



The Association of
Accountants and
Financial Professionals
in Business

The global
body for
professional
accountants



Global economic conditions survey report: Q4, 2013

FIFTH ANNIVERSARY EDITION

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 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

About IMA®

IMA® (Institute of Management Accountants), the association for 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 65,000 members in 120 countries and 200 local chapter communities. IMA provides localised services through its offices in Montvale, N.J., USA; Zurich, Switzerland; Dubai, UAE; and Beijing, China.

CONTACTS

For further information about the Global Economic Conditions Survey and the series of quarterly reports, please contact:

Wendy Jeffries
Head of Business Intelligence, ACCA
+44 (0)20 7059 5755
wendy.jeffries@accaglobal.com

For further information about the technical and policy issues raised in this report, please contact:

Emmanouil Schizas
Senior Policy Adviser, ACCA
+44 (0)20 7059 5619
emmanouil.schizas@accaglobal.com

Dr Raef Lawson
Professor-in-Residence and Vice President of Research
Institute of Management Accountants
+1 201 474 1532
rlawson@imanet.org

Global economic conditions survey report: Q4, 2013

Introduction

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 terms of 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.

The fifth anniversary edition of the GECS marks the 20th survey in the series, and the 9th since the beginning of the ACCA /IMA research collaboration. A total 1,450 ACCA and IMA members from around the world took part in the Q4 2013 edition between 28 November and 17 December 2013,¹ including nearly 600 senior finance professionals and over 130 CFOs.

As always, ACCA and IMA are deeply grateful to all members who gave up their time to respond to the survey. Finance professionals have front-row seats to the recovery, and it is their first-hand accounts of business conditions on the ground make the GECS a trusted barometer for the global economy.

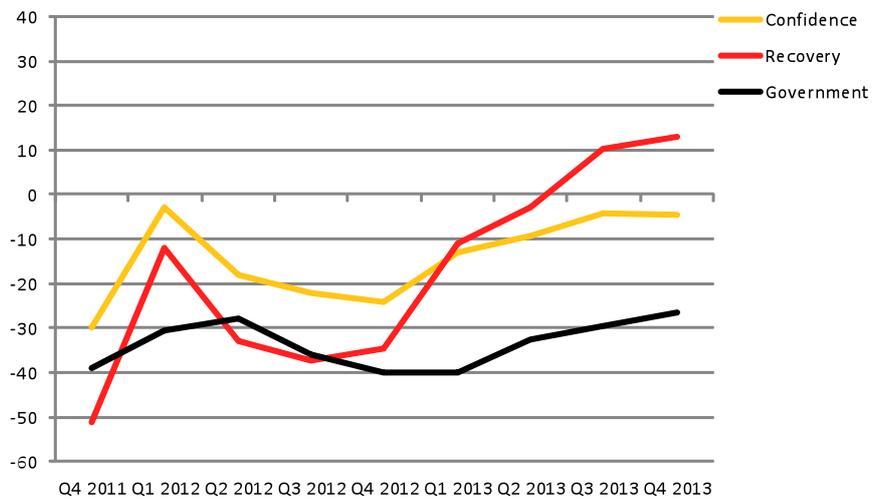
1. Fieldwork for the Q4 survey preceded much of the renewed uncertainty in the Ukraine, Turkey and elsewhere, which will be reflected in the Q1 2014 edition.

New consensus on recovery fails to lift business confidence in Q4

At the global level, finance professionals had more faith in the strength of the recovery in Q4 2013 than at any time over the last five years: 55% believed conditions were improving or about to do so, up from 53% in the third quarter of 2013, while only 42% felt that economic conditions were deteriorating or stagnating, down from 43% in the previous quarter.

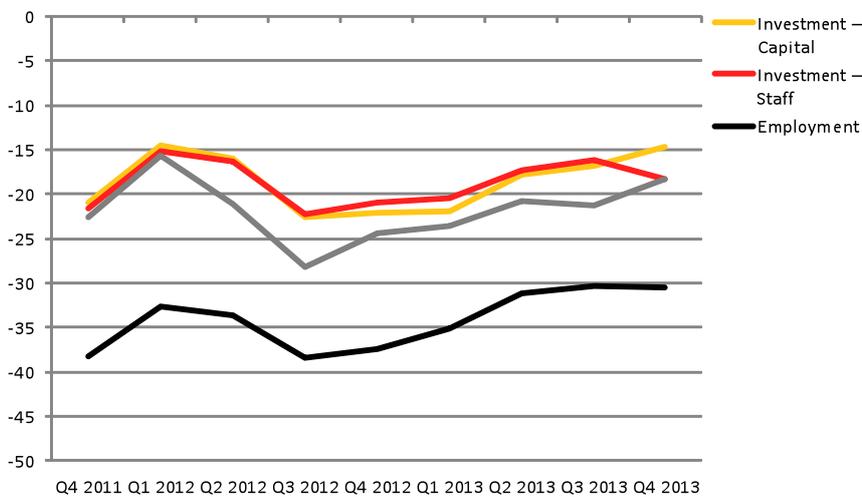
When it came to their own organisations, however, finance professionals' confidence may have fallen marginally in the last quarter of 2013. About 30% reported confidence gains, up from 28% previously, but 35% reported losses, up from 32% in the third quarter. The Q4 2013 results still represent the second-strongest year-on-year confidence gains since mid-2010.

Figure 1: Major GECS indicators for the global economy



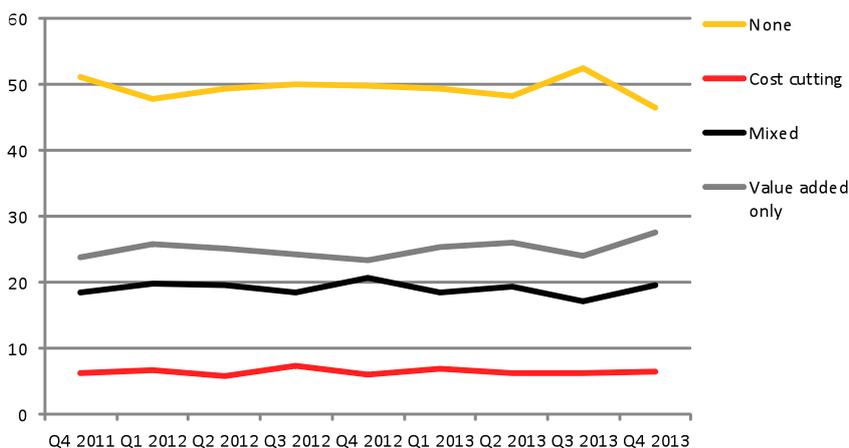
Capital spending at five-year high as businesses release pent-up investment

Figure 2: GECS dynamic indices



The last quarter of 2013 saw capital spending rise again for the fourth consecutive quarter; about 12% of respondents working for corporates or SMEs reported an increase in capital spending in late 2013, up from 10% in the third quarter, while another 14% reported new hires or increased job creation. Although absolute numbers are not very large, ACCA's membership (for which historical comparisons can be made since 2009) reported the best capital spending figures in five years.

Figure 3: Percentage of respondents by range of business opportunities reported



The rise in investment may be proportionate to the improvement in new orders, but it is out of step with falling employment and skills development. This suggests that years of under-investment have created a backlog of pressing capital needs that business can no longer risk putting off in the hopes of a more robust recovery in the future. Indeed, the combination of good access to capital and a good pipeline of business opportunities seen in late 2013 is unlikely to be repeated soon. As Figures 3 and 4 demonstrate, finance professionals are reporting more value-added opportunities than at any time in the past two years, and businesses in developed countries are finally seeing an end to the financing constraints that have held businesses back over the last six years.

Finally, as Figure 5 demonstrates, cashflow and demand conditions have improved significantly at the global level. Although the recovery is causing some businesses to seek better credit terms or delay payments, overall business incomes are on the rise and the incidence of business insolvency is falling.

Figure 4: GECS Access to Growth Capital Indices for OECD and Non-OECD countries

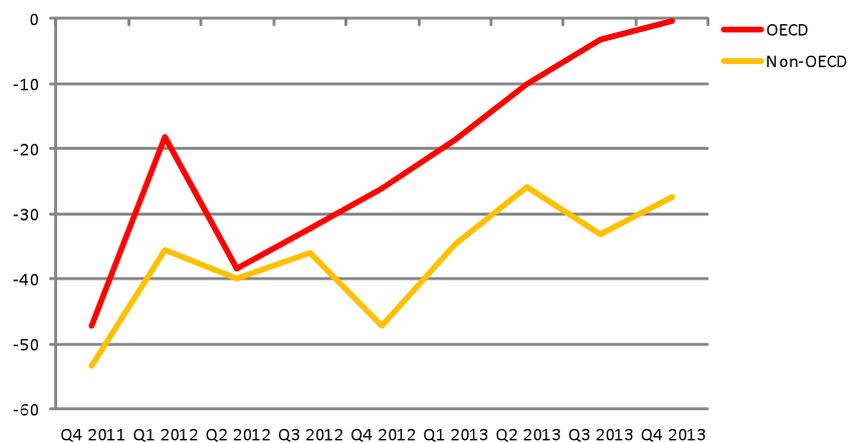
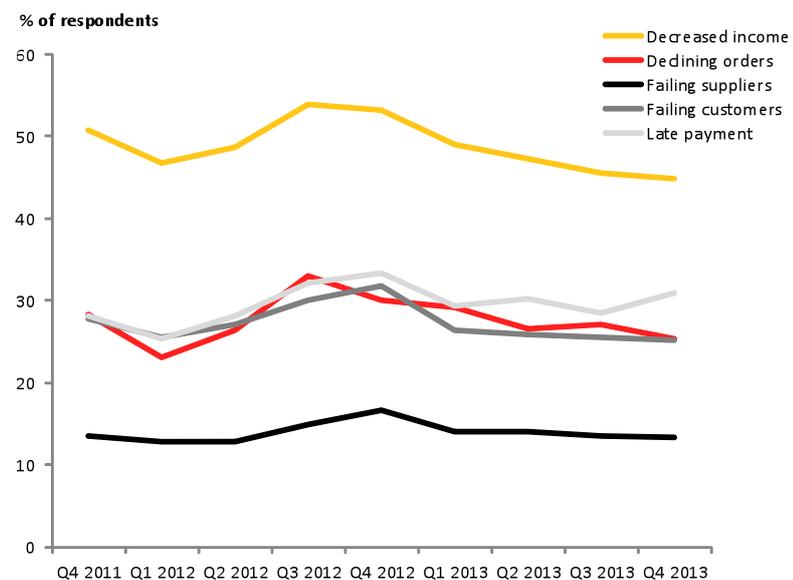


Figure 5: GECS Demand and Cashflow Indicators



The famine and the feast driving business confidence

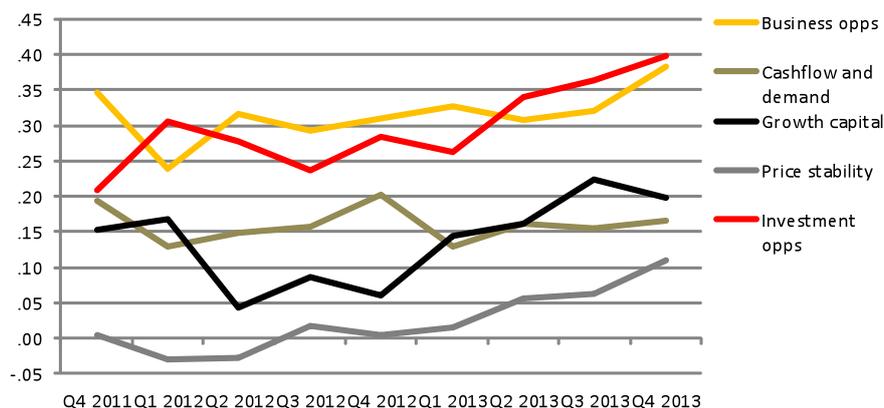
At the global level, the last quarter of 2013 may not have seen a surge in business confidence, but the quality of confidence was improved somewhat, by becoming more closely aligned to actual business opportunities and less reliant on a consistent supply of growth capital. Figure 6 demonstrates this.² The fact that this particular development coincided with a significant increase in capital spending is very encouraging, as it suggests that businesses are indeed looking to grow organically, and expect to invest in their own operations.

However, non-organic investment opportunities remain the key driver of confidence, and continued turmoil caused by the Federal Reserve's decision to begin tapering its asset purchase programme has once again placed a premium on price and exchange rate stability in much of the world. This contrast suggests that the supply of finance to businesses and the flows of investment between the established and emerging markets may not be entirely healthy.

From a sector perspective, the last quarter of 2013 saw renewed confidence among smaller organisations: respondents in SMEs and small practices reported the greatest

confidence gains, followed by their colleagues in mid-tier accountancy firms. Confidence fell among large corporates and financials, and even more so among respondents in the non-profit and public sectors. The SME sector's confidence gains were not uniform, either: a relatively small and dynamic group of mid-market firms, which are larger and more internationalised than other SMEs, accounted for most of the confidence gains in late 2013, and indeed appear to have driven much of the SME sector's recovery over the last three years. It is possible that such businesses have a distinct advantage in the current environment due to their flexibility and international reach.

Figure 6: Standardised impact of fundamentals on global business confidence



2. The analysis underlying Figure 6 was introduced in the Q3 2013 edition of the GECS, and further details of the methodology are provided in the corresponding report.

Middle East and Far East rebound, but weakness in the west sets the tone

Business confidence rose fastest in the Middle East and the Asia-Pacific region, where it was accompanied by a significant increase in capital spending. Confidence gains were also reported in Western Europe in the last quarter of 2013. Meanwhile, business confidence fell substantially in Africa and Central and Eastern Europe, and was either flat or down marginally in North America and South Asia. In all of these regions, capital spending was nevertheless up from the third quarter. The Caribbean was probably the worst-performing region in late 2013, with both business confidence and capital spending falling substantially.

Movements in business confidence broadly reflected members' perceptions of macro-economic performance for their economies, although capital spending trends did not. Respondents in the Middle East, Western Europe and Asia-Pacific saw their national economies move closer to recovery in Q4 2013. Respondents in the Caribbean saw macro-economic conditions stabilise, while expectations deteriorated marginally in North America and substantially in Central and Eastern Europe Africa.

Among the major ACCA and IMA markets, the strongest performance for Q4 2013 came from Ireland, where business confidence soared following the end of the country's bailout. Business confidence also rose significantly in Malaysia and the UAE, while more modest improvements were recorded in China and Singapore.

Despite buoyant figures from many regions, the fourth quarter's results were weighed down by modest confidence losses in the US and the UK. Meanwhile, business confidence stalled in Pakistan after a full year of steady gains.

Table 1: Detailed recovery index for selected markets

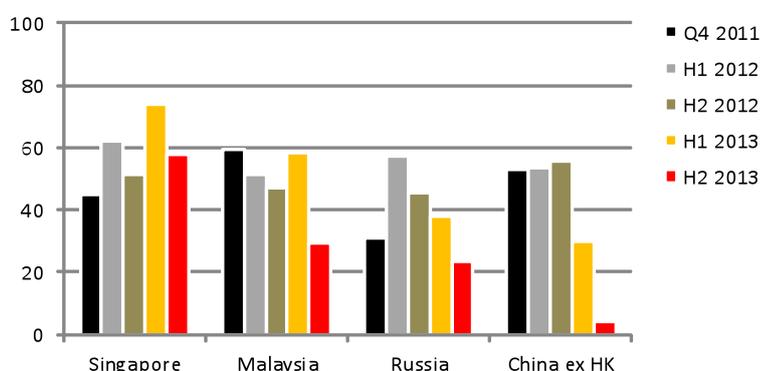
	Getting better	Bottom and will improve	Bottom and will remain	Getting worse	Don't know	Index	QoQ	YoY
Total	35	20	23	18	4	13.0	▲	▲
OECD	39	19	25	13	3	20.3	▲	▲
Non-OECD	31	20	21	23	4	6.2	▲	▲
North America	42	10	28	15	6	8.4	▼	▲
Caribbean	24	20	22	27	6	-4.1	▲	▲
Middle East	57	17	13	9	4	52.3	▲	▲
Asia Pacific	25	20	26	24	6	-5.9	▲	▲
CEE	25	18	25	29	4	-11.3	▲	▲
South Asia	32	21	23	18	7	11.0	▼	▲
Western Europe	36	26	21	15	2	25.0	▲	▲
Africa	32	24	20	22	2	14.1	▼	▲
China ex HK	41	15	21	18	5	17.9	▲	▲
Hong Kong	36	18	15	24	6	15.2	▲	▲
Ireland	28	37	29	6	0	29.2	▲	▲
Malaysia	14	17	28	33	8	-30.8	▲	▲
Pakistan	36	18	20	14	11	20.5	▲	▲
Singapore	25	25	29	17	3	4.8	▲	▲
UK	44	25	20	10	1	38.8	▲	▲
UAE	73	12	13	0	2	71.2	▲	▲
USA	41	9	28	16	5	5.4	▼	▲

Table 2: Detailed confidence index for selected markets

	Much less confident	Less confident	No change	More confident	Much more confident	Index	QoQ	YoY
Total	10	25	35	25	5	-4.4	▼	▲
OECD	8	21	40	27	4	3.3	▲	▲
Non-OECD	13	28	31	23	6	-11.6	▲	▲
North America	9	25	43	21	2	-11.0	▼	▲
Caribbean	14	34	18	26	8	-14.0	▲	▲
Middle East	8	21	24	34	13	17.4	▲	▲
Asia Pacific	13	31	36	17	2	-24.2	▲	▲
CEE	14	25	43	19	0	-20.0	▼	▲
South Asia	12	30	29	26	3	-13.7	▼	▲
Western Europe	8	19	34	32	8	12.8	▲	▲
Africa	12	23	33	26	6	-3.4	▼	▼
China ex HK	13	28	33	26	0	-15.4	▲	▲
Hong Kong	24	33	30	12	0	-45.5	▲	▼
Ireland	3	15	42	29	11	21.5	▲	▲
Malaysia	16	35	29	18	3	-29.9	▲	▲
Pakistan	7	34	23	34	2	-4.5	▼	▲
Singapore	6	25	49	13	6	-12.7	▲	▲
UK	8	17	33	37	6	18.0	▼	▲
UAE	8	19	19	35	19	26.9	▲	▲
USA	10	25	42	22	2	-11.2	▼	▲

The East embraces austerity

Figure 7: Austerity in the East (GECS government spending index)



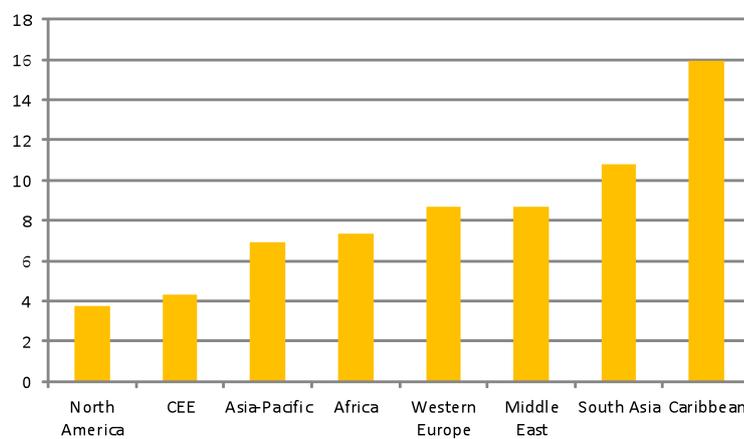
The GECS monitors members' expectations of fiscal policy on a regular basis, allowing ACCA and IMA to monitor the impact of public spending on business confidence and decisions. The second half of 2013 saw a continuing trend towards less public spending in mainland China, Russia, Malaysia and Singapore, to which previous reports have also drawn attention.

Meanwhile, Ireland's exit from its IMF bailout is part of a broader trend among former champions of austerity – respondents in the UK, Canada and Australia are also increasingly likely to see public spending recover in the medium term, with those in Canada reporting a particularly bullish outlook on government spending. Finally, a third group, counting the US, the UAE and Pakistan as its largest members, is still expected to increase spending in the medium term, and increasingly so compared to the first half of 2013.

ACCA and IMA's analysis of the impact of different factors on business confidence can help put some of these trends into context. A comparison of the relationship between spending and confidence across regions suggests that expectations of increased government spending generally increase business confidence, but this effect is not significant except under specific circumstances; in the US and the UK, for instance, spending expectations became a significant influence on confidence in the first quarter of 2013, but have not been as important since. Respondents also respond to fears of government over or under-spending. UK respondents, for instance, have generally preferred for government to err on the side of too much spending, while US respondents have preferred the opposite.

Figure 8 demonstrates some of the analysis that is possible using this approach. It shows that finance professionals in the Caribbean and South Asia have been particularly sensitive to government spending plans over the last two years, while their colleagues in North America and Central and Eastern Europe are much less so. This in turn suggests that the increasing fiscal retrenchment in Russia and the Far East is unlikely to affect global business confidence very substantially; in fact any losses are likely to be more than compensated for by the winding down of austerity programmes in Western Europe.

Figure 8: Maximum standardised sensitivity of business confidence to government spending, Q4 2011 to Q4 2013



Fundamentals: an overview of selected markets

NORTH AMERICA

Fallout from the government shutdown still dampening the mood of US finance professionals

The United States have emerged as one of the least optimistic major economies in the world in late 2013, with both business confidence falling and economic sentiment deteriorating substantially. Only 23% of US respondents reported confidence gains in the fourth quarter of 2013, (down from 25%), against 35% who reported losses (up from 31%). Half of the US sample (50%) are still optimistic about the state of the economy (down from 57%), but 45% are now pessimistic, up from 38% in the previous quarter.

This substantial deterioration in confidence and economic sentiment in the US is unlikely to become permanent. The last quarter of 2013 saw a strong increase in business opportunities. This, combined with a continued improvement in access to growth capital, stable prices and a relative dearth of alternative investment opportunities, has led to a substantial increase in business capacity building, including investment and employment. Despite these encouraging developments, demand and cashflow conditions have failed to improve in the last quarter of 2013, breaking a strong year-long trend; some of this effect may be the result of falling consumer sentiment in the wake of the Federal Government shutdown. The political showdown following the shutdown appears to have also convinced respondents that government spending is likely to continue to rise over the medium-term, further adding to already high levels of disapproval of government policies.

Within the US, 2013 saw business confidence converge among the

regions as political considerations began to weigh slightly less on US finance professionals' minds – this convergence continued in the fourth quarter of the year. However, the loss of business confidence was evident throughout the country; only respondents in the Mid-Atlantic region were marginally more upbeat, while their colleagues in the South and West registered more significant losses of confidence.

At the industry level, results from the US point to continued structural rebalancing, although perhaps not in the manner policymakers or industry might have chosen. The manufacturing and engineering sectors were in positive business confidence territory for the first time in nearly two years, but the IT and high-tech sectors had a disappointing last quarter of 2013, breaking a year-long trend of confidence gains.

Flagging demand hits Canadian business confidence despite rising faith in the recovery

The second half of 2013 should have seen business confidence increase substantially in Canada. Business opportunities grew substantially, making up for the ground lost in the last year and a half. The supply of growth capital increased, and both prices and exchange rates appeared to stabilise. Economic sentiment grew substantially, with 56% of respondents believing that economic conditions are improving or about to do so – up from 46% in the first half of the year. The pessimists now only make up 40% of the Canada sample, down from 54% in the first half. Nevertheless, cashflow and demand conditions deteriorated significantly, as indeed they have done steadily over the last two years, and businesses responded by cutting back on investment.

As a result, business confidence also continued to fall, with 37% of respondents reporting a loss of confidence in the prospects of their organisations, up from 34% in the first half of the year. Only 22% reported confidence gains, but their numbers were also up from the first half (20%), suggesting that Canadian businesses became more dynamic later in the year.

Business sentiment remains flat in the Caribbean, amidst growing mistrust of governments

Respondents in the Caribbean reported unchanged levels of personal confidence and economic optimism in the last quarter of 2013. Just under a quarter (24%) were optimistic about the state of the economy (down from 25% in Q3) while the pessimists made up 49% of the Caribbean sample (down from 50%).

A closer look at the GECS findings, however, reveals that the reality for businesses has been volatile and Caribbean respondents are right to express concern. Business opportunities in the region fell for a second consecutive quarter, while access to growth capital, which had recovered significantly since mid-2012, now fell significantly once again, forcing business investment down as well. Meanwhile, levels of government approval are historically low throughout the region.

As a result, the shares of respondents reporting confidence gains and losses in the prospects of their own organisations have both risen. 34% were more confident than they had been three months earlier, up from 19% in the previous quarter, while 48% reported a loss of confidence, up from 33% previously.

MIDDLE EAST

The Middle East emerged once again as the most optimistic and confident of the major regions, with business confidence growing substantially in the last quarter of 2013, and perceptions of economy improving dramatically to a near-consensus on recovery. Across the region, 47% of respondents reported confidence gains, up from 31% in the third quarter of 2013, while 29% reported a loss of confidence in the prospects of their organisations, up from 27%.

More than half of the Middle East sample of finance professionals (57%, up from 41%) now believe that economic conditions are improving or about to do so. Only 22% are genuinely pessimistic, and this percentage is down substantially from 34% in the previous quarter.

Access to growth capital in the region, already on a long-term upward trend, improved very significantly, while exchange rates and input prices stabilised. However, since peaking in mid-2013, actual business investment has fallen marginally for a second consecutive quarter. The reason for this is that actual business opportunities in the region grew only marginally: most of the excitement relates to opportunities for investments in assets or non-organic growth. Moreover, cashflow and demand conditions did not improve in late 2013, although the medium-term trend appears to be positive for now.

Finance professionals in the Emirates caught up in the Expo moment as investment soars

Following Dubai's confirmation as the host city for Expo 2020, every last GECS index reading for the UAE was up on the previous quarter, led by soaring business investment and an equally explosive increase in investment opportunities. Finance professionals also reported a stronger supply of growth capital and an end to a year-long trend of price and exchange rate instability. Combined with modest improvements in business opportunities

as well as cashflow and demand conditions, these trends paint the picture of a booming market.

Unsurprisingly, the Emirates emerged as the most confident and optimistic ACCA and IMA market. An unprecedented 85% of respondents believe that economic conditions were improving or about to do so, up from 67% in the third quarter of 2013, while only 13% were pessimistic, down from 33% in the previous quarter. Business confidence, however, rose only modestly, with many businesses jostled out of their comfort zone this quarter. More than half (54%) of the UAE sample reported increased confidence in the prospects of their own organisations, up from 30% in the previous quarter. But another 27% reported a loss of confidence, up from 17% previously.

WESTERN EUROPE

UK finance professionals look forward to slower but healthier growth

UK business confidence fell slightly in the last quarter of 2013, with 43% reporting confidence gains (up from 42%) and only 25% reporting losses (up from 20%). Meanwhile, however, UK finance professionals became ever more convinced of the country's economic recovery, with 69% of UK respondents optimistic about the recovery (up from 62%) and only 30% pessimistic, down from 36%.

The contrast between stagnating business confidence levels and buoyant economic sentiment can be understood better in terms of economic fundamentals. Business opportunities were stronger, and drove confidence more strongly, in Q4 2013 than at any point in the last two years; cashflow and demand conditions improved strongly for a second consecutive quarter; and access to growth capital remained very strong, building mostly on improvements earlier in the second half of 2013, when the growing supply of finance finally started to gain traction. However, opportunities for non-organic growth have been rising exponentially over the last year, meaning that a lot of the available funding may be redirected towards uses such as corporate

acquisitions, as opposed to more traditional investment. This may already be happening: after an extremely strong six months to Q3 2013, UK respondents reported a small net loss of business capacity in the last quarter of 2013.

Just as significantly, respondents in the UK appear to be seeing an end to austerity, and since the third quarter of 2013 the sense that fiscal policy is likely to be excessively tight in the future has begun to ease significantly.

Scottish business confidence catching up with rest of the UK on soaring business investment

The second half of 2013 was particularly positive for finance professionals in Scotland, with business confidence growing to more or less match confidence levels in the South. 34% of respondents reported increased confidence in the prospects of their organisations, up from 29% in the first half of the year, while a majority of respondents (61%, up from 33%) believed that economic conditions were improving or about to do so.

Investment appears to be at the heart of these developments. Although business opportunities have fallen marginally, and consumer demand and cashflow conditions have tightened, respondents in Scotland reported a very substantial improvement in access to growth capital, which triggered a great deal of capacity building (both investment and hiring) among businesses.

Business confidence surges temporarily as Ireland leaves bailout behind

Business confidence rose significantly in Ireland in late 2013, following a broadly upward trajectory since mid-2012. 40% of the Irish sample reported confidence gains in their own organisations, up from 28% in Q3, while only 18% reported losses, down marginally from 19%. To put these figures in context, it's worth bearing in mind that Ireland was second only to the UAE for business confidence among the major ACCA and IMA markets. Meanwhile, the shift in macro-economic expectations was even

more dramatic, with respondents in Ireland finally crossing over into positive territory and calling the recovery. 65% of the Irish sample were optimistic about the state of the economy, up from 47% in the previous quarter, while the pessimists were down to 35% from 53% in the third quarter of 2013.

Unfortunately, these substantial improvements in business sentiment are likely to prove temporary, as they do not correspond to changes in any economic fundamentals other than government spending. Business opportunities rose only modestly in Q4, barely making up the lost ground since mid-2013, cashflow and demand conditions remained unchanged, and price volatility returned. Business investment has also fallen in late 2013, despite a very promising third quarter.

Cyprus' finance professionals see economy on the mend, but lacking dynamism

Both business confidence and economic sentiment rose significantly in Cyprus in the second half of 2013, more than making up for losses in the post-bail-in period. 19% of respondents reported increased confidence in the prospects of their organisations (up from 15%), while only 52% reported a loss of confidence, down from 69%. The optimists, who see economic conditions as improving or about to do so, made up 20% of the Cyprus sample in the last two quarters of 2013, up from 7% in the first half of the year. Even perceptions of government's economic policies appear to have improved, following a long period of anger and mistrust.

Some of this buoyant sentiment is justified; demand and cashflow are beginning to strengthen, and in the new cash-poor landscape many businesses are reporting opportunities for growth through acquisitions. On the other hand, however, access to growth finance has flatlined ever since mid-2012, and business investment has never recovered since. Business opportunities have stabilised, but only at a very low level and with no signs of recovery yet.

CENTRAL AND EASTERN EUROPE

Finance professionals in Central and Eastern Europe reported a loss of confidence in the prospects of their own organisations in late 2013, although they still managed to hold on to hopes that the broader economy was on the mend. 39% reported a loss of confidence, up from 35% in the previous quarter, against 19% who reported confidence gains (down from 23%). One quarter of the professionals surveyed in Central and Eastern Europe believed economic conditions were improving or about to do so, up marginally from 24% in the previous quarter, while the pessimists made up a consistent 54% of the regional sample.

This relative pessimism is at odds with evidence of improving fundamentals on the ground. Although business opportunities in the region increased only marginally, demand and cashflow conditions improved substantially, prompting a substantial increase in business investment. This may prove to be short-lived, however, as respondents in the region reported tightening access to growth capital, breaking a largely positive two-year trend.

As turmoil grips the region, improved fundamentals are not enough to restore Russian business confidence

Business confidence in Russia was down marginally in the second half of 2013, with 55% of respondents reporting a loss of confidence in the prospects of their organisations (up from 47% in the first half). However, the share of respondents reporting confidence gains also rose to 16% (up from 9% in the first half), suggesting that the Russian business population is becoming more dynamic. Following a difficult start to the year, cashflow and demand conditions have now stabilised, and business opportunities rebounded strongly in the second half of 2013.

This improvement was accompanied by easier access to growth capital and higher levels of business investment. Increasing financial instability in the country and its broader region could, however, imperil many of these gains.

Certainly, respondents in Russia saw the recovery moving further away, with only 22% believing that conditions were improving or about to do so (down from 36%) and 69% (up from 58% in the first half) expecting stagnation or even further deterioration.

ASIA PACIFIC

China's liquidity crunch finally bites in Q4

Previous editions of the GECS have closely observed the development of China's liquidity crunch. For the first time, cashflow and demand conditions deteriorated sharply in the mainland in late 2013, suggesting that the crunch might be making its way into the real economy. Hong Kong has remained mostly untouched by the unfolding liquidity crisis, but has still been exposed to the fallout from the disruption in economic activity and investment elsewhere in China. Across the country, finance professionals reported price and exchange rate instability, which for now remains at moderate levels.

As a result of these developments, business investment remained subdued in the mainland, following a steep fall in the third quarter of 2013, and fell in Hong Kong after a whole year of growth. The timing is particularly unfortunate as business and investment opportunities in the mainland rebounded in late 2013 to levels seen earlier in the year, and remained flat in Hong Kong. Moreover, access to growth capital showed signs of stabilising in the mainland in late 2013, and also of continuing its broadly upward trend in Hong Kong, after having tightened significantly earlier in the year.

Only 19% of respondents in China reported confidence gains in the last quarter of 2013. This however is still an improvement over the previous quarter, when only 12% reported confidence gains. Nearly half (49%) reported a loss of confidence, up only marginally from the previous quarter 48%.

Whatever they might think of the prospects of the own organisations, finance professionals in China have become relentlessly optimistic about the state of the recovery – across the country, those who believe conditions are deteriorating or stagnating now only make up 39% of the mainland sample, down from 52% in the third quarter of 2013. The optimists make up 56%, up from 40% three months earlier.

Investment falters as recovery in Singapore faces headwinds

In the last quarter of 2013, respondents in Singapore reported better access to growth capital, a broadly consistent trend over the last two years; they also saw a modest improvement in demand and cashflow conditions. Despite these positive developments, business opportunities barely ticked upwards, and did not increase enough to break the last twelve months' negative trend. Clearly, the combination of ongoing turmoil in its economic neighbourhood and rising costs at home is proving hard for Singapore to shrug off.

As a result, business investment fell in the last quarter of 2013, and business confidence rose, coming just short of the peak reached in mid-2013. 19% of the Singapore sample reported confidence gains, up from 18% in the third quarter of 2013, but the share of respondents who reported a loss of confidence in the prospects of their own organisations fell from 41% to 32%.

Perceptions of the economy also improved modestly, crossing over into positive territory. For the first time, more than half of the Singapore sample (51%, up from 34%) were optimistic about the state of the economy, while the pessimists made up 46%, down from 55%.

Growing financial instability jeopardises Malaysia's recovery

A combination of rising business opportunities and improved demand and cashflow conditions encouraged Malaysia's businesses to invest more in capital and staff in the last quarter of 2013. As a result, both business confidence and economic sentiment

improved: 21% of the Malaysian sample reported confidence gains, up from 13% in the previous quarter, while 51% reported a loss of confidence in their own organisations, down from 56% previously. Just under a third of the sample (31%, up marginally from 30%) were optimistic about the state of the economy, while the pessimists made up 62% of the sample, down from 65%.

However, this increase in optimism and dynamism has taken place against the odds and may not survive long. Respondents in Malaysia reported a substantial tightening in the supply of growth capital, fewer investment opportunities, and, most importantly, a year-long increase in price and exchange rate volatility.

Finance professionals' mood darkens but investment remains strong in 'safe haven' Australia

In the second half of 2013, finance professionals in Australia reported marginally falling confidence in their own organisations, as well as marginally less optimism about macro-economic conditions.

Only 19% reported increased confidence in their organisations' prospects, down from 25% in the first half of the year, while 48% reported a loss of confidence, down from 51% in the first half. 60% of respondents in Australia believed economic conditions were deteriorating or stagnating, up from 56% in the first half of 2013, while the optimists made up 36% of the sample, down from 37% previously.

There are some compelling reasons for Australian finance professionals' lack of enthusiasm. Cashflow and demand conditions have been tightening steadily over the last twelve months, and Australia's exposure to the Far East has tended to limit business' access to growth capital. Meanwhile, the newly elected Federal Government is facing increased criticism of its economic policies.

Despite these challenges, business investment in Australia has risen more or less steadily over the last year, and

stable prices and exchange rates suggest the country may be a safe haven for the wider region. After falling for six months, business opportunities were once again on the rise in the second half of 2013.

SOUTH ASIA

Business opportunities untapped in India as flows of funds reverse and financial instability looms

The second half of 2013 was a stressful time for business in India, with both business confidence and finance professionals' faith in the economic recovery falling and few businesses left unaffected. More than half of the sample of finance professionals in India reported a loss of confidence in the prospects of their organisations (52%, up from 31%), while another 32% (up from 28%) reported confidence gains. The majority (58%, up from 38%) were also convinced that economic conditions were deteriorating or stagnating.

The fallout from the Fed Taper and the sudden stop in inward FDI was plain to see in the last two quarters of 2013. Although business opportunities proliferated, access to growth capital became much more difficult, leading to stagnation in business investment, which was already subdued following a steep fall earlier in the same year. In addition, finance professionals' assessments of government economic policies have become substantially harsher.

From a macro perspective, signs of financial instability have multiplied over the last two years, with respondents in India reporting volatile prices and exchange rates, as well as deteriorating demand and cashflow conditions. This trend appeared to accelerate in the second half of 2013.

Financial turmoil frustrating Pakistan's business people as it delays investment

Business confidence in Pakistan remained stable in the last quarter of 2013, as did respondents' faith in the economic recovery, with perhaps a hint

of increased dynamism. 36% of respondents in Pakistan reported rising confidence in the prospects of their own organisations (up from 32%), while 41% reported a loss of confidence (up from 36%). Just over a third of the sample of finance professionals (34%, down from 39%) were optimistic about the state of the economy, while the positives made up more than half of the sample (55%) and their numbers were also down since the previous quarter (59%).

Yet unlike many emerging markets, access to growth capital appears to have improved in Pakistan during the last quarter of 2013 – a trend that has more or less persisted over the last year. Meanwhile, cashflow and demand conditions appear to have improved. The combination of these two influences should have encouraged a great deal of business investment, even without the last quarter's surge of new business opportunities in need of funding. However, outcomes have been very modest to date, as prices and exchange rates have become increasingly volatile and the financial system increasingly fragile.

Despite these developments, government policy has been seen as generally more helpful than in the past: the GECS recorded a fully year of strongly improved perceptions of Pakistan's government.

AFRICA

Finance professionals in Africa reported a second consecutive quarter of falling business confidence in late 2013, bringing the region back into negative territory. 35% of respondents in Africa reported a loss of confidence in the prospects of their organisations over the last three months, up from 33% in the third quarter of 2013. Another 32% reported confidence gains, down from 36%. Finance professionals also revised their expectations of recovery for national economies sharply downwards, back to the levels seen a year ago – 42% believe economic conditions are deteriorating or stagnating, up from 29% in the third quarter, while only 32%

(down from 42%) believe they are improving.

These developments are not surprising, as despite a small uptick in business and investment opportunities the fundamentals in Africa have generally deteriorated. Access to growth capital, demand and cashflow conditions have consistently tightened throughout the second half of 2013 and continued to do so in Q4, while input prices and exchange rates destabilised further in the last quarter.

Ghana's finance professionals report falling investment in the second half of 2013

During the last six months, finance professionals in Ghana have reported deteriorating conditions almost across the board. Access to growth capital became more difficult in the second half of 2013 and this development, combined with fewer profitable business or investment opportunities, led to a significant fall in business investment during this period. Cashflow and demand conditions improved only marginally, while prices and exchange rates became slightly less volatile. As a result, respondents in Ghana became less confident in the prospects of their organisations during the second half of 2013; only 33% reported confidence gains, down from 39% in the first half of the year. Government policies have come in for a lot of criticism throughout 2013, and the trend of falling Government approval ratings continued into the second half of the year. Ghana's finance professionals did, however, hold on to their faith in the recovery, with a steady 68% believing that economic conditions were improving or about to do so.

Despite fewer business opportunities, Mauritian accountants welcome improved access to finance

Finance professionals in Mauritius grew increasingly confident in the prospects of their own organisations during the second half of 2013, and their faith in the economic recovery was also enhanced, extending the substantial gains made during the past two years and bringing economic sentiment into

positive territory. 30% of respondents reported increased confidence in the prospects of their organisations (up from 29% in the first half of the year), while 36% reported a loss of confidence, down from 40%. Optimists, who believe economic conditions are improving or about to do so, made up 49% of the sample in the second half of 2013, up from 41% previously.

The buoyant sentiments of respondents in Mauritius appear to be justified only up to a point. Access to growth capital improved significantly in the second half of 2013, while input prices and exchange rates stabilised, prompting an increase in business investment and hiring. This, however, may prove to be only temporary as business opportunities have dwindled, and cashflow and demand conditions have not improved throughout the past year.

Views from the coalface

'We are in the organic food industry. This niche market area is experiencing good solid growth, which in turn has provided us with nice gains for our current fiscal year.'

Controller, mid-market manufacturer (Food), USA (mid-Atlantic)

'[Our organisation has benefited from] the outlook for increasing production of heavy on-and off-road equipment and the renewed interest in new product development engineering activities.'

Senior manager, small engineering company, USA (Mid-Atlantic)

'We have seen a significant decrease in the rates offered by our competitors for insurance. The gap is widening and while it is important that we remain competitive, we must not do so at the cost of sacrificing quality. We believe that we offer a premium product. However, we don't want to be priced out of the market. A balance between the two is imperative.'

Senior manager, small Insurer, Netherlands (Antilles)

'The Central bank has tightened and is managing exchange rates more tightly. This can be seen in the strengthening of the Uganda shilling. While this has meant exchange losses for us on funds received from abroad, the prices of commodities, both locally produced and imported, have gone up, not down. Food items have been key to this price increase.'

Manager, large nonprofit, Uganda

'Liquidity has tightened and this has resulted in some non-performing and long-outstanding receivables. There have also been a number of insolvencies & companies placed under judicial management. In the short term the insolvencies create business for our Corporate Recovery department but this does not guarantee long-term repeat business!'

Senior manager, mid-tier accountancy firm, Zimbabwe

'Taxation was changed, increasing our burden. Russia has introduced a new profit tax base calculation, which will be based on the market value of commercial real estate rather than on NBV [Net Book Value]. Moreover, land value is being revaluated in order to increase land tax.'

Consultant, large corporate, Russia

'A change of management in my Organization may yet be a trigger point for change. The new management has introduced a new policy which will emphasise the SME sector, in which there is a lot of potential for profitable business. I hope that this time risk managers will pay attention to the risks involved in SME finance and that we will not see NPL [non-performing loans] rise as we had over the last few years.'

Manager, large bank, Pakistan (Karachi)

'Government taxing retrospectively on capital gains has caused a slowdown of Foreign Direct investment, resulting in currency depreciation and foreign exchange losses across the board. Further, there were inadequate incentives to export and regulate imports and an inability to manage the trade deficit, which has contributed further towards currency depreciation.'

Director, small financial, India

'There has been a big impact on the fast execution of our projects. Major labour-intensive execution jobs have slowed down and the reason is the government's policy of deporting those labourers who do not have visas matching the works they are doing.'

Senior manager, oil/gas construction, Saudi Arabia

'The Dubai Real Estate Market has picked up – it is now the world's 2nd most desirable place to invest in property, and Dubai is now due to host the 2020 Expo. We've moved into the MENA [Middle East and North Africa] Region successfully, and our clients have better financing. More competition means we need to be more innovative and dynamic.'

Finance director, large privately-owned company, UAE

'The continued quantitative easing measures of the US Federal Reserve and manually lower interest rate has caused volatility in exchange rates and a flow of funds to limited assets and equity, thus driving up real estate and stock prices (not to mention inflation), while investment on tangible business remains weak, the employment market remains soft, and salary increases can't cope with inflation. We all suffer while the US continues to export its problems to other nations.'

Partner, big four, Hong Kong

'Government's policies to promote domestic consumption seem to be attracting investments by foreign retailers in China; our organisation is seeing more businesses in advisory and other work relating to incorporation of business entities and outsourcing services.'

Partner, medium-sized practice, China (Beijing)

'Economic demand is still moderately high. However businesses are faced with high labour costs and steep rents for business premises. Profit margins will continue to be squeezed as businesses are getting more competitive. The market itself is looking for an equilibrium point where high operating costs and reasonable investment return can co-exist.'

Partner, mid-tier accountancy firm, Singapore

'Recently released Federal Reserve minutes are the primary driver of the three major economic indicators in my country: the stock exchange index, the dollar/TL rate and government borrowing rates from the market. Also, the growth rate of the EU is vital for Turkey because the government's strategy is based on exports as opposed to consumption by Turkish citizens.'

Freelance consultant, Turkey

'The re-capitalization of the major banks in Cyprus was a huge step forward for economic recovery and thus my organisation has remained steady and now it has started evolving.'

Supervisor, mid-tier accountancy firm, Cyprus

'Requirements of the Credit Union and co-operation with overseas regulators Act 2012 kicked in from the 1st of August. This increases substantially our compliance requirements in several areas including enhanced Fitness and Probity requirements.'

CEO, credit union, Ireland

Conclusions

Perhaps fittingly, the 20th edition of the GECS celebrates the strongest perceptions of the recovery among the world's finance professionals in five years. Even its warnings of imbalanced growth and pockets of instability are a far cry from the cataclysmic findings of early 2009, and there is a great deal to celebrate when looking back at that first edition of the Survey.

Most impressive is the slow but steady recovery in capital spending, as reported by finance professionals. For years, business investment has remained subdued despite the best efforts of governments and central banks, forever on hold until a more promising future. This attitude started to thaw in 2013 and the latest quarter of the year saw a decisive shift. Entrepreneurs and managers are looking around to find that there isn't likely to be a better time to invest in the future; interest rates are low, opportunities are proliferating, even finance is not as hard to come by as it used to be. If the years of pent-up investment put off by businesses were to be prioritised now, the recovery could very well turn out to be sustainable.

We know now that the slow fiscal retrenchment in much of Eastern Europe and Asia is unlikely to hurt business confidence a great deal in the short term, and with Ireland's bailout at an end there appears to be hope for other countries attempting similar levels of austerity. Even Cyprus, briefly Ground Zero for the Eurozone crisis, appears to be recovering much more rapidly than economists had expected.

But for now, the fact remains that finance professionals are rethinking the surge in confidence they experienced earlier in the year, and confidence is aligning itself more closely to economic fundamentals and conditions on the ground. Everyone seems convinced that the recovery is at hand and that somebody else's businesses must surely be benefiting, but it remains to be seen whether enough will to make the recovery happen.

Ultimately, recovery in developed markets is still disproportionately dependent on easy money and a surge in the supply of finance in some markets risks creating new credit bubbles. Emerging markets, on the other hand, are being buffeted by the outward flows of funds triggered by the Federal Reserve's intention to taper its asset purchase programme, and business confidence is once again strongly linked to price and exchange rate stability – suggesting a real threat to regional, if not global, financial stability. China is slowly pivoting to become a major consumer economy, but for now it has clearly not recovered from the liquidity crunch of 2013; if anything uncertainty there is leaking out to the broader region.

2014 will almost certainly be the last year of the recovery and should see a return to normal economic life, whatever that is. But it will be a long time before anyone knows this for certain. Until then, the insights of the world's finance professionals remain one of the best sources of guidance through turbulent times.

ACCA, IMA and the global economy

Global economic conditions continue to dominate business life. They are at the top of the world's political agenda, and updates 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 once again consider strategies to promote stability and stimulate growth, the interconnectedness of our economies, and how they are managed and regulated, is now firmly in the spotlight. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of this 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.

To find out more visit

www.accaglobal.com

www.imanet.org