About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We’re a thriving global community of 241,000 members and 542,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. In December 2020, we made commitments to the UN Sustainable Development Goals which we are measuring and will report on in our annual integrated report.

We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today’s questions and preparing for the future. We’re a not-for-profit organisation.

Find out more at [www.accaglobal.com](http://www.accaglobal.com)

About IMA® (Institute of Management Accountants)

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 about 140,000 members in 150 countries and 350 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe and Middle East/India.

For more information about IMA, please visit: [www.imanet.org](http://www.imanet.org)
THE GLOBAL ECONOMIC CONDITIONS SURVEY (GECS), IS THE LARGEST REGULAR ECONOMIC SURVEY OF ACCOUNTANTS 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 2022 Q3 survey took place between 2 and 14 September 2022 and gathered 905 responses; 584 from ACCA and 321 from IMA members.

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 Q3 Global Economic Conditions Survey (GECS) tells a story of broad pessimism, with a few bright spots. While the headline Confidence Index bounced slightly, reflecting some hopes that had arisen over the summer that it would not be long before inflation would slow, and central banks would ease monetary policy, it remains well below its median level. And the other three indicators that are more closely related to economic activity – new orders, capital expenditure, and employment – all showed a further deterioration. Taken as a whole, the series are consistent with slower global growth for the remainder of the year but are not yet at levels consistent with an outright recession (Chart 1).

The two “fear” indices – reflecting the level of concern that customers and suppliers may go out of business – were little changed but remain above pre-pandemic levels, suggesting a greater degree of fragility in the corporate sector than before Covid struck.

Although confidence recovered from the very sharp fall in the Q2 survey, the indices for new orders, capital spending and employment all showed further deterioration.

The two “fear” indices – reflecting the level of concern that customers and suppliers may go out of business – were little changed from the 2022 Q2 survey, which is possibly reassuring (Chart 2). Even so, as we have previously observed, both indices remain above their pre-pandemic levels, suggesting a greater degree of fragility in the corporate sector than before Covid struck.
Looking at the change in confidence over the quarter, there was a very sharp contrast between Western Europe, which recorded another major fall, and the rest of the world, where confidence improved (Chart 3a). The deterioration in Europe likely reflects its proximity to the war between Russia and Ukraine, and the upward pressure on gas and electricity prices. Over the past 12 months, the Western Europe Confidence Index has fallen a remarkable 80 points (Chart 3b), and across all regions, confidence is down across the year.

WESTERN EUROPE SUFFERED ANOTHER PLUNGE IN CONFIDENCE POSSIBLY DUE TO HIGHER GAS AND ELECTRICITY PRICES. OTHER REGIONS REPORTED A SMALL IMPROVEMENT IN CONFIDENCE IN Q3.
Looking at the change in new orders over the quarter, the picture is even gloomier, with only the Middle East and South Asia recording an improvement (Chart 4a). The biggest decline occurred in North America, closely followed by Western Europe. Over the past 12 months, the North American New Orders Index has fallen by more than 20 points (Chart 4b).

But looking at what has challenged businesses over the quarter, one factor dominated all others: 74% reported “increased costs” (Chart 5), while 37% cited “decreased income” and 35% mentioned “FX [foreign exchange] volatility.” The number reporting increased cost pressures was the highest ever recorded in the survey, which goes some way to explaining the persistence of inflation over the summer. Companies have responded by reducing their investment in capital expenditure and in staff – the decline in the former over the past six months is particularly notable. This decision to rein in capital expenditures may have also contributed to the decline in new orders.

**Chart 4a:** Broad-based decline in orders from Q2 to Q3

**Chart 4b:** Change in orders since Q3 2021

**Chart 5:** Costs pressures at an historic high

There was a broad-based decline in orders, with only the Middle East and South Asia reporting an improvement on the quarter.
While the survey respondents are relaxed about the risk that customers and suppliers may go out of business, there are two developments that deserve to be carefully monitored. First, there has been an increase in the number of respondents reporting “problems securing prompt payment,” which has risen to the highest level in four years. This could be the first sign of an increase in the number of businesses that may be experiencing cash-flow difficulties. At the same time, there has been a noticeable rise in the numbers reporting “problems accessing finance” (Chart 6). This is to be expected given this year’s tightening of global monetary conditions. We should not forget that this is shaping up to be the most aggressive tightening of pace, scale, breadth and liquidity of monetary policy seen in 40 years. It would not be a surprise if lending conditions tightened further over the next 12 months.

There have not been any major changes in perceptions of the two biggest risks to the global economy (taken from a list of five) (Chart 7). Worries about the level of Covid infections and associated restrictions eased back in the Q3 survey since that of Q2. There was also a noticeable decline in the percentage of respondents worried about supply shortages and supply-chain disruption. But 60% of the panel cited “increased interest rates in response to higher inflation” as their primary concern.

This is an important risk. Central banks were slow to appreciate the risks of inflation, believing it to be transitory.

Some would argue that they did ‘too little too late’ and found themselves ‘behind the curve’ when inflation became more persistent. The danger now is that central banks scramble to get on top of the problem, with the risk that they end up doing ‘too much too quickly’. The problem is that monetary policy works with long and variable lags, so when central banks are tightening quickly, there is always a risk that they could over tighten. If that is the case, then the global economy could slow more than businesses expect in 2023. But, more importantly, excessive policy tightening could undermine the financial structures that have evolved during more than a decade of central bank quantitative easing, with its ultra-low interest rates and plentiful liquidity.

| CHART 6: Challenges for securing prompt payment and accessing finance |
|---------------------------|---------------------------|
| **Global problems**       |                          |
|                          | %                        |
| Q3 2012                  | Q3 2014                  |
| ACCA Global problems accessing finance (no adjustment) | 30 |
| ACCA Global problems securing prompt payment (adjusted) | 25 |

Source ACCA/IMA (2022)

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<th>CHART 7: Perceptions of economic risks</th>
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<td>Increased interest rates in your region in response to higher inflation</td>
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<td>Supply shortages and supply chain disruption</td>
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Source ACCA/IMA (2022)

Q3 saw a further fall in concerns about Covid. But worries about higher interest rates in response to higher inflation have continued to rise. There has been a noticeable increase in the numbers reporting problems securing prompt payment and problems accessing finance.
1. Global and regional analysis

After the shock drop in confidence experienced in Q2, the latest GECS shows signs of remaining steady, with the notable exception of Western Europe (Chart 8). The fall-out from the war in Ukraine, which has exacerbated energy and food price inflation and prompted central banks to tighten monetary policy, is still causing significant macro headwinds. It is also contributing to a growing divergence in confidence levels across the regions, with low levels in North America and Western Europe contrasting with the more upbeat perspective among the survey’s Middle Eastern and South Asian respondents. These two regions also recorded a significant increase in orders, taking them to levels not seen in over seven years. Apart from Western Europe, the assessment of orders is generally more robust than the level of confidence, with less regional variation, and well above the lows seen during the Covid pandemic.

Chart 8: Global confidence broadly remaining steady currently

Chart 9: Orders fall below peak levels

In most regions, orders are below their recent peak levels — with the notable exception of South Asia. Nonetheless, they remain well above the levels seen during the Covid recession.
Regional picture

NORTH AMERICA
After collapsing to a record low in Q2, North American confidence recovered slightly in Q3, but it is still the second weakest reading in the survey’s history. Even more worrying is that the other three activity measures – new orders, capital spending and employment – all deteriorated in Q3 (Chart 10). These series are less volatile than the confidence measure and may give a better sense of the slowdown in economic growth that is under way in the region. With the U.S. Federal Reserve engaged in an aggressive monetary tightening to bring inflation back under control, it is inevitable that both confidence and economic activity will be reduced.

ASIA–PACIFIC
Confidence also recovered among the survey’s Asia–Pacific respondents. While it has declined from the peak levels seen following the Covid pandemic, it remains above the lowest median level recorded in the survey’s history. New orders remained resilient, while the employment component recorded a modest bounce. Only the Capital Expenditure Index disappointed, with a further drop taking it below the median level of the past decade (Chart 11). The outlook for the region continues to be dominated by China’s zero-Covid policy and lingering concerns about Chinese real-estate developers. The good news is that the region has not experienced the surge in inflation experienced in North America and Europe, and monetary policy has remained accommodative.

WESTERN EUROPE
Confidence among the survey’s Western European participants suffered another major decline in Q3, taking it down to the second-worst reading in the survey’s history. The proximity to the Russia–Ukraine conflict, the impact of high energy and food prices, and the decision by the region’s central banks to tighten monetary policy have reduced economic viability in the region, and a recession looks increasingly likely in 2023. Interestingly, while the new orders, employment and CapEx components all declined in Q3, the three indices remain at relatively high levels, but these will probably be hard to sustain given the macro headwinds that Europe currently faces (Chart 12).
MIDDLE EAST
In Q2, the Middle East saw a sharp fall in confidence, in part, in a response to the region’s dependence on Russia/Ukraine for food and other non-oil commodities. Confidence balanced in Q3 – probably helped by high energy revenues, with oil prices averaging more than $100 per barrel (bbl) so far this year – and remains above the median level recorded in the survey’s history. The New Orders, Employment, and Capital Expenditure series all rose in the quarter. Indeed, the New Orders index recorded its highest level in eight years (Chart 13). Despite the decrease in confidence, the region’s prospects look relatively robust, provided oil prices can be sustained.

SOUTH ASIA
South Asia – dominated by India – recorded an improvement in confidence, new orders, and capital expenditure (Chart 14). Although the region has faced similar macro headwinds as the rest of the world, including higher inflation and a tightening of monetary policy, it has proved relatively resilient. Confidence levels remain in line with the median of the past decade. Moreover, the rise in the new orders component in the latest survey takes it to the highest level seen in more than seven years.

AFRICA
Confidence balanced in Q3 after a sizeable reduction in Q2 and remains in line with the median level of confidence seen over the past decade. Even so, the new orders, capital expenditure, and employment components all declined on the quarter, suggesting a somewhat more pessimistic view from the survey’s respondents in the region (Chart 15). The region is sensitive to energy and food prices. Countries with overseas borrowings will also be hurt by the combination of rising U.S. interest rates and an appreciating dollar.
The trends that defined the first few months of 2022 intensified through the summer. Most noticeably of all, inflation has proved to be much more persistent than central bankers, economists, and investors had expected. Of course, the same could be said at the beginning of the year, but inflation pressure has picked up even further across developed market economies in recent months.

Several micro stories have played an important part in that. The surge in natural gas and electricity prices has pushed inflation above 10% in both the eurozone and UK. Services prices, particularly shelter, have made a much greater contribution to U.S. inflation in recent months. And across the world, food prices have risen substantially – in part because of supply issues relating to the war in Ukraine, and in part, because of second-round energy effects. Fundamentally though, there is a growing macro underpinning to the higher-for-longer inflation scenario: nominal demand is simply growing too fast, given lingering supply-side issues, whether they be in goods markets or job markets. Unless that changes, it is difficult to see the trajectory for underlying inflation changing dramatically either.

Central bankers have become alert to the challenge. Many have become increasingly hawkish since the start of Q3, and Jay Powell’s Jackson Hole speech made it clear that policymakers believe the cost of doing too little is greater than the cost of doing too much. Accordingly, interest rates have risen substantially – the U.S. Federal Reserve Board, European Central Bank (ECB), and Bank of England hiked by 150, 125, and 100bps respectively between July and September, by far the fastest pace of tightening each has engaged in over the past several decades. The G7 policy rate is now above 2% for the first time since September 2008 and, if market pricing proves correct, it could exceed 3.5% by the middle of next year (Chart 17).

Indeed, global growth is already running at its weakest pace since the Global Financial Crisis (2007–9), according to S&P Global’s Purchasing Manager Indices (PMIs) and that is before the full effects of recent tightening of energy price rises feed through. Fiscal policy might help offset this in the coming months, particularly in Europe. A bounce back in China from, say, a relaxation of its zero-Covid policy and/or a further easing of monetary policy, could also provide an additional tailwind though relaxation on the zero-Covid policy looks increasingly unlikely given recent pronouncements. But it is difficult to see a strong growth environment emerging in the coming months across most of the global economy. Rather, the risks are skewed towards a global recession in 2023.

For investors, the prospect of weak growth, high inflation, and central bankers’ actions constraining the economy, even if that means a prolonged period of below-trend growth, is clearly not an attractive combination. The U.S. stock market – as measured by the S&P 500 index – fell sharply from its August peak and has subsequently been more than 20% below where it stood at the beginning of the year. European equities have fallen a similar amount. Notably, those falls have occurred at the same time as a sharp rise in long-term bond yields.

**U.S.**

After an inventory-induced contraction in the second quarter, some underlying measures of U.S. economic activity appeared to slow further in Q3. Housing has played an important part of that slowdown: housing starts have not grown at all since the end of June, while inventories of unsold new homes have risen sharply. The National Association of Home Builders’ Housing Market Index is down to its weakest level (outside the pandemic) since the middle of 2014. Yet, the decline in oil prices through July and August appears to have given the U.S. consumer a bit of support. Retail sales volumes actually rose in August (after three months of contraction). Both the Conference Board and University of Michigan confidence measures have bounced in recent months. The Federal Reserve Bank of Atlanta’s “GDPNow” model suggests the economy could expand by an annual rate of 2.8% in the third quarter.
Declining oil prices have also pulled inflation lower, from 9% in June to 8.2% in September. Yet, that’s still far higher than the Federal Reserve Board would like. Rising rents and house prices partly explain why high inflation has been so stubborn (costs of shelter make up one-third of the U.S. consumer-prices basket). But, fundamentally, the problem is that nominal income and spending is growing too quickly given the supply-side constraints facing the U.S. economy. Jay Powell’s speech at the Jackson Hole conference earlier in the summer made it clear that the Federal Reserve Board is unwilling to take any further risks with inflation. In short, they see the potential costs of doing too little as greater than those of doing too much. Having seen interest rates hiked by 75bp at each of the last three meetings, markets now expect the Federal Funds Target Rate to get up towards 5% by the middle of next year – a further rise of 175bp. Given that context, delivering a soft landing will prove increasingly difficult.

China
Following the sharp lockdown-induced contraction in output in the second quarter, Chinese growth has probably staged a rebound in Q3 – although the re-imposition of Covid-related lockdowns towards the end of the quarter may have taken the edge off any recovery. Still, other activity indicators remain weak. The official PMI (Purchasing Managers Index) of the Chinese National Bureau of Statistics (NBS) is now down to 50.9, having been much higher, at 54, as recently as June. Residential housing starts for the three months of June, July, and August were around 45% lower than the average for the same period over the previous five years. It’s looking increasingly likely that China will miss its official 2022 growth target of 5.5%.

In recent weeks, housing market concerns have, however, prompted a policy response from both the People’s Bank of China (PBoC) and the Ministry of Finance. Tax rebates, mortgage rate cuts, increased real estate lending, and a special lending window to finance the construction of stalled housing projects have all been announced. But whether policymakers will succeed in stimulating growth will depend much more on whether they persist with the zero-Covid policy than what they do to stimulate credit-sensitive parts of the economy. Given recent comments at the National People’s Congress, dropping zero-Covid in the short-term looks unlikely. And in any case, doing so would require vaccinating vulnerable parts of the population – which could take a considerable amount of time.

Eurozone
Policymakers across the eurozone have spent most of the summer contending with increasingly volatile developments within energy markets. Natural gas and electricity prices surged through July and August, as Russian gas flows all but dried up. While prices have eased substantially since then, with no sign of a ramp-up in imports or domestic production they remain at least double of their early-June level and roughly eight or nine times of their pre-pandemic average.

Those energy price moves, alongside increasing food prices, pushed eurozone inflation up to 10% in September: five times the ECB’s medium-term target. That, in turn, has driven private-sector real-income growth even lower. GDP grew by a surprisingly strong 0.8% in the second quarter – primarily because of re-opening effects and a tourism-induced pick-up in household consumption. But higher-frequency surveys of activity suggest that that strength won’t last. The eurozone economy may have contracted in the third quarter and faces a significant risk of entering recession before year-end.

Whether that contraction proves a short-lived or drawn-out affair will depend on two factors. The first is whether the eurozone can overcome its supply-side energy issues. Gas storage is over 90% of total capacity, but if the winter proves particularly harsh, then mandatory demand curbs are a distinct possibility. The second factor is how policy positions develop. Fiscal measures have been stepped up in recent months – most notably in Germany, where €206bn (or roughly 5% of GDP) has been committed to a new fund to shield households and businesses from rising costs. But aggressive fiscal assistance carries the risk that it will embolden the ECB to tighten monetary policy more aggressively. Moreover, the sharp increase in bond yields is starting to raise questions about sovereign debt sustainability in the eurozone.

UK
The UK is facing many of the same problems as the eurozone. Surging food and energy prices have pushed inflation to roughly 10%. Yet, GDP growth appears to be slowing materially, to 0.2% in the second quarter, while the Bank of England expects the economy to enter recession in Q4.

In an attempt to cushion the expected energy-related squeeze in real disposable incomes and consumption, the government spent the final few weeks of Q3 loosening the fiscal reins substantially. Market turmoil has since forced policymakers to abandon most of those plans, and the Energy Price Guarantee (initially designed to cap household energy bills for two years) has been watered down. As elsewhere, though, moderately looser fiscal policy in the UK is likely to be met with further monetary tightening. The Bank of England has already raised borrowing costs at each of its last seven meetings and market participants now think that the Bank rate could rise from 2.25% to more than 5% by the middle of next year. Delivering that amount of tightening in such a short space of time will almost certainly create major challenges for both the housing market and the corporate sector.

Emerging markets
It’s difficult to make assumptions about emerging market (EM) economies, but it’s clear that most have faced significant headwinds this year. Food and fuel prices have risen, weighing on demand. China’s foreign lending has weakened on the back of domestic growth problems. The Federal Reserve Board’s hawkish stance might have warranted, in order to fend off portfolio outflows. Those challenges are unlikely to ease soon. For one thing, the Federal Reserve Board seems likely to continue tightening policy until it has seen a more substantial reduction in inflation. Further increases in U.S. interest rates alongside a further appreciation of the U.S. dollar will probably raise pressure on those EMs that have borrowed dollars. Secondly, near-term inflation expectations remain elevated relative to target in the majority of the EM economies that started hiking rates in 2021. Both of those factors are likely to constrain the ability of EM central banks to cut rates in order to boost growth.
Europe’s energy crisis is a significant threat to the outlook. If temperatures drop well below typical levels this winter, mandatory demand curbs look like a real possibility – almost certainly plunging the European economies into a deep recession. Monetary policy is another source of risk. It can be argued that this is shaping up to be one of the most aggressive tightenings of monetary policy seen in the past 40 years, in pace, scale and breadth (Chart 17). This follows more than a decade of ultra-low interest rates and plentiful liquidity. The good news is that policymakers remain determined to bring down inflation (Chart 18) – and it is still possible that headline inflation rates could fall rapidly over the coming year (although they could, indeed, rise). The challenge will be whether rates can come down before the adverse effects and unintended consequences of monetary tightening appear in the financial system. Housing markets and the corporate sector look particularly exposed to further aggressive tightening. There is a risk that credit conditions could deteriorate further, with access to finance becoming more difficult.

**Risks to the global outlook**
The risks to the global outlook are probably skewed to the downside (Chart 16). While a strong Chinese rebound following further policy stimulus and an easing of China’s zero-Covid policy is possible, even that may not prove sufficient to prevent the global economy from slipping into a sluggish growth environment at best, or outright recession at worst. This will put pressure on corporate earnings growth – which could turn negative in 2023.

**THE RISKS TO THE GLOBAL OUTLOOK ARE PROBABLY SKEWED TO THE DOWNSIDE.**

**IT CAN BE ARGUED THAT THIS IS SHAPING UP TO BE ONE OF THE MOST AGGRESSIVE TIGHTENINGS OF MONETARY POLICY SEEN IN THE PAST 40 YEARS.**

**THE GOOD NEWS IS THAT POLICYMAKERS REMAIN DETERMINED TO BRING DOWN INFLATION.**


## Appendix I:
### Economies covered by Q3 survey responses

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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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