




The Association of
Accountants and
Financial Professionals
in Business

Think Ahead

ACCA

The background of the entire page is a low-angle, upward-looking photograph of a modern skyscraper's glass facade. The image shows a complex grid of dark window frames reflecting the sky and surrounding environment, creating a sense of height and architectural detail.

Global economic conditions survey report: Q4, 2016

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers 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 **188,000** members and **480,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **95** offices and centres and more than **7,110** 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.

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

In June 2016 ACCA formed a strategic alliance with Chartered Accountants Australia and New Zealand (CA ANZ). The alliance represents the voice of 788,000 members and future professional accountants around the world, who share the commitment to uphold the highest ethical, professional and technical standards.

More information is available at: www.accaglobal.com

About IMA®

IMA® (Institute of Management Accountants), the association of accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than 80,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia Pacific, Europe, and Middle East/Africa.

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Global economic conditions survey report: Q4, 2016

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

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

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Fieldwork for the Q4 2016 GECS took place between 24th November and 13th December 2016 and attracted 4,551 responses from ACCA and IMA members around the world, including more than 350 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 the GECS a trusted barometer for the global economy. We would also like to thank the following for their time and expertise:

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

Global confidence dipped in the fourth quarter amid a rise in political and economic risks.

- Global confidence dipped in the fourth quarter amid a rise in political and economic risks. A key reason for the decline in global confidence was a drop in the government expenditure index component of GECS, which is now at its lowest level since the start of 2016.
- Declining incomes are companies' main concern, with 44% citing this as a worry. Meanwhile, 43% of survey respondents said they had become less confident over the previous three months; just 23% had become more confident. Exchange-rate volatility is also high on the list of concerns – hardly a surprise, given the steady appreciation of the US dollar.
- The decline in overall confidence is also due to weaker prospects in both OECD and non-OECD economies. Confidence fell in China, Western Europe and the UK, and rose only slightly in the US.

Economic confidence across the globe dipped in the fourth quarter.

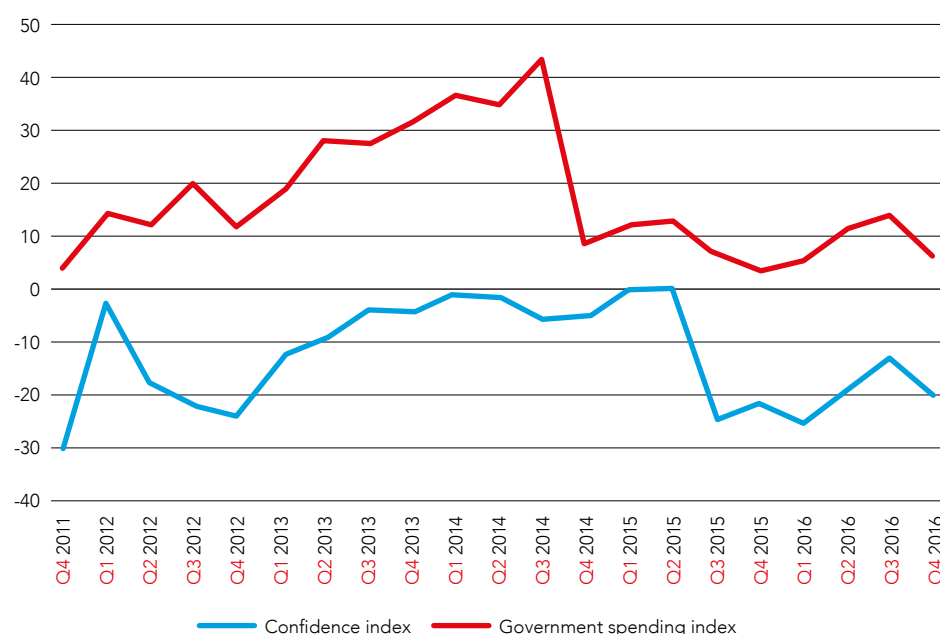
Economic confidence across the globe dipped in the fourth quarter. Perhaps changes in the political landscape linked to events such as the recent US election, UK's decision to leave the European Union and growing movements across other European countries to explore the same, may be having some impact.

News from the emerging world is better. The hard economic data from China has continued to improve as economic stimulus starts to take effect. In India, ongoing implementation challenges in a demonetisation campaign may cause growth to slow in the short term, but long-

term prospects, which have been boosted by recent economic reforms, remain positive. Elsewhere, Brazil and Russia remain very weak, but their recessions are starting to ease, and both countries are expected to return to growth this year.

A key reason for the drop in global confidence in Q4 could be the reported fall in government spending index, which fell to its lowest level since the start of 2016 reflecting that major developed markets remain firmly in austerity mode. The global survey also showed a slight fall in the capital expenditure index, as well as a drop in the investment opportunities index.

Chart 1: Global confidence and government spending index



Source: GECS

The regions that cite declining incomes as their biggest concern are the Middle East, Africa and Latin America – all parts of the global economy that have either been in recession or have seen growth slow to multi-year lows.

The decline in global confidence has been matched by a fall in hiring, with 52% of respondents saying they are considering staff cuts or a staff freeze, compared with 16% who are planning to create new jobs. Similarly, there were more companies planning to scale back investment in capital projects (38%) than increase investment (14%).

Falling incomes are the biggest concern of most companies, with 44% citing this as key concern. Perhaps unsurprisingly,

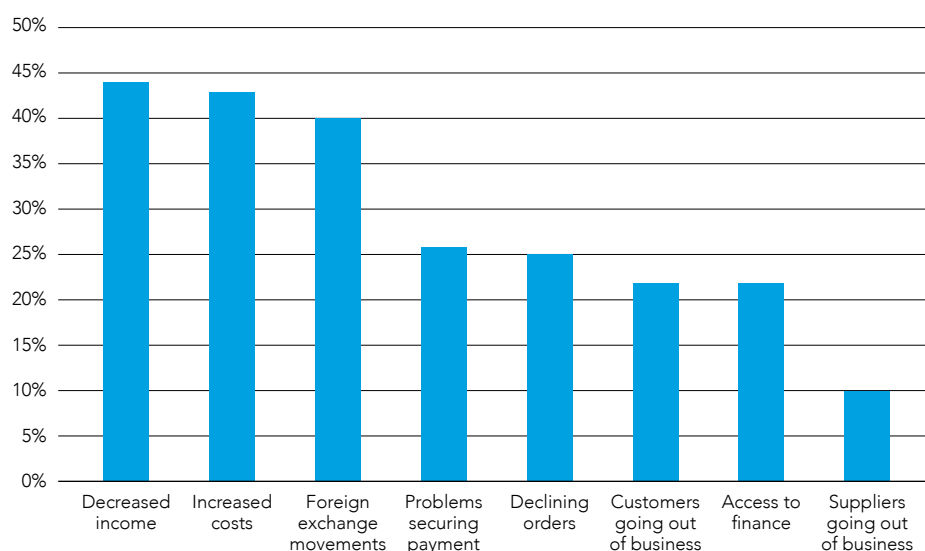
the regions that cite declining incomes as their biggest concern are the Middle East, Africa and Latin America – all parts of the global economy that have either been in recession or have seen growth slow to multi-year lows.

40% cite the negative impact of exchange-rate movements, which reflects the volatility of the world's major currencies. Respondents were least worried about access to finance (22%) and suppliers going out of business (10%).

44%

of companies cite falling incomes as their biggest concern

Chart 2: The main effects of changes in the macro environment



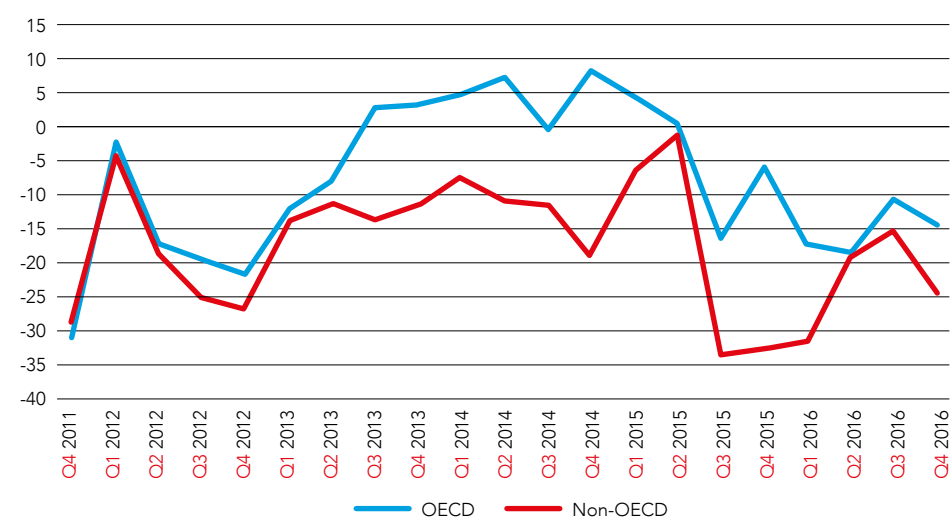
Source: GECS

The fall in global confidence was due to a decline in confidence in both OECD and non-OECD economies.

The fall in global confidence was due to a decline in confidence in both OECD and non-OECD economies. In the OECD economies, this may be linked to a fall in the government expenditure index while, the indices for capital expenditure and investment opportunities were fairly stable.

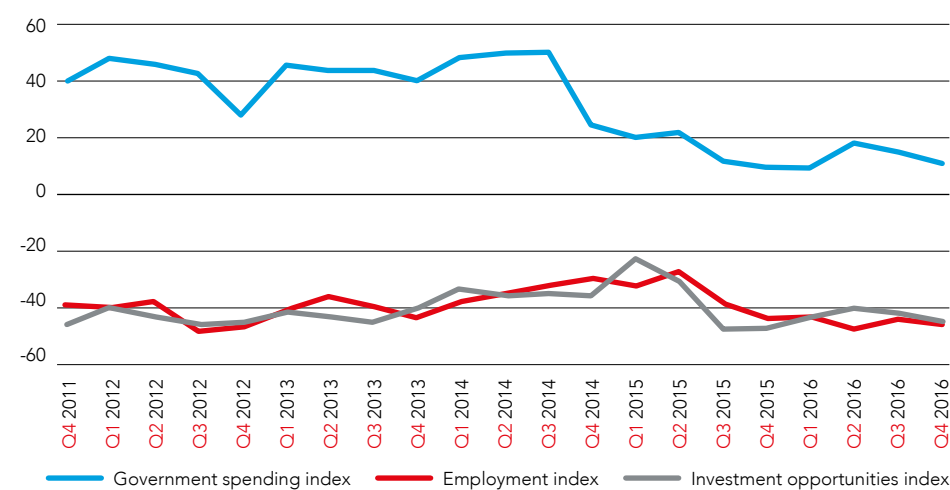
The decline in non-OECD confidence was broad-based, with the government expenditure, employment and investment opportunities indices all falling. Confidence fell in both Asia-Pacific and Central & Eastern Europe, but there was a strong rebound among Latin American respondents, which may be linked to an improvement in political and economic conditions in Brazil. The IMF predicts that Brazil will return to growth in 2017.

Chart 3: Confidence in OECD and non-OECD countries



Source: GECS

Chart 4: Non-OECD confidence slides



Source: GECS

2. Thematic analysis

A stronger US dollar is not a major threat to emerging markets, but there are some countries where this could still spell problems.

WILL TRUMP LEAD TO A NEW ERA?

Since his election, Donald Trump has confirmed that the US will not ratify the Trans-Pacific Partnership (TPP – a 12-country free trade agreement). The demise of the TPP has potentially significant implications for the US' influence throughout the region, and China could play a more assertive role. A China-backed free-trade agreement called the Regional Comprehensive Economic Partnership (RCEP – a free-trade deal for Asia that excludes the US) now has renewed impetus.

Bigger tests of Trump's commitment and policies will come once he is inaugurated. His campaign rhetoric included pulling out of North American Free Trade Agreement (NAFTA), withdrawing from the WTO and levying big tariffs on China. Following through on such policies could have significant repercussions for the US economy. In the case of Mexico, for instance, a majority of the goods it sells in the US are manufactured by US companies that base their production facilities in Mexico to take advantage of cost efficiencies. Any moves that lead to a fall in Mexican exports to the US would therefore damage the prospects of US companies.

Similarly, in China, if Trump did follow through with tariffs on Chinese imports, this would entail risks given that China is a key market for a number of US companies, including General Motors, Boeing and Apple.

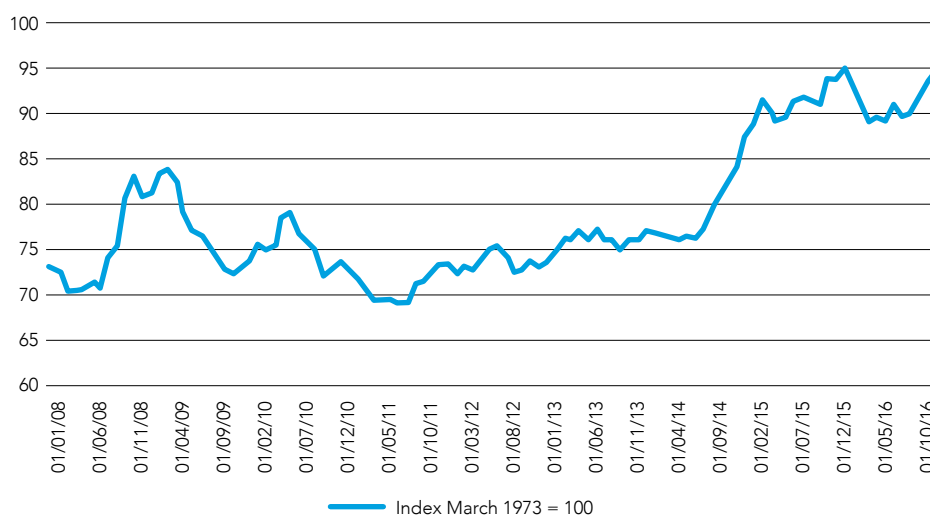
Moreover, trade restrictions with China do not guarantee a return of jobs to the US as most of the job loss in US manufacturing has been due to automation rather than off-shoring. Additionally, if manufacturing companies did start to look elsewhere for countries in which to locate their factories, they would be much more likely to choose countries in the rest of Asia, such as Vietnam or Korea, which are more cost-efficient than the US.

"The big worry of course is protectionism. Our best guess is that Trump will start with relatively small, targeted measures aimed at particular companies or sectors," says Andrew Kenningham of Capital Economics. "There have been quite a few signs that he's likely to be more moderate than his campaign suggested. But if, later in his first term, the economy is not performing, he may resort to more radical measures."

EMERGING MARKETS AND THE PERILS OF A STRONG US DOLLAR

A stronger US dollar is not a major threat to emerging markets, but there are some countries where this could still spell problems. Global financial markets took the US Federal Reserve's decision to hike interest rates by 25 basis points on 14 December largely in stride. The key reason for this is that markets had almost fully priced in a rate hike; when it happened, it came as a surprise to no one.

Chart 5: The US dollar in trade-weighted terms



Source: Federal Reserve Bank of Saint Louis

Higher interest rates in the US would in turn trigger a further pull-back of capital from emerging markets.

"When people talk about the dollar's effect on emerging economies, they often have in mind the sorts of crises that happened in the 1990s," says Kenningham. But he adds there are now far fewer emerging economies that have their currencies tied to the dollar. "It's much more common to have a floating exchange rate. Many also have larger stocks of foreign reserves, which put them in a better position too." This means there are some economies which potentially face some risk if the dollar appreciated, but they are relatively few.

2017 outlook

There is, however, potential for much greater volatility in financial markets in 2017 as the outlook for US monetary policy becomes much less certain. With the US already close to full employment, there is a risk that the expansionary fiscal plans of the incoming US administration, instead of leading to a big boost to US growth, will push inflation sharply higher in 2017.

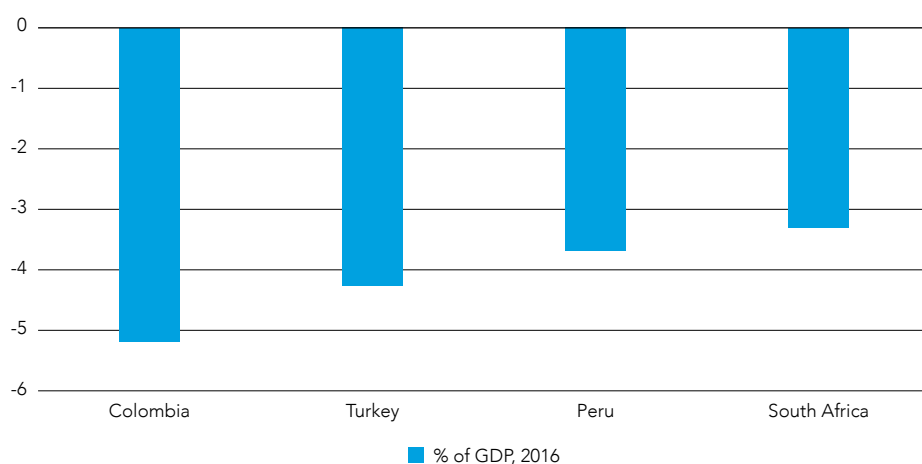
If this happens, the Fed is likely to respond by hiking interest rates more aggressively than is currently anticipated by financial markets.

"We expect to see rates increase by 100 basis points in 2017 and then another 100 the following year – so by two percentage points in total," says Andrew Kenningham. "That would bring the Fed funds target range to between 2.5% and 2.75% by the end of 2018. That is a more rapid cycle than the markets are expecting."

Higher interest rates in the US would in turn trigger a further pull-back of capital from emerging markets, which in the years since the 2008-09 global financial crisis have experienced a flood of capital as rates in the developed world have been cut to rock-bottom levels.

The countries that are most vulnerable to a tightening in global financing conditions are those which import capital from abroad – in other words, countries with large current account deficits. South Africa, Turkey, Peru and Colombia, for example, all have current account deficits equivalent to 3% or more of GDP. If currencies were to come under downward pressure, central banks in these countries might need to hike interest rates to prevent the foreign currency value of these debts from ballooning.

Chart 6: Current account deficits



Source: IMF

Perhaps unsurprisingly, given its weak economic performance, much of the attention has focused on the EU, which will see a number of key elections over the coming year.

THREAT TO THE EUROZONE

Following the UK's vote to leave the EU in June and the US election in November, the spotlight is now on other parts of the developed world that might follow a similar path. Perhaps unsurprisingly, given its weak economic performance, much of the attention has focused on the EU, which will see a number of key elections over the coming year.

Most recently, attention has been on Italy, whose Prime Minister Matteo Renzi resigned after he lost a referendum on planned changes to the country's constitution. Italy's economic outlook has been helped by the country's president moving swiftly to replace Renzi with Paolo Gentiloni and refusing to call a snap election.

Italy's economy remains in bad shape: GDP is below its pre-financial crisis level. Meanwhile, the banks are struggling. The worst affected is Monte dei Paschi, which needs a capital injection of about €5bn.

Recapitalising Italy's banks however, will push up the country's debt, which at 135% of GDP is already among the highest in the developed world.

A number of other European countries are due to hold key elections over the next year – any of which could serve as a potential flashpoint. The first, in March, is in the Netherlands, where the Freedom Party is expected to gain the most votes. In France, in May, the National Front is likely to significantly challenge the political establishment in presidential elections. This will be followed by Germany's general election in September/October.

Elections in any of these countries could put the future of the single currency and possibly the union itself into doubt. A country leaving the euro would be a much bigger blow to Eurozone confidence.

Against this backdrop, it is no surprise that the Eurozone's confidence fell in Q4, and is now at its lowest level since Q4 2012.



Economic confidence in North America increased in Q4 to its highest level since the fourth quarter of 2014.

NORTH AMERICA

Economic confidence in North America increased in Q4 to its highest level since the fourth quarter of 2014, with 33% of respondents saying they are more confident about their prospects, compared with 26% saying they are feeling less confident.

There was a marked contrast in the fortunes of the US, where confidence is on an upwards trend, and Canada, where confidence dropped back sharply in Q4. This difference in confidence levels reflects the sharply different outlook for the two economies. Whereas the US is growing at a decent clip, with unemployment falling to multi-year lows, Canada's economy is not as rosy.

US IN FOCUS

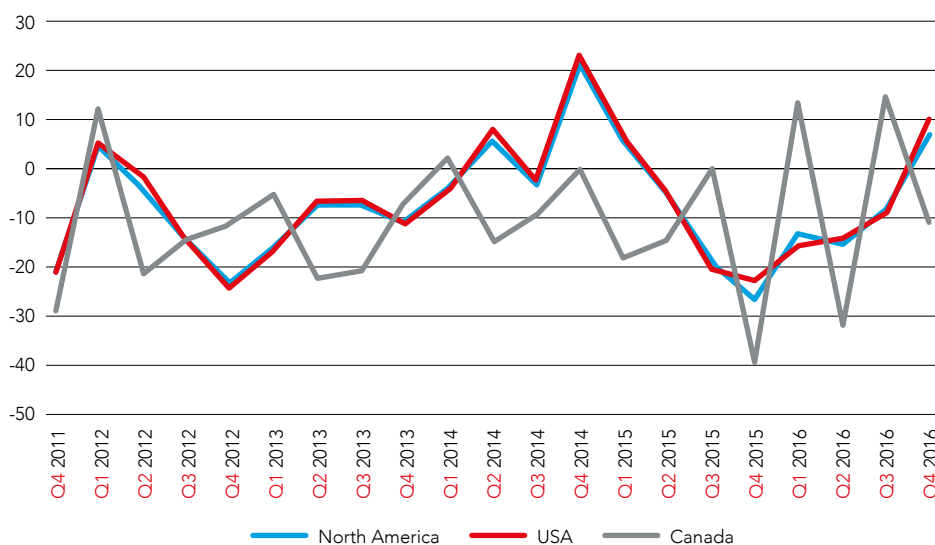
Companies in the US appear to be increasingly optimistic about their short-term prospects, with confidence rising in Q4 for the fourth consecutive quarter. This improving outlook reflects the expectation that growth will accelerate in 2017 on the back of planned tax cuts and increases in government spending.

There was a marked improvement in the capital expenditure index, which can probably be attributed to expectations of a big increase in government infrastructure spending. The employment index also rose, which reflects the improving health of the US labour market. The economy has been adding around 200,000 jobs every month for the past year, while the unemployment rate has fallen to levels not seen since before the 2008-09 global financial crisis.

A potential downside is the rise in foreign-exchange-rate volatility, which may reflect growing concern regarding the country's competitiveness due to the appreciation of the US dollar.

"We can already see that it's hurting manufacturers," says Chris Williamson of Markit. "Exports are stagnant. Producers are reliant on the domestic economy to drive growth and as the exchange rate remains where it is or strengthens, you're going to get more import substitution."

Chart 7: Confidence in North America, the US and Canada



Source: GECS

Decreased manufacturing output and the depreciation of the Canadian Dollar help explain why the capital expenditure component of the index fell back sharply in Q4.

CANADA IN FOCUS

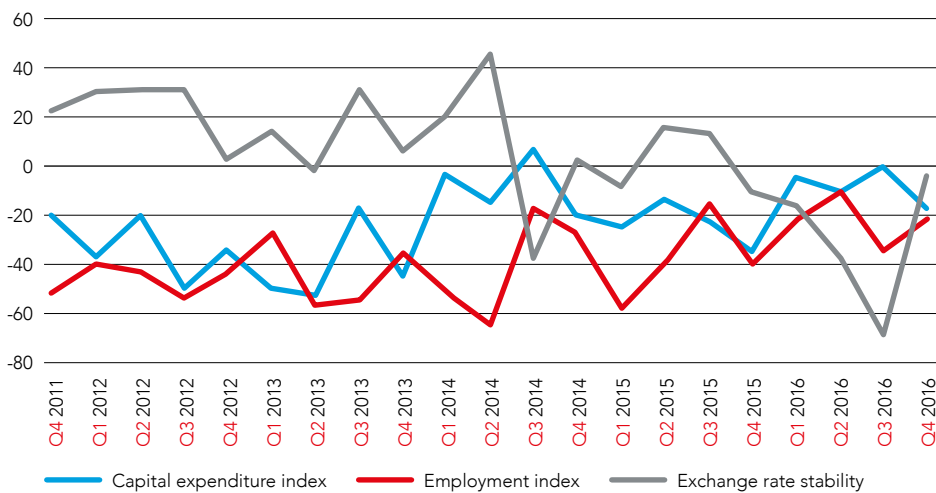
A number of factors account for the drop in Canada’s confidence – which remains significantly below that of the US – in the fourth quarter of 2016.

Decreased manufacturing output and the depreciation of the Canadian Dollar help explain why the capital expenditure component of the index fell back sharply in Q4. In addition, the threat of the incoming

US administration to withdraw from NAFTA (North American Free Trade Agreement), if acted upon, would hit Canada’s small, open economy hard.

A positive was the sharp improvement in the exchange-rate index, which rebounded to its highest level since Q3 2015; a weaker Canadian dollar will boost the competitiveness of the country’s exports.

Chart 8: Exchange rate relief



Source: GECS

Although regional growth is holding up reasonably well, the outlook remains poor.

WESTERN EUROPE

GECS' capital expenditure, employment and investment opportunities indices are all firmly in negative territory for Western Europe, and confidence fell in the fourth quarter – it is now at its lowest level since the final quarter of 2012.

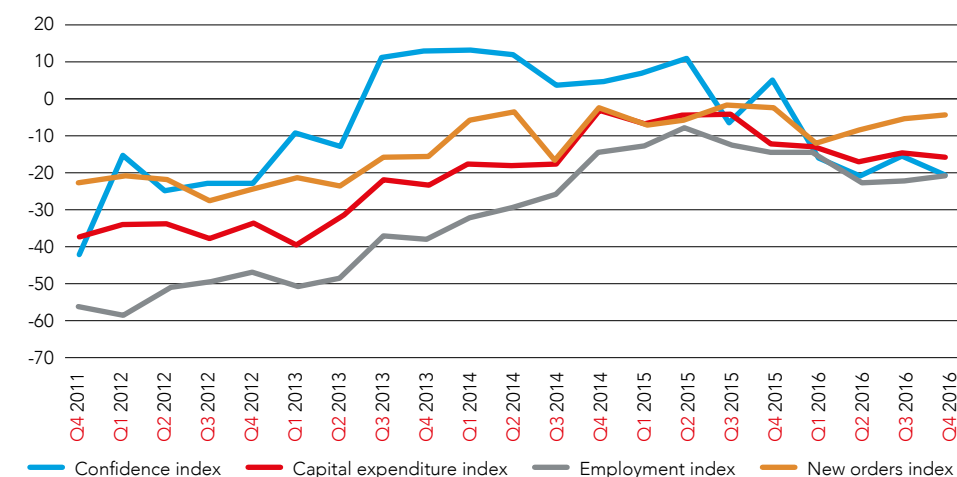
Although regional growth is holding up reasonably well, the outlook remains poor. This is especially true of Greece and Italy, where public debt is now above 100% of GDP with the banking sectors remaining fragile.

"We forecast up to 2030, and throughout the next 15 years you're looking at growth rates of 1.5–2%," says Chris Williamson of Markit.

"The manufacturing data has picked up recently and PMIs are at three-year highs. People keep expecting European growth to disappoint, but every time it has a temporary set-back and then reaccelerates," says Dario Perkins of Lombard Street Research.

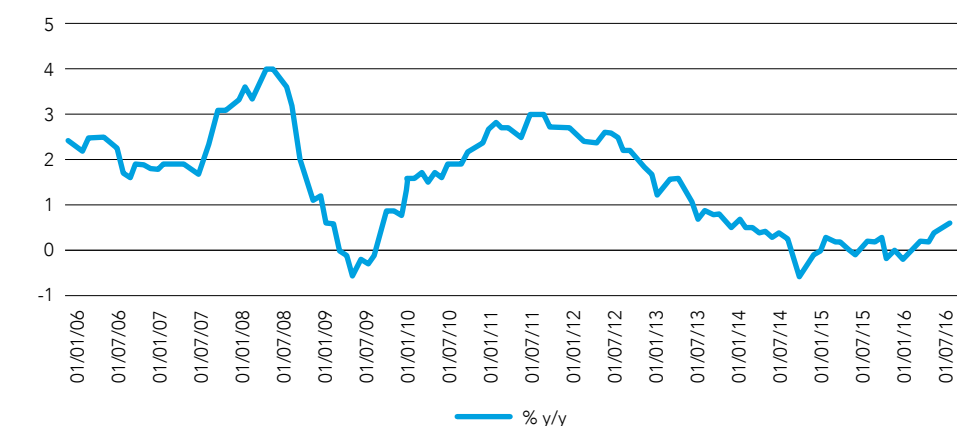
Inflationary pressures in Western Europe do look to be increasing, but they remain muted overall. Headline inflation picked up from 0.5% year on year in October to 0.6% in November, and it is now at its highest level in 31 months. Overall, with most economies still suffering from spare capacity, inflation is likely to remain weak.

Chart 9: Western Europe plateaus



Source: GECS

Chart 10: Eurozone inflation



Source: Eurostat

Now at its second-lowest level since the fourth quarter of 2011, the UK's economic confidence fell sharply in Q4.

UK IN FOCUS

Now at its second-lowest level since the fourth quarter of 2011, the UK's economic confidence fell sharply in Q4.

The Brexit effect

This decline in confidence reflects the increased uncertainty caused by June 2016's referendum. In our survey on the impact of Brexit, more than a quarter of respondents viewed the risks from Brexit as being much greater than the opportunity, while only about 5% viewed the risk as being much less than the opportunity.

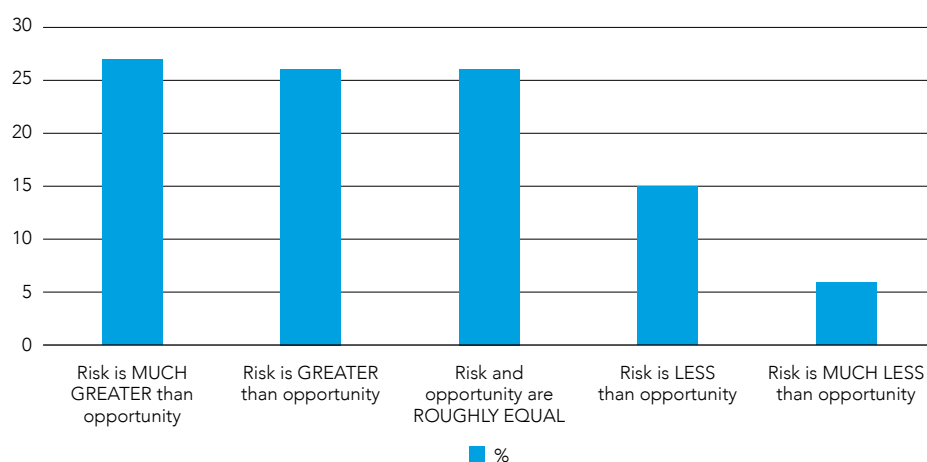
The UK's capital expenditure, employment and investment indexes also fell in Q4. On the upside, however, there was a small improvement in the government expenditure index – probably reflecting Chancellor Philip Hammond's announcement in the autumn that there would be a gradual slowdown in the pace of austerity.

While the results are a concern, the wider macroeconomic data has been much more positive. Employment appears to be holding up relatively well, while retail spending remains robust. GDP growth, meanwhile, was unchanged in Q3 at 0.6% quarter on quarter – a much stronger performance than most forecasters had expected.

5%

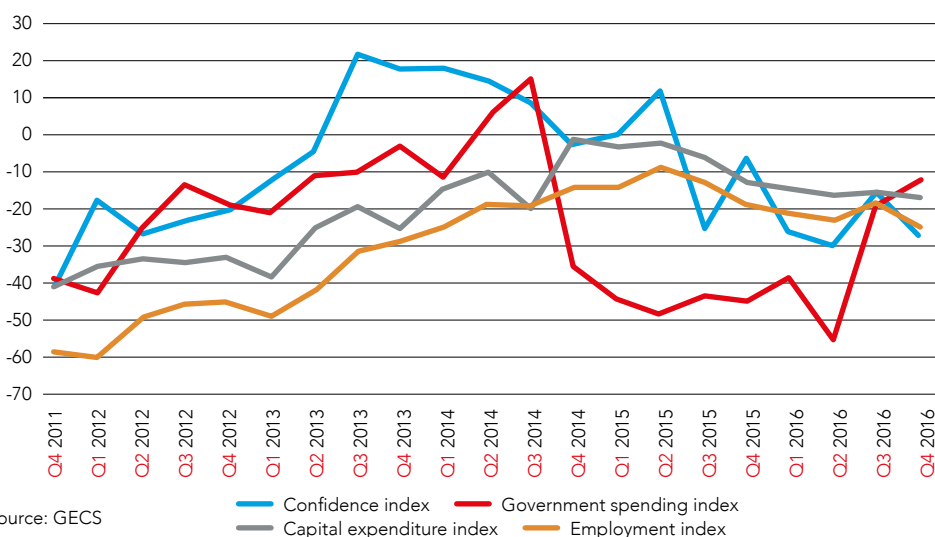
of UK respondents viewed the risk as being much less than the opportunity

Chart 11: Impact of Brexit



Source: GECS

Chart 12: Government spending bright spot



Source: GECS

Economic confidence in Ireland fell in the fourth quarter and is now at its lowest level since the second quarter of 2012, when the country was on the brink of a financial crisis.

2017 outlook

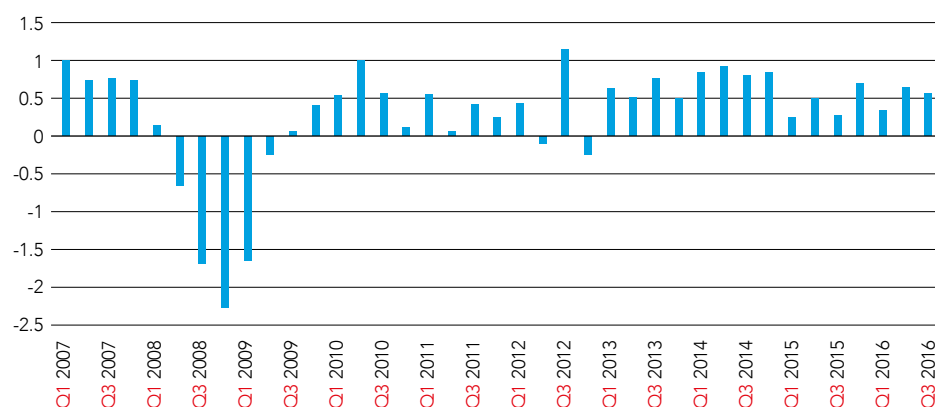
"We think that the Brexit effect is likely to cause growth to slow a little, but not dramatically," says Andrew Kenningham. "Our forecast is for growth to drop from 2% in 2016 to 1.5% in 2017, but then it could rebound in 2018." GBP's weakness has strengthened UK's export performance compared to the past, and in addition there has been monetary easing.

IRELAND IN FOCUS

Economic confidence in Ireland fell in the fourth quarter and is now at its lowest level since the second quarter of 2012, when the country was on the brink of a financial crisis.

A main reason for this slump in confidence is the UK's vote to leave the EU, which has created huge uncertainties for Ireland. The UK is by far Ireland's biggest export market, and is a key foreign investor. If the UK decides to leave the EU's single market, it would have a material impact on Ireland's economic prospects.

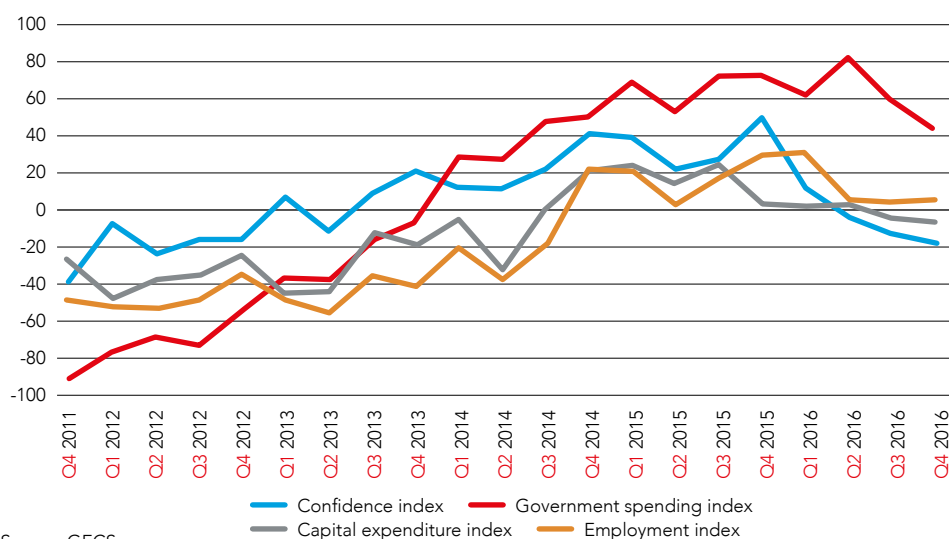
Chart 13: UK GDP



Source: Office for National Statistics

■ % q/q

Chart 14: Ireland's slump in confidence



Source: GECS

— Confidence index — Government spending index
— Capital expenditure index — Employment index

Cyprus's economy has picked up since its 2012/13 banking crisis, but vulnerabilities remain.

CYPRUS IN FOCUS

Cyprus's economy has picked up since its 2012-13 banking crisis, but vulnerabilities remain. On the positive side, the country exited its loan arrangement with the IMF early, while the economy has returned to growth. The banking sector, however, remains in real trouble: non-performing loans have fallen, but they are still equivalent to over 150% of GDP.

Government debt, equivalent to about 100% of GDP, is another concern, which may be reflected in the GECS government spending index which dropped back in Q4. Yet while confidence fell last quarter, it remains high compared with the depressed level of the past few years.

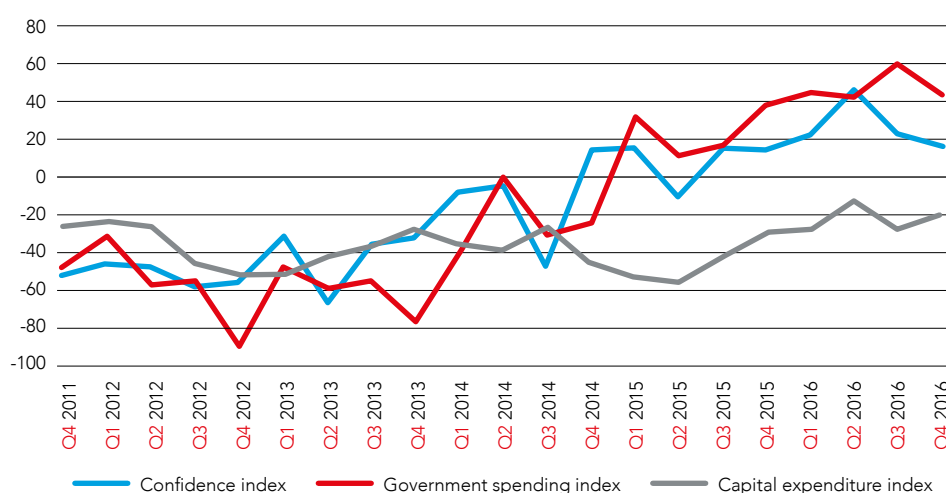
CENTRAL & EASTERN EUROPE

Tied so closely to the fortunes of the Eurozone, the prognosis for Central & Eastern Europe (CEE) is inevitably affected by the bloc's poor outlook. The capital expenditure and employment indices for the CEE remained firmly in negative territory in Q4.

Economic confidence in the CEE, meanwhile, might have improved slightly in Q4, but confidence is weak by recent historical standards.

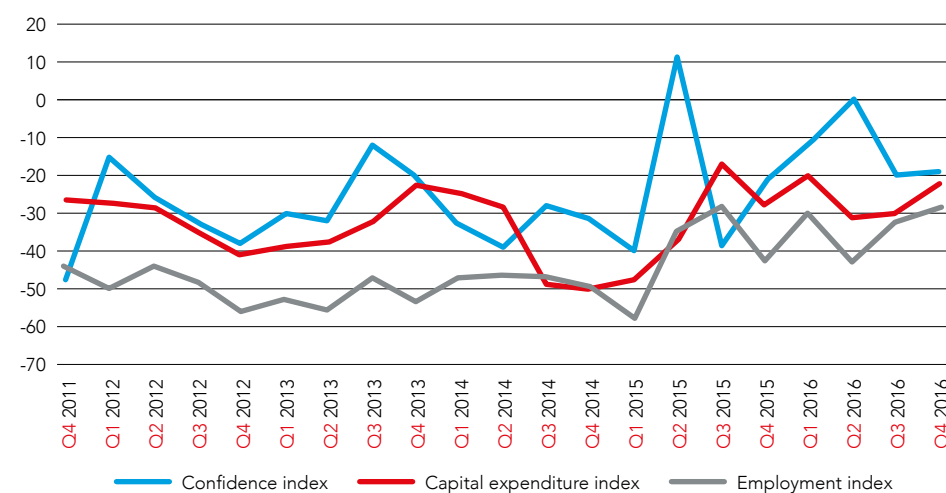
Economic prospects have deteriorated the most in Turkey, which has seen a collapse in output following the failed coup attempt in the summer. With the Turkish central bank in tightening mode, economic conditions are likely to remain weak for some time.

Chart 15: Government debt concerns



Source: GECS

Chart 16: Confidence slips in CEE



Source: GECS

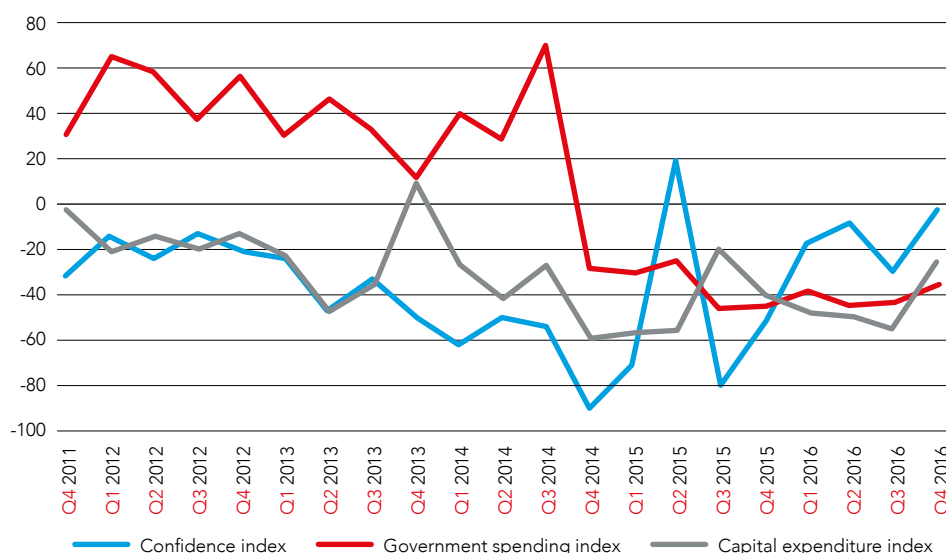
Russia's economic confidence is now at its highest level since Q2 2015.

RUSSIA IN FOCUS

Russia's economic confidence is now at its highest level since Q2 2015. Its improvement in Q4 reflects the fact that although the economy remains weak, the situation is starting to improve.

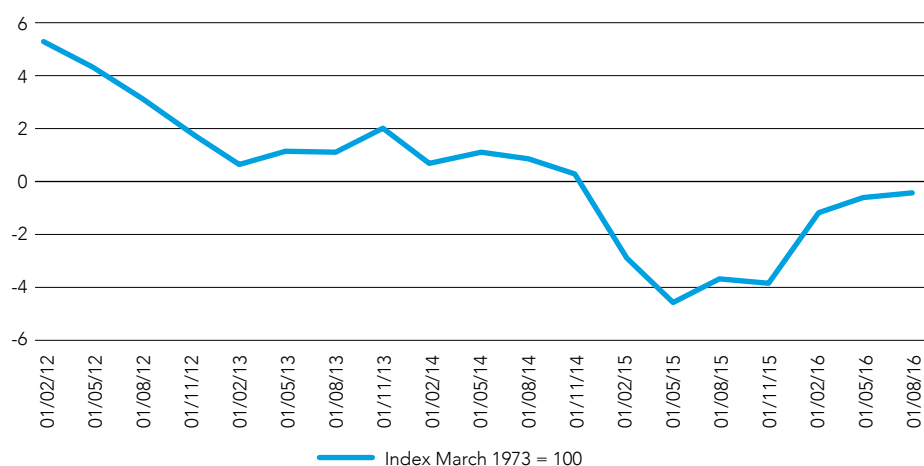
The recession, which was caused by the slump in the oil price, has begun to ease, and the economy should return to growth in 2017. This will be assisted by the stabilisation of the rouble and a drop in inflation, which should create room for the central bank to cut interest rates. The most encouraging aspect of the survey was a rebound in the capital expenditure and new orders indices, which are both now at their highest levels in more than a year.

Chart 17: Russia's confidence rises again



Source: GECS

Chart 18: Russia GDP



Source: Federal State Statistics Service

Sentiment in India slightly worsened in Q4, and it is now at its lowest level since the start of 2016.

SOUTH ASIA

While confidence dipped in South Asia in Q4, respondents are more optimistic about their future economic prospects (30%) – only North America and Latin America reported higher confidence levels in Q4.

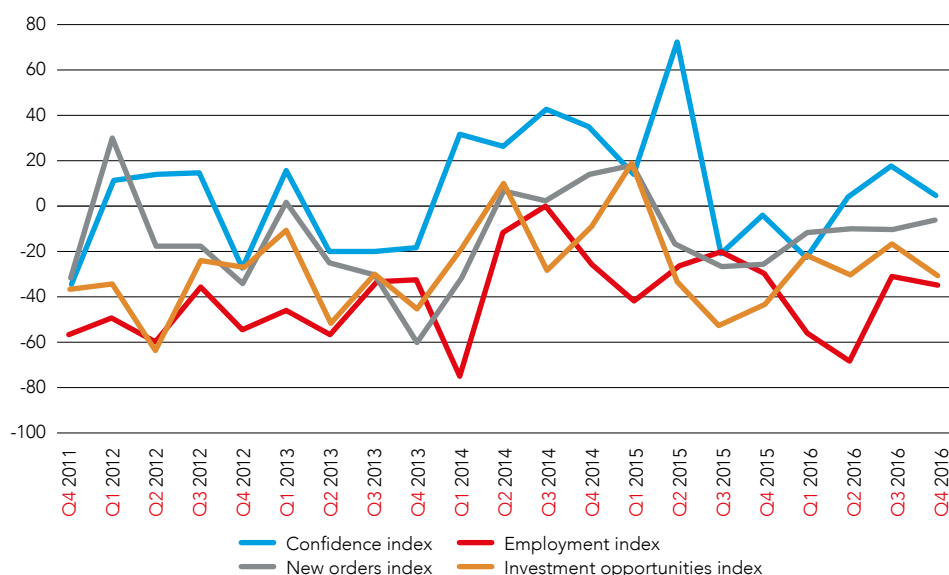
INDIA IN FOCUS

Sentiment in India slightly worsened in Q4, and it is now at its lowest level since the start of 2016. A key priority at present are the implementation challenges linked to the demonetisation campaign, which is aimed at cracking down on corruption and increasing the number tax payers from the current low base. It is hoped that these challenges are transitory, however, and long-term growth prospects, which have been given a boost over the past year by a string of key economic reforms, are improving.

30%

of respondents in South Asia are more optimistic about their future economic prospects

Chart 19: India's confidence blip?



Source: GECS

Asia Pacific's economic confidence fell in Q4, according to GECS.

PAKISTAN IN FOCUS

An IMF loan deal (which has recently come to an end) has put Pakistan's economy on a far more sustainable footing – reserves are more than adequate – while the country's fiscal position has improved considerably.

The economy will also continue to feel the benefit from the sharp reductions in interest rates of the past couple of years. A further boost will come from the Pakistan-China Economic Corridor – a series of massive infrastructure projects aimed at improving the reliability of Pakistan's

electricity supply. It is notable that in the survey, the capital expenditure index remains firmly in positive territory.

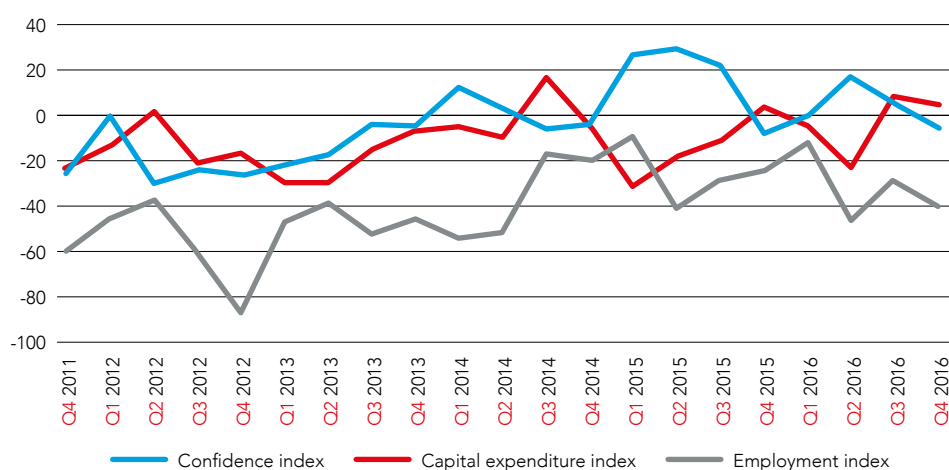
ASIA PACIFIC

Asia Pacific's economic confidence fell in Q4, according to GECS. For the region as a whole, 52% of respondents reported feeling either much less or slightly less confident about their outlook – which alongside Africa is the highest share of any region. This reflects the fact that although most countries are still growing at a decent pace, challenges are mounting.

52%

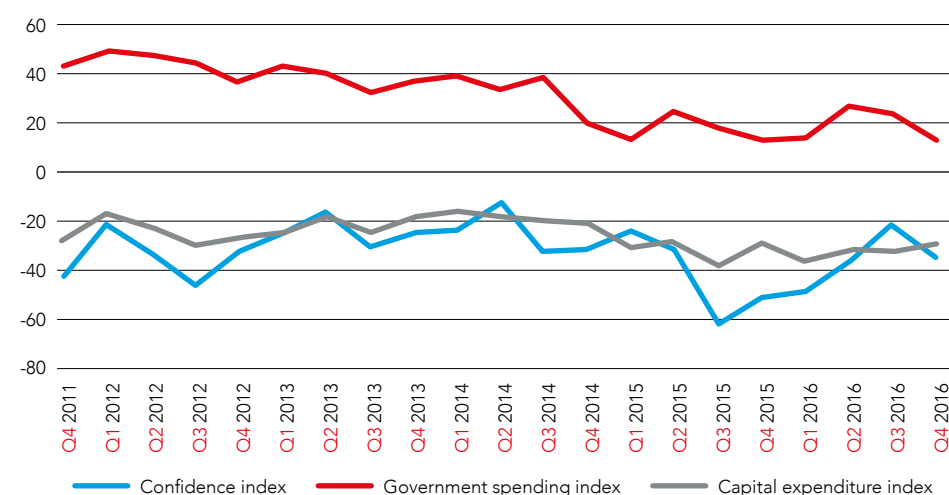
of respondents in Asia Pacific reported feeling either much less or slightly less confident about their outlook

Chart 20: Pakistan's prospects improve



Source: GECS

Chart 21: Asia Pacific challenges mount



Source: GECS

China's economic confidence fell back slightly in Q4, but it is still at its highest level since Q2 2015.

CHINA IN FOCUS

China's economic confidence fell back slightly in Q4, but it is still at its highest level since Q2 2015. Its hard economic data has continued to improve in recent months, but there are signs that the government is looking to rein in some of the economic stimulus that has helped drive the past year's economic rebound. In particular, the authorities are keen to see credit growth slow.

Meanwhile, changes to trade relationships with China could have a damaging impact on the economy. Capital Economics' Andrew Kenningham says that China is not as threatened by the US as one might imagine. "Chinese exports to the US are around 3% of GDP. In the case of a trade war they would take a hit, but it wouldn't necessarily be catastrophic."

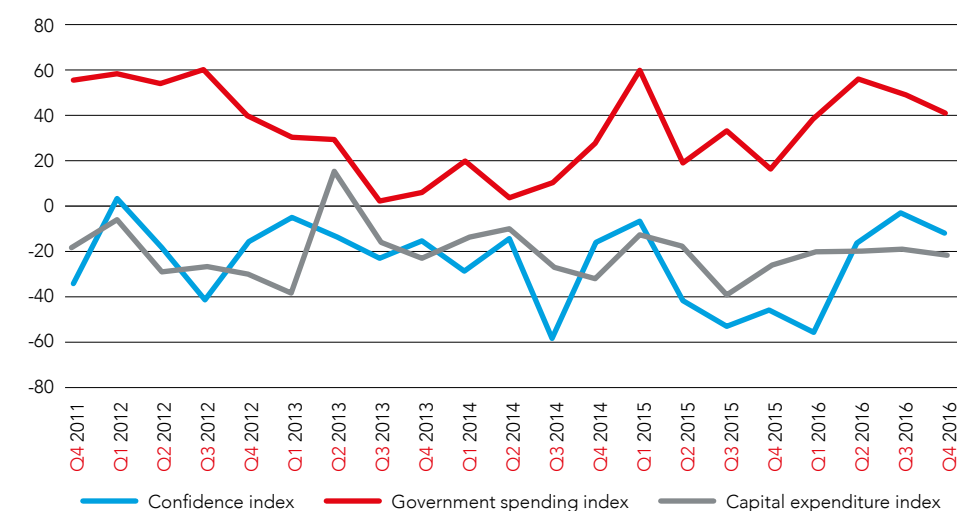
Capital is continuing to flow out of the country, and although China still has about US\$3tn in foreign-exchange reserves to support the currency, the authorities may at some point consider a further devaluation of the renminbi to stem capital outflows.

There are also growing concerns over the health of the banks following the acceleration in credit growth over the past year. Finally, the big increase in overcapacity in several key sectors of the economy over the past year – particularly in steel and housing – will also weigh on China's growth.

2017 outlook

"We foresee some modest waning of growth as the economy continues to transition from one that is manufacturing, investment and export-led to one based on domestic demand and services," says Markit's Chris Williamson. This is likely to mean slightly slower growth rates, with a focus on the domestic market.

Chart 22: China: concerns remain



Source: GECS

While confidence in Malaysia improved slightly in Q4, it remains depressed.

HONG KONG IN FOCUS

Hong Kong faces mounting political and economic challenges in the near future, which in Q4 led to a slight fall in confidence; it remains below its long-run average.

The political mood has soured recently amid a growing constitutional crisis that has put some elected politicians into direct conflict with the Chinese government. But the main problems are economic. Weak global demand is holding back exports, which are equivalent to around 200% of Hong Kong's GDP. The prospect of higher interest rates already appears to be dragging on the investment outlook, with GECS's investment opportunities index falling back sharply in Q4. The strong US dollar, which has pushed the Hong Kong dollar higher, is also weighing on confidence with the exchange-rate index also dropping sharply in Q4.

MALAYSIA IN FOCUS

While confidence in Malaysia improved slightly in Q4, it remains depressed.

A reason is the ongoing corruption scandal that has threatened to bring down the prime minister and has undermined investors' faith in the quality of the country's institutions.

Another is the low price of oil, which has hit export revenues hard and led to a sharp drop in government revenue. The subsequent need to cut government spending to balance the books is reflected in the depressed level of the government spending expectations index.

The final factor has been the recent decline in the ringgit, which has fallen to its lowest level against the US dollar since the Asian financial crisis of 1997-98. Malaysia's high level of foreign currency debt means

Chart 23: Hong Kong's exchange rate woes

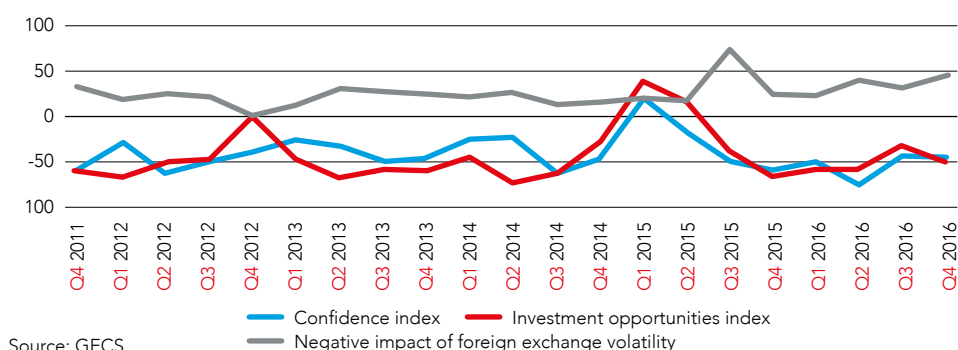
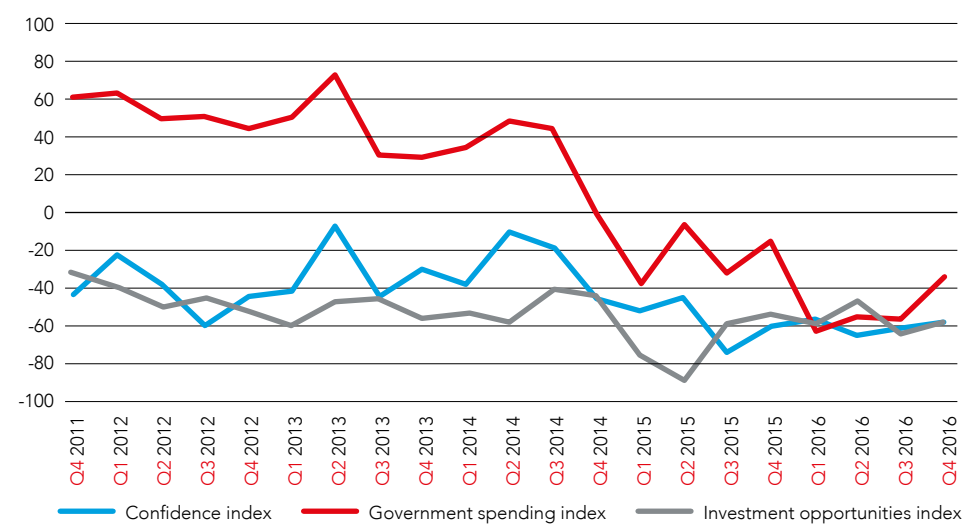


Chart 24: Malaysia in the doldrums



Singapore's confidence levels remain weak by historical standards, despite a slight uptick in Q4.

that the central bank will need to keep monetary policy tight to guard against any further weakness in the exchange rate. This lower likelihood of a rate cut appears to be reducing investment prospects, and it is notable that both the investment opportunities and capital expenditure indices remain low.

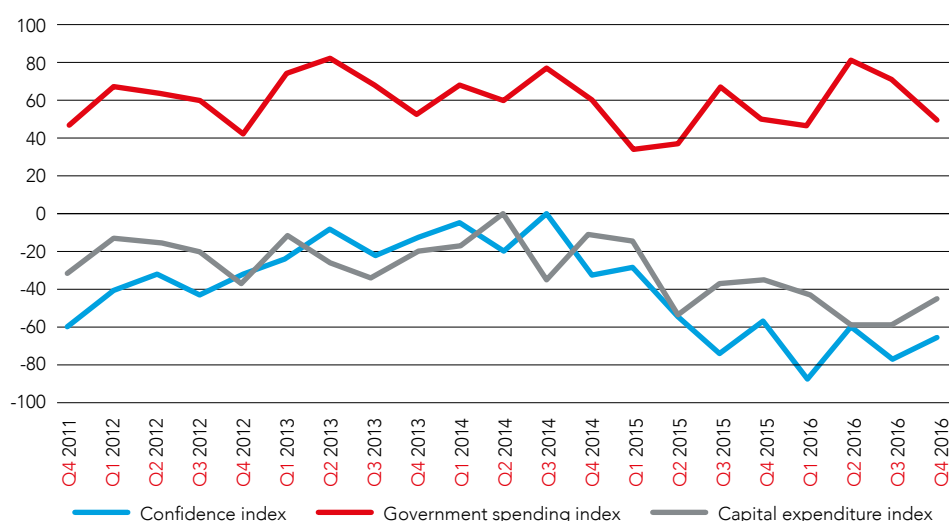
SINGAPORE IN FOCUS

Singapore's confidence levels remain weak by historical standards, despite a slight uptick in Q4. An important factor to consider is a slowdown in the growth of

the city-state's labour force, linked to lower fertility, aging and an already high labour force participation.

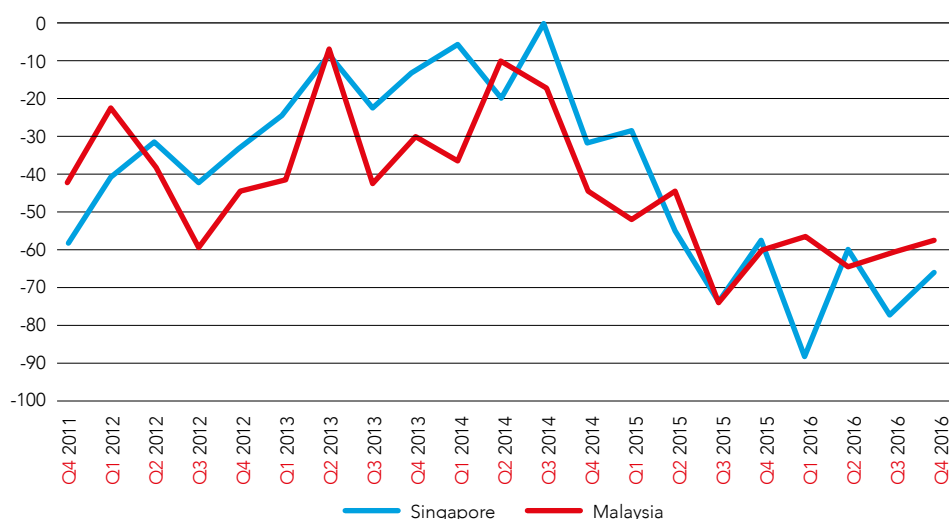
The first reason for this is the weak outlook for global demand for goods, which will drag on exports. Any changes in US trade policies would hit Singapore as it is a significant re-exporter of goods. The second reason is interest rates, which are forecast to rise over the coming year as the US Fed moves to normalise monetary policy. The city-state's households will need to adjust to higher borrowing costs which will weigh on consumer spending.

Chart 25: Singapore's slight upturn



Source: GECS

Chart 26: Malaysia and Singapore: signs of life



Source: GECS

Economic confidence in Australia dipped in Q4.

AUSTRALIA IN FOCUS

Economic confidence in Australia dipped in Q4, which reflects the fact that although the economy has held up reasonably well over the past year on the back of a recovery in commodity prices and a strong housing market, the outlook is worsening.

The economy remains heavily dependent on China, where economic imbalances are continuing to build. A continued slowdown in China would leave Australia exposed. GECS employment index dropped to its lowest level in 18 months as a result of spare capacity in the market helping to suppress wage growth.

THE MIDDLE EAST

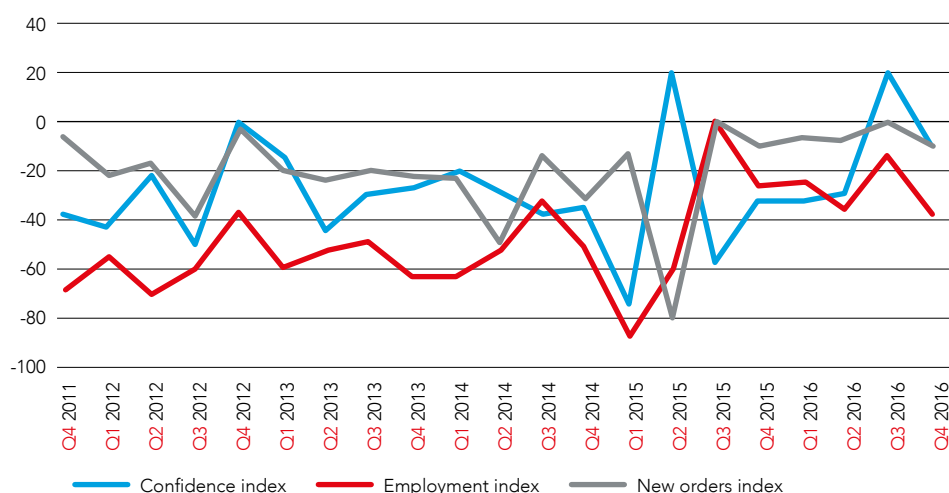
The economic confidence in the Middle East remained downbeat in Q4, with 51% of firms reporting that they are feeling less confident about the future – similar to Asia Pacific and Africa.

The depressed outlook has been driven by the continued slump in oil price, which has led to sharp declines in export revenues and fiscal revenues. Governments across the region have responded by cutting back on key spending projects, which is reflected in the low capital spending and investment opportunities indices.

51%

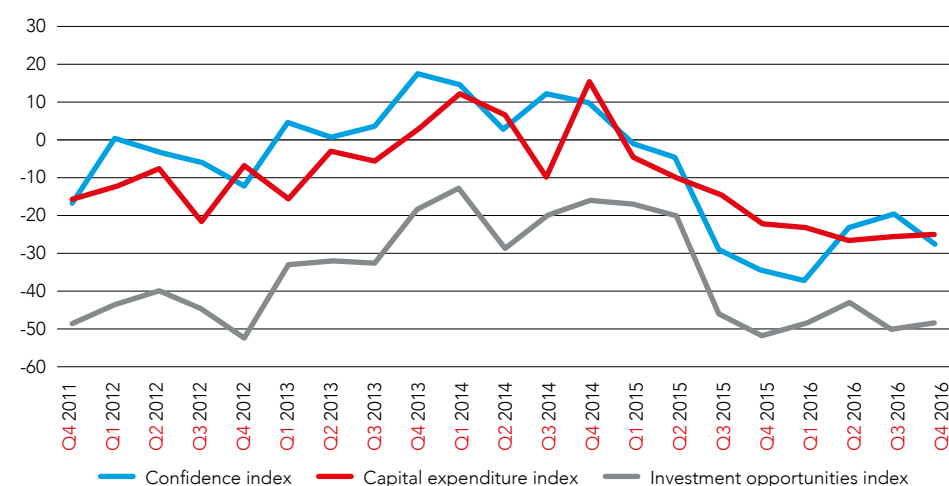
of firms in the Middle East reported that they are feeling less confident about the future

Chart 27: Australia's employment concerns



Source: GECS

Chart 28: Middle East remains downbeat



Source: GECS

Confidence in UAE fell slightly in Q4, mainly due to a fall in the employment index.

UAE IN FOCUS

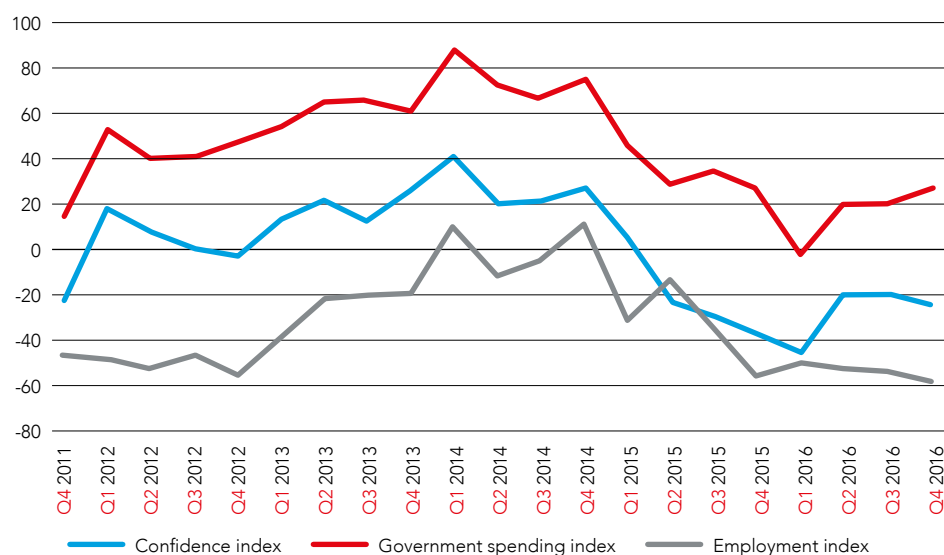
Confidence in UAE fell slightly in Q4, mainly due to a fall in the employment index. Other components, however, held up relatively well, with the government expenditure index rising to its highest level since Q3 2015.

Although the economy has been hit hard by the decline in the oil price, the economy has managed the adjustment to lower oil prices faster than other countries in the region. As a result, austerity is expected to ease in 2017. Construction ahead of

the 2020 World Expo should also support growth, and the country is well placed to benefit from Iran's greater international cooperation and the end of US sanctions.

That said, any recovery is likely to be gradual: the country's dollar-pegged interest rates will need to rise in line with those of the US. In addition, tourism will struggle against the backdrop of higher exchange rates and weak growth in the rest of the region. Growth in UAE should improve in 2017 after a difficult year in 2016.

Chart 29: UAE's spending expectations



Source: GECS

The sharp drop in the oil price has hit the Saudi economy hard.

SAUDI ARABIA IN FOCUS

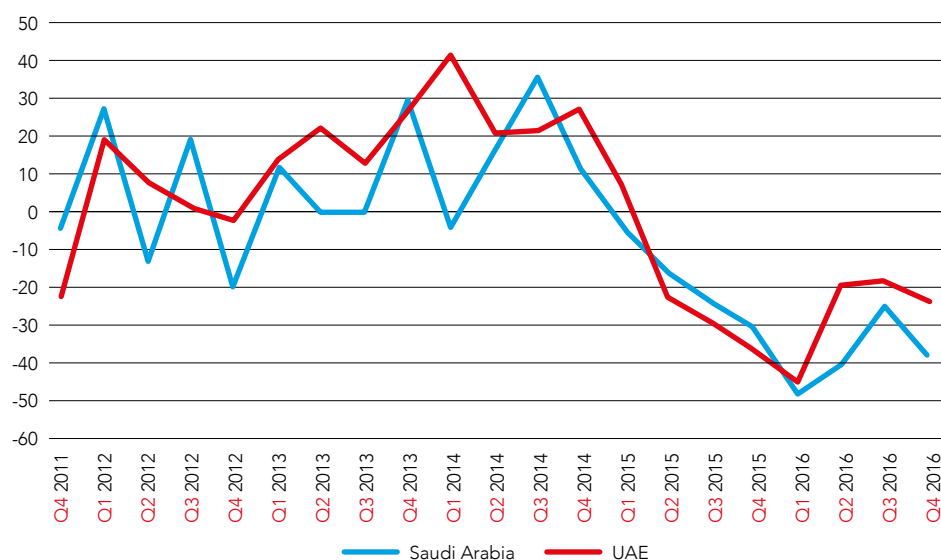
The sharp drop in the oil price has hit the Saudi economy hard. Years of budget surpluses, however mean that the economy is not at risk of a fiscal crisis, but fiscal policy will need to be tightened further in order to put its finances on a more sustainable footing. This will continue to put downward pressure on growth in 2017.

Another factor that will drag on growth is tighter monetary policy. As in UAE, the

kingdom's currency peg to USD means that local interest rates will need to rise in line with those of the US as the US Fed continues to tighten monetary policy.

Consistent with the poor outlook for the economy, economic confidence weakened in Q4. This decline was driven in large part by the weakness of the government spending index, which reflects the fact that government spending is likely to become a major drag on economic prospects.

Chart 30: Confidence slides in GCC



Source: GECS

Confidence in Africa is very low, having fallen in Q4 to its lowest level since Q3 of 2015.

AFRICA

Confidence in Africa is very low, having fallen in Q4 to its lowest level since Q3 of 2015.

The first reason for this is the poor outlook of the region's two biggest economies, South Africa and Nigeria, where political instability, economic mismanagement and corruption are dragging heavily on growth. The second is the sharp fall in commodity prices, which has led to a plunge in the value of the region's exports.

All of GECS' indices either fell sharply last quarter or remained at depressed levels. Of particular concern, are the millions of young people joining the workforce over the coming years, and the sharp fall in the employment index, which is now at its lowest level since Q3 2012 is not a step in the right direction.

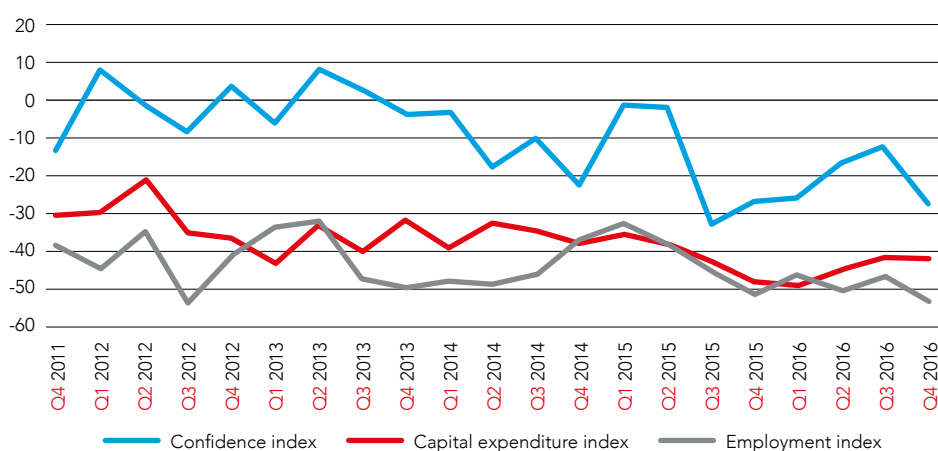
NIGERIA IN FOCUS

Nigeria's economy contracted in 2016, and while the economy will probably return to growth in 2017, it is beset by problems.

The poor economic outlook is demonstrated by the low confidence levels, which despite a slight uptick in Q4 is still at its third-lowest level on record. Violence in the Niger Delta is a major concern, and will drag on oil production. The collapse in oil prices, meanwhile, has opened up a large budget deficit that will require tighter fiscal policy.

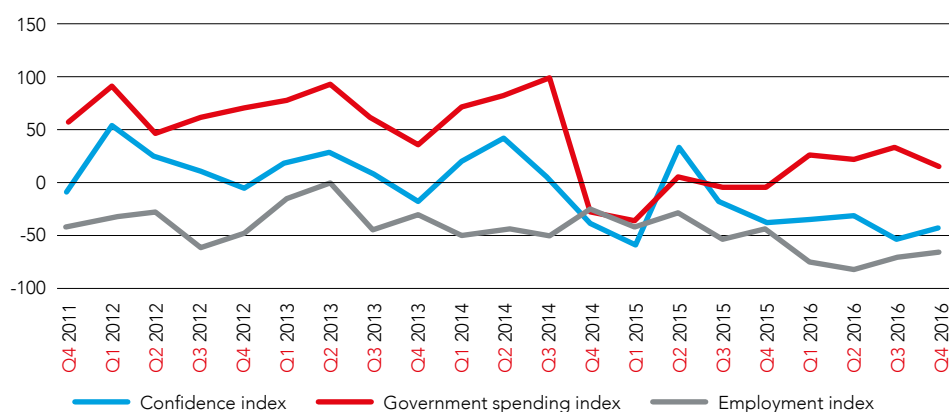
Finally, the devaluation of the naira makes it more expensive to import raw materials, which are needed to decrease the reliance on oil production. It is no surprise, then, that the price and exchange-rate stability index remains at a very low level.

Chart 31: Africa's depression deepens



Source: GECS

Chart 32: Confidence remains low in Nigeria



Source: GECS

Zambia faces a difficult year ahead as the economy struggles to adjust to the sharp fall in the price of its main export product: copper.

ZAMBIA IN FOCUS

Zambia faces a difficult year ahead as the economy struggles to adjust to the sharp fall in the price of its main export product: copper.

Inflation should slightly ease as the impact of the sharp fall in the kwacha starts to fade, which should boost the purchasing power of consumers. However, any benefit will be offset by tighter fiscal policy, which is needed to bring down the budget and current account deficits to more sustainable levels.

Given such poor prospects, economic confidence fell sharply in Q4, with the capital expenditure and investment opportunities indices both deep in negative territory.

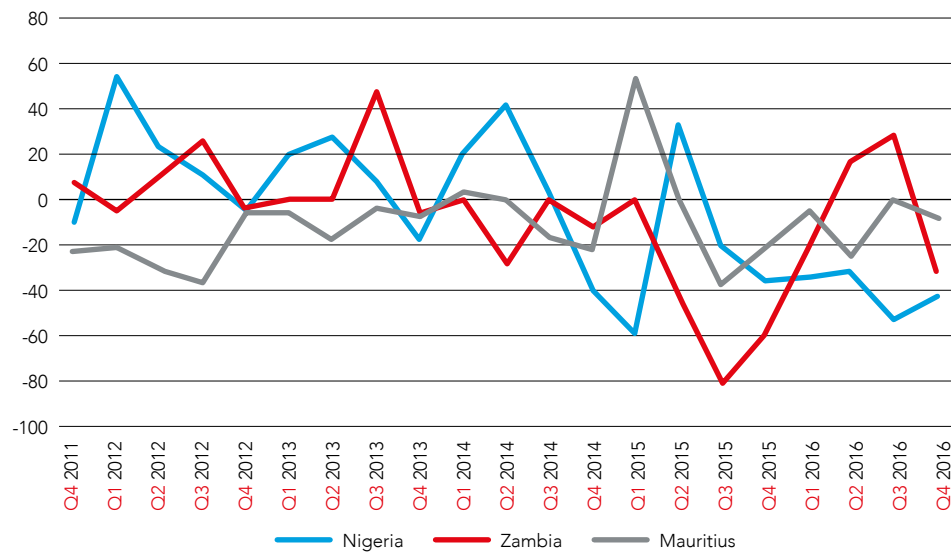
MAURITIUS IN FOCUS

Confidence dropped back in Q4 after rising in Q3, but the decline was relatively small. It is notable that respondents appear optimistic about the outlook for government spending, which although down slightly from Q3 is high by historical standards. Stronger government spending should help to compensate for the challenges in the tourism sector.

In the near-term, the outlook is clouded by the poor prospects for the country's tourism sector caused by a reduction of visitors.

Political stability and a competent government in Mauritius mean that its medium-term growth prospects are good.

Chart 33: Confidence in Nigeria, Zambia and Mauritius



Source: GECS

The Ugandan economy has grown strongly over the past year, thanks in large part to a pre-election fiscal splurge.

UGANDA IN FOCUS

The Ugandan economy has grown strongly over the past year, thanks in large part to a pre-election fiscal splurge.

But with the current account deficit widening and debt levels rising, the government will need to rein in fiscal spending, which will likely cause growth to slow. Reflecting the worsening outlook, confidence continued to drop in Q4, while the government expenditure index fell back for the second consecutive quarter. The country's low foreign currency reserves mean that the central bank may need to tighten monetary policy if tighter monetary policy leads to a pull-back of capital flows from emerging markets.

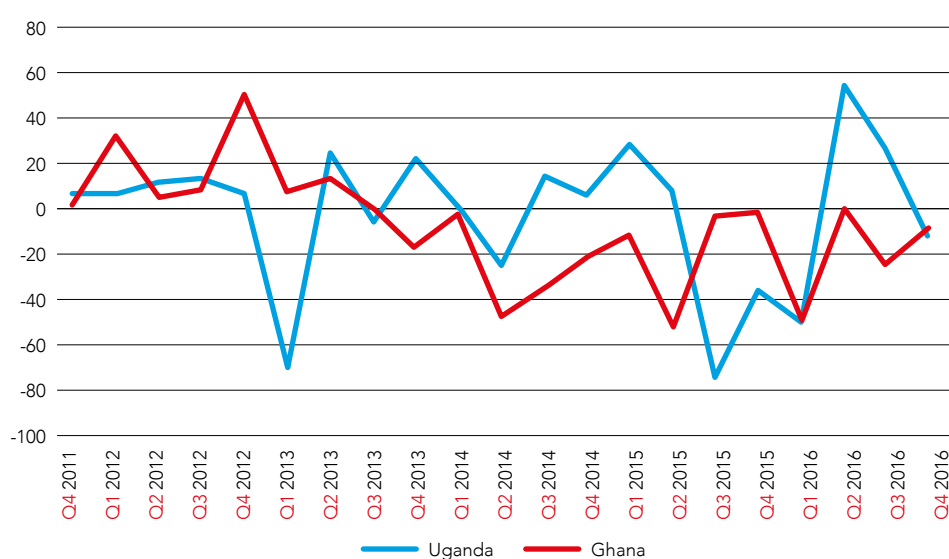
GHANA IN FOCUS

The improving prospects for the economy were matched by a pick-up in the confidence index in Q4, with businesses particularly optimistic about the possibility of a big fiscal boost.

Meanwhile, Ghana's election on 7 December passed smoothly, cementing the country's reputation as one of Africa's most resilient democracies. New president Nana Akufo-Addo will look to loosen fiscal policy, but he will be limited by the strict terms of Ghana's deal with the IMF, which aims to put Ghana's fiscal position to a more sustainable footing.

GDP growth in Ghana is set to accelerate sharply in 2017 as new oil and gas fields come on stream. The economy will also get a boost from falling inflation, which will boost consumers' purchasing power and give the central bank room to cut interest rates.

Chart 34: Ghana's confidence boost



Source: GECS

Confidence in Central & South America increased sharply in Q4, and is now at its highest level since Q3 2013.

CENTRAL & SOUTH AMERICA AND THE CARIBBEAN

Confidence in Central & South America increased sharply in Q4, and is now at its highest level since Q3 2013. This may have been helped by the improving prospects of Brazil, which is expected to move out of recession in 2017.

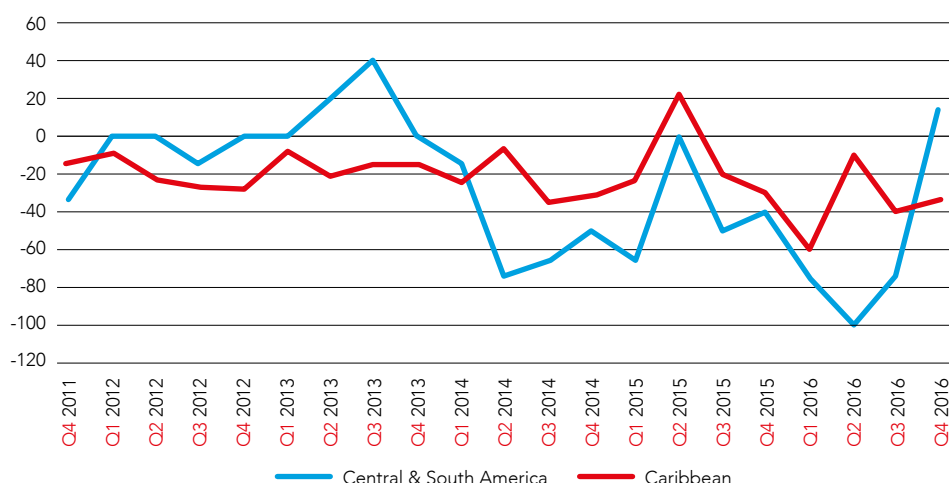
Confidence also improved in the Caribbean, continued strong growth in the US, which is the region's biggest trading partner, should help to boost growth in 2017.

TRINIDAD AND TOBAGO IN FOCUS

The decline in energy prices over the past couple of years has also created significant problems for Trinidad and Tobago, and this is reflected in the low overall level of confidence in the economy. The fiscal deficit has ballooned, which has reduced the scope for a stimulus package, and the government expenditure index is very weak. The current account, meanwhile, has deteriorated sharply.

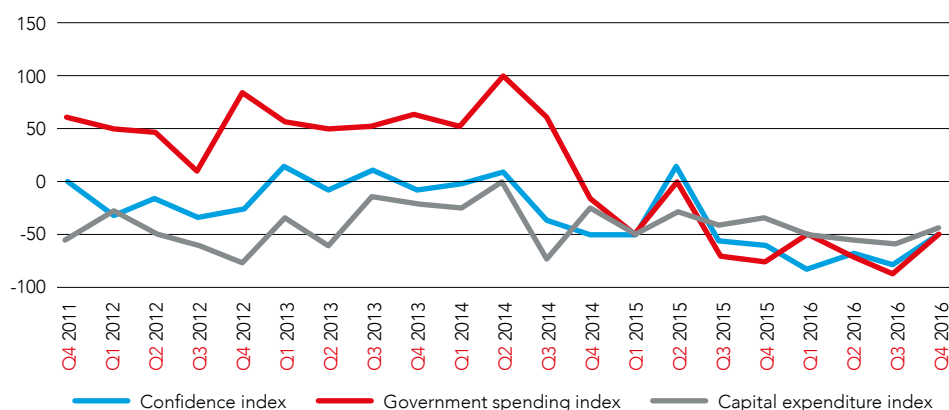
Yet it is not all doom and gloom for the economy. The banking sector remains in good shape despite the economic downturn, while the collapse in the oil price has forced the government to take steps to diversify the economy.

Chart 35: Central and South America bounces back



Source: GECS

Chart 36: Trinidad & Tobago: confidence remains low



Source: GECS

Although global confidence declined in the fourth quarter, it does seem to be holding up remarkably well considering the growing risks to the economy.

Although global confidence declined in the fourth quarter, it does seem to be holding up remarkably well considering the growing risks to the economy.

For its part, the UK appears to be weathering the Brexit vote well so far, but it is still early days; after all, it is still a member of the EU. "From a market perspective the most rational outcome is a soft Brexit, and markets like to assume that policymakers behave rationally," says Lombard Street Research's Dario Perkins. "Negotiations will be tough, and this year we will start to realise just how difficult they will be."

Across the English Channel in the Eurozone, economic prospects are better than they have been for a while. The main problems stem from the unstable political outlook.

"We are looking at growth in the Eurozone of 1%–1.5% for 2017," says Markit's Chris Williamson. "But significantly more downside risk than upside based on the amount of political issues in 2017 – not just Brexit, but elections in the Netherlands, France, Germany, potentially Greece and Italy as well. There's an almost unprecedented amount of political uncertainty."

In Africa and the Middle East, meanwhile, rising commodity prices are likely to boost economic growth and tax revenues, according to Williamson. "There are decent signs of a better outlook for both," he says. "North Africa's doing better than sub-Saharan: 2.4% increasing to 3.7% in 2017, and sub-Saharan Africa doubling to 2.5% this year. A commodity-led upturn and the oil

price are helping to boost the Middle East. We see growth edging up to 2.7% in 2017."

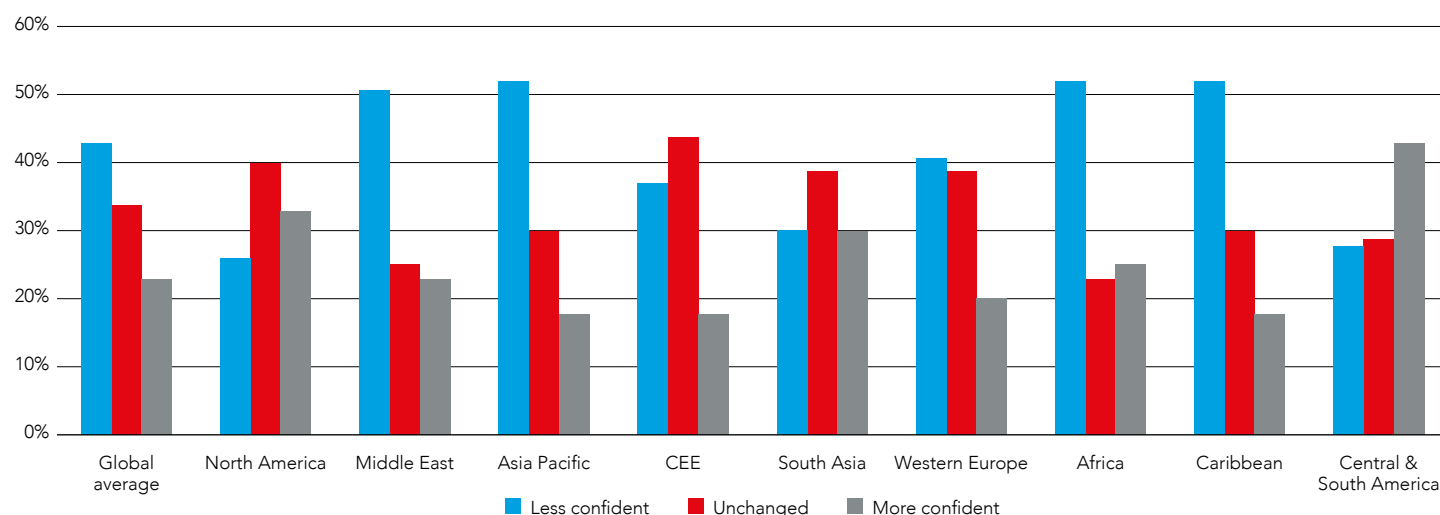
China, however, is likely to struggle over the next couple of years with overcapacity and rising bad debts. Parts of South East Asia, in particular Thailand, will weaken as the rise in household debt starts to drag on consumer spending. Moreover, potential changes in US policies could affect trade-dependent countries such as Taiwan, Hong Kong, Singapore and Vietnam.

In the US, economic growth is likely to accelerate in the near-term, helped by increased government spending and tax cuts. "We are forecasting growth of about 2.7% for 2017," says Andrew Kenningham of Capital Economics. "That's half a percentage point higher than we had been expecting before the election, and the main reason for that is the fiscal stimulus. We don't know exactly what form it will take, but we have estimated that it will be worth at least 2% of GDP per year over the course of Trump's presidency, mostly in the form of tax cuts."

Tighter monetary policy in the US would lead to a stronger US dollar, which could cause problems for those emerging economies that have high levels of foreign currency debt. Although the aggressive loosening of monetary policy over the past year has led to a rebound in economic activity, the sharp rise in debt is likely to cause problems further down the line.

The global economy might look set for another year of decent growth in 2017, but risks remain.

Chart 37: Prospects for the next three months



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?

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:

Faye Chua
Head of Business Insights, ACCA
+44 (0) 20 7059 5975
faye.chua@accaglobal.com

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

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

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