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The Association of  
Accountants and  
Financial Professionals  
in Business



Global economic  
conditions survey  
final report:  
Q4, 2017

## About ACCA

**ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering 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.**

ACCA supports its **200,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,200** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA is currently introducing major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

**More information is here: [www.accaglobal.com](http://www.accaglobal.com)**

## About IMA®

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.

**For more information about IMA, please visit: [www.imanet.org](http://www.imanet.org)**

The Global Economic Conditions Survey (GECS) is the largest regular economic survey of accountants in the world.

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

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

Fieldwork for the Q4 2017 GECS took place between 24 November and 11 December 2017 and attracted 4,011 responses from ACCA and IMA members around the world, including more than 250 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 Vistesén, Chief Eurozone Economist, Pantheon Macroeconomics.



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Global economic confidence dipped slightly in the final quarter of the year, but is still higher than its average for the past couple of years. This is broadly consistent with the PMIs and the hard economic data, which suggest that the global economy remains in decent health.

Confidence is high in North America and South Asia, which reflects the positive growth outlook for those regions' two biggest economies: the US and India. In the Middle East, meanwhile, confidence is low, which is due in large part to the slump in oil prices since 2015 that has weighed heavily on the region's growth prospects. And in the Caribbean, massive hurricanes late last year have damaged growth prospects and dented confidence.

As has been the case for some time, respondents' biggest concern is increased costs (cited by 52%). Second on the list are worries about decreased incomes (39%), followed by concerns about the negative impact of foreign currency movements (28%). As in Q3, suppliers' going out of business is last on the list of concerns (10%).

Given their concerns about rising costs, it is perhaps no surprise that respondents cite the opportunity to explore lowering

costs as Q4's main positive development (43%). In second place is the opportunity to benefit by focusing on innovation (40%). Worryingly, the opportunity to increase orders is last on the list, with just 12% of respondents citing this as a development.

Confidence in the US has rebounded strongly, and is now at its highest level since the start of 2017. That improvement in confidence is matched by other data (both surveys and hard data) that show the US economy rebounding strongly.

In contrast, the UK's economic confidence has dropped compared with Q3. Although higher than in Q2, it remains low by historical standards. On the plus side, the chances of the country leaving the European Union without a deal appear to be decreasing, but there remains a great deal of uncertainty about how the situation will develop in 2018.

China has also experienced a drop in confidence. This is partly because confidence in the previous quarter was so high, but it is also consistent with the hard economic data, such as industrial production and fixed investment, which suggest that the economy may have lost some momentum.

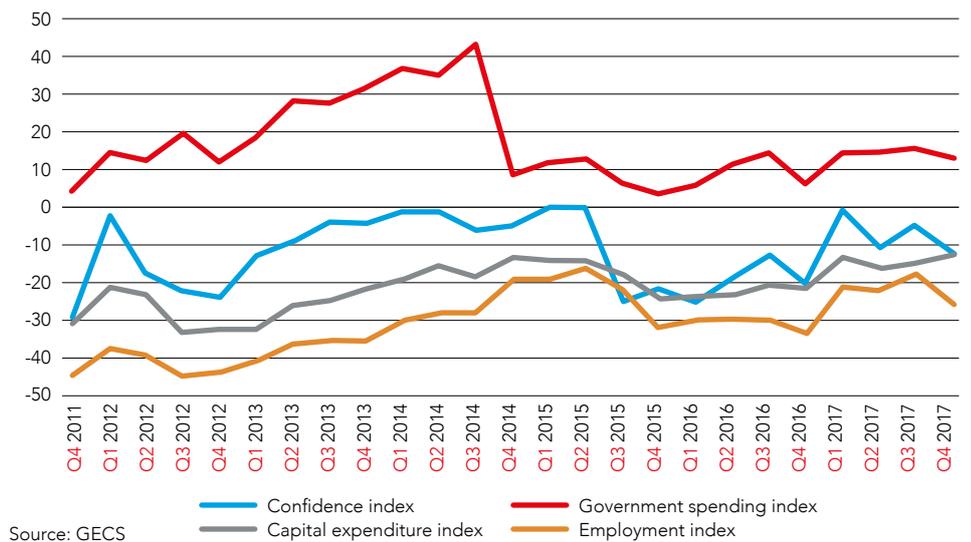
# 1. Global level analysis

Economic confidence dipped slightly in the final quarter of 2017, but remains high compared with the past couple of years.

Economic confidence dipped slightly in the final quarter of 2017, but remains high compared with the past couple of years. The number of respondents expecting conditions to worsen now exceeds those expecting conditions to improve by 14 percentage points – a wider gap than in Q3.

The findings of our report are broadly consistent with the results of other surveys – most notably the PMIs, but also the hard data for exports and GDP, which suggest that the global upswing remains on track.

Chart 1: Global confidence drops back



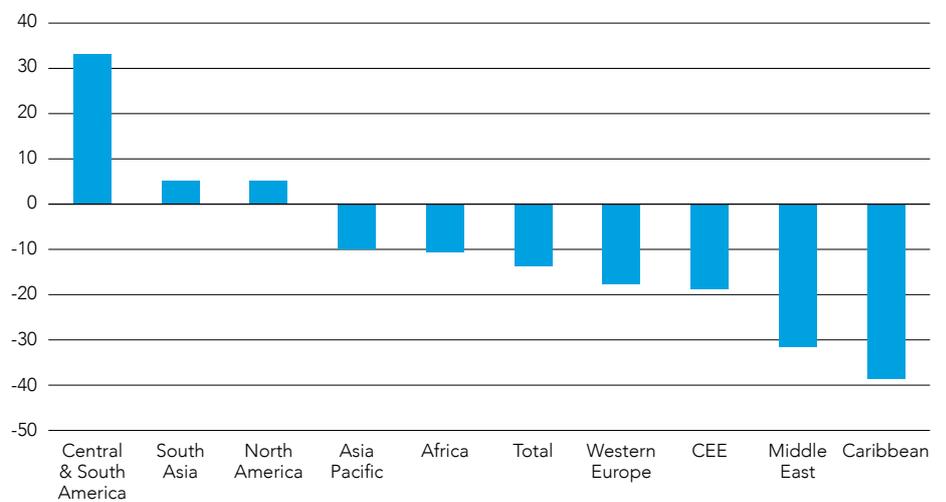
Source: GECS

The picture at the global level of the GECS is mixed. Central and South America is the most confident region followed by North America and South Asia.

The picture at the global level of the GECS is mixed. Central and South America is the most confident region (although the small sample for this region means that confidence is highly volatile from one quarter to the next), followed by North America and South Asia. Confidence levels are lowest in the Caribbean and the Middle East.

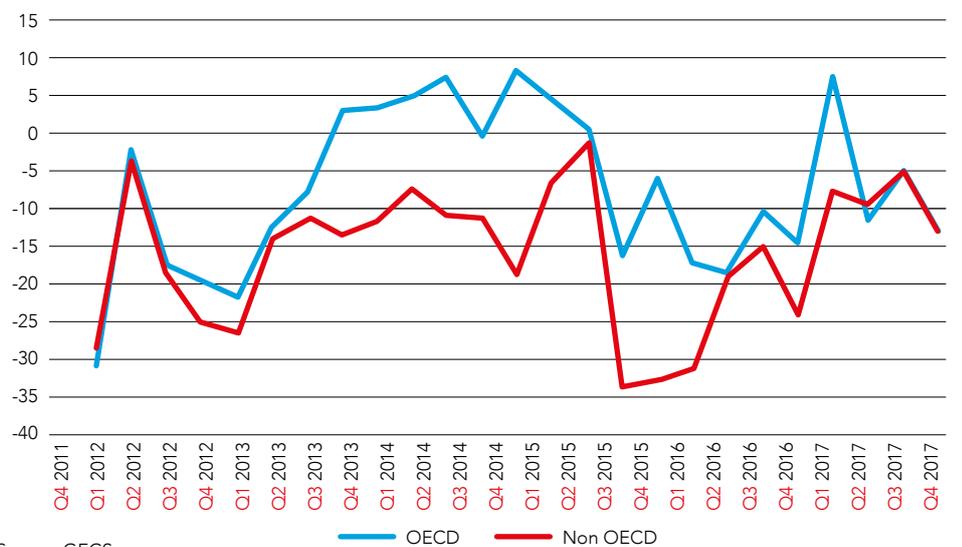
Confidence has dipped in the GECS for both the OECD and non-OECD countries, and is at a similar level in both, but both remain higher than their average for the past couple of years.

**Chart 2:** A mixed picture at the global level



Source: GECS

**Chart 3:** Developed and emerging economies are in sync



Source: GECS

With the economy at close to full employment there is a risk that the reforms will boost inflation more than economic growth.

### **US TAX CUTS: COULD BOOST INFLATION RATHER THAN GROWTH**

The passage of the US\$1.5tn Tax Cuts and Jobs Act in December 2017 represents a political success for the current US administration, but with the economy at close to full employment there is a risk that the reforms will boost inflation more than economic growth.

At the core of the deal is a new corporate tax rate of 21% (down from 35%). This was enacted immediately, followed by lower income tax rates for some taxpayers in 2018.

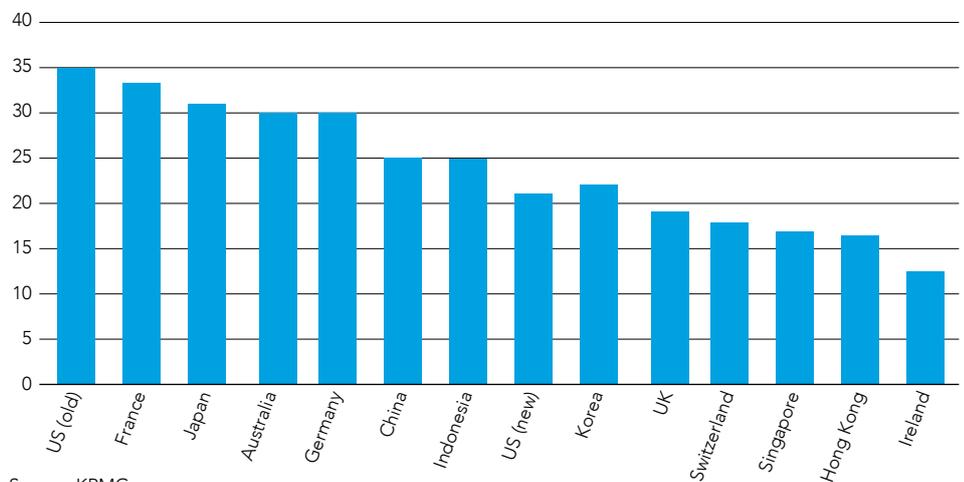
These cuts should boost the US economy in 2018, but the benefits are unlikely to be huge. Although the cut to the headline corporation tax rate is significant, various deductions mean that most companies in the US will pay closer to 25% of their profits in tax. In addition, the main

beneficiaries of the income tax cuts are top earners, who typically save a greater proportion of their incomes.

There is also concern that instead of boosting growth, the changes could simply push up inflation. The Federal Reserve has already indicated that it will continue to increase interest rates in 2018, but the tax changes could prompt it to tighten rates more aggressively, choking off the economic recovery.

It is also important to consider the long-term impact on the US fiscal position. Government debt is 75% of GDP, and is likely to climb steadily higher over the coming decade as a result of the ageing population and associated care costs. The new tax act could put further pressure on the country's fiscal position and could push debt to 100% of GDP within the next 10 years.

**Chart 4:** Corporate tax rates around the world (%)



Source: KPMG

Reforms could allow the private sector in China to compete with the state-owned sector on a level playing field.

### ALL CHANGE IN CHINA

At China's National People's Congress (NPC) in October, personnel changes to the Politburo Standing Committee (PSC) seem to have made it more economically liberal. This increases the likelihood of the new congress being able to push through key reforms more quickly. Most notably, the reforms could allow the private sector in China to compete with the state-owned sector on a level playing field. There are also hopes of efforts to reduce risks in the financial sector, even if this may come at the price of some reduction in growth.

However, it remains to be seen if these hopes will come to fruition, given that in recent times, priorities have been focused on the anti-corruption campaign, rather than directly on economic reforms.

Growth in China is slowing, with official figures showing the economy growing by just below 7% last year. Without market-orientated reforms, it is likely to slow further over the coming years. If this happens, some may wonder if October's NPC was a missed opportunity.

### THE GLOBAL FINANCIAL CRISIS 10 YEARS ON: COULD IT HAPPEN AGAIN?

A decade on from the worst financial crisis since the Great Depression, the world economy looks much more secure. One key change is the significant reduction in risky lending. In the US, sub-prime mortgages account for less than 10% of mortgage lending – down from 30% before the crisis. And in the UK, banks now require a bigger deposit for a house purchase.

New regulations and the creation of more regulatory bodies should also help reduce the risk of a repeat crisis. Altered pay structures at financial institutions, bank stress tests and increased capital requirements should have made banks more robust than a decade ago. Meanwhile, new bodies such as the Bank of England's Financial Policy Committee and the European Banking Authority will help to increase understanding of the key risks in financial sectors.

Asset prices look more fairly valued than they did a decade ago. Although there are property hotspots across the world, most



There is also uncertainty about how the global economy will extricate itself from the current policy of low interest rates. If they are kept low for too long, there could be a further build-up in asset prices that might burst further down the line.

notably in Hong Kong, Canada and the UK, prices in the US and much of the rest of the world look more sustainable. And despite the rapid increases in the past year, equity prices no longer look significantly overvalued on standard measures.

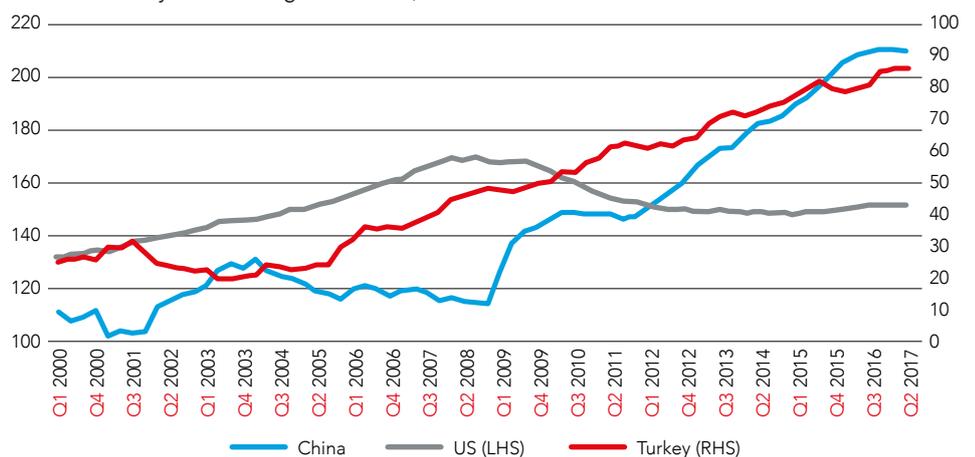
But there remain areas of vulnerability. In particular, while debt levels in the developed world have come down sharply over the past decade, they have ballooned in a number of emerging markets – most notably China and Turkey. Economic history suggests that this sort of debt bubble rarely ends well, so a credit crunch followed by a sharp economic slowdown is a valid fear – but as far as China is concerned it is not one that Dario Perkins, Managing Director, Global Macro at TS Lombard, expects to be borne out this year. “As an economist, you worry about debt and sustainability of growth,” he says. “But as long as it’s effectively state-owned banks lending to state-owned enterprises, it’s hard to see why this would turn into some kind of debt crisis. So you end up with what becomes a long-term growth problem, but I don’t think that’s a story for 2018.”

There is also uncertainty about how the global economy will extricate itself from the current policy of low interest rates. If they are kept low for too long, there could be a further build-up in asset prices that might burst further down the line. Alternatively, if central banks tighten policy too aggressively, they could choke off the current recovery in the global economy.

The final area of concern is the rise of populism and the risk of increased protectionism. The UK’s Brexit vote and the result of the US presidential election were both unexpected, and could have far-reaching effects on the global economy. In particular, if the UK falls out of the EU without a transition agreement in place, it could lead to a drop in confidence in both the UK and the rest of Europe.

Meanwhile, although the US administration has so far failed to push ahead with the protectionism mooted on the campaign trail, this could change. If 2018 sees the US pull out of NAFTA or start a trade war with China, this could have a destabilizing effect on the global economy.

**Chart 5:** Private sector credit in China, Turkey and the US (% of GDP).  
Turkey shown on right-hand axis, China and US on left-hand



Source: Bank of International Settlements

The outlook for the US economy is good, and the results of the GECS reflect this, with most of the main sub-components of the index at elevated levels.

## NORTH AMERICA

Economic confidence in North America improved significantly in the final quarter of the year, with 31% of respondents saying that they are more confident about the future, compared with 26% who are feeling less confident. This means that confidence levels are now high by historical standards.

### The US in focus

The outlook for the US economy is good, and the results of the GECS reflect this, with most of the main sub-components of the index at elevated levels.

Confidence rebounded strongly in the final quarter of the year: 33% feel more confident about the future, and just 25% feel less confident. Overall confidence levels are now at the levels they reached at the start of the year, and remain high by historical standards. This may in part reflect hope that

the recent tax changes provide a fiscal-led boost to the economy (see 'US tax cuts: more likely to boost inflation than growth').

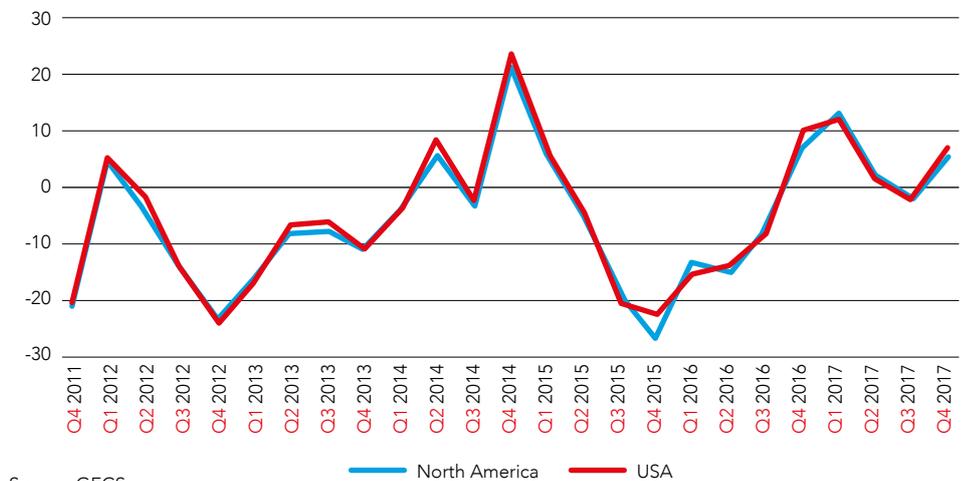
"In the US, 2018 looks like being the year where growth finally settles at the magical 3% everybody is looking for," says Claus Vistesen, Chief Eurozone Economist at Pantheon Macroeconomics. "And now we're getting tax reform, which in headline numbers at least is going to offer stimulus."

Andrew Kenningham, Senior International Economist at Capital Economics, also predicts a rosy future for the world's largest economy. "We've seen fairly decent growth rates for business investment over the past year and a half, which are likely to be sustained," he says. "Indeed, investment may pick up as we get to full employment, because companies may need to invest more in capital goods and machinery rather than just taking on more workers."

# 31%

of respondents in North America say that they are more confident about the future

Chart 6: Confidence improves in North America



Source: GECS

The latest survey findings for Canada show that more people expect conditions to worsen than improve.

Interestingly, there was a slight drop in the government expenditure sub-component, which could reflect the fact that the administration may struggle to push through its planned increases in infrastructure spending. With the tax changes expected to increase government debt, the administration may find itself under pressure to reduce spending elsewhere.

but economic headwinds are mounting and growth is likely to slow in 2018.

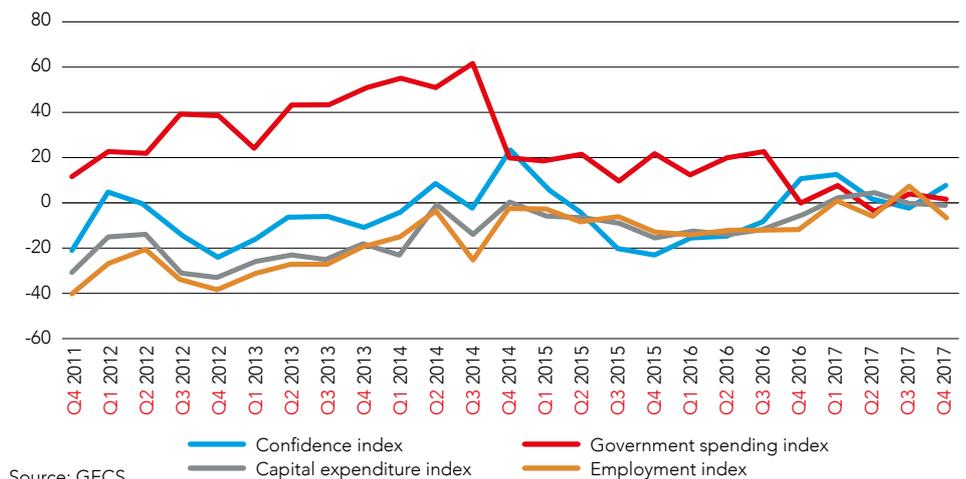
The financial position of the country's households looks shaky. Debt is now the equivalent of around 170% of GDP – the same as in the US before the global financial crisis. In addition, Canada's housing bubble is in danger of bursting: prices look unsustainable and investment in the property sector is declining.

**Canada in focus**

The latest survey findings for Canada show that more people expect conditions to worsen than improve. This might seem surprising, because Canada's economy has performed strongly over the past year,

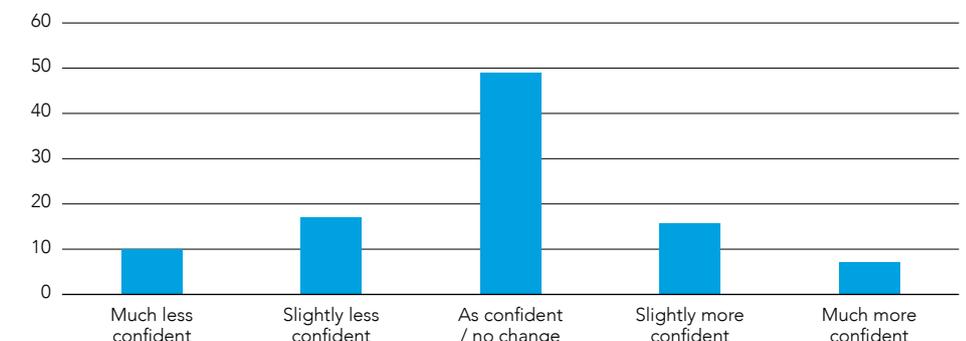
A brighter spot is trade: although there are risks over the future of NAFTA, exports should do well in 2018, helped in large part by strong growth in Canada's main trading partner, the US.

**Chart 7: Tax cuts boost US confidence**



Source: GECS

**Chart 8: Where next for Canada?**



Source: GECS

Confidence in the Caribbean plummeted in Q4 and remains firmly in negative territory.

**THE CARIBBEAN**

Confidence in the Caribbean plummeted in Q4 and remains firmly in negative territory. The sharp fall is probably linked to the hurricanes that caused havoc across the region in September 2017. Although the rebuilding will boost growth, the region's economies are likely to suffer in the near-term – particularly in the crucial tourism sector.

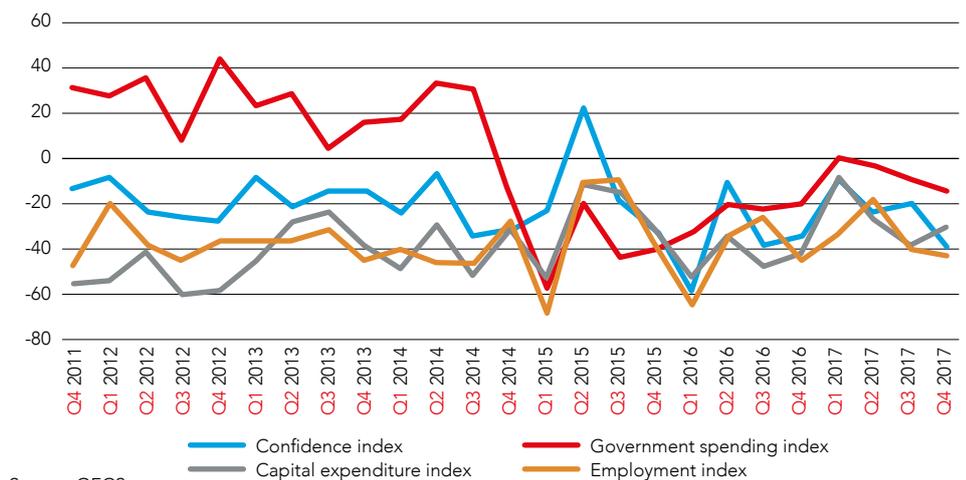
**Trinidad and Tobago in focus**

The economy of Trinidad and Tobago has struggled in recent years and the outlook for 2018 is relatively challenging. Private sector credit growth has been held back

by weak demand from business, and the deterioration in the country's fiscal position means the government will have to cut spending over the next year, which will act as a drag on demand.

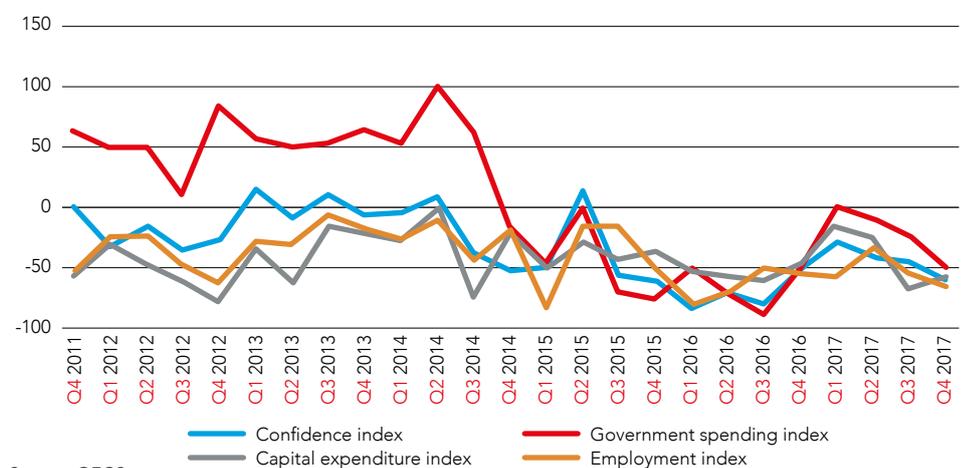
Reflecting this challenging economic outlook, confidence remains low. Indeed, all of the main components were negative in Q4, with only the capital spending index recording a small improvement compared with Q3. On the plus side, the start of production at BP's Juniper gas project, which began in August 2017, is providing a boost to the economy.

**Chart 9: Confidence plunges in the Caribbean**



Source: GECS

**Chart 10: Confidence remains low in Trinidad and Tobago**



Source: GECS

Overall confidence in Western Europe has dropped, but this is slightly at odds with the latest hard economic data, which paints a more optimistic picture.

**WESTERN EUROPE**

Overall confidence in Western Europe has dropped: the number of respondents negative about the future exceeds by 18 percentage points the number of those who are more confident – the biggest gap in a year.

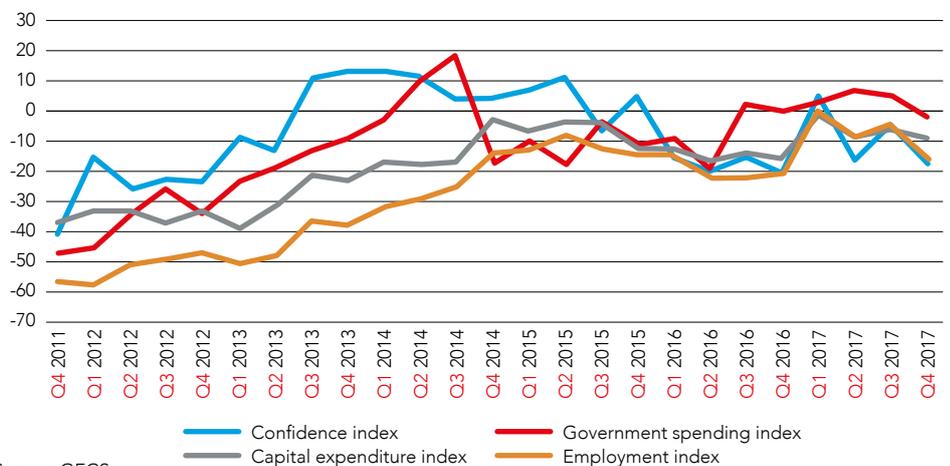
This is slightly at odds with the latest hard economic data, which paints a more optimistic picture. Growth in Western Europe has rebounded strongly over the past year, helped by an easing of fiscal austerity, improved consumer confidence, and rising exports. The Eurozone itself is a bright spot, according to Andrew Kenningham. "Over much of the past 10 years, the Eurozone has lagged behind in its cyclical recovery," he says. "But over the past couple of years we've seen much stronger growth in the peripheral Eurozone economies, while the economies that recovered earlier have continued to grow at a pretty decent pace."

"We haven't been able to talk about an investment cycle in Europe for a long time," says Vistesen. "We have to go back to 2006 to see the same kind of momentum. But it seems now that the data is tepidly showing exactly that. We see investment in construction and manufacturing coming up in several economies. Investment in France has been strong for quite a while and, because of labour market reform, there's a positive growth story."

Why, then, the dip in confidence? One reason could be that political uncertainty in Germany is weighing on sentiment. Following September's election, Western Europe's biggest economy is taking time to form a government.

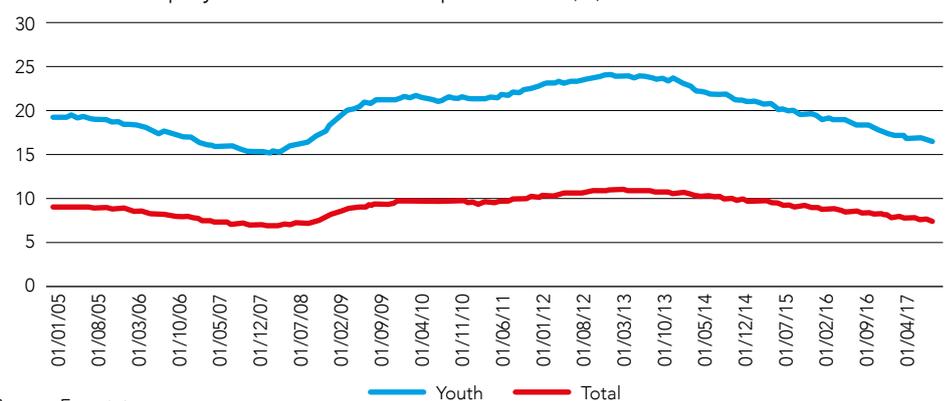
Looking at the survey findings in more detail shows that all of the main sub-components weakened slightly in Q4. The government spending sub-component in particular, has fallen to its lowest level

**Chart 11:** In Western Europe, confidence takes a knock



Source: GECS

**Chart 12:** Unemployment rate in the European Union (%)



Source: Eurostat

Economic confidence in the UK has been volatile over the past 18 months – most likely reflecting uncertainty over the country’s departure from the EU – and Q4 was no exception.

since the second quarter of 2016. This may reflect the fact that although the short-term outlook for the Western Europe is positive, the region still faces a number of structural problems, including high levels of debt and high unemployment rates in some peripheral countries.

Rising costs continue to be the biggest worry for GECS respondents in Western Europe. This is consistent with inflation figures, which have risen steadily since the start of 2017.

On the other hand, respondents’ least-cited concern is the risk of suppliers going out of business: improvements in Western Europe’s economies may be feeding through to better conditions on the ground.

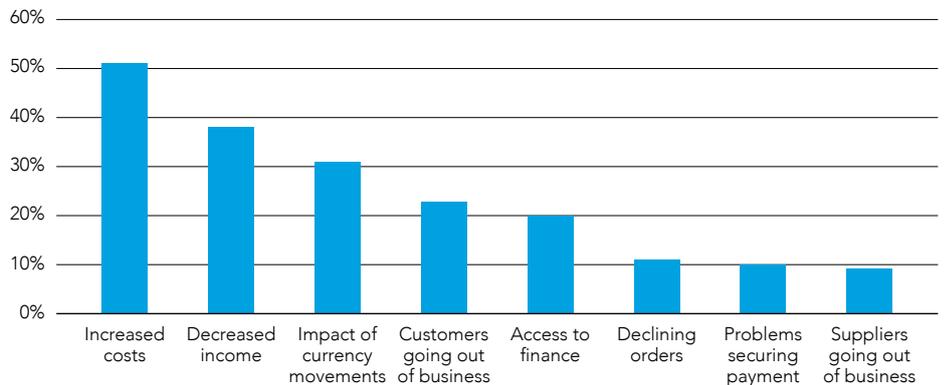
**The UK in focus**

Economic confidence in the UK has been volatile over the past 18 months – most likely reflecting uncertainty over the country’s departure from the EU – and Q4 was no exception. Despite completion of the first stage of the Brexit negotiations and trade talks on the horizon, confidence has plunged to one of the lowest readings on record.

That volatility is likely to remain a feature of the next year until investors and businesses gain more certainty about a future UK-EU trade deal. Although this may improve with time as the range of possible options become narrower.

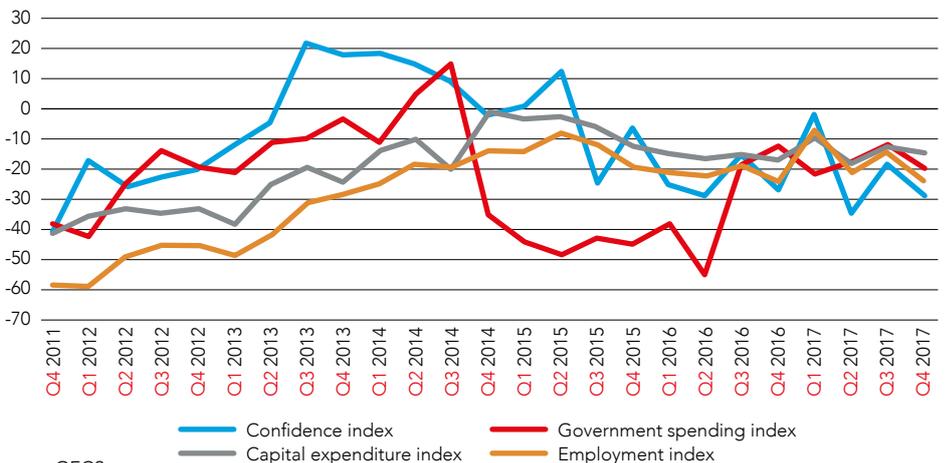
Not only have all of the index’s sub-components fallen, but they also remain deep in negative territory. The fall in the

**Chart 13:** Increased costs are still the biggest concern in Western Europe



Source: GECS

**Chart 14:** Brexit weighs on confidence in the UK



Source: GECS

Movements in the exchange rate (34% of respondents), however, remain a big concern: the UK is an open trading economy, and a volatile exchange rate has created uncertainty for importers and exporters alike.

government expenditure sub-component reflects the autumn budget, when the chancellor was forced to downgrade his assessment of the public finances. The sharp fall in the employment sub-component, meanwhile, is consistent with the recent worsening of the labour market: in the three months to September, the number of people employed in the UK fell by 14,000.

The biggest concern for respondents (cited by 49%) is rising costs – a result of the slump in sterling since the Brexit vote, which has pushed up import costs. Claus Vistesén, however, does not expect sterling’s slump to continue. “Inflation has probably peaked,” he says. “The main caveat here is the currency. In order for inflation to continue to accelerate, you would need a proper deep dive in the pound. We’re talking beyond parity with the euro, 1.05 to the dollar, and we’d need something really, really drastic for that to happen.”

Kenningham also adopts an optimistic position. “Our forecast for inflation in 2018 is 2.5%, and for 2019 it is 2% – just about on target,” he says.

“Moreover, we’re in a minority in expecting that growth will pick up in 2018,” he adds. “We forecast 2.2% compared with just over 1.5% in 2017. We see the squeeze on household incomes fading.”

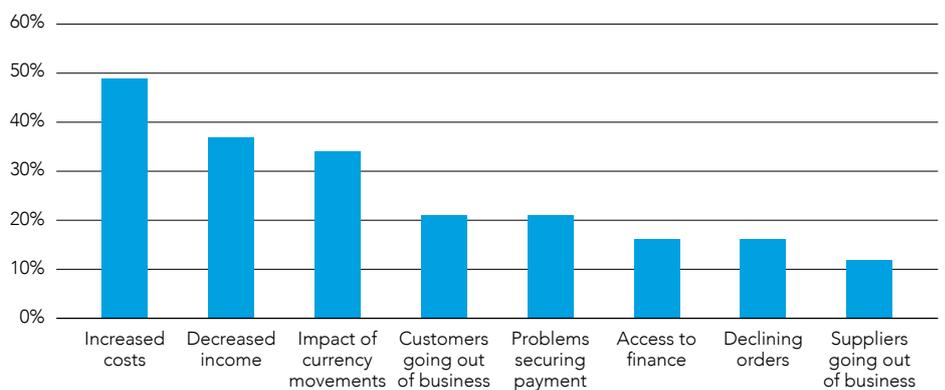
Likewise, Perkins is upbeat about the prospects for the UK – although he does acknowledge the threat of inflation. “I think the UK might surprise people this year when growth picks up again,” he says. “There is no obvious effect from uncertainty over capital spending or hiring. The main concern was the consumer squeeze, which will come to end as long as there is no spiral in inflation.”

Movements in the exchange rate (34% of respondents), however, remain a big concern: the UK is an open trading economy, and a volatile exchange rate has created uncertainty for importers and exporters alike.

**49%**

of respondents in the UK cited rising costs as their biggest concern

Chart 15: Increased costs cause concern in the UK



Source: GECS

Economic confidence in Ireland slipped back slightly in the final quarter of 2017, but compared with the past few years is still relatively high.

**Ireland in focus**

Economic confidence in Ireland slipped back slightly in the final quarter of 2017, but compared with the past few years is still relatively high. Similarly, economic data suggest that the economy is staging a decent recovery following a long period of problems triggered by the global financial crisis. Growth is up, unemployment is falling, and property prices are recovering.

Ireland’s confidence will have also been boosted by recent progress in the Brexit negotiations, because the country stands to lose out if the UK crashes out of the EU without a transitory trade deal. All sub-components of the GECS are firmly in positive territory, although there has been a slight dip in the capital expenditure index.

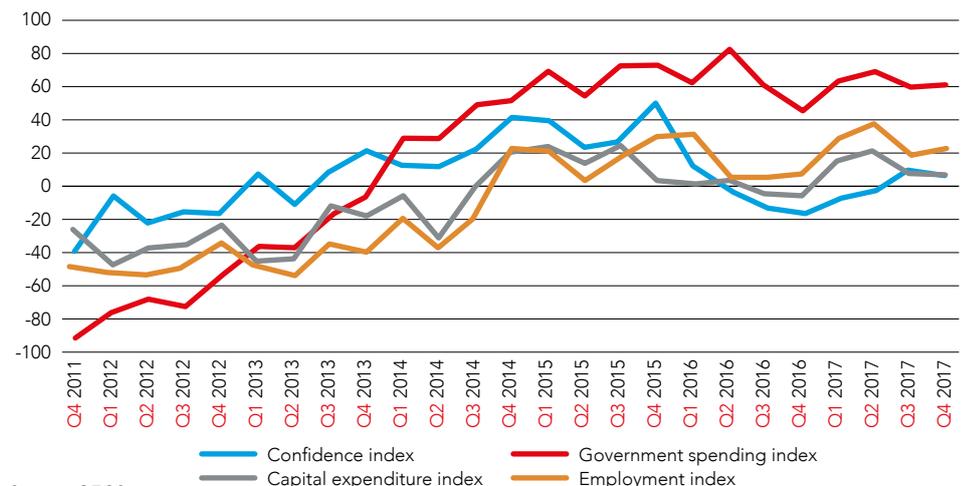
**Cyprus in focus**

Cyprus is making steady economic progress following the financial crisis of 2012-13, when it had to seek assistance from the IMF.

Growth picked up to 3.9% in the third quarter of 2017 on the back of a booming tourism sector, and that is feeding through to an improvement in the labour market: the unemployment rate has fallen from a peak of 16% in 2014 to 10% in 2017.

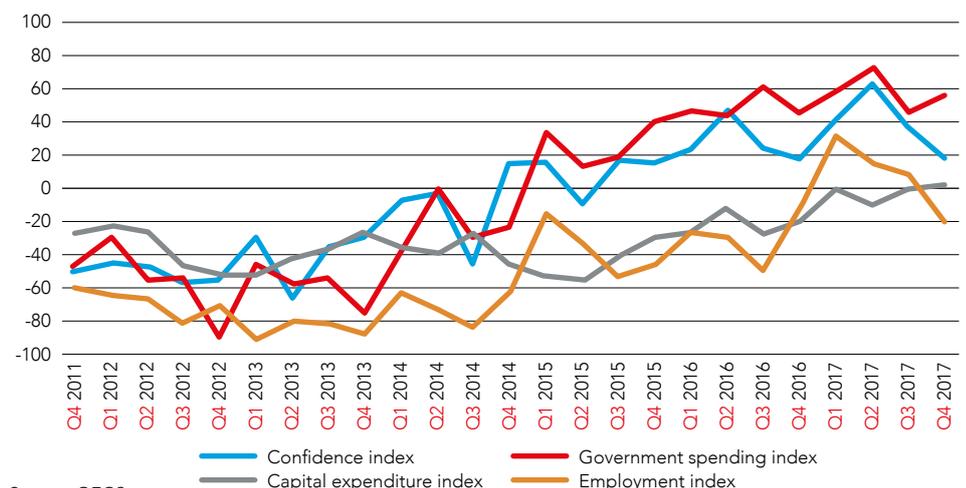
It is not all good news, however. The banking sector remains very weak, with non-performing loans the equivalent of about 46% of total loans – the highest in the EU after Greece. The pick-up in the economy has also seen the current

**Chart 16:** Confidence in Ireland dips slightly, but remains high



Source: GECS

**Chart 17:** Confidence in Cyprus falls back, but remains fairly buoyant



Source: GECS

Economic confidence in Central & Eastern Europe (CEE) is now at its lowest level since the third quarter of 2016.

account deficit widen again, which makes the economy vulnerable to sudden changes in risk appetites. It now stands at 4.9% of GDP – up from 1.5% a year earlier.

These ups and downs translate into the volatile confidence levels of recent quarters. Having reached an all-time high in the second quarter of 2017, overall confidence dropped back for two consecutive quarters. Worryingly, the employment index has fallen for a third consecutive quarter and is now firmly in negative territory. This might be an early sign that the recent improvement in Cyprus’s labour market is about to go into reverse.

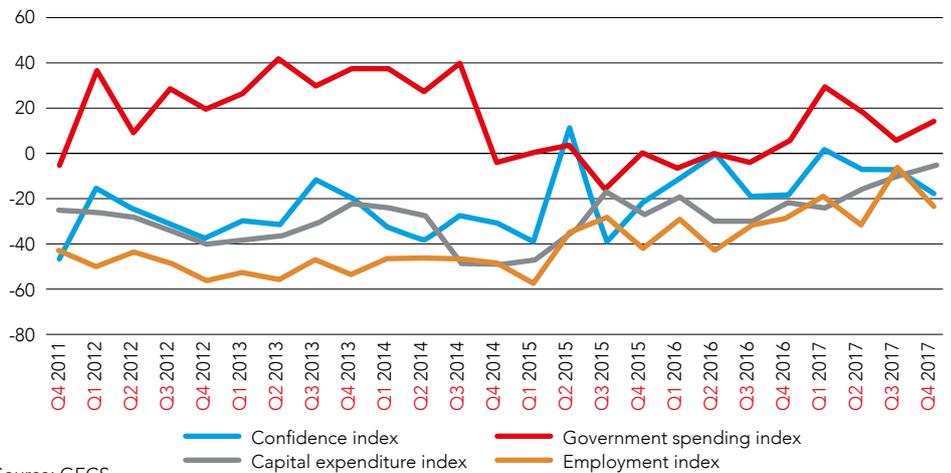
**CENTRAL & EASTERN EUROPE**

Economic confidence in Central & Eastern Europe (CEE) is now at its lowest level since the third quarter of 2016. This is probably a symptom of the fact that although the region’s economies are expanding strongly at the moment, growth is likely to slow.

There are signs that a number of economies in CEE – most notably Poland and the Czech Republic – are starting to run into capacity constraints and that central banks will have to tighten policy aggressively in order to bring growth under control.

The GECS sub-components paint a mixed picture. The government and capital spending sub-components are both much stronger, but the employment component has dropped.

**Chart 18:** Confidence in Central & Eastern Europe is the lowest in more than a year



Source: GECS

The number of respondents expecting conditions to improve exceeds by 26% the number of those expecting conditions to worsen, which makes India the most confident country in the survey.

**Russia in focus**

Russia’s improvement in the GECS – confidence rebounded in Q4 – mirrors improvements on the ground.

Following a couple of difficult years, prospects are looking up for the Russian economy. Inflation has fallen sharply over the past year, which has boosted incomes and allowed the central bank to loosen monetary policy. An improvement in the fiscal position, meanwhile, suggests that austerity will ease slightly in 2018.

Although none of the index sub-components are in positive territory, they are all well above the lows they reached in 2015-16, when the sharp fall in oil prices caused Russia’s economic growth to collapse.

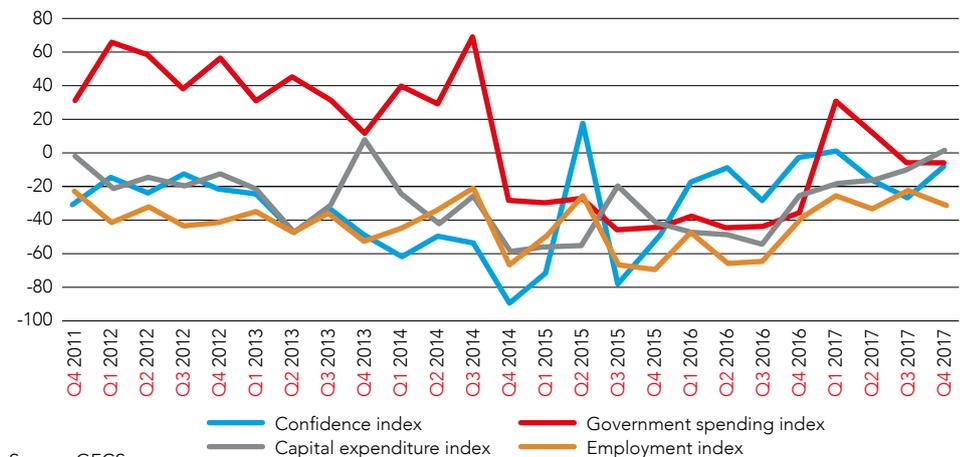
**SOUTH ASIA**

Confidence in South Asia was joint second with North America in Q4, behind only Central and South America. Yet confidence levels have dipped slightly from the previous quarter and the GECS sub-components show a mixed picture: the government spending and employment sub-components have both fallen, but the capital spending component is up.

**India in focus**

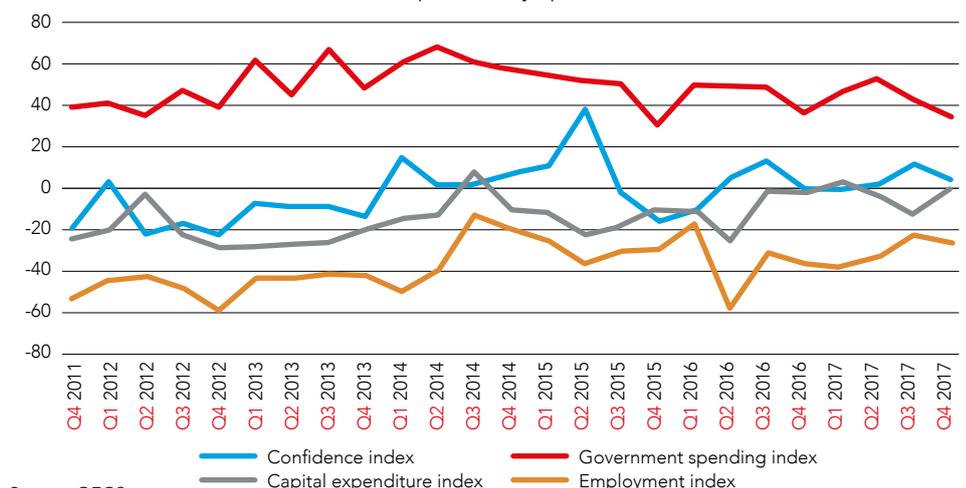
South Asia’s biggest economy is likely to perform well in 2018, which is shown in the high level of confidence in the GECS. The number of respondents expecting conditions to improve exceeds by 26% the number of those expecting conditions to worsen, which makes India the most confident country in the survey.

**Chart 19: Steady signs of improvement in Russian confidence**



Source: GECS

**Chart 20: Confidence in South Asia dips but stays positive**



Source: GECS

Pakistan's growth looks set to slow, and confidence in Q4 dropped into negative territory.

Recent reforms should help to boost confidence and growth. These include the introduction of the Goods and Service Tax, subsidy cuts, reductions in the size of the bureaucracy and the privatisation of key industries.

Rapid wage growth and loose monetary policy, meanwhile, will fuel private consumption; and fiscal policy – such as loan waivers for farmers – is likely to encourage growth.

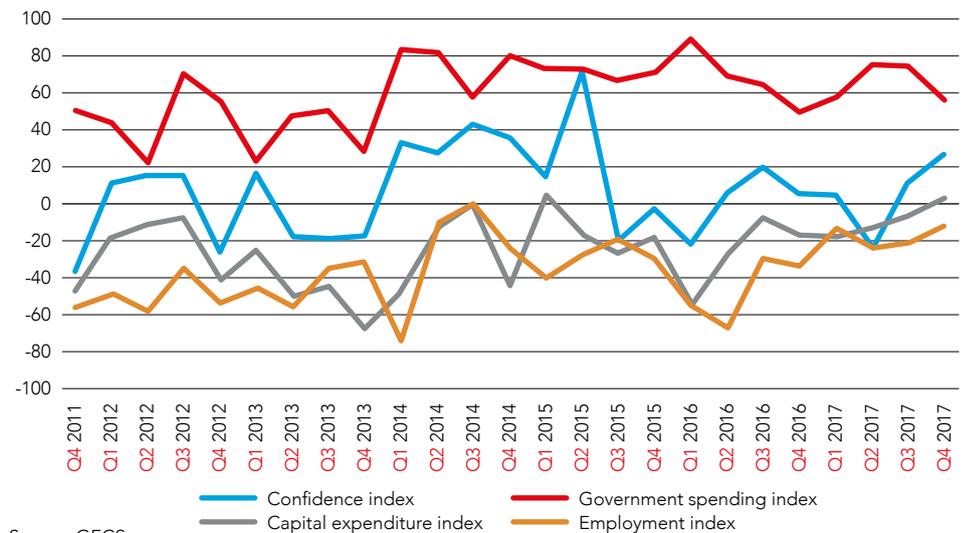
**Pakistan in focus**

Pakistan's growth looks set to slow, and confidence in Q4 dropped into negative territory.

A sharp deterioration in the current account is starting to put severe downward pressure on the exchange rate. The country has a high level of external debt, and the authorities will want to avoid a large-scale devaluation of the rupee. The only way to do this, however, would be to either raise interest rates sharply or go to the IMF for another loan. Both of these options are likely to cause growth to slow sharply.

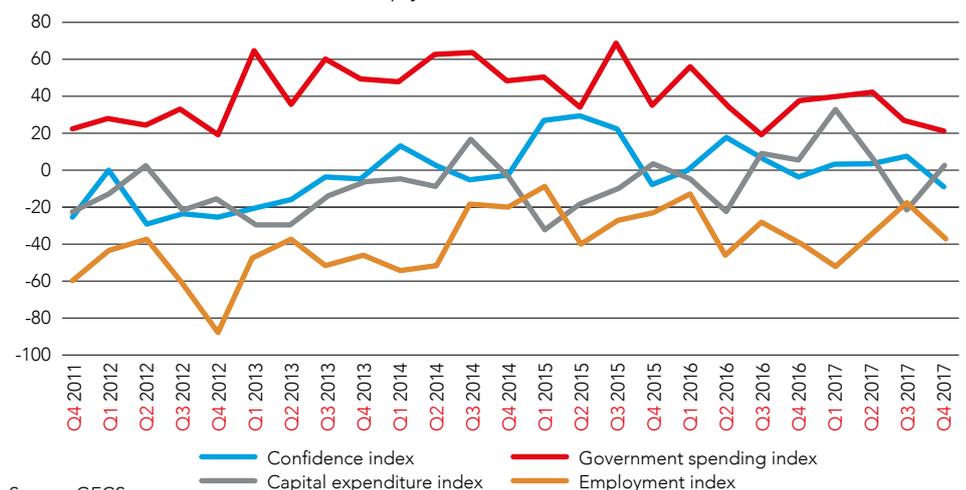
Internally, there is a bright spot in the form of infrastructure spending related to the China-Pakistan Economic Corridor, which is likely to continue to be an important driver of the economy. Likely related to this, capital spending was the only sub-component to improve in Pakistan in Q4.

**Chart 21: Confidence in India is on the up once again**



Source: GECS

**Chart 22: Confidence declines sharply in Pakistan**



Source: GECS

Asia Pacific's economic confidence dipped in Q4, though it remains high relative to the past few years.

**ASIA PACIFIC**

Asia Pacific's economic confidence dipped in Q4, though it remains high relative to the past few years. One reason for this is the weakening of China, the region's biggest economy, where there are signs that economic activity – particularly in the property sector – has started to cool.

The rest of the region, on the other hand, continues to do very well, with the trade-dependent economies of Korea, Thailand and Singapore all growing at, or close to, multi-year highs. One risk to the Asia Pacific region over the next year is an escalation of the crisis in North Korea. Conflict would bring economic devastation to South Korea, but would also have huge knock-on effects on the rest of the region because of the disruption to global supply chains.

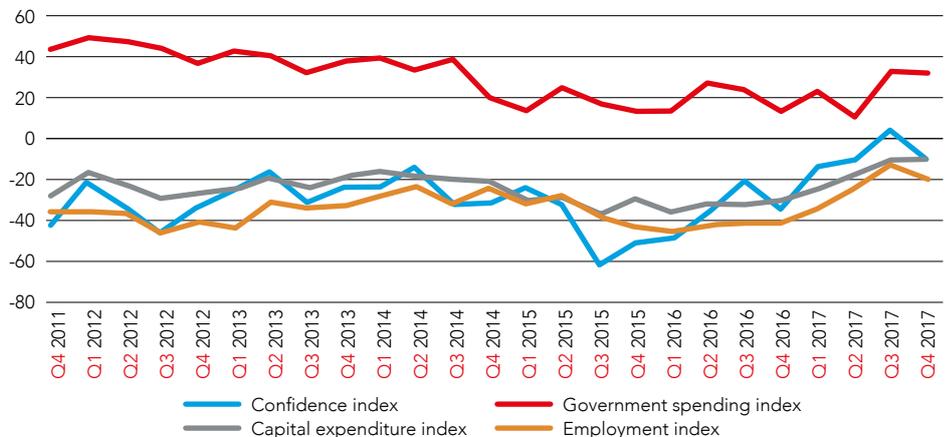
Confidence aside, all of Asia Pacific's main sub-components look reasonably stable, with the government spending component firmly in positive territory and the capital spending and employment sub-components continuing to hover below zero.

**China in focus**

China has experienced a drop in confidence, though it remains high by historic standards.

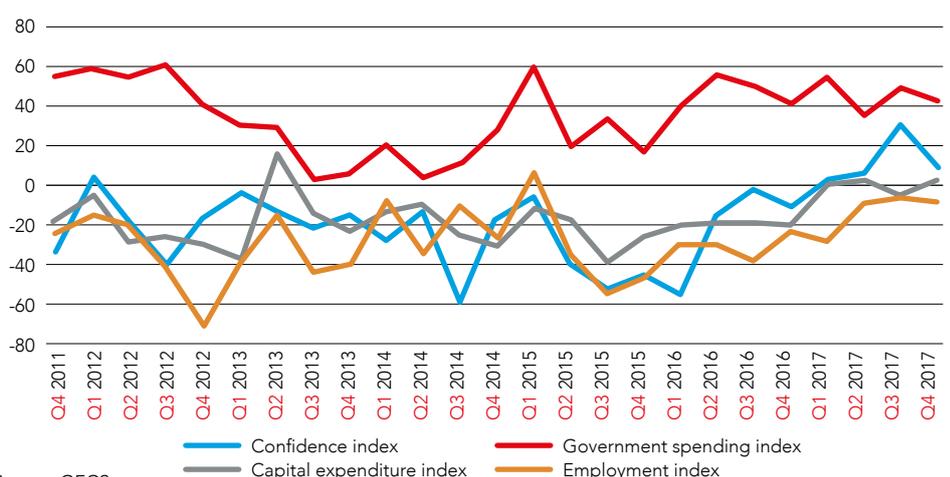
This shift is consistent with the hard data: China's economy, after rebounding throughout most of 2017, has started to come off the boil. This largely reflects a new determination by policymakers to consider the risks of continued rapid credit growth to the broader financial system.

**Chart 23:** Dip in confidence in Asia Pacific



Source: GECS

**Chart 24:** In China, confidence drops from its all-time high



Source: GECS

After a strong 2017, when growth was boosted by a surge in export demand, growth in Hong Kong in 2018 may be set to slow.

“We can all worry about a potential hard landing in China, but before anything like that happens, there’s a huge amount of underlying cyclical stories that are going up and down,” says Vistesén. “For example, we are seeing a focus away from GDP targeting to a more balanced growth trajectory. It’s a story that suggests that headline manufacturing and data could be weaker than the market expects.”

Looking at the GECS in more detail reveals that although the government expenditure sub-component has dipped slightly, it remains very high. The capital-spending sub-component is up, and is elevated by recent standards. The worst performer of the three sub-components is employment, which started in negative territory and has dropped further.

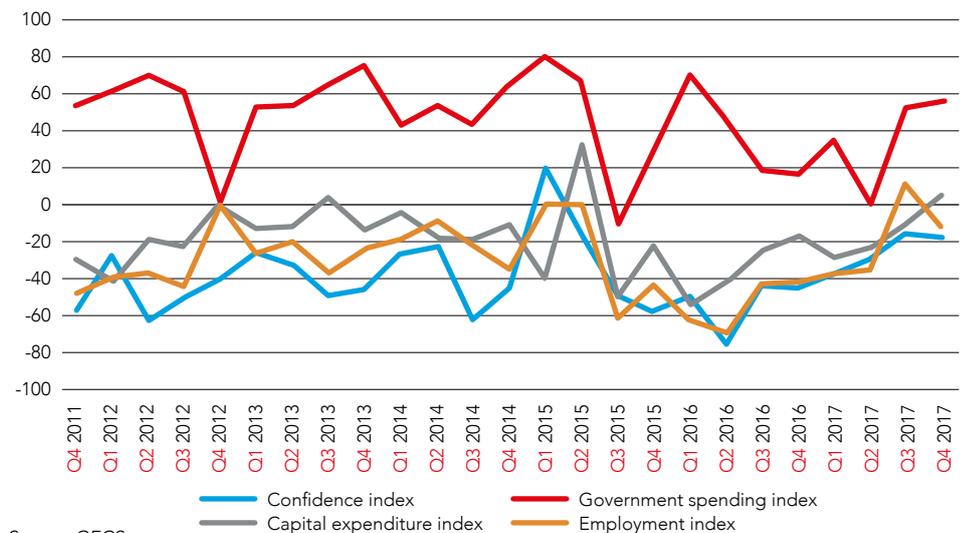
**Hong Kong in focus**

After a strong 2017, when growth was boosted by a surge in export demand, growth in Hong Kong in 2018 may be set to slow.

The overall confidence index is firmly negative. It is true that weaker growth in China will act as a drag on confidence, but Hong Kong’s biggest risk is its property sector. Property prices in Hong Kong have nearly tripled since reaching a trough during the global financial crisis, and look increasingly overvalued.

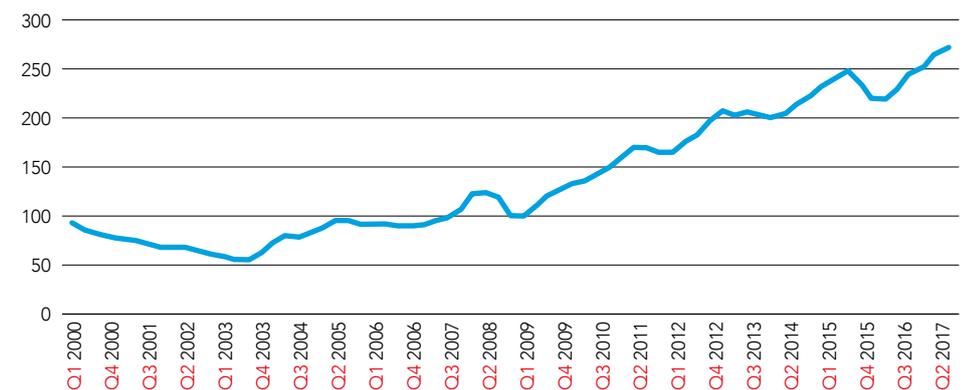
The territory’s exchange-rate peg to the US dollar means local interest rates are determined by the Federal Reserve. So if rates in the US rise in 2018, they will also rise in Hong Kong, which will put downward

**Chart 25:** The government spending index is on the rise in Hong Kong



Source: GECS

**Chart 26:** Property prices in Hong Kong (Q1 2009 = 100)



Source: Hong Kong Census and Statistics Department

Reflecting this mixed outlook for the Australian economy, confidence dipped slightly in Q4 but remains relatively high by historical standards.

pressure on its property prices. If growth slows as a result, the government is likely to step in by loosening fiscal policy – a move that might have influenced the rebound in the government spending sub-component, which is now close to an all-time high.

**Malaysia and Singapore in focus**

As open, trade-dependent economies, Malaysia and Singapore’s fortunes are largely determined by the performance of the global economy, which is set to hold up reasonably well. In a reflection of this decent growth outlook, confidence in both countries is significantly higher than the average of the past few years.

**Australia in focus**

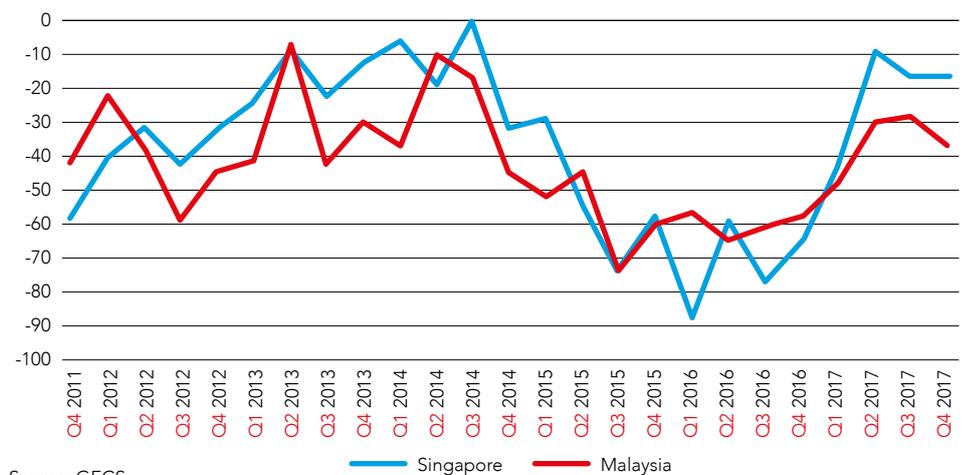
After a difficult 2017, when growth weakened to its slowest pace since the global financial crisis, Australia’s economy

should improve in 2018, with the mining sector improving and the non-mining sectors continuing to perform strongly.

However, the housing sector is still in trouble, so the recovery is likely to be gradual and the Reserve Bank of Australia will not be in any rush to follow the US Federal Reserve in tightening policy.

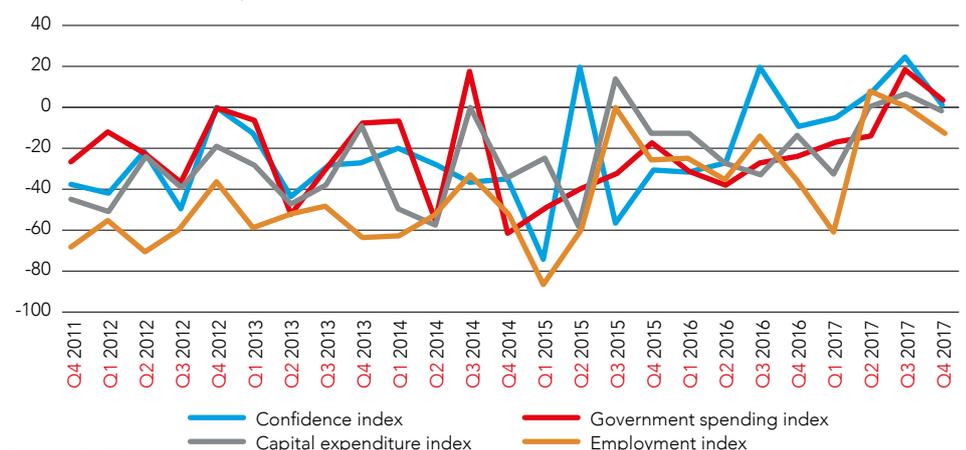
Reflecting this mixed outlook for the Australian economy, confidence dipped slightly in Q4 but remains relatively high by historical standards. The three main sub-components dropped in the final quarter of 2017, but only the employment sub-component is especially weak. In November, 5.4% of the Australian workforce were unemployed, which is low by Australian standards but higher than in the US, UK, Germany and Japan.

**Chart 27: Confidence in Singapore and Malaysia holds up**



Source: GECS

**Chart 28: In Australia, confidence has fallen**



Source: GECS

Confidence in the Middle East is stable, but low by historical standards.

**THE MIDDLE EAST**

Confidence in the Middle East is stable, but low by historical standards. This lull can be explained by the mixed outlook for the region, caused by the OPEC production cuts that have hit oil revenues, fiscal austerity, higher interest rates (currency pegs means most economies in the region adopt the same monetary policy as the US Fed) and continued political uncertainty.

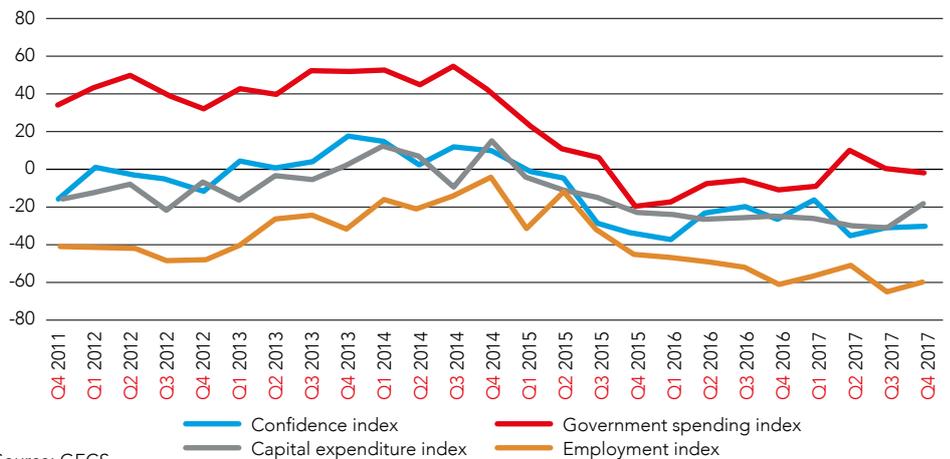
These factors are likely to continue to weigh on the region's prospects in 2018, and confidence is likely to remain suppressed. Meanwhile, the breakdown shows that the government expenditure sub-component has hardly changed and the capital expenditure and employment indices are both up slightly.

**The United Arab Emirates in focus**

Confidence in the UAE was stable in Q4, but is weak by recent standards. The main positive is the improvement in the government spending sub-component, which reflects the UAE's strong fiscal position compared with the rest of the region and the likelihood of its fiscal austerity easing slightly in 2018.

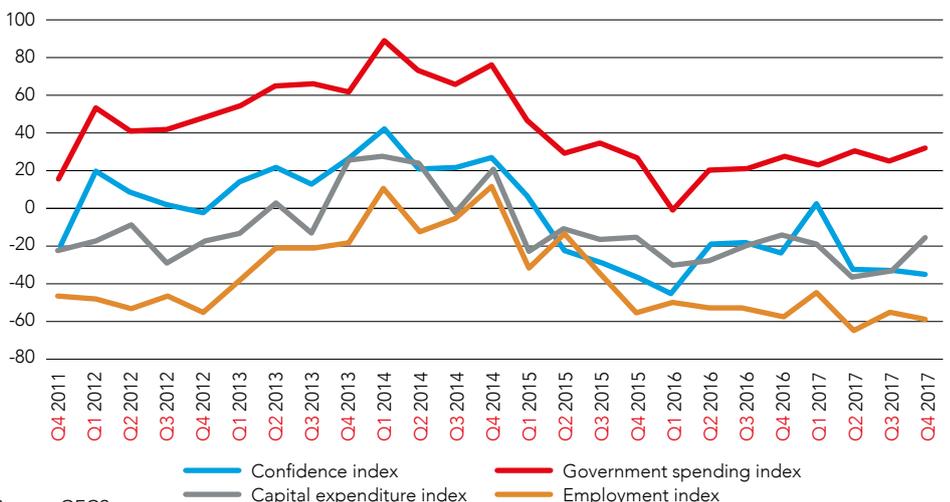
Provided oil prices remain fairly stable, the economy should bounce back a little in 2018. A major positive for the UAE compared with the rest of the Middle East is that it has a sizeable non-oil sector, which should benefit from strong global demand next year. Preparations for the 2020 World Expo will also help to support economic growth, and may account for the capital expenditure sub-component's strong recovery.

**Chart 29: Confidence in the Middle East remains depressed**



Source: GECS

**Chart 30: Confidence remains low in the UAE**



Source: GECS

Lower oil prices, production cuts and fiscal austerity all dragged heavily on Saudi Arabia's economy in 2017.

**Saudi Arabia in focus**

Lower oil prices, production cuts and fiscal austerity all dragged heavily on Saudi Arabia's economy in 2017. Things should improve in 2018, but growth is likely to remain relatively lacklustre and the overall confidence index is weak. There might be a slight easing of fiscal austerity in 2018, but the broader picture shows that the economy has yet to fully adjust to an era of lower oil prices.

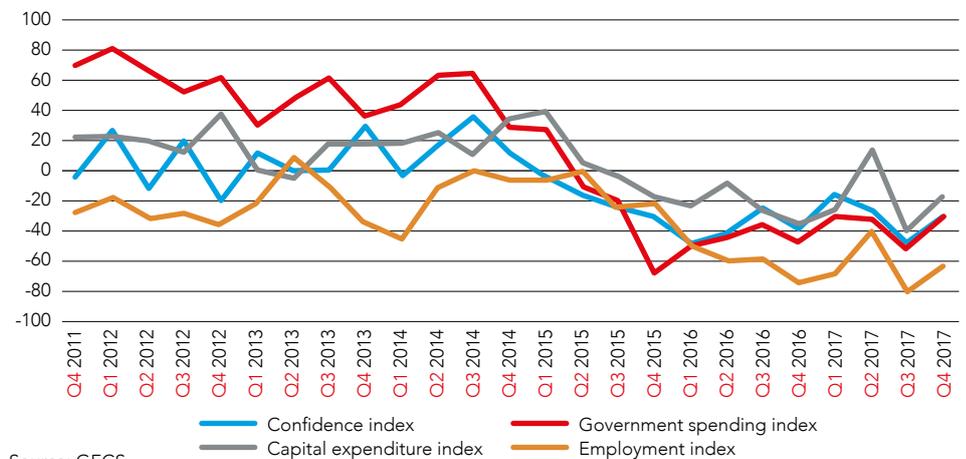
The poor fiscal outlook is reflected in the negative reading of the government spending sub-component. Although OPEC did not push through further production cuts in 2017, quotas remain in place, which is likely to drag on demand. Another factor that will hinder growth is tighter monetary policy: as in the UAE, the kingdom's currency pegs to USD, meaning that local interest rates will need to rise as the Federal Reserve continues to tighten monetary policy.

**AFRICA**

Economic confidence in Africa rallied for most of 2017, but faltered in the final quarter of the year. The breakdown reveals that the employment sub-component has dropped, and is now at its lowest since the start of the year. The government spending and capital expenditure sub-components have both improved, but remain in negative territory.

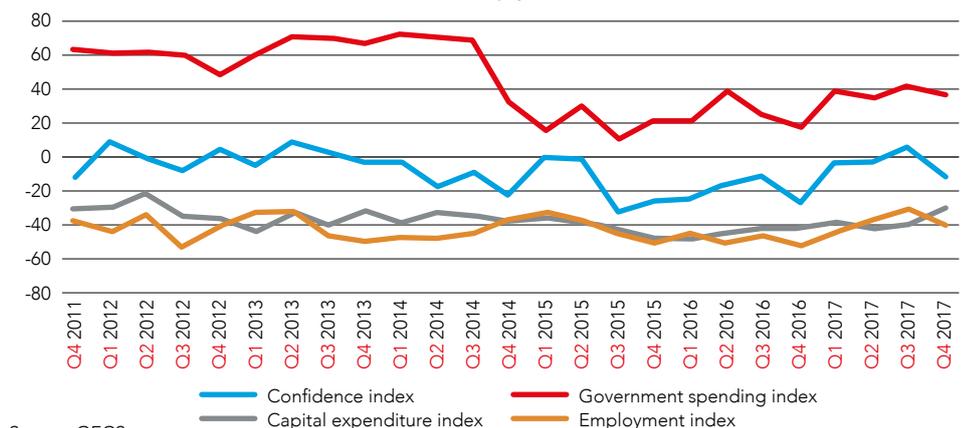
This drop in confidence is likely to be temporary, however, and there is a good chance of a pick-up in 2018. There are a number of reasons for this: South Africa is expected to do better over the coming year, helped by a recovery in export demand and easing inflation, which will boost consumers' purchasing power and allow the central bank to loosen policy further. In Angola, the economy should also be boosted by an increase in oil production, which has been hit hard over the past couple of years.

**Chart 31: Confidence in Saudi Arabia stays in the negative**



Source: GECS

**Chart 32: In Africa, confidence has fallen sharply**



Source: GECS

Nigeria returned to growth in 2017, and the recovery should gain momentum in 2018.

**Nigeria in focus**

Nigeria returned to growth in 2017, and the recovery should gain momentum in 2018. A key driver of the economy over the next year is likely to be oil production, although this is threatened by continued violence in the Niger Delta.

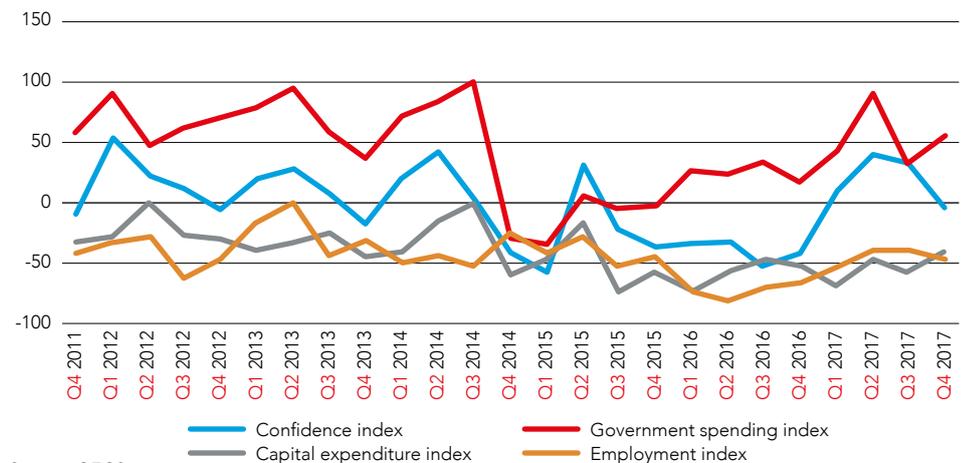
A strengthening of Nigeria’s currency against the US dollar has led to a fall in inflation, which should give its central bank scope to loosen monetary policy over the coming months. Confidence dipped slightly in the final quarter of the year, and the sub-components paint a mixed picture, with a buoyant government spending index but negative capital and employment sub-components.

**Ghana in focus**

The key drivers of growth in Ghana in 2018 are likely to be an increase in oil production and lower interest rates. Inflation fell significantly over the past year, which allowed the central bank to cut interest rates aggressively, and the benefits will continue to filter through to the wider economy in 2018.

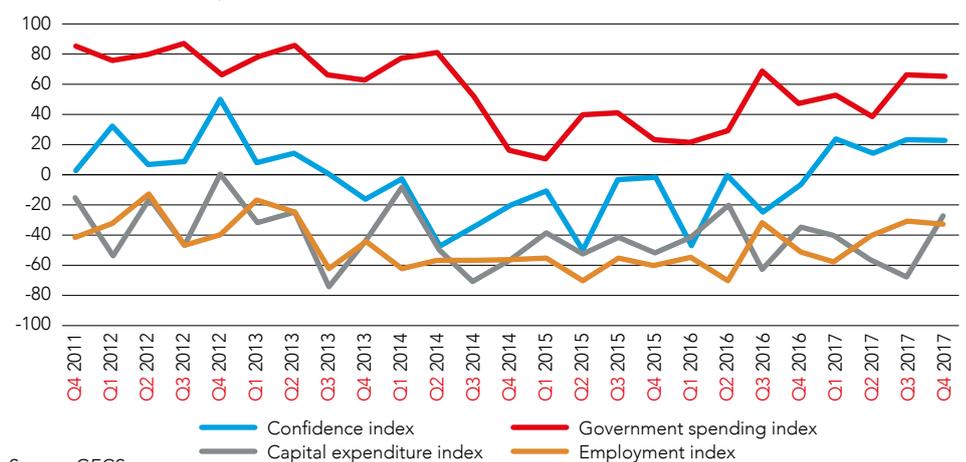
Nonetheless overall confidence in Ghana is flat, with both the capital spending and employment index firmly in negative territory. Its biggest problem is a poor fiscal position. Government debt is over 70% of GDP, and the budget deficit is equivalent to 8% of the economy. This means that the government will have to tighten fiscal policy to avoid a fiscal crisis – yet the government spending sub-component is extremely high.

**Chart 33: Confidence stumbles in Nigeria**



Source: GECS

**Chart 34: In Ghana, confidence is flat**



Source: GECS

Confidence in Zambia has fallen sharply, but has picked up slightly in Mauritius.

**Uganda in focus**

Uganda’s economy has struggled over the past couple of years because of problems in the agricultural sector and a sharp slowdown in credit, but these two constraints will start to ease off in 2018 and the economy should turn around. So although overall confidence has dipped very slightly, it is still significantly higher than it was in the first half of 2017.

If weather patterns return to normal, agricultural production should recover. This will cause inflation to drop, boosting consumers’ purchasing power and enabling the central bank to lower interest rates, which will boost credit to the private sector.

**Mauritius and Zambia in focus**

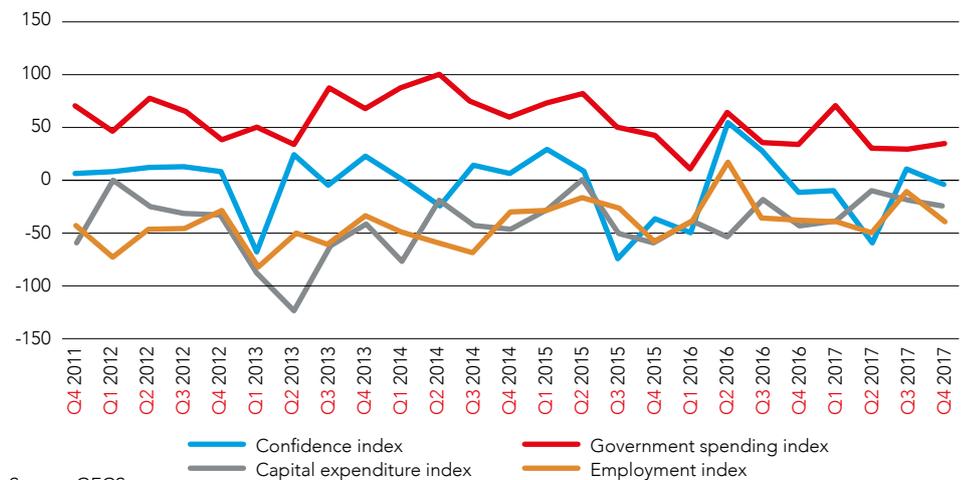
Mauritius’s economy is likely to expand at a decent pace over the next couple

of years. The tourism sector, which is the mainstay of the economy, will be boosted by strong growth in its main markets – most notably Europe.

Meanwhile, Zambia’s economic fortunes closely follow the price of copper – its main export. The expected slowdown in China’s property sector means that in 2018 copper prices are likely to fall, which will have big implications for the economy. Export revenues are likely to drop, and a worsening external position could put pressure on the currency and may prompt the central bank to tighten policy.

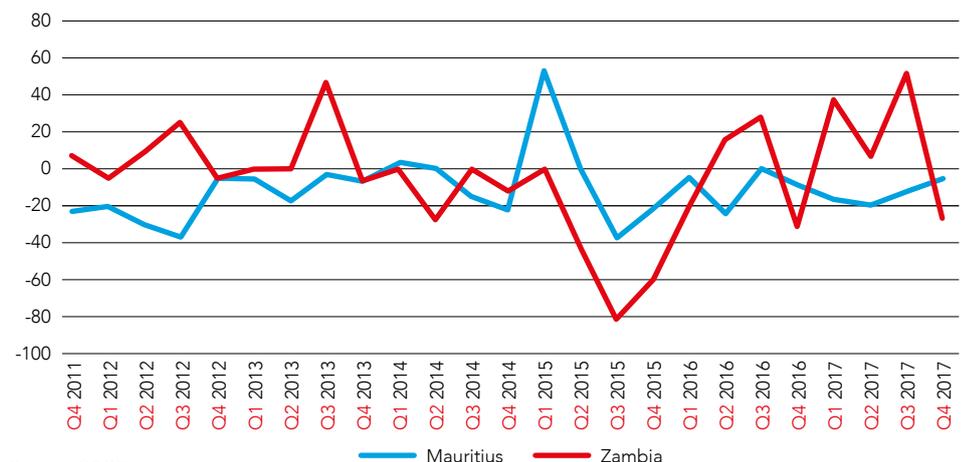
The contrasting outlook for the two countries is reflected by the results of our survey. Confidence in Zambia has fallen sharply, but has picked up slightly in Mauritius.

**Chart 35:** Confidence in Uganda is higher than it was in the first half of 2017



Source: GECS

**Chart 36:** The contrasting fortunes of Mauritius and Zambia



Source: GECS

An encouraging 2017 saw strong growth in all the world's major economies, and despite the small dip in confidence last quarter, the outlook for 2018 remains promising.

An encouraging 2017 saw strong growth in all the world's major economies, and despite the small dip in confidence last quarter, the outlook for 2018 remains promising.

"The main risks are a market event, for example a sudden rise in yields, which would lead to a large correction in equities and would make people very nervous," says Dario Perkins. "But I'm not even sure that the potential risks are big enough to derail the macro at this point, because there are no obvious imbalances. In terms of the countries that matter to the global economy, particularly the US and the Eurozone, the environment looks pretty solid."

Growth in China is set to slow slightly over the next year as the authorities double down on efforts to reduce risks in the financial sector. In India, government reforms and buoyant private consumption could help it to remain one of the fastest-growing economies in the world. Growth in the rest of Asia should also hold up well, with exports likely to be the main engine of growth.

The outlook for Eastern Europe is mixed. In Russia, lower interest rates and subdued inflation, which will boost consumers' purchasing power, will help to boost demand, but growth is likely to slow elsewhere. In Central Europe, a combination of policy tightening and a fall in EU structural funds, which will depress investment, will drag on growth. Meanwhile, the current boom that is under way in Turkey looks unsustainable: higher interest rates, which will be needed to bring inflation under control, could cause growth to slow this year.

In the Middle East and Africa, the outlook is becoming more positive. Lower inflation and looser monetary policy will help to boost growth, but the fortunes of both will be largely dependent on the outlook for commodity prices. The recent rebound in oil prices bodes well, but any new drop would create a major headwind. In Africa's second-largest economy, South Africa, the prospects of much-needed economic reform received a boost in late 2017 with the ruling African National Congress now having a new leader. That said, there remain big challenges for the country to reach its potential, including high unemployment and a poor education system.

Prospects for Central and South America are also improving. After a couple of years in the doldrums, business confidence is finally picking up, which should feed through to an improvement in investment. Meanwhile, tighter labour markets are leading to an increase in incomes, which should lead to stronger consumption growth. In Brazil, the worsening outlook for the country's economic reforms – most notably of the pension system – does not bode well for long-term economic growth, but in the shorter term the economy appears to have turned a corner and growth should accelerate further in 2018.

The outlook for developed markets is also positive. For the US, high levels of consumer confidence, a booming stock market and the recent massive tax cut could lead to strong growth. Although its interest rates are likely to rise, the pace of tightening will be gradual and it is unlikely to derail the recovery.

Given the promising outlook for all the major economies and the relatively high confidence levels in the GECS, the signs appear to point to a year of healthy growth for the global economy.

Dario Perkins links the strength of the dollar to the wider global economy. "There's quite a strong relationship now between the dollar and global financial conditions," he says. "When the dollar goes up you get a tightening and drying up in cross-border lending. It's good news that the dollar probably isn't going to go up a lot – it means that financial conditions remain fairly loose and the dollar shortage story doesn't really gain any traction."

In the Eurozone, the 2017 recovery is likely to gain momentum. The bloc still suffers from structural problems that include, in some countries, high levels of unemployment and massive debt. Yet the failure of populist parties to gain power has helped to boost sentiment, and with exports set for another year of strong growth and the pace of fiscal austerity set to ease further, the Eurozone should continue to perform well.

The UK's prospects have been hit by the uncertainty caused by the Brexit referendum, and it is likely to be one of the worst-performing developed economies in 2018. However, growth should hold up relatively well even here: progress in recent talks with the EU could provide some much-needed certainty for businesses; inflation looks set to decrease in 2018, which should help to boost consumer spending; and, helped by the drop in sterling's value, exports could boom in 2018.

Overall, the IMF is forecasting global growth to rise from 3.7% in 2017 to 3.8% in 2018. Given the promising outlook for all the major economies and the relatively high confidence levels in the GECS, the signs appear to point to a year of healthy growth for the global economy.



# Appendix I:

## Economies covered by Q4 survey responses

North America	Middle East	Asia Pacific	Central & Eastern Europe	South Asia	Western Europe	Africa	Caribbean	Central & South America
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	China, People's Rep of	Czech Republic	Bangladesh	Finland	Ethiopia	Bermuda	Brazil
USA	Iraq	Hong Kong SAR	Hungary	India	Germany	Ghana	Grenada	Columbia
	Israel	Indonesia	Moldova	Kazakhstan	Greece	Ivory Coast	Guyana	Costa Rica
	Jordan	Japan	Poland	Maldives	Ireland, Republic of	Kenya	Jamaica	
	Kuwait	Korea, Republic of	Romania	Nepal	Italy	Liberia	Puerto Rico	
	Lebanon	Malaysia	Russia	Pakistan	Luxembourg	Malawi	St Vincent	
	Oman	New Zealand	Slovakia		Malta	Mauritius	Trinidad & Tobago	
	Palestine	Philippines	Ukraine		Netherlands	Namibia		
	Qatar	Singapore			Spain	Nigeria		
	Saudi Arabia	Vietnam			Switzerland	Sierra Leone		
	United Arab Emirates				Turkey	South Africa		
					UK	Sudan		
						Tanzania		
						Uganda		
						Zambia		
						Zimbabwe		

# ACCA, IMA and the global economy

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

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

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

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

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

## WHERE NEXT?

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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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