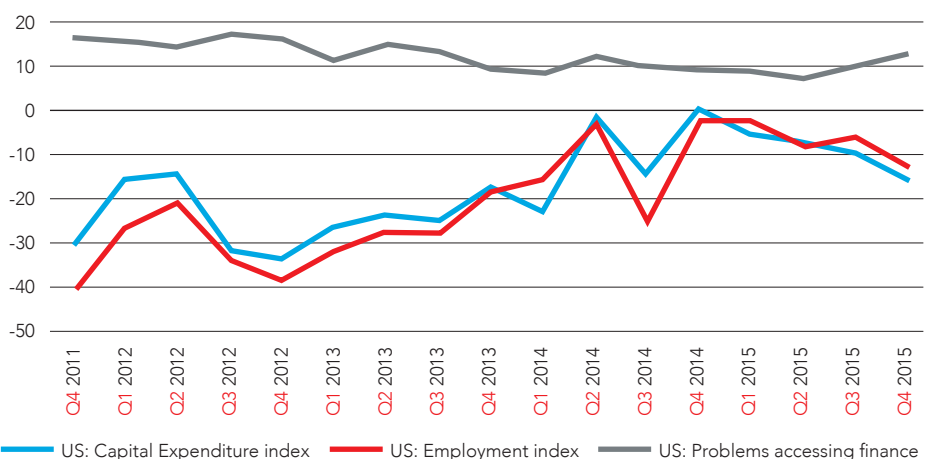
There were some encouraging signs from the US economy in the last quarter. Data showed that the economy grew by a relatively healthy 2.1% in Q3. Retail sales continued to expand in October and November; auto sales hit a record high in the year as a whole; while the University of

Chart 12: Business confidence plummets in Canada



Source: GECS

Chart 13: Financial difficulties and scaled back plans



Source: GECS

Canada is a large net energy exporter and its terms of trade have deteriorated sharply as oil prices have fallen. Even before the latest drop, its economy was suffering.

What's more, there is a clear divergence within the US economy. Domestic-oriented sectors, such as retail, are benefitting from the healthy labour market, low oil prices, the recovering housing market and the government's move to a less austere fiscal stance. But businesses that rely on overseas demand are struggling to cope with the strength of the US dollar, which has now strengthened by 22% since the start of 2014.

"Manufacturing data is very weak: the US ISM manufacturing index has dropped below fifty," says Dario Perkins, Chief European Economist, Lombard Street Research. "The strong dollar should be a temporary problem, but the inventory cycle and the oil price is weighing heavily on US manufacturing and that is weighing heavily globally. European lines are actually picking up compared to the US, so that tells you there is a currency effect, too."

More businesses reported that negative impact of recent currency movements were a problem in Q4 than ever before. That's no surprise when merchandise exports were down by 4.6% yoy in the first 11 months of the year.

Meanwhile, the energy sector continues to perform poorly. Mining investment was contracting at an annualised rate of around 50% during most of 2015 and there was a further fall in drilling activity in response to the fall in oil prices at the end of the year. S&P expects a rise in energy sector defaults to push the US corporate default rate up to 3.3% by September 2016, from 2.5% in September 2015. Many of the shale oil firms

that borrowed to invest when oil prices were over US \$100 a barrel will not be able to cope with an oil price of less than US \$40 a barrel.

CANADA IN FOCUS

Low oil prices also help explain why business confidence plummeted to a record low in Canada in Q4, with 49% of firms reporting that they had become less confident in the outlook over the preceding three months, which was above the global average of 44%.

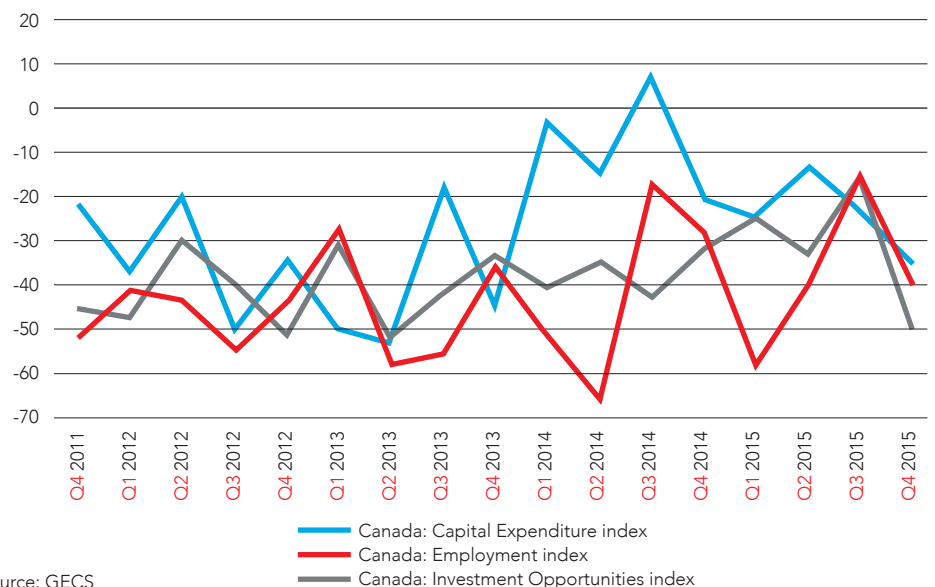
Canada is a large net energy exporter and its terms of trade have deteriorated sharply as oil prices have fallen. Even before the latest drop, its economy was suffering. It went through a recession in the first half of the year and, following a brief recovery, GDP contracted by 0.5% in September and was flat in October. The proportion of businesses reporting an increase in profitable opportunities in Q4 was just 6%, compared with 13% globally, while 55% reported a decrease, well above the global average of 48%.

Meanwhile, the drop in the Canadian dollar has done little to boost non-commodity exports. Many firms are suffering from the upward pressure that its decline has put on import prices and the cost of servicing US dollar debts. The survey shows twice as many Canadian firms (42%) as US firms (21%) reported negative effects from recent currency movements in Q4, albeit with their currencies moving in very different directions. The Bank of Canada now seems very likely to cut interest rates again soon, but a recovery in confidence looks some way off.

49%

of firms reporting that they had become less confident in the outlook over the preceding three months

Chart 14: Disappearing opportunities



Source: GECS

Bucking the trend of contracting global trade, exports from the eurozone increased during most of 2015.

WESTERN EUROPE: MOVING OUT OF CRISIS MODE

Businesses in Western Europe became more upbeat at the end of last year, as the region's economies continued on the path of gradual recovery.

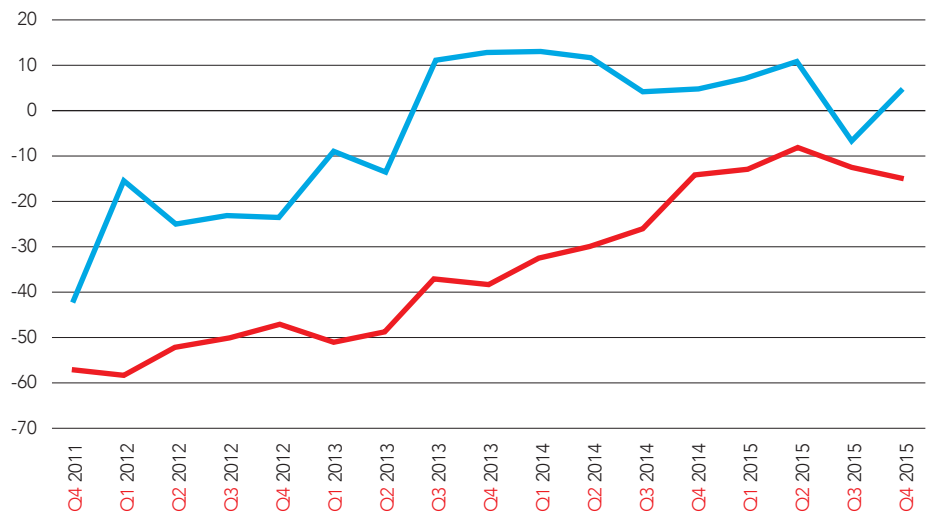
"The Eurozone is actually going to grow close to or a little above its trend rate for the next year or two. That's a lot better than what we've been used to in recent years. And any sense of there being an impending crisis has really faded," says Andrew Kenningham of Capital Economics.

Eurozone GDP grew by a relatively healthy 0.3% quarter-on-quarter (qoq) in the third quarter, taking yoy growth to 1.6%. Bucking the trend of contracting global trade, exports from the eurozone

increased during most of 2015. Meanwhile, consumers have been more willing than their counterparts in most economies to spend their windfall from lower energy prices, with growth in real retail spending accelerated as consumer price inflation declined last year.

"The question isn't whether the consumer can keep supporting the European economy... you are dependent on what happens to business investment," says Dario Perkins, Chief European Economist, Lombard Street Research. "Europe hasn't really had an investment revival despite economists talking about it for five years now. But there are signs that it is about to pick up: corporate demand for credit has been pretty good and business confidence is pretty high."

Chart 15: Confidence rebounds



Source: GECS

“One of the key factors in its favour is that over the last year the fall in oil prices essentially means there’s more money in people’s pockets after they fill the car with petrol.”

That said, there are signs that some momentum may be being lost. The number of firms in Western Europe reporting concerns over revenue prospects had fallen steadily over the last few years, but there was a notable rise in the fourth quarter (see chart below).

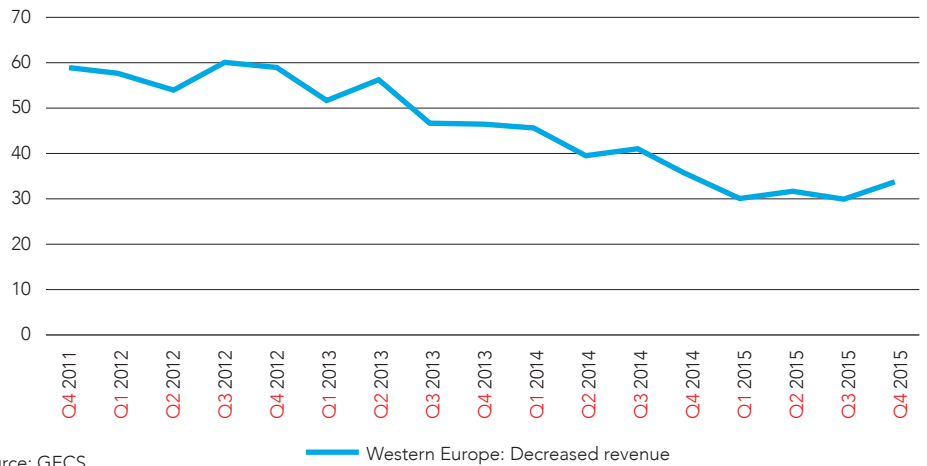
Moreover, the capital expenditure index for Western Europe fell to its lowest in more than a year in Q4.

This mirrors other recent data. Merchandise exports expanded by just 0.9% yoy in October, down from 7.1% as

recently as July, according to Eurostat, suggesting that the boost from currency depreciation has already started to fade. Similarly, Eurostat figures showed eurozone retail sales fell by 0.3% month-on-month (mom) in October, taking yoy growth down from 2.4% to 1.4%.

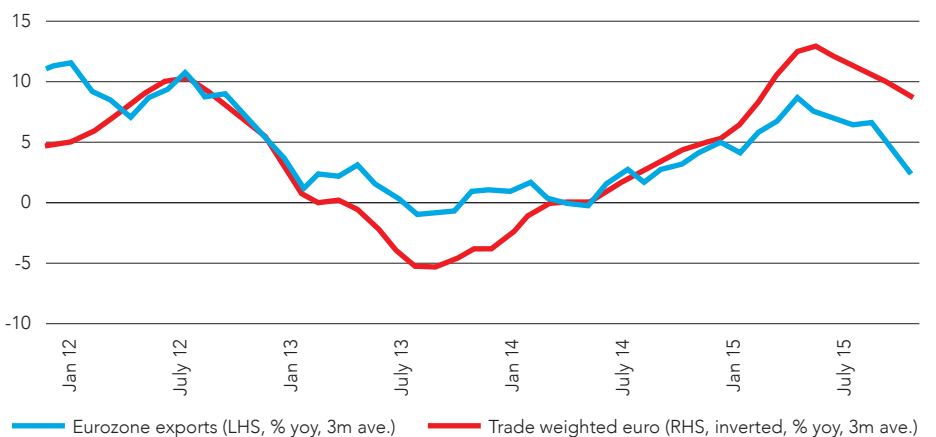
Andrew Kenningham of Capital Economics says: “One of the key factors in its favour is that over the last year the fall in oil prices essentially means there’s more money in people’s pockets after they fill the car with petrol. But that boost is likely to be a bit smaller this year than it was in 2015.”

Chart 16: Revenue concerns no longer fading



Source: GECS

Chart 17: Fading export boost from Euro depreciation



Sources: Bloomberg, Eurostat

Low inflation has also reduced the chances of the Bank of England raising interest rates any time soon. Markets now expect it to wait until 2017 before tightening.

UK IN FOCUS

After growing by 2.9% in 2014, the UK economy looks to have expanded by not much more than 2% in 2015. The breakdown of Q3 GDP data showed a big drag from net exports. Demand from the UK's main export markets has been weak, while the strength of the British pound, which has been appreciating in trade-weighted terms has undermined the competitiveness of UK firms. The manufacturing sector, especially, has struggled amid sluggish export demand, with the manufacturing PMI falling close to its lowest since early 2013 in December.

Nevertheless, business confidence improved markedly in Q4, which suggests some of the gloom may be unjustified. Indeed, the domestic economy remains healthy. Household spending has been helped by low inflation and rapid wage growth. Real household disposable incomes rose by 4% in Q3, the fastest rate since Q1 2010. The recent drop in oil prices, by keeping inflation lower for longer, will give consumers another boost. Low inflation has also reduced the chances of the Bank of England raising interest rates any time soon. Markets now expect it to wait until 2017 before tightening.

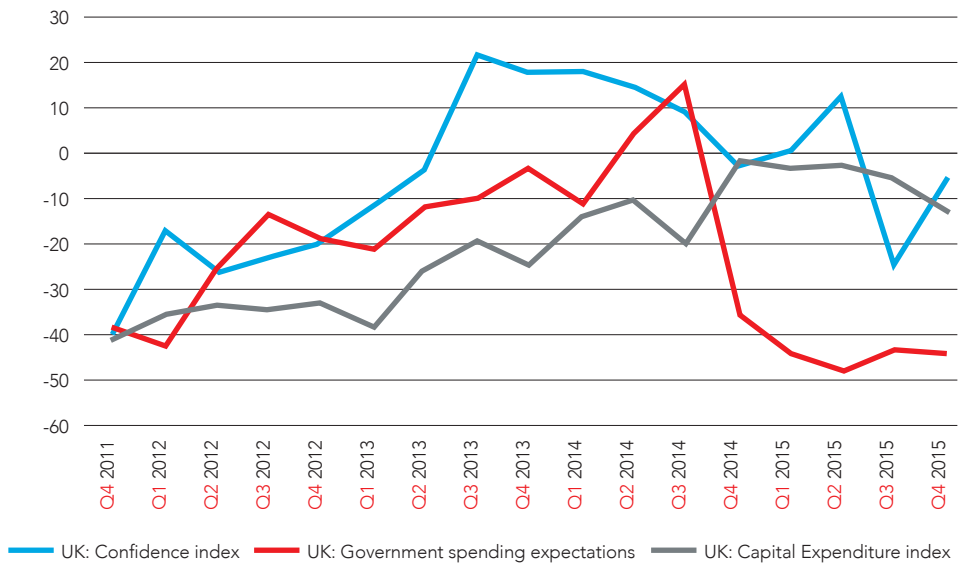
That said, the survey revealed a couple of concerns. First, there was a dip in the capital expenditure index, which suggests that investment growth – an important driver of the UK economy over the past couple of years – could be about to fade. Second, businesses are bracing themselves for the next round of austerity, with government spending expectations close to a record low. Around two thirds of firms (66%) were expecting government spending to be cut, compared with 42% globally.

The Chancellor has pointed to a “dangerous cocktail of new threats”, including China’s slowdown and the drop in oil price. To those risks can be added the referendum on leaving the EU that is expected to take place this year.

“Even if you think there will be a vote to stay in the EU, there’s likely to be mounting uncertainty ahead of the actual referendum, and I think that could affect investment and lead to general caution in business behaviour,” says Dr Howard Archer, Chief European and UK Economist of the Country Analysis and Forecasting Group, IHS Economics.

66%
of firms expecting government spending to be cut, compared with 42% globally

Chart 18: Investment growth set to slow?



Source: GECS

In fact, if there are any concerns about the Irish economy it is that it might overheat, having been given an extra boost by strong pre-election fiscal spending.

IRELAND IN FOCUS

There was a very strong rise in business confidence, to a record high, in Ireland last quarter. Firms are also reporting stronger employment intentions than ever before, with 48% of businesses adding new staff, compared with a global average of 17%. The buoyant mood reflects the impressive performance of its economy, which grew by 7% in the third quarter, according to Ireland’s Central Statistics Office, and which is comfortably faster than any other economy in Western Europe. The proportion of Irish firms reporting an increase in profitable opportunities

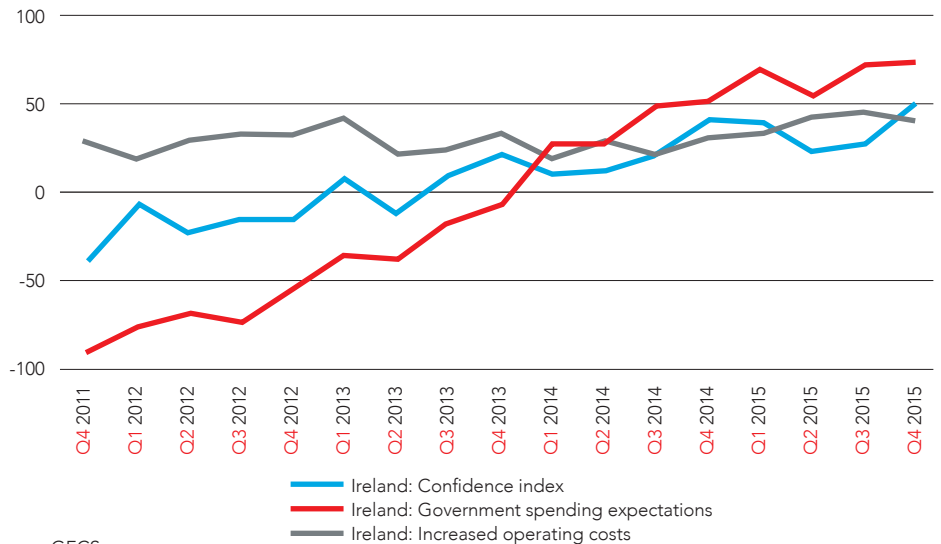
last quarter was also very high, at 33%, compared with a global average of 13%.

In fact, if there are any concerns about the Irish economy it is that it might overheat, having been given an extra boost by strong pre-election fiscal spending. The survey showed that 81% of firms were expecting an increase in government spending and 41% of firms were also reporting concerns about rising costs, compared with 37% globally. That said, inflation is still being kept very low by low oil prices, and house price inflation has cooled as a result of tighter mortgage lending standards introduced last year.

48%

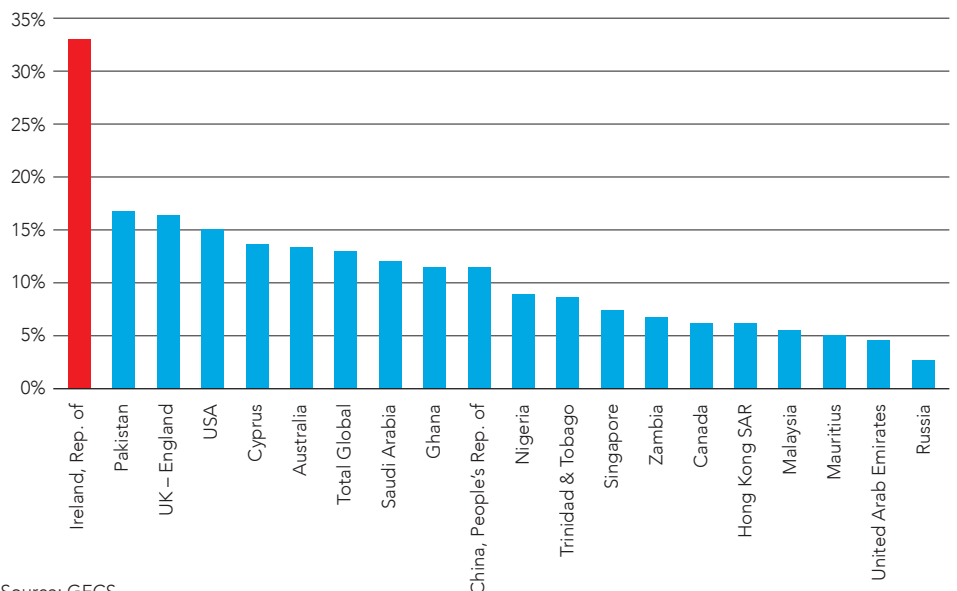
of businesses adding new staff, compared with a global average of 17%

Chart 19: In buoyant mood



Source: GECS

Chart 20: Firms reporting an increase in profitable opportunities (%)



Source: GECS

The capital expenditure index improved last quarter and is now close to its best reading since the survey began.

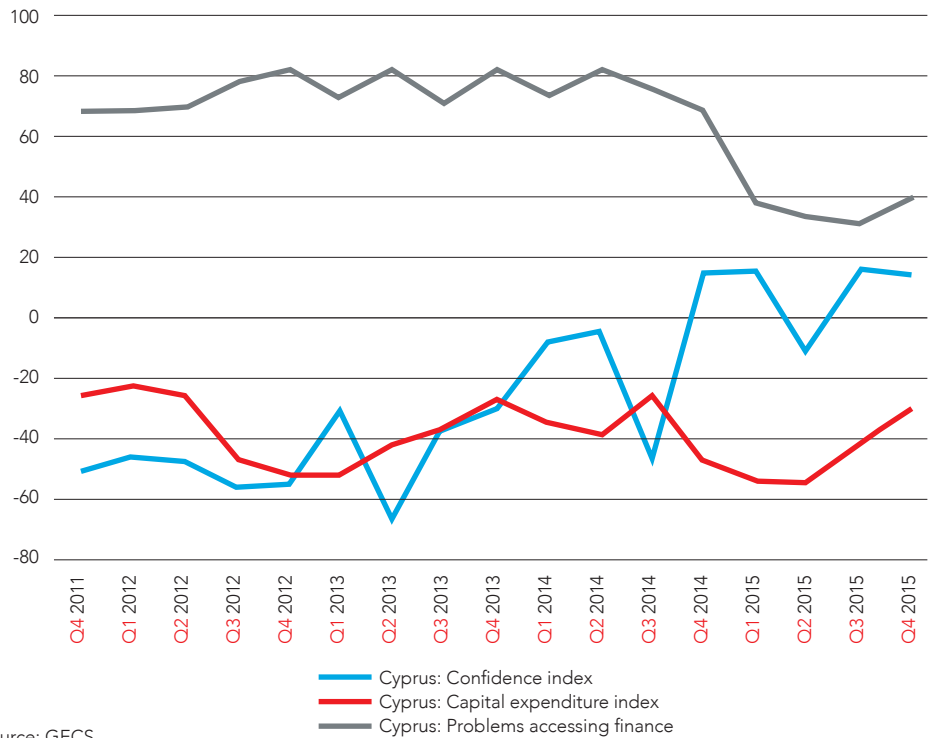
CYPRUS IN FOCUS

Business confidence fell slightly in Cyprus in Q4, but it remains much stronger than a few years ago when the country came close to a crisis that could have seen it leave the eurozone. The capital expenditure index improved last quarter and is now close to its best reading since the survey began. However, the recovery is far from complete.

Unemployment remains very high, and the survey showed that 58% of businesses are still cutting or have frozen employment, which was much higher than the global average of 49%. Meanwhile, the banking sector is still fragile, even if businesses are reporting fewer difficulties in securing finances than they were between 2011 and 2014 (see chart below). That said, confidence could be given a further boost if Cyprus successfully exits its bailout plan as scheduled in March.

58%
of businesses are still cutting or have frozen employment

Chart 21: Rising from the ashes



Source: GECS

The economic recession and the collapse in the ruble, which has pushed up the cost of servicing foreign currency debt, has raised the risk of firms falling into bankruptcy.

CENTRAL AND EASTERN EUROPE: RUSSIA MAY BE PAST THE WORST

Business sentiment improved in Central and Eastern Europe last quarter. Across the region, 40% of respondents said that they were less confident about their prospects than three months earlier, down from 55% in Q3. The main reason for the improvement was that businesses in Russia went from being chronically pessimistic to merely very glum. Elsewhere in the region, prospects are generally much better. Economies in Central Europe, most notably Poland and the Czech Republic, have benefitted from the drop in oil prices, which has kept inflation low and allowed central banks to leave monetary policy loose.

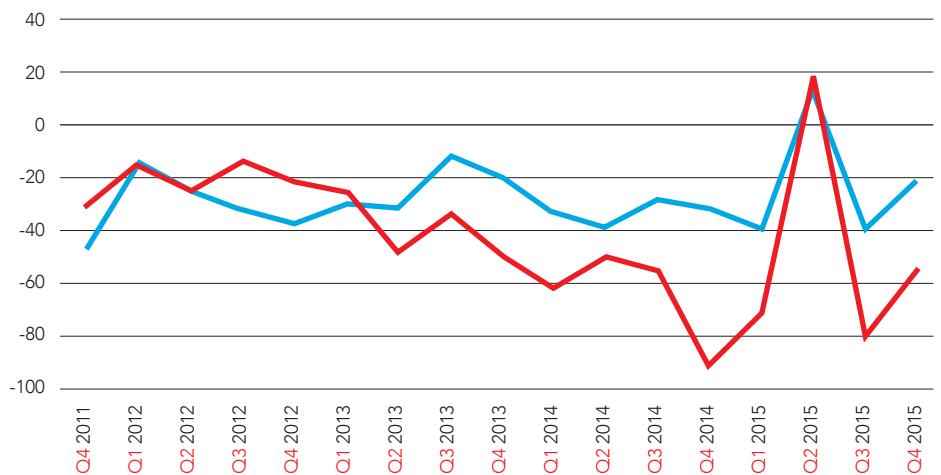
RUSSIA IN FOCUS

The fresh fall in oil prices will hit Russian export revenue again and could put a brake on growth. The number of businesses reporting negative effects of recent currency movement is still incredibly high, at 74%, compared with 36% globally. The economic recession and the collapse in the ruble, which has pushed up the cost of servicing foreign currency debt, has raised the risk of firms falling into bankruptcy. The survey showed that 35% of Russian firms were worried about their customers going out of business, which was well above the global average of 22%.

74%

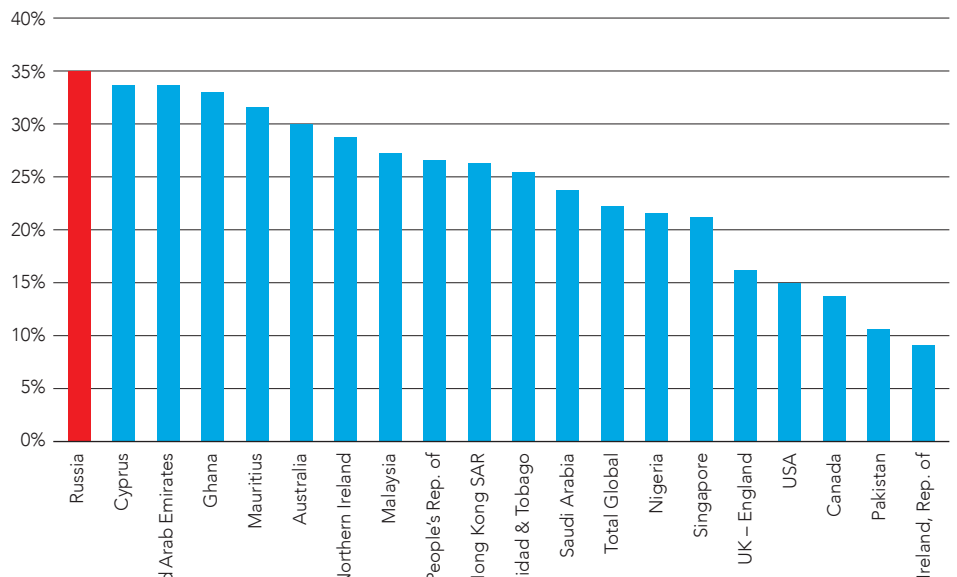
of businesses reporting negative effects of recent currency movement, compared with 36% globally.

Chart 22: Russian pessimism eases



Source: GECS

Chart 23: Firms concerned about customers going out of business (%)



Source: GECS

What is more, inflation should start to ease in early 2016 as upward pressure on import costs from the ruble crisis a year earlier start to fade.

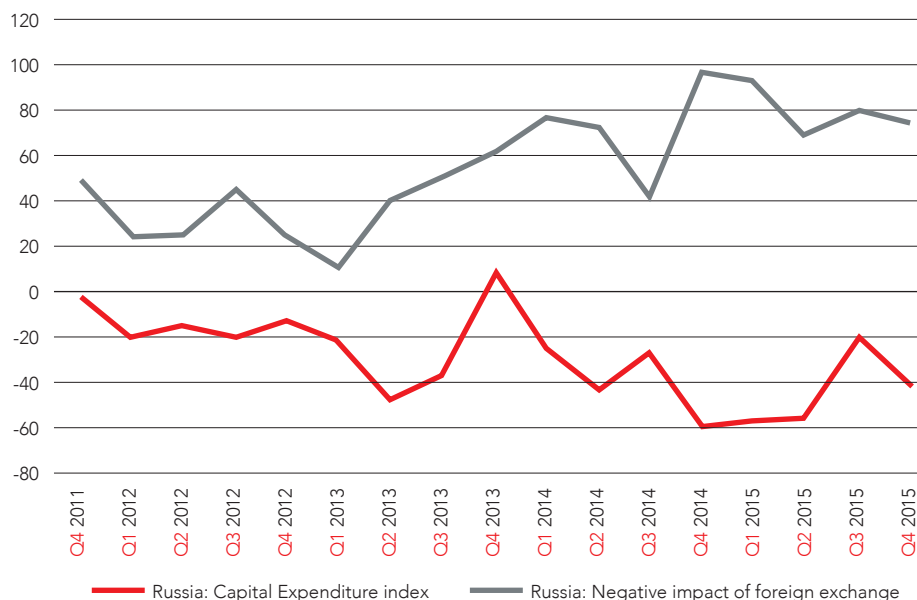
But if we were looking for positives, then at least the big declines in investment in response to the collapse in oil prices in late 2014 have now taken place. Indeed, the capital expenditure index for Russia is up from the lows reached in late 2014.

What is more, inflation should start to ease in early 2016 as upward pressure on import costs from the ruble crisis a year earlier start to fade. Russia's central bank has

made it clear that it will wait for signs that inflation is indeed on the way down before cutting rates, but it should have scope to provide some support before long.

None of the above is likely to trigger much of a recovery in Russia's economy. Indeed, the World Bank expects GDP to contract again in 2016, but at a rate of 0.7%, compared with 3.8% last year.

Chart 24: Struggling with a weak ruble



Source: GECS

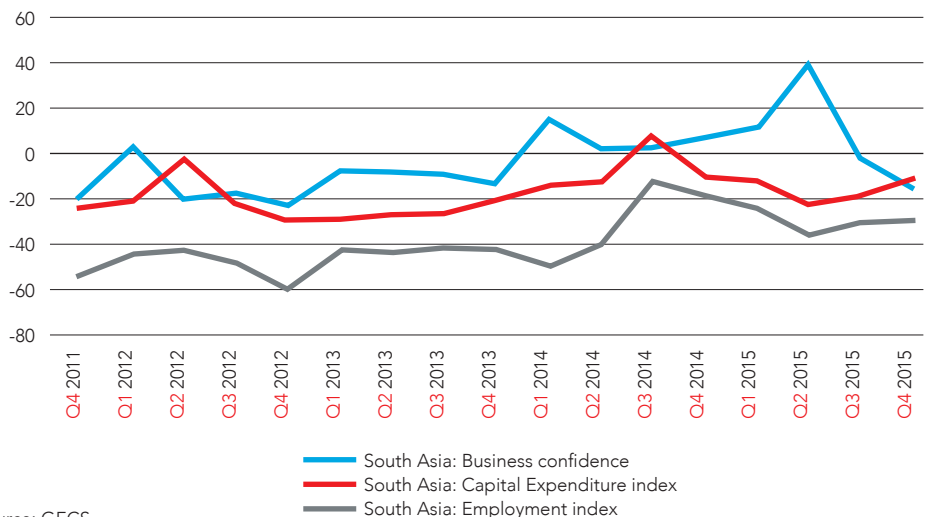
The World Bank estimates that its largest economy, India, will grow by 7.3% in FY2015/16 (April-March), which would make it the world's fastest-growing major economy.

SOUTH ASIA: WORK-IN-PROGRESS

Despite business confidence falling in South Asia (see chart below), the signs are that it is going through a relatively good spell, at least compared with other emerging regions. The World Bank estimates that its largest economy, India, will grow by 7.3% in FY2015/16 (April-March), which would make it the world's fastest-growing major economy. India is a big net importer of oil, and has benefitted from the drop in prices over the last year, most notably in the form of a drop in the government fuel subsidy bill.

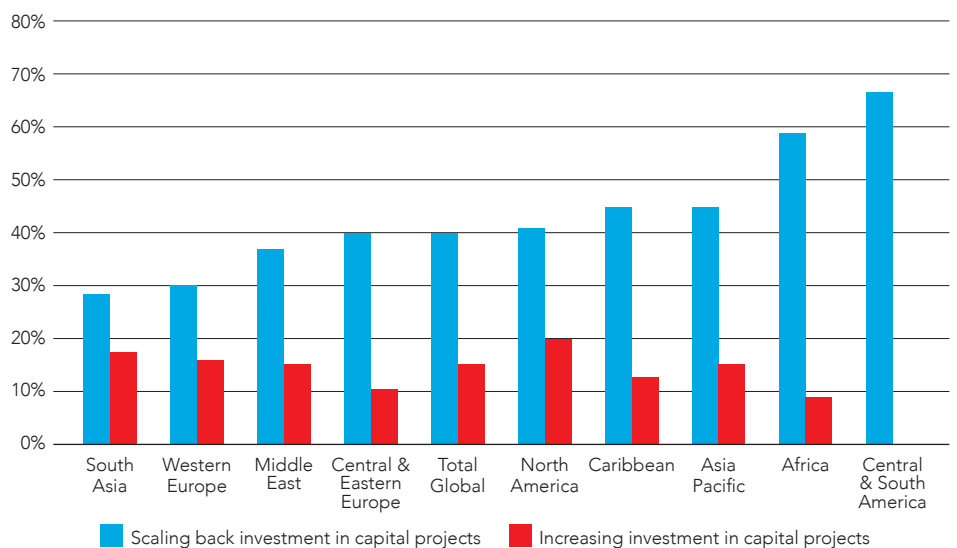
One explanation for the dip in business confidence may be that expectations for Modi's government were unrealistic. Nevertheless, efforts to get investment projects off the ground are slowly bearing fruit. Data on new capital projects have shown an improvement over the last year. The survey showed that only in North America were more firms increasing capital expenditure than in South Asia and that South Asia also had the fewest number of firms that were cutting capital expenditure.

Chart 25: Confidence down but investment picking up



Source: GECS

Chart 26: Investment appetite strong in South Asia



Source: GECS

It's perhaps no surprise then that the survey shows businesses are seeing a rise in opportunities in Pakistan. Businesses also appear primed to act on these opportunities.

PAKISTAN IN FOCUS

The deterioration in business confidence in Pakistan is also out of sync with recent economic developments.

Pakistan is another big net importer of oil. The State Bank of Pakistan has cut interest rates very aggressively since late 2014, and commercial banks have been quick to pass those rate cuts onto their consumers.

As a result, the economy has maintained good momentum despite a contraction in exports. What is more, the Pakistan-China

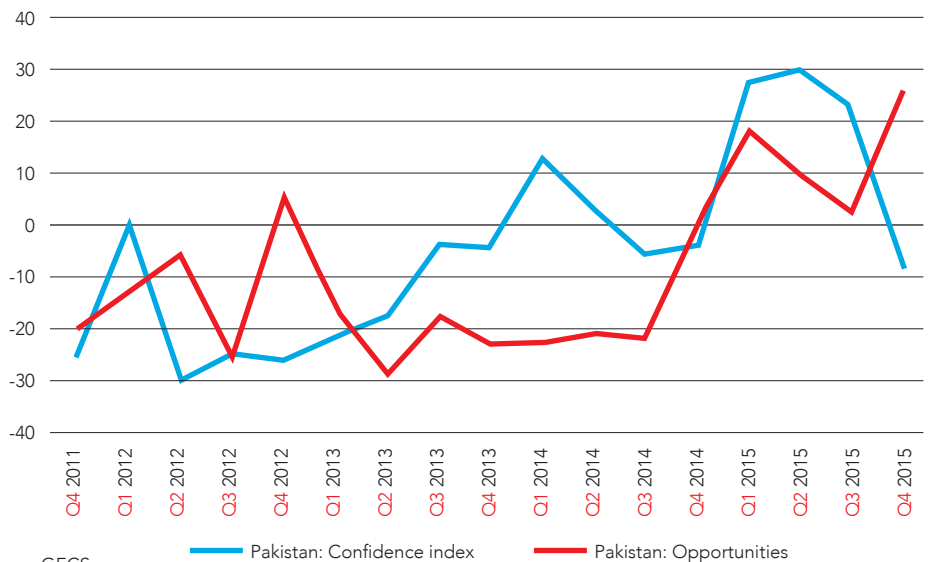
Economic Corridor, a bilateral project that will involve hefty Chinese investment into Pakistan's infrastructure network, could make a big difference to Pakistan's prospects.

It's perhaps no surprise then that the survey shows businesses are seeing a rise in opportunities in Pakistan. Businesses also appear primed to act on these opportunities. Of the firms surveyed in Pakistan, 25% said that they are planning to increase their investment in capital projects, which was well above the global average of 14%.

25%

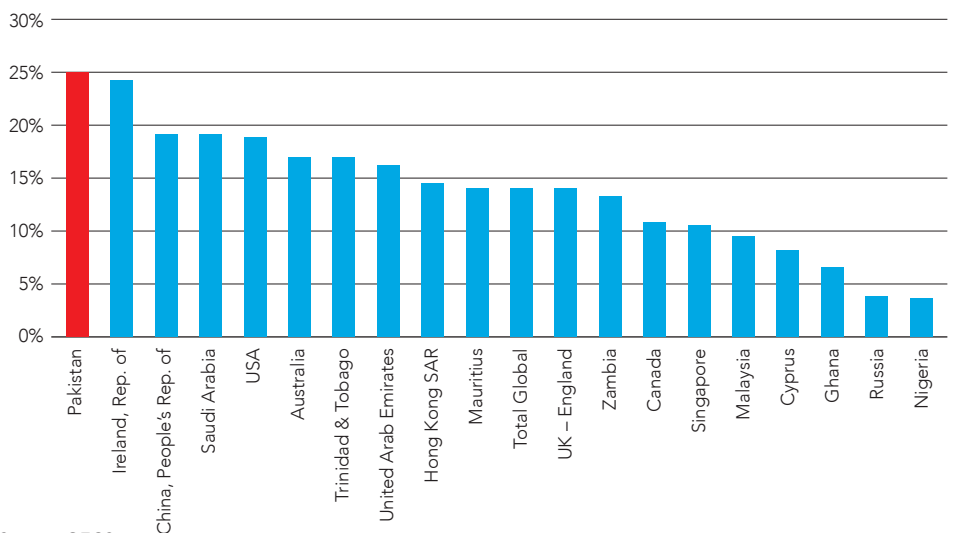
of the firms surveyed in Pakistan said that they are planning to increase their investment in capital projects

Chart 27: Opportunity knocks?



Source: GECS

Chart 28: Firms planning to increase investment in capital projects (%)



Source: GECS

The outlook for Asia-Pacific is still being overshadowed by concerns over China.

ASIA-PACIFIC: CHINA FEARS DOMINATE

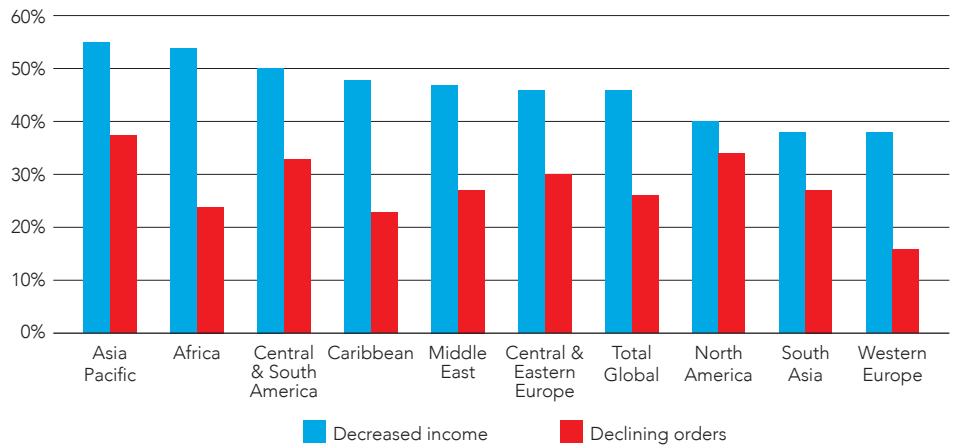
The outlook for Asia-Pacific is still being overshadowed by concerns over China. The survey showed that 56% of firms in the region are cutting or have frozen employment, while 45% are scaling back their investment plans.

Almost half of firms also reported negative effects from recent currency movements – and that was before the latest sell-off in the renminbi. Perhaps worst of all, firms in Asia-Pacific reported bigger concerns over falling revenue and new orders than any other region (see chart below).

One surprise is that Asia’s big commodity producers have fared relatively well, despite China being their main export market. Growth in Australia, Malaysia and Indonesia has slowed, but nowhere near as dramatically as in commodity-based economies in other regions, and this is reflected in the survey, which actually showed a rise in confidence in Australia and Malaysia last quarter. The same cannot be said of Hong Kong, where businesses are feeling the impact of problems across the border in China.

56%
of firms in the region are cutting or have frozen employment

Chart 29: Orders and revenue drying up



Source: GECS

Even though China's markets were relatively calm during Q4, business sentiment was still very weak.

CHINA IN FOCUS

Even though China's markets were relatively calm during Q4, business sentiment was still very weak (see chart below).

Similarly, China's capital expenditure and employment indices remained very weak by past standards in Q4, even if they showed a slight improvement from the previous quarter. Moreover, concerns about the outlook for the economy were undoubtedly a factor behind 71% of firms in China reporting a decline in investment opportunities in Q4, which was well above the global average of 48%. The poor start to 2016, which saw the Chinese stock market plunge again and the renminbi sell-off by more than 1.5% against the US dollar within a few weeks, will only have added to the nervousness.

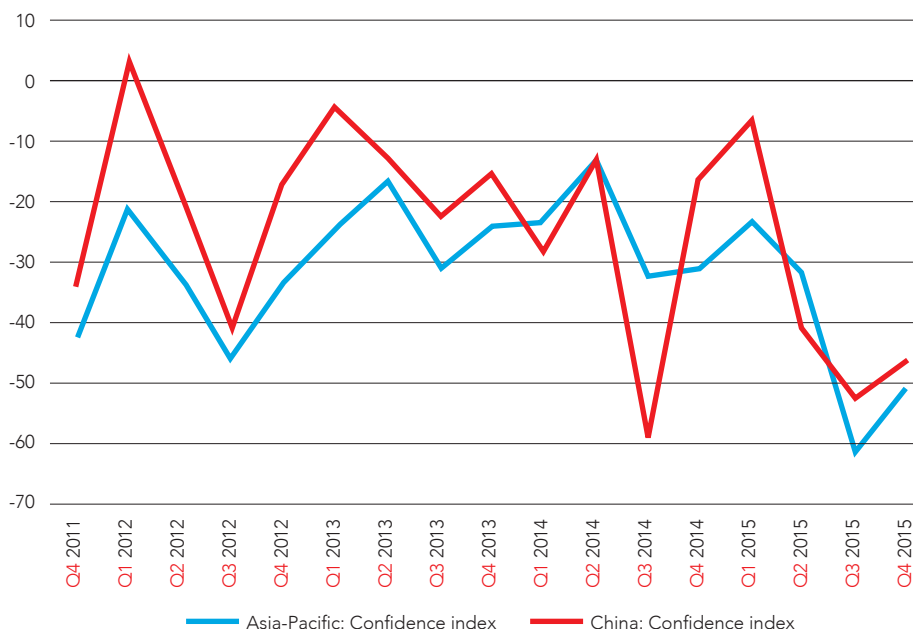
"We're seeing a very gradual depreciation and actually it has been quite stable. It's just that they are having to intervene on a massive level to keep it there," says

Dario Perkins, Chief European Economist, Lombard Street Research. "The government needs to be a bit clearer about what it is they want. I don't think a gradual depreciation, even say 10%, is a disaster, but it's about the speed of the adjustment."

After expanding at rates of more than 10% during most of the 2000s, government figures showed that the economy grew by just 6.8% yoy in Q4 and many analysts think that growth is actually much weaker.

An over-reliance on investment and rapid credit growth has resulted in an economy characterised by over-capacity and debt bubbles. The government has loosened monetary policy and rolled out more infrastructure projects, but its response is seen as being less aggressive than in the past. Indeed, the 49% of Chinese firms reporting in Q4 that they expect government spending to increase was not much above the global average of 45%.

Chart 30: Confidence still fragile



Source: GECS

The survey suggests labour market strength is likely to continue, with the employment index much stronger in Q4 than it has been during most of the past five years.

AUSTRALIA IN FOCUS

Business confidence picked up in Australia, as its economy continued to cope reasonably well with the drop in commodity prices and the end of the mining boom.

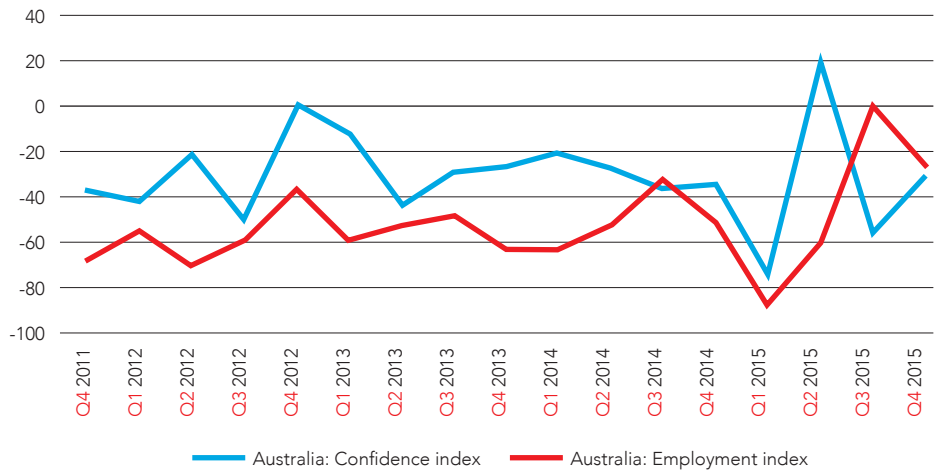
Third-quarter GDP figures were better than expected, with growth picking up to 0.9% qoq from 0.3% in Q2, according to the Australian Bureau of Statistics. The labour market has been particularly strong, with unemployment falling to 5.8% in December, the lowest in five years.

The survey suggests labour market strength is likely to continue, with the employment index much stronger in Q4 than it has been during most of the past five years. Admittedly, 45% of Australian firms said that they are cutting or have frozen employment, but this was lower than the global average of 49%. Moreover, the latest fall in commodity prices might not be as bad for Australia as it might seem. Australia is a net importer of oil, and the prices of its main commodity exports, iron ore and coal, have recently held up much better than oil prices.

45%

of Australian firms said that they are cutting or have frozen employment, lower than the global average

Chart 31: Labour market conditions holding up



Source: GECS

Business confidence in Malaysia picked up in Q4, and its capital expenditure and government expectations indices recovered from the record lows of Q3.

MALAYSIA IN FOCUS

Business confidence in Malaysia picked up in Q4, and its capital expenditure and government expectations indices recovered from the record lows of Q3. Malaysia is a big net energy exporter, but its economy has weathered the fall in oil prices well, growing by 4.7% yoy in Q3, according to Malaysia's Department of Statistics, which could explain the slight recovery in confidence in Q4. Moreover, there has also been a drop in political uncertainty.

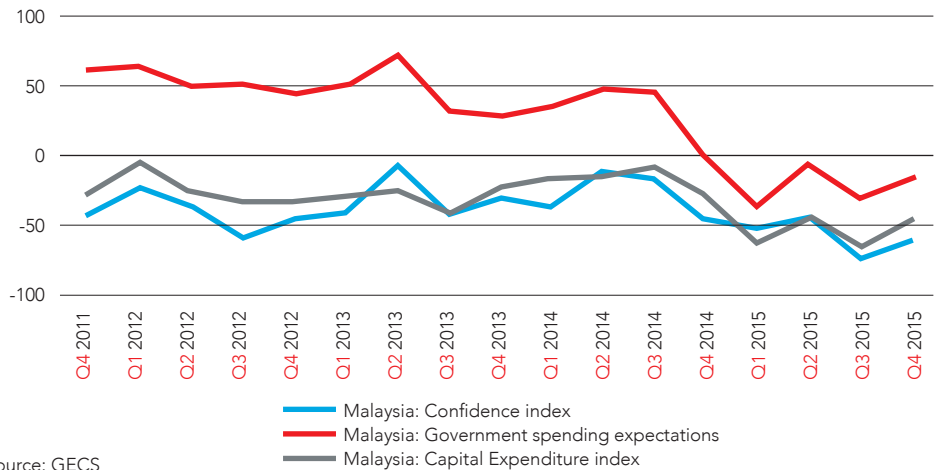
While this is all positive, business confidence in Malaysia is not out of the doldrums yet, with 65% of the firms surveyed saying that they had become less confident over the preceding three months.

What is more, there could be further problems on the horizon. Malaysia's foreign currency-denominated external debt is unusually high, at 45% of GDP in September 2014 according to the International Monetary Fund (IMF), with the majority held by businesses.

The 25% fall in the Malaysian ringgit against the US dollar since mid-2014 will have pushed up the cost of servicing this debt. This could help explain why 66% of firms in Malaysia reported concerns about rising costs, well above the 37% global average (see chart below), despite low consumer price inflation. The survey showed that 67% of firms in Malaysia also reported concerns about the effects of recent currency moves, compared with 36% globally.

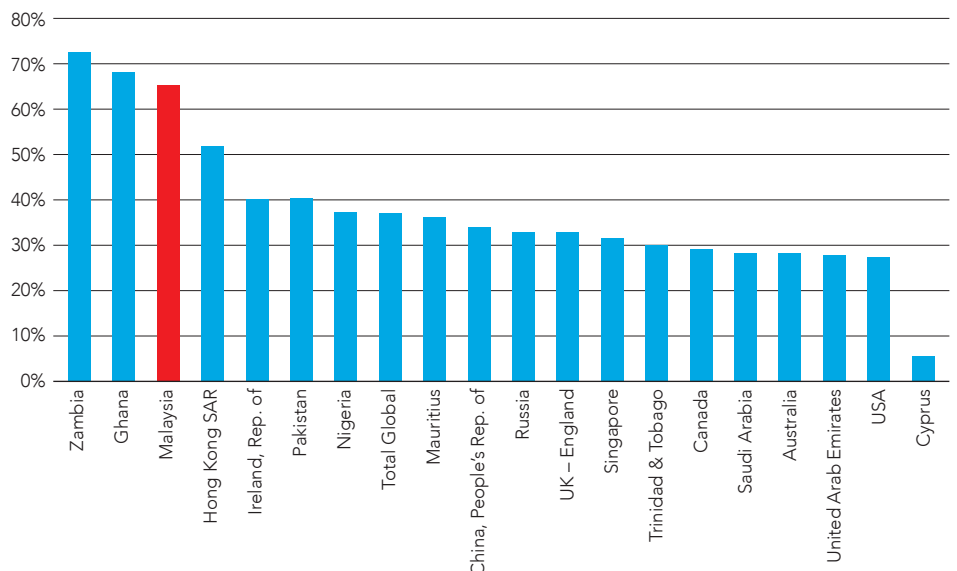
65%
of the firms surveyed saying that they had become less confident over the preceding three months

Chart 32: Not out of the doldrums



Source: GECS

Chart 33: Businesses with concerns about rising costs (%)



Source: GECS

Hong Kong has very close trade and financial links with China, so it should come as no surprise that Hong Kong's businesses are feeling the effects of China's problems.

HONG KONG IN FOCUS

Hong Kong has very close trade and financial links with China, so it should come as no surprise that Hong Kong's businesses are feeling the effects of China's problems. Business confidence dropped close to a record low in Q4 (see chart below). New orders fell, and 72% of businesses reported a drop in profitable opportunities, far more than the global average.

To make matters worse, businesses in Hong Kong will be directly affected by increases in US interest rates, given that the Hong Kong dollar's peg against the US dollar ties local rates to the Fed funds rate. This is especially worrying, in light of rapid increases in debt and property prices seen during the years of very low interest rates. That said, only 10% of firms reported increased difficulty accessing finance in Q4, which was less than half the global average.

72%
of businesses reported a drop in profitable opportunities

Chart 34: China's problems spill over

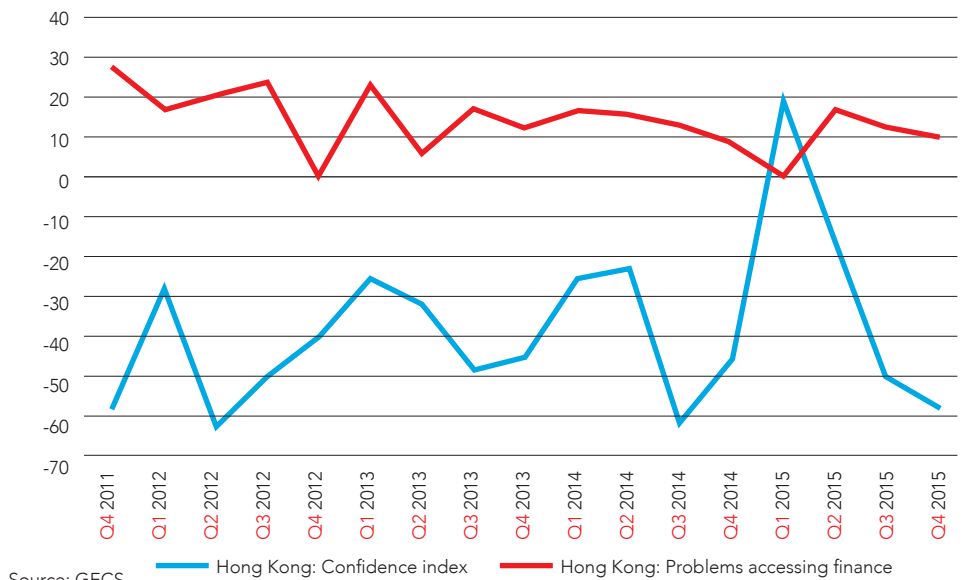
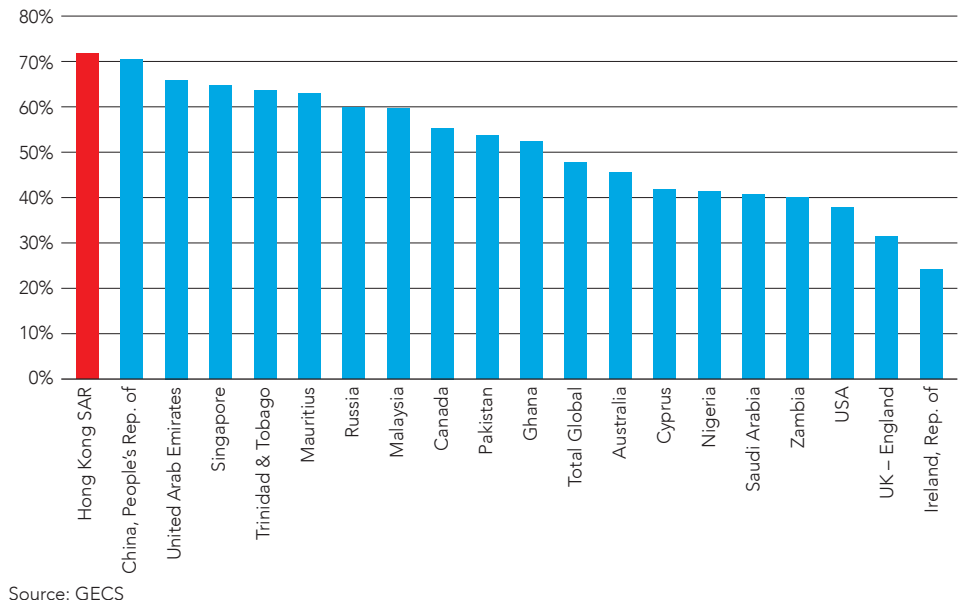


Chart 35: Businesses reporting a drop in profitable opportunities (%)



Much like Hong Kong, Singapore's economy is highly trade-dependent and has close ties to China.

SINGAPORE IN FOCUS

Business confidence picked up in Singapore in Q4, but the mood remains very pessimistic.

Two thirds (66%) of firms said that they had become less confident about their prospects over the preceding three months, compared with 44% globally.

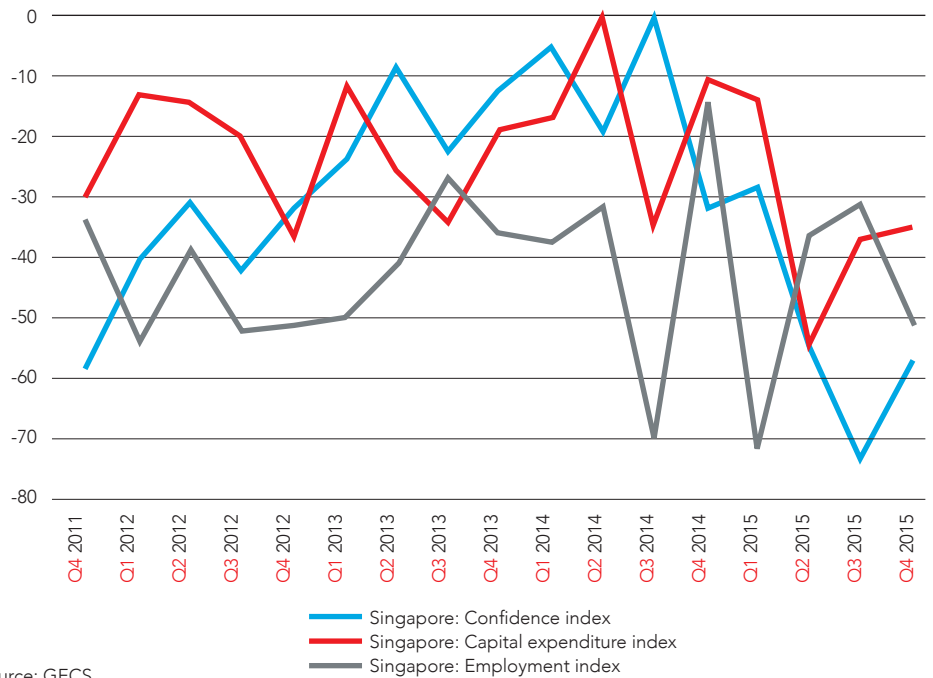
Much like Hong Kong, Singapore's economy is highly trade-dependent and has close ties to China. Nearly two thirds (65%) of firms reported a drop in profitable

opportunities in Q4, while 38% said that they were concerned about falling orders, compared with 25% globally.

While the Singapore dollar is not pegged, it is managed against a trade-weighted currency basket, with the result that local interest rates tend to track the US Fed funds rate reasonably closely. Interest rates have already started to rise, which could cause problems for the domestic economy, where strong consumer spending has been helping to offset export weakness in recent quarters.

65%
of firms reported a drop in profitable opportunities in Q4

Chart 36: Businesses still very pessimistic



Source: GECS

Reduced government support is likely to have been a big factor behind the business confidence index falling to a record low in Q4.

MIDDLE EAST: FACING UP TO THE NEW REALITY

Some of the Middle East’s biggest oil exporters, most notably Saudi Arabia and the UAE, came through 2015 in relatively good shape.

But prospects for the energy sector have deteriorated sharply. Indeed, the survey showed another drop in the region’s capital expenditure index, as well as a fresh fall in investment opportunities, in Q4.

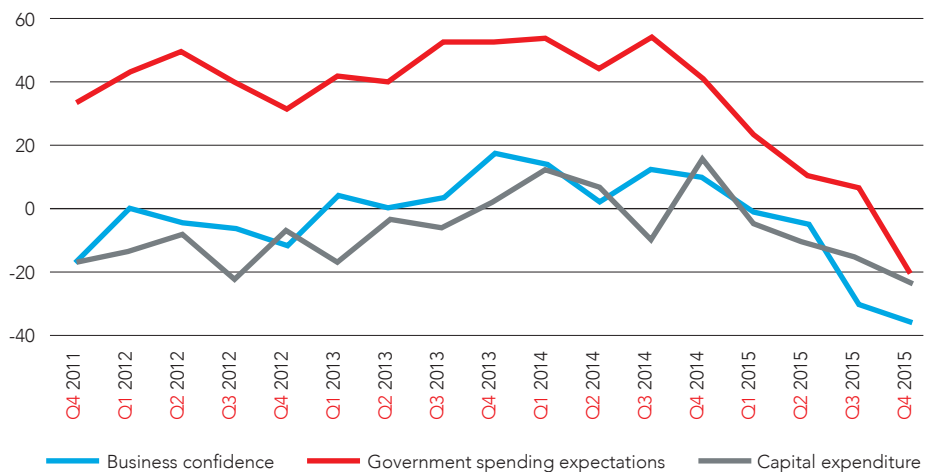
Healthy fiscal reserves meant that governments had the funds to initially offset the impact of lower oil prices and

falling investment in the energy sector. That is, however, set to change in 2016, as businesses respond to the likelihood of oil prices remaining low indefinitely.

Businesses are already bracing themselves for government spending cuts, with the government spending index for the Middle East falling to a record low in Q4. More than half (53%) of businesses now expect government spending to fall, which is more than in any other region. Reduced government support is likely to have been a big factor behind the business confidence index falling to a record low in Q4.

53%
of businesses now expect government spending to fall

Chart 37: Government spending expectations nose diving in the Middle East



Source: GECS

Perhaps surprisingly, given the economy's reliance on oil exports, Saudi firms reported fewer concerns than firms globally about falling revenue and declining orders.

SAUDI ARABIA IN FOCUS

In Q4, 48% of businesses in Saudi Arabia said that they had become less confident over the preceding three months, compared with 44% globally.

Perhaps surprisingly, given the economy's reliance on oil exports, Saudi firms reported fewer concerns than firms globally about falling revenue and declining orders.

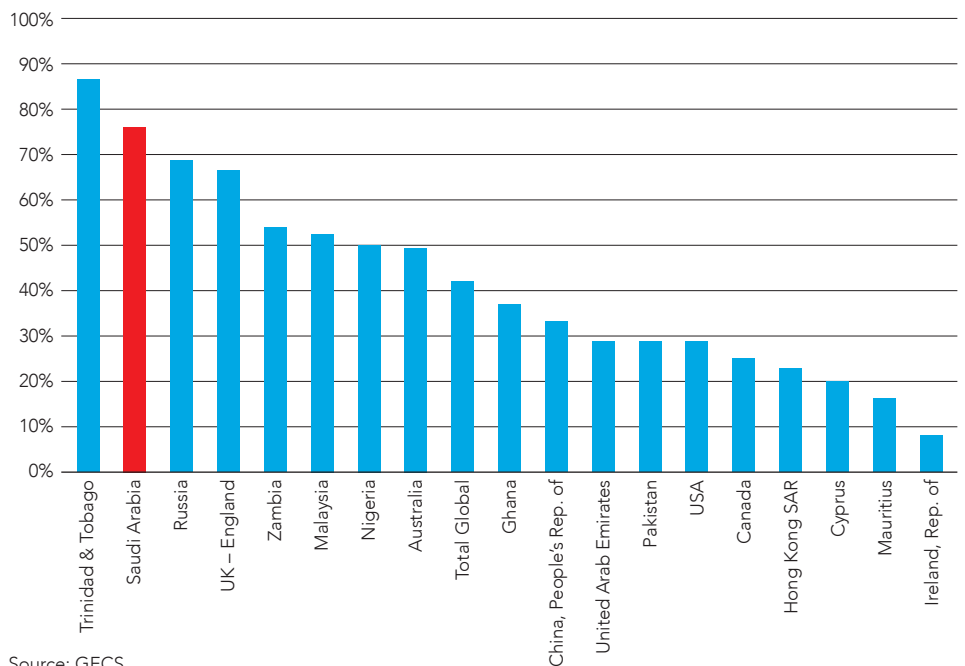
The number of businesses reporting job cuts and reduced capital spending was also below the global average. However, concerns about government spending are clearly rising. The Saudi government went from running a budget deficit of 2.4% of GDP in 2015, to one of 15% of GDP in 2015.

It will, however, start to adjust to much weaker revenue prospects this year. Saudi Arabia's budget, released in early January, plans to reduce the deficit in 2016 by slashing spending, especially public investment. In Q4, 76% of businesses in Saudi Arabia were expecting a drop in government spending (see chart below).

Another potential problem is that speculation has begun to mount that Saudi Arabia might be prepared to devalue the riyal. In Q4, only 14% of businesses in Saudi Arabia reported concerns about recent currency moves, compared with a global average of 36%. The benefits of this stability would disappear if the riyal were devalued.

76%
of businesses in Saudi Arabia were expecting a drop in government spending

Chart 38: Firms expecting government spending cuts (%)



Source: GECS

The government has already reduced fuel subsidies and is on the verge of introducing a sales tax. Spending will also be cut.

UAE IN FOCUS

Business confidence picked up slightly in the UAE last quarter, but it remains very low. The 53% of businesses that reported a fall in confidence was well above the global average of 44%, while 66% of firms reported that they were cutting or freezing employment, compared with 49% globally.

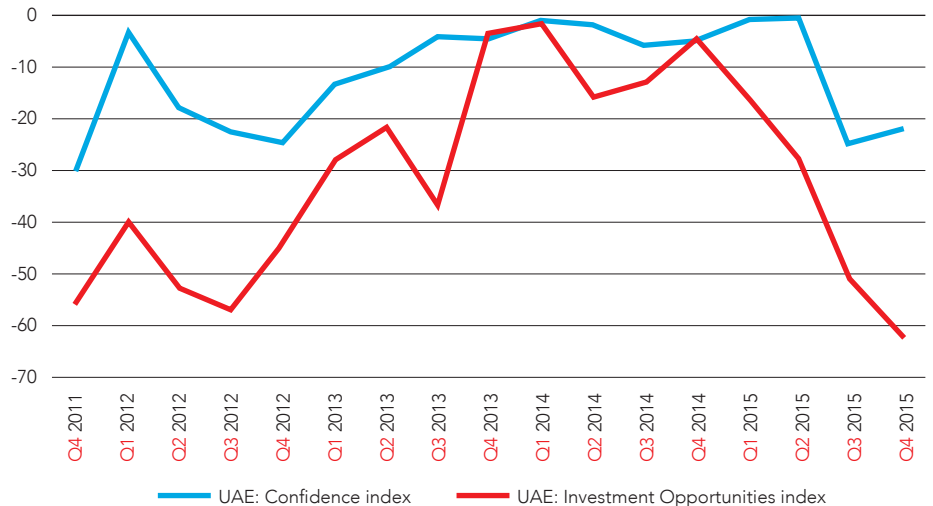
The fresh fall in oil prices has resulted in a clear dip in investment opportunities in the country (see chart below). In Q4, 66% of firms reported a drop in profitable opportunities, compared with a global average of 48%.

Crucially, the government is being forced to tighten its belt. The IMF estimates that the UAE ran a budget surplus of around 5% of GDP in 2014. In 2015 that became a deficit of 5.5%. The government has already reduced fuel subsidies and is on the verge of introducing a sales tax. Spending will also be cut.

That said, businesses do not appear as prepared for government spending cuts as their counterparts in Saudi Arabia: only 29% of businesses said they expect public spending to be reduced.

66%
of firms reported a drop in profitable opportunities

Chart 39: Investment opportunities have never been lower in the UAE



Source: GECS

The drop in commodity prices has hit Africa hard. Not only has it hurt export revenue, it has also contributed to sharp falls in African currencies.

AFRICA: RUNNING INTO TROUBLE

Business confidence improved slightly in Africa in Q4, but while businesses reported that they were slightly more optimistic about their prospects, 59% of them said they were scaling back investment and 61% said they were freezing or cutting employment, suggesting the mood is still downbeat.

The drop in commodity prices has hit Africa hard. Not only has it hurt export revenue, in large part explaining why it was only in Asia-Pacific that more businesses cited falling income as a concern in Q4, it has also contributed to sharp falls in African currencies. For example, the Zambian kwacha has fallen by almost 40% against

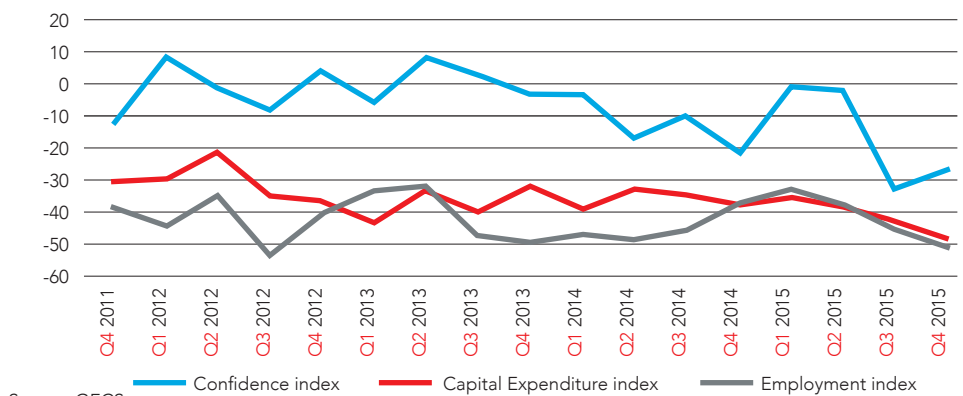
the US dollar, but almost all of the region's currencies have dropped by 10% or more.

So far, currency weakness has not given much of a lift to non-commodity exports, but it has made it more costly for African firms to import raw materials and components, and to finance their debts.

Nevertheless, the fall in commodity prices has not been Africa's only concern. Many of its problems have been home grown. South Africa, for example, is battling currency depreciation and high inflation, like many countries in the region, but its own political problems have been laid bare by a series of cabinet reshuffles in late 2015 that meant the country had three different finance ministers in the space of four days.

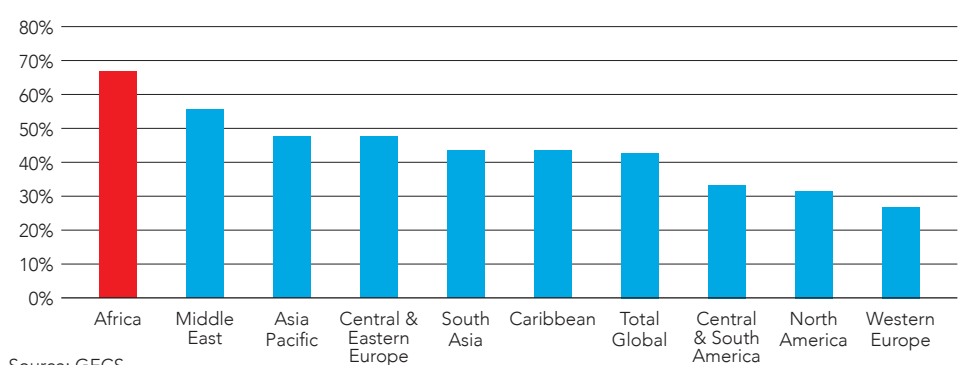
61%
of businesses said they were freezing or cutting employment

Chart 40: Scaling down investment and employment in Africa



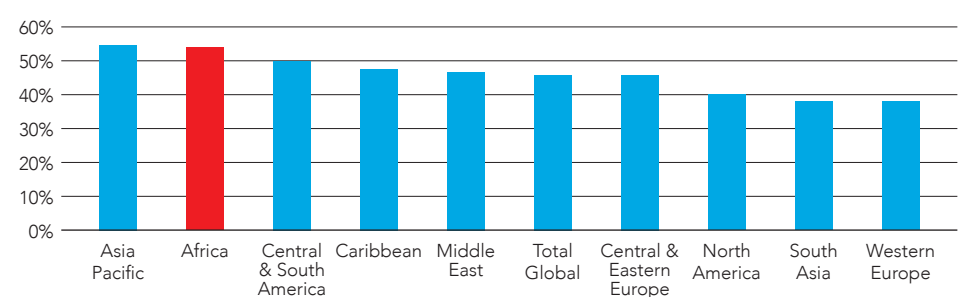
Source: GECS

Chart 41: Businesses reporting negative effects of recent currency moves (%)



Source: GECS

Chart 42: Businesses reporting falling income as a problem (%)



Source: GECS

Currency devaluation is now starting to look all but inevitable, given that FX restrictions imposed to support the naira have made life extremely difficult for manufacturers to import the components they need for production.

NIGERIA IN FOCUS

Nigeria is highly dependent on its energy sector, which accounts for over 90% of the country's exports and 70% of the government's revenue. But an unorthodox policy response to the country's problems has been far from reassuring. An increase in fuel subsidies looks set to add to an already large and rising budget deficit. Interest rates have been cut even as inflation has risen above the central bank's target.

Currency devaluation is now starting to look all but inevitable, given that FX restrictions imposed to support the naira have made life extremely difficult for manufacturers to import the components they need for production. The mess is taking its toll on businesses, with 61% reporting that they had become less confident over the preceding three months, compared with 44% globally (see chart below).

ZAMBIA IN FOCUS

The situation is possibly even worse in Zambia, where the drop in commodity prices, and resulting ballooning of its current account deficit, have prompted the government to invite the IMF for talks.

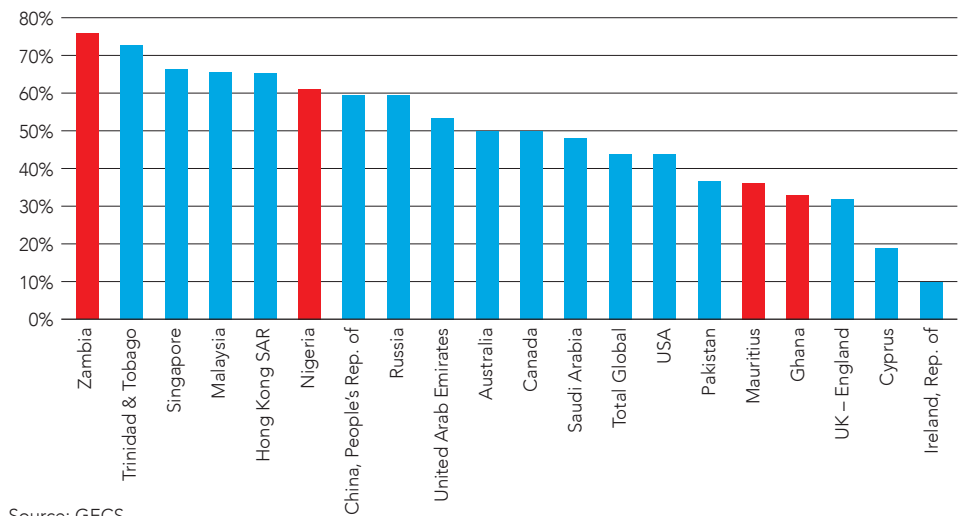
An exceptionally high 76% of firms said they had become less confident over the preceding three months. Currency movements are clearly a big problem, given how much the kwacha has dropped.

More than three quarters (82%) of firms said recent foreign exchange movements had affected them negatively, which was comfortably more than double the global average (see chart below). The 73% of firms reporting concerns about rising costs and the 51% having trouble accessing finance were also double the global averages.

76%

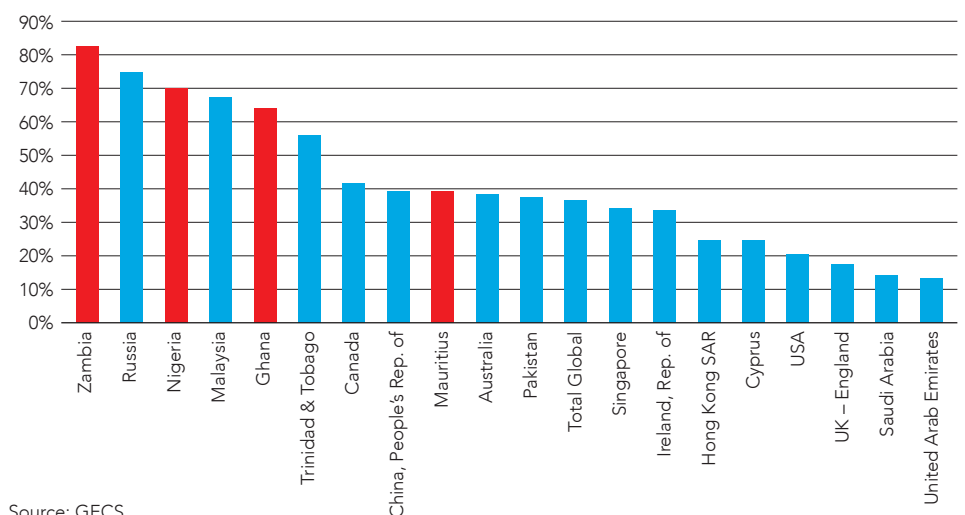
of Zambian firms said they had become less confident over the preceding three months

Chart 43: Businesses reporting a drop in confidence (%)



Source: GECS

Chart 44: Businesses reporting negative effects of recent foreign exchange movements (%)



Source: GECS

Mauritius stands out as one country in Africa where prospects are actually improving, largely owing to the strong performance of the tourist sector.

GHANA IN FOCUS

Ghana, like many of Africa’s economies, is struggling with the sharp fall in its currency, which has pushed up the cost of servicing foreign-currency debts, and driven inflation up to double-digit rates, forcing the central bank to tighten policy aggressively.

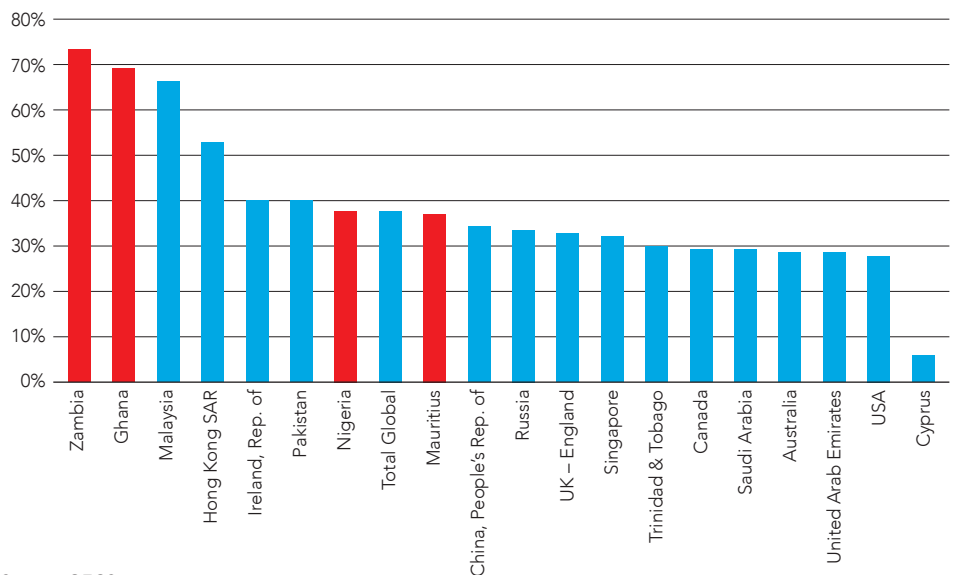
It is little wonder that 64% of businesses reported negative effects from recent currency movements. Almost as many firms (69%) in Ghana reported concerns about rising costs as in Zambia (see chart below). Businesses are understandably scaling back their plans: 59% have frozen or are cutting employment, and 69% are reducing investment in capital projects.

MAURITIUS IN FOCUS

Mauritius stands out as one country in Africa where prospects are actually improving, largely owing to the strong performance of the tourist sector. Arrivals rose by more than 10%, the best since 2007. The Mauritius business confidence index rose last quarter. Capital expenditure and employment are also holding up better than around the rest of the region (see chart below). While the proportion of businesses reporting a drop in confidence, at 36%, was still higher than that reporting a rise in confidence (14%), it was lower than the global average of 44%.

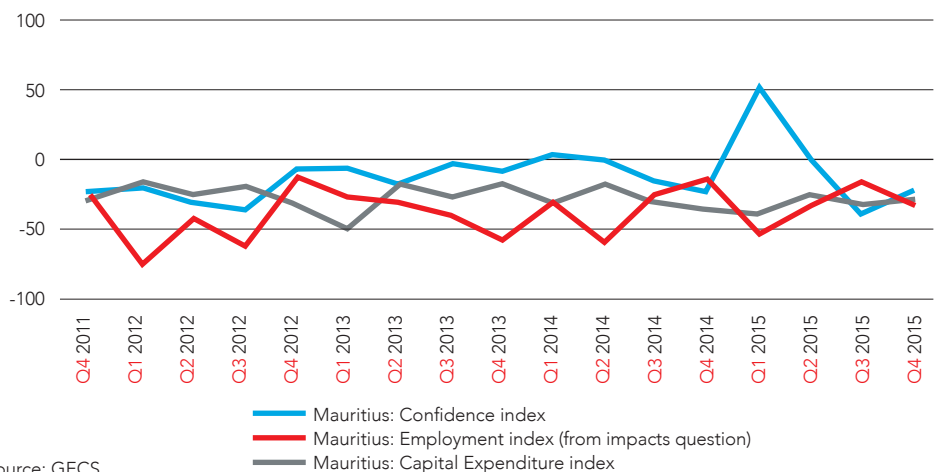
69%
of firms in Ghana are reducing investment in capital projects

Chart 45: Businesses reporting increased operating costs (%)



Source: GECS

Chart 46: Investment and employment holding up in Mauritius



Source: GECS

Low commodity prices continue to take their toll on Latin America. Its biggest economy, Brazil, has been dealt another blow to its terms of trade by falling commodity prices.

THE CARIBBEAN AND SOUTH AMERICA: BLEAK IN BRAZIL

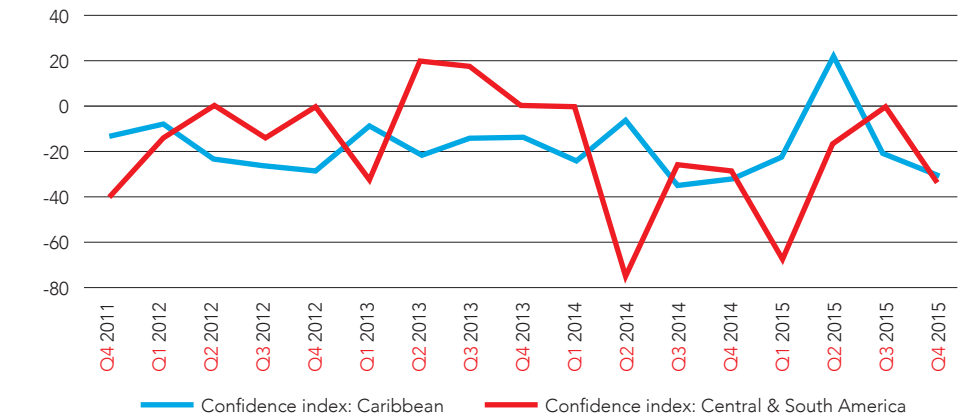
Low commodity prices continue to take their toll on Latin America. Its biggest economy, Brazil, has been dealt another blow to its terms of trade by falling commodity prices. The Brazilian real continues to fall, contributing to a rise in inflation to a 12-year high in December. A potential unravelling of credit and housing price bubbles could add to the country's deepening problems.

Elsewhere, the US recovery, combined with the strength of the US dollar, should create opportunities for exporters. Mexico, for example, has seen a 15% fall in the peso against the US dollar over the last year, and sends 75% of its exports to the US. The Caribbean is in a similar position and businesses there reported an improvement in investment opportunities and new orders in Q4. That said, the region is also vulnerable to rising US interest rates and the effect that it will have on global liquidity conditions. Only in Africa did more firms report problems accessing finance in Q4.

15%

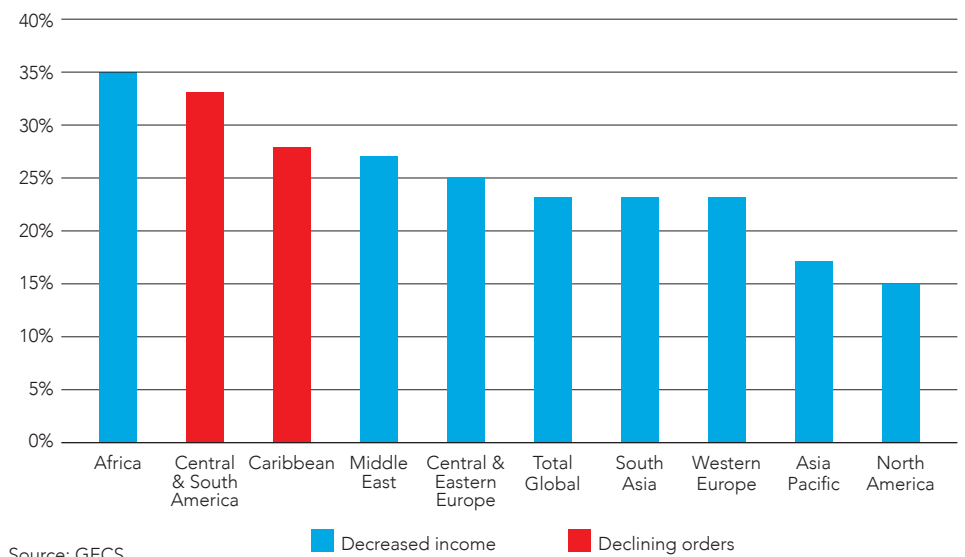
fall in the Mexican peso against the US dollar over the last year

Chart 47: Business confidence in Latin America sours further



Source: GECS

Chart 48: Businesses reporting problems accessing finance (%)



Source: GECS

The energy sector accounted for around half of the government’s revenue until last year and it has been forced to roll out an austerity package to try to contain the budget deficit.

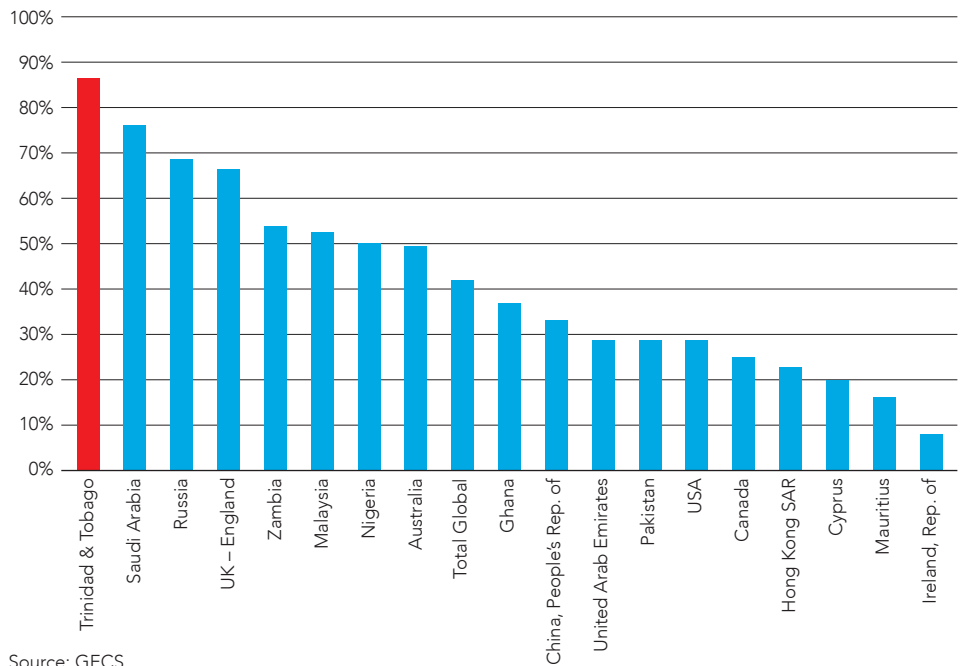
TRINIDAD & TOBAGO IN FOCUS

Trinidad & Tobago’s reliance on oil and gas exports means that it is struggling to cope with the sharp drop in global energy prices, with the economy not growing at all in 2015, according to the World Bank. The energy sector accounted for around half of the government’s revenue until last year and it has been forced to roll

out an austerity package to try to contain the budget deficit. An exceptionally high proportion of firms in the country (86%) were expecting the government to cut spending (see chart below). The austerity package is weighing on business sentiment, with 72% of businesses reporting a fall in confidence in Q4, compared with 44% globally.

86%
of firms were expecting the government to cut spending

Chart 49: Firms expecting government spending cuts (%)



Source: GECS

In the fourth quarter of 2015 businesses had a troublingly long list of risks to think about.

In the fourth quarter of 2015 businesses had a troublingly long list of risks to think about. The US Fed's first rate hike in almost nine years was an almost unprecedented event for the modern global economy. The build-up was understandably characterised by heightened uncertainty and market volatility. At the same time, serious doubts over the health of China's economy lingered. And another collapse in commodity prices dealt a fresh blow to many emerging economies that rely on commodity sectors.

Given the way that 2016 has started, it is hard to see a positive turnaround in the first quarter. Another collapse in China's stock market and further depreciation of the renminbi has rocked global markets, to the point where the FTSE World index slid into bear market territory on January 20. Oil prices have fallen again, as Iran re-entered the global market following the end of its sanctions.

Geopolitical risks in the Middle East have risen. While the US Fed's hike in December did not trigger the market turbulence that some had feared, speculation will now turn to the likely path of future tightening. Given all this, the IMF has lowered its growth forecast for 2016 again, to just 3.4%.

Nevertheless, it isn't all doom and gloom. For all the problems in China's financial markets, its real economy appears to have stabilised in response to policy support. The US economy continues to grow at a relatively healthy pace, and the eurozone no longer appears to be on the brink of collapse. Even commodity-producing economies might be past the worst, if only because mining firms had already slashed their investment in new capacity during 2015.

Indeed, most forecasters, even the IMF, are still expecting global growth to pick up in 2016. If this proves to be correct, business confidence is likely to improve as the year goes on. But for now, it is likely to be the risks to global growth that dominate the thoughts of business leaders.

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	Honduras
Mexico	Egypt	China, People's Rep of	Czech Republic	Bangladesh	Finland	Ethiopia	Bermuda	Suriname
USA	Iraq	Hong Kong SAR	Hungary	India	Germany	Ghana	Grenada	
	Israel	Indonesia	Moldova	Kazakhstan	Greece	Ivory Coast	Guyana	
	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.

CONTACTS

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