

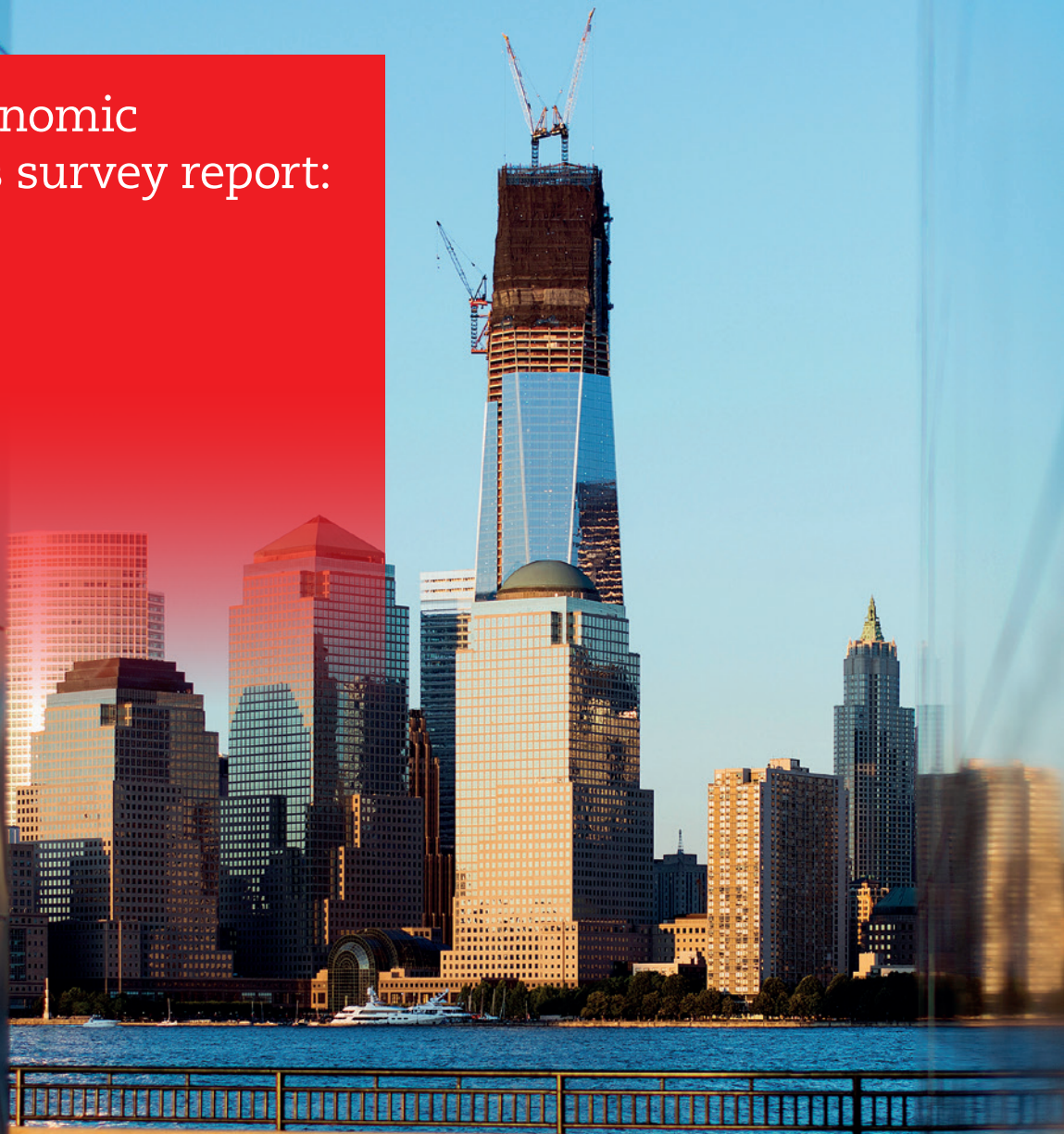


The Association of
Accountants and
Financial Professionals
in Business

Think Ahead



Global economic
conditions survey report:
Q1, 2016



ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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 178,000 members and 455,000 students in 181 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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IMA® (Institute of Management Accountants), the association of accountants and financial professionals in business, 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) program, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than 75,000 members in 140 countries and 300 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/Africa.

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Global economic conditions survey report: Q1, 2016

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 Q1 2016 GECS took place between 26 February and 15 March, and attracted more than 1,200 responses from ACCA and IMA members around the world, including more than 100 CFOs.

Nearly half the respondents were from small and medium enterprises, with the rest working for large firms of more than 250 employees.

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 which make the GECS a trusted barometer for the global economy. We would also like to thank the following for their time and expertise:

- Andrew Kenningham, Senior International Economist, Capital Economics
- Dario Perkins, Chief European Economist, Lombard Street Research
- Chris Williamson, Chief Economist, Markit

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- The GECS showed that in Q1 businesses were less optimistic about their prospects than at any other time in the past four years. Almost half of the firms surveyed said that they were more pessimistic about their prospects than they were three months earlier. Less than one-quarter had become more optimistic.
- More than half of firms are either cutting or freezing employment, while only 14% are increasing investment in staff. As many as 42% of firms are cutting back on investment, up from 40% in Q4 2015. Almost every region saw an increase in the number of businesses cutting capital expenditure last quarter, with North America the most notable exception.
- The number of firms that reported a drop in income in Q1 rose to 48%, compared with 46% in the final quarter of 2015. Declining income is now comfortably the biggest problem facing businesses. By the same token, only 12% of businesses saw an opportunity to increase their orders as a result of changes in the global economy last quarter.
- Firms in emerging-market economies remain very gloomy about their prospects. That said, business confidence across non-OECD economies did pick up slightly in Q1, led by Central & Eastern Europe – and Russia in particular. China was a notable exception. Business confidence there fell to its lowest level since Q4 2011.
- Business confidence in OECD economies dipped sharply last quarter. However, concerns over the UK exiting the EU look largely to blame, with confidence in the UK – at its lowest level since Q2 2012 – dragging down the average for Western Europe. Business confidence in the US actually improved last quarter, albeit from a low level.

With emerging economies continuing to struggle with low commodity prices, speculation intensified in Q1 that the global economy might even be heading for recession.

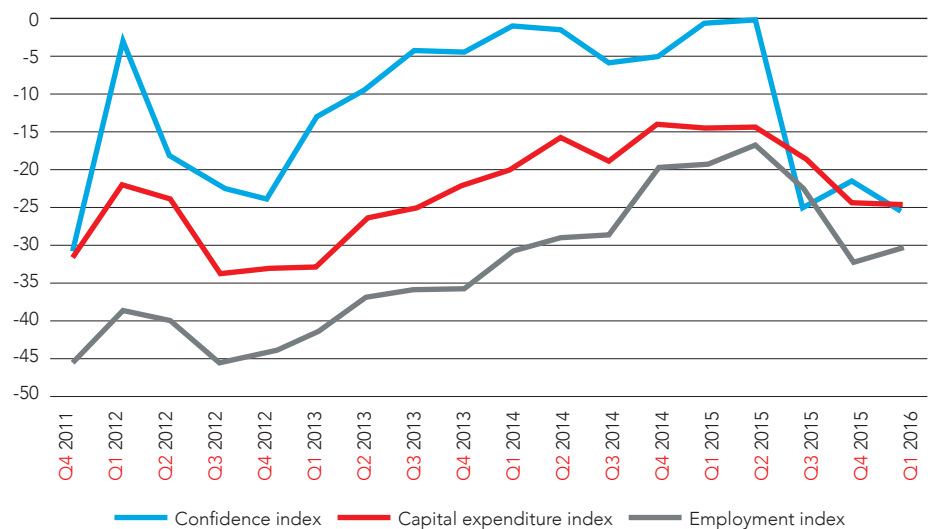
Q1 saw businesses feeling less optimistic than at any other point in the past four years, with almost half of the firms saying that they were more pessimistic about their prospects than they had been three months earlier. Less than one-quarter had become more optimistic.

With emerging economies continuing to struggle with low commodity prices, speculation intensified in Q1 that the global economy might even be heading for recession. Efforts by the European Central Bank (ECB) and the Bank of Japan to increase monetary stimulus yielded unconvincing results, while the prospect looms of further rate hikes by the US Fed.

"Companies have concerns in a number of areas," says Chris Williamson of Markit. "You've got weak global demand, falling commodity prices, a lack of pricing power meaning low revenues, and concerns about monetary policy and political disruptions – the US election and Brexit in particular.

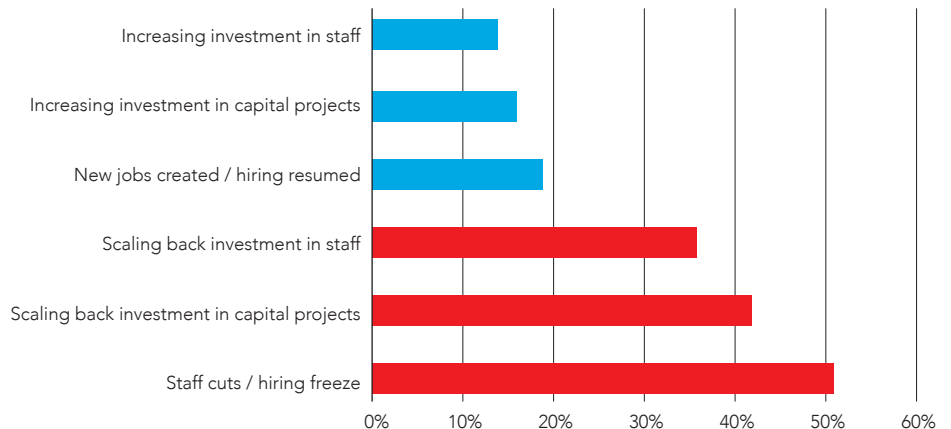
"Do policymakers have a grip on what's going on? Do they have the tools to avert another recession if it comes? These questions are playing on people's minds," he explains. "Especially in terms of big investment decisions."

Chart 1: Businesses growing less optimistic



Source: GECS

Chart 2: Firms' responses to macroeconomic changes Q1 2016



Source: GECS

Commodity prices stabilised in Q1, but it is the regions that are heavily reliant on commodities – Africa and Latin America – that are scaling back investment the most.

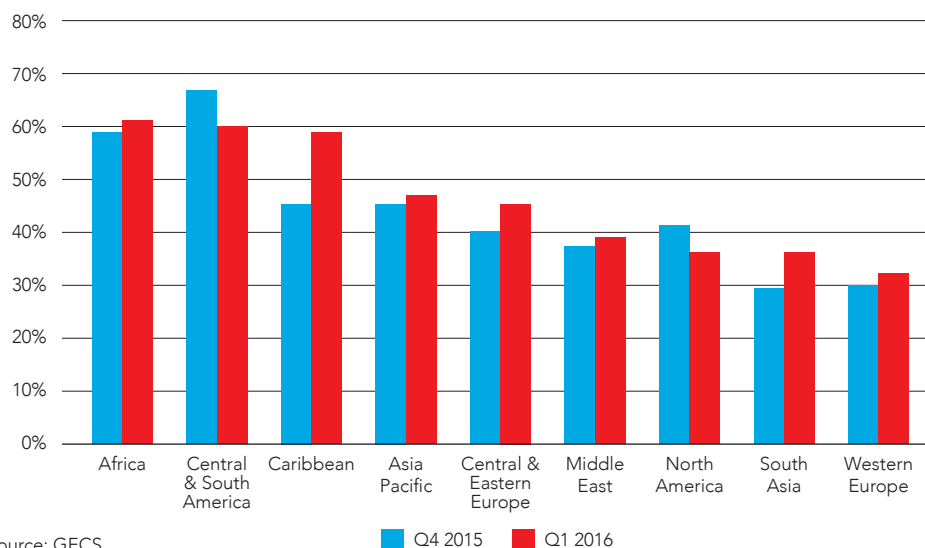
The fall in confidence did not trigger a drop in the capital expenditure and employment indices, but more than half of firms are still either cutting or freezing employment; only 14%, meanwhile, are increasing investment in staff, and as many as 42% of firms are cutting back on investment. Last quarter, almost every region saw an increase in the number of businesses cutting capital expenditure, with North America the most notable exception. Commodity prices stabilised in Q1, but it is the regions that are heavily reliant on commodities – Africa and Latin America – that are scaling back investment the most.

REVENUE COMING UNDER PRESSURE

Commodities firms’ revenues have collapsed since mid-2014, but the generally weak price environment has also put downward pressure on a much broader range of businesses. Last year, global trade fell at its fastest rate since 2009 in US dollar terms, and, putting that year aside, it experienced the sharpest decline in two decades. Global trade volumes increased, but only by 2.5% – slower than in the previous two years – suggesting that firms have been hurt by weak demand as well as lower prices.

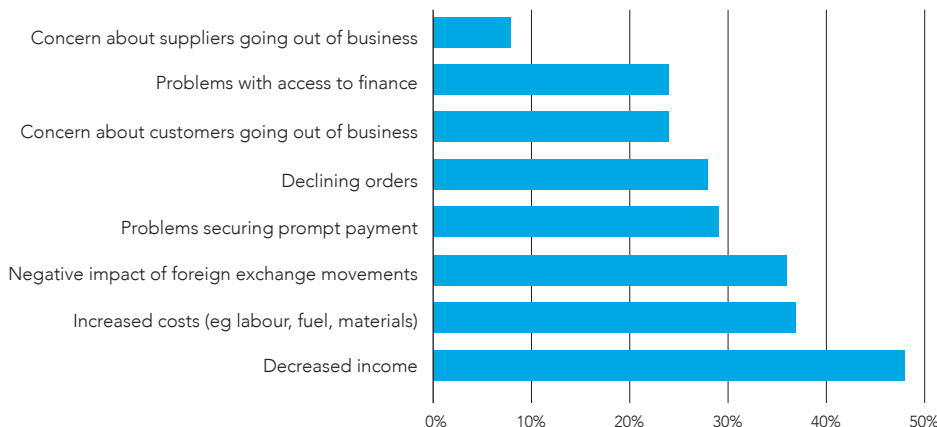
42%
of firms are cutting back on investment

Chart 3: More businesses cutting investment



Source: GECS

Chart 4: Main negative effects of macroeconomic changes Q1 2016



Source: GECS

After the opportunity to lower costs, benefiting from focusing on innovation was the second opportunity most identified by firms.

Large firms are more likely to trade across borders, so are reporting declining incomes and the negative effects of exchange-rate movements more than SMEs. More of these firms are also cutting capital expenditure and employment.

Rising costs and foreign-exchange movements remain the second and third most important problems facing businesses, but the number of firms that are being hurt by these two factors declined in Q1 2016. The drop in commodity prices has obviously reduced many of the costs facing businesses: 49% of businesses said that last quarter they saw an opportunity to cut costs.

But wages are still rising rapidly in many parts of the world – especially in Asia

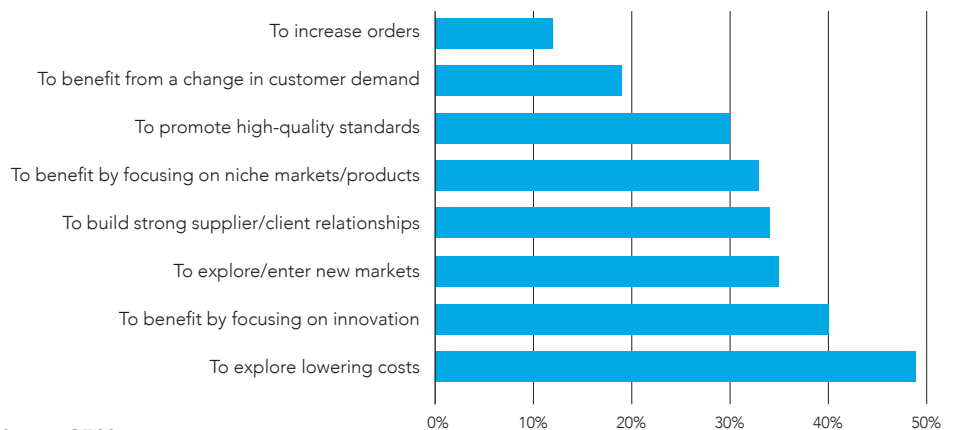
and Africa – and businesses are finding it harder to cope with rising wages now that their revenue is under pressure. The sharp drop in many currencies against the US dollar will have also pushed up costs, making imports more expensive and raising the local-currency value of dollar-denominated debts.

After the opportunity to lower costs, benefiting from focusing on innovation was the second opportunity most identified by firms. Indeed, in a difficult global environment, firms are under as much pressure as ever – if not more – to innovate and get ahead of the competition. This can be seen in the growing number of firms citing innovation as an opportunity: 40% in Q1 2016, compared with 36% of firms in Q4 2015 and 33% in Q3 2015.

49%

of businesses said that last quarter they saw an opportunity to cut costs

Chart 5: Business opportunities resulting from changes in global economy in Q1 2016



Source: GECS

Firms in emerging-market economies remain pessimistic about prospects, but business confidence across non-OECD economies did pick up slightly in Q1, led by Central & Eastern Europe – and Russia in particular.

EMERGING MARKETS HIT THE HARDEST

Evidence that bottom lines are being squeezed is strongest in the emerging world. Despite the drop in corporate profits in the US last year, businesses in North America, as well as in Western Europe, were less likely to report increased costs and decreased income than those in almost any other region.

Firms in emerging-market economies remain pessimistic about prospects, but business confidence across non-OECD economies did pick up slightly in Q1, led by Central & Eastern Europe – and Russia in particular. But businesses remain wary about prospects for China, where business confidence last quarter was at its lowest level since our survey was created in 2009.

By contrast, business confidence in OECD economies dipped sharply. This seems largely attributable to concerns about the UK's possible departure from the EU: confidence in the UK is at its lowest since Q2 2012, which has brought down the average for Western Europe. Business confidence in the US, on the other hand, improved last quarter. The Fed's next rate increase appears to have shifted back, which is likely to have eased concerns about how monetary tightening might impact business conditions. And while exporters are still struggling with weak external demand and a strong dollar, the fundamentals for the US's domestic economy still look strong.

Chart 6: Bottom lines squeezed less in OECD regions

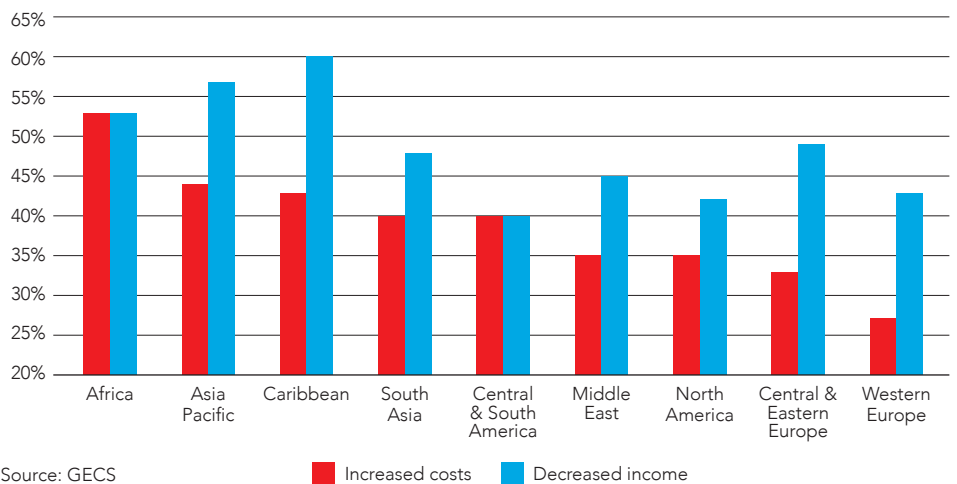
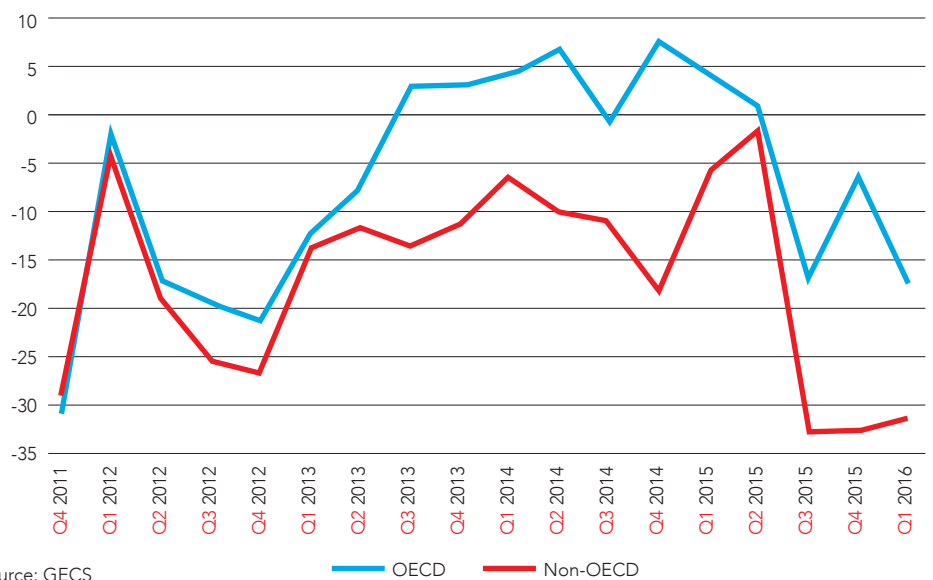


Chart 7: Confidence drops in the OECD



The early months of 2016 brought several high-profile warnings that a global recession could be imminent.

CONFIDENCE IS LOW, BUT FEARS OF A GLOBAL RECESSION MAY BE OVERDONE

The early months of 2016 brought several high-profile warnings that a global recession could be imminent. On 8 March, IMF second-in-command David Lipton claimed that the risk of “economic derailment” had increased. He pointed to sharp declines last year in global capital flows and trade, and stressed the risk to the real economy of “adverse feedback loops” from market turmoil. Meanwhile, Morgan Stanley has raised its estimated probability of a global recession this year from 20% to 30%.

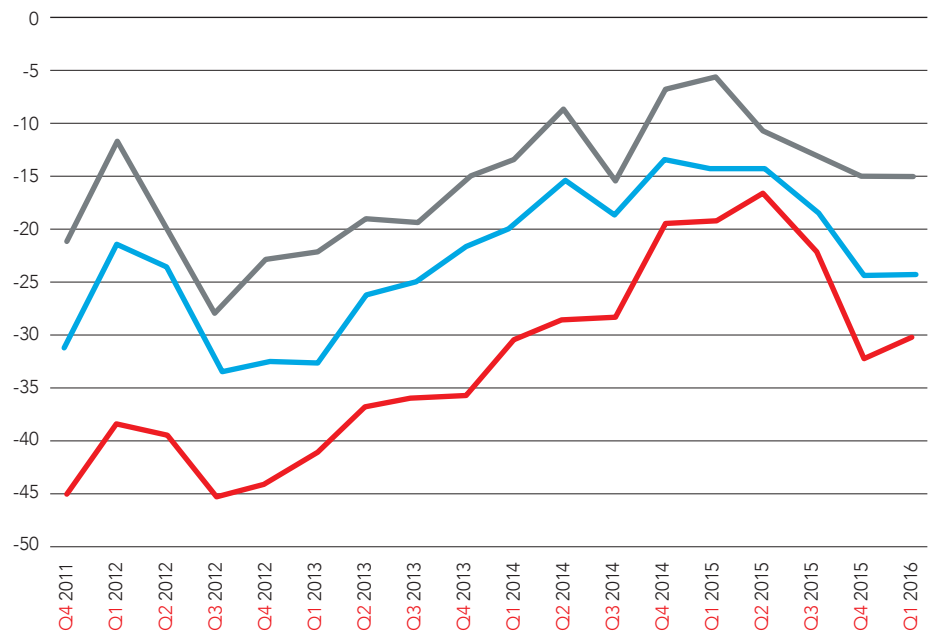
Although our business confidence index level for Q1 2016 suggests that prospects for the global economy are far from bright, the level was lower in Q4 2011 – and the global economy did not fall into recession. Our capital expenditure, employment and new orders indices have been much lower than their current level

at times over the past five years, and none of these point to a sudden deterioration in conditions so far in 2016.

Similarly, the global PMI index fell below its current level in late 2012 without a global recession. And despite David Lipton’s warnings, equity price slumps are not always followed by recession.

“Since the middle of February there has been a strong rebound in equity markets and commodity prices,” says Andrew Kenningham of Capital Economics. “For example, the MSCI World Index fell by 13% between 1 January and the middle of February, and then rebounded by 11%. The S&P500 in the US followed a similar path. Many people interpreted the slump in asset prices as a sign that the world economy was actually much weaker than it was. I don’t think a global recession is on the cards. Comparisons to 2008–09 are certainly not reasonable.”

Chart 8: Not heading for recession



Source: GECS — Capital expenditure index — Employment index — New orders index

In developed economies, expectations for government spending remain low, but have edged up recently: the worst of the austerity in Europe and the US is almost certainly over.

GLOBAL POLICYMAKERS ARE RUNNING LOW ON AMMUNITION

Governments that rely on revenue from commodities exports have had to tighten their belts since the collapse in prices began in late 2014, and our government spending expectations index for non-OECD economies has never been lower.

In developed economies, expectations for government spending remain low, but have edged up recently: the worst of the austerity in Europe and the US is almost certainly over. Governments, however, have had to work hard to stabilise their debt-to-GDP ratios at levels that are still much higher than they were in 2007. Many are reluctant to reverse that good work and invite a negative reaction from bond investors. This leaves the heavy lifting to central banks, but there are serious doubts about the ability of central bankers to provide

more support. Recent experiments with negative interest rates have created some concern. The ECB and the Bank of Japan, as well as central banks in Switzerland, Sweden and Denmark, have now pushed their policy rates below zero. These negative interest rates, which have not been tried before, should in principle work in the same way as conventional cuts when policy rates are positive. And in the countries where they have been tried, below-zero rates have generally had success in bringing down borrowing rates across the rest of the economy. Markets, however, have not always responded positively – the global bank stocks sold off in response to the Bank of Sweden’s decision in February to cut rates to -0.5%, for example. The Bank for International Settlements (BIS), meanwhile, has warned that negative rates will have a “debilitating impact on banks’ resilience through undermined profitability”.

Chart 9: Government expenditure index

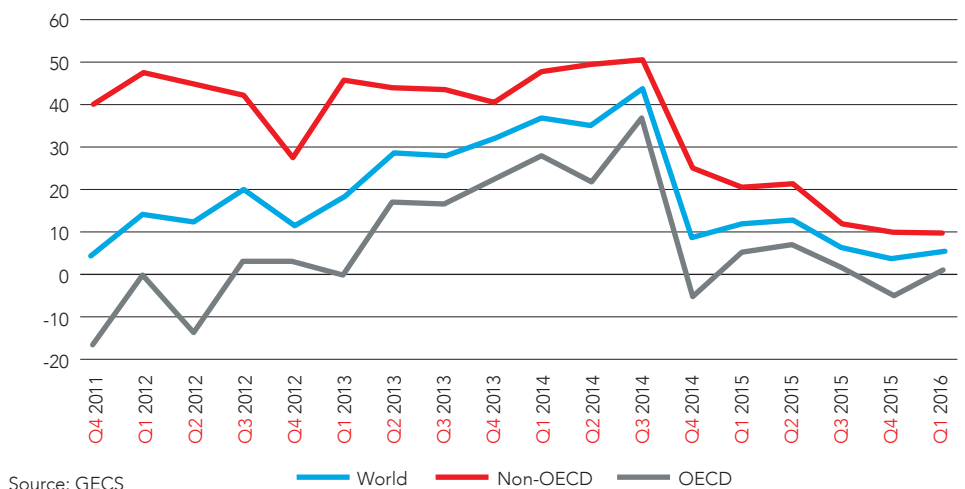
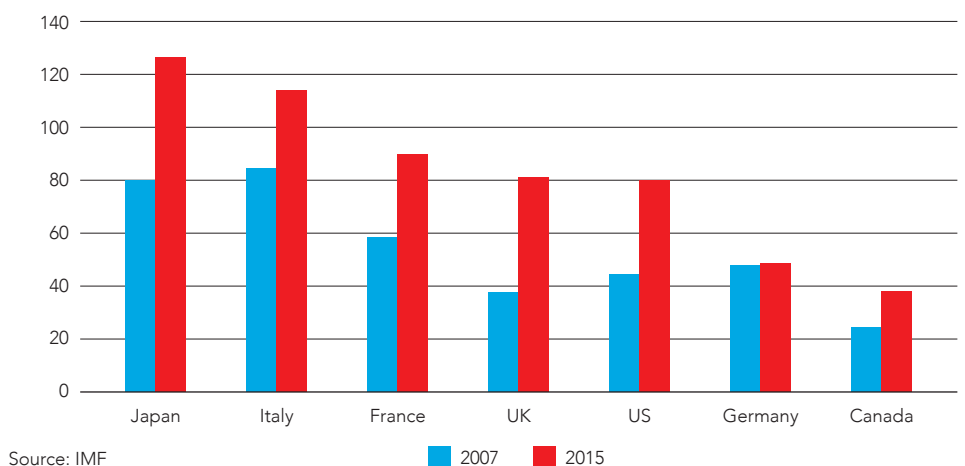


Chart 10: General government debt (% of GDP)



Ultra-loose global monetary policy since 2008 has seen investors searching for larger returns in emerging-market debt markets, and emerging-market corporates have taken advantage.

One alternative is to use “helicopter money”, whereby the central bank transfers funds to the government to use for tax cuts or spending increases – helping it to deliver fiscal stimulus without having to increase its borrowing. This option has not been tried, and the danger is that helicopter money could lead to hyperinflation.

“Do you simply need to get governments to spend more money to lift the global economy out of this malaise?,” asks Markit’s Chris Williamson. “There are increasing numbers of quite serious people – the OECD and the IMF, for example – talking about the need for greater spending.

“Obviously this means sensible spending on worthwhile infrastructure projects that build productive capacity in the long run,” he adds. “But there is a strong possibility that we’ll look back at this period and wonder why on earth governments did not start spending more on infrastructure projects, given that it was so cheap for them to borrow.”

But if the global economy is heading for weaker growth, the US Fed – arguably the most important central bank in the world – still has scope to lend more conventional monetary support by delaying its planned

interest rate increase, or even reversing its recent hike. Moreover, rates across most of the emerging world are still well above zero.

Overall, it does not look like policymakers are out of ammunition just yet.

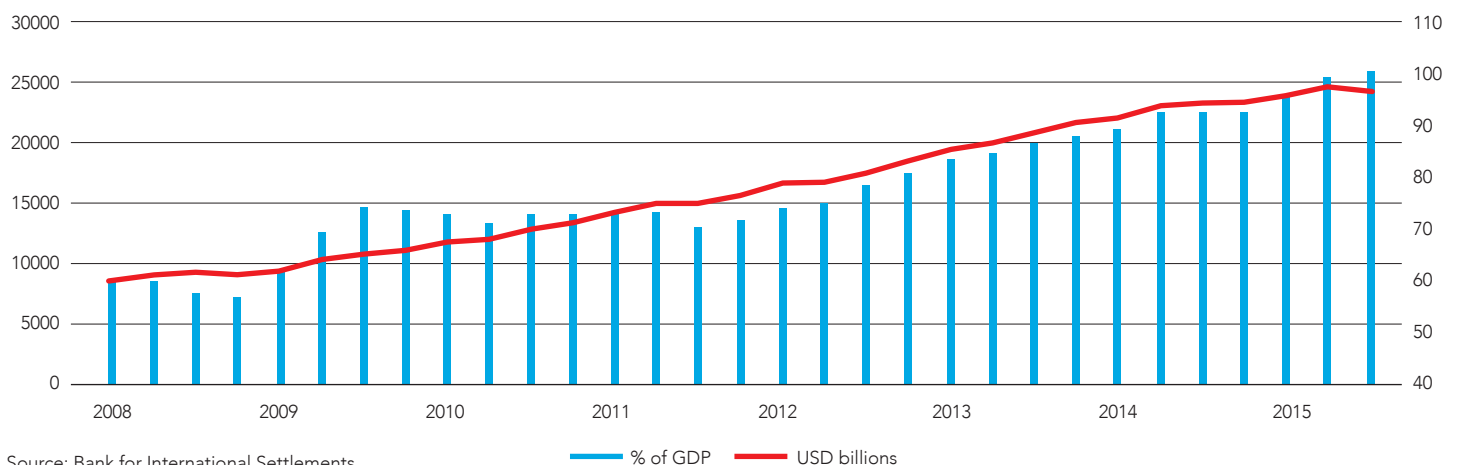
IS AN EMERGING-MARKET CORPORATE-DEBT CRISIS LOOMING?

Ultra-loose global monetary policy since 2008 has seen investors searching for larger returns in emerging-market debt markets, and emerging-market corporates have taken advantage.

According to BIS data, emerging-market corporate debt rose from US\$8.7trn at the start of 2008 to US\$23.4trn in the Q3 2015 – a rise in the debt-to-GDP ratio from 61% to 101% over the same period.

Many emerging-market corporates are likely to have over-extended themselves. Indeed, last year there were 112 defaults globally on corporate debt rated by Standard & Poor’s (S&P) – the most since 2009. There has also been a clear impact of the collapse in oil prices on energy firms that leveraged up to invest in new output when they thought prices would remain high. The S&P figures showed that 15% of last year’s global corporate defaults were in the energy sector.

Chart 11: Emerging-market corporate debt



Source: Bank for International Settlements

One big concern is that continued dollar strength will push up the local-currency value of dollar-denominated debt, making it harder to service.

One big concern is that continued dollar strength will push up the local-currency value of dollar-denominated debt, making it harder to service. So it is reassuring that, according to the Institute of International Finance, only US\$4.4trn of corporate debt – less than a fifth of the total – was denominated in foreign currency. In China, one of the economies where corporate debt has surged most quickly, foreign currency borrowing has been almost negligible, while in Brazil it accounts for just 15% of the total.

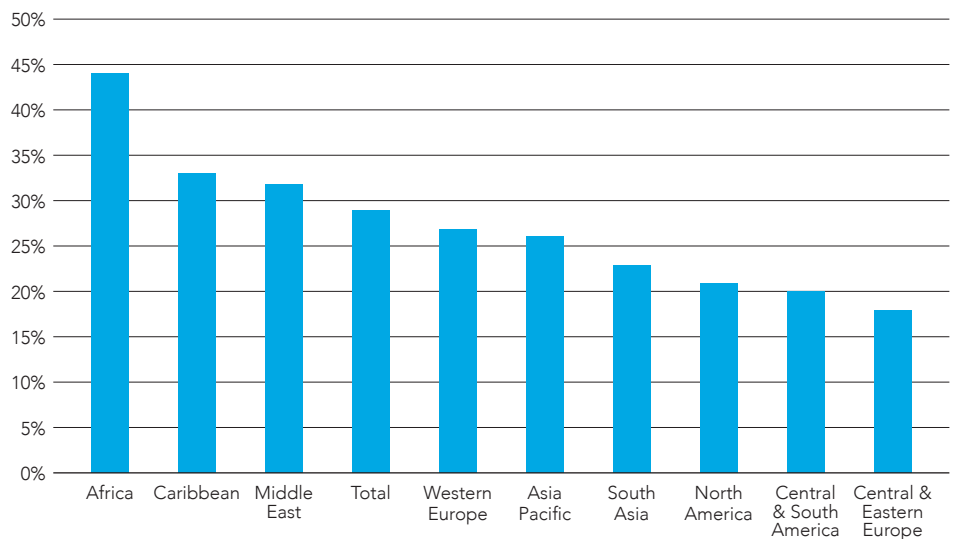
“Concerns about corporate debt need to be kept in perspective,” says Andrew Kenningham. “A lot of the build-up in debt has been in China, where we think the macro risks are not too large – at least in the short term. And the other major

countries we’re concerned about are Brazil and Turkey, but these have floating exchange rates which should help. A classic emerging-market crisis consisting of a devaluation and widespread defaults therefore doesn’t seem very likely.”

Our survey showed that less than a quarter of businesses globally were worried about customers going out of business, and only 8% were worried about suppliers going out of business. In Africa, however, those figures were 30% and 17% respectively. Moreover, in a number of regions a high proportion of firms reported problems securing prompt payment, which could be sign a that the corporate sector is coming under financial stress.

30%
of African businesses were worried about customers going out of business

Chart 12: Problems securing prompt payment



Source: GECS

Whatever the eventual economic impact, the uncertainty looks likely to keep businesses in the UK jittery until the decision is made in June.

BREXIT: THE ECONOMIC THREAT

Q1 2016's sharp drop in the UK's business confidence to its lowest level since Q2 2015 suggests that businesses there have been worried by the possibility that it might choose to leave the EU when it holds a referendum on 23 June.

While more than three-quarters of economists polled by the *FT* at the start of the year felt that in the medium-term, the UK economy would be hurt by a Brexit, the potential economic impact is far from clear cut.

"If there is a vote to leave, there is a whole range of scenarios – ranging from quite benign, where the UK just renegotiates terms and everything ticks along, to more countries questioning the value of EU membership and then a larger breakup of the region. This is certainly a possibility that needs to be considered," says Chris Williamson.

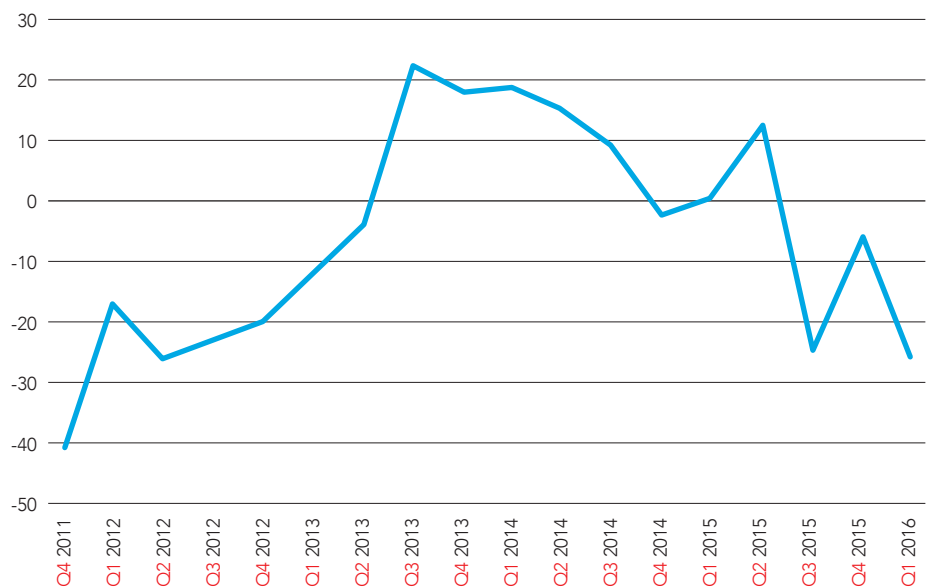
The EU might not be open to negotiating a free-trade agreement with the UK, which could set a precedent for other EU countries to follow suit. If it does, the

process would be a lengthy one and UK trade and investment might be affected in the meantime. While London's financial sector is often considered to be most vulnerable to the relocation of banks and funds to other EU countries, a recent letter signed by the CEOs of one-third of all FTSE 100 firms – encompassing a range of sectors from retail and media to manufacturing and energy – warned that a Brexit would hurt investment in the UK and lead to potential job losses.

On the other hand, a Brexit would free up the funds that the UK government currently contributes to the EU budget – which could then be spent within the country. Regulation could be cut, potentially improving the business environment. And migration policy could become more targeted, allowing firms to address skills shortages more effectively. Some commentators argue that these potential benefits will outweigh the negatives for the UK economy.

Whatever the eventual economic impact, the uncertainty looks likely to keep businesses in the UK jittery until the decision is made in June.

Chart 13: UK confidence index



Source: GECS

Business confidence rose in North America last quarter, having hit a record low in Q4 2015.

NORTH AMERICA: THE GLOOM IS LIFTING

Business confidence rose in North America last quarter, having hit a record low in Q4 2015. Although 36% of businesses said that they had become less optimistic over the preceding three months, this was an improvement from 44% in Q4 and well below the global average of 48%. Compared with the rest of the world, only in Central & Eastern Europe did fewer firms say they had become less optimistic.

Moreover, the proportion of firms saying that they had become more optimistic rose from 18% to 23%. Businesses in North America were also more likely than anywhere else to report an increase in profitable opportunities, with 23% saying there had been an improvement, compared with 16% globally.

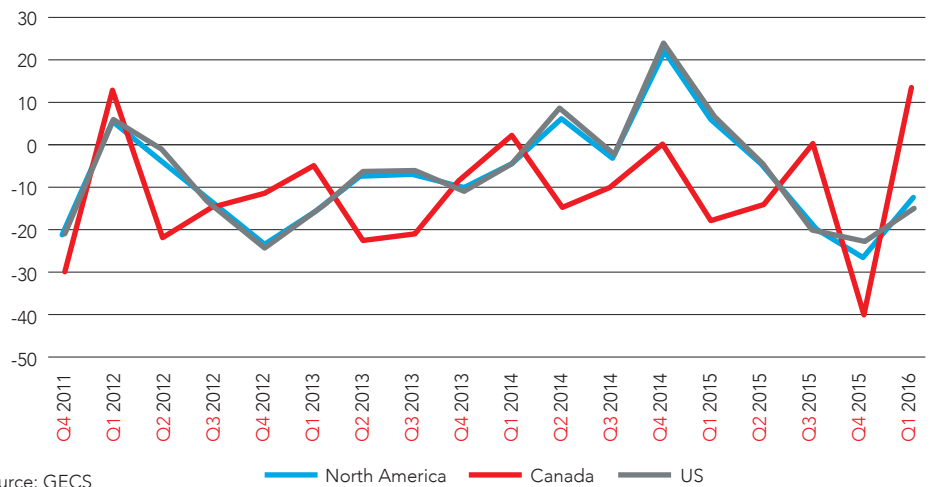
The sharpest rise in confidence was in Canada, where a fresh drop in commodity prices had sent confidence plummeting in Q4. The mood appears to have been helped by the government's shift to a more expansionary fiscal stance: businesses' expectations of government spending soared to a record high in Q1 and were well-founded, with the government announcing a C\$60bn increase in public spending on infrastructure in its 2016 budget.

The US in focus

In the US, business confidence continued to recover in Q1. Recent indications on the state of the economy have been very mixed: purchasing managers' indices have generally painted a downbeat picture and there were signs that consumer spending – previously one of the strong areas of the economy – has started to weaken. Meanwhile, the mining and manufacturing sectors continue to perform terribly. Mining activity has collapsed as commodity prices have tumbled, and manufacturers are struggling to cope with the 20% appreciation of the US dollar in trade-weighted terms over the past couple of years.

"Household debt is down, and the budget is under control. The banks' financial position is strong at the moment and there is more or less full employment," says Andrew Kenningham. "But there are areas of concern. For example, the recent strength of the dollar has made life difficult for US exporters. The other area of weakness is the energy sector: GDP would have increased by half a percent more last year if oil prices had not collapsed and led to a slump in investment in the mining sector."

Chart 14: Confidence rebounds



Source: GECS

The labour market continues to strengthen, with the economy now close to full employment.

The labour market continues to strengthen, with the economy now close to full employment. Our survey showed that 26% of businesses in North America were creating new jobs in Q1, up from 20% in Q4. This was a larger percentage than in almost any other region, and well above the global average of 19%. By the same token, the proportion of North American businesses that are increasing investment in capital projects – 23% – was much higher than the global average.

This all suggests that the underlying health of the US economy is stronger than some of the recent negative headlines have claimed.

“Everyone has talked about stagnation in the US, but let’s look at what has happened since 2008,” says Dario Perkins, Chief European Economist at Lombard Street Research. “You’ve had very aggressive

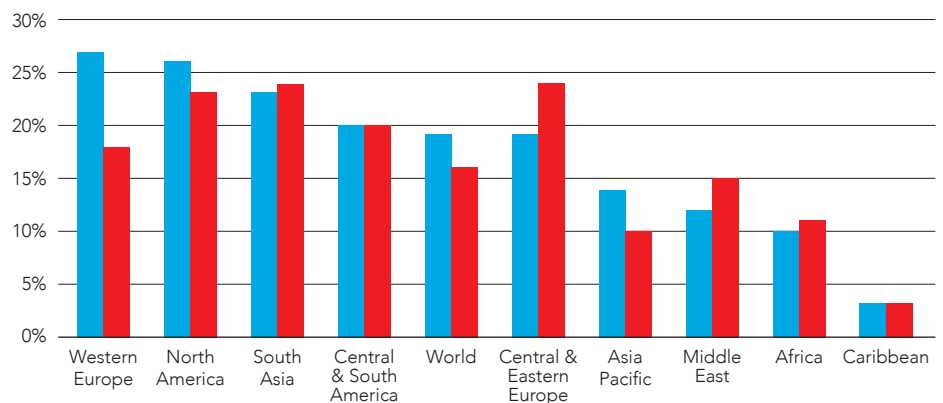
deleveraging in the banking and housing sectors, and then a very significant fiscal squeeze. The US government has cut its structural deficit hugely – more than most European countries. When you’ve achieved 2% growth during that period, I don’t think you need to worry too much about stagnation.”

The US Fed is also likely to have improved the mood of US businesses. Not only did it leave its interest rates on hold during Q1, it also lowered its projections for future rate hikes. It is now expecting to raise rates by just 50 basis points this year, compared with 100 basis points in December. The fact that it did this without making any significant changes to its economic forecasts suggests it is willing to keep rates low even as the economy remains healthy and inflation continues to rise. That would be good news for businesses – at least in the short term.

26%

of businesses in North America were creating new jobs in Q1

Chart 15: North American businesses eyeing expansion



Source: GECS ■ New jobs created/hiring resumed ■ Increasing investment in capital projects

Business confidence in Western Europe fell to its lowest level in more than three years in Q1, but it is hard not to see this as a direct result of the uncertainty caused by the UK's forthcoming referendum.

WESTERN EUROPE: BREXIT HANGS OVER THE REGION

Business confidence in Western Europe fell to its lowest level in more than three years in Q1, but it is hard not to see this as a direct result of the uncertainty caused by the UK's forthcoming referendum.

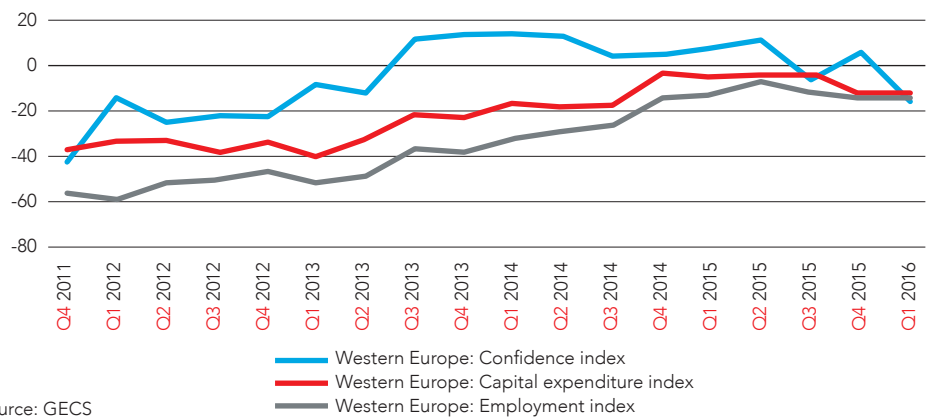
Admittedly, recent data have not been particularly upbeat. Eurozone GDP grew by a relatively modest 0.3% quarter on quarter (qoq) in Q4, and retail sales growth slowed at the start of the year – possibly because the boost to real incomes from lower oil prices has started to fade. Moreover, the euro has appreciated against the US dollar so far this year; euro weakness was an important factor supporting eurozone exports in 2015. Finally, the EU's refugee crisis is also likely to be weighing on confidence, while the terrorist attacks in Brussels will have darkened the mood further.

However, our survey was conducted before the terrorist attacks in Brussels, and the situation is far better than a few years ago: in late 2012, the eurozone economy was deep in recession and still at risk of a break-up. This all suggests that fears of worst-case scenarios associated with a Brexit have dragged down confidence in Q1.

The capital expenditure and employment indices for Western Europe were very stable in Q1. The 27% of firms in Western Europe that said they were increasing employment in Q1 was a higher figure than in any other region, and well above the global average of 19%. Western European firms were also less likely than businesses in other regions to report that they are cutting investment in capital projects. Confidence is therefore likely to rebound quickly if Britain decides to stay in the EU in June.

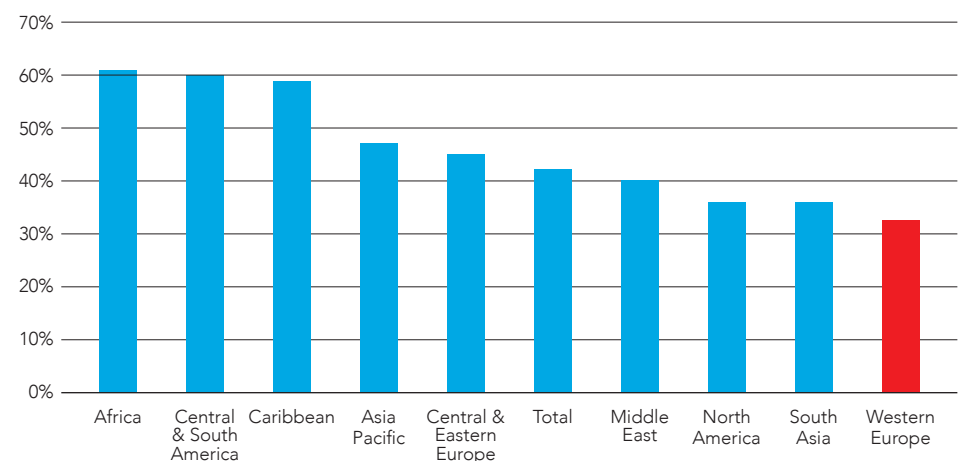
27%
of firms in Western Europe said they were increasing employment in Q1

Chart 16: Tough times again?



Source: GECS

Chart 17: Proportion of businesses scaling back investment in capital projects



Source: GECS

The manufacturing sector is faring less well in difficult global conditions, but export competitiveness should be supported by the fall in the pound during the first quarter.

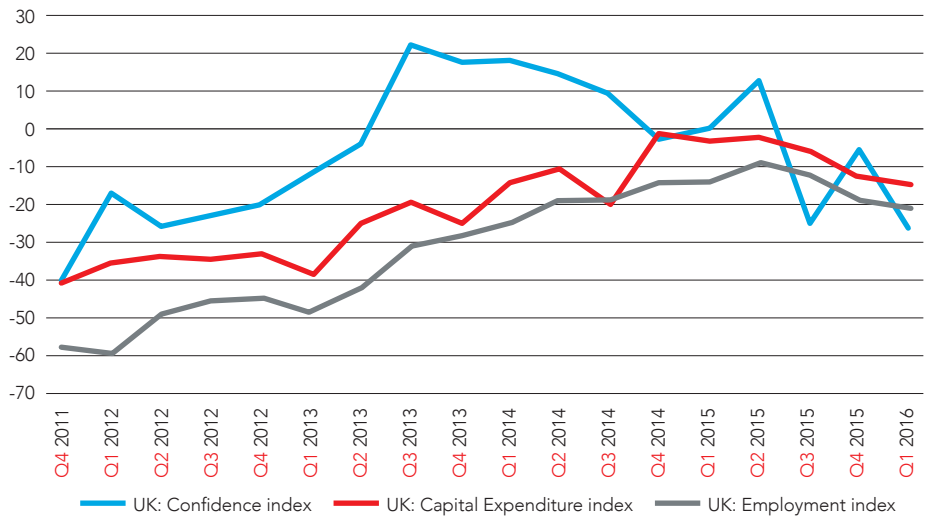
The UK and Ireland in focus

The UK saw a sharp drop in confidence in Q1 – the business confidence index fell to -25.8 from -5.7 in Q4 – despite no obvious deterioration in economic conditions. Government data released during the quarter showed that GDP growth picked up to 0.6% qoq in Q1, from 0.4% in the previous quarter. Consumer spending has been particularly strong, underpinned by healthy real wage growth as low commodity prices have helped to push down inflation. The manufacturing sector is faring less well in difficult global conditions, but export competitiveness should be supported by the fall in the pound during the first quarter.

Again, this suggests that – whether the UK leaves or remains – the uncertainty around June’s EU referendum (see above) is making the country’s firms nervous. So far, our survey suggests that there has not been any sudden drop in investment or employment plans, with firms appearing to be in “wait-and-see” mode.

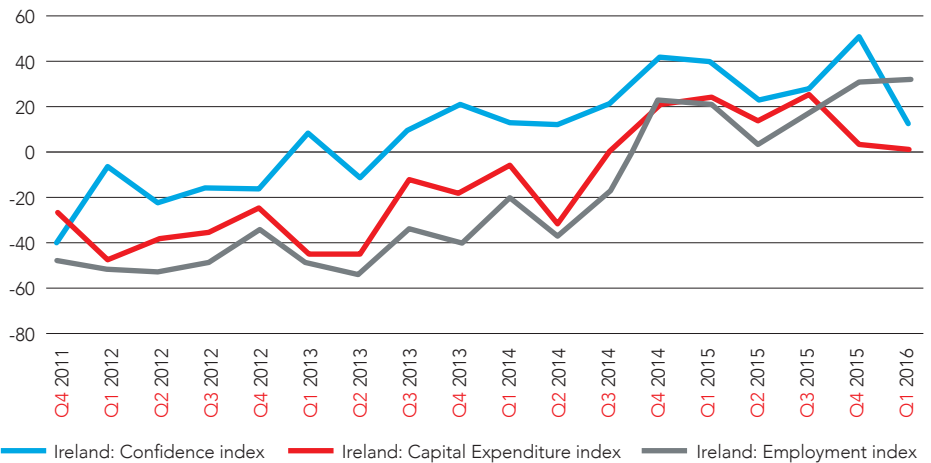
The uncertainty caused by the lead-up to the EU referendum also appears to be weighing on the confidence of Ireland’s businesses. One of the best-performing economies in the world, it grew by 9.2% year on year (yoy) in Q4, but businesses became less optimistic in Q1.

Chart 18: Brexit uncertainty hangs over the UK



Source: GECS

Chart 19: Irish optimism cools



Source: GECS

The ruble has been more stable in recent months, and inflation is starting to come down as a result. The partial recovery in global oil prices in Q1 is also likely to have helped.

CENTRAL AND EASTERN EUROPE: PROSPECTS BRIGHTENING

Business sentiment improved for a second consecutive quarter in Central & Eastern Europe. Only 35% of businesses said they had become less optimistic about their economic prospects over the previous three months – down from 40% in Q4 and from 55% as recently as Q3. In fact, the number of businesses in Central & Eastern Europe reporting that prospects have been getting worse is now lower than in any other region, and well below the global average of 48%.

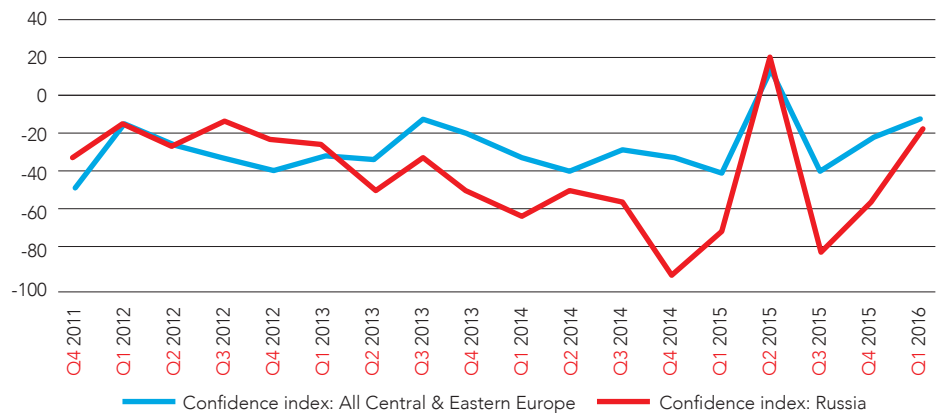
In part, this is likely to reflect the fact that Russia, the region’s largest economy, has started to move on from its currency crisis of late 2014. The ruble has been more stable in recent months, and inflation is starting to come down as a result. The partial recovery in global oil prices in Q1 is also likely to have helped.

“We see signs of Russia’s domestic economy stabilising,” says Chris Williamson from Markit. “The Central Bank of Russia has forecast a 1.5% decline in GDP this year, but this may be too pessimistic. While their export and energy sectors are struggling, the rest of the economy could keep Russia out of recession this year.”

But it isn’t just that firms in Central & Eastern Europe are taking the view that conditions couldn’t get any worse. The fact that 24% of businesses in the region are increasing investment in capital expenditure – compared with just 16% globally, and up from 11% in Q4 – suggests that some, at least, think that prospects are genuinely brightening. And, Russia aside, many economies in Central & Eastern Europe are doing well. The fall in oil prices has helped most of the region, and even bearing in mind that inflation has been very

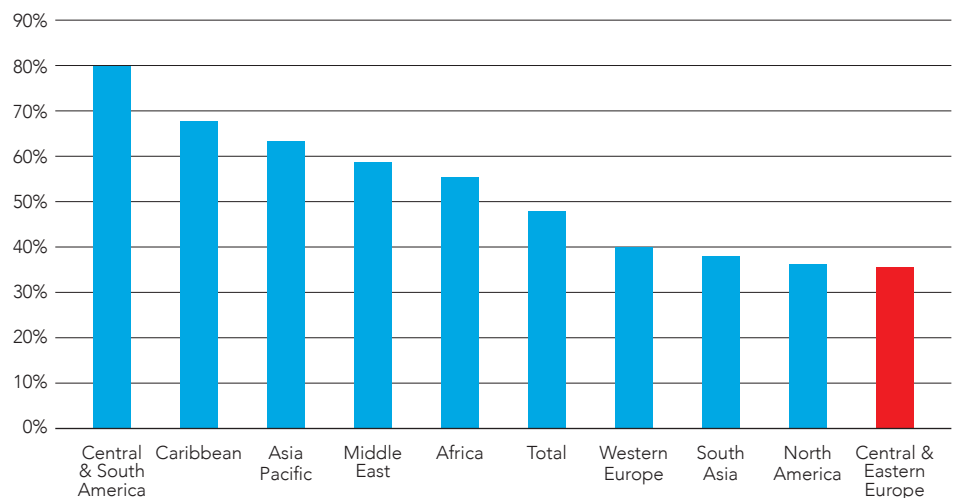
35%
of businesses said they had become less optimistic about their economic prospects over the previous three months

Chart 20: Russia past the worst?



Source: GECS

Chart 21: Businesses less confident about economic prospects than three months earlier



Source: GECS

Business sentiment improved in South Asia in Q1. Although businesses are still nowhere near as optimistic about their prospects as they were in mid-2015, they were still more upbeat than businesses in most other parts of the world.

high in Russia, only 33% of businesses in the region as a whole said that increasing costs were a problem.

Only in Western Europe did fewer firms say they were being hurt by rising costs. Weak price pressures have also allowed most central banks in the region to keep monetary policy loose, which is likely to be a factor behind only 18% of businesses saying they had problems accessing finance in Q1, compared with 24% globally.

SOUTH ASIA: A GLOBAL BRIGHT SPOT

Business sentiment improved in South Asia in Q1. Although businesses are still nowhere near as optimistic about their prospects as they were in mid-2015, they were still

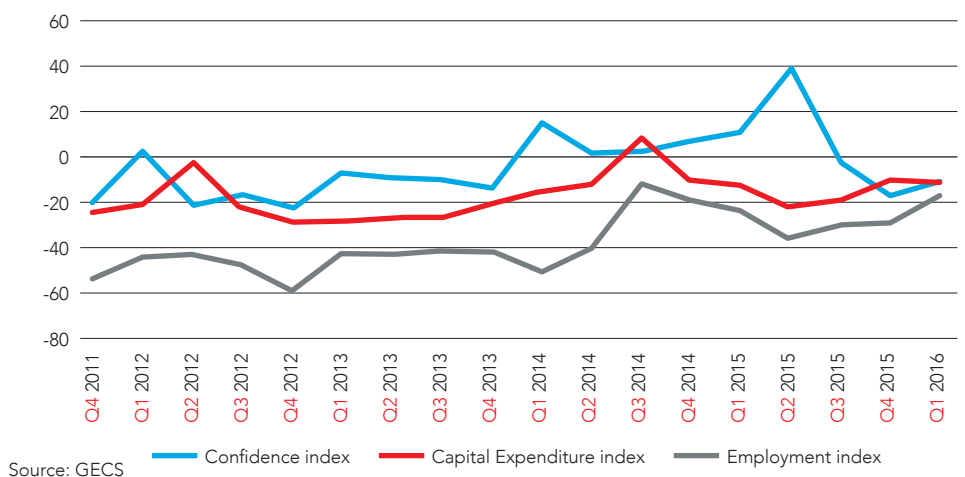
more upbeat than businesses in most other parts of the world. Only in Africa did more businesses report that they were more optimistic about their prospects in Q1.

South Asia was also clearly the region where businesses are seeing the most positive changes in the investment environment: 22% of firms said that there had been an increase in profitable opportunities to exploit, which was well above the global average of 16%. No other region did more firms say that the availability of capital had increased, while the proportion of South Asian businesses reporting an increase in government support (24%) was far higher than anywhere else in the world.

22%

of firms said that there had been an increase in profitable opportunities to exploit, which was well above the global average of 16%

Chart 22: Optimism returning?



Source: GECS — Confidence index — Capital Expenditure index — Employment index

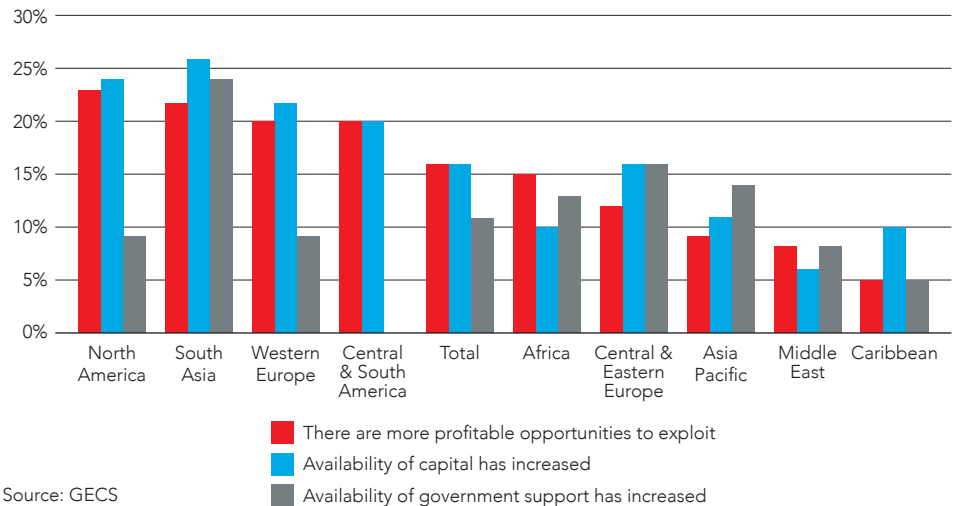
Conditions do not appear quite as healthy across the border in Pakistan.

The improving investment environment is in keeping with developments in the region's largest economy: India. Although its GDP growth slowed to 7.3% yoy in Q4 (from 7.7% in Q3) according to government data, this was still a far better performance than many other large emerging economies. Admittedly, the government's budget for FY2016–17 is targeting another reduction in the budget deficit, but the survey suggests that fiscal tightening is not a big problem for businesses. Moreover, the government's tight stance is one reason why the Reserve Bank of India is able to keep monetary policy loose.

Pakistan in focus

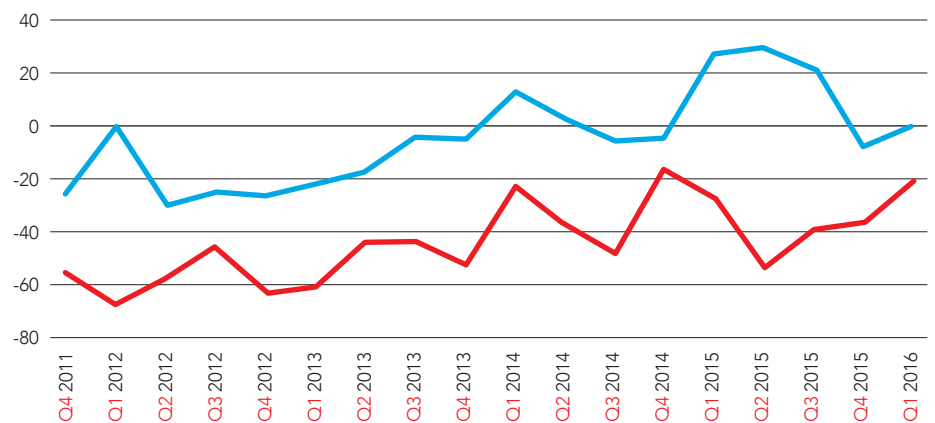
Conditions do not appear quite as healthy across the border in Pakistan. Businesses have benefited from a series of aggressive rate cuts since late 2014, and stand to gain from the eventual implementation of the China–Pakistan Economic Corridor, a bilateral project that will involve hefty Chinese investment into Pakistan's infrastructure network. However, sentiment is being hurt by ongoing security problems, with business confidence in Q1 remaining low compared with most of last year.

Chart 23: Improving investment environment



Source: GECS

Chart 24: Investment opportunities on the rise



Source: GECS

The immediate panic may have passed – China’s markets have settled in 2016 – but concerns that China’s economy might be heading for a hard landing, or that the renminbi could be devalued, are lingering.

ASIA-PACIFIC: CHINA PANIC IS OVER, BUT NERVOUSNESS REMAINS

Business confidence in Asia-Pacific continued to recover from the collapse in late 2015 when businesses around the region were spooked by turmoil in China’s financial markets. The immediate panic may have passed – China’s markets have settled in 2016 – but concerns that China’s economy might be heading for a hard landing, or that the renminbi could be devalued, are lingering. The survey showed that 63% of businesses in Asia-Pacific became less optimistic about the economic outlook in Q1, well above the global average of 48%. This pessimism was reflected by the proportion of firms cutting investment in capital projects and laying off staff, which was also above the global average.

China does not fully explain the downbeat mood. Some economies, most notably Malaysia and Australia, have been hurt by

the collapse in commodity prices; housing markets are weakening in Singapore and Hong Kong, which also face rising interest rates once the Fed resumes its tightening cycle; and, more generally, Asia-Pacific is traditionally a very open, export-reliant, region. The slump in global trade helps explain why more businesses in Asia-Pacific are reporting a drop in profitable opportunities (63%) and income (57%) than almost anywhere else.

“Indonesia and Malaysia suffered with commodity prices, but we think the worst has passed now – particularly for Indonesia. The government there has implemented quite a lot of sensible reforms,” says Andrew Kenningham. “Australia has done much better than we expected. But we think its growth rate is likely to slow a little this year and the Reserve Bank will be forced to cut interest rates, causing the Australian dollar to weaken.”

63%
of businesses in Asia Pacific became less optimistic about the economic outlook in Q1

Chart 25: Taking stock

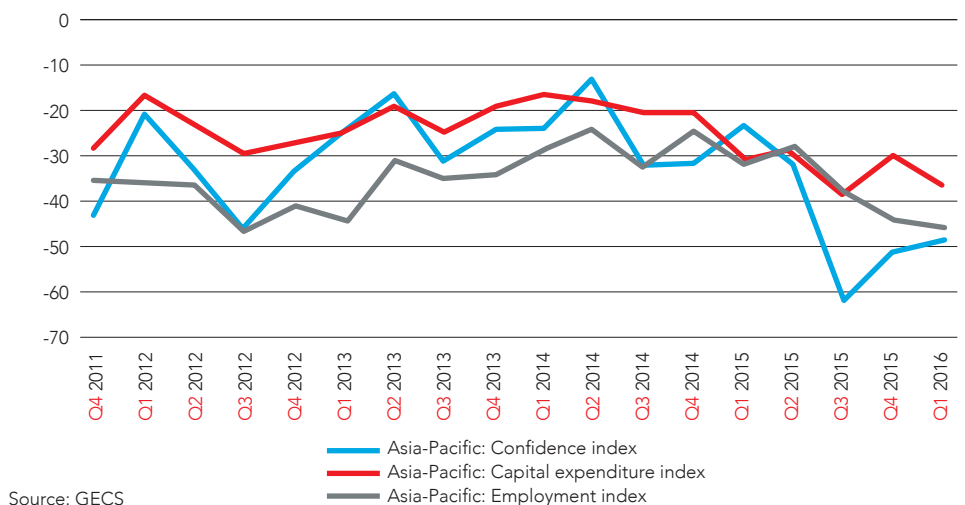
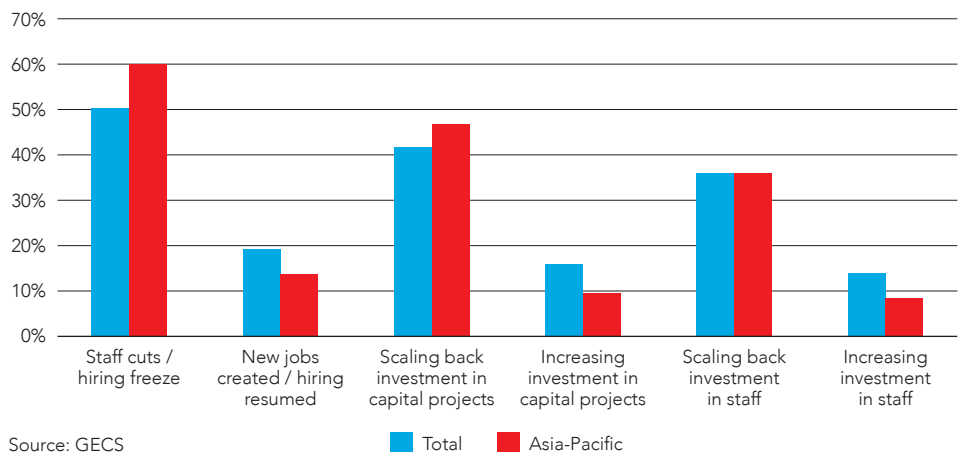


Chart 26: Cutting employment and investment



Taking a more medium-term view, most commentators now accept that China's economy will necessarily slow as it becomes less reliant on investment and credit growth.

China in focus

Business confidence in China slid further in Q1, and is now close to a record low. Some nerves are likely to have been settled by the improved performance of the renminbi, which made gains against the US dollar during the first quarter. Indeed, the number of firms reporting negative effects from foreign-exchange movements improved from 44% in Q4 to 37% in Q1, which is likely to reflect declining concerns about a collapse in the renminbi. China's stock market also stabilised somewhat after a disastrous second half of 2015.

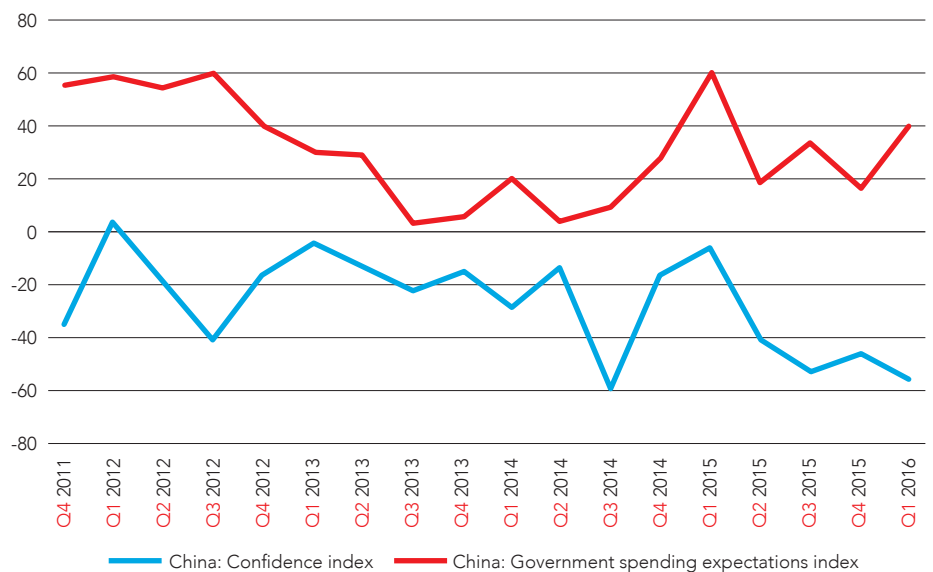
There is, however, still enormous uncertainty about prospects for China's real economy. Official data suggested that the economy slowed only slightly in Q4, and recorded growth of 6.8%

yoy, but the accuracy of those figures is widely questioned. Monthly data in Q1 was distorted by shifts in the timing of the Chinese year, and provided very little reassurance. Merchandise exports, for example, fell by 25.4% yoy in dollar terms in February. One positive development in Q1 was an increase in support from the government, which announced a boost to its infrastructure spending and an increase in its budget deficit target for this year, and the government spending expectations of survey respondents rose in Q1 as a result. However, those measures are only likely to help in the short term.

Taking a more medium-term view, most commentators now accept that China's economy will necessarily slow as it becomes less reliant on investment and credit growth.

37%
of firms reporting negative effects from foreign-exchange movements

Chart 27: China's government steps back in



Source: GECS

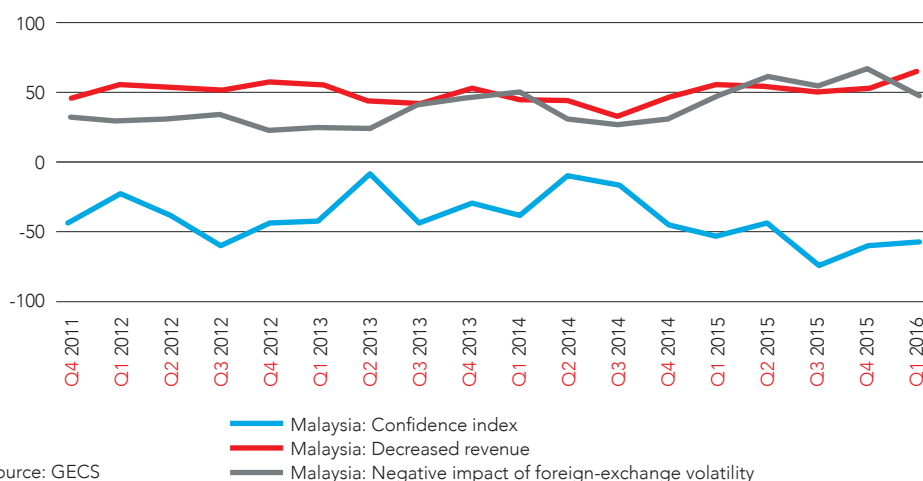
Business confidence in Malaysia picked up slightly in Q1, but remains very weak. The fall in global oil prices has weighed on its economy and the revenues of its businesses.

Malaysia in focus

Business confidence in Malaysia picked up slightly in Q1, but remains very weak. The fall in global oil prices has weighed on its economy and the revenues of its businesses. Indeed, even though oil prices recovered in Q1, the proportion of Malaysian firms reporting a fall in their revenues rose again in Q1, which suggests that the negative effects of the previous collapse are still feeding through the economy.

Nevertheless, Malaysia's economy has at least weathered the fall in oil prices better than most big producers, growing by a relatively healthy 4.5% in Q4. The recovery in prices has helped to stabilise the ringgit, which is important given that Malaysia's foreign currency-denominated external debt is unusually high. The number of Malaysian firms reporting negative effects from recent currency movements fell from 66% in Q4 2015 to 48% in Q1 2016.

Chart 28: Revenue under pressure



Source: GECS

The Middle East is still coming to terms with the reality of lower long-term oil prices.

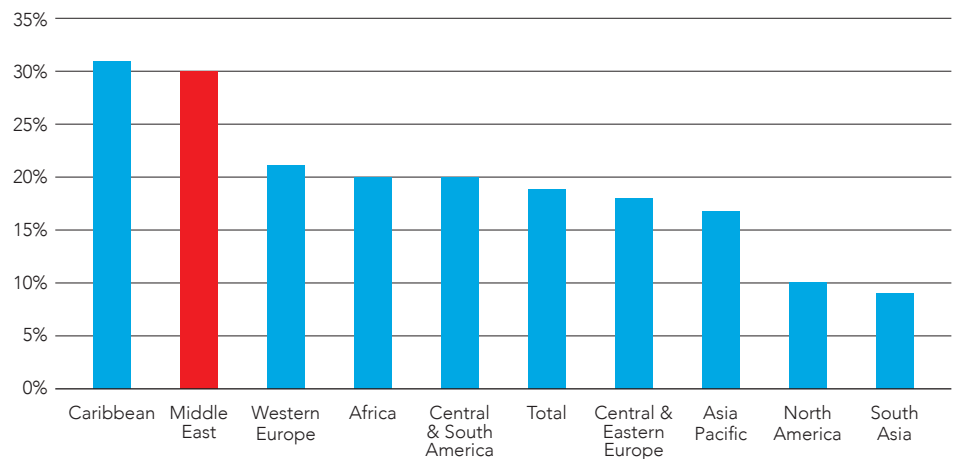
THE MIDDLE EAST: FACING UP TO THE NEW REALITY

The Middle East is still coming to terms with the reality of lower long-term oil prices. Business confidence fell to a record low in Q1, with 59% of firms reporting that they had become less optimistic about their prospects in Q1, compared with a global average of 48%, and 45% of businesses reporting that falling revenue is a problem.

The biggest recent shift has been the increase in the proportion of firms expecting government spending to be cut over the next five years, which is now higher than in any other region. The region's governments have healthier finances than those of most commodity-reliant economies, which means that they can take a more controlled approach to spending cuts, yet 30% of firms expect public spending to decrease "significantly".

45%
of businesses reporting that falling revenue is a problem

Chart 29: Businesses expecting government spending to decrease "significantly" in the next five years



Source: GECS

The UAE has the advantage of being more diversified than most other Gulf economies. Its tourism and logistics sectors should continue to do well.

The UAE in focus

Business conditions in the UAE appear to have gone from bad to worse. Our confidence index fell to a new record low in Q1, investment intentions dipped, and expectations of government spending tumbled further after the latest budget brought news of fresh cuts.

However, the UAE has the advantage of being more diversified than most other Gulf economies. Its tourism and logistics sectors should continue to do well, while preparations for the 2020 World Expo will support construction.

Saudi Arabia in focus

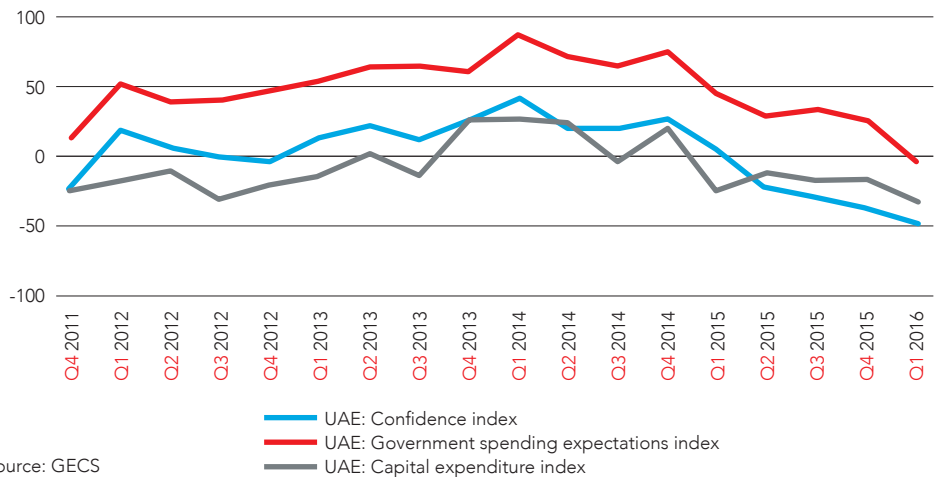
Business confidence has dropped further in Saudi Arabia, with 67% of the Saudi firms surveyed saying that they had become less optimistic about their economic prospects

over the past three months – up sharply from 48% in Q4. Recent economic data have not been bad: GDP grew by 3.6% in Q4 – the same rate as in the previous quarter. With Iranian oil coming back on the market it looks unlikely that growth will be supported by an increase in oil production this year, as it was in 2015.

Meanwhile, the government’s latest budget included cuts to energy and water subsidies, which have already started to push up consumer price inflation and will weigh on household spending power. The cuts were part of a general switch to tighter fiscal policy, and 54% of businesses in Saudi Arabia now expect government spending to be cut over the next five years, compared with 41% last quarter and a global average of just 20%.

67%
of Saudi firms surveyed said they had become less optimistic about their economic prospects over the past three months

Chart 30: Problems in the UAE



Source: GECS

The region's largest economy, South Africa, is going through a particularly disastrous spell.

AFRICA: ILL WINDS BLOWING FROM CHINA

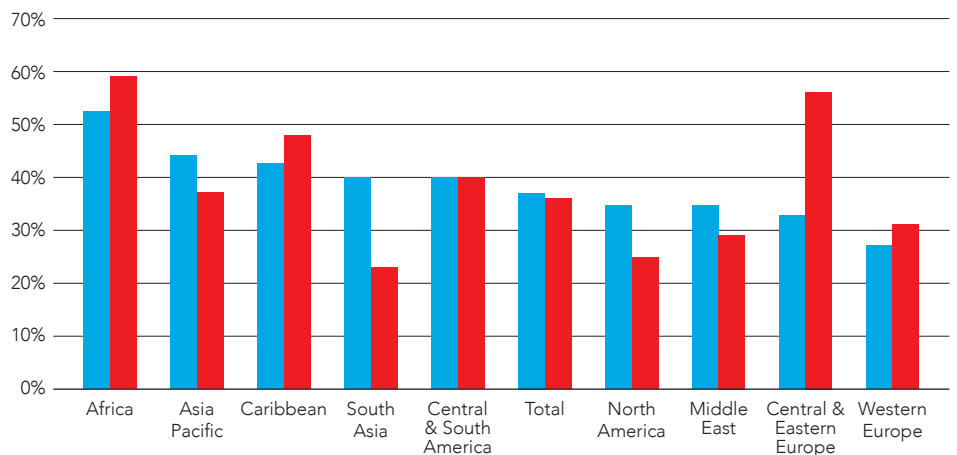
China's investment slowdown and the resulting collapse in commodity prices has hit business confidence in Africa hard. In Q1, 55% of businesses said they had become less confident about the outlook – well above the global average of 48%. More firms in Africa than anywhere else (61%) were cutting investment in capital projects, and the continent is also the region where businesses have the biggest problems with rising costs and foreign-exchange movements, with many of the

region's economies suffering sharp falls in their currencies in recent quarters.

The region's largest economy, South Africa, is going through a particularly disastrous spell. President Zuma is under pressure to resign, and a once-in-a-century drought is sending food prices soaring. The situation is not much better in Nigeria, Africa's second-largest economy, where speculation of a currency devaluation is mounting and the government is struggling to cope with a collapse in its revenue as oil prices have fallen.

55%
of businesses said they had become less confident about the outlook

Chart 31: Rising costs and plummeting currencies



Source: GECS ■ Increased costs ■ Negative impact of foreign-exchange movements

Parts of the Caribbean, most notably Trinidad & Tobago, have also suffered as commodity prices have fallen.

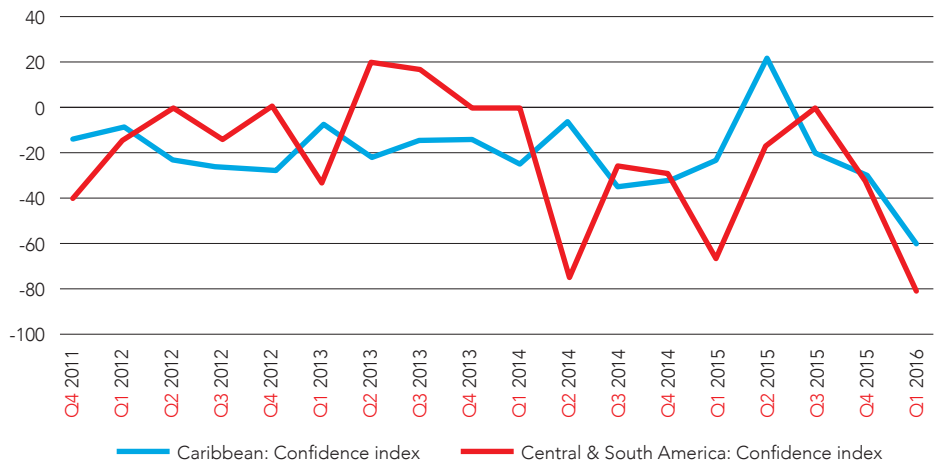
THE CARIBBEAN AND SOUTH AMERICA: BLEAK IN BRAZIL

Latin America has also been hurt by the commodity price collapse, with 69% saying that they had become less optimistic in Q1. The problems are especially acute in the region's biggest economy, Brazil, where President Rousseff appears to be on the brink of impeachment and GDP is contracting by 5.9% yoy in Q4 according to government figures.

Parts of the Caribbean, most notably Trinidad & Tobago, have also suffered as commodity prices have fallen, which helps to explain why our government spending expectation index for the region has tumbled over the past year. A pick-up in tourism numbers and demand for financial services from the US, meanwhile, should help those economies in the Caribbean – such as Barbados, Jamaica and the Cayman Islands – where commodity prices are less important.

69%
of Latin American firms say that they have become less optimistic in Q1

Chart 32: Tough times in Latin America



Source: GECS

The early signs for the second quarter are slightly more promising.

It is easy to see why businesses worldwide continued to take a pessimistic view of their economic prospects in Q1. The turmoil in China's financial market may have calmed, but there remains much uncertainty around the prospects for its real economy. Meanwhile, economies that are reliant on commodities exports are still adjusting to low prices, and their governments are being forced to rethink their spending plans. The possibility of Britain leaving the EU has introduced a new risk to prospects for Europe. Indeed, the IMF warned in April that "a Brexit could do severe regional and global damage by disrupting established trading relationships".

The early signs for the second quarter are slightly more promising. The partial recovery in commodity prices over the past couple of months may have eased

some of the worst fears in that sector, and there have been some tentative signs that the global economy is doing better. For example, the global manufacturing PMI for March showed a rebound, with China and the US leading the way.

Global sentiment is likely to hinge on how American and Chinese economies perform over the coming months. Signs that policy support has stabilised or even strengthened growth in China would go a long way to settling fears of a global recession.

And for all the high-profile warnings, most forecasters still expect global growth to pick up in 2016 (even if the IMF has downgraded its forecast for the year to 3.2%). If they are right, then Q1 should prove to have been the low point for global confidence.

Appendix I:

Economies covered by Q1 survey responses

North America	Middle East	Asia Pacific	Central & Eastern Europe	South Asia	Western Europe	Africa	Caribbean	Central & South America
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	China, People's Rep of	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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