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The Association of
Accountants and
Financial Professionals
in Business

Global economic conditions survey report: Q4, 2019



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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **219,000** members and **527,000** students (including affiliates) in **179** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **110** offices and centres and **7,571** Approved Employers worldwide, and **328** approved learning providers who provide high standards of learning and development.

Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

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

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

More information is here: www.accaglobal.com

About IMA[®] (Institute of Management Accountants)

IMA[®], named the 2017 and 2018 Professional Body of the Year by *The Accountant/International Accounting Bulletin*, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA[®] (Certified Management Accountant) and CSCA[®] (Certified in Strategy and Competitive Analysis) programs, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than **125,000** members in **150** countries and **300** professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/India.

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The GECS has been conducted for over 10 years. Its main indices are good lead indicators of economic activity and provide a valuable insight into the views of finance professionals on key variables, such as investment, employment and costs.

Fieldwork for the Q4 2019 survey took place between 22nd November and 11th December 2019 and attracted 2560 responses from ACCA and IMA members, including over 200 CFOs.

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



The Global Economic Conditions Survey (GECS) global confidence index bounced in Q4, back to around its level in mid-2019.

The Global Economic Conditions Survey (GECS) global confidence index bounced in Q4, back to around its level in mid-2019. Meanwhile, the less volatile global orders balance was little changed for the third quarter in a row. Global investment intentions recovered modestly this quarter and employment was little changed. The message from the GECS is steady growth early in 2020 but with no significant revival after the slowdown last year. Downside risks persist, notably in relation to US-China trade tensions but a global recession is not likely, given the continued resilience of consumer spending and the lagged effect of last year's monetary easing.

In Q4 this inflation measure fell to the lowest level in three years at 42%. Inflation in developed and many developing economies is running at low levels. Indeed, in some cases concerns are growing that inflation is too low, raising fears of deflation. But the main effect of low inflation has been to afford central banks, including the US Federal Reserve and European Central Bank (ECB), the flexibility to ease policy. Meanwhile, the possibility that their suppliers could go out of business was a worry for just over 10% of respondents, down slightly from the last survey. The proportion concerned about customers going out of business fell slightly to 22% but remains close to a five-year high.

As growth slowed through last year, so concern about rising operating costs in GECS fell with each successive survey.

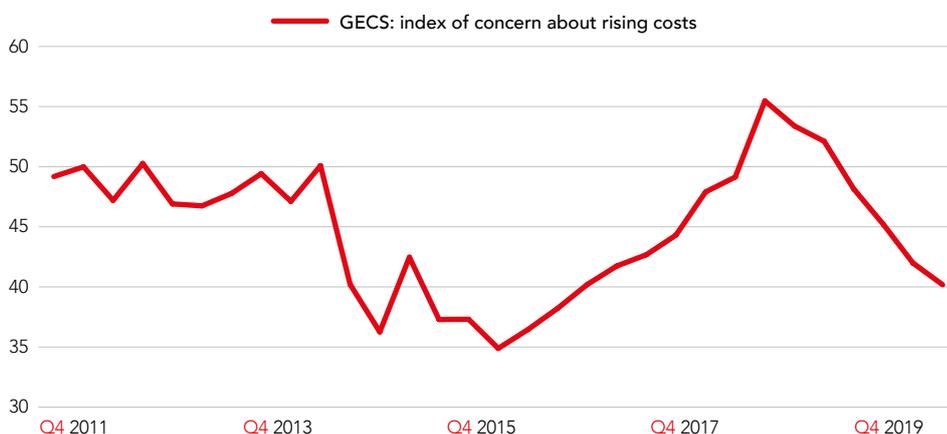
Chart 1: Global confidence bounces completing a volatile year



Source: ACCA/IMA (2011-19), Federal Reserve Bank of St Louis Databank

Global cost concerns fell to a three-year low in Q4, signalling weak inflationary pressures.

Chart 2: Global cost concerns easing



Source: ACCA/IMA (2011-19)

In terms of the change in confidence over the quarter there was relatively little variation between regions, apart from Africa and the US (see chart 3). All regions showed a recovery in confidence. The rise in Asia Pacific was below the global average as the region remains hampered by the slowdown in China. The UK's relatively modest increase is probably attributable to ongoing Brexit uncertainty. (The Q4 survey period ended just before the December general election).

Turning to levels rather than changes in confidences all the key regions recorded a negative confidence score (i.e. there were more people pessimistic about the outlook than optimistic). Asia Pacific and Western Europe are the most pessimistic while North America and South Asia are the least pessimistic. It is noteworthy

that there remains a fair degree of convergence in confidence levels across regions and major countries.

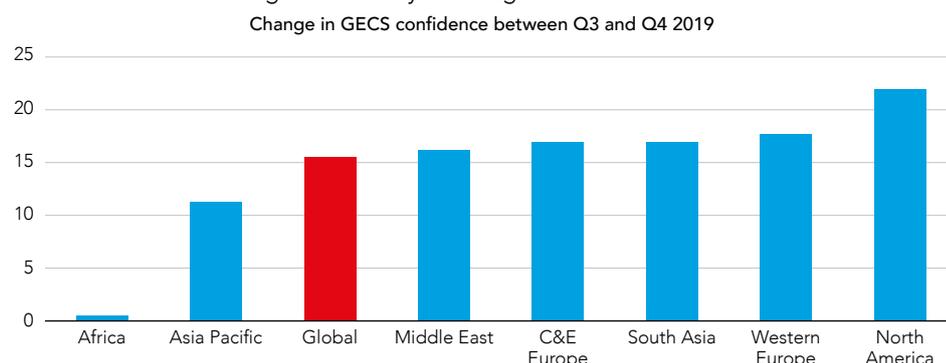
The regional pattern for changes in orders, which are closer to real economic activity than sentiment driven confidence, is rather different than that for confidence. Orders declined in some areas such as the UK and Middle East and increased in others, especially Africa and Central and Eastern Europe. For the first time since Q2 2018 the US orders index improved, an encouraging pointer to US growth early in 2020.

The thematic piece this quarter is an in-depth year ahead article looking at the prospects and risks facing the global economy in 2020. After slowing in 2019, the global economy is likely to expand

at a steady rate this year of close to 3%. World trade volumes have stabilized in recent months and – for now at least – US-China trade tensions have abated. These were major factors in last year's growth slowdown. Global recession is unlikely: last year's monetary policy easing by the US Federal Reserve and other central banks will support growth. But, except in some smaller economies fiscal policy is not set to boost activity, much to the chagrin of the IMF and World Bank. Domestic demand globally should nevertheless once again be supported by buoyant consumer spending, reflecting buoyant jobs markets and rising wages. The risks of 2019 mainly persist into 2020, including a re-escalation of trade tensions, geopolitical risks especially in the Middle East, high levels of emerging market debt and the UK-EU trading relationship post-Brexit.

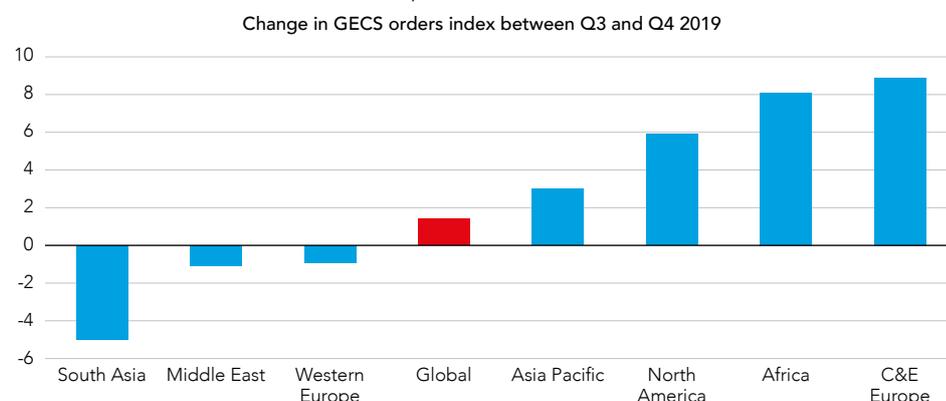
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Chart 3: Confidence stages a recovery in all regions



Source: ACCA/IMA (2011-19)

Chart 4: Orders rise in North America, fall back in Middle East and South Asia



Source: ACCA/IMA (2011-19)

1. Global and regional analysis

The GECS global confidence index this quarter recovered the ground lost in the previous survey.

The GECS global confidence index this quarter recovered the ground lost in the previous survey. The pattern of global confidence through 2019 was one of volatility at a low level rather than continuous decline as in 2018. The ebb and flow of trade tensions between the US and China over the course of the year is likely to be a factor explaining this volatility. By contrast the global orders balance, which improved in Q4, was relatively stable over the year, albeit averaging a much lower level in 2019 than in 2018, reflecting and anticipating the global economic slowdown.

people pessimistic about the outlook than optimistic), with the lowest score being recorded in Asia Pacific and Western Europe. The most confident (or rather least pessimistic) part of the global economy was again South Asia and the Middle East. Even so, there was a trend of convergence in confidence levels in this survey with the gap between the most and least confident region narrowing significantly.

The global inflation picture continues to point to subdued cost pressures, reflecting the effects of a slowdown in economic growth. The GECS points to this continuing, with concerns about rising operating costs falling for six consecutive quarters, to the lowest level in three years.

Looking at confidence levels, all the key regions recorded a negative confidence score (ie there were more

Chart 5: Global confidence bounces in Q4 orders hold up

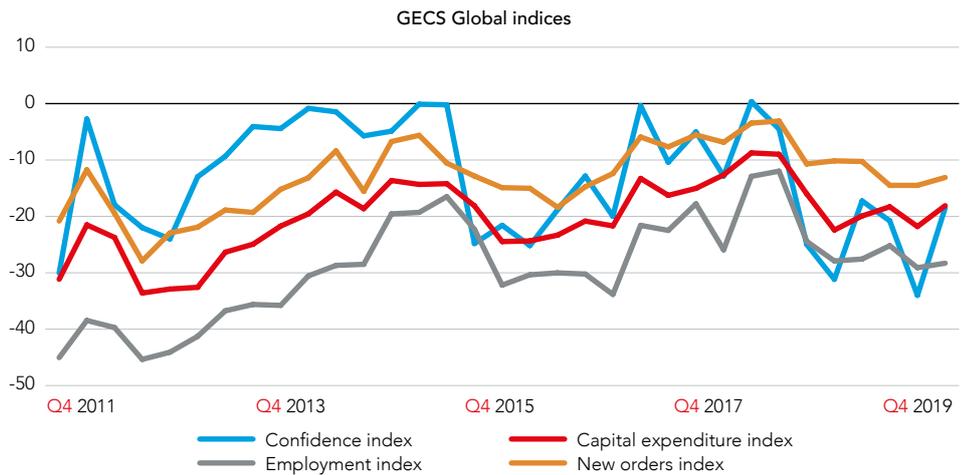
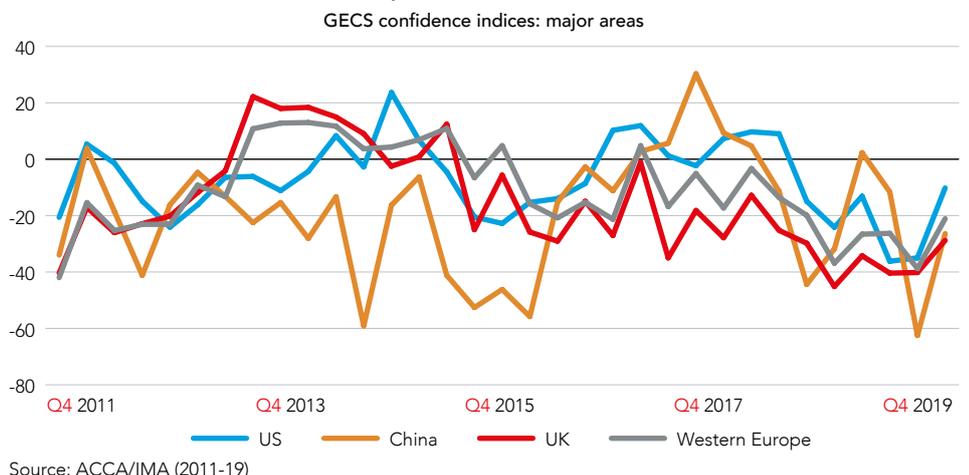


Chart 6: Confidence bounces in major economies



North America

Growth in the US slowed last year as expected but did not come close to the recession forecast by many analysts. For the year as a whole GDP growth will be close to 2.3% compared with 2.9% in 2018.

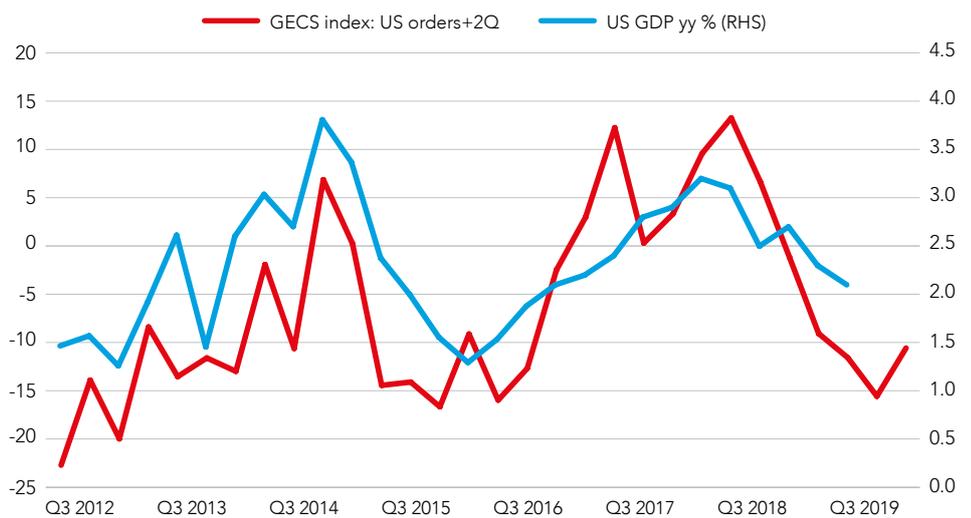
Consumer spending held up very well through much of 2019, supported by a buoyant jobs market and rising wages. Business investment and to a lesser extent trade were the main causes of slower growth. For the fourth quarter, the Federal Reserve Bank of Atlanta's 'Nowcast', estimates GDP growth at 2.3% annualised, a similar rate to Q3.

The US GECS confidence measure improved significantly in Q4, to its highest level since 2018 Q2. Progress in the trade negotiations with China and the third ¼ percentage point cut in the US Federal Funds rate since July are likely to have been factors in improved sentiment. Meanwhile, the US orders index improved for the first time since 2018 Q2. Orders are consistent with modest US growth in the first half of 2020 at an annualised rate of 1.5% to 2%. (See chart above.) The capital spending index also showed modest

improvement, while the employment index slipped further in Q4. The latter is surprising given the recent strength of the jobs market; the index is consistent with a slower pace of job creation rather than actual declines in employment. The GECS measure of concern about costs fell quite sharply in Q4 to the lowest level since 2017 Q2 and is consistent with continued low inflation. This will allow further monetary easing should that become necessary in coming months.

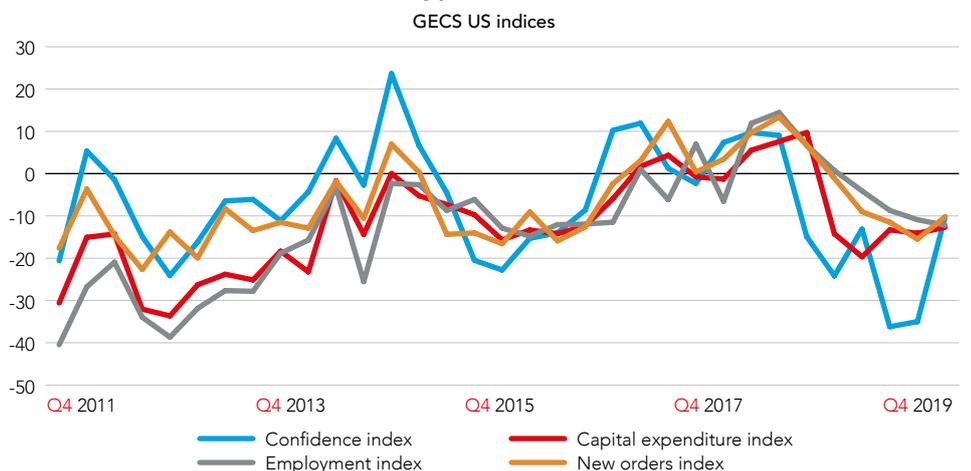
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Chart 7: GECS US orders index perks up a little



Source: ACCA/IMA (2011-19), US Bureau of Economic Analysis (BEA)

Chart 8: US confidence bounces strongly



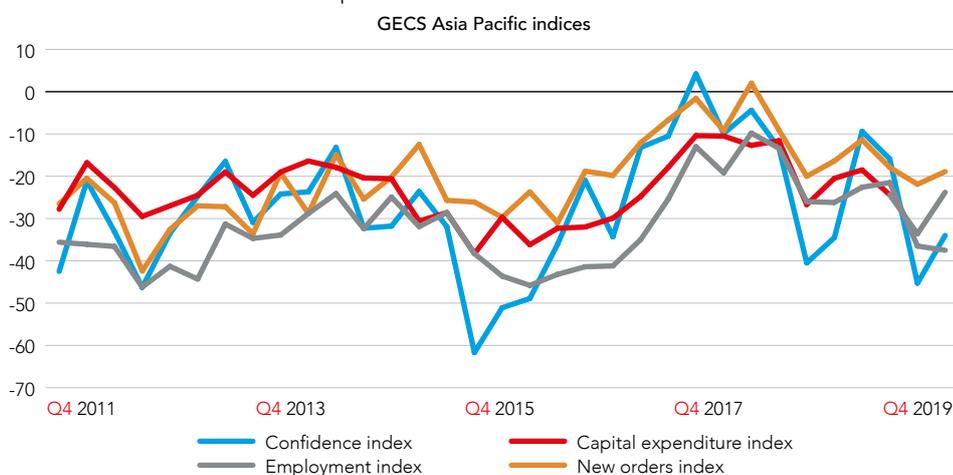
Source: ACCA/IMA (2011-19)

Asia Pacific

Confidence in the Asia Pacific region improved in Q4, but only modestly and confidence remains at a fairly low level consistent with weak regional growth.

China dominates the region's prospects and an optimistic view on Chinese growth in 2020 is that it will stabilize around 6%. But this will not boost growth and the GECS indices for the region reflect this. Several countries, including Malaysia and Thailand, have eased monetary and/or fiscal policy in an attempt to offset the headwinds from China.

Chart 9: Asia Pacific measures point to weakness



CHINA

The Chinese economy lost momentum throughout 2019: the annual rate of growth fell to 6% in Q3 the bottom of the official target range of 6% to 6.5% for the year.

Trade tensions with the US undermined business confidence and hurt investment spending. In addition, Chinese exports to the US are down by 23% in the 12 months to November and total exports are 1.1% down over the same period. The most recent data on industrial output and retail sales were more positive but near-term prospects remain soft. The recent African

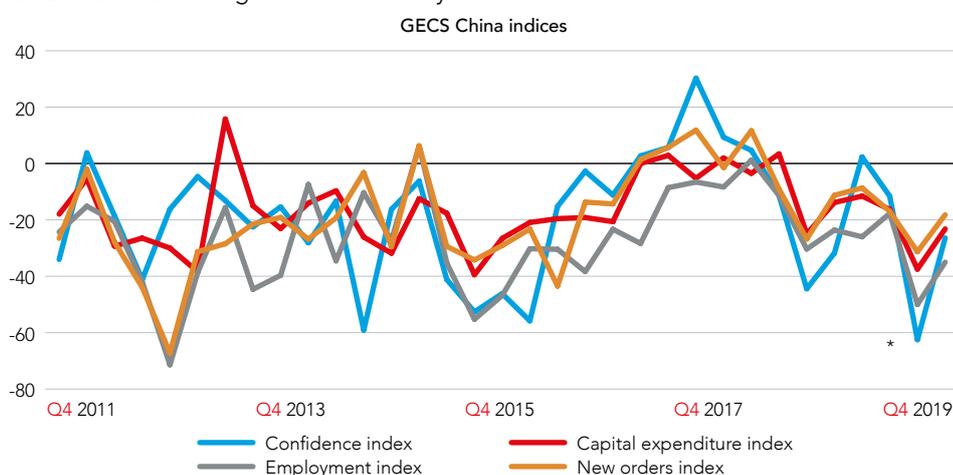
swine fever epidemic has resulted in a surge in pork prices and pushed up consumer price inflation to 4.5% by December, from a low of 1.5% earlier in the year.

Despite the slowdown the Chinese authorities have so far responded with relatively little in the way of easing measures. To date the main policy response has been through cuts in banks' reserve requirements, freeing up liquidity for increased lending. (The latest of these was introduced early in January.) But there has been no cut in the prime lending rate or channelling of government funds through local government finance vehicles

as has occurred in the past. Concerns about exacerbating high levels of debt are a significant restraint on policy easing. Easing measures to date have been more an attempt to cushion the slowdown rather than supply a major stimulatory boost. In Q4 the major components in the GECS China survey were at low levels – orders, employment and capital expenditure are all below levels of a year ago for example. Confidence is slightly higher than in 2018 Q4. Assuming no significant shift in trade tensions with the US and no dramatic policy shift in China GDP growth early this year is likely to be close to an annual rate of 6%.

In Q4 the major components in the GECS China survey were at low levels – orders, employment and capital expenditure are all below levels of a year ago for example. Confidence is slightly higher than in 2018 Q4.

Chart 10: The slowing Chinese economy



MALAYSIA

Along with other economies in the region Malaysia has been affected by the slowdown in China.

In addition, Malaysian exports are geared into the electronics cycle which has also separately been on a sharp downswing. On the plus side domestic demand has held up well and overall GDP growth of around 4.5% looks likely in 2020, representing a modest slowdown compared with last year. The central bank cut interest rates only once, by ¼ percentage point last year, but may do so again if growth falters in coming months. The key GECS confidence and orders indices are below their long-run average in Q4, consistent with GDP growth also being below the long average of over 5%.

Western Europe

The eurozone economy slowed last year reflecting its exposure to the downturn in the global industrial cycle.

For once Germany was a major drag on euro area growth and barely expanded at all during the second half of the year. German exports are declining as global trade softens and the car industry undergoes structural change as well as weak demand. Economic weakness prompted the ECB to ease policy later in the year, cutting interest rates and restarting the asset purchase programme. It is unclear how effective this policy easing will be, especially as the ECB is applying negative interest rates. Meanwhile, scope for fiscal policy easing remains constrained by rules on budget deficits and debt.

Low inflation may offer one area of support to the euro-zone economy by helping to lift real income growth and consumer spending. But this may only partially offset the downward influence from the industrial and export cycle so that overall growth this year will be around 1%, close to the 2019 rate.

UK

Last year the UK economy grew by a modest 1.3%, affected by headwinds from a slowing global economy and heightened Brexit uncertainty.

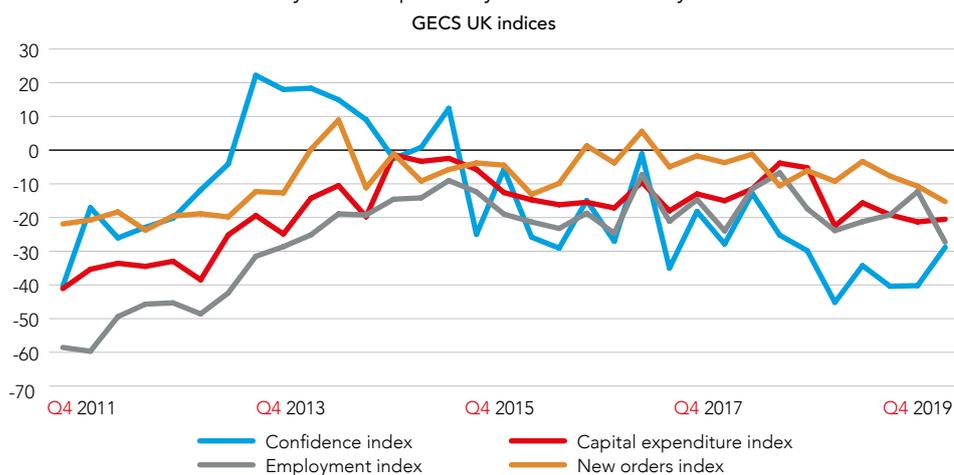
(Two Article 50 deadlines for leaving the EU in March and then October were extended after the UK parliament failed to ratify a withdrawal agreement.) Brexit uncertainty was resolved to some degree on 12th December when a general election elected a Conservative government with a large majority which means that the UK will now leave the EU at the end of January. Sampling for the Q4 GECS was completed just before 12th December hence the UK results do not reflect the latest Brexit development. With this caveat UK confidence recovered in Q4, but the bounce was less than the global average (see chart 11 below). In addition, the orders balance declined further and is now at its lowest level in over six years. The main drag from continued Brexit uncertainty has been on business investment and the UK GECS capital expenditure index remains close to a six-year low in the latest survey, despite ticking upwards. The message from GECS and other surveys is that the economy will continue to grow at a below-trend rate in 2020. While one area of Brexit uncertainty has been removed (the UK will leave the EU), the crucial issue of the UK's future trading relationship with the EU remains to be resolved. Uncertainty will persist until it is resolved.

Table 1: Confidence and orders in Malaysia

MALAYSIA GECS INDICES	LATEST Q4 2019	AVERAGES		
		2019	2018	2011-19
Confidence	-49.2	-49.1	-32.0	-41.6
Orders	-33.8	-33.4	-18.0	-27.2

Source: ACCA/IMA (2011-19)

Chart 11: The UK economy still hampered by Brexit uncertainty



The main drag from continued Brexit uncertainty has been on business investment and the UK GECS capital expenditure index remains close to a six-year low in the latest survey, despite ticking upwards.

Middle East

The dominant influence on confidence in the Middle East region is fluctuations in oil prices (see chart 12.)

Both confidence and oil prices recovered in Q4 and there was also a lessening of geopolitical risk in the region (the survey closed on 11th December). We expect oil prices to be in the \$60 to \$70 per barrel range this year. (The outlook for oil prices is discussed in more detail in the Year Ahead section below.)

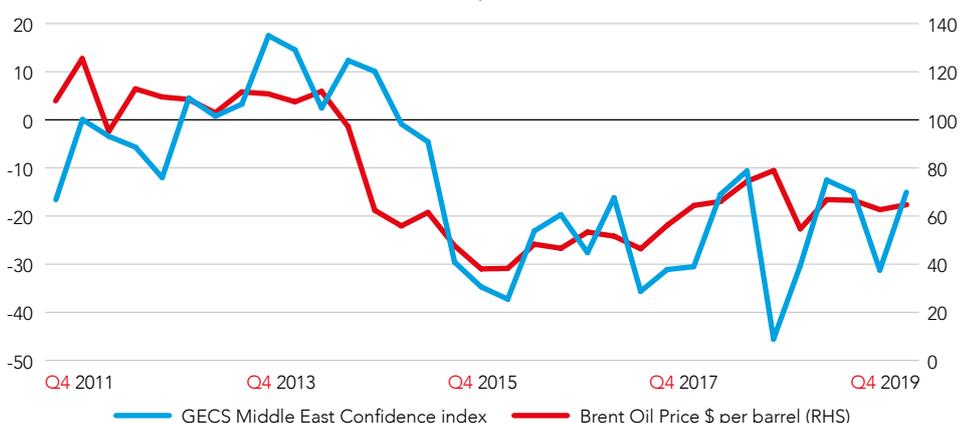
A positive development for those countries with a fixed exchange rate with the US dollar (Saudi Arabia, United Arab Emirates (UAE), Oman, Bahrain and Qatar) is the reduction in interest rates by the US Federal Reserve. The US cuts in the second half of last year totalled ¾ percentage point and were immediately followed by reductions of similar size in these countries. Lower interest rates should stimulate private sector credit growth and help to boost the non-oil private sector economy. The real estate sector, increasingly important in many economies in the region, will benefit

especially from lower borrowing costs. Encouragingly, the region's GECS index that measures problems accessing finance is close to a three-year low in Q4.

In Q4, most of the components of the regional index are slightly below their long-run average. This is consistent with growth in the region of around 1.5% to 2% in 2020. There are mixed results from government spending measures as some economies make greater efforts to boost the non-oil sectors of their economies, e.g. United Arab Emirates (UAE), Qatar and Saudi Arabia.

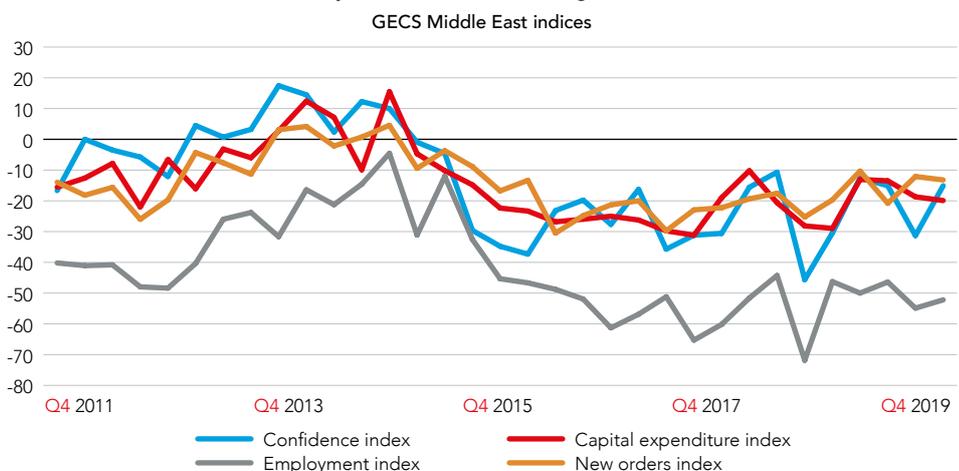
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Chart 12: Middle East confidence tracks oil prices



Source: ACCA/IMA (2011-19), US Energy Information Administration

Chart 13: Middle East relatively stable, confidence lags



Source: ACCA/IMA (2011-19)

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SAUDI ARABIA

Last year GDP growth in Saudi Arabia slowed to less than ½%, dragged lower by falling oil production and lower average oil prices.

As the largest oil exporter Saudi Arabia is at the forefront of efforts by the Organisation of Petroleum Exporting Countries (OPEC) to stabilize prices by controlling output. Saudi oil output is likely to be cut again this year as these efforts continue. A revival in growth is likely to come from the non-oil sector as the economy diversifies. Reforms in the entertainment and tourism sectors are expected to boost growth this year. The Q4 GECS recorded a significant improvement in orders and confidence compared with Q3, suggesting a brighter outlook.

UNITED ARAB EMIRATES (UAE)

There is limited official data available so far on UAE economic activity in 2019. But survey data points to annual GDP growth of between 1.5% and 2% last year.

The GECS orders index averaged -20 over the four quarters of 2019, little changed compared with 2018 (-19), when UAE growth was officially recorded at 1.7%. Non-oil private sector growth is likely to support growth in 2020, especially with the World Expo set to take place in Dubai later in the year. But the UAE's oil production, which fell 7% last year, will decline again slightly in 2020 according to the OPEC+ agreement reached last December. On the basis of the most recent GECS orders index values, which were above recent averages, the outlook is for GDP growth this year of around 2%, boosted by non-oil activity.

Table 2: Confidence and orders in Saudi Arabia

SAUDI ARABIA GECS INDICES	LATEST Q4 2019	AVERAGES		
		2019	2018	2011-19
Confidence	-6.3	-14.3	-29.6	-12.5
Orders	-4.8	-13.9	-30.3	-12.3

Source: ACCA/IMA (2011-19)

Table 3: Confidence and orders in UAE

UAE GECS INDICES	LATEST Q4 2019	AVERAGES		
		2019	2018	2011-19
Confidence	-9.3	-16.7	-22.1	-7.7
Orders	-17.8	-20.6	-19.1	-13.2

Source: ACCA/IMA (2011-19)

South Asia

India and Pakistan dominate South Asia in GECS, so we concentrate here on these two economies.

INDIA

The Indian economy has slowed quite dramatically in recent quarters and in Q3 annual GDP growth was just 4.5%, the lowest for over six years. All sectors are suffering weaker activity. In some cases, specific factors such as structural change in the auto industry may explain a large proportion of weakness. But the recent poor macroeconomic backdrop is largely due to a credit squeeze as a result of non-bank financial corporations drastically reducing credit supply as their funding costs soared. Strained balance sheets across the financial sector mean that there has been limited pass through of lower interest rates enacted by the Reserve Bank of India (RBI) to interest rates on loans to the commercial sector. (The RBI cut interest rates by 1.35 percentage points over the course of 2019.)

Confidence measured in GECS improved in Q4 in line with the global average but remains at a relatively low level.

Confidence measured in GECS improved in Q4 in line with the global average but remains at a relatively low level. The orders index slipped slightly but is slightly above its long run average (Table 4.) There are signs of a slight easing in credit conditions with some effect from monetary policy easing and the GECS index of "problems accessing finance" fell in the latest survey and is now below its long run average. GDP growth in the fiscal year 2019/20 now looks likely to be around 5% (a year ago the consensus forecast was for growth above 7%). For 2020/21 a modest revival to 6% GDP growth is likely as domestic and external conditions stabilize.

PAKISTAN

The outlook for the economy remains for modest growth of around 3.5% this year, well below the long run average. The focus of policy continues to be the reduction of imbalances in the government and external sectors and the reduction of inflation from double digit rates to within a 5% to 7% target range. On this front there are signs of progress as the IMF program bears fruit. There has been a big fall in the current account deficit (including a monthly surplus in October 2019), mainly as a result of weaker imports. The fiscal deficit is also declining as revenue raising measures instigated by the IMF take effect. The bad news is that inflation has increased in recent months, reaching 12.4% in December compared with just over 7% at the start of the year. Nevertheless,

the State Bank of Pakistan kept interest rates on hold at 13.35% at its latest policy meeting in November. The central bank's view is that temporary factors have pushed inflation up to an elevated rate, notably through food prices. As these effects diminish inflation is likely to moderate. In addition, the State Bank of Pakistan notes that a stable currency and the end of monetary financing of government deficits have eased inflation expectations.

In Q4 the GECS confidence index recovered strongly to above both its long run and recent average levels. At the same time the orders balance remains weak and below average. Such a combination is unusual but makes sense with respect to Pakistan as the rise in confidence relates to progress in addressing structural imbalances while orders point to continue weak GDP growth in coming quarters.

Table 4: Confidence and orders in India

INDIA GECS INDICES	LATEST Q4 2019	AVERAGES		
		2019	2018	2011-19
Confidence	-15.9	-4.4	18.3	6.5
Orders	-7.2	-7.0	-3.3	-9.7

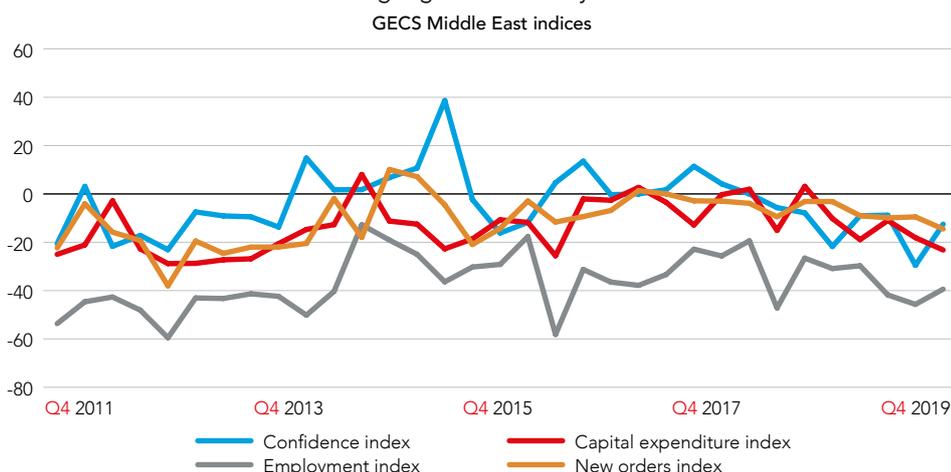
Source: ACCA/IMA (2011-19)

Table 5: Confidence and orders in Pakistan

PAKISTAN GECS INDICES	LATEST Q4 2019	AVERAGES		
		2019	2018	2011-19
Confidence	0.0	-24.8	-24.6	-7.6
Orders	-15.2	-15.8	-1.5	-10.1

Source: ACCA/IMA (2011-19)

Chart 14: South Asia – a weakening regional economy



Africa

The latest GECS confidence index for Africa was little changed in Q4 (Chart 15), underperforming other regions, but the orders balance improved and is above recent averages.

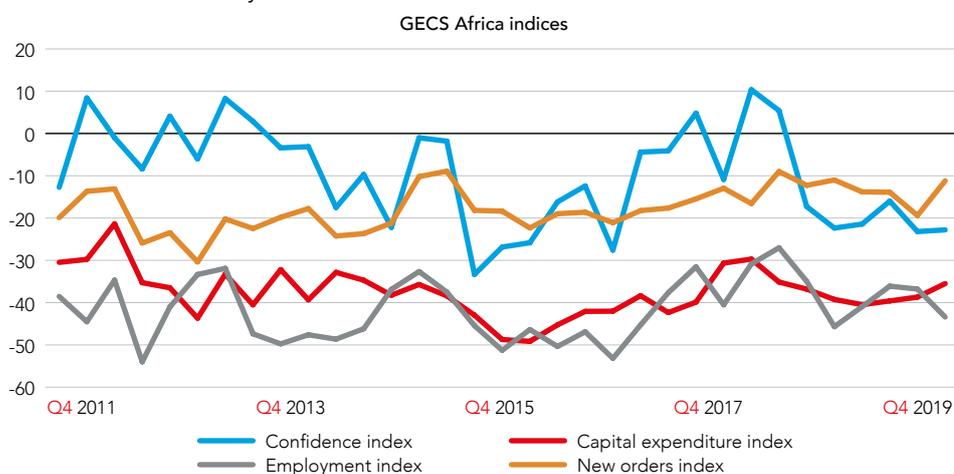
The outlook is generally better for the non-oil producers than for those with economies dependent on oil. Many oil producers are struggling with supply bottlenecks and policy uncertainty.

Investment in some of the large African economies should pick up and the GECS measure of investment opportunities is on a strong upward trend. The global economic slowdown is a downside risk for Africa with China and the euro-zone – the major destinations for African exports – looking especially vulnerable. Growth in the region this year is likely to be around 3%, an improvement on recent years but still below the rate that will significantly lift per capita incomes.

NIGERIA

The World Bank expects GDP growth to be maintained at around 2% this year. The economy remains heavily dependent on oil where neither prices nor output look likely to boost the economy this year. In addition, the closure of Nigeria's land borders last year in an attempt to reduce smuggling has pushed up inflation, especially in the food category. Double-digit inflation means that tight monetary policy will continue to act as a moderating influence on economic growth, which will remain below the rate needed to increase GDP per capita. The GECS Q4 survey showed confidence below its long run average but orders comfortably above both recent and long run averages.

Chart 15: Africa steady at low levels



Source: ACCA/IMA (2011-19)

Growth in the region this year is likely to be around 3%, an improvement on recent years but still below the rate that will significantly lift per capita incomes.

Table 6: Confidence and orders in Nigeria

NIGERIA GECS INDICES	LATEST Q4 2019	AVERAGES		
		2019	2018	2011-19
Confidence	-3.1	-7.6	20.1	0.8
Orders	-7.7	-10.6	-13.0	-18.1

Source: ACCA/IMA (2011-19)

Global growth in 2020 is likely to be around 3%, a similar rate to last year which was the weakest in 10 years.

Last year the global economy expanded at close to 3%, the slowest rate since the financial crisis 10 years ago. The slowdown progressed steadily throughout last year and was foreshadowed by the GECS. In its recent Global Economic Prospects report, the World Bank summarized the outlook as, "Slow Growth, Policy Challenges". So, what is in store for the year ahead?

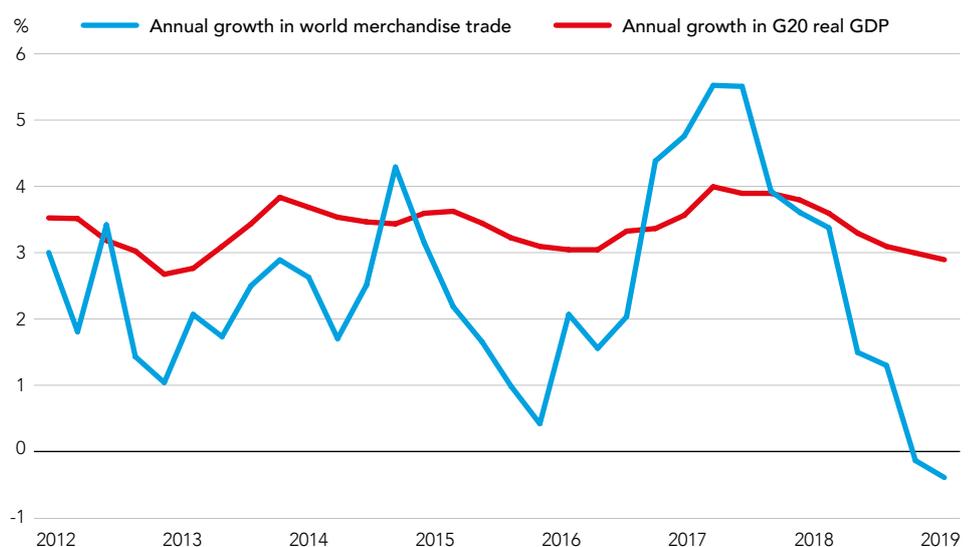
A major cause of slowing global activity continues to be the trade war between the US and China. Increased tariffs themselves will have a relatively modest direct effect on either economy's GDP growth since both have very large domestic markets. But the uncertainty created by trade tensions and its wider ramifications on technology transfer and intellectual property is acting as a drag on business confidence and investment not just in the US and China. In addition, the World Trade Organisation has recorded a general increase in protectionist measures in recent years, undermining the trend towards increased globalisation. Finally, automobiles and electronics – two export-intensive sectors – have both experienced downturns in activity, adding to global trade weakness. The chart below illustrates how global trade growth has slowed dramatically recently and by much more than global GDP growth.

Weakness has been broad-based with virtually every major economy growing more slowly in 2019 than in 2018. The Chinese economy was a downside surprise in 2019 and represents a major risk in the year ahead. It seems quite likely that official GDP data will record growth below 6% this year, the lowest for 30 years. The surprise last year was the failure of the Chinese authorities to respond to increasing evidence of a slowing economy with robust stimulus measures – as it had done in previous slowdowns. Growing concerns about high debt levels in both the state-owned sector and private sector appear to have made the Chinese authorities more cautious in such circumstances, aware of the increased risk that debt-fuelled growth would bring to financial stability. This change of approach means that the Chinese authorities are likely to continue to limit their efforts to cushioning rather than preventing economic slowdown.

Meanwhile, the US economy slowed last year but by less than many expected and confounded expectations of recession. (2019 GDP growth will be around 2.3% compared with 2.9% in 2018.) Buoyant consumer spending continues to be the main support to growth, despite the fading effect of the 2018 personal

Global trade growth has slumped, dragged down not only by trade tensions but also weakness in export-intensive sectors such as vehicles and electronics.

Chart 16: Global trade stalls



Source: World Trade Organisation, Federal Reserve Bank of St Louis Databank

income tax cuts. A tight jobs market and a gradual rise in real wages are underpinning private consumption and are likely to continue to do so this year. The main negative influences are likely again to be investment spending and trade, both of which will depend to a large extent on the evolution of trade tensions both with China and elsewhere. On the assumption that these are neither resolved nor escalated, we expect the US economy to record 2% GDP growth this year. The Federal Reserve has indicated that interest rates are now on hold after the $\frac{3}{4}$ percentage point cut during the second half of last year. However, if growth falters, the Federal Reserve does have the flexibility to ease policy further, given that inflationary pressures are absent.

In Europe the euro-zone economy was dragged down in 2019 by a stagnant Germany, suffering the consequences of the slowdown in global trade and structural change in the automobile industry on which Germany is especially dependent. Elsewhere in the euro-zone, growth in Italy was again negligible and the country remains the most likely candidate to be the source of the next euro-zone debt crisis. As discussed below the policy environment in the euro-zone is not likely to boost growth with monetary policy close to its easing limits and fiscal policy restrained by rules on budget deficits.

The UK economy spent last year mired in Brexit uncertainty as two Article 50 deadlines for leaving the European Union (EU) came and went in March and October. The main effect of this was to undermine business confidence and investment spending, resulting in below-trend GDP growth of around 1.3% in 2019. Last December's general election produced a Conservative government with a large majority which means that the UK will leave the EU on 31st January. But Brexit uncertainty switches to the future trading relationship with the EU 27. The UK government is committed to agreeing this by the end of this year, a tight timetable for a free trade agreement. GDP growth this year is likely to be around 1.5%, supported by fiscal ease and consumer spending.

The global slowdown so far has been driven by a sharp turn down in industrial production and global trade. By contrast, consumer spending is holding up quite well in many countries. Low unemployment and rising real wages boosted by low inflation are key factors here and to date there are few signs of cooling in jobs markets. The US and UK are prime examples with unemployment at multi-decade lows in both cases

EMERGING MARKETS

Last year was a difficult one for many emerging markets with trade-oriented economies of South East Asia feeling the effects of the Chinese economic slowdown. In addition, regions including the Middle East and South America experienced heightened political tensions which had negative economic consequences. Hong Kong is a prime example of this effect. In most cases these influences were greater than any positive effect derived from lower US interest rates and, in many cases, domestic stimulus. One bright spot in Latin America this year is likely to be continued modest recovery in Brazil's economy; falling inflation and consequent cuts in policy interest rates, plus much-needed pension reform, have boosted confidence and financial market credibility. Similarly, Russian GDP growth is likely to pick up this year, boosted by domestic demand. But prospects remain somewhat dependent on oil, which accounts for over half of export revenues.

Middle East

The oil exporters of the Middle East suffered a lower average oil price last year compared with 2018 – despite an agreement to cut oil production among OPEC members. The dominant influence was a slowing global economy reducing oil demand. A more stable global economy this year should underpin oil prices in the \$60 to \$70 per barrel range. The recent agreement by the OPEC+ group to cut production by a further 500,000 barrels a day (b/d) may help underpin oil prices too. However, breaches in the previous agreement resulted in outputs exceeding agreed limits. In addition, US oil production - and

exports – are an increasing influence on oil markets. (US production is currently running at 17.8 mi b/d compared with less than 16m b/d on average in 2018.) Clearly, geopolitical risks in the Middle East are currently high and if they persist could hurt confidence in the region and push up oil prices. (See the risks section for further discussion on this.)

The outlook for oil producing economies in the Middle East this year is likely to be a modest recovery, helped by more stable average oil prices and the lower interest rates that US rate cuts permitted in the second half of last year. The UAE and Saudi Arabia are making considerable efforts to diversify their economies away from dependency on oil by boosting their non-oil private sectors. The World Expo later this year in Dubai will continue to boost the UAE economy. In addition, the proceeds of the Saudi Aramco flotation are to be used to boost the Kingdom's non-oil sector.

South East Asia

The region faced considerable headwinds in 2019 and the risks are that these persist through the year ahead. The main negative influence has been the effects of trade tensions between the US and China - as well as an underlying slowdown in the Chinese economy. Economies in the region suffered a sharp slowdown in export growth that in some cases resulted in overall declines in exports. In addition, the region is particularly exposed to the electronics cycle which turned decisively downwards last year, with little immediate prospect of a strong revival in the coming months. Saturation in the global smartphone market and delayed roll-out of 5G have contributed to the downturn in the electronics and semiconductor sectors. The good news is that domestic demand held up well in most economies, especially consumption which also benefited from buoyant jobs markets. This domestic strength cushioned the slowdown in GDP growth last year and will support growth again in 2020. This will be helped by the monetary and fiscal easing in the region last year, likely to have maximum effect this year.

South Asia

The biggest downside surprise in the global economy last year was India, where growth slowed to the weakest in six years. Rather than the 7% growth anticipated at the start of the year, Indian GDP growth will be around 5% in 2019. The dominant influence that has affected all sectors of the economy is a credit squeeze caused by stretched balance sheets in the non-bank financial sector. This meant that interest rate cuts by the Reserve Bank of India were not fully passed on in the form of lower interest rates on loans. Last year's reductions in corporate tax rates may be more helpful in stabilizing growth but a return to 7%+ annual GDP growth rates is very unlikely with 6% pencilled in for 2020. Meanwhile, Pakistan is making progress in correcting its twin budget and current account deficits and reducing inflationary pressures, but the consequence of this will be another year of weak economic growth, possibly around 2.5%

Africa

The World Bank forecasts growth in the region to rise from 2.6% in 2019 to 3.1% in 2020. This assumption relies on stronger growth among non-resource intensive countries and modest expansion among resource intensive countries. Long delayed reforms are likely to hamper recoveries in the larger economies in the region. Growth in South Africa will remain weak as electricity blackouts impair industrial growth. In addition, Nigeria and Angola both remain exposed to the oil market, where prospects are rather modest.

The IMF and OECD have called for fiscal easing as a tool for offsetting the current downturn. But this is unlikely, except in a few isolated cases.

A BOOST FROM POLICY?

Looking at the year ahead it is important to recall that monetary policy was eased in numerous countries in 2019; with the usual lags this would be expected to support growth in coming months. The lead was taken by the US Federal Reserve which cut interest rates by a total of ¾ percentage point during the second half of last year. Easing by the US allows other central banks the flexibility to ease policy too, especially those with fixed exchange rates against the US dollar. Lower US interest rates also benefit other central banks in emerging markets as their debt-servicing costs on dollar-denominated debt are reduced.

The IMF and OECD have called for fiscal easing as a tool for offsetting the current downturn. There were examples of this last year. For example, Thailand and Malaysia introduced expansionary budgets in an attempt to mitigate the effects of a slowing Chinese economy. In addition, India announced significant tax cuts in the face of a sharply slowing domestic economy.

But the prospects of material fiscal ease in three of the largest economies – China, Germany and the US – are negligible. The case for a fiscal boost in Germany is overwhelming; public sector debt is relatively low and the government can borrow at negative interest rates to finance extra spending. Moreover, the German economy is currently stagnating as it bears the brunt of the slowdown in global trade. But rules, such as the so-called “Black Zero”, which stipulates a budget balance, stand in the way. There are also of course fiscal rules applying across the euro-zone which restrict all member countries from conducting aggressive fiscal easing that would push up budget deficits.

At the other extreme, China and the US have largely exhausted their fiscal legroom. As discussed above previous stimulus packages in China have resulted in a cautious approach by the authorities towards monetary and fiscal easing. Finally, the US eased policy pro-cyclically two years ago, boosting a buoyant economy with tax cuts. But this pushed the budget deficit to over 4.5% of GDP, limiting the scope for future easing given that public sector debt is already high. Through 2020 the policy mix in the US is likely to be one of stable but stimulatory monetary policy with a neutral fiscal stance.

RISKS

Many of the risks to the global economy in 2020 will be the same as those in 2019. The good news is that trade tensions between the US and China have diminished – at least for now. High debt levels are a risk to financial stability and Brexit uncertainty persists in the form of negotiations on the UK-EU free trade agreement.

Geopolitical risks

A significant escalation in geo-political risks in the Middle East might present some challenges to economic confidence. Away from the region itself the chief downside risk would be the threat to oil supplies and/or a sharp rise in prices. The oil-effect risk should not be dismissed but it is substantially reduced from the 1970s when a surge in oil prices triggered a global recession. First, the global economy is now much less energy and oil dependent; data provider Enerdata (2019) reports that the energy intensity of global GDP has fallen by 35% between 1990 and 2018. Further, the Middle East accounts for a smaller share of global oil production. The US is now self-sufficient in oil and is the world's biggest producer as a result of the surge in shale output. Other non-Middle East countries, such as Brazil and Guyana are also increasing output. So, except in extreme circumstances, the global economy should be largely unaffected by these tensions.

US-China relations, including trade

The signing of a Phase One trade agreement between the US and China in January is a step towards resolving the issue. This agreement involves a US reduction in tariffs on some Chinese imports, from 15% to 7.5% in exchange for a Chinese commitment to buy more US agricultural produce. If further progress is made towards a more comprehensive trade agreement, then both global trade and investment may get a boost. Of course, there is also the risk of renewed hostilities that would result in the imposition of new and higher tariffs. Tensions between the US and China cover not just trade but technology transfer, intellectual property and (until January) the exchange rate. These issues, especially the first two, are more permanent and very unlikely to be resolved in the next 12 months.

Excessive debt levels

The prolonged period of low interest rates since the financial crisis of 2008/09 has encouraged debt accumulation. As a percentage of GDP advanced economies debt has been broadly stable over the last 10 years (government debt higher, private sector debt lower). But among emerging markets total debt has increased significantly and is at record high levels (170% of GDP). Both government and private corporate debt have increased since the financial crisis (see chart 17.) China accounts for much of this, but the World Bank reports that debt has also risen in every region except South Asia. This has raised fears of a financial crisis in emerging markets, possibly triggered by higher US interest rates and a stronger US dollar. Such an outcome is unlikely this year, given the easing in US financial conditions, but it should be noted that such periods of rapid debt accumulation have invariably ended in financial crisis.

Both government and private corporate debt have increased since the financial crisis.

Brexit

The UK's departure from the EU at the end of January will herald the start of a transition period during which the future trading relationship between the UK and EU is to be resolved. The UK government is committed to leaving this transition period at the end of 2020, even if no trade deal has been agreed. A comprehensive free trade deal is very unlikely to be completed within this timescale, which raises the possibility that UK-EU trade will revert to WTO rules from the start of 2021. Tariffs and customs checks would have a negative effect on UK-EU trade, especially in the short term. The economic impact would be felt mainly by the UK and certain EU countries that have strong trading links with the UK, such as Ireland, Germany and the Netherlands.

CONCLUSION

The global economy in 2020 is likely to grow at around 3% – a similar rate to last year. As always, there are downside risks, the main one being a re-escalation of US-China trade tensions resulting in another wave of tariff increases. More positively, monetary easing last year will support growth and consumer spending this year. Jobs markets in many economies are tight and underpin consumer spending. It is also of course a US presidential year, which usually coincides with a fairly robust US economy. To sum up, no global recession but it will be another year of sluggish growth.

Chart 17: Emerging market debt increasing

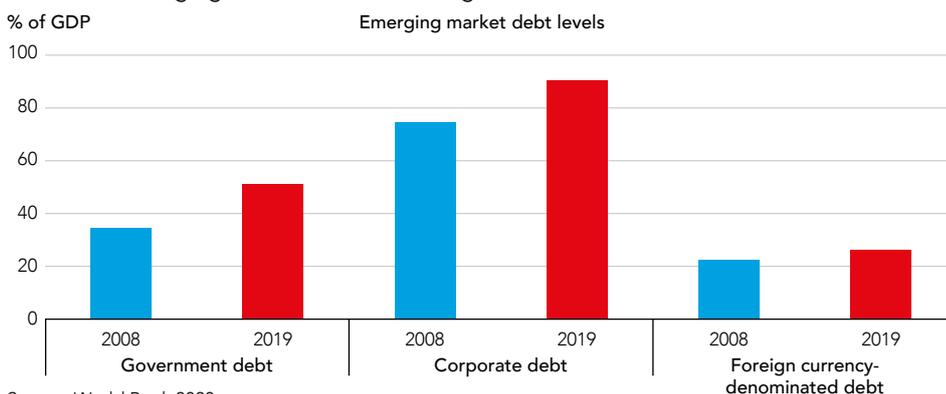


Table 7: World Bank GDP Forecasts (January 2020)

% CHANGE	2018	2019e	2020f
World	3.6	2.9	3.0
USA	2.9	2.3	1.8
Euro area	1.8	1.1	1.0
UK*	1.4	1.3	1.1
EMs and developing economies	4.3	3.5	4.1
China	6.6	6.1	5.9
India	6.8	5.0	5.8
Pakistan	5.8	3.3	2.4
Middle East and North Africa	0.8	0.1	2.4
Latin America and Caribbean	1.7	0.8	1.8

Source: World Bank 2020

*Forecast from UK Treasury January 2020

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	Mainland China	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		

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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.

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