ACCA Think Ahead

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The Association of Accountants and Financial Professionals in Business



GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q4, 2022**

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

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.

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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 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 Q4 survey took place in December 2022 and gathered 1,720 responses: 1,430 from ACCA members and 290 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.



Executive summary

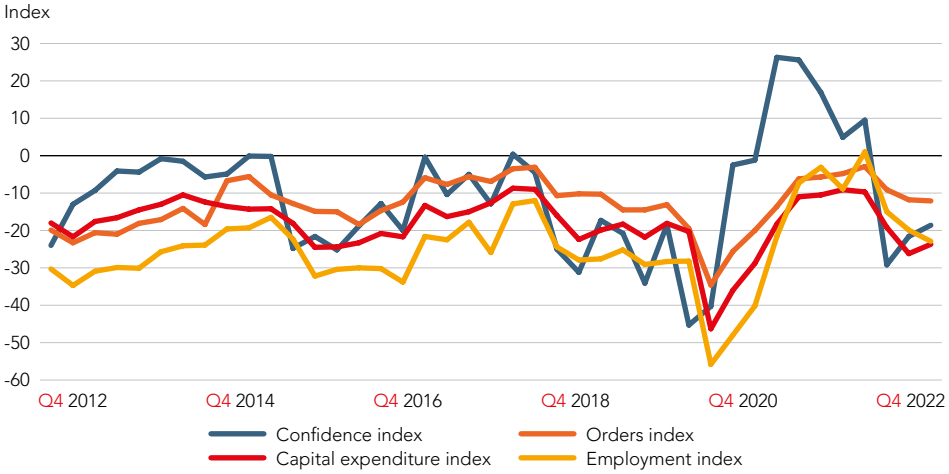
THE LATEST ACCA GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) SHOWS SOME STEADYING BUT MANY INDICATORS REMAIN WEAKER THAN A YEAR AGO.

The Q4 Global Economic Conditions Survey (GECS) shows some signs of steadying, but many indicators remain weaker than a year ago. The good news is that the GECS confidence index bounced slightly for the second consecutive quarter, perhaps reflecting hopes that the worst of the central bank tightening might soon be over and that China might successfully relax its zero-Covid restrictions. Even so, the Confidence Index remains below its median reading for the period since 2012. Nor is there much positive news from the other three economic indicators – new orders, capital expenditure (CapEx), and employment. CapEx picked up marginally but remains below the median of the same period; new orders and employment showed a further modest deterioration.

Taken as a whole, the series are consistent with a subdued macro-economic outlook as we head into 2023. But the good news is that they do not appear to be at levels consistent with an outright global recession in 2023 (Chart 1) – even though this is the base case scenario for many economic forecasters. A good cross-check is provided by the two GECS 'Fear' indices, which reflect respondents' concern that customers and/or suppliers may go out of business (Chart 2). Reassuringly, these were little changed from the 2022 Q3 survey, despite the sharp rise in borrowing costs and the prospect of negative corporate-earnings growth in 2023.

TAKEN AS A WHOLE, THE SERIES ARE CONSISTENT WITH A SUBDUED MACRO-ECONOMIC OUTLOOK AS WE HEAD INTO 2023.

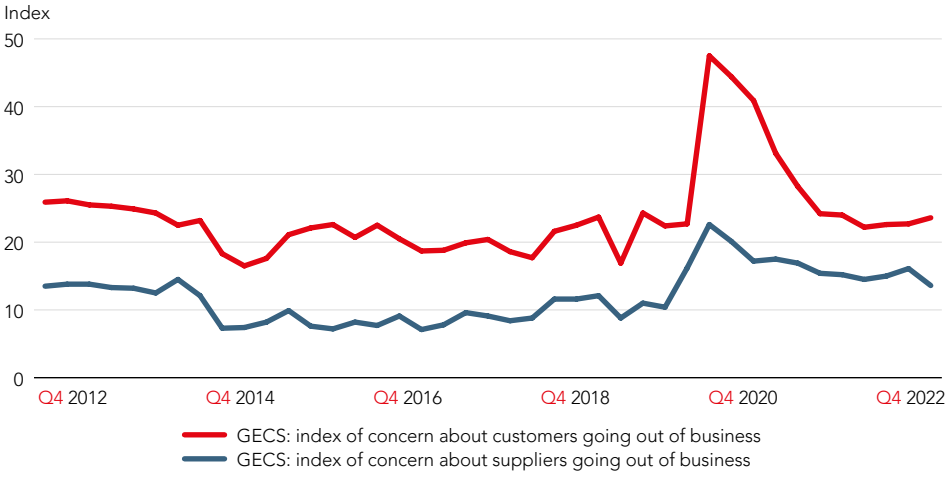
CHART 1: GECS global confidence, CapEx, employment and new orders indices since 2012



Source: ACCA/IMA (2012–22)

THESE WERE LITTLE CHANGED FROM THE 2022 Q3 SURVEY, DESPITE THE SHARP RISE IN BORROWING COSTS AND THE PROSPECT OF NEGATIVE CORPORATE-EARNINGS GROWTH IN 2023.

CHART 2: GECS global 'fear' indices since 2012



Source: ACCA/IMA (2012–22)

1. Global and regional analysis

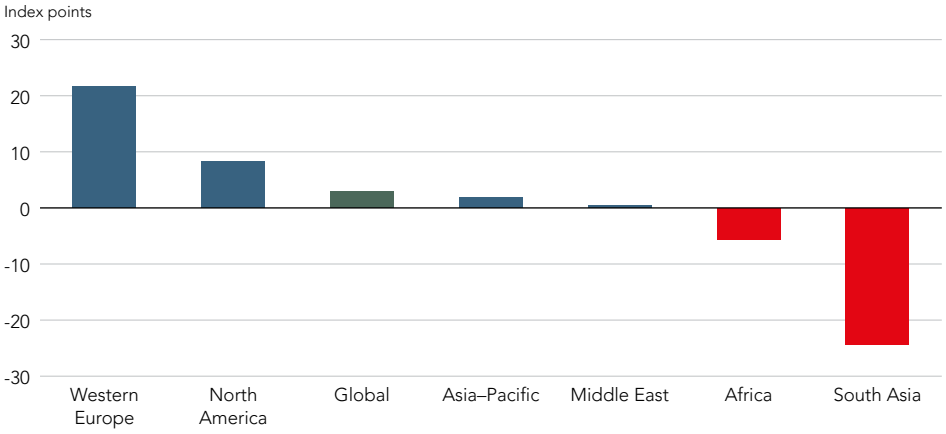
LOOKING AT THE CHANGE IN THE GECS CONFIDENCE INDICES OVER THE QUARTER, WHAT STANDS OUT IS THE IMPROVEMENT IN CONFIDENCE IN BOTH WESTERN EUROPE AND NORTH AMERICA.

Looking at the change in the GECS confidence indices over the quarter, what stands out is the improvement in confidence in both Western Europe and North America (see Chart 3a). The swing in the former more than reverses the fall that we saw in 2022 Q3, when worries about the impact of higher energy prices were at their most intense. The improvement in confidence probably reflects hopes that the Russia–Ukraine conflict can be contained, and that there will be sufficient natural gas to see Europe through what now looks increasingly likely to be a mild winter. More surprising is the decline in confidence in South Asia, although this may in part reflect the aftermath of the monsoon flooding, the debt crisis in Sri Lanka, and requests for International Monetary Fund (IMF) assistance from both Pakistan and Bangladesh.

Despite the steadying of the past two quarters, confidence was still lower than in Q4 of 2021 across every region owing to higher interest rates and higher commodity prices (Chart 3b).

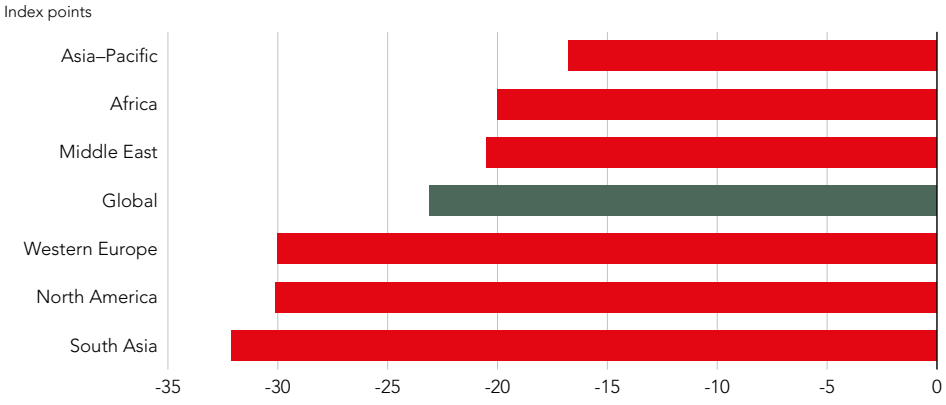
Some quarterly noise is inevitable in any survey, and we prefer to focus on the change over the whole of 2022. South Asia – once again – has suffered a significant decline in confidence, but this is in line with similar setbacks in Western Europe and North America. While confidence in all regions has been reduced by higher commodity prices and the tightening of monetary policy, Asia–Pacific, Africa and the Middle East have been less badly hit than the global average.

CHART 3a: Changes in GECS confidence indices in different regions in 2022 Q4



DESPITE THE STEADYING OF THE PAST TWO QUARTERS, CONFIDENCE WAS STILL LOWER THAN IN Q4 OF 2021 ACROSS EVERY REGION OWING TO HIGHER INTEREST RATES AND HIGHER COMMODITY PRICES.

CHART 3b: Changes in GECS confidence indices in different regions during 2022



Source: ACCA/IMA (2022)

Interestingly, the GECS global new orders index did not bounce alongside the GECS Confidence series. Instead, it recorded a marginal decline, leaving it in line with the median level recorded over the survey's history. There was a modest improvement on the quarter in Africa, Western Europe, and North America, but this was wiped out by weakness in Asia–Pacific and South Asia (see Chart 4a). Looking back over 2022, the picture was mixed, with regions such as Africa and the Middle East bucking the declining trend. In the Middle East new orders were probably boosted by higher energy revenues. The region that saw the biggest decline in new orders was North America (see Chart 4b).

While global new orders are flatlining, one explanation for the rebound in confidence shown in Chart 3a may be the decline in commodity prices, which is helping to bring down costs. At the time of writing, the price of Brent crude oil is below $80 per barrel (bbl), compared with around $95/bbl three months ago – and European natural gas prices have also fallen sharply. As Chart 5 shows, this has led to a fall in the level of concern about 'increased costs' – down from the highest level of concern in the survey's history in 2022 Q3.

THERE WAS A MODEST IMPROVEMENT ON THE QUARTER IN AFRICA, WESTERN EUROPE, AND NORTH AMERICA, BUT THIS WAS WIPED OUT BY WEAKNESS IN ASIA–PACIFIC AND SOUTH ASIA.

CHART 4a: Change in the GECS new orders index in 2022 Q4

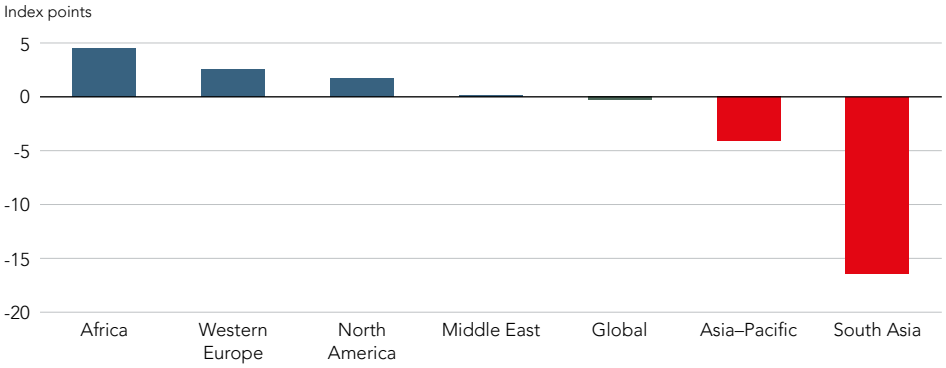
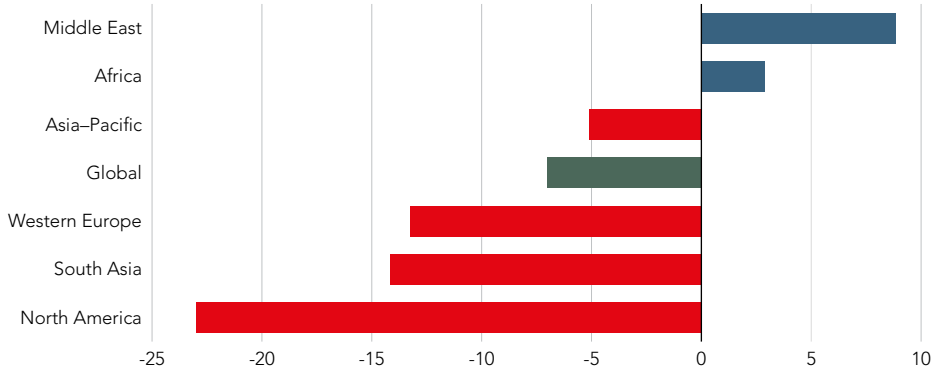
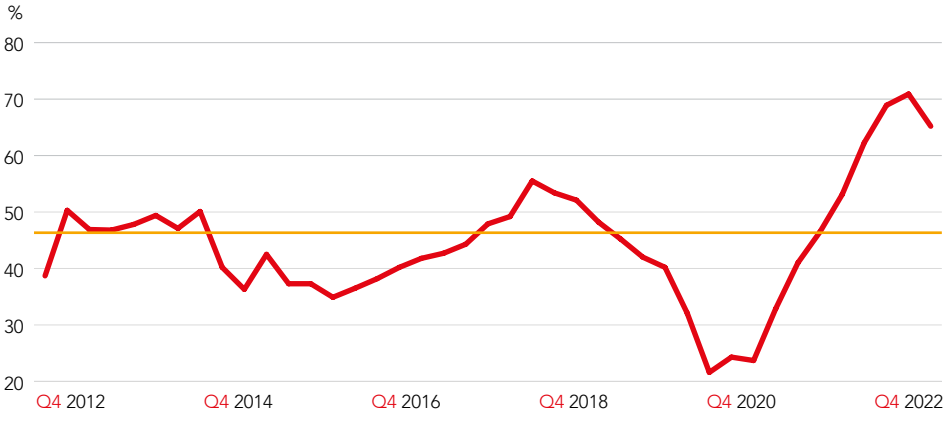


CHART 4b: Change in the GECS new orders index during 2022



THE DECLINE IN COMMODITY PRICES MAY HAVE LED TO A FALL IN THE LEVEL OF CONCERN ABOUT 'INCREASED COSTS' – DOWN FROM THE HIGHEST LEVEL OF CONCERN IN THE SURVEY'S HISTORY IN 2022 Q3.

CHART 5: Concerns about increased operating costs expressed in GECS 2022 Q4



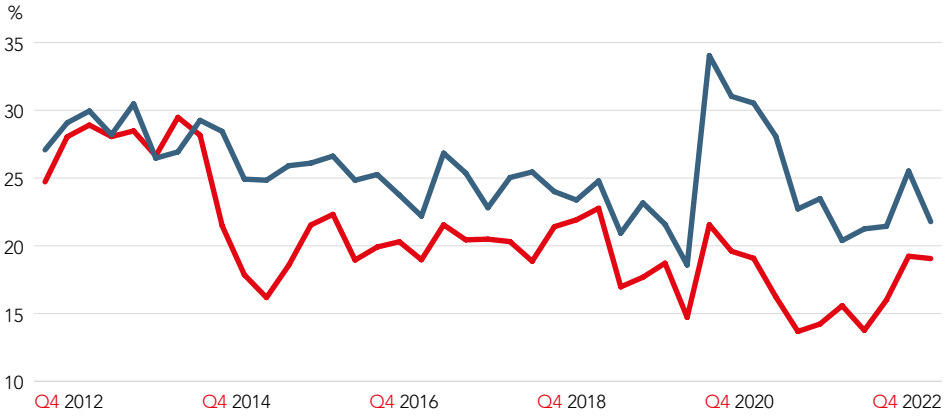
Source: ACCA/IMA (2012–22)

Global confidence has edged up for the second consecutive quarter not only because cost concerns have eased (see Chart 5), but also because worries about accessing finance and securing prompt payment have not got any worse (see Chart 6). This is something of a surprise given the rapid tightening globally of monetary policy by the world's central banks. The past 12 months have seen the most aggressive tightening of policy in more than 40 years, in pace, scale and breadth. It is strange that this has not yet had a material impact on financing conditions and corporate cash flows. But monetary policy works with long and variable lags, which suggests that this may become more of a problem later in 2023.

Tighter monetary policies and the fallout from the Russia–Ukraine conflict have prompted companies to rethink their capital spending plans and hiring intentions. When asked how they planned to respond to the changing economic environment, the net balance of companies planning to increase investment in capital and staff has trended downwards, while the net balance of companies planning job creation dropped to the lowest level seen since 2021 Q1 (Chart 7).

WORRIES ABOUT ACCESSING FINANCE AND SECURING PROMPT PAYMENT HAVE NOT GOT ANY WORSE. THIS IS SOMETHING OF A SURPRISE GIVEN THE RAPID TIGHTENING GLOBALLY OF MONETARY POLICY BY THE WORLD'S CENTRAL BANKS.

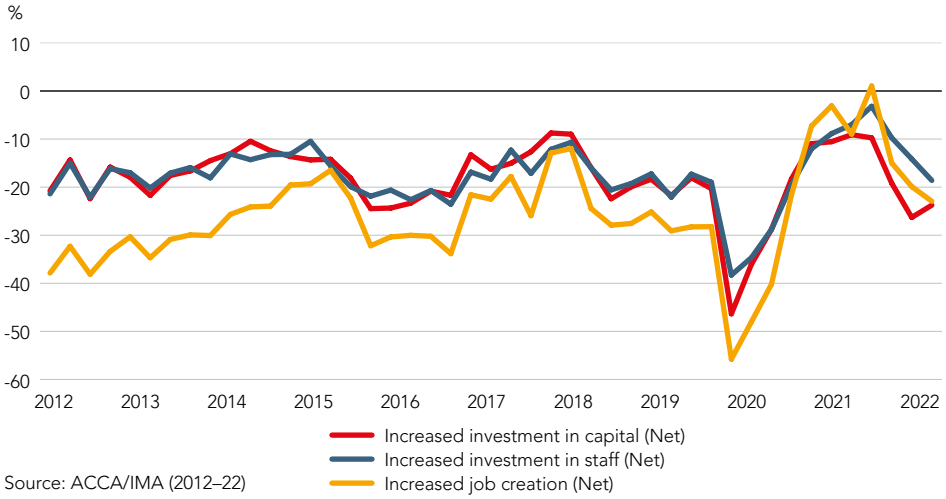
CHART 6: Problems securing prompt payment and accessing finance



Source: ACCA/IMA (2012–22)

THE NET BALANCE OF COMPANIES PLANNING JOB CREATION DROPPED TO THE LOWEST LEVEL SEEN SINCE 2021 Q1.

CHART 7: Changes in net investment and job creation shown in GECS since 2012



Source: ACCA/IMA (2012–22)

Regional analysis

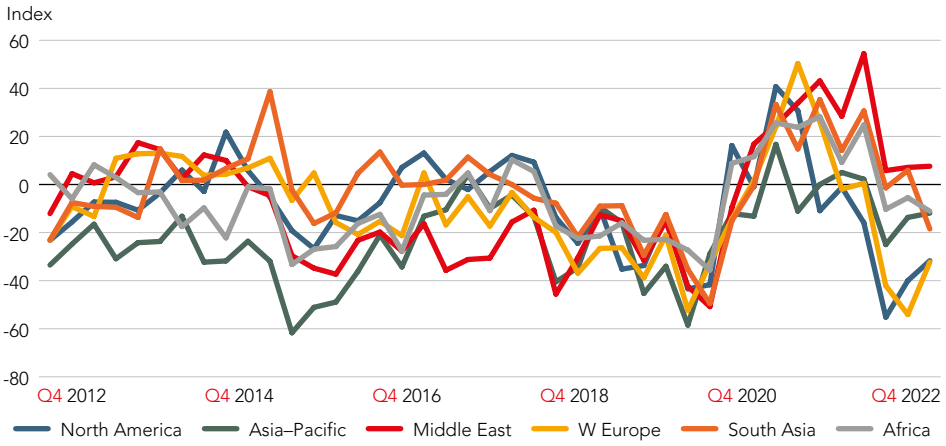
After the shock drop in confidence experienced in Q2, the latest GECS shows some further signs of steadying. With the exception of South Asia, the GECS confidence index in Q4 rose in most regions (see Chart 8). The rebound in confidence in North America and Western Europe is particularly striking as these were the two regions where confidence had fallen back to the pandemic lows of 2020.

With many commodity prices now back to the levels seen before Russia invaded Ukraine, this potentially paves the way for a further improvement in confidence.

The latest GECS new orders indices also showed some signs of steadying at the regional level (see Chart 9). Interestingly, the Orders series have been holding up much better than the Confidence indices: they did not return to their pandemic lows. Even so, the wildcard remains the lagged impact on global demand of last year's aggressive tightening of monetary policy. Central bankers have made it clear that there is likely to be further policy tightening until employment markets start to ease. While the risks from high commodity prices have eased, downside risks to demand have not disappeared.

AFTER THE SHOCK DROP IN CONFIDENCE EXPERIENCED IN Q2, THE LATEST GECS SHOWS SOME FURTHER SIGNS OF STEADYING.

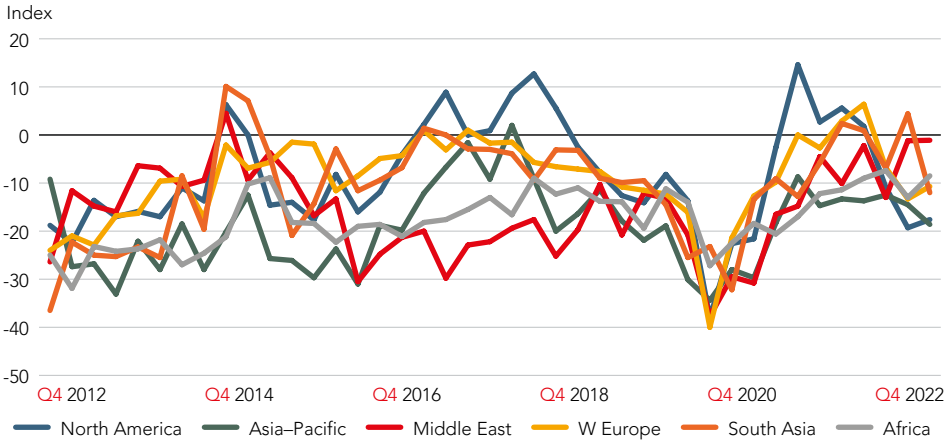
CHART 8: GECS confidence indices in the major global regions



Source: ACCA/IMA (2012–22)

THE LATEST GECS NEW ORDERS INDICES ALSO SHOWED SOME SIGNS OF STEADYING AT THE REGIONAL LEVEL.

CHART 9: GECS orders indices in the major global regions 2012–2022

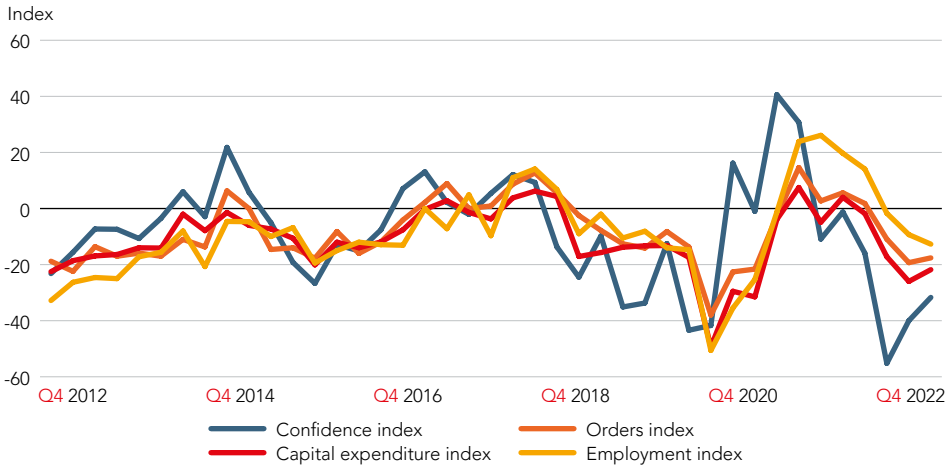


Source: ACCA/IMA (2012–22)

NORTH AMERICA

Looking back at 2022, what is striking about the North American results is how severely confidence was reduced by Russia's invasion of Ukraine and by the ensuing spike in commodity prices. As Chart 10 shows, the GECS Confidence Index for North America in 2022 Q2 actually fell below the 2020 pandemic lows. It has begun to recover during the GECS Q3 and Q4 2022 – and that is despite the aggressive tightening of monetary policy by the US Federal Reserve ('the Fed'). Interestingly, while the other macro-economic indicators – on capital spending, employment and new orders – have pulled back, the retracement has not been as severe. The GECS results suggest that North American respondents may be less worried than they were about Ukraine but the risk is that they could be underestimating the impact of the Fed's tightening on the US economy in 2023.

CHART 10: North America

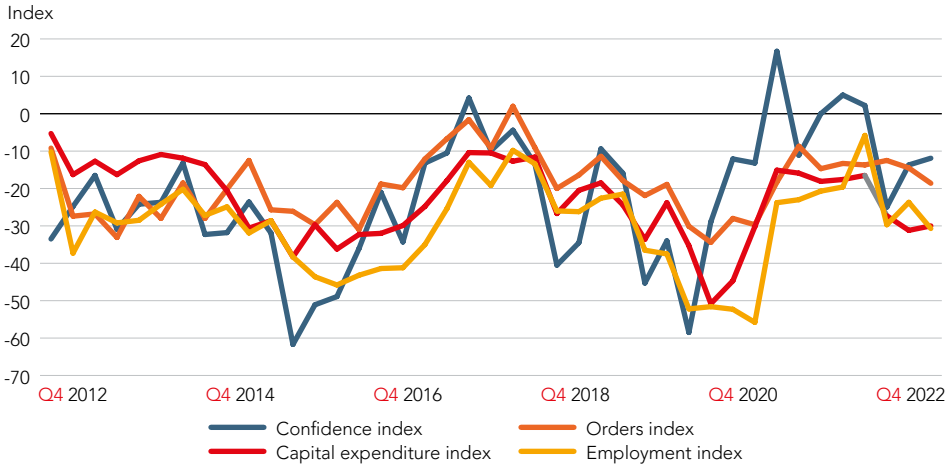


Source: ACCA/IMA (2012–22)

ASIA–PACIFIC

The GECS Asia–Pacific results – which include respondents from both Japan and China – show a mixed picture. As Chart 11 shows, after a strong rebound from 2020's pandemic lows, all four macro-economic indicators have tracked sideways, despite China's zero-Covid policy. Only when we get the next survey will we understand the impact of China's reopening on activity in the region. The other development to watch closely is the potential for a change in the Bank of Japan's monetary policy – especially once the current Bank of Japan governor, Kuroda-san, retires this spring.

CHART 11: Asia–Pacific

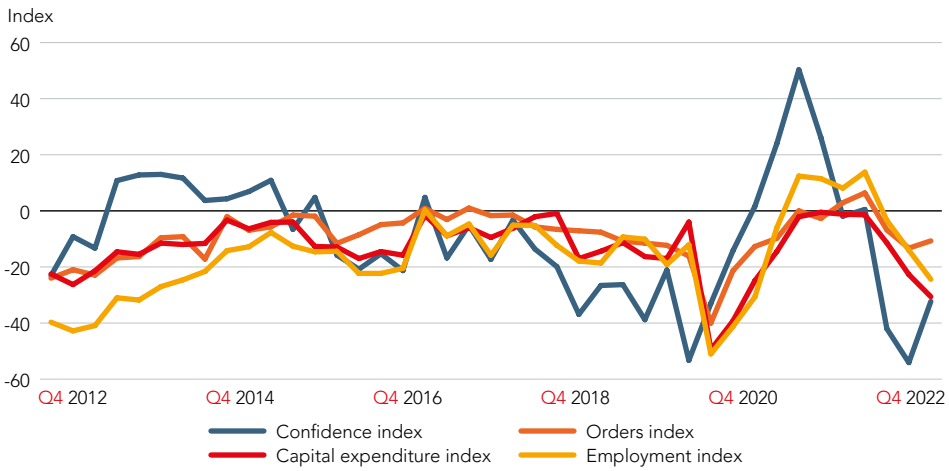


Source: ACCA/IMA (2012–22)

WESTERN EUROPE

Russia's invasion of Ukraine hit Western–European confidence as it had in North America, taking the GECS Confidence Index in Q4 down to below 2020's pandemic lows as concern grew over Europe's energy security. The latest survey has seen a rebound in confidence as hope has grown that Europe has sufficient energy reserves to see it through what is turning out to be a mild winter (Chart 12). Even so, the macro-economic indices tracking capital expenditure and employment remain firmly on a downward path. And the ECB has turned increasingly hawkish owing to fears of higher wage inflation. As with North America, while the immediate threat from the Russia–Ukraine conflict may have receded, the lagged effects of Europe's monetary tightening may yet depress Europe's economy in 2023.

CHART 12: Western Europe

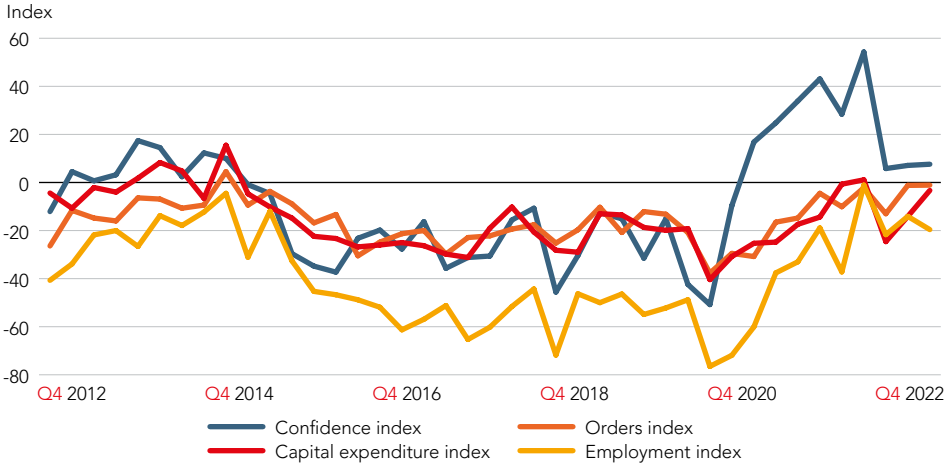


Source: ACCA/IMA (2012–22)

MIDDLE EAST

The Middle East was unable to escape the jolt to confidence triggered by the Russia–Ukraine conflict. The GECS Confidence Index for the region fell back sharply but has steadied above the median level recorded over the period 2012–2022 (Chart 13). The sharp rise in energy prices has played to the region's strengths. This is apparent from the steady upward trend in the macro-economic indicators, with capital expenditure, employment and new orders recording some of their highest levels in seven years. The risk is that if a global recession does develop in 2023 following tighter global monetary policies, then demand for energy could fall faster than expected and potentially depress energy prices.

CHART 13: Middle East

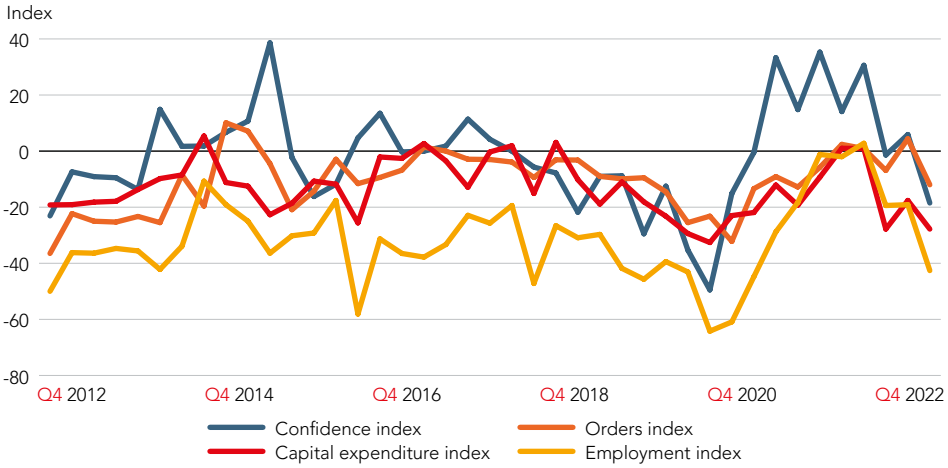


Source: ACCA/IMA (2012–22)

SOUTH ASIA

A significant shift in perceptions appears to be under way in South Asia. In contrast to other regions, the GECS Confidence Index here declined sharply in Q4 (Chart 14). What makes this more worrying is that the GECS Capital Expenditure, Employment and New Orders indices have also hit trouble. While none of the GECS indicators are yet back at the pandemic lows, their weakness may partly reflect growing sovereign credit concerns in the region following Sri Lanka's default last year. Pakistan and Bangladesh have also been in discussions with the IMF. And Pakistan has had to cope with the fallout from severe monsoon flooding.

CHART 14: South Asia

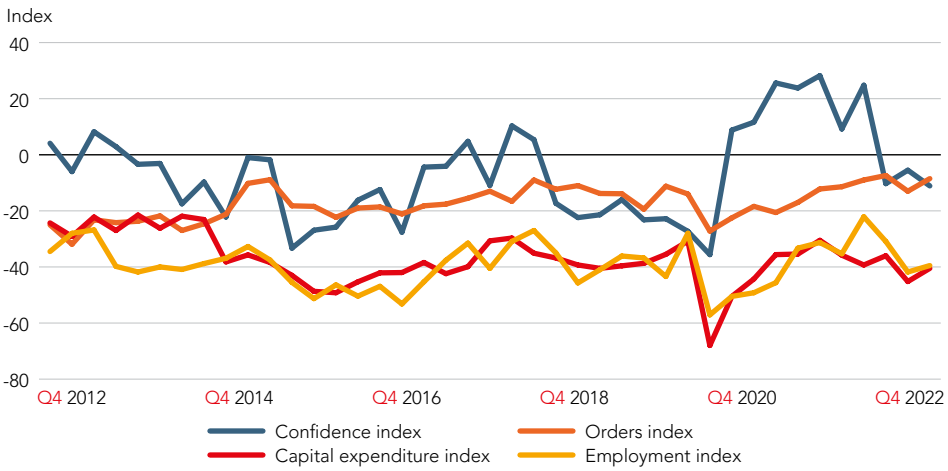


Source: ACCA/IMA (2012–22)

AFRICA

The GECS Confidence Index for Africa fell back sharply after Russia invaded Ukraine, but confidence has steadied over Q3 and Q4 2022 in line with the average since 2012 (Chart 15). Bearing in mind the lack of homogeneity in the region, the GECS macro-economic indicators paint a mixed picture, with new orders close to record highs at the same time as employment and capital expenditure remain subdued. The sharp rise in energy and food prices hurt the region in 2022 but those headwinds may start to ease as we head into 2023. On the other hand, many African countries have dollar borrowing that has become a greater burden as US interest rates have risen.

CHART 15: Africa



Source: ACCA/IMA (2012–22)

2. The global economic outlook

AT THE START OF A NEW YEAR, MANY FORECASTERS WILL HAVE SPENT SOME TIME REFLECTING UPON THE TRENDS AND CHALLENGES THAT DEFINED 2022.

At the start of a New Year, many forecasters will have spent some time reflecting upon the trends and challenges that defined 2022. Those factors presented an enormous challenge to policymakers across the global economy. Rampant inflation, talent-supply constraints, political volatility, war in Europe, continuing Covid concerns, and a severe squeeze on household and corporate incomes have all warranted attention. And while policymakers have taken swift action to address those concerns, it is still too early to tell whether that action has had the desired effect.

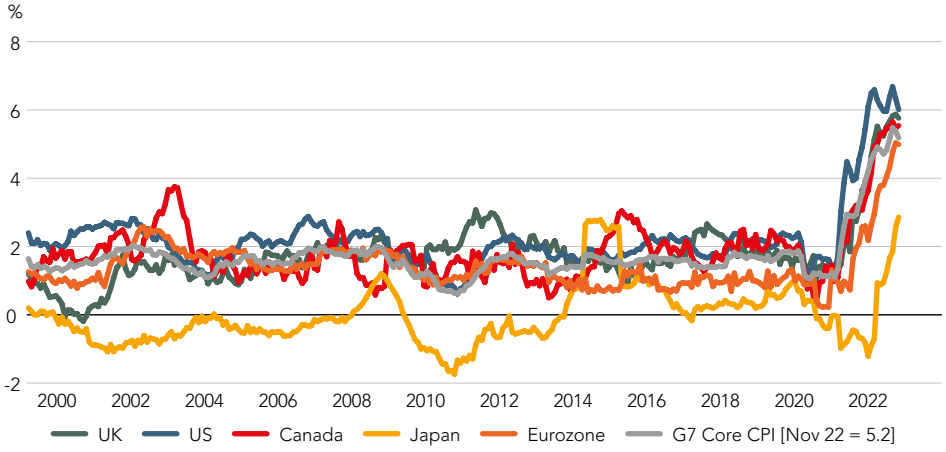
Inflation has undoubtedly been the most dominant of those concerns. Yet there are increasingly clear signs emerging, particularly in the fourth quarter of the year, that inflation may have now peaked. In the US, headline Consumer Price Index (CPI) inflation has dropped back from a peak of 9.0% to 7.1% at the end of last year. In the eurozone, the adjusted inflation rate has fallen to 9.2% down from a peak of 10.8%. And we have seen similar developments in the UK and across some parts of the emerging world too (Chart 16 – shows core CPI only). The spike in raw food and wholesale energy prices that occurred in the aftermath of Russia's invasion of Ukraine has begun to reverse.

While that may be encouraging, it doesn't necessarily change the equation for policymakers – since core inflation remains stubbornly high, currently running at 5.1% for the G7 economies as a whole (Chart 16). That is especially true in the light of continued talent-market strength, which persists despite pressure on corporate incomes from a combination of rising wholesale costs and slowing top-line earnings growth. With central banks no longer willing to take a risk with inflation – fearful that robust price pressures could become embedded within wage costs or inflation expectations – further monetary tightening appears inevitable. If financial-market expectations are a reliable guide, interest rates could rise by a further 50 basis points (bps) in the US, 100bps in the UK, and 150bps in the eurozone over the course of 2023.

Policy tightening, in combination with continued pressure on household and corporate balance sheets, points to a further slowdown in economic growth: 2022 already provided a taste of that. S&P Global's Global Composite Purchasing Manager Index now sits below the critical threshold of 50 [https://www.pmi.spglobal.com/Public/Home/PressRelease/a2054171fdf64194bd2aebd52d16c665] for the first time (outside the pandemic) since 2009; housing-market activity has come under serious pressure, with prices declining sharply across a number of developed-market economies [https://research.sebgroup.com/macro-ficc/reports/33771, https://stats.crea.ca/en-CA/]; and surveys suggest households across Europe and the US are more pessimistic about their future personal

THERE ARE INCREASINGLY CLEAR SIGNS EMERGING, PARTICULARLY IN THE FOURTH QUARTER OF THE YEAR, THAT INFLATION MAY HAVE NOW PEAKED.

CHART 16: Movement in consumer prices indices since 2000 (core CPI)



Source: ASR Ltd. / Refinitiv Datastream

finances than they have been for several decades, depressing consumption [https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys/latest-business-and-consumer-surveys_en, https://www.newyorkfed.org/microeconomics/sce#/finsit-1]. China's exit from 'zero-Covid' restrictions could eventually provide some uplift to global growth (provided vaccination rates rise swiftly and sufficiently), but the same is unlikely to be true for developed-market economies. The consensus belief among GECS respondents is that recession may be unavoidable in Europe, and highly likely in America. The price of taming core inflation looks increasingly likely to be rising unemployment; central banks want to see greater slack in the employment market so that wage growth falls back to a level consistent with their inflation mandates (Chart 17).

Against this backdrop, it is no surprise that financial markets ended 2022 on a flat note. After a short-lived rally through October and November, equity markets came under renewed pressure heading into the end of 2022, with the US market down 6% in December. Government bonds also experienced a further sell-off, with yields on 10-year US Treasuries getting as high as 3.83% by year end. The rise in yields was broadly based, with increases of between 50 and 70bps in Australia, Germany, France, and the UK – and as much as 80bps in Italy. This was after the European Central Bank (ECB) sent an unexpectedly hawkish message in its final policy meeting of 2022, and the Bank of Japan raised its cap on Japanese 10-year bond yields. Almost all these moves, it should be said, were primarily driven by higher real interest rates rather than worries about higher inflation.

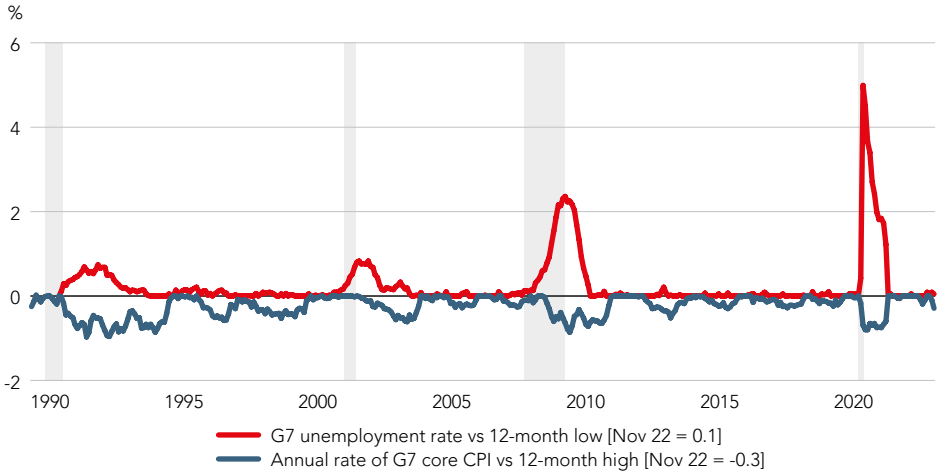
US

From a growth perspective, 2022 ended on a weak note. The Manufacturing Purchasing Managers' Index produced by the Institute for Supply Management (ISM) fell below the all-important 50 mark in November, with a further fall in December to 48.4 (for the first time since the depths of the pandemic in early 2020). The equivalent index for non-manufacturing businesses also suffered an unusually large drop in December to 49.6. Moreover, the US National Association of Housebuilders' housing market index [https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index] weakened further; and real retail sales volumes continue to flatline.

The good news is that the inflation picture has begun to improve. For two consecutive months, US consumer-price inflation has been below expectations, with the core index rising just 0.2% on the month in November. That is encouraging but it is unlikely to satisfy the US Federal Reserve for two reasons. First, while core goods inflation is now in decline and housing inflation looks as though it has peaked, service sector inflation continues to rise rapidly. And secondly, as the latest US Labor Department's payrolls report showed, the employment market remains remarkably resilient, raising fears that not enough has yet been done to contain wage-price spiral risks. These two factors are why the market expects the Federal Reserve to tighten further in the short-term with a peak in the policy rate of 5.00% sometime this year.

CENTRAL BANKS WANT TO SEE GREATER SLACK IN THE EMPLOYMENT MARKET SO THAT WAGE GROWTH FALLS BACK TO A LEVEL CONSISTENT WITH THEIR INFLATION MANDATES.

CHART 17: Comparison of unemployment rates in the G7 countries and the G7 Core Consumer Prices Index since 1990



Source: ASR Ltd. / Refinitiv Datastream

China

China's growth issues mounted in 2022 Q4, as the economy slowed abruptly in November after several major cities reimposed Covid lockdowns. Survey measures, such as the official Purchasing Managers' Index (PMI) published by China's National Bureau of Statistics (NBS), remain weak relative to recent history, and the traditional real-economy indicators were no different. Industrial production volumes grew just 2.2% in the year to November 2022, while retail sales volumes contracted by 7.7%. All this suggests that Chinese economic growth may have slowed below 1% in November, from 2.5% in October. Also, China's real-estate problems have not gone away. Sales have dried up over the course of 2022 (putting pressure on developers' cash flow); house prices have dropped (squeezing household wealth); and land sales have declined considerably (hitting local government finances).

The economic policy response is still evolving. Soft-touch monetary easing gave way to full-fledged attempts to steady the property sector. But the effectiveness of that stimulus has been limited given continued Covid-19 disruption. The biggest challenge in the short-term is undoubtedly the exit from zero-Covid policies following widespread protests in November. Reducing testing requirements before attempting to boost the vaccination rate could lead to an unpredictable outcome, with a couple of quarters of volatile GDP growth even if lockdowns aren't reimposed. The key factor is the speed with which consumer confidence can be restored, as we think that will be critical in steadying the housing market.

Eurozone

Eurozone headline inflation dropped to 9.2% in December [https://ec.europa.eu/eurostat/documents/2995521/15725146/2-06012023-AP-EN.pdf/885ac2bb-b676-0f0d-b8b1-dc78f2b34735], adding to signs that we might have already seen the peak in price pressure across the developed world. Of course, lower energy prices were responsible for most of that decline in the eurozone – not just because base effects are now dropping out of the annual calculation more significantly, but also because wholesale energy prices themselves have declined considerably since last summer. Mild weather and action to reduce energy demands have helped Europe avoid the 'worst-case' energy scenarios envisaged earlier in the year.

Naturally, policymakers cannot assume that the weather will continue to cooperate and, without Russian inflows, rebuilding storage buffers for next winter could present a much greater challenge. But in the short term, at least, the risk of a sharp energy-related downturn has receded, and lower prices will reduce the heavy cost that governments across the region are having to absorb.

While there is better news on headline inflation, eurozone activity remains weak. S&P Global's Composite PMI [https://www.pmi.spglobal.com/Public/Home/PressRelease/a7b8833a56df49d696286f25ebcd1977] for the eurozone dropped below 50 in July and remains below that mark at the time of writing. Moreover, despite a considerable slowdown in activity, core price pressures continue to strengthen. The Harmonised Index of Consumer Prices (HICP), excluding food, energy, alcohol and tobacco, hit 5.2% in December – two-and-a-half times the ECB's inflation target. With employment market conditions still extremely tight – the eurozone unemployment rate at 6.5% remains at the low point for this cycle – policymakers continue to fear the prospect of a wage-price spiral. And third, with the ECB committing to raising interest rates 'significantly further', the risk of unintended consequences has risen considerably. Italian sovereign debt, often a source of concern, already looks unsustainable at current yields, and according to the ECB's own indicators [https://sdw.ecb.europa.eu/browseExplanation.do?node=9689686], systemic stress in the eurozone remains higher than it was during the pandemic.

UK

After a tumultuous end to the third quarter, UK financial-market volatility subsided through Q4. Government bond yields edged lower, after surging in late September following concerns over the Truss administration's economic policies. And interest-rate expectations dipped after the Bank of England made it clear that markets had priced in far too much tightening. As a result, the markets now expect a terminal rate for policy rates of 4.4% – down from 6.4% in late September. Despite this, mortgage rates have been slower to ease.

The short-term outlook remains challenging. Indeed, the combined effect of last year's household income squeeze and the monetary tightening that the Bank has imposed are expected to weigh on growth considerably this year. We started to get a taste of that in late 2022, with survey-based measures of activity suggesting the UK economy may well have contracted in Q4. Worryingly, if the Bank's latest forecasts are correct, that contraction could last throughout 2023 and even into 2024. The long-run outlook doesn't look much better. Low talent-participation rates remain an issue, as does weak business investment. The new chancellor's autumn statement, delivered last November, suggests fiscal policy will do little to address either of those key issues.

Emerging markets

Many of the headwinds faced by emerging-market (EM) economies last year appeared to ease somewhat in the latter months. The spike in global food and energy prices that followed Russia's invasion of Ukraine reversed – with inflation reaching a peak in Eastern Europe and weakening noticeably in Latin America. Pressure on EM dollar borrowers eased as the Fed slowed the pace of tightening at its final meeting of 2022 and the dollar weakened. And China went all-in to steady its housing market, which – if successful – could improve the asset quality of its banks and thereby reduce the pressure on them to rein in their foreign lending.

All the above may mean that central banks in EM economies now face less pressure to raise interest rates, which will be welcome news given that growth slowed considerably in the second half of last year, according to S&P Global's PMIs. Indeed, the pace of monetary tightening had already begun to ease in recent months. Still, for some of the weaker EMs, that might not be enough. With their fiscal positions now seemingly beyond repair, Pakistan and Ghana look likely to follow Sri Lanka and Zambia into default.

Risks to the global outlook for 2023

The global economy currently faces three major uncertainties. First, have central banks overdone or underdone the amount of tightening that they have imposed? Secondly, is China able to engineer a smooth exit from zero-Covid without additional lockdowns? And thirdly, will wage pressures ease without a major weakening of the employment market? One of the unresolved questions from the Covid crisis is whether the combination of early retirement, prolonged ill health, and the move to hybrid working has profoundly altered the balance of power between employers and employees. These changed employment-market dynamics may make it harder for central banks to bring core inflation back to their 2% targets.

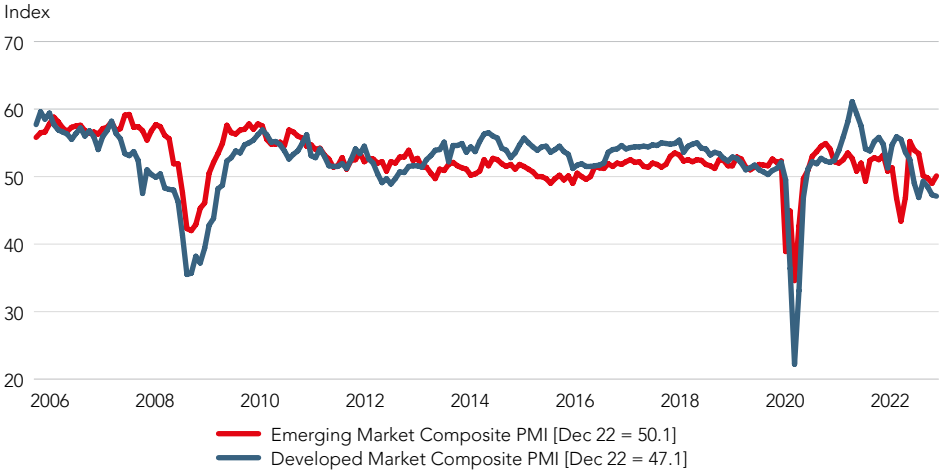
The answer to each of these questions will become much clearer as 2023 progresses. The situation in China is particularly fluid but also extremely critical to the macro-economic outlook because a robust recovery in Chinese domestic demand has the potential to offset some of the recession risks in Europe and North America later in 2023. A strong recovery would help steady the Chinese real estate sector and might reduce the strains in the banking sector and on financial stability more generally.

Equally important is the impact of monetary policy, which tends to work with long and variable lags. We are close to the point where the impact from last year's tightening of monetary policy in North America and Europe should begin to bite. The past year has seen one of the most aggressive rises in policy rates in more than 40 years, in pace, scale and breadth. It is being accompanied by a contraction in central bank balance sheets as policy shifts from quantitative easing to quantitative tightening, potentially leading to a decline in global debt that might challenge the financial models that have flourished under more than a decade of loose policy and plentiful liquidity. How this plays out could be critical in 2023.

Other risks also persist. Europe's energy crisis could return next year, given the challenge of rebuilding gas storage buffers ahead of next winter without Russian flows. A further deterioration in relations between the US and China could have profound implications for global trade – amid fears that this could lead to a new 'Cold War'. Global repercussions from a change of monetary policy by the Bank of Japan should also not be underestimated. Finally, political risk is never far away. While none of the major countries are scheduled to hold elections, those slated in places such as Argentina, Turkey, New Zealand, Poland and Spain still have the capacity to surprise.

CENTRAL BANKS IN EM ECONOMIES NOW FACE LESS PRESSURE TO RAISE INTEREST RATES, WHICH WILL BE WELCOME NEWS GIVEN THAT GROWTH SLOWED CONSIDERABLY IN THE SECOND HALF OF LAST YEAR, ACCORDING TO S&P GLOBAL'S PMIs.

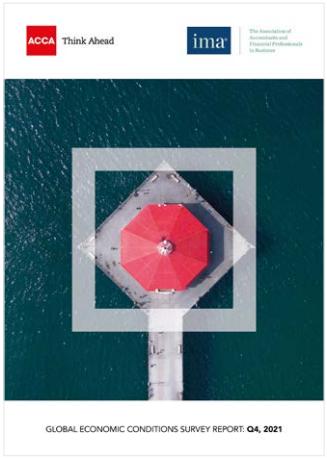
CHART 18: Comparison of purchasing managers' indices in emerging markets and developed markets since 2006



Source: ASR Ltd. / S&P Global (2022)

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	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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