



The Association of  
Accountants and  
Financial Professionals  
in Business

Think Ahead

The background of the cover is a photograph of a modern building with a curved glass facade. The building's structure is visible through the glass, and the sky is reflected on the surface. The overall color palette is dominated by blues and greys, with a red overlay on the left side.

Global economic  
conditions survey report:  
Q2, 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](http://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.

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



## Global economic conditions survey report: Q2, 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 Q2 2016 GECS took place between 3 and 20 June, and attracted 1,250 responses from ACCA and IMA members around the world, including over 130 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.

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- Globally, the GECS showed that business confidence picked up a little in the second quarter, having hit a four-year low in the first quarter. The number of firms that said their prospects have deteriorated over the past three months fell to 43% in Q2, from 48% in Q1. That said, the prevailing mood is still far from bright, with only 24% of firms saying their prospects had improved.
- The survey was conducted before the UK voted on 23 June to leave the EU, but uncertainty over the result was clearly weighing on sentiment there and across much of Europe, where sentiment weakened.
- The pick-up in global confidence in Q2 was not matched by improvements in the capital expenditure and employment indices, which have remained downbeat. Half of firms are still either cutting or freezing employment, while only 13% are increasing investment in staff. Only 16% of businesses reported that they are increasing investment in capital projects, compared with 41% that said they are reducing investment. In every region there are far more firms scaling back investment than increasing it.
- Declining income remained the biggest concern of businesses in the second quarter, but the number of firms saying that it was a problem fell slightly compared with Q1 – from 48% to 45%.
- The improvement in global business confidence in Q2 was driven by non-OECD economies. Concerns about a near-term collapse in China's growth have subsided and the associated rise in commodity prices has taken some of the strain off commodity-producing economies. Our survey shows a sharp drop in the number of firms in non-OECD economies reporting negative effects from currency movements. Expectations of government spending also improved – especially in regions such as Africa and the Middle East, where governments are reliant on commodity revenues.
- By contrast, business confidence in OECD economies dipped again in Q2, and the UK's referendum on leaving the EU was a key factor. UK business confidence in Q2 was at its lowest in over four years, and the uncertainty appears to have weighed on the rest of Western Europe as well.

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## HEADLINE RESULTS

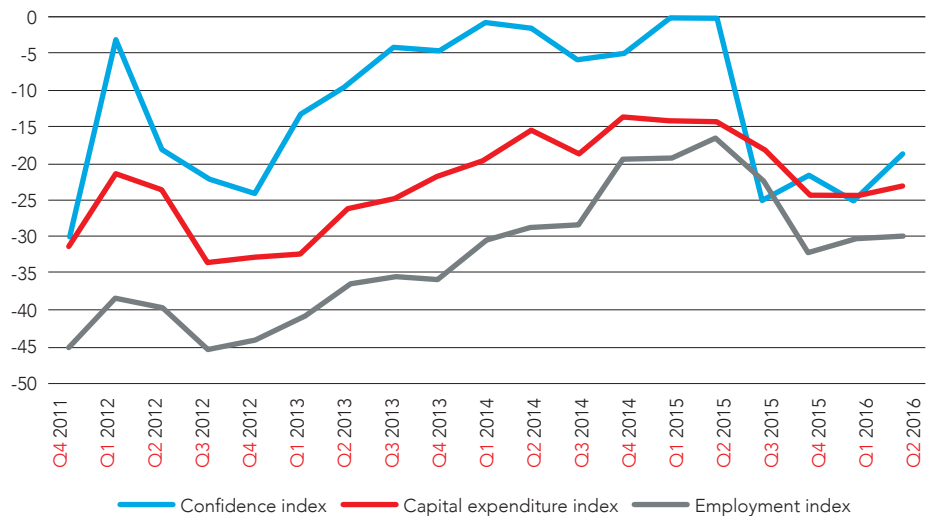
The survey was conducted before the UK voted on 23 June to leave the EU, but uncertainty over the result was clearly weighing on sentiment there and across much of Europe, with confidence weakening across the region. The result, in support of a Brexit, has rattled global financial markets and created fresh risks to the economic outlook which will almost certainly drag down business confidence in the third quarter.

“You’ve got Brexit worries coming at a time when the global economy was already slowing, which for an open economy such as the UK is obviously a cause for concern in its own right,” says Chris Williamson of Markit.

That said, other global developments in the second quarter generally supported business confidence. In particular, China’s markets have been relatively stable and activity data has not shown the slump that many were predicting. As fears for the worst have faded, global commodity prices have staged a partial recovery, lifting business confidence in many emerging-market economies.

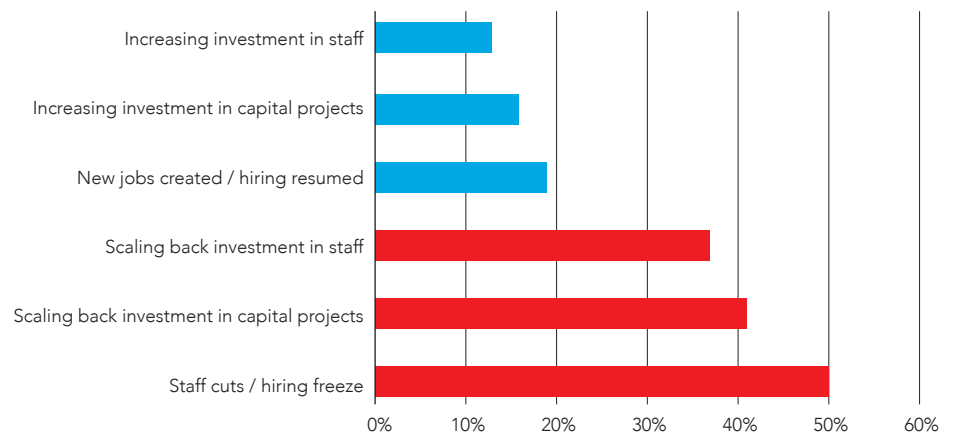
The pick-up in global confidence has not so far been matched by an improvement in the capital expenditure and employment indices, which have remained downbeat. Half of firms are still either cutting or freezing employment, while only 13% are increasing investment in staff.

Chart 1: Some of the gloom lifts



Source: GECS

Chart 2: Firms’ responses to macroeconomic changes, Q2 2016



Source: GECS

In every region there are far more firms scaling back investment than increasing it, but the gap was smallest in the US and Western Europe.

Only 16% of businesses reported that they are increasing investment in capital projects, compared with 41% that said they are reducing investment. In every region there are far more firms scaling back investment than increasing it, but the gap was smallest in the US and Western Europe.

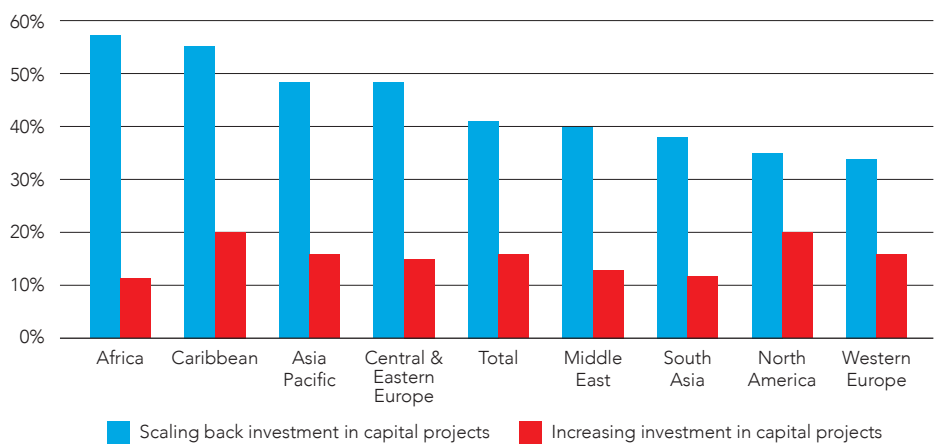
There was also a notable difference between the investment intentions of SMEs, 38% of which said they are scaling back investment, compared with 43% reported by large firms. Large firms tend to rely more on overseas demand than SMEs, and are therefore likely to have been hit harder by the downturn in global trade.

**RISING COMMODITY PRICES EASE THE PRESSURE**

Declining income remained the biggest concern of businesses in Q2, but the number of firms saying that it was a problem fell slightly compared with Q1 – from 48% to 45%. The rise in commodity prices is likely to have eased the concerns of some firms in the resources sector. Similarly, higher commodity prices have helped to stabilise the currencies of countries that are reliant on commodity exports, which has been reflected in a drop in the number of firms reporting negative effects from currency movements.

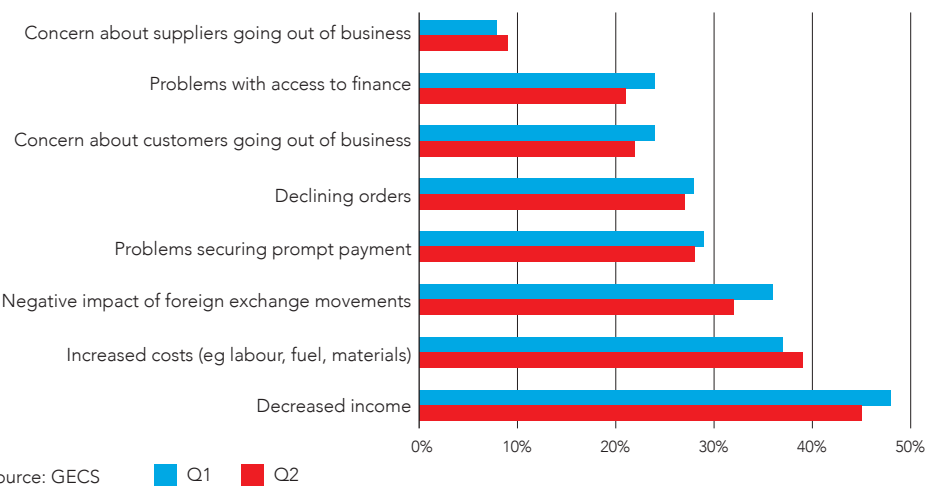
**43%**  
of large firms said they are scaling back investment

**Chart 3:** Global reluctance to invest



Source: GECS

**Chart 4:** Main negative effects of global economic changes, Q2 2016



Source: GECS

Concerns about rising costs are strongest in regions where wages continue to rise rapidly – especially South Asia and Africa.

The flipside, however, is that there was an increase in the number of firms reporting that rising costs were a problem. Concerns about rising costs are strongest in regions where wages continue to rise rapidly, especially South Asia and Africa. Moreover, previous falls of many currencies against the US dollar have pushed up costs, making imports more expensive and raising the local-currency value of dollar-denominated debts.

Despite 39% of businesses saying that rising costs were a problem in Q2, 49% of firms said that they saw an opportunity to explore cutting costs. This is not surprising, after all, the latest recovery in commodity prices has still left them well below the

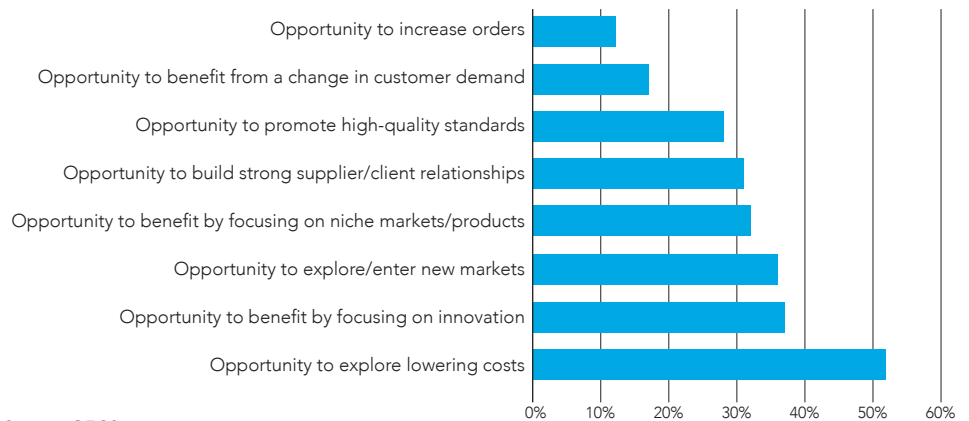
highs of a couple of years ago, and the global inflationary environment remains very weak.

New labour-saving technologies in some sectors, most notably manufacturing, have also created opportunities to cut costs. Firms have also had a broader focus on innovation in recent months, with 37% saying they see an opportunity to benefit from focusing on innovation. Almost as many (36%) said that they see a chance to explore new markets, which, given the broad slowdown in emerging economies over recent years may reflect the stagnancy of traditional markets rather than vibrant demand from new areas.

**49%**

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Chart 5: Main opportunities resulting from recent economic developments, Q2 2016



Source: GECS

Our survey shows a sharp drop in the number of firms in non-OECD economies reporting negative effects from currency movements.

**SENSE OF CRISIS EASES IN THE EMERGING WORLD**

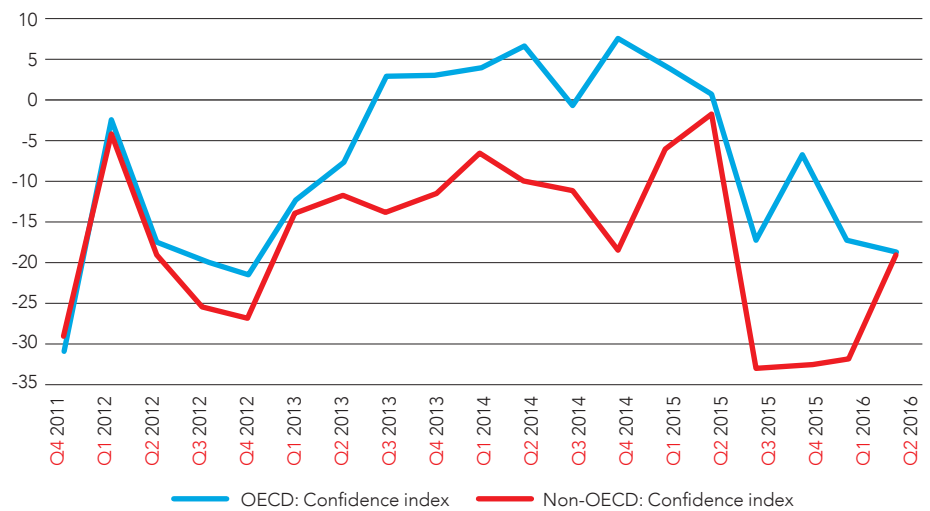
The improvement in global business confidence in Q2 was driven by non-OECD economies. Concerns about a near-term collapse in China’s growth have subsided and the associated rise in commodity prices has taken some of the strain off commodity-producing economies.

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movements. Expectations of government spending also improved, especially in regions such as Africa and the Middle East, where governments are reliant on commodity revenues.

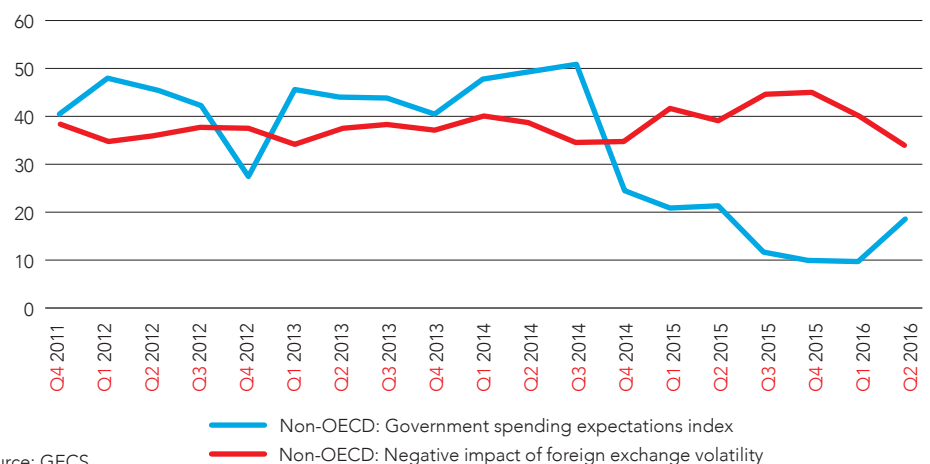
By contrast, business confidence in OECD economies dipped again in Q2, and the UK’s referendum on leaving the EU was a key factor. Business confidence in the UK in Q2 was at its lowest in over four years, and the uncertainty appears to have weighed on the rest of Western Europe as well.

**Chart 6:** Panic subsides in emerging economies



Source: GECS

**Chart 7:** Government spending expectations rise, currency pressures ease



Source: GECS



On 23 June, the UK chose in a referendum to leave the EU. The result was unexpected and markets reacted negatively.

### COMING TO TERMS WITH BREXIT

On 23 June, the UK chose in a referendum to leave the EU. The result was unexpected and markets reacted negatively, with the British pound falling to a 31-year low against the US dollar and the FTSE 250 suffering its biggest daily fall since 1987. Global markets have also been caught up in the turmoil.

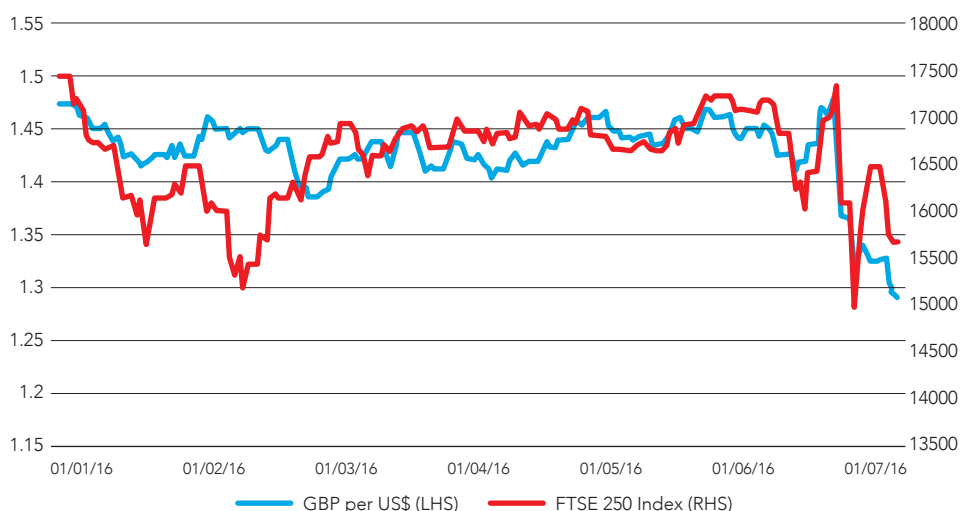
Most international organisations and the majority of economists expect Brexit to hurt the UK economy (at least in the short term), but there is a wide range of estimates of how much it will reduce GDP. The difficulty is that assessing the overall impact depends in part on the long list of potential negative and positive effects. The UK's departure from the EU will most likely increase tariffs between the UK and the EU, which will hurt UK exports and push up import prices. Even before tariffs adjust, the fall in the British pound will push up inflation, while the fall in the stock market will weigh on sentiment.

The task of working out the impact is made even more challenging by the uncertainty over just how a Brexit will play out. Theresa May takes over from David Cameron as

UK's Prime Minister, and she will have to decide when to invoke Article 50, the clause that marks the start of negotiations to leave the EU. Even then, EU rules allow two years for negotiations to be completed before an exit. The timeline and the terms under which the UK leaves will be important. The IMF, for example, has looked at two scenarios – one that sees a new trade deal agreed quickly, and another that sees negotiations drag on. In the first scenario, the IMF sees the UK grow by 1.4% in 2017, which is not much slower than its baseline. In the second, the IMF expects a recession.

"One of the benefits has been the reduction in the value of sterling, which in many ways is overdue because the current-account deficit was over 5% of GDP last year. It remains to be seen whether the benefit of a cheaper, more competitive currency outweighs the negative of investor anxiety and uncertainty," says Andrew Kenningham of Capital Economics. "Either way, the current-account deficit should fall in the next year or two, which in itself would be a positive development."

Chart 8: Brexit hurts UK markets



Source: GECS

It looks unlikely that there will be much more clarity over the coming months and, given this backdrop, it would not be a surprise to see business confidence in the UK fall further in Q3.

It looks unlikely that there will be much more clarity over the coming months and, given this backdrop, it would not be a surprise to see business confidence in the UK fall further in Q3. Businesses elsewhere in Europe will be watching closely.

“There will be a bit of policy support to try and cushion the blow, but clearly the UK economy is going to slow,” adds Kenningham. “The economic impact on the rest of Europe should be quite small. On average, exports from other European Union countries to the UK are only about 3% of GDP. Even if they were to suffer a fairly big fall, such as 5%, that would only be a very small fraction of 1% of GDP.

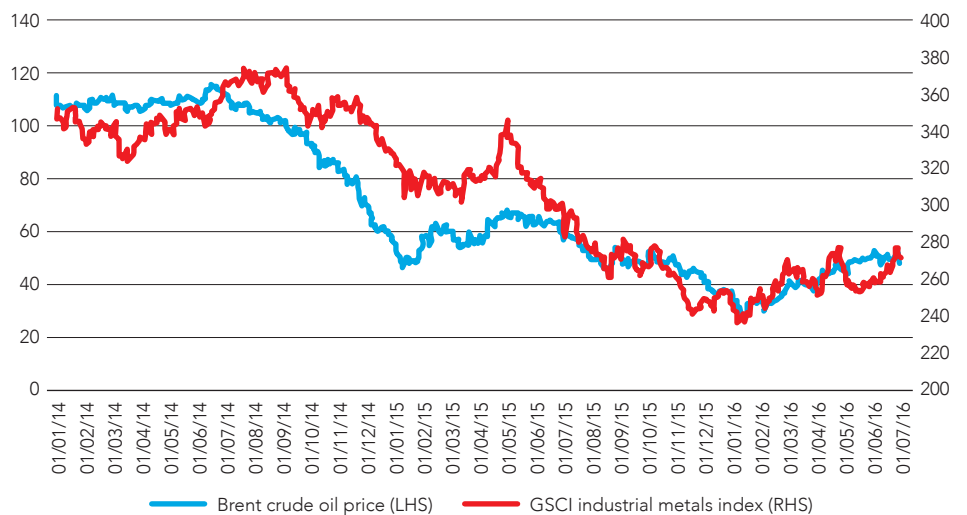
“In the longer term,” Kenningham adds, “we’re neutral on the long-term impact on the UK economy. We’re not so sure it will necessarily be negative because we think there’s a very high chance that the outcome will be an agreement that largely preserves the benefits of the single market – some kind of ‘Brexit lite’.”

**IS THE WORST OVER FOR COMMODITY EXPORTERS?**

Although Brexit triggered a sell-off in late June and early July, commodity prices have generally been on a path of recovery since the start of the year, led by a rebound in oil prices. A scaling back of expectations for US rate hikes has helped – in large part by putting downward pressure on the US dollar. But rising oil prices have reflected a growing consensus that the supply and demand will rebalance later this year, as cuts in supply – particularly in the US shale sector – start to bite. The worst fears over demand have also faded as China’s economy has shown signs of becoming more stable.

“There have been some temporary disruptions that have helped to push up the oil price,” says Andrew Kenningham. “Our forecast for Brent is that it might drop back a little in the mid-term, but the upward trend will probably resume. By the end of next year we expect Brent crude to be around \$60 a barrel. Industrial metals prices, which are very dependent on China, have also passed the worst.”

**Chart 9: Partial recovery**



Source: GECS

The Brexit sell-off shows the potential for shocks to send prices lower, and US interest rates will eventually start to rise again.

The commodity prices recovery has taken pressure off a range of commodity-producing economies. Their currencies have been much more stable, which has in turn eased concerns about ballooning foreign-currency debts. Currency stability should also mean that inflation cools in those economies, such as Russia and Brazil, where currency collapse in late 2014 pushed up import prices sharply. Central banks will also have less need to keep interest rates high to bolster currencies and contain inflation. Finally, in most commodity-producing economies the sharp drop in investment in resources that was necessary after prices collapsed has now bottomed out.

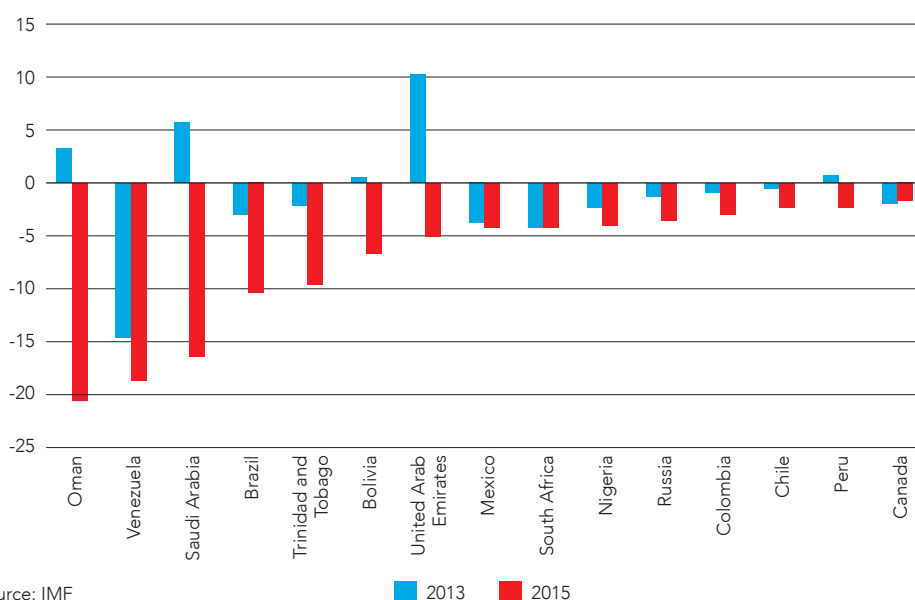
But if the worst looks to be over, there are still several reasons to be cautious about the outlook for economies that are reliant on commodities. First, even after the recent recovery, lower commodity prices have left large holes in the finances of many governments. Brazil, for example, ran a budget deficit equivalent

to 10.3% of GDP in 2015, according to IMF estimates, and faces years of fiscal consolidation. Governments in the Middle East had the fiscal reserves to initially offset the negative economic effects on their economies, but their period of belt tightening is only just beginning.

Second, high commodity prices during the boom years helped to mask structural problems in a number of economies. Those weaknesses have been laid bare following the price collapse. Indeed, the IMF estimates that around a third of the slowdown in emerging-market commodity producers is likely to be permanent.

Finally, there is no guarantee that prices will not fall again. The Brexit sell-off shows the potential for shocks to send prices lower, and US interest rates will eventually start to rise again. A less likely risk is that China's economy suffers a sharp downturn – it accounts for at least half of global demand for almost all industrial metals and over 10% of global oil demand.

Chart 10: Budget deficits have opened up



Source: IMF

Recent economic data suggests that growth has held up so far in 2016, rather than suffering the sharp drop that many commentators had warned of.

### IS CHINA OUT OF THE WOODS?

In Q2, fears that China might be on the brink of a large currency devaluation and a collapse in economic growth continued to ease. The equity market has calmed down after the panic-inducing collapse of last year, and the renminbi's slide against the US dollar has tailed off.

Recent economic data suggests that growth has held up so far in 2016, rather than suffering the sharp drop that many commentators had warned of. Imports, for example, contracted in May at their slowest pace since 2014, and there are signs that the fall in construction activity has bottomed out following a surge in home sales. The overall impression is that a combination of fiscal and monetary stimulus has had a steadying effect, and the GECS showed a sharp rise in business confidence within China.

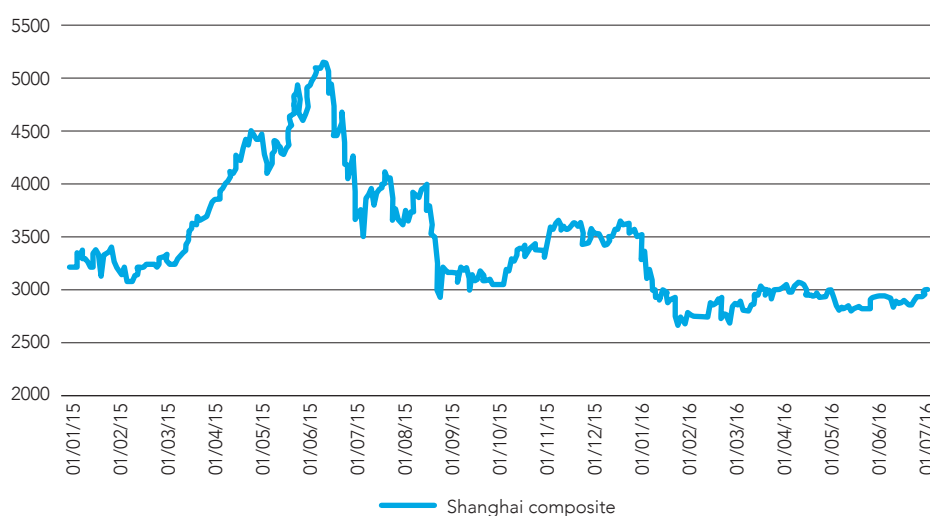
But if the short-term outlook has become more reassuring, there are still some questions over how China will eventually overcome the imbalances in its economy. It remains too reliant on investment, while the latest policy measures to shore up growth have added concerns about excessive credit growth. According to the IMF, the credit-to-GDP ratio in China is around

225%. Government and household debt are not particularly high by international standards, but credit to the private sector is equivalent to 145% of GDP, which the IMF says is "high by any measure".

The bulk of this lending has gone to state-owned enterprises (SOEs), many of which the IMF has warned are underperforming. If they continue to gobble up credit at the expense of more productive private firms, long-run growth will suffer. There is also a risk of a rise in non-performing loans if struggling SOEs are allowed to fail. The IMF puts the cost to the government of covering banking sector losses in the event of a rise in defaults at about 7% of GDP. The government's finances are secure enough to cope comfortably with a bailout of that size, but the recent rise in business confidence in China will be tested if these problems start to come to a head.

"The authorities propped up growth early this year, but credit is just pouring more fuel on the fire. It hasn't achieved a re-balancing, certainly not in terms of employment growth," says Chris Williamson of Markit. "The service sector is generating more jobs but it's not enough to offset the factory job losses, where capacity is being cut."

Chart 11: A more stable stock market



Source: GECS

Raising global productivity growth will require a fresh reform movement and measures to raise investment, which has been low globally during the past decade.

### **THE GLOBAL PRODUCTIVITY PROBLEM**

In the past five years, global labour productivity growth has averaged 1.6% a year, according to the US Conference Board. This is down from an average rate of 2.4% in the decade leading up to the global financial crisis. The slowdown has come despite continued advances in technology that has changed the way we do business. More recently, there have been significant developments in areas such as robotics, digitisation, artificial intelligence and biotechnology, which are being adopted by more and more businesses.

One explanation for why seemingly rapid technological progress is not translating into faster overall productivity gains is that the advances have had benefits in too narrow a range of tech-intensive sectors, such as information and communications technology (ICT) and media, which together typically account for less than 10% of GDP even in advanced economies. Services sectors such as retail, government services and healthcare tend to be much larger, but have seen much smaller gains in productivity.

In the emerging world, slowing productivity growth can be traced to several sources. For one thing, some of the most successful large emerging economies, particularly China, are reaching a stage where productivity gains become harder to achieve. Over recent decades, China has brought millions of rural workers into factories, immediately raising their productivity. This movement of workers away from agriculture is reaching a natural limit. The economy is now moving away from dependence on manufacturing

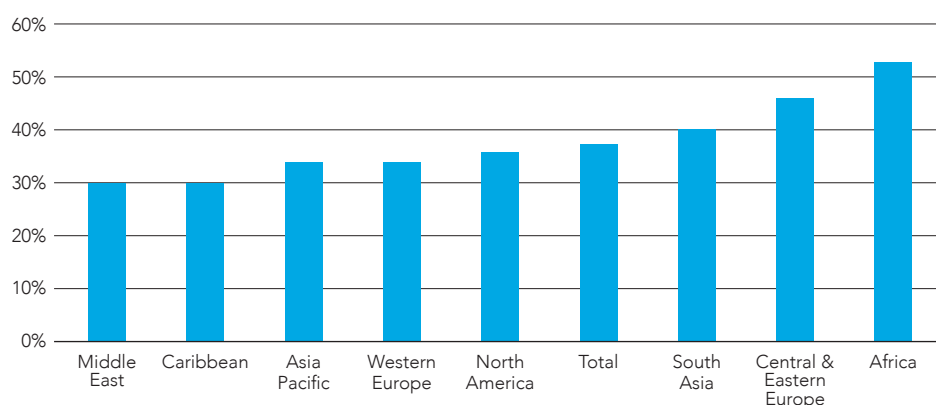
toward services, but this transition will not deliver anything like the boost to productivity that industrialisation created.

At the same time, China's manufacturing is now closer to the global cutting edge than it used to be. Potential for 'catch-up' growth through adopting the technologies and practices of more advanced economies has shrunk. The same is true across much of East Asia. Of course, other countries could take up the mantle, but few have comparable scale and many are failing to get their policies right.

This leads to a second reason for a slowdown in emerging-market productivity growth: stalling reform. From the 1990s through to the global financial crisis in 2008, the emerging world saw a broad wave of positive reform. Market-based reforms and trade liberalisation were the big themes for Eastern Europe, China and India. The changes were less dramatic in Latin America, but it still saw the overthrow of military dictatorships and a healthy reform movement. However, that reform momentum has been lost since the global financial crisis, and the result has been slower productivity growth.

Raising global productivity growth will require a fresh reform movement and measures to raise investment, which has been low globally during the past decade. But this does not mean there will not be opportunities for individual businesses to make the most of new innovations. The survey suggests that plenty of firms are looking to do just that, with 40% of firms seeing an opportunity to benefit by focusing on innovation.

**Chart 12:** Opportunity to benefit by focusing on innovation



Source: GECS

Confidence in North America edged down slightly in Q2, but the mood generally remained more upbeat than in most other regions.

### NORTH AMERICA: US RESILIENCE, STRUGGLES IN CANADA

Confidence in North America edged down slightly in Q2, but the mood generally remained more upbeat than in most other regions. Although 38% of businesses said they were less optimistic than three months earlier – up from 36% in Q1 – that was still comfortably below the global average of 43%.

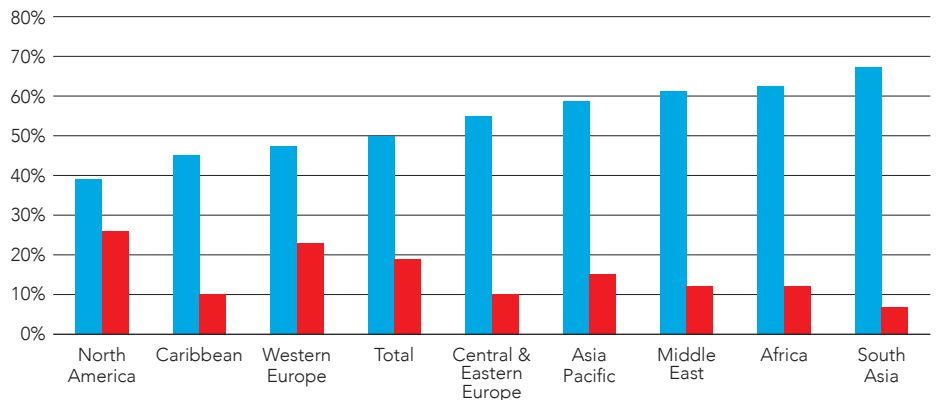
Businesses in North America also reported stronger intentions for employment and investment. Fewer firms in North America than in any other region reported plans to freeze or cut jobs, and the 26% of businesses planning to increase employment was higher than any other region. And only in the Caribbean was the proportion of firms planning to increase capital expenditure higher than the 20% in North America.

Within the region there was a clear contrast between Canada, where confidence slumped to its lowest level since Q4 2011, and the US, where businesses became more confident. Canada was one of the few commodity-exporting economies to see a drop in business confidence in Q2.

Severe wildfires in Alberta disrupted oil production, and this weighed on sentiment. The fires affected nearly half of the oil sands industry and halted production for two weeks. Monthly indicators suggest that GDP has contracted sharply in the second quarter. There will be a rebound in GDP as production returns to normal, but there are other signs of underlying weakness.

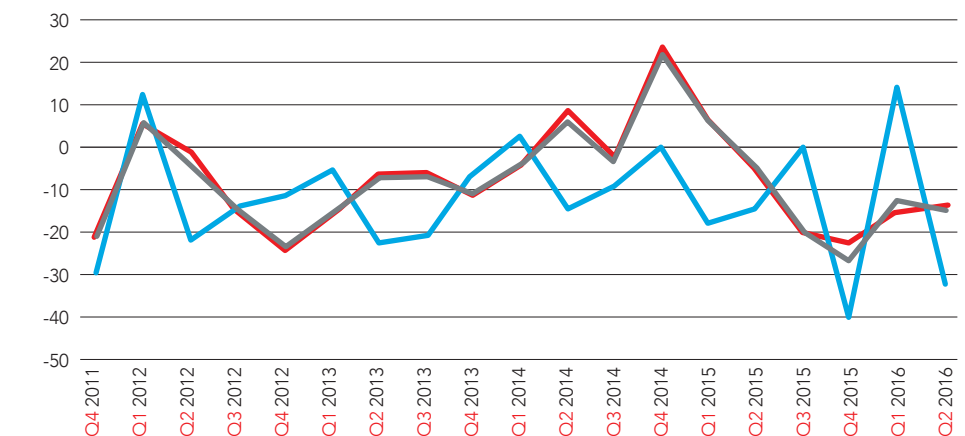
Employment gains have been tepid over the past six months, and the GECS – like Statistics Canada’s investment intentions survey for 2016 – suggests that firms are reluctant to invest.

**Chart 13:** Labour market strength in North American



Source: GECS

**Chart 14:** Scorched by Canadian wildfires



— Canada: Confidence index — US: Confidence index — North America: Confidence index

Source: GECS

**Business confidence in the US edged up again in the second quarter and is now at its highest in a year.**

**US IN FOCUS**

Business confidence in the US edged up again in the second quarter and is now at its highest in a year. The consumer sector looks to be doing particularly well, with retail sales in May rising by 0.5% month on month – building on a 1.3% surge in April – and the Conference Board’s measure of consumer confidence hitting an eight-month high in June.

The GECS showed that more businesses (14%) in North America than in any other region saw an opportunity to increase orders in Q2. Consumer spending is being supported by a healthy labour market, with unemployment in May at an eight-year low of 4.7% and earnings growth finally starting to rise. The survey suggests that employment intentions remain strong even if there has been a dip in employment growth in recent months.

“We’re fairly optimistic on the US,” says Capital Economics’ Andrew Kenningham. “GDP growth seems to have rebounded in the second quarter and we think it should be back to what’s probably the new normal of about 2% over the next year or so. The Fed won’t put off raising interest rates for too

long. We think they’ll probably raise them in either September or, perhaps more likely, in December after the presidential elections.”

The mining and manufacturing sectors have been the main drags on the economy over the past year or so. However, the mining sector will be given some support from the recent rise in commodity prices and, in any case, the big cuts in mining investment have already happened.

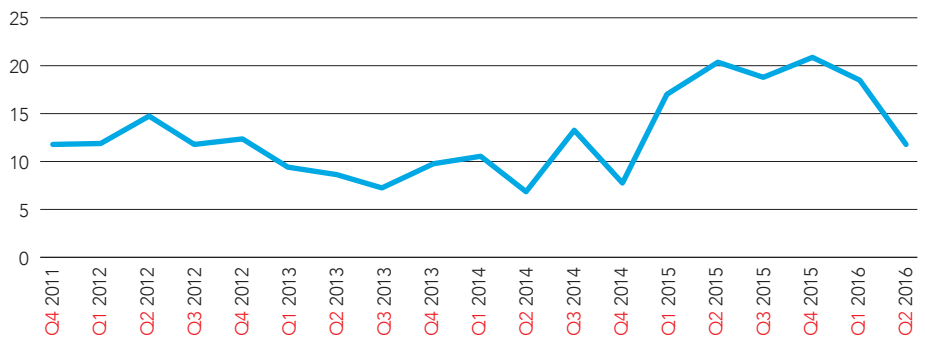
For manufacturers, the main problem was the 20% appreciation of the trade-weighted exchange rate between mid-2014 and mid-2015, but the dollar has been much more stable over the past six months. Indeed, the GECS showed that in Q2 the number of firms in North America reporting negative effects from exchange-rate movements was at its lowest in a year and a half.

“The profit story is probably the most important domestic story in the US,” says Dario Perkins of Lombard Street Research. “Profits have been stagnating. Some of that is due to a productivity slowdown. When your unit costs are increasing, companies have to decide how to respond. How they respond is going to determine what happens next in the US economy.”

**14%**

of businesses in North America saw an opportunity to increase orders in Q2

**Chart 15:** Fading pressure on exporters from strong dollar



Source: GECS

— North America: Index of negative impact of foreign exchange volatility

Even before the Brexit vote, economic conditions were sluggish. Recent PMI surveys are pointing to a slowdown in eurozone GDP growth in the second quarter, while the boost to the region from a weaker euro and low oil prices is also starting fade.

**WESTERN EUROPE:  
NERVOUS OVER BREXIT**

In Q2, confidence in Western Europe fell to its lowest in three and half years, with the possibility that the UK might vote to leave the EU clearly weighing on confidence in the build-up to the 23 June referendum.

Even before the Brexit vote, economic conditions were sluggish. Recent PMI surveys are pointing to a slowdown in eurozone GDP growth in the second quarter, while the boost to the region from a weaker euro and low oil prices is also starting fade.

“Even aside from Brexit, we’re not particularly optimistic about Europe,” says Andrew Kenningham. “We have the economy growing at just over 1% this year. The eurozone has got some major structural problems that are restraining its long-term growth prospects.”

Given all this, it is perhaps no surprise that the GECS shows businesses have become

more reluctant to invest and hire workers. That said, the gloom needs to be put into context. The eurozone has moved away from the brink of crisis in recent years and most forecasters expect its economy to grow this year. The severity of government austerity programmes has eased, and the European Central Bank is also being more active in supporting growth.

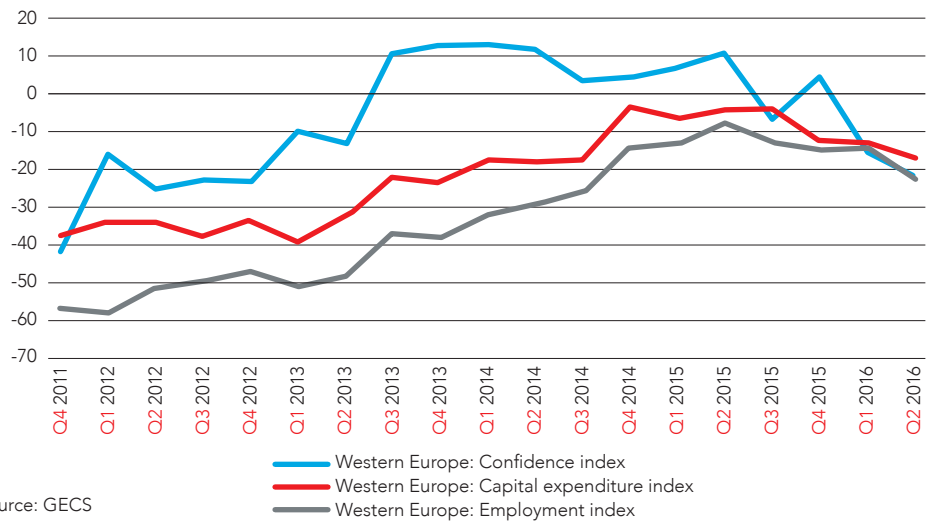
The 34% of businesses reporting that they were planning to cut investment in Q2 was still well below the global average of 41%, while the 47% freezing or cutting employment was lower than the 51% global average.

“The eurozone is growing at a steady but unspectacular rate,” says Chris Williamson of Markit. “It’s being helped by central bank stimulus the like of which we’ve never seen before. This should hopefully see unemployment come down into single digits soon, but it’s a long, slow haul.”

**34%**

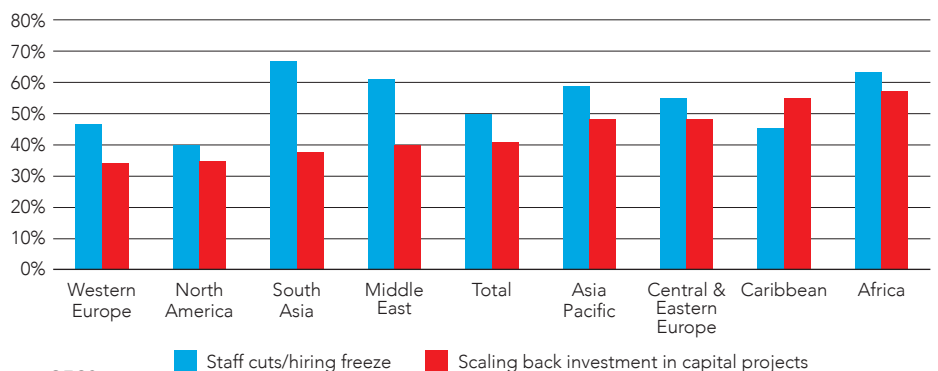
of businesses reported that they were planning to cut investment in Q2

**Chart 16:** Brexit has made businesses cautious



Source: GECS

**Chart 17:** Not panicking yet



Source: GECS



The decision in support of a Brexit means that uncertainty over the economic outlook and the terms of future trade relations with the EU will only have escalated.

**UK AND IRELAND IN FOCUS**

The GECS suggests that businesses in the UK are now more downbeat about their prospects than at any time since Q4 2011. GDP growth slowed to 0.4% quarter on quarter in Q1 from 0.7% in the previous quarter, but fears that voters would elect to leave the EU on 23 June were undoubtedly the main cause of weaker sentiment.

Firms became more reluctant to invest and hire workers ahead of the vote, and the warning from the Chancellor, George Osborne, that a Brexit decision would be met with a new, more austere, budget has had the expected effect on firms' expectations of government spending. The decision in support of a Brexit means that uncertainty over the economic outlook and the terms of future trade relations with the EU will only have escalated.

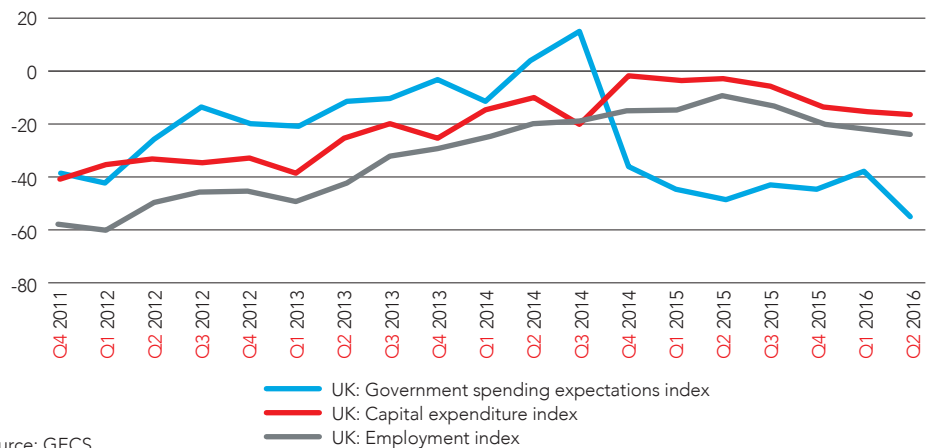
"I think there's a strong chance of dipping into contraction in the third quarter, and,

depending on policy responses and all the other factors such as leadership and EU discussions, a strong chance of that contraction extending into the fourth quarter, unfortunately," says Chris Williamson from Markit.

There has been a dramatic drop in business confidence in Ireland over the past two quarters, even though its economy continues to grow at a breakneck pace. Ireland's trade links with the UK are stronger than those of any other eurozone economy, with merchandise exports to the UK accounting for 18% of its GDP. This means that any downturn in the UK will be felt heavily.

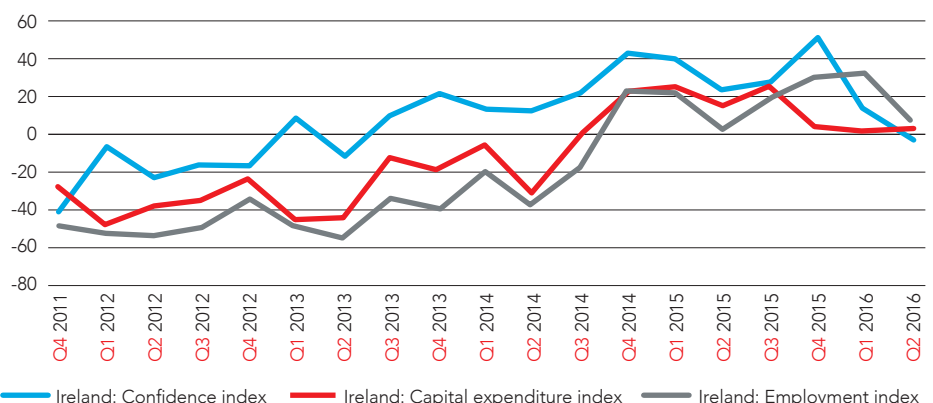
That said, there are some potential positives for Ireland from a possible Brexit. Higher tariff barriers between the UK and EU economies might make Irish goods more competitive.

**Chart 18:** Brexit uncertainty weighing on investment and employment intentions



Source: GECS

**Chart 19:** Looking nervously across the Irish Sea



Source: GECS

Central & Eastern Europe was one of the global bright spots in the Q2 survey, with business confidence rising to its highest level since Q4 2011.

**CENTRAL & EASTERN EUROPE: RUSSIA EMERGING FROM CRISIS**

Central & Eastern Europe was one of the global bright spots in the Q2 survey, with business confidence rising to its highest level since Q4 2011. The 29% of businesses saying they have become more optimistic about their prospects in the past three months was higher than in any other region.

Central & Eastern Europe also had the highest proportion of firms (20%) reporting a rise in profitable opportunities and the second-lowest (40%) reporting a fall in income. The rise in oil prices so far this year helps to explain why businesses in Russia might be feeling less strain. Russia is also finally starting to move beyond the fallout

from its currency crisis in late 2014. There was a sharp drop in the number of firms in Russia reporting negative effects from currency movements in Q2.

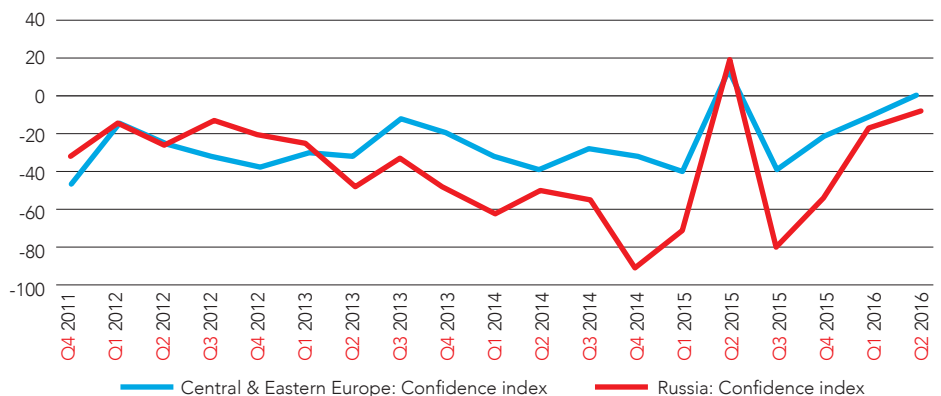
Moreover, consumer price inflation has moved back into single digits this year, coming in at 7.3% year on year for the third consecutive month in May, according to government data. This has allowed the central bank to cut interest rates for the first time since August 2015.

Around the rest of the region, low inflation is allowing central banks to keep interest rates low. Only in Western Europe and the Middle East did fewer firms say they were being hurt by rising costs.

**29%**

of businesses said they have become more optimistic about their prospects in the past three months

**Chart 20:** Russia moving beyond crisis



Source: GECS

**Chart 21:** Ruble stability paying off



Source: GECS

**Business sentiment improved in South Asia in Q2.**

**SOUTH ASIA: BUOYANT MOOD**

Business sentiment improved in South Asia in Q2. Across the region, 37% of businesses said that they had become more confident about their prospects in Q2 – up from 26% in Q1 and comfortably higher than in any other region. Firms in South Asia were also the least likely to report declining income or negative effects from foreign-exchange movements, and the second most likely (behind North America) to report a rise in profitable opportunities.

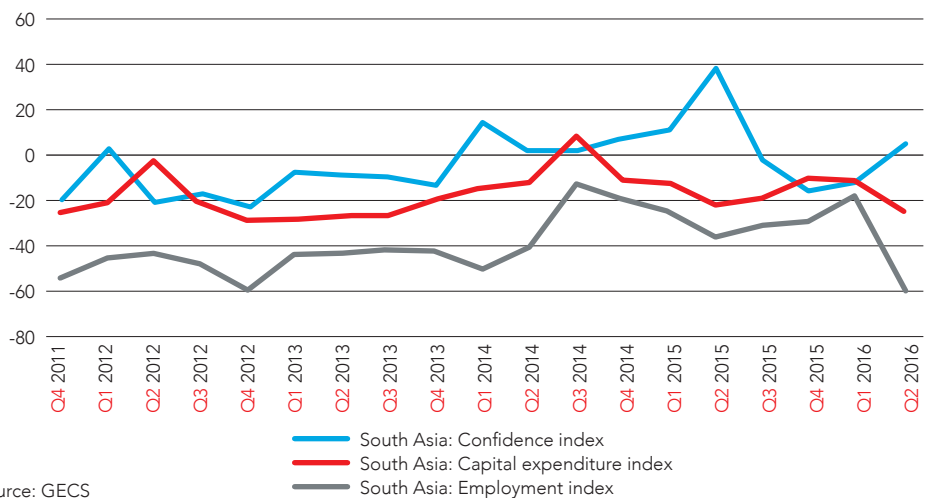
Less positively, there was a downturn in investment and employment intentions in South Asia. The 41% of firms reporting that they are freezing or cutting employment was still well below the global average of 51% – as was the 36% reporting cutbacks on capital expenditure (at 36%, compared with 42% globally).

**Q2 SAW A RISE IN CONFIDENCE IN SOUTH ASIA**

India, which is now the world's best-performing major economy, expanded its GDP by 7.9% year on year in Q1, up from 7.2% in Q4 2015. The central bank governor, Raghuram Rajan, who is credited with delivering greater currency stability since he took over in 2013, is due to step down in September, but news that he will be leaving office has not so far rattled markets. The banking sector is the area of concern in India at the moment, with rising non-performing loans making banks reluctant to lend.

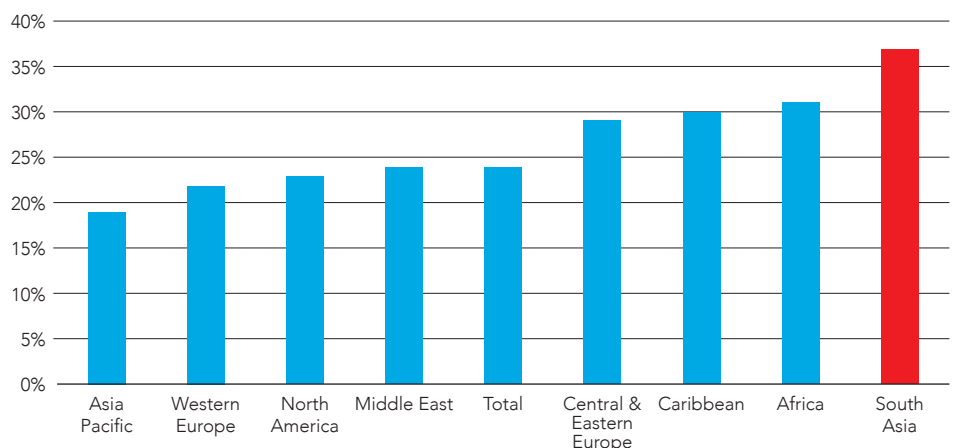
**37%**  
of businesses said that they had become more confident about their prospects in Q2

**Chart 22:** Investment and employment intentions souring



Source: GECS

**Chart 23:** Buoyant mood in South Asia



Source: GECS

There was a clear rise in confidence in Pakistan in the second quarter, after it was dragged down in Q1 by security problems.

**PAKISTAN IN FOCUS**

There was a clear rise in confidence in Pakistan in the second quarter, after it was dragged down in Q1 by security problems – most notably an Islamist terrorist attack in the country’s second-largest city, Lahore, which killed more than 75 people in March. Businesses have continued to benefit from a series of aggressive rate cuts since 2014 – that most recent of which was made in late May. The eventual implementation of the Pakistan-China Economic Corridor, a bilateral project that will involve hefty Chinese investment into Pakistan’s infrastructure network, will also create opportunities for local firms.

**ASIA-PACIFIC: CHINA PANIC OVER, BUT NERVOUSNESS REMAINS**

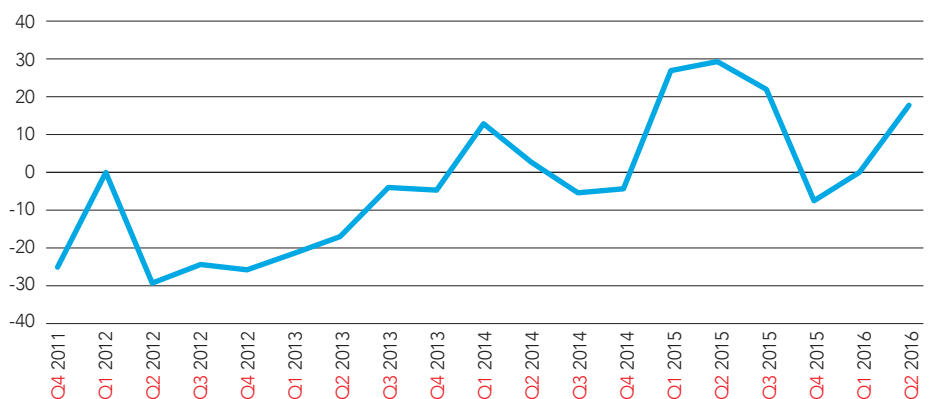
Business confidence picked up sharply in Q2, led by much stronger sentiment

in China, where the sense of crisis that dominated the second half of 2015 has now faded. That said, there is still a good deal of nervousness around much of the region. As many as 55% of businesses in Asia-Pacific said they had become less confident about their prospects in Q2, which was more than in any other region and well above the global average of 43%. The number of firms reporting cuts to capital expenditure (47%), hiring freezes (60%) and declining orders (42%) were also well above the global averages.

The high proportion of firms reporting a decline in orders is perhaps no surprise given the importance of global trade to much of the region. Indeed, in Asia-Pacific’s most open economies – Hong Kong, Singapore and Malaysia – the mood is still very pessimistic. All of these economies also have domestic problems

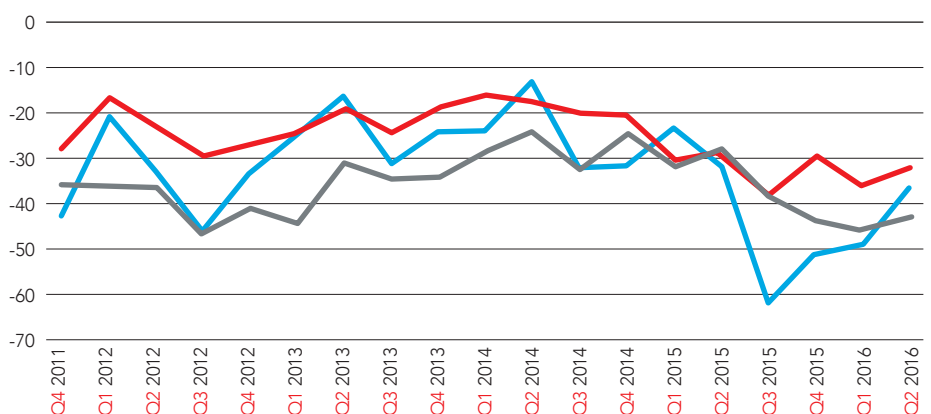
**55%**  
of businesses in Asia-Pacific said they had become less confident about their prospects in Q2

Chart 24: Pakistan confidence index



Source: GECS

Chart 25: Easing concerns in China



Source: GECS

— Asia-Pacific: Confidence index  
 — Asia-Pacific: Capital expenditure index  
 — Asia-Pacific: Employment index

There was a strong improvement in business sentiment in China in Q2 as businesses finally moved on from the financial market turmoil that shattered confidence in the second half of 2015.

with which to contend. In Hong Kong and Singapore, housing markets are weakening and interest rates are on the rise. Given the scale of house-price increases in Hong Kong over the past decade, fears of a crash are particularly strong. Meanwhile, confidence in Malaysia has been undermined by political problems as well as lower global commodity prices, which have forced the government to tighten its belt.

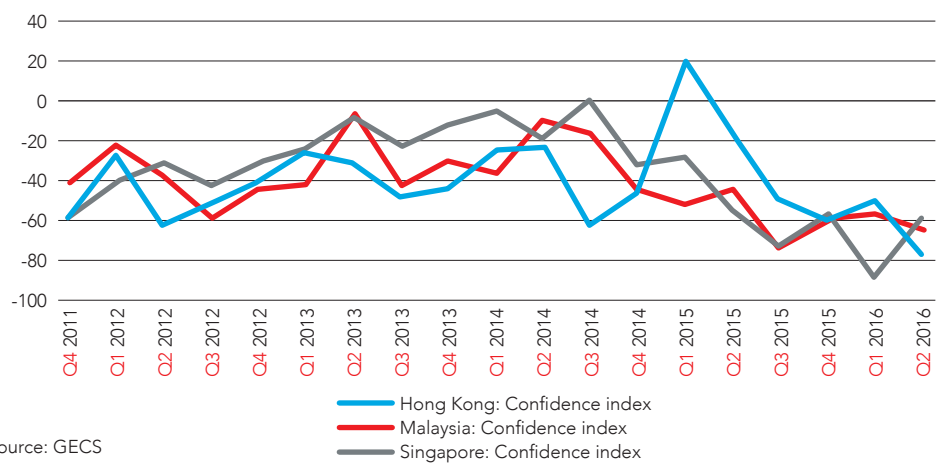
The government has also stepped up policy support by increasing public spending, especially on infrastructure, and pushing banks to lend more. Indeed, the GECS government spending expectations index for China is now close to its highest level since 2012 in Q2. Incoming data has also been better than many commentators had warned. Official GDP figures, for example, showed growth of 6.7% year on year in Q1 – down only slightly from 6.8% in Q4 – and more recent monthly releases suggest growth has remained fairly stable in Q2.

**CHINA IN FOCUS**

There was a strong improvement in business sentiment in China in Q2 as businesses finally moved on from the financial market turmoil that shattered confidence in the second half of 2015. The renminbi has become much more stable against the US dollar, and this has been reflected in a fall in the number of firms reporting negative effects from foreign-exchange movements.

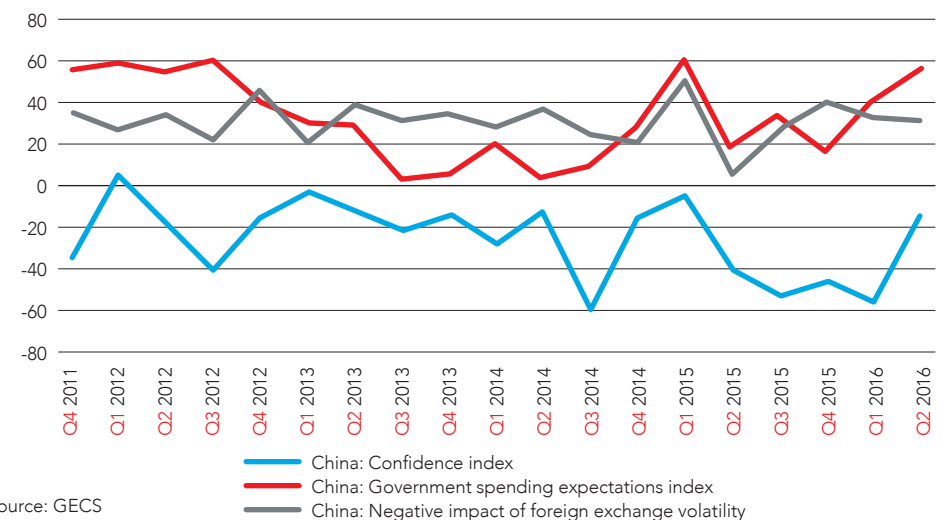
“I think that the authorities clearly reached their pain threshold, took measures and the economy picked up,” says Lombard Street Research’s Dario Perkins. “You have to be more worried about what’s going to happen over the next few years, but I don’t see any immediate triggers for trouble again in China.”

**Chart 26:** Feeling the effects of weak global trade



Source: GECS

**Chart 27:** Moving out of crisis mode



Source: GECS

The recovery in oil prices in Q2 led to a rise in business confidence in the Middle East, but it has not changed the big picture.

**MIDDLE EAST: BITING THE BULLET**

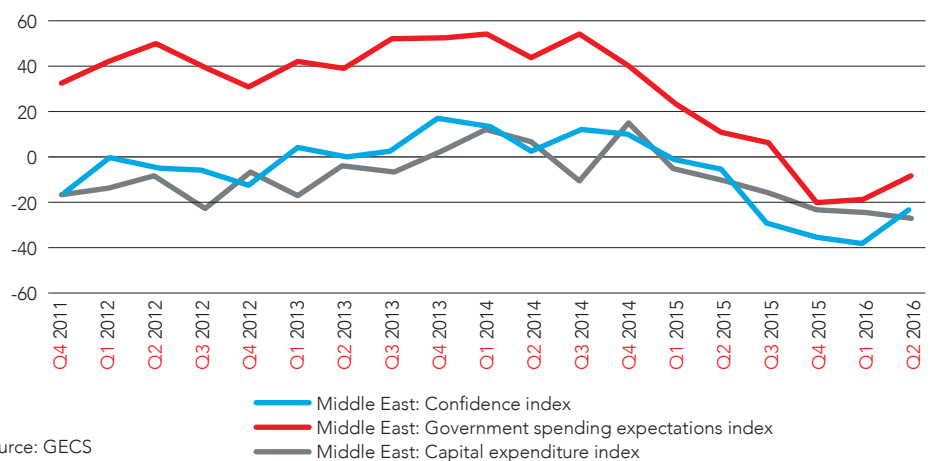
The recovery in oil prices in Q2 led to a rise in business confidence in the Middle East, but it has not changed the big picture. Oil prices still remain well below their highs of a few years ago, which is forcing significant adjustments in the region. Plans for capital spending have been scaled back sharply over the past couple of years. And the oil price recovery has not been strong enough for governments to revise plans to slash public spending. The 43% of firms in the Middle East reporting a fall in government support in Q2 was well above the global average of 34%, and most businesses think that worse is to come, with 22% of them expecting a significant drop in government spending (compared with 19% globally).

**UAE IN FOCUS**

As with the region as a whole, business confidence in the UAE was given a lift by higher oil prices in Q2, but the government will still need to press ahead with measures to close the budget deficit that has been created by the earlier price collapse. On the positive side, the UAE economy is more diversified than most economies in the Gulf, with a large financial sector that acts as a regional hub, and a sizeable tourism industry. This diversity should help the country to cope better with permanently lower oil prices than its neighbours.

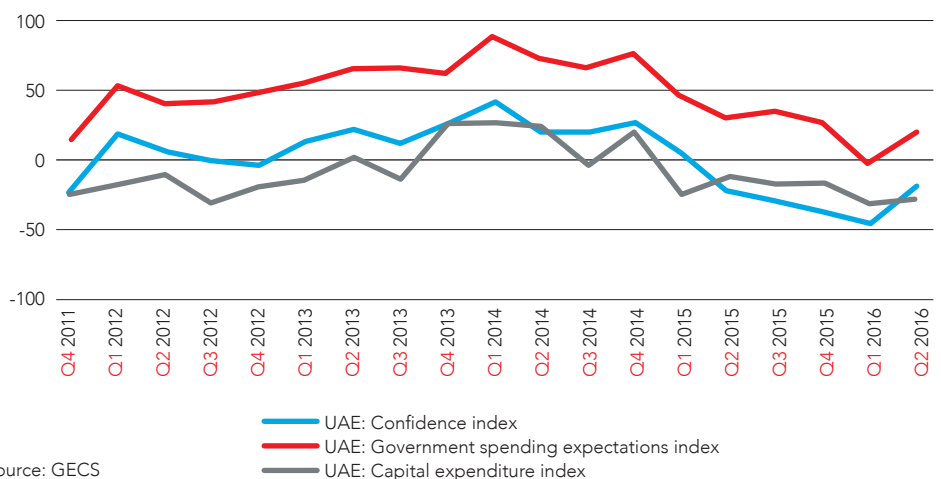
**43%**  
of firms in the Middle East reported a fall in government support in Q2

**Chart 28:** Higher oil prices do not change the big picture



Source: GECS

**Chart 29:** Adjustments still needed



Source: GECS

Higher commodity prices have boosted business confidence in Africa, but it remains very low by its own past standards and compared with global sentiment.

**AFRICA: BIG PROBLEMS**

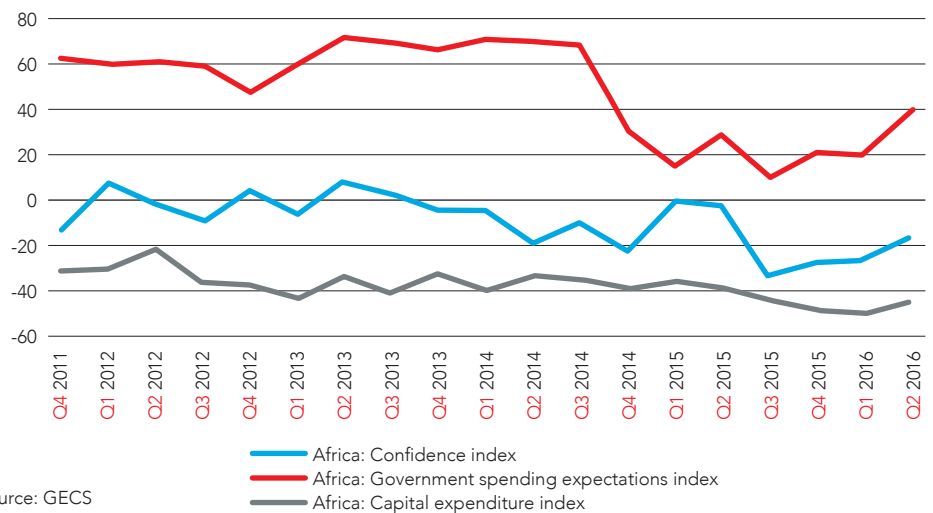
Higher commodity prices have boosted business confidence in Africa, but it remains very low by its own past standards and compared with global sentiment. The 48% of businesses that said they became less confident in their prospects in Q2 was higher than in any other region, and well above the global average of 43%.

More firms in Africa than anywhere else were scaling back capital spending (57%). The number of African firms reporting negative effects from exchange-rate movements and rising costs were also higher than in any other region. These two problems are closely linked, with currency depreciation having led to a sharp rise in inflation across much of the continent. Conditions in its two biggest economies, South Africa and Nigeria, are particularly poor. Both contracted in Q1 and are battling high inflation.

**48%**

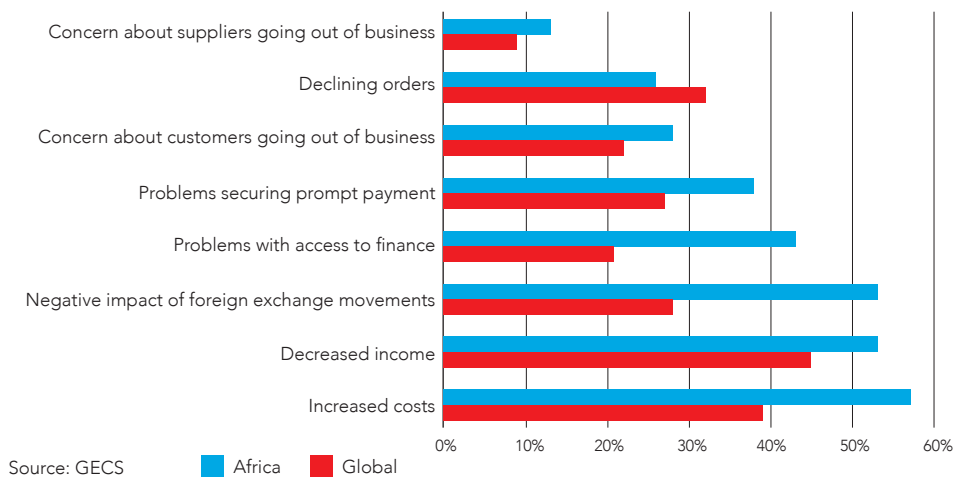
of businesses said they became less confident in their prospects in Q2

**Chart 30:** Commodity price bounce, but big problems linger



Source: GECS

**Chart 31:** Negative effects of recent economic developments



Source: GECS

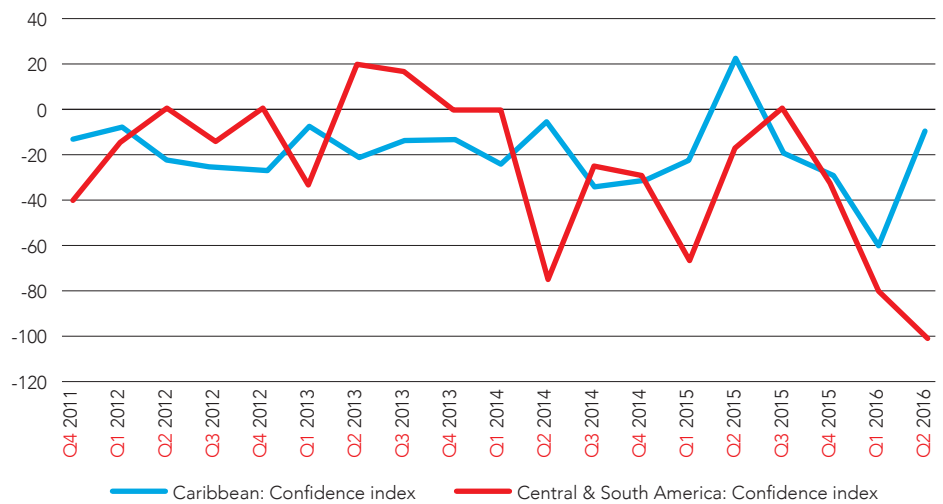
**Business confidence in the Caribbean rebounded in Q2.**

**THE CARIBBEAN AND SOUTH AMERICA: CARIBBEAN BOUNCING BACK**

Business confidence in the Caribbean rebounded in Q2. In part, this was because some economies in the Caribbean, most notably Trinidad and Tobago, are heavily dependent on commodities for export and government revenue. But the health of the US economy will also help the region by driving a pick-up in tourism visitors and demand for financial services in those economies in the Caribbean where commodity prices are far less important, such as Barbados, Jamaica and the Cayman Islands.

Although the business confidence index for Central & South America dropped in Q2, the small sample size is likely to have skewed the results. Like other commodity-dependent regions, South America should have been supported by higher prices in Q2. Although the political crisis in Brazil ended in the suspension of the President, Dilma Rousseff, who now awaits an impeachment trial, acting President Michel Temer has made a reasonable start since assuming his duties on 12 May, placing an emphasis on economic reform and fiscal consolidation.

**Chart 32:** Confidence recovers in the Caribbean



Source: GECS



The improvement in business confidence in the second quarter of 2016 was driven in large part by an easing of fears that China's economy is on the brink of a crisis.

The improvement in business confidence in the second quarter of 2016 was driven in large part by an easing of fears that China's economy is on the brink of a crisis. And while there might be lingering concerns about that country's long-term prospects, the short-term outlook is much better than it was at the start of the year.

Claims that the global economy might be about to suffer a recession also faded during the second quarter. Better data from China played a role in this, but the US economy also looks to have shrugged off a poor first quarter. The global manufacturing PMI for June showed a pick-up, and is consistent with global growth of about 2.5% year on year.

That said, the global economic environment is still fragile. The collapse in global interest rates has left investors with few options for earning relatively safe, steady returns and has created a search for returns among riskier assets. Global markets

have become jittery as a result. Adding to the nervousness is the limited scope for major central banks to provide more policy support, while most governments are reluctant to explore options for fiscal stimulus. Finally, those PMI surveys, like our own GECS, were conducted before the UK voted on 23 June to leave the EU. The risk of a Brexit had been clearly weighing on business sentiment in the country before the vote; now that it has chosen to leave, uncertainty over the outlook for the UK – and indeed the global economy – has increased. Markets have responded negatively, with stock markets from the UK to the US and across the emerging world suffering declines.

Given this new threat to the global outlook, it would not be a surprise if business sentiment fell again in Q3. And the likelihood that the details of the UK's exit from the EU will take years to work out means that Brexit could weigh on global sentiment for some time to come.

# Appendix I:

## Economies covered by Q2 survey responses

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



# ACCA, IMA and the global economy

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

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

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

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

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

## WHERE NEXT?

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

## CONTACTS

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