



Think Ahead



The Association of  
Accountants and  
Financial Professionals  
in Business



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We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

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IMA® 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. Twice named Professional Body of the Year by *The Accountant/International Accounting Bulletin*, 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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# Introduction

THE GLOBAL ECONOMIC CONDITIONS SURVEY (GECS), IS THE LARGEST REGULAR ECONOMIC SURVEY OF ACCOUNTANTS AROUND THE WORLD.

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

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 2020 Q4 survey took place between 20 November and 8 December 2020 and attracted 3086 responses from ACCA and IMA members, including over 300 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.



# Executive summary

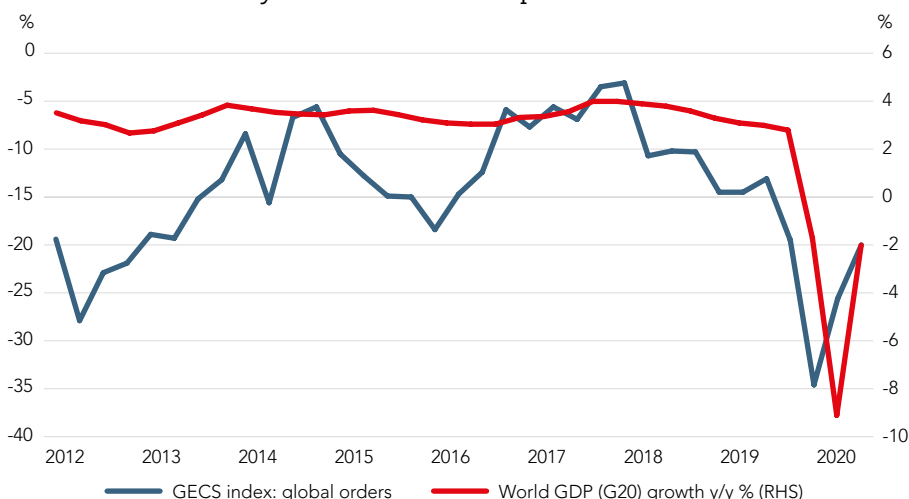
**THE Q4 GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) POINTS TO LITTLE CHANGE IN CONFIDENCE BUT CONTINUED MODEST GLOBAL ECONOMIC RECOVERY EARLY IN 2021.**

The Q4 Global Economic Conditions Survey (GECS) points to little change in confidence but continued modest global economic recovery early in 2021. However, it should be noted that polling for the survey was completed by 8 December 2020. Since then, many countries have suffered increased COVID-19 infection rates, prompting governments to re-impose restrictions including national lockdowns. Hence global economic prospects early in 2021 will have deteriorated since the Q4 survey was conducted. At the same time there has been progress on the approval of vaccines, raising hopes of a permanent improvement in economic conditions later this year.

In the latest survey there was a further slight reduction in the 'fear indices' – measured by concern that customers and suppliers may go out of business. But these indices remain at high levels, well above long run averages. This underlines the precarious state of the global economy at the turn of the year (Chart 2).

Looking at a regional breakdown, South Asia recorded the biggest jump in orders in Q4, although this was due to a large degree a catch-up from a fall in Q3. More surprising is the slight dip in the orders balance in Asia-Pacific, the region that has performed best during the pandemic. Western Europe and South Asia report the strongest orders balances, although in all regions, orders are below the level of a year ago, immediately before the COVID crisis (Chart 3).

**CHART 1: Global activity set to remain below pre-crisis level**

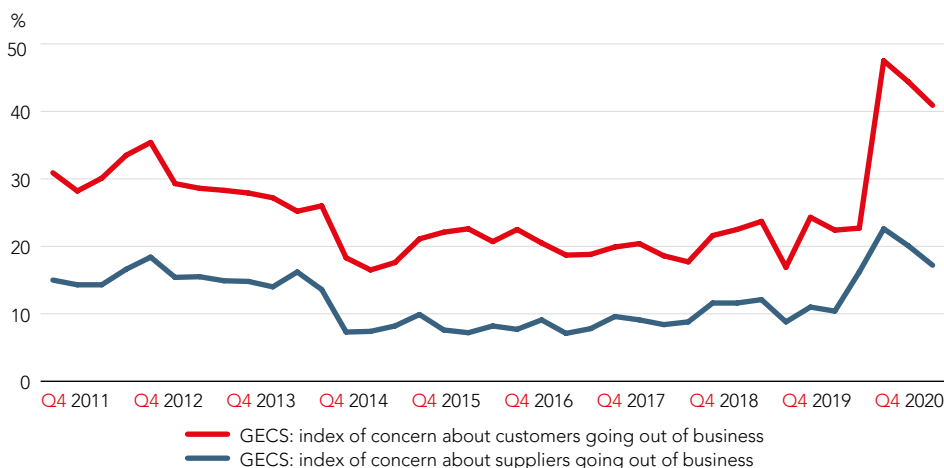


Source: OECD, ACCA/IMA (2012–20)

**THESE INDICES REMAIN AT HIGH LEVELS, WELL ABOVE LONG RUN AVERAGES. THIS UNDERLINES THE PRECARIOUS STATE OF THE GLOBAL ECONOMY AT THE TURN OF THE YEAR.**



**CHART 2: The 'fear indices' ease back a little but remain elevated**



Source: ACCA/IMA (2012-20)

Overall, there was little change in the global confidence measure in Q4. But there was a marked divergence regionally. Confidence fell back in North America, having surged in the previous quarter. By contrast there was a big improvement in Middle East confidence, probably buoyed by continued recovery in oil prices.

Section 2 provides a detailed consideration of the year ahead. The global economy is in a fragile state at the start of 2021. COVID infection rates increased significantly towards the end of 2020 in many countries, boosted by a new, more easily transmissible variant of the virus. National lockdowns have been introduced in many countries with immediate adverse economic consequences. At the start of 2021 the UK and euro-zone are most affected but

the US and some emerging markets are experiencing rapidly rising infection rates. More positively, the approval and rollout of several vaccines offering a high degree of immunity raises hopes of a more permanent resolution of the COVID crisis later this year.

There is great uncertainty about the path of economic growth this year, much of it due to risks surrounding evolution of the virus and the speed and effectiveness of vaccination rollouts. But there are economic factors too, notably rising unemployment rates. Much unemployment has been hidden by generous wage subsidy or furlough schemes that supported employment even as economic activity collapsed last year. Once these schemes are withdrawn, there will be an inevitable jump in

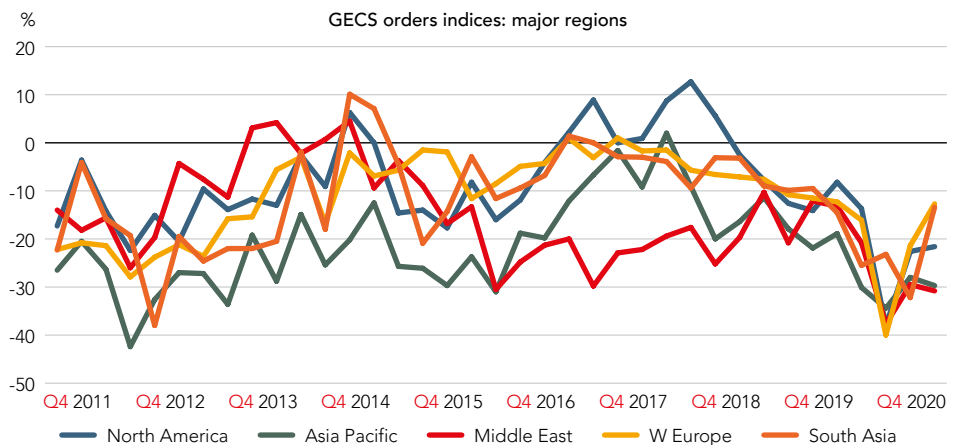
unemployment rates. The scale of this may be sufficient to undermine consumer confidence and spending, limiting the pace of recovery.

The consequences of the COVID crisis for emerging markets have been particularly severe with millions pushed into extreme poverty (with an income of less than \$1.90 a day). The process of catch-up, where incomes per head rise faster in EMs than in advanced economies, has been set back by up to 10 years in some cases, according to the World Bank. Having suffered economic contraction for the first time in at least 60 years in 2020, EMs are set for modest recovery this year. An extra risk for many is gaining access to a sufficient quantity of vaccines.

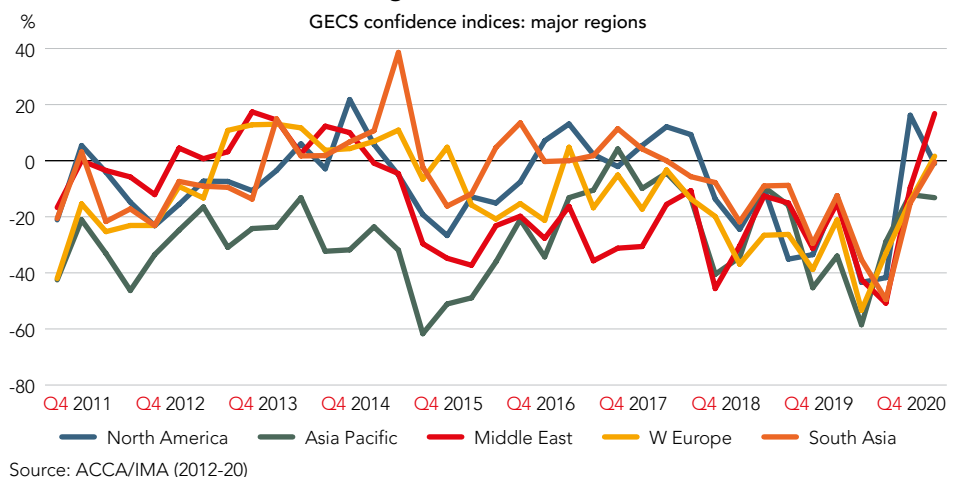
LOOKING AT A REGIONAL BREAKDOWN, SOUTH ASIA RECORDED THE BIGGEST JUMP IN ORDERS IN Q4, ALTHOUGH THIS WAS DUE TO A LARGE DEGREE A CATCH-UP FROM A FALL IN Q3.



**CHART 3: Orders still below pre-crisis levels**



**CHART 4: Confidence little changed overall**



# 1. Global and regional analysis

**THIS GECS POINTS TO GLOBAL RECOVERY CONTINUING AT THE START OF THE YEAR, ALTHOUGH THE PACE OF THAT RECOVERY WAS BEGINNING TO SLOW AT THE END OF LAST YEAR.**

This GECS points to global recovery continuing at the start of the year, although the pace of that recovery was beginning to slow at the end of last year. Economic developments since the Q4 survey suggest there has been a further deterioration in the global economy, especially in Europe. Activity indicators covering orders, capital spending and employment all increased to some degree in the Q4 survey (Chart 5). But they are all still well below the levels of a year ago, immediately before the COVID crisis, reflecting that global output is also below its pre-crisis level. Weakest is the employment index, highlighting the impact on the jobs market and suggesting that it will be some time before there is a significant improvement. Meanwhile the fear indices – concern that customers and suppliers may go out of business – remain at high levels, despite falling back slightly in the latest survey.

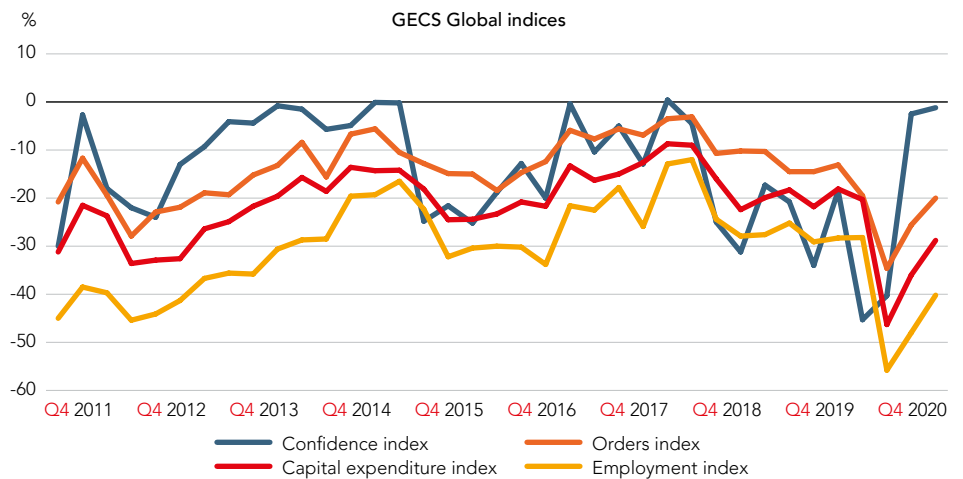
The 4.5% fall in world output during 2020 is having a clear disinflationary effect as weak demand pushes down on costs and prices. The GECS index of concern about operating costs was little changed in the latest survey, but remains close to its all-time low level reached in 2020 Q2 (see Chart 6). This metric will be closely watched when demand eventually recovers, as there are some concerns that inflation will rise significantly owing to the lagged effect of massive monetary and fiscal stimulus.

Before looking at the main indicators for each region, it is worth highlighting the responses given when respondents were asked when they expected substantial economic recovery in their region. These expectations continue to shift further out into the future. In the Q4 survey over 50% of respondents in Asia-Pacific, North America and South Asia said they expect sustainable recovery in the second half of this year. The most optimistic in this respect is the Middle East, where 54% expect recovery during the first half of the year.

**WEAKEST IS THE EMPLOYMENT INDEX, HIGHLIGHTING THE IMPACT ON THE JOBS MARKET AND SUGGESTING THAT IT WILL BE SOME TIME BEFORE THERE IS A SIGNIFICANT IMPROVEMENT.**



**CHART 5: Global indices continue to regain ground**

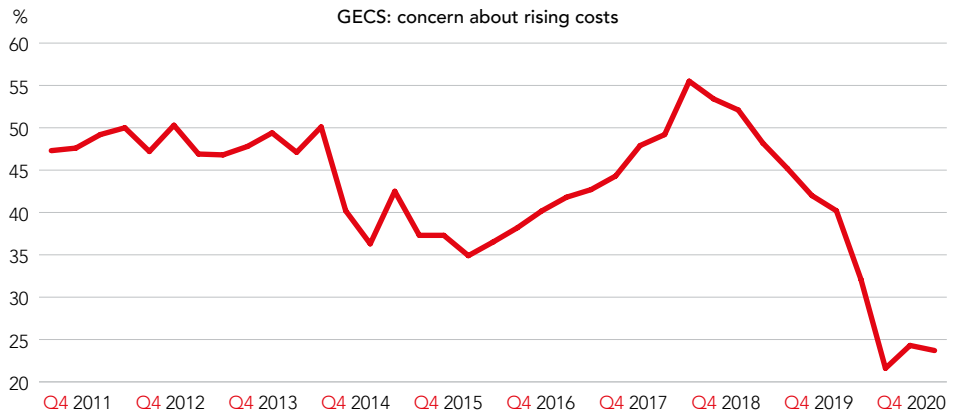


Source: ACCA/IMA (2012-20)

THE GECS INDEX OF CONCERN ABOUT OPERATING COSTS WAS LITTLE CHANGED IN THE LATEST SURVEY, BUT REMAINS CLOSE TO ITS ALL-TIME LOW LEVEL REACHED IN 2020 Q2.



**CHART 6:** Global inflation concerns still negligible

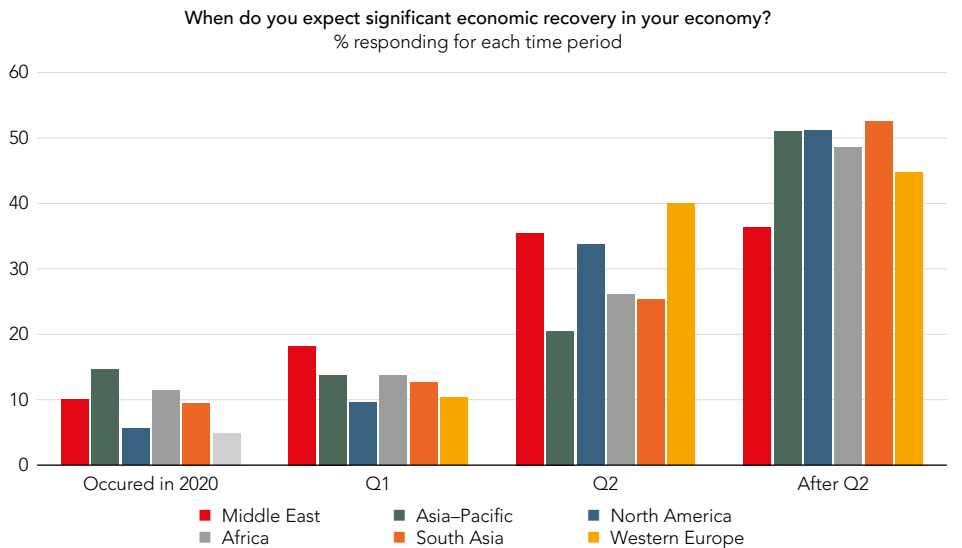


Source: ACCA/IMA (2012-20)

EXPECTATIONS OF SIGNIFICANT RECOVERY ARE CONCENTRATED ON THE SECOND HALF OF THE YEAR. MOST OPTIMISTIC IS THE MIDDLE EAST WITH JUST OVER HALF EXPECTING RECOVERY IN THE FIRST HALF.



**CHART 7:** Expectations of economic recovery



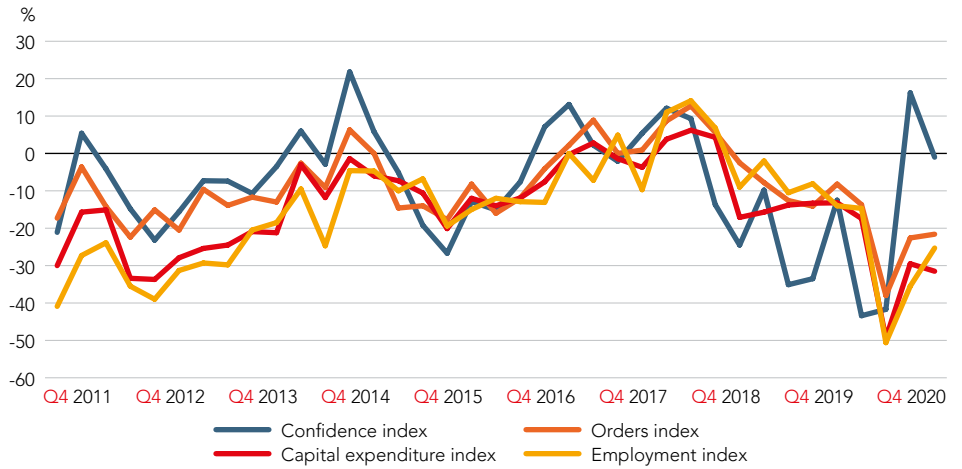
Source: ACCA/IMA (2012-20)

## Regional picture

### NORTH AMERICA

Confidence fell back in the Q4 survey, having jumped by the most on record in Q3. The orders and capital spending indices were both little changed in Q4 and are well below their pre-crisis levels of a year ago. The employment index recovered significantly in Q4, highlighting the continued relatively good jobs market rebound since the early weeks of the pandemic. Overall, the North America region GECS is consistent with continued recovery in early 2021.

CHART 8: North America

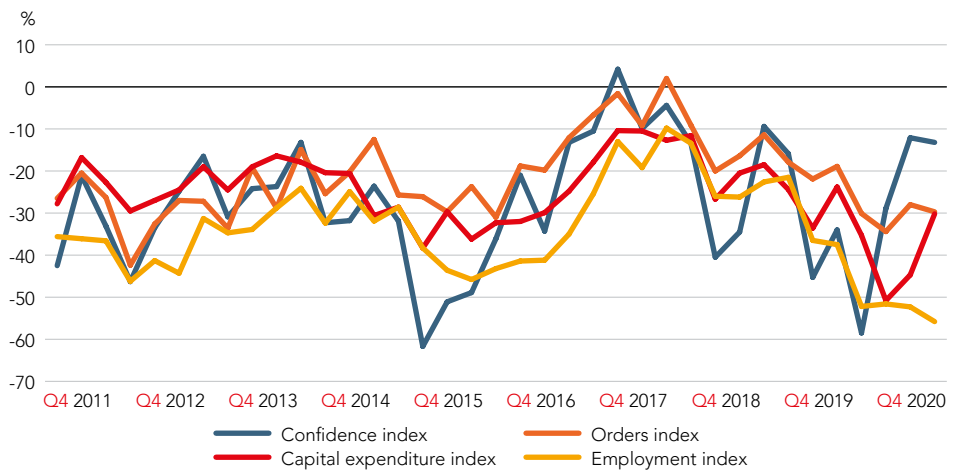


Source: ACCA/IMA (2012-20)

### ASIA-PACIFIC

The majority of the key indicators fell back in Q4, signalling a moderation in the region's recovery. Only the capital expenditure index increased in the latest quarter. The region did not suffer such dramatic falls in output as elsewhere in the global economy last year and is stable after early lockdowns were lifted. But Asia Pacific is reliant on exports and overseas visitors for much of its growth and both depend on sustainable recovery in Western economies for their revival.

CHART 9: Asia-Pacific

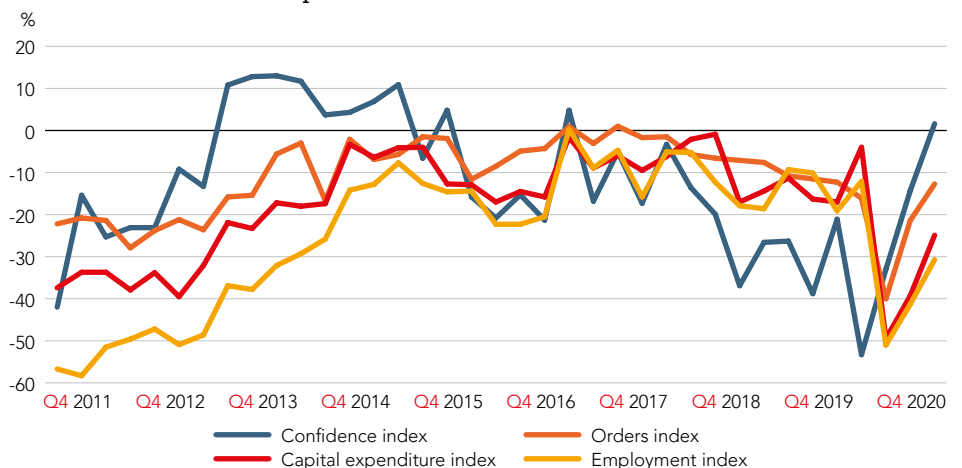


Source: ACCA/IMA (2012-20)

### WESTERN EUROPE

Western Europe recorded the most positive results of major regions in Q4, suggesting momentum into 2021. Countries in the region, including the UK, suffered some of the biggest falls in GDP earlier in 2020 and the subsequent bounce back has been correspondingly strong. But more recently many countries in the region have gone back into lockdowns, implying a return to economic contraction. A long road to recovery lies ahead.

CHART 10: Western Europe



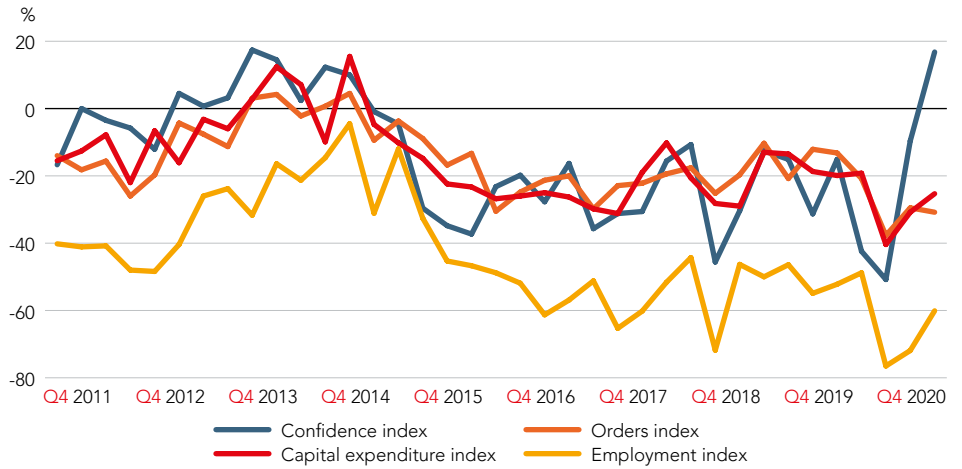
Source: ACCA/IMA (2012-20)



**MIDDLE EAST**

The Middle East region recorded a big jump in confidence in Q4, possibly due to the combined effects of an easing in geopolitical tensions and continued recovery in oil prices and demand. Oil prices jumped by around 25% to \$50 per barrel between September and December. But activity indicators remain relatively weak, reflecting continued COVID-19-related restrictions on domestic activity and in many cases fiscal limits caused by relatively low oil prices (low relative to those on which budget assumptions were made).

**CHART 11: Middle East**

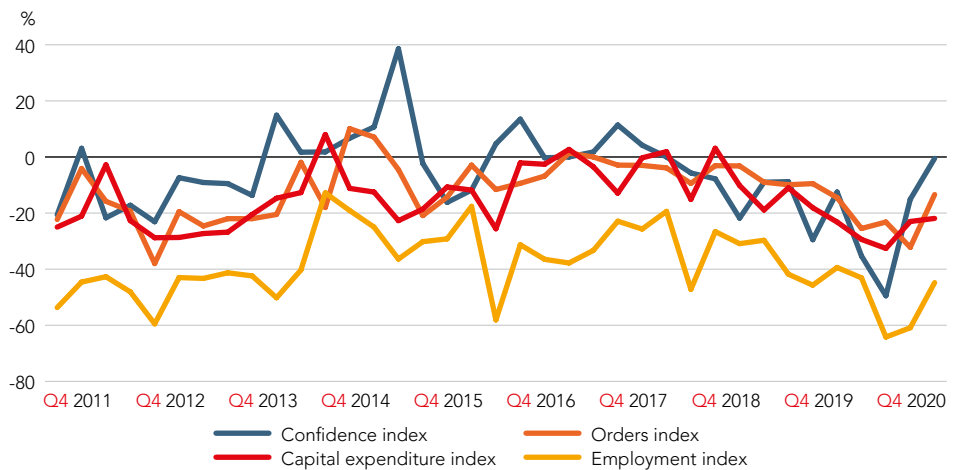


Source: ACCA/IMA (2012-20)

**SOUTH ASIA**

South Asia has been hit hard by the pandemic as economies reliant on services and tourism are prevalent in the region. The Indian economy is likely to contract by around 10% in the fiscal year ending March 2021. The World Bank estimates that around 100 million people in the region have fallen into poverty as a result. The Q4 survey shows signs of recovery with a rise in all the main activity indicators. Any growth revival will be fragile and subject to avoiding renewed COVID infections.

**CHART 12: South Asia**

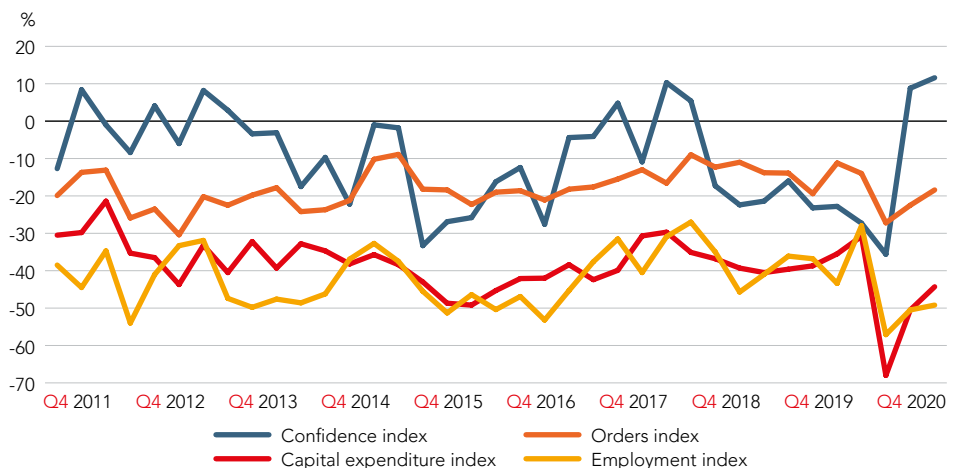


Source: ACCA/IMA (2012-20)

**AFRICA**

Both confidence and activity indicators increased in the Q4 survey, with an especially strong rebound in confidence. But all the main activity indicators, such as orders and employment, remain below pre-crisis levels. Previous experience of pandemics and a relatively young population prevented dramatic falls in output last year. Nonetheless, renewed rises in infections towards the end of 2020, plus a continued absence of foreign tourists, points to a weak start to 2021. Falling GDP per capita across the region will push 'tens of millions' into extreme poverty according to the World Bank.

**CHART 13: Africa**



Source: ACCA/IMA (2012-20)

## 2. Thematic analysis

THE GLOBAL ECONOMY CONTRACTED BY AROUND 4.5% IN 2020, THE BIGGEST FALL IN GLOBAL ACTIVITY FOR SEVERAL DECADES.

### The global economy in 2021 – a W-shaped recovery

The global economy contracted by around 4.5% in 2020, the biggest fall in global activity for several decades. Having recovered from the lockdown weakness imposed in the first half of the year, many economies were again facing weakness as a second wave of COVID infections triggered renewed lockdowns. At the start of 2021 the view can best be summed up as a 'light at the end of the tunnel', but emphasising that we are still very much in the tunnel.

In the final three months of 2020 the economies of the UK and euro-zone were again contracting as renewed lockdowns were introduced in the wake of rising COVID-19 infections. At the same time infections were rising in other parts of the world, notably North America, leading to the prospect of renewed restrictions there. Only in China and parts of South-east Asia had economic conditions returned to more or less normal by year-end.

But the light is, of course, the vaccines against COVID-19 that are now being rolled out in many countries. This raises the prospect of a removal – or at least the significant reduction – in social distancing restrictions in many countries beginning in the second quarter of the year. The

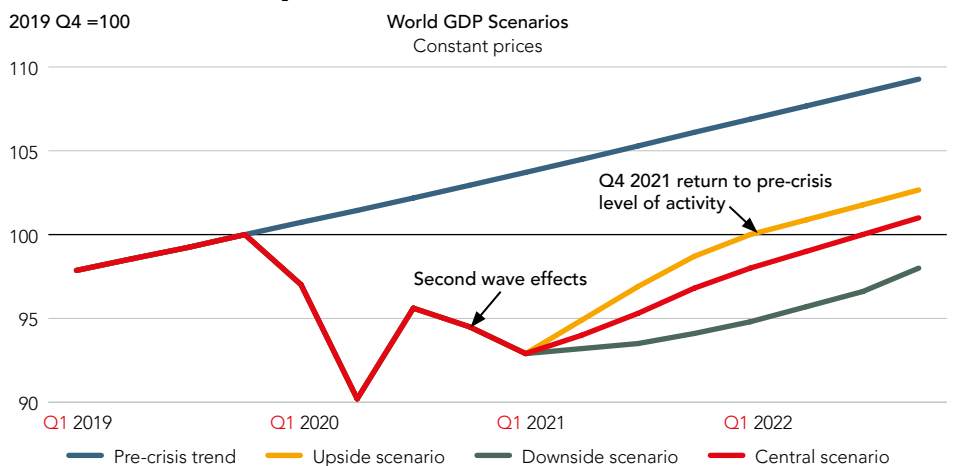
consequent reduction in uncertainty would likely result in improved business and consumer confidence and a revival in economic activity.

Chart 14 shows possible scenarios for the future path of the global economy, the upside and downside limits depending primarily on the timing and effectiveness of the rollout of vaccines. In both cases 2021 will see the second half of a W-shaped recovery. The upside scenario is based on the assumption that effective vaccines are successfully rolled out by spring, easing restrictions and boosting confidence and growth such that the level of global economic activity returns to its pre-crisis level by the end of this year. The downside scenario assumes vaccinations are delayed or prove less effective than initially hoped, prolonging social distancing restrictions and delaying recovery. In addition, recovery may be hampered by weak consumer confidence as unemployment rises sharply in many countries. In this scenario global activity would still be 2% below its pre-crisis level even by the end of 2022. Our central scenario sees steady recovery this year, but continued uncertainty limits the bounce in consumer and business confidence. Pre-crisis output would then be reached in mid-2022.

CHART 14 SHOWS POSSIBLE SCENARIOS FOR THE FUTURE PATH OF THE GLOBAL ECONOMY, THE UPSIDE AND DOWNSIDE LIMITS DEPENDING PRIMARILY ON THE TIMING AND EFFECTIVENESS OF THE ROLLOUT OF VACCINES.

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**CHART 14:** Global GDP profile looks like a 'W'



Source: OECD, ACCA estimates (unpublished)

Recovery can be further fuelled by the running down of large stocks of accumulated household savings, built up during lockdowns. Governments shut down large sections of economies, notably consumer facing ones, while at the same time supporting incomes through fiscal transfers. The effect of this was to send savings ratios rocketing. For example, in the UK the savings ratio jumped to 26.5% in Q2 before falling back to 16.5% in Q3, around nine percentage points above its pre-crisis average. A similar pattern is seen in the US savings rate (see chart 15). A fall to more normal savings rates would give consumer spending a significant boost. The case for this is strengthened by noting that in the US and UK household bank deposits are at historically high levels, expressed as a percentage of GDP. With interest rates on such deposits negligible and likely to remain so for the foreseeable future it is likely that households will seek to reduce these bank deposits once normal economic conditions are re-established. They would do this mainly by increasing consumer spending on goods and services.

Not surprisingly those economies that suffered the biggest falls in 2020 are expected to show the strongest recoveries over the course of this year. But it seems likely that in 2021 few will see growth strong enough to regain the level of economic activity seen at the end of 2019, immediately before the COVID crisis.

This outcome is especially likely in many European countries where lockdown measures have been extended into early 2021. A two-year period to regain output lost during a recession would in any case be relatively short by historical standards. For example, after the Global Financial Crisis (GFC) it took the US and Germany three years and the UK five years to get back to the pre-crisis level of output.

**US**

The US economy suffered one of the smallest contractions among advanced economies last year, probably around 3.5%. A large fiscal package equivalent to about 10% of GDP and easier monetary policy, including cuts in interest rates and greatly increased quantitative easing, cushioned the economic downturn. But towards the end of 2020 the economy was losing momentum and COVID infections were increasing rapidly. The US economy is likely to show modest expansion in the fourth quarter of 2020 but renewed weakness is possible early this year. A second fiscal package was finally agreed at the end of December worth \$900bn, which is less than half as much as the first package. The new Biden administration may provide further stimulus, having taken effective control of the Senate early in January. Nonetheless, as elsewhere, economic prospects for the year ahead depend heavily on the rollout of the vaccine and bringing the virus under control.

**Euro-zone**

There was a large divergence among Euro-zone economies last year reflecting differences in lockdown duration and severity, size of fiscal response and the structure of economies. Germany's successful early control of the virus and its greater reliance on manufacturing than services resulted in a relatively modest fall in output of around 4.5% in the four quarters to Q4 2020. By contrast, over the same period, GDP in Italy and Spain fell by around 8% and 12% respectively, caused by relatively long and strict lockdowns and a greater dependence on tourism.

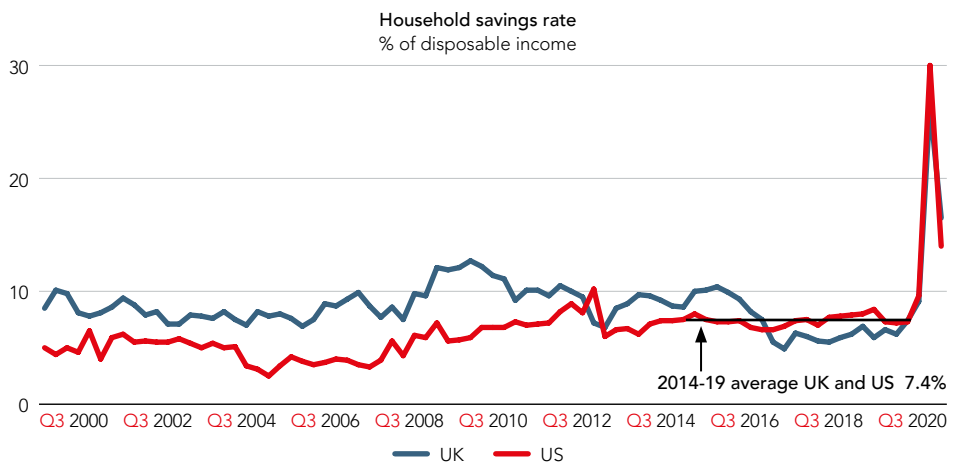
Towards the end of 2020 infection rates increased and governments imposed renewed restrictions, including lockdowns. This included Germany, the largest Euro-zone economy, which has been more greatly affected by this second wave than the first. France and Italy also imposed lockdowns late last year. Throughout the euro-zone lockdowns have been extended into the early months of this year.

Overall, the Euro-zone economy is likely to have contracted at a quarterly rate of between 2% and 3% in Q4, leaving the region 7.5% smaller than in the same period a year earlier. This renewed economic weakness prompted the European Central Bank (ECB) to expand its asset-purchases and extend its duration at its December 2020 meeting.

SAVINGS RATIOS HAVE BEEN FORCED UP BY GOVERNMENT POLICY OF LOCKDOWNS WITH FISCAL SUPPORT. ONCE NORMAL ECONOMIC CONDITIONS RETURN FALLING SAVINGS RATES MAY BOOST THE PACE OF RECOVERY.



**CHART 15:** Household savings can be a driver of recovery



Source: Federal Reserve Bank of St Louis Databank (FRED)

Economic activity early in 2021 will continue to be affected by social distancing restrictions - contraction in Q1 looks increasingly likely. Thereafter economic prospects should improve as vaccinations begin to have a material effect lifting pressure on healthcare systems. In addition, the EU's Recovery and Resilience Fund worth around €750bn, is scheduled to start distributing funds in the second half of 2021, with France, Italy and Spain among the biggest recipients of funds. (The fund is worth around 6% of EU GDP and is due to be fully allocated by 2023.) Monetary and fiscal policy should continue to support growth throughout the year and into 2022.

**UK**

The UK suffered the biggest contraction in GDP among G7 economies in 2020 – probably by around 11% for the year as a whole. The length and severity of the lockdown beginning in March resulted in a near-20% quarterly collapse in GDP in the second quarter. A strong rebound in the third quarter has petered out into renewed contraction as a second wave led to national lockdowns. A quarterly contraction of around 2% in Q4 would leave UK GDP almost 12% below its pre-crisis level of a year earlier. This fall is almost exactly twice the peak-to-trough fall in output during the GFC of 2007–09.

Record infection rates and hospital admissions at the turn of the year triggered a national lockdown that will last for much of the first three months of the year. Economic contraction is inevitable.

An early and ambitious rollout of vaccines has created expectations of a significant and permanent easing of the most restrictive measures during the second quarter. Thereafter recovery should gather momentum with potential for a strong catch-up, driven by consumer spending. A high savings ratio falling to or even below pre-crisis levels could generate very strong growth. Against this unemployment is almost certain to rise over the course of the year, potentially undermining consumer confidence. (See Risks section below.) There is a high degree of uncertainty about this profile and it seems unlikely that the level of output will have regained its pre-crisis level by the end of this year.

**Brexit**

On 31 December 2020 the UK left the Single Market and Customs Union of the EU and entered into a trade deal that meant that there are no tariffs or quotas on trade between the EU and UK. Even so, there will be some frictions introduced in the form of customs checks, sanitary and hygiene checks, rules of origin verification etc. At least for this year, the UK's new trading relationship with the EU is not likely to have a significant influence on UK GDP, since demand is already weak.

COVID infection rates and the rollout of vaccines will be dominant influences on the UK economy in the coming months.

**China**

The Chinese economy is the only major economy to show overall expansion in 2020, having entered lockdown early and rebounding quickly. The consensus among independent forecasters is that late in 2020 the economy was growing at an annual rate of around 5%. Official statistics for Q4 put the annual rate of growth in Q4 at 6.5% and 2.3% for 2020 as a whole. But the economy is set to face headwinds during the year ahead. First, Chinese exports were boosted in 2020 by Western demand for personal protective equipment (PPE) and equipment for working from home – its share of world exports reached a record high during the year. But this year, assuming that the COVID crisis diminishes, Western demand is likely to switch more towards domestic services, where supply has been severely restricted during lockdowns. This will limit Chinese export growth, even as the global economy recovers. In addition, the Chinese authorities may move to tighten policy as renewed efforts are made to deal with excessive levels of debt and concerns about an overheating property market. Nevertheless, China is still likely to be one of the fastest growing economies in 2021 – provided it does not suffer a delayed second wave of COVID infections that requires a new lockdown.

RECOVERY IS LIKELY IN 2021 AFTER THE SHARPEST CONTRACTION FOR SEVERAL DECADES IN 2020. BUT THE PATH OF GROWTH IS HIGHLY UNCERTAIN AND DEPENDENT MAINLY ON THE EVOLUTION OF THE COVID VIRUS AND THE ROLL OUT OF VACCINES.



**TABLE 1: Advanced economy GDP forecasts**

% CHANGE ON A YEAR EARLIER	2019a	2020e	2021f	2022f
World	2.7	-4.5	4.2	3.7
United States	2.2	-3.7	3.2	3.5
Euro-zone	1.3	-7.5	3.8	3.3
Germany	0.6	-5.5	2.8	3.3
France	1.5	-9.1	6.0	3.3
Italy	0.3	-9.1	4.3	3.2
Spain	2.0	-11.6	5.0	4.0
United Kingdom	1.3	-11.2	4.2	4.1
Canada	1.7	-5.4	3.5	2.0
Japan	0.7	-5.3	2.3	1.5

a= actual, e= estimate, f = forecast

Source: OECD Economic Outlook December 2020

**Emerging Markets (EM)**

EM economies have suffered particularly in the COVID-19 crisis in many cases they already had inadequate health care systems before having to cope with the direct health crisis. In addition, most have had limited fiscal capacity relative to advanced economies to provide sufficient income support to those suffering a loss of income in lockdowns. EMs were further exposed to the downturn in world trade, to a collapse in overseas visitors and a fall in remittances from overseas workers (see Chart 16). Excluding China, the contraction in EM output last year is estimated to have been around 5%, with over 80% of EMs in recession – a much higher share than during the GFC (33%). The effect has

been an increase in global poverty and a reversal of the process of catching up by which incomes per head in EM economies have tended to rise faster than those in advanced economies. The World Bank estimates that the pandemic has caused per capita incomes to fall in more than 90% of EMs, tipping millions back into extreme poverty (living on less than \$1.90 a day). For more than a quarter of EMs, the pandemic is expected to erase at least 10 years of per capita income gains.

For the year ahead some recovery is likely, helped by a rebound in growth in advanced economies boosting international trade. But some EMs will remain vulnerable to further outbreaks

of the virus and many will have limited access to vaccines in the coming months. Recoveries in those countries relying on services and tourism are likely to lag behind those elsewhere as the social distancing and other restrictions affecting international travel are set to persist for longer than lockdowns. For this year the World Bank forecasts 3.4% GDP growth in EMs ex China, followed by growth at a similar pace in 2022.

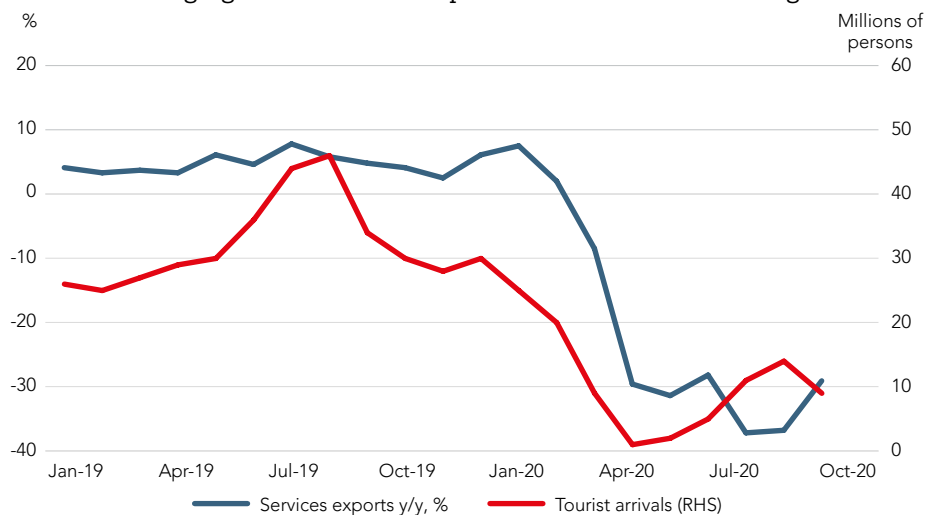
**Risks to the outlook**

There are significant risks to the outlook for the year ahead. Much depends on the evolution of the COVID virus and its variants, rates of infection and the speed and effectiveness of vaccinations.

FOR THE YEAR AHEAD SOME RECOVERY IS LIKELY, HELPED BY A REBOUND IN GROWTH IN ADVANCED ECONOMIES BOOSTING INTERNATIONAL TRADE.



**CHART 16: Emerging market service exports and tourist arrivals languish**



Source: World Bank 2021

**TABLE 2: World Bank Emerging Market GDP forecasts**

% CHANGE ON A YEAR EARLIER	2019	2020e	2021f	2022f
Emerging economies	3.5	-2.6	5.0	4.2
Emerging economies ex China	2.3	-5.0	3.4	3.6
East Asia and Pacific	5.8	0.9	7.4	5.2
China	6.1	2.0	7.9	5.2
South Asia	4.4	-6.7	3.3	3.8
India	4.2	-9.6	5.4	5.2
Pakistan	1.9	-1.5	0.5	2.0
Middle East and North Africa	0.1	-5.0	2.1	3.1
Sub-Saharan Africa	2.4	-3.7	2.7	3.3
Nigeria	2.2	-4.1	1.1	1.8
Latin America and the Caribbean	1.0	-6.9	3.7	2.8

Source: World Bank 2021

The central case is economic weakness early on in 2021 as the virus dominates, followed by a recovery that gathers momentum later in the year as vaccination takes effect. There are significant risks surrounding the timing of these developments. In addition, the emergence of vaccine-resistant variants of the COVID virus, unexpected adverse side effects from vaccination and low vaccine take up are also health-related risks that could cause deviations in the recovery path.

There are two main economic risks for the path of recovery this year.

**Rising unemployment rates**

In a normal business cycle recovery unemployment often continues to rise for a few quarters after output has started to increase. Eventually as demand continues to increase, so does the demand for workers and unemployment falls. But the post-COVID recovery will be very

different, especially in the EU and UK. Here there is a significant degree of hidden unemployment that has yet to be revealed. This is because governments introduced generous wage subsidy and furlough schemes which maintained employment levels despite collapsing economic activity. Economies have recovered to some extent but remain below pre-crisis levels of economic activity. As economic conditions return to normal and subsidy schemes are withdrawn there is likely to be a significant jump in unemployment rates so that employment reflects lower output levels more accurately. Potentially this could be sufficient to undermine consumer confidence and be a drag on economic growth throughout 2021. High rates of unemployment are likely to persist into 2022 and beyond – a major source of the economic scarring – long-term damage to growth potential – that the COVID crisis will inevitably cause.

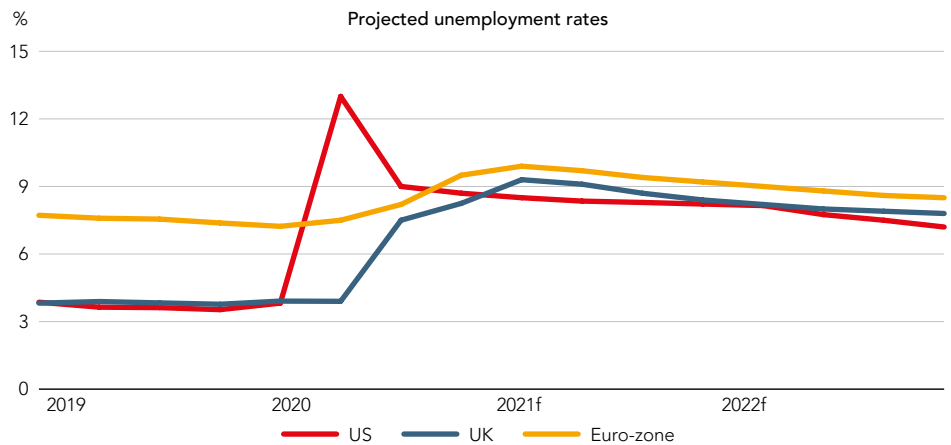
**Premature policy tightening**

The policy response to the pandemic has left the public finances of most economies in a parlous state. Budget deficits are mainly in the range of 10% to 15% of GDP and debt to GDP ratios are in many cases well over 100%. After the GFC of 2007–09 many governments embarked prematurely on austerity measures in an attempt to rebuild public finances. The consensus for most advanced economies now is that fiscal tightening is not necessary at least until economic activity has regained its pre-crisis level and recovery is well established. This argument is bolstered by the low rate of government bond yields in advanced economies, such that debt servicing costs are exceptionally low despite the high level of public sector debt. But there is no doubt that at some point a tightening of fiscal policy will be necessary. The judgement of when and how this takes place will be a big test for policy makers and premature fiscal tightening could risk derailing economic recovery.

HIGH RATES OF UNEMPLOYMENT ARE LIKELY TO PERSIST INTO 2022 AND BEYOND – A MAJOR SOURCE OF THE ECONOMIC SCARRING – LONG-TERM DAMAGE TO GROWTH POTENTIAL – THAT THE COVID CRISIS WILL INEVITABLY CAUSE.



**CHART 17: Unemployment rates to be elevated**



Source: OECD Economic Databank. ACCA estimates (unpublished)

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## 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		

# 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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