

ACCA

Think Ahead

ima<sup>®</sup>

The Association of  
Accountants and  
Financial Professionals  
in Business



# Global economic conditions survey report: Q1, 2018

## 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® (Institute of Management Accountants), named 2017 Professional Body of the Year by *The Accountant/International Accounting Bulletin*, 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 **100,000** 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 Q1 2018 GECS took place between 27 February and 15 March 2018 and attracted 1,418 responses from ACCA and IMA members around the world, including more than 100 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.



**Economic confidence rebounded strongly in the first quarter of 2018 and is now at its highest level since the series began.**

Economic confidence rebounded strongly in the first quarter of 2018 and is now at its highest level since the series began. The high level of confidence reflects the fact that the global economy is performing very strongly, with all major countries and regions in good health.

North America was the most confident region in the first quarter of 2018, followed closely by Africa. Central & Eastern Europe and the Middle East were the least confident parts of the global economy.

As has been the case for some time now, the biggest concern was increased costs (cited by 54% of respondents). Second on the list was concern about falling income (36% of replies). Worries about customers going out of business came second to last (a concern for just 21%), while suppliers going out of business was the smallest concern (only 9%).

In terms of how businesses were responding to the changing economic environment, 40% of businesses said they were doing so by laying off staff. This compares with just 18% who said they were considering recruiting more employees.

Confidence in the US increased for the second consecutive quarter in Q1 2018, and is now at its highest level in a year. The increase in confidence comes on the back of massive tax cuts which should help boost consumption, increase wage growth and lead to lower unemployment rates.

In the UK, economic confidence increased in the first quarter of the year and now stands at its highest level in a year. This is consistent with the hard economic data, which shows the UK continuing to perform reasonably well despite the continued uncertainties created by the vote to leave the European Union.



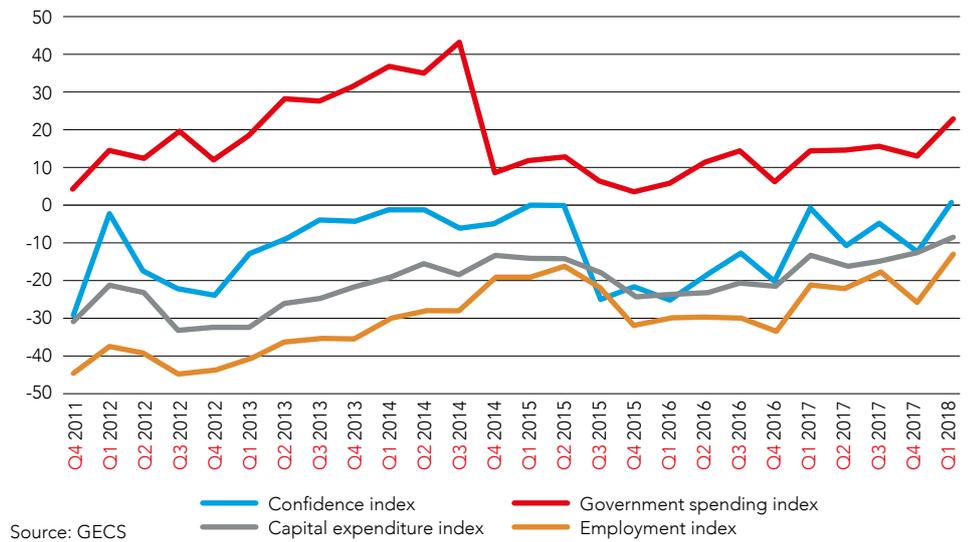
# 1. Global level analysis

Economic confidence increased sharply in the first quarter of the year, and now stands at a record high.

Economic confidence increased sharply in the first quarter of the year, and now stands at a record high. The strong bounce back in the latest Global

Economic Conditions Survey (GECS) is consistent with the strong performance of the global economy, which is expanding at a robust pace.

Chart 1: Confidence at record levels



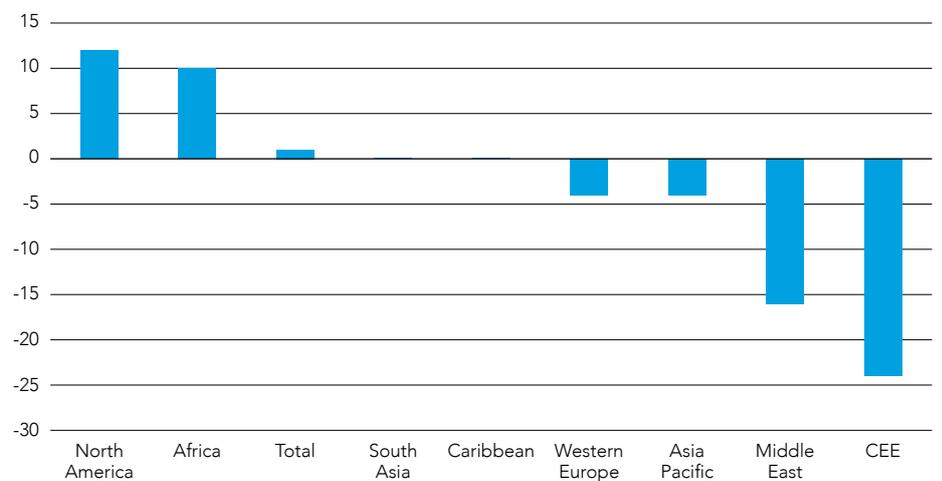
Source: GECS

North America was the most confident part of the world economy in the first quarter, followed by Africa.

North America was the most confident part of the world economy in the first quarter, followed by Africa. The two least confident parts of the world economy were Central & Eastern Europe and the Middle East.

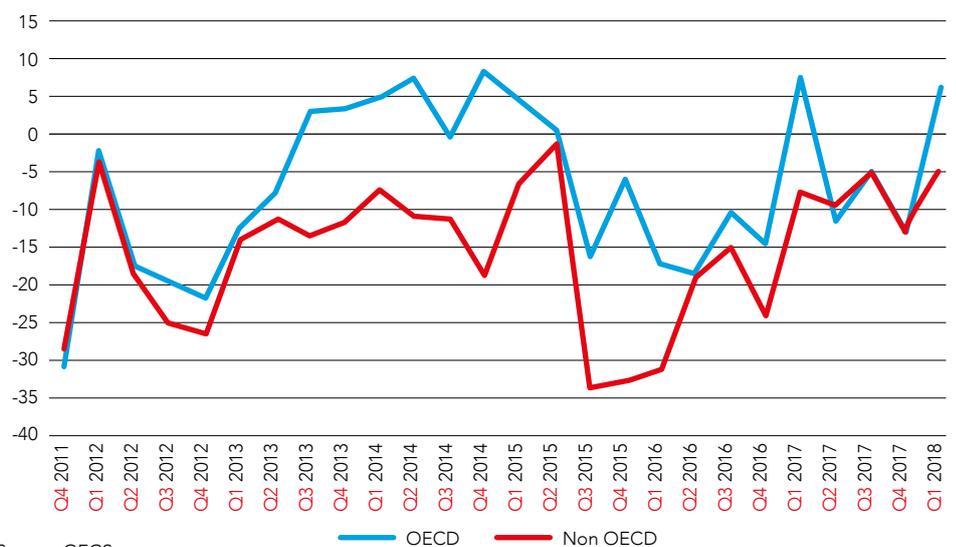
Confidence in OECD countries rallied in the first quarter and is now at its highest level in a year. While confidence in non-OECD countries also improved, it remains in negative territory, with more respondents feeling negative about the economic outlook than positive. Until recently, OECD and non-OECD economies were moving broadly in sync.

**Chart 2: North America in the lead**



Source: GECS

**Chart 3: OECD countries pull ahead**



Source: GECS

Since the start of the year, policymaking in the US has taken a more protectionist turn, causing concern about a possible trade war with China.

### **TIME TO WORRY ABOUT A GLOBAL TRADE WAR BETWEEN THE US AND CHINA?**

Since the start of the year, policymaking in the US has taken a more protectionist turn, causing concern about a possible trade war with China. This concern increased in late March, when the US announced plans to introduce 25% tariffs on 10% of all Chinese exports to the US in retaliation to alleged theft of intellectual property.

The direct impact of the tariffs on China's economy is likely to be small. Chinese exports to the US are equivalent to around 2.5% of its GDP. Despite this, in early April the Chinese government announced a list of counter-tariffs, targeting approximately US\$50bn worth of US imports. Among the products to be hit by the tariffs are Boeing aircraft, and automotive and agricultural products.

However, a full-blown trade war is not yet a foregone conclusion. The US has announced a public consultation period to last until the end of May before it confirms whether the tariffs will go ahead. During this time, lobbying from US companies could prompt a change in approach. It is notable that when the steel and aluminium tariffs were originally outlined they were supposed to apply to all countries, but it has since been confirmed that most countries (but not China) will be exempt. A recent conciliatory speech by China's president, Xi Jinping, has also been well received by the US. Speaking at the Boao Forum for Asia, he promised to accelerate the opening-up of China's financial sector and reduce tariffs on imports of automobiles.

If the current crisis were to escalate into a full-blown trade war, it is not just China and the US that would be affected. China is at the centre of a series of complex global supply chains. A number of countries in Asia, most notably Taiwan and Malaysia, export a lot of intermediate goods to China that are then assembled before being shipped off to third markets. These countries would also be hit hard if Chinese exports to the US were to fall sharply.

"For now, the response has been measured," says Claus Vistesén, Chief Eurozone Economist, Pantheon Macroeconomics. "But we've opened up the trapdoor now, to an escalation that goes from trading in physical goods. If it moves over to interest in property, to services, to capital flows – if the US is going to start curbing foreign investors' access to US capital markets in some areas – that's just poison for growth and for sentiment in financial markets."

### **OTHER COUNTRIES UNLIKELY TO FOLLOW THE FED HIGHER**

In his first meeting as the new chair of the US Federal Reserve, Jerome Powell not only increased interest rates by a further 25 bps, but also clearly indicated that further interest rate rises are likely because of the tightening labour market.

The implications for the rest of the world economy from tighter monetary policy in the US are likely to be small. The Fed is only tightening monetary policy because the US economy is performing strongly, and further rate hikes will depend on this strong growth continuing.

The risk of the Fed tightening triggering a sell-off in global stock markets also appears slight given that investor expectations for interest rates are now similar to those of the Fed. A reduction in external imbalances across the emerging world economies means they are less vulnerable to a sudden pull-back in capital flows than would have been the case a few years ago.

Nor are rate hikes by the Fed likely to be the trigger for other central banks in the developed world to tighten policy.

Despite the strong recovery under way in the Eurozone, the European Central Bank is still some way from raising interest rates. Although it may soon indicate an end to its asset purchase programme, with many countries still suffering from spare capacity, rate increases are still a long way off.

Looser monetary policy, in addition to falling inflation and improving consumer confidence, should all help boost growth this year.

Tightening is also unlikely in Japan. Interest rates there are still negative, and with inflation very subdued, the central bank is showing little sign of wanting to tighten policy.

The exception is the Bank of England; in the UK, higher inflation, low unemployment and a resilient economy mean that further rate increases are likely, possibly as early as May.

“One thing that could be worrisome are potential issues in the Libor market. Banks are having to pay higher rates for overnight money,” says Dario Perkins, Managing Director, Global Macro, TS Lombard. “Rising Libor rates often signal financial problems, such as the 2008 crisis. This may just be a technical issue due to the US issuing lot of treasury bonds, but I do think that this is something we should keep an eye on.”

### **BIG CHALLENGES AHEAD FOR SOUTH AFRICA'S NEW PRESIDENT**

The resignation of South African President Jacob Zuma in early February has helped boost confidence towards the country. However, his successor, Cyril Ramaphosa, has his work cut out if the economy is to meet its potential.

There is little doubt that the installation of Ramaphosa as president has helped boost the economy's short-term prospects. The rand has recovered strongly, which opened the way for the central bank to reduce interest rates at the

end of March. Looser monetary policy, in addition to falling inflation and improving consumer confidence, should all help boost growth this year.

Further ahead, however, the economy requires serious reform if growth is to be sustained. One area most in need of change is the education system. Although there is no shortage of statistics that illustrate how poor the education system is, perhaps the most telling one is the fact that only a half of students who enter high school go on to graduate.

However, fixing the system will require the government to take on the country's powerful public sector unions. This seems unlikely to happen, given that Ramaphosa was deputy president from 2014 to 2018, during which time he gave little indication of being a 'reformer'.

What's more, even if he were in favour of a major change in policy direction, it is far from clear he would have the support of the ruling African National Congress (ANC). He was, after all, elected by only a narrow majority. With national elections due for 2019, the ANC will likely favour continuity over painful changes.

Other areas of the economy in need of reform include the power sector, the labour market and the dire security situation. Reform in these all areas will prove controversial and will not happen overnight, if at all.

Confidence in the US picked up in the first quarter of the year and is now at its highest level since the first quarter of 2017.

### NORTH AMERICA

Confidence in North America rebounded strongly in the first quarter of the year, with 38% feeling more confident about the future, compared with just 26% who were less confident. Confidence is now at its highest level since the start of 2017.

Although confidence improved in both the US and Canada, the recovery in Canada was especially marked and confidence there is now at a record level.

### The US in focus

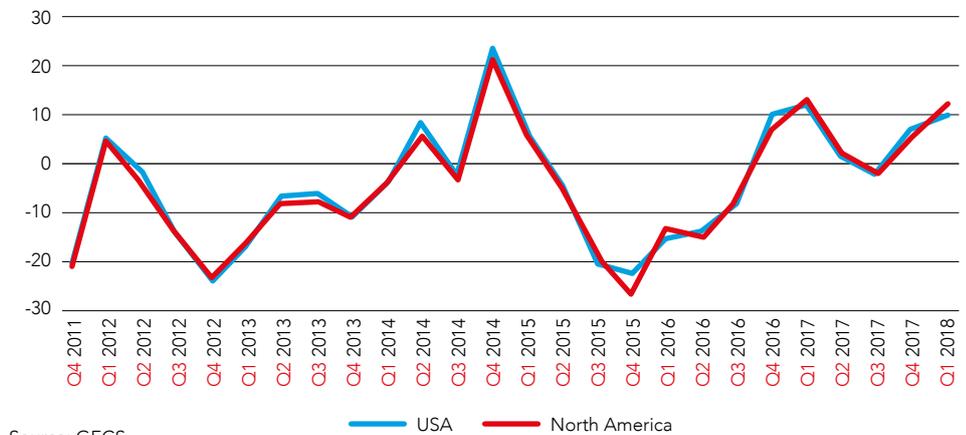
Confidence in the US picked up in the first quarter of the year and is now at its highest level since the first quarter of 2017. Confidence is also high by historical standards, with the proportion of respondents feeling more confident about the future being 10 percentage points more than those less confident.

The improvement in confidence is consistent with the actual GDP data, which shows the US economy continuing to perform strongly, with unemployment at multi-year lows and wages recovering nicely. A tightening labour market, with the US at/near full employment, could result in jobs starting to go unfilled and rising labour rates. The big risk for the economy is the uncertain outlook for interest rates. If the Fed tightens monetary policy too aggressively, it could cause growth to slow.

"After flagging tax cuts for 18 months and finding it very difficult to get them through, the administration very rapidly agreed to some spending increases, as well. These really came somewhat out of the blue," says Andrew Kenningham, Senior International Economist, Capital Economics. "That meant that the total fiscal package for the US is a bit bigger than we expected. It's 1.2–1.3% of GDP, which is quite a lot and does affect the outlook."

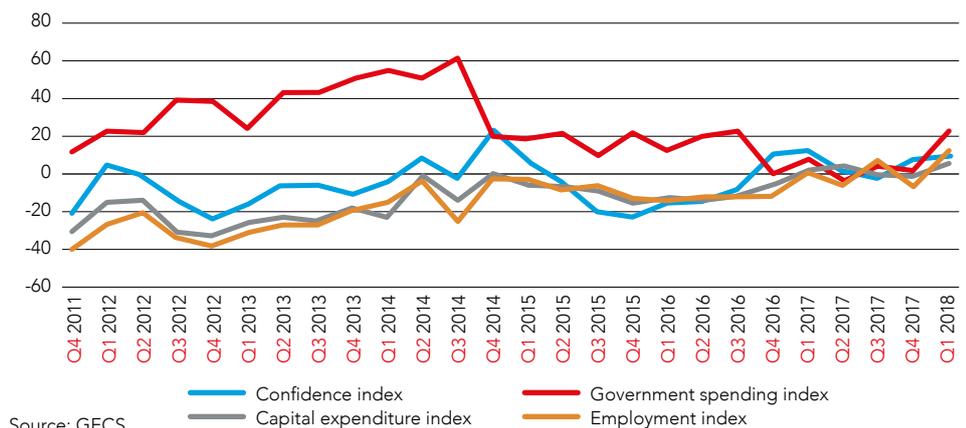
**38%**  
of respondents in North America are feeling more confident about the future

Chart 4: Confidence in North America running high



Source: GECS

Chart 5: Confidence in the US rallies



Source: GECS

Overall confidence in Western Europe bounced back strongly in the first quarter of 2018.

All the major sub-components rose in the first quarter of 2018. The biggest improvement came in the government spending sub-component, which is now at its highest level since the third quarter of 2014. The improvement in this component follows a bipartisan agreement made earlier in the year that saw Democrats and Republicans agree to raise the federal debt limit in return for a big increase in spending on the military and social security.

“The Eurozone had a very good year last year in terms of growth. Inflation has remained very low. A lot of the political risk has diminished,” says Kenningham. “On the fiscal side, I don’t think the stimulus in Germany will be very large. It’s running a surplus of something close to 1% of GDP. The coalition government may spend some of that over the course of the next few years, but it’s not going to be a game changer.”

**WESTERN EUROPE**

Overall confidence in Western Europe bounced back strongly in the first quarter of 2018, with the number of respondents negative about the future exceeding by just 4 percentage points those who are more confident (the equivalent figure for the previous quarter was 18 percentage points). Confidence is now at its highest level in a year.

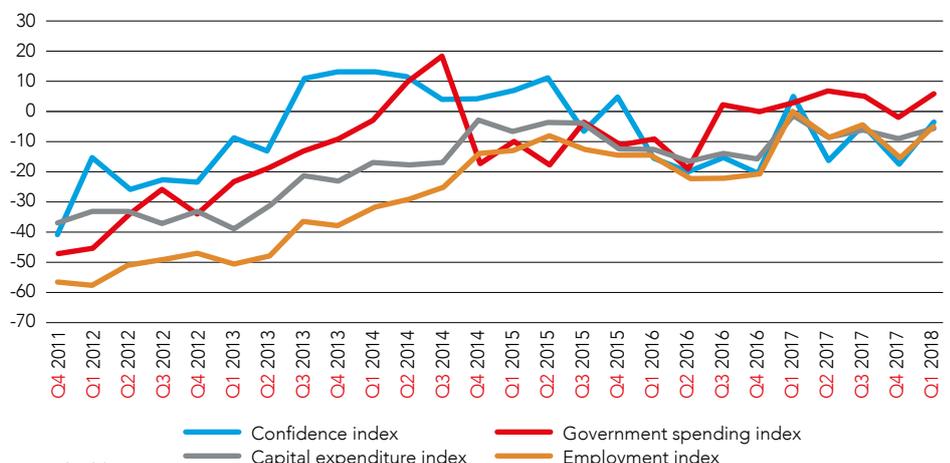
Looking at the breakdown in more detail shows an improvement in the government spending sub-component, reflecting the fact that fiscal policy is being gradually eased across the region. There was also an improvement in the employment component, although this remains in negative territory. Unemployment across the Eurozone has started to fall, but it remains worryingly high, especially in the region’s more peripheral economies, such as Greece, Italy and Spain.

The pick-up is consistent with the latest economic data, which shows that the Eurozone is performing strongly, helped in large part by the strong performance of the core countries, in particular Germany.

“I think growth is slowing a little bit,” says Vistesén. “Growth was very strong in the second half of last year – almost 3% – and that led a lot of people to say, ‘Look, everything’s fine now. Europe is back and starting to compete with the US’. But that wasn’t going to be sustained, and I think we’re seeing a little bit of the payback now. I think growth close to 2% is more than doable in the first half of this year, but that’s lower than in the second half of last year. So that’s the bad news.”

A number of factors account for the surprisingly strong performance of Western Europe. The first is the improvement in the global economy, which has boosted exports. Secondly, loose monetary policy, which has fed through to an easing of financial conditions. Thirdly, an easing of austerity measures now that fiscal positions in most countries are more secure.

**Chart 6:** Confidence improves in Western Europe



Source: GECS

Economic confidence in the UK increased to its highest level since Q1 2017, but the big picture is that confidence has been very up and down since the Brexit vote.

**The UK in focus**

Economic confidence in the UK increased to its highest level since Q1 2017, but the big picture is that confidence has been very up and down since the Brexit vote.

Encouragingly, the UK and EU have reached agreement over the terms of the UK's transition agreement, which reduces the risk of the economy suffering a hard landing. That said, a lot of issues still need to be resolved (not least over Northern Ireland) before a free trade agreement can be reached.

Although all the main sub-components improved in the first quarter of the year, they remain in negative territory. The increase in the government spending sub-component comes amid a continued improvement in the country's fiscal position. Excluding spending on capital projects, last year the government recorded a budget surplus. In his spring

spending statement, the chancellor of the exchequer said that if tax receipts continued to increase as planned, there would be a slight easing in fiscal austerity.

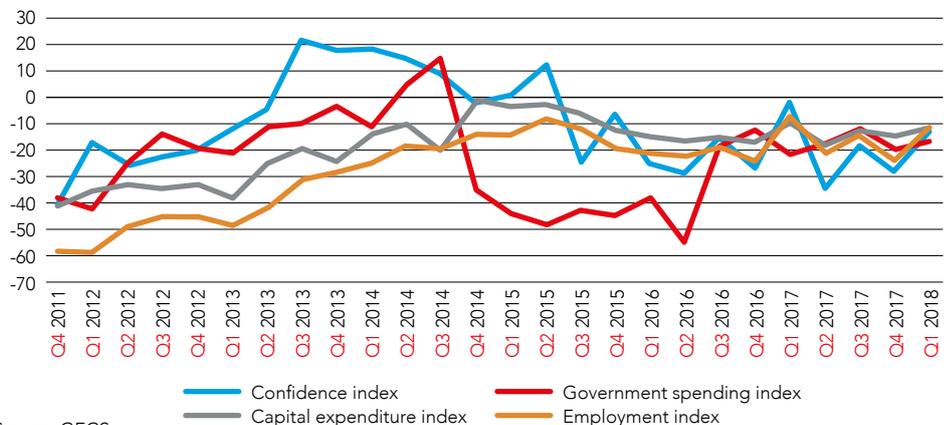
The biggest concern for people who responded to the survey was rising costs, perhaps unsurprising given that inflation remains at an elevated level. That said, inflation does look to have peaked (it fell to 2.7% year-on-year in February 2018, down from 3.0% in January), and it is likely that the number of respondents worried about price pressures may soon start to decrease.

Another big concern is falling incomes, cited by 39% of respondents. It is notable that although the UK has performed reasonably well since Brexit, it has certainly underperformed compared with other economies. This could explain the high number of people worried about falling incomes.

**39%**

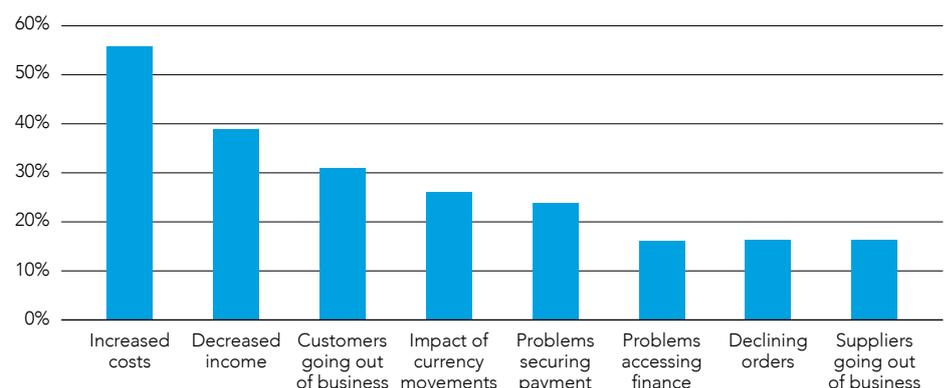
of respondents in the UK cited falling incomes as a big concern

**Chart 7: Brexit uncertainty continues**



Source: GECS

**Chart 8: Rising costs the biggest concern**



Source: GECS

Ireland was one of the economies hardest hit by the global financial crisis, but the situation has improved significantly over the past few years.

“The UK is now underperforming in the G7, and it used to be an outperformer,” says Vistesén. “And Brexit is part of that – probably not the only reason for it, to be fair, but the UK’s now an underperformer.

“Construction is a really weak spot, which is why a lot of the slowdown is coming from investment. But we also see clear signs that the UK’s consumers are being tapped out: a very low savings rate, and real wage growth is flat. And it is difficult to sustain a strong growth in consumer spending by taking on more credit. It’s a classic UK story – it’s what always happens: you borrow a lot and then you slow down. But I think Brexit is adding uncertainty to it.”

**Ireland in focus**

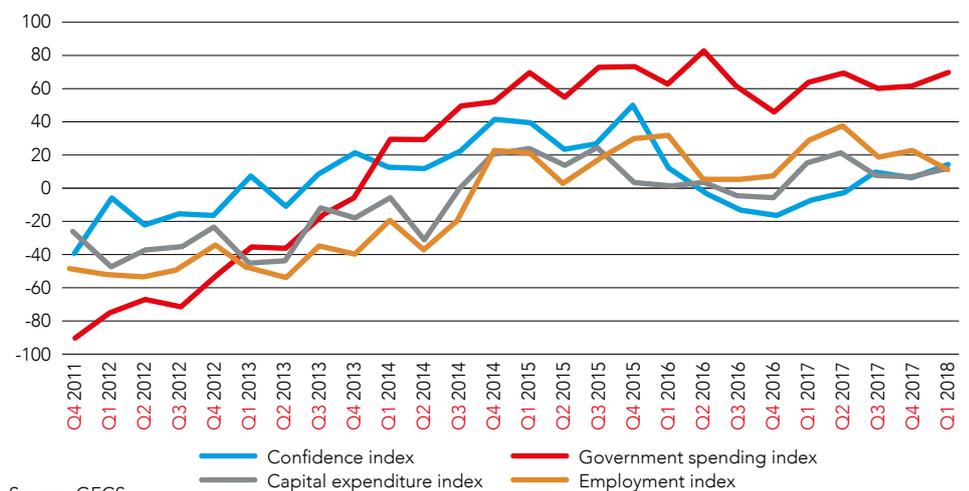
Economic confidence rose sharply in the first quarter of 2018, and now stands at its highest level since the final quarter of 2015. The high level of confidence is mirrored in the hard economic data, which shows the economy is performing very strongly – growth last year came in at 7.8%.

Ireland was one of the economies hardest hit by the global financial crisis, but the situation has improved significantly over the past few years. In particular, property prices are picking up, the unemployment rate has fallen sharply, wages are rising again, and the fiscal position has improved significantly.

The big concern for the economy is the uncertain outlook for the Brexit talks and the eventual status of the border with Northern Ireland. Although the talks have been progressing reasonably well, they could yet be held up if the UK and EU are unable to find a solution to the border question.

Not only were the sub-components for government spending and capital expenditure positive in the first quarter of 2018, but all sub-components were higher compared with the final quarter of 2017. The employment sub-component did fall, but remains at a high level. The reading for government spending is especially high, reflecting the much-improved outlook for the government’s finances compared with a few years ago.

**Chart 9: Gradual recovery in confidence**



Source: GECS

Economic confidence in Central & Eastern Europe fell sharply in the first quarter of 2018 and is now at its lowest level since the third quarter of 2015.

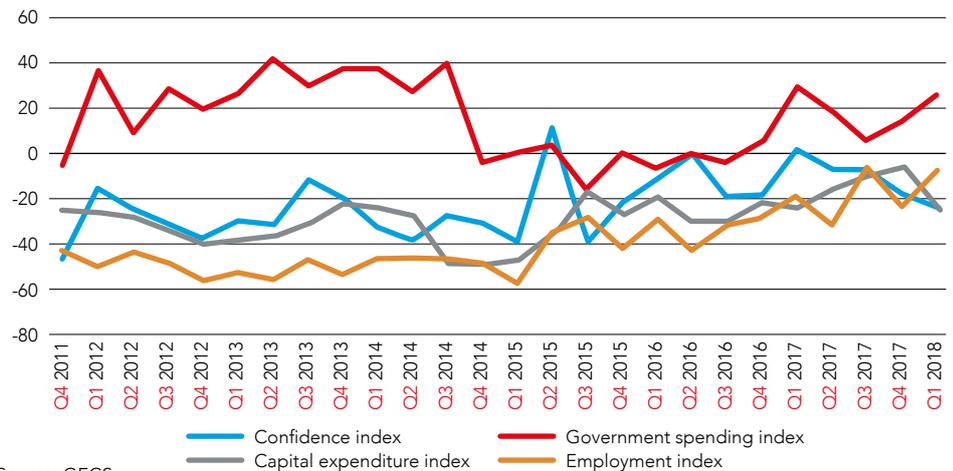
**CENTRAL & EASTERN EUROPE**

Economic confidence in Central & Eastern Europe fell sharply in the first quarter of 2018 and is now at its lowest level since the third quarter of 2015. This is largely because of the very sharp fall in Russia, where confidence is now at its lowest level since the final quarter of 2015.

The rest of the region is performing reasonably well, helped by a combination of strong export demand and rapid investment growth. There are, however, concerns that with labour markets starting to tighten and inflationary pressures rising, monetary policy across the region will soon need to be tightened and this will cause growth to slow.

A detailed look at the figures gives a mixed picture, but it is clear that the main reason confidence fell in the first quarter of 2018 was the deteriorating outlook for capital spending projects. One of the key factors behind strong growth in large parts of Central & Eastern Europe over the past year has been an increase in investment helped by a rise in structural funds from the EU. But with funding set to drop back in 2018, capital spending is likely to fall.

**Chart 10: Confidence continues to weaken**



Source: GECS

Confidence in South Asia was the second highest in the world after North America.

**SOUTH ASIA**

Confidence in South Asia was the second highest in the world after North America. The relatively high level of confidence in South Asia comes despite the fact that overall levels have eased back over the past quarter, and are now at their lowest level since the start of 2017.

India's economy has recovered strongly from the disruption caused by the introduction of the Goods and Service Tax and the government's demonetisation campaign, and is likely to grow strongly over the next year or so on the back of buoyant private consumption and a loosening of fiscal policy ahead of general elections due next year.

Perhaps reflecting the improving outlook for state spending, the government spending sub-component remained at an elevated level. The capital expenditure sub-component improved slightly, while the employment sub-component held steady.

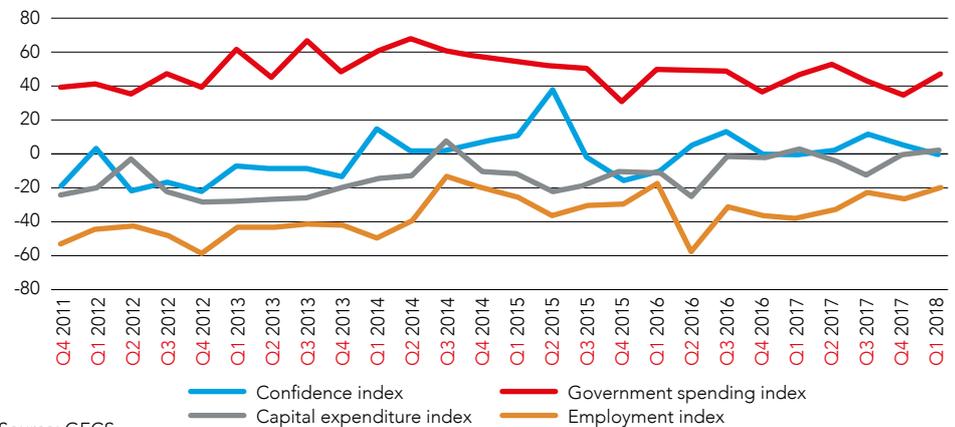
Elsewhere in the region, Pakistan faces some challenges over the next couple of years. Although growth is currently being supported by investments related to the US\$62bn China-Pakistan Economic Corridor, external imbalances are building. The widening currency account deficit is putting downward pressure on the currency, which has been devalued twice since late 2017.

With reserves continuing to fall, the government is running out of options and may soon need to allow a much bigger fall in Pakistan's currency. The three main sub-components increased in the first quarter of 2018, but it is notable that only the government spending sub-component remained significantly above zero.

**ASIA PACIFIC**

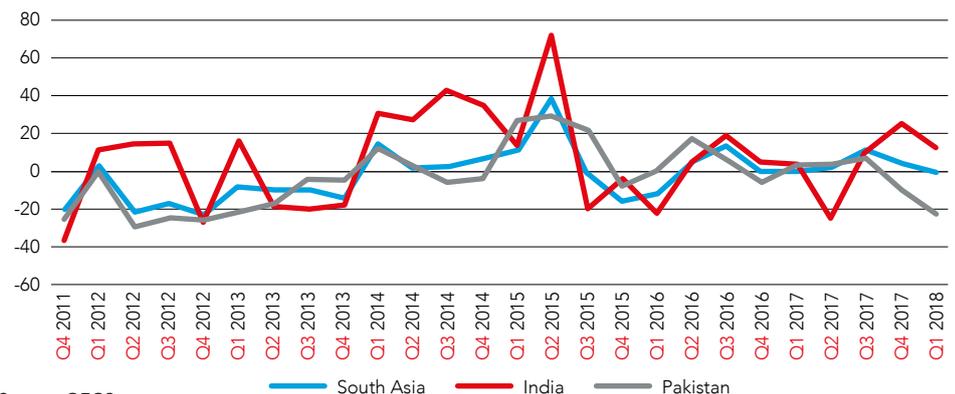
Economic confidence in Asia Pacific improved in the first quarter of the year and now stands at its second highest level on record. The Asia region is the

**Chart 11: South Asian confidence eases back**



Source: GECS

**Chart 12: India out in front in South Asia**



Source: GECS

Economic confidence in Asia Pacific improved in the first quarter of the year and now stands at its second highest level on record.

most trade-dependent part of the global economy, and with exports continuing to grow strongly, it is no surprise that confidence remains high.

A number of countries in the region, including Thailand, Korea, Vietnam and Malaysia, are growing at, or close to multi-year highs. Confidence did however drop back in the region’s biggest economy, China, amid further signs that the authorities are, for the time being at least, prioritising financial stability over economic growth.

Looking at the breakdown in more detail shows a strong improvement in the government spending sub-component, which reflects the strong fiscal position of

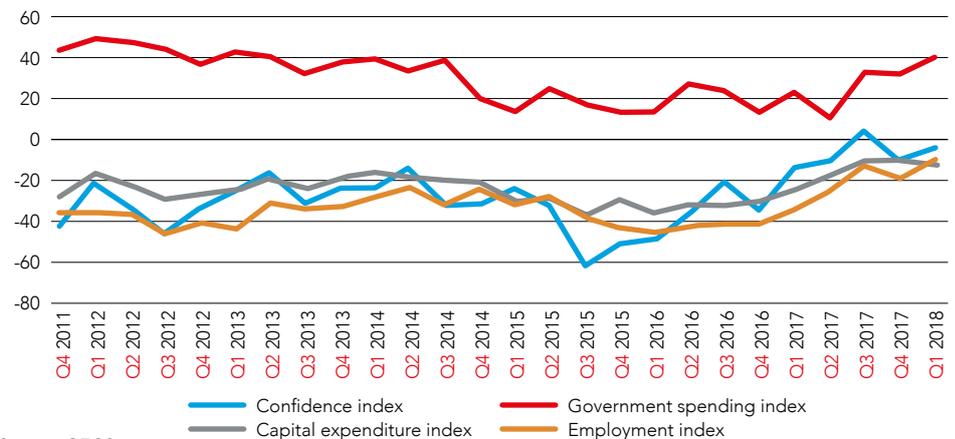
most countries in the region. The capital expenditure sub-component was broadly stable, while the employment sub-component weakened slightly.

**China in focus**

Economic confidence in China fell for the second consecutive quarter, and is now at its lowest level since the first quarter of last year. Despite the drop, confidence in the country remains at an elevated level – the Q1 reading is still the fourth highest in the history of the survey. The high reading reflects the fact that although activity has started to weaken a little in recent months, the economy is still growing at a fairly decent pace.

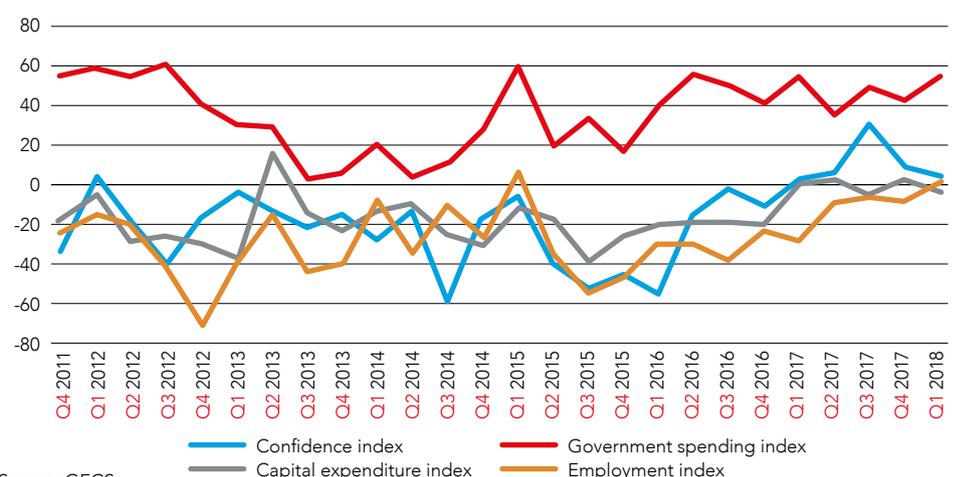
What’s more, there are some encouraging signs that the authorities are starting

**Chart 13:** Confidence in Asia Pacific at close to record levels



Source: GECS

**Chart 14:** Economic confidence in China falls for second consecutive quarter



Source: GECS

Economic confidence in China fell for the second consecutive quarter, and is now at its lowest level since the first quarter of last year.

to prioritise the long-term health of the financial sector over short-term growth. Credit has continued to weaken, which if sustained should help to reduce risks in the banking system. A key concern for the economy is the possibility of a trade war with the US, but the measures the US has announced so far will have only a small impact on China's export sector.

Looking at the breakdown in more detail shows that the government spending sub-component remains at an elevated level. This reflects China's healthy fiscal position as well as the fact that the

government will support the economy with increased spending if growth slows sharply.

The capital expenditure sub-component fell into negative territory in the first quarter of 2018, amid the continued weakness of the property sector. There was a small recovery in the employment sub-component, reflecting how the strong recent performance of the economy has helped eliminate spare capacity. It is notable that core inflation has been creeping gradually higher over the past year or so.

**Chart 15:** Core inflation in China starts to climb



Source: National Bureau of Statistics

Confidence in the Middle East rebounded strongly in the first quarter of the year, and now stands at its highest level since the second quarter of 2015.

**THE MIDDLE EAST**

Confidence in the Middle East rebounded strongly in the first quarter of the year, and now stands at its highest level since the second quarter of 2015. A number of factors are responsible – most notably the recovery in oil prices, which by mid-April had increased to just over US\$70 per barrel. This has led to increased export revenues and boosted government coffers, which has reduced the need for further fiscal austerity.

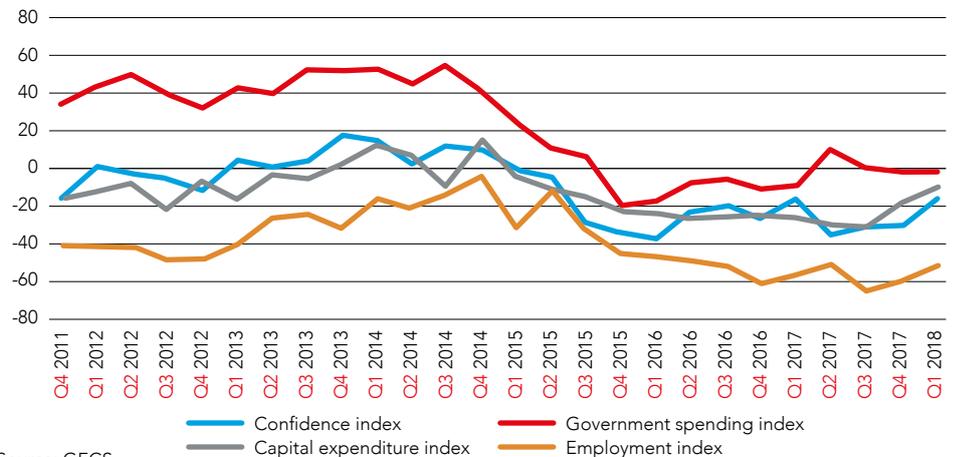
The region does, however, continue to face headwinds. A key drag on growth over the next couple of years is likely to be tighter monetary policy. Most countries in the region have currency pegs to the US dollar, which means they are forced to adopt the same monetary policy as the US Fed. Interest rates in the US have

already increased once this year, and are likely to rise a further three times before the end of 2018. Also the possibility of a US-China trade war has depressed the price of oil and would have a negative impact on this region.

In addition to the uncertain geopolitical situation concerning Syria and Iran, the main downside risk to the region is the possibility of a US-China trade war, which would depress the price of oil.

The breakdown shows that the government spending sub-component remains relatively elevated, consistent with a slight easing of fiscal austerity. The capital expenditure and employment sub-components also improved slightly in the first quarter of the year.

**Chart 16:** Confidence picks up again as austerity eases



Source: GECS

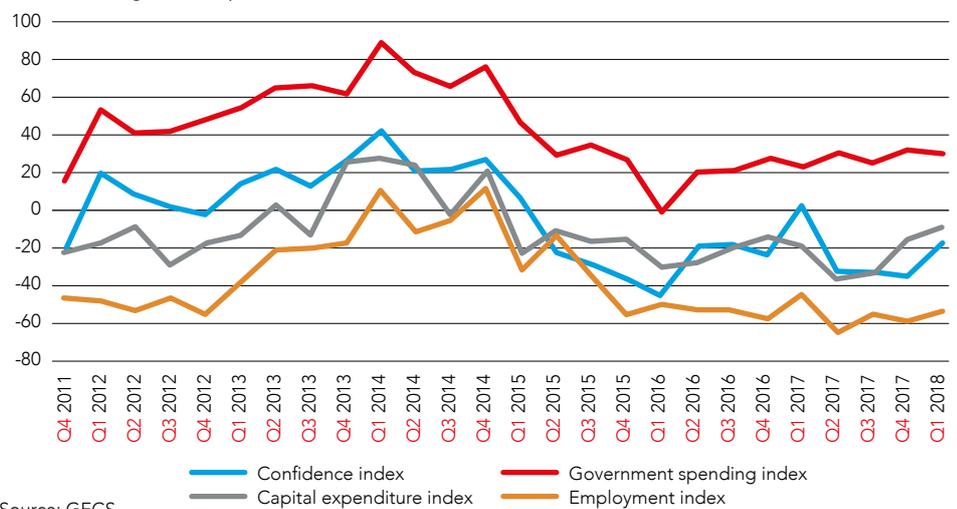
Confidence improved in the UAE in the first quarter of 2018, and is at a fairly elevated level by recent standards.

**The United Arab Emirates in focus**

Confidence improved in the UAE in the first quarter of 2018, and is at a fairly elevated level by recent standards. The pick-up in confidence is due in part to the fading impact of last year's OPEC production cuts.

Other reasons include an increase in non-oil exports on the back of strong global growth, extra spending ahead of the 2020 World Expo and a less restrictive fiscal policy. With fiscal policy being eased, it was no surprise that the government spending sub-component remained high. There were also modest improvements in the employment and capital expenditure sub-components.

**Chart 17: Signs of improvement in the UAE**



Source: GECS

Economic confidence in Africa increased in the first quarter of 2018, and is now at its highest level since the GECS began.

**AFRICA**

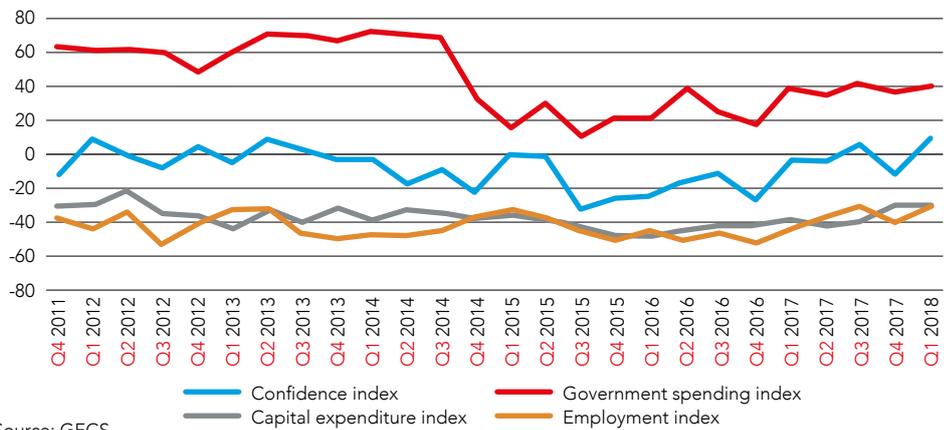
Economic confidence in Africa increased in the first quarter of 2018, and is now at its highest level since the GECS began. The breakdown shows that the three main sub-components all improved, but that government spending is the only one in positive territory.

The increase in overall confidence in the first quarter of 2018 reflects an improving outlook for the region's two biggest economies: Nigeria and South Africa. Growth in Nigeria should improve on the

back of an increase in oil production, a rise in the oil price and easing inflation, which should boost consumers' purchasing power.

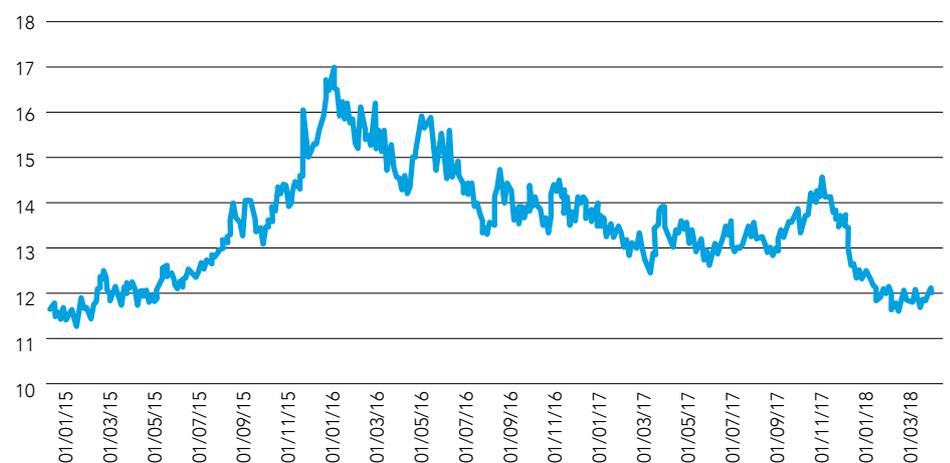
The outlook in South Africa has been boosted by the resignation of Jacob Zuma as president amid hopes that policy is likely to move in a more pro-business direction under his successor, Cyril Ramaphosa. In contrast, the outlook in Angola, Africa's third largest economy, has deteriorated. Elevated inflation and high interest rates are likely to drag on demand, while the risk of a debt crisis is growing.

**Chart 18: Confidence at an all-time high**



Source: GECS

**Chart 19: Rand rebounds after Zuma resigns**



Source: South African Reserve Bank

The outlook for the global economy is as good as it has been for some time.

The outlook for the global economy is as good as it has been for some time. Starting in the US, growth has been strong over the last year. The recent tax cuts have provided a boost to confidence, and will help to ensure that the economy grows by a decent 2.5-3% this year. With the economy doing well and the unemployment rate at a multi-year low, interest rates look set to rise. But with inflationary pressures relatively weak, rate increases are likely to be gradual.

The Eurozone is also likely to continue growing strongly, led mainly by strong growth in Germany, but there are also encouraging signs of life in the more peripheral economies of Italy, Spain and Greece. A number of factors account for the improving outlook across the Eurozone, including a fall in political uncertainty, very loose monetary policy and an improvement in business confidence.

“Overall, we expect good continued growth in Europe over the rest of the year. I am not too worried about Italy. The country has had political problems for several decades now and I think we are used to this situation,” says Perkins.

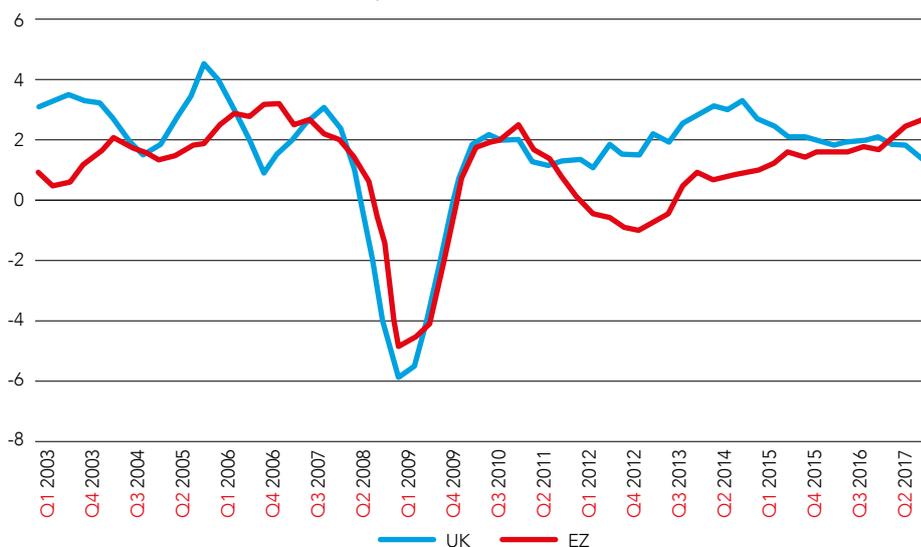
“And although government debt is high, interest rates remain low. Also, Italy has the lowest share of public debt held by non-residents.”

Meanwhile, although the UK has underperformed compared with the Eurozone in recent quarters, growth is holding up reasonably well. The recently agreed transition deal, which means the UK will remain in the single market for a further two years even after it has left the EU, reduces the chances of the economy suffering a hard landing.

The outlook in emerging markets is also positive. China’s economy looks to have slowed a little in recent months, mainly due to weakness in the property sector. However, the authorities are unlikely to tolerate a sharp slowdown and have the tools to turn the economy around if necessary.

And there are also good signs in the rest of Asia. Japan is enjoying its longest run of growth since the late 1980s, while the region’s open trade dependent economies such as Korea, Thailand and Hong Kong will continue to benefit from strong global growth.

**Chart 20:** The Eurozone starts to outperform the UK



Source: National Statistics Office and Eurostat

Overall, provided a trade war is avoided, the global economy looks well placed for another year of strong growth, of around 3.5–4%.

The outlook for commodity producing economies, namely Brazil, Russia and most of Africa, is improving. Commodity prices have increased in recent months, which should boost export revenues. Meanwhile, inflation has also dropped sharply. Not only has this boosted consumers' purchasing power, but it has allowed central banks to cut interest rates, which has helped investment.

"Our forecast is for oil prices to drop a bit by the end of the year to US\$60, so not a huge move," says Kenningham. "There are good reasons to think there won't be much change in either direction unless there's a major economic shock or a geopolitical event, such as renewed sanctions on Iran, that prevents countries in the Middle East producing."

The biggest risk to the overall outlook is the possibility of a trade war between the US and China, as protectionist pressures in the US continue to mount. The measures that the US has announced so far, including tariffs on washing machines, solar panels, aluminium and steel, along with separate measures against China, will have only a small impact. It is notable that China's response so far has been fairly

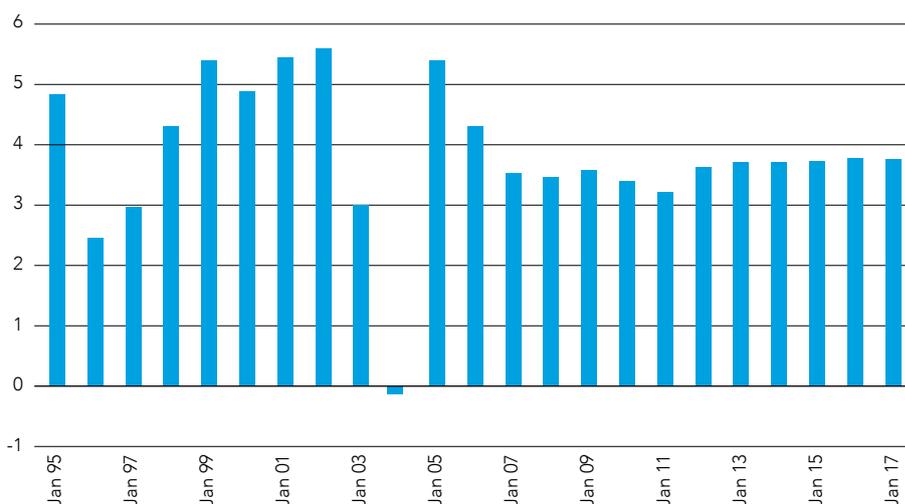
-muted. But if the situation did escalate, it could cause severe problems for the global economy.

"There's quite a plausible scenario in which the world economy is not that affected. Steel and aluminium only account for about 2% of world trade and there are already exemptions being granted by the US for Canada, Mexico, South Korea and the EU," says Kenningham. "The measures will obviously affect steel companies quite severely, but the global economic impact should be small."

Although China and the US would be the two countries to suffer the most, the integration of global supply chains over the past two decades means that other countries would be hard hit. In particular, there are a number of countries in Asia, including Vietnam and Korea, that are big suppliers of intermediate goods to China. These countries would all be badly affected in the event of a sharp drop in Chinese exports to the US.

Overall, provided a trade war is avoided, the global economy looks well placed for another year of strong growth, of around 3.5–4%.

**Chart 21:** World economy set for steady growth



Source: IMF

# Appendix I: Economies covered by Q1 survey responses

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



# ACCA, IMA and the global economy

To find out more visit:

[www.accaglobal.com](http://www.accaglobal.com)

[www.imanet.org](http://www.imanet.org)

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

---

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

Narayanan Vaidyanathan  
Head of Business Insights, ACCA  
+44 (0) 20 7059 5071  
[narayanan.vaidyanathan@accaglobal.com](mailto:narayanan.vaidyanathan@accaglobal.com)

Dr Raef Lawson  
Vice President of Research and Policy  
Institute of Management Accountants  
+ 1 (0) 201 474 1532  
[rlawson@imanet.org](mailto:rlawson@imanet.org)

GECS-Q1-2018

**ACCA** The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom / +44 (0)20 7059 5000 / [www.accaglobal.com](http://www.accaglobal.com)

**IMA** 10 Paragon Drive Suite 1 Montvale NJ 07645-1760 USA / +1 (201) 573-9000 / [www.imanet.org](http://www.imanet.org)