Global economic conditions survey report: Q3, 2017
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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA’s core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

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IMA, 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 85,000 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/India.

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The Global Economic Conditions Survey (GECS) is the largest regular economic survey of accountants in the world. Its main indices are good predictors of GDP growth in theme countries and its daily trend deviations correlate well with the VIX, or ‘fear’ index, which measures expected stock price volatility.

Fieldwork for the Q3 2017 GECS took place between 1 and 18 September 2017 and attracted 1,277 responses from ACCA and IMA members around the world, including more than 114 CFOs.

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

We would also like to thank the following for their time and expertise:

- Andrew Kenningham, Senior International Economist, Capital Economics
- Dario Perkins, Managing Director, Global Macro, TS Lombard
- Claus Vistesen, Chief Eurozone Economist, Pantheon Macroeconomics.
Economic confidence improved slightly in the third quarter of 2017, and is now at its second highest level in over two years. The findings of the latest Global Economic Conditions Survey (GECS) are consistent with other data, such as the PMIs, which suggest that the global economy is enjoying a strong recovery.

South Asia was the third quarter’s most confident economic region, followed closely by Africa and Asia Pacific. Confidence levels were most depressed in Central and South America.

Confidence in North America fell for the second consecutive quarter in Q3, and the number of people feeling less confident about the future exceeds those feeling more confident – the first time this has been the case since the third quarter of 2016. Having been the most confident region in Q2, North America has now slipped to fourth place.

Economic confidence rebounded strongly in the UK, but it remains low by historical standards. This suggests that while investors are starting to put the uncertainty generated by June’s inconclusive election result behind them, confidence is still inhibited by other factors – Brexit in particular.

As with the past couple of quarters, the biggest worry for survey respondents was rising costs in terms of both wages and raw materials; this was an issue for 49% of respondents. Second on the list was falling incomes, followed by concerns about securing prompt payment. The lowest level of concern was about suppliers going out of business, which, against the backdrop of a gradually improving global economy, is perhaps understandable.

The opportunity to explore lowering costs was the main positive development mentioned by respondents to the survey, followed by the opportunity to benefit by focusing on innovation. Lowest on the list, and mentioned by just 15% of respondents, was the opportunity to increase orders, which suggests challenges for future demand.
1. Global level analysis

According to the GECS, in Q3 the number of respondents expecting conditions to worsen exceeded those expecting conditions to improve by 5 percentage points – in Q2, this gap was 10 percentage points.

Global economic confidence improved slightly in the third quarter, and remains high compared with the past couple of years.

According to the GECS, in Q3 the number of respondents expecting conditions to worsen exceeded those expecting conditions to improve by 5 percentage points – in Q2, this gap was 10 percentage points. The relatively upbeat nature of the survey mirrors the PMIs, global exports and GDP growth, which all suggest that the global economy is doing well.

The global picture hides variations however, with some regions doing much better than others. Confidence was relatively high in South Asia, Asia Pacific and Africa, but the Middle East, the Caribbean and Latin America were downbeat. There was also a strong rebound in confidence in Western Europe.
Confidence improved in OECD and non-OECD economies alike, to reach a similar level in both. This is consistent with the general picture, which is of a global economy enjoying the first period of sustained and coordinated expansion since the global financial crisis.

Chart 3: OECD and non-OECD confidence is aligned

Source: GECS
RISING TENSIONS IN KOREA

Since the start of the year, tensions on the Korean peninsula have increased markedly. So far, however, the financial markets have taken it in their stride. The yen and the price of gold have tended to spike immediately after a new missile or nuclear test, but then drop back again. South Korea’s stock market has also remained resilient: it is up nearly 20% since the start of the year.

Why have the financial markets been relatively unaffected? For South Koreans, little has changed: they have lived with the threat of conflict since the end of the Korean War in 1953, and the threats from Pyongyang are not new. Moreover, there is little sign that the crisis is having much of an economic impact. Consumer sentiment in the South remains high, and there is no sign that tourists are being scared away. With exports growing strongly, prospects for South Korea’s economy remain healthy.

Yet there are several ways in which a conflict in Korea would affect the global economy. Chief among these is the disruption to global supply chains – most notably in the electronics sector. South Korea is the world’s biggest producer of liquid crystal displays, and the second biggest of semiconductors. It is also a significant automotive manufacturer, and is home to three of the world’s biggest shipbuilders.

The region’s other economies would also be severely disrupted. South Korea is a key supplier of intermediate goods to China and Japan, and companies in these countries would struggle to find alternative suppliers.
CENTRAL BANKS ADJUST THEIR MONETARY POLICY

The US Federal Reserve’s announcement in 2013 that the era of ultra-loose monetary policy would not last forever was a shock that prompted a sell-off in risky assets.

This time around however, the policy shifts that are currently underway in the US and in the Eurozone seem unlikely to cause significant disruption in global financial markets. In the US these shifts involve the Fed beginning to reduce the size of its balance sheet while in the Eurozone, the European Central Bank (ECB) is likely to announce Quantitative Easing (QE) tapering.

“The ECB is still buying assets at €60bn a month and it will do so until the end of the year,” says Andrew Kenningham, Senior International Economist, Capital Economics. “Next year we are expecting that they will taper those asset purchases; they’ll continue to buy, but at a decelerating pace. By the end of next year they’ll probably no longer be buying any assets at all. They’re doing so because the economy is much stronger and there has been a very small increase in inflation. It’s a gradual move that we don’t think will have a major impact on bond yields or interest rates more generally.”

A key reason for this is that policy is being clearly communicated in advance. The financial markets have taken the Fed’s four rate hikes in their stride because it had clearly prepared them for the shift in policy. Similarly, the ECB has already begun to lay the groundwork for its own withdrawal of QE, which is likely to begin over the coming months.

In addition, the process is likely to occur slowly and cautiously. At its September meeting, the Fed confirmed that it would start the process by allowing its overall portfolio to rise by just US$10bn a month (an amount that is expected to rise gradually over the coming year). For comparison, at its peak its own portfolio was rising at a rate of US$85bn during the third phase of quantitative easing.

Another key point is that both central banks are only proceeding because economic prospects in both regions are looking up. If growth in either the US or the Eurozone starts to weaken, policymakers could pause the process or even start to loosen policy again.

Chart 4: Year-on-year GDP growth in the US and the Eurozone

Source: Eurostat, Bureau of Economics Analysis
Claus Vistesen, Chief Eurozone Economist, Pantheon Macroeconomics, says: “They’re saying to the markets: ‘Look, we have this QE programme and want to slowly wind that down, but while we do that, we’re not going to do anything on rates.’ You’re still going to have this very low interest rate environment and, so far, it’s working in terms of market expectation.”

In terms of the effects on emerging markets, they are better placed to deal with any sudden fall in risk appetite. The current account deficits of countries, such as Turkey, Indonesia, India, South Africa and Brazil, that were hit hardest by the ‘taper tantrum’ – 2013’s surge in US treasury yields – have fallen back significantly in recent years, making them less vulnerable to a drop in capital flows. Foreign currency debt is also relatively low in most economies, which means that if tighter monetary policy does cause their currencies to fall, it is unlikely to prompt a typical emerging market debt crisis.

“Emerging economies have started to turn the corner a little bit,” says Vistesen. “And that’s significant because they’re starting from a low base. Growth is increasing, rates are falling, inflation is falling, currencies are starting to strengthen a little bit: the classic signs of a strong cyclical emerging market.”

Dario Perkins, Managing Director, Global Macro, TS Lombard, adds a note of caution: “There’s still a lot of dollar-denominated debt, particularly in emerging market corporates. At the moment, those pressures are eased because the dollar has depreciated quite significantly and unexpectedly over the past year, but if the dollar starts to rebound again you could start to see those pressures emerge once again.”

WHAT DOES GERMANY’S ELECTION RESULT MEAN FOR THE ECONOMY?

The recent German election could have significant implications for economic growth, future European integration and Brexit. Although Chancellor Angela Merkel’s Christian Democratic Union (CDU) won the election, it gained just 33% of the vote and will need to govern as part of a coalition.

It could take until the end of the year before the details of a coalition in Germany are agreed, which suggests a period of political uncertainty that could hamper business sentiment. The CDU, as well as possible coalition partners such as the Free Democratic Party (FDP) and the Greens, all want to lower taxes, so it seems likely that fiscal policy will be loosened in 2018. This should be positive for growth.

Looking further ahead, the main parties will not want to lose any further ground to the far-right Alternative für Deutschland (AfD) party, and may have to move to tighten immigration. This could also have implications for Brexit. With months of negotiations set to take place before a new German government is formed, it will be a while before the country comes up with an agreed point of view on Brexit. Uncertainty in the UK is therefore likely to drag on, damaging the country’s growth prospects.

Andrew Kenningham is more positive: “The outlook for Germany is good, not particularly because of any political change but because the economy seems to be performing very well. There’s no real sign of inflation picking up or wage growth accelerating significantly.”
3. Regional analysis

Confidence in the US fell for the second consecutive quarter in Q3, with the number of people feeling less confident about the future exceeding those feeling more confident; this is the first time this has been the case since Q3 of 2016.

Economic confidence in North America fell slightly in the third quarter of the year, with 28% of respondents saying they were feeling more confident about the future, compared with 30% who were feeling less confident. Despite this slight drop, the level of overall confidence was still quite high compared with its recent historical average.

Confidence in the Caribbean improved in the third quarter, but remains firmly in negative territory, with the number of investors negative about the outlook exceeding those with a positive view of the future. However, our survey pre-dates the devastating hurricanes that have caused havoc across the region, and it is likely that this factor will alter the picture considerably.

The number of people in Canada that were positive about the future was exactly matched by those with a more negative view. This made Canada the most optimistic part of the North America and Caribbean region. Looking ahead, although the economy is performing well at the moment, there is a risk that growth (and confidence) could slow over the next quarter if the housing market suffers a hard landing. Property prices in Canada have risen rapidly over the past decade, and now look significantly overvalued.

The US in focus

Confidence in the US fell for the second consecutive quarter in Q3, with the number of people feeling less confident about the future exceeding those feeling more confident; this is the first time this has been the case since Q3 of 2016.

The drop in confidence comes as the administration continues to deal with challenges in pushing through its agenda of healthcare reform, tax cuts and increases in infrastructure spending. Given the difficulties of getting a tax cut and infrastructure spending bill through Congress, fiscal reforms seem unlikely to come into effect before 2018 at the earliest. The economy should continue to perform relatively well without a big fiscal stimulus, but these delays will be a disappointment for investors who were hoping for a fiscal-led boost to growth this year.

Kenningham says there are small signs of movement: “Republicans have got round the table and agreed on some basics – particularly cutting corporate income tax and household taxes, but less so personal income tax. It looks as if there’s a chance of a small fiscal boost. We have a working assumption that they’ll increase the deficit by 1% of GDP next year. If that does happen, it will certainly help the stock market.”

Chart 5: US confidence dips slightly

Source: GECS
Claus Vistesen adds: “There seems to be a mismatch between ongoing expectations that tax reform and lower regulations are coming and the reality. There has been a lot of hype around infrastructure spending and fiscal stimulus, but nothing has happened and the evidence suggests that it’s much more difficult for the White House to push anything through – however small.”

Perhaps reflecting this slow progress, the government expenditure component of the GECS was at relatively depressed levels in Q3. More encouragingly, the employment sub-index rose to its highest level on record, which makes it consistent with official data showing that the unemployment rate has fallen to multi-year lows. The capital expenditure sub-component dipped in Q3, but remains high by recent standards.

Overall confidence in Western Europe improved in Q3, following a surprise dip in the second quarter, but was still negative.

WESTERN EUROPE

Overall confidence in Western Europe improved in Q3, following a surprise dip in the second quarter, but was still negative. The number of respondents negative about the future exceeded by 5 percentage points those who were more confident.

There were fears at the start of the year that policymaking in the region could be about to take a populist turn, but far-right and far-left parties have done worse than expected in key elections in France, the Netherlands and Germany.

The improvement in confidence in Q3 is also consistent with the steady stream of healthy economic news from Western Europe. Despite concerns about Brexit and some deep-seated structural problems (unemployment is still very high in many countries, and there are concerns about the debt sustainability in some economies, namely Greece but also Italy and Portugal), the region has continued to expand at a reasonable pace, helped by easing fiscal austerity, strong exports and a recovery in consumer confidence.
Looking at the breakdown in more detail, the government spending sub-component was firmly in positive territory in Q3, and there was a slight improvement in the capital expenditure component. Encouragingly, although the employment index was in negative territory, it improved slightly and is higher than the average of the past few years. This is consistent with employment figures that show that unemployment, although still high, is finally starting to fall.

The biggest concern for respondents in Western Europe was rising costs, which could be a sign that the improving economy is starting to feed through into rising prices. The second biggest concern was the exchange rate, which is no surprise considering the recent strength of the euro: this year, it has reached multi-year highs against both sterling and the US dollar. Indeed, the ECB has recently made efforts to ‘talk down’ the euro to prevent it appreciating any further.

The UK in focus
In the UK, economic confidence rebounded in the third quarter, but it remains in negative territory and is low by historical standards.

Meanwhile, although growth has slowed over the past year, it is continuing to hold up well despite the ongoing uncertainty. Unemployment has dropped and is now at record lows, and the pound, which fell sharply after the election, is recovering alongside speculation that the Bank of England will soon start to raise interest rates.
“The slowdown has not been caused by a loss of confidence due to Brexit, but by inflation rising because of the fall in the currency, which in turn is because of the referendum result,” says Andrew Kenningham. “At about 3%, inflation is getting close to a peak. It’s going to come down over the next year and as it does, real incomes should receive a bit of a boost and the drag from inflation should abate.”

All the key sub-components remained in negative territory in the UK in Q3, but there was a further improvement in the government spending sub-component. This reflects the slightly improved fiscal position and the possibility of the government relaxing austerity measures in the upcoming autumn budget.

The biggest concern for UK respondents was rising costs, which were cited by 50% of respondents. This may reflect the increase in prices following the sharp fall in the value of the pound since the Brexit vote.

Another significant concern was movement in the exchange rate, which was cited by 31% of respondents. Although sterling has regained some ground since the start of September amid speculation of an early rate increase, it remains weak by recent standards.

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50% of respondents in the UK cited rising costs as their biggest concern.
Claus Vistesen sounds a note of caution: “The UK is now the worst-performing economy in the G7. Brexit is this monster that's consuming everything at the moment politically, which means that there’s no real impetus or desire to solve any other problems. The UK economy borrows too much and saves too little, but nobody's going to talk about that because they need to get this good deal together.”

Our separate survey questions about the UK’s departure from the EU, meanwhile, show that businesses believe the risks created by Brexit exceed the opportunities by 27 percentage points, which is unchanged from the Q2 survey.

Over the past quarter, the UK government does appear to have taken a softer line in Brexit negotiations with its European partners. In particular, the government now acknowledges the need for a transition agreement. That said, an insistence by the EU that there is more transparency on the financial terms of the settlement, means that progress is likely to remain slow going.

“People are starting to ignore some of the political noise,” says Dario Perkins. “It’s clearly not going to go away any time soon, and so you have to get on with business. The main squeeze from sterling has started to diminish, so there’s a bit of consumer spending power coming back, which has given the economy a near-term boost.”

Our survey also suggests that respondents do expect repercussions if the UK drops out of the EU without a transition agreement. 63% expected to be affected by this scenario, of which 22% expected the impact to be significant or threaten the viability of some activites.

Furthermore, respondents also expected to feel the effects if the UK exited the EU without an agreement on the future relationship ('no deal'). 66% expected to be affected by this scenario, of which 24% expected the impact to be significant or threaten the viability of some activites.

Over the past quarter, the UK government does appear to have taken a softer line in Brexit negotiations with its European partners.

66% of respondents expect to be affected if the UK exited the EU without an agreement on the future relationship ('no deal').

**Chart 11: UK businesses say Brexit is more likely to create risk than opportunity**

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<thead>
<tr>
<th>Risk and Opportunity</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Roughly Equal</td>
<td>10%</td>
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<tr>
<td>Much Greater than Opportunity</td>
<td>20%</td>
</tr>
<tr>
<td>Greater than Opportunity</td>
<td>25%</td>
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<tr>
<td>Less than Opportunity</td>
<td>30%</td>
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<tr>
<td>Much Less than Opportunity</td>
<td>35%</td>
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Source: GECS
In Ireland, economic confidence improved again in the third quarter to reach its highest level since Q1 of 2016. This high level of confidence reflects the fact that the economy, after a long period in the doldrums following the global financial crisis, is finally doing well again. Growth is up strongly, employment is down and property prices, which crashed after the crisis, are starting to recover. Respondents are also likely to be relieved that the UK may now be appearing to lean towards a ‘softer’ form of Brexit than feared. Ireland would be one of the hardest-hit countries if the UK crashes out of the EU without a deal in place: its exports to the UK are the equivalent of 8% of Ireland’s GDP. Although the GECS sub-components for government spending, employment and capital spending were positive again in Q3, they did all drop back slightly, perhaps reflecting lingering worries about the impact of Brexit on the economy.

Chart 12: Ireland is holding up well despite Brexit

Source: GECS
In Central & Eastern Europe (CEE), economic confidence was virtually unchanged in Q3 and remains relatively buoyant. This high level of confidence is reflected in the official GDP figures, which show that the region is growing more quickly than it has for several years. Indeed, the economies of Poland, Hungary and Turkey are all likely to grow by above 4% this year.

This improvement is down in large part to stronger growth in the Eurozone – Germany in particular. The main trading partner for a number of countries including Poland and the Czech Republic, Germany’s strong economic performance has led to a marked acceleration in their exports. Confidence would, however, be higher were it not for the subdued outlook in the region’s biggest economy, Russia. Although growth in Russia has started to recover following a prolonged recession in 2015-16, the medium-term outlook remains poor. Adverse demographics (a falling working age population) and weak productivity mean that GDP growth is likely to remain capped at below 2% for the coming few years. The IMF is forecasting average growth of less than 1.5% for 2018-19.
SOUTH ASIA

In South Asia, confidence was higher than in any other region in Q3, and reached its highest level since the third quarter of 2016.

This high confidence is mirrored by the underlying economics, with the region’s two biggest economies, India and Pakistan, set to grow strongly over the next year. There has been some short-term disruption to India’s economy following its introduction of the Goods and Service Tax a few months ago, but the outlook is good, helped by important economic reforms, such as taking key industries out of public ownership, cuts to subsidies, and a reduction of bureaucracy.

The outlook for Pakistan is also positive. A key driver of growth over the next couple of years is likely to be Chinese investment in infrastructure projects as part of the China-Pakistan Economic Corridor (CPEC), the combined value of which is expected to come to US$62bn. Low interest rates, which were cut to multi-year lows last year, should also help.

The sub-components, meanwhile, showed a mixed picture, with the government spending and capital expectations sub-components falling and the employment component rising. The rising employment sub-component may reflect the fact that investments in the CPEC, which are now well under way, require considerable manpower.

Chart 14: In South Asia, confidence improves again

![Chart showing confidence index, government spending index, capital expenditure index, and employment index over time in South Asia.](source: GECS)

In Asia Pacific, economic confidence increased in Q3 for the third consecutive quarter to reach a new record high. This upswing is likely to be largely due to an improvement in export prospects. Many of the region’s countries, including Hong Kong, Taiwan, South Korea and Thailand, are heavily trade-dependent. The recovery in global demand has therefore given them a significant boost. Growth in these countries is now the fastest in three years.

Looking at the survey results in more detail reveals a strong rebound in the government spending sub-component, as well as further improvements in the capital spending and employment sub-components.

Asia Pacific’s strong economic recovery appears to have led to concerns about costs, with 53% of respondents citing rising land and workforce costs. Decreased incomes and the negative impact of foreign currency movements were the other two main concerns for respondents.

Chart 15: Year-on-year exports show Thailand and Hong Kong benefiting from global recovery

Sources: Bank of Korea, Bank of Thailand
53% of respondents in Asia Pacific cited rising land and workforce costs as their biggest concern.

Chart 16: In Asia Pacific, confidence is rebounding strongly

Chart 17: Rising costs and FX moves are the biggest concerns in Asia Pacific
In China, economic confidence rebounded strongly in the third quarter to reach a new all-time high. This boom in confidence is consistent with the hard data, which shows the economy holding up well and being supported by rapid credit growth, strong exports and resilient private consumption.

“The central bank has stopped selling reserves to support the currency and has actually bought some foreign currency in recent months. The economy is looking pretty solid,” says Andrew Kenningham. “Like a lot of economists we have our own ‘tracker’, based on low-level data, rather than relying on the official GDP data. Based on our measure, it looks as if the economy’s growing at about 6%. We think it’s likely to drop to 5% next year, so not a dramatic change.”

There were also improvements in the government spending and employment sub-components, but a fall in the capital expenditure sub-index.

Although growth is holding up well in the short term, the medium-term outlook for China’s economy is increasingly uncertain. Over the past decade, China has seen a huge increase in private sector debt. While this credit splurge has helped to support economic growth, it has also significantly increased risks in the financial sector.

“It’s a kind of stop/go cycle in policy,” says Dario Perkins. “There’s been a bit of tightening but it’s been fairly targeted. It hasn’t generated the kind of severe slowdown that people were worrying about 12 months ago. The economy is growing at a strong pace and one that is probably unsustainable over the longer term.”

Although firm government control over the banking sector means a full-blown crisis is unlikely, there is likely to be a sharp rise in non-performing loans in the coming years.

There is also some speculation that after October’s National People’s Congress (which occurs every five years), there may be an opportunity to push through reforms of the relatively inefficient state-owned sector of the economy.

Chart 18: In China, confidence is at a record level

Source: GECS
In the Middle East, confidence increased slightly in the third quarter but remains low by historical standards.

The region’s fortunes closely follow movements in the oil price, which despite its rebound since the middle of the year remains well down on the US$100-plus a barrel that was the norm just a couple of years ago. Confidence is also being dragged down by political uncertainty. There are fears that the US will renege on the nuclear deal it struck with Iran, and the continuing diplomatic isolation of Qatar since early June is another concern. Indeed, it is notable that growth in Qatar slowed sharply in the second quarter.\(^2\)

The breakdown of the sub-components shows a fall in the government expenditure sub-component, and the capital expenditure and employment indices remain deep in negative territory. Capital expenditure has been depressed by the slump in government revenues, which has reduced the money available for new infrastructure projects.

Looking ahead, prospects for the region remain challenging. Many of the countries peg their currencies to the US dollar, so as the US Fed continues to raise interest rates over the next couple of years, borrowing costs in the Middle East are likely to rise.

Oil output, meanwhile, is likely to remain subdued as countries in the Middle East follow the latest OPEC production cuts. The other drag is likely to come from continued fiscal austerity, as the region continues its adjustment to a period of lower oil prices.

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The United Arab Emirates in focus
Confidence in the UAE fell in the third quarter to its lowest level since the first quarter of 2016, with the capital expenditure and employment sub-components both very weak. Despite the UAE having one of the biggest non-oil sectors in the Gulf, this will be related to the lower oil price.

If that oil price remains relatively stable, the UAE’s confidence levels may start to recover in the coming months. Its fiscal position is relatively strong, and it is significant that the government expenditure sub-component remains in positive territory. Preparations for the 2020 World Expo should also help to support the UAE’s economic prospects.3

Confidence index
Capital expenditure index
Government spending index
Employment index

Source: GECS

Economic confidence in Africa picked up again in the third quarter to reach its highest level since the second quarter of 2013. A closer look at the results reveals an improvement in the government spending, capital expenditure and employment sub-components. That said, only the government spending sub-component is in positive territory.

The overall picture is of a continent that is slowly coming out of a slump caused by the collapse in commodity prices in 2015-16.

When it comes to the region’s two biggest economies, growth in Nigeria is being helped by an increase in oil production, while South Africa’s economy is improving because of strong export demand and easing inflation. Angola’s economy is slowly recovering from a deep recession in 2016, but a high level of debt remains a major concern. Finally, Kenya is set for a couple of years of decent growth, but instability related to the recent election remains a risk.
The outlook for the global economy is as good as it has been since the global financial crisis, with all the main regions of the world set for decent growth over the next couple of years.

“We are now in an environment of a synchronised global recovery. The question is how long does that continue? There’s nothing in the very near term to suggest that it’s going to end,” says Claus Vistesen. “But there are always risks, namely that compared to 18 months ago, global financial conditions are now tightening because the Fed is raising interest rates.”

China is continuing to expand at a decent pace, and while there are concerns about the rapid build-up of debt in the country, the government’s strong fiscal position and control over the economy should help the country to do well over the next few years. If China avoids a hard landing, then the rest of Asia should continue to grow strongly, helped by buoyant export demand.

Russia and Brazil, meanwhile, which both suffered deep recessions in 2015-16, are showing signs of recovery, boosted by a combination of higher commodity prices and easing fiscal austerity. India is the other ‘BRIC’ that is set for rapid growth, helped by a combination of looser monetary policy and reforms introduced by the current administration over the past few years.

Prospects in other emerging markets also look fairly healthy. Countries in South East Asia should continue to grow fairly strongly, helped by buoyant export demand, and in South America, lower inflation should allow central banks to ease policy further and increasingly stable commodity prices should provide a boost to demand. In the Caribbean, meanwhile, the rebuilding effort after the recent hurricanes is likely to provide an important support for economic growth. Finally, growth should also recover in Africa, helped by improved prospects in the region’s three biggest economies: Nigeria, South Africa and Angola.

Developed countries may be expected to post decent growth over the next couple of years. The US is likely to continue to do well regardless of whether the administration’s planned tax cuts and infrastructure spending get through Congress. The Fed’s gradual tightening of monetary policy is unlikely to create a significant headwind to growth.

“The economy is growing at a pretty steady pace, regardless of policy,” says Andrew Kenningham. “The labour market is improving and inflation has not picked up; in fact, it has fallen this year. All of that means that the Federal Reserve, although it is beginning to tighten policy, is under no pressure to massively jack up interest rates.”

The Eurozone is also set for a strong couple of years. Although it still has its problems – elevated unemployment and high levels of government debt in the periphery countries, for example – growth is likely to be supported by strong export demand and a slight easing of austerity. The failure of populist parties to gain power in 2017’s elections in the Netherlands, France and Germany may also have helped to boost sentiment.

“As things stand, we’re expecting growth of a bit over 2% for the year, which will be the highest it’s been for a long time,” says Kenningham. “There aren’t any particular clouds on the horizon. There’s still a lot of spare capacity in the Eurozone, so there are not the same concerns that the central bank will start tightening policy (rather than just tapering its asset purchases) very soon.”

Even in the UK, where prospects have been affected by last year’s Brexit vote, the economy is continuing to hold up relatively well. Unemployment is at multi-year lows, and the fall in the value of sterling since the referendum may over time support the country’s export prospects.
## Appendix I: Economies covered by Q3 survey responses

<table>
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<th>North America</th>
<th>Middle East</th>
<th>Asia Pacific</th>
<th>Central &amp; Eastern Europe</th>
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ACCA, IMA and the global economy

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

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

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

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

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

WHERE NEXT?

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

CONTACTS

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