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The Association of  
Accountants and  
Financial Professionals  
in Business



GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q2, 2022**

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We're a thriving global community of 233,000 members and 536,000 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.

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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 2022 Q2 survey took place between 8 and 17 June 2022 and gathered 949 responses from ACCA and IMA members including over 100 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

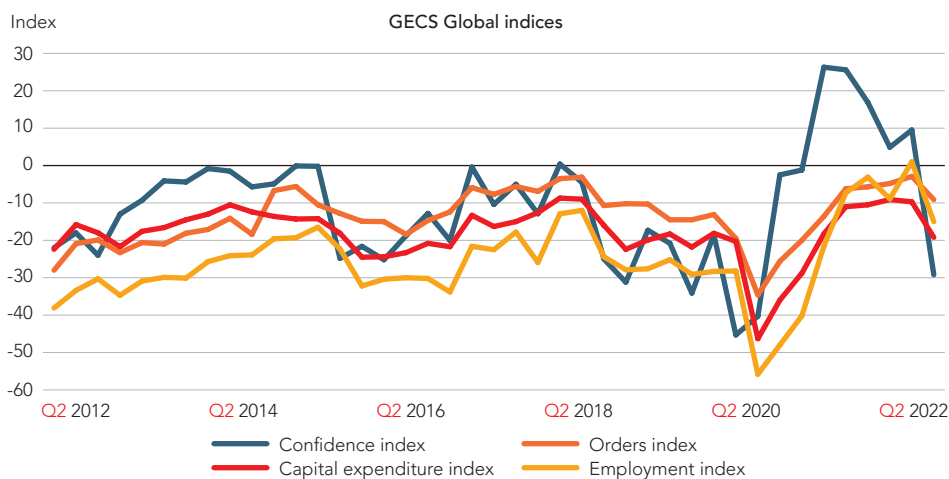
**THE Q2 GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) POINTS TO A DECISIVE DETERIORATION IN THE GLOBAL ECONOMIC OUTLOOK.**

The Q2 Global Economic Conditions Survey (GECS) points to a decisive deterioration in the global economic outlook. Capturing the effects of war in Ukraine and the surge in inflation across much of the world, all the main global indicators fell in the Q2 survey, conducted in mid-June (Chart 1). The drop in global confidence is especially sharp, although the level remains above the low-point reached at the height of the Covid-19 pandemic. Indicators more closely related to economic activity – orders, employment and capital spending, also fell in Q2 but

more modestly than confidence. The conclusion from this GECS is that, while the risks of a global recession have risen, the most likely outcome is one of weak growth for the rest of this year.

The two ‘fear’ indices – reflecting level of concern that customers and suppliers may go out of business – were little changed in the Q2 survey, both edging slightly higher. Both indices have fallen back from the extreme levels seen in 2020, but are still above pre-pandemic levels (Chart 2).

**CHART 1: Global indicators turn down in Q2**

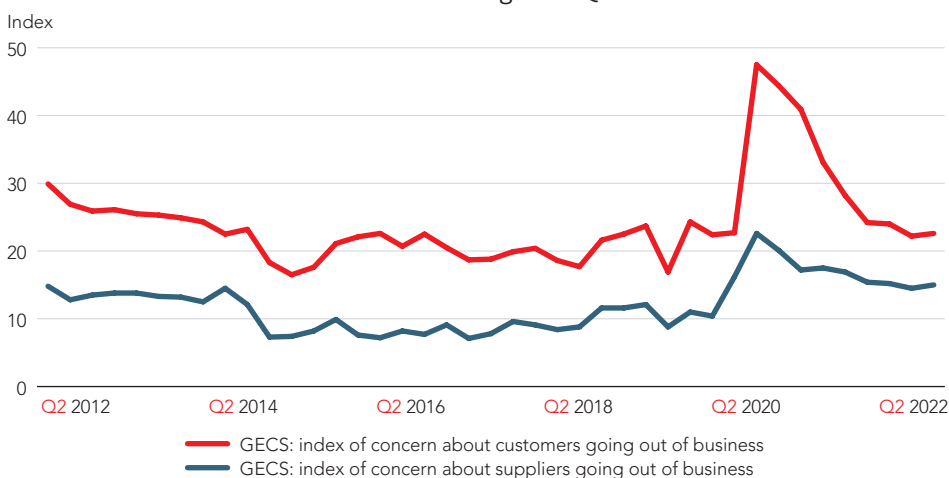


Source: ACCA/IMA (2012–22)

**THE TWO ‘FEAR’ INDICES – REFLECTING LEVEL OF CONCERN THAT CUSTOMERS AND SUPPLIERS MAY GO OUT OF BUSINESS – WERE LITTLE CHANGED IN THE Q2 SURVEY, BOTH EDGING SLIGHTLY HIGHER.**



**CHART 2: The ‘fear’ indices are little changed in Q2**



Source: ACCA/IMA (2012–22)

North America and Western Europe recorded especially large falls in confidence in Q2 – both regions having experienced big jumps in inflation in recent months. But the largest fall in confidence occurred in the Middle East, a region more exposed to trade with Russia/Ukraine. Elsewhere the falls in confidence were still significant, but more modest (Chart 3). Only in North America has confidence fallen back to levels seen during the Covid-19 pandemic in 2020.

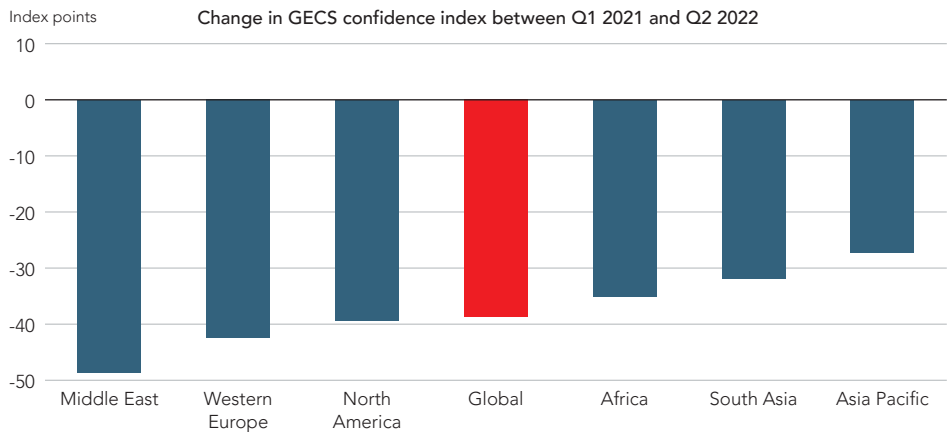
In Q2 the orders balances showed greater variance across the regions than did confidence. The biggest falls in orders came in North America and Western Europe – two regions where the rise in inflation and squeeze on real incomes has been particularly acute. There were small increases in orders in Africa and Asia-Pacific, possibly reflecting easing of Covid restrictions (Chart 4).

Section 2 of this report is an early attempt to assess the economic effects of Brexit. In January 2021 the UK left the single market and customs union of the EU (European Union), ending free movement of people, goods, services and capital. From that date a Trade and Co-operation Agreement (TCA) set out the new economic relationship, including a free trade deal along with customs checks. In addition, the UK launched a points-based immigration system applying equally to EU and non-EU citizens.

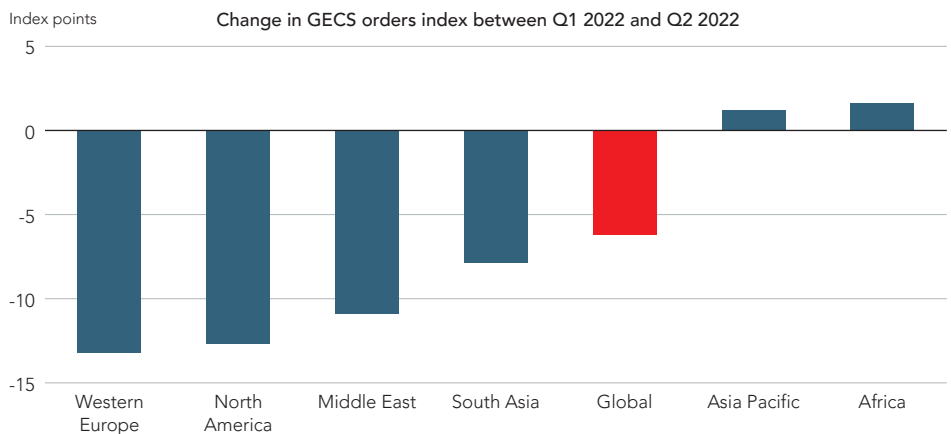
**NORTH AMERICA AND WESTERN EUROPE RECORDED ESPECIALLY LARGE FALLS IN CONFIDENCE IN Q2 – BOTH REGIONS HAVING EXPERIENCED BIG JUMPS IN INFLATION IN RECENT MONTHS.**



**CHART 3:** Confidence plunges in all regions



**CHART 4:** Orders fall overall but regional picture is mixed



Judging the near-term economic effect of Brexit is made especially difficult because of the extreme volatility in the global economy at the same time, including pandemic-driven lockdowns, massive policy stimuli, supply shortages and latterly a surge in inflation exacerbated by war in Ukraine. Nonetheless, the tentative conclusion from the available data is that UK-EU trade has been negatively affected, especially UK imports from the EU. Overall exports have held up better but many smaller UK companies appear to have stopped exporting because of the extra costs of doing so. Trade is the main channel through which Brexit is expected to cause long-term damage to UK growth prospects. Meanwhile the post-Brexit pattern of migration is much clearer, notably because changes began soon after the referendum vote to leave the EU in June 2016. The basic story is that net migration from the EU had collapsed from large and positive before 2016 to briefly negative by 2020. For 2021, the first of the new UK system, net EU migration is estimated at close to zero (Office of National Statistics) while large numbers

have come from non-EU countries, such as India and the Philippines.

It will be many years before any firm judgement can be made on how much, if any, damage Brexit has done to the UK economy. But most economists agree that it has always been purely domestic policies on education and training, investment, macroeconomic stability etc that ultimately determine productivity and growth.

Section 3 gives a detailed view of global economic prospects. Post-pandemic recovery has now given way to negligible economic growth, elevated inflation and extreme uncertainty. War in Ukraine has given inflation a further boost by pushing commodity prices higher. But inflation was already high and rising before the war started in February: a strong rebound in demand fuelled by a massive monetary and fiscal response to the Covid pandemic had run up against supply shortages, resulting in a surge in price pressures. Central banks have started to tighten monetary policy. Most significantly the US Federal Reserve lifted interest rates by 75bps to 1.75% in

June, with financial markets discounting rates at over 3% by year-end. At the start of the year interest rates were close to zero (Source: [federalreserve.gov](https://www.federalreserve.gov)).

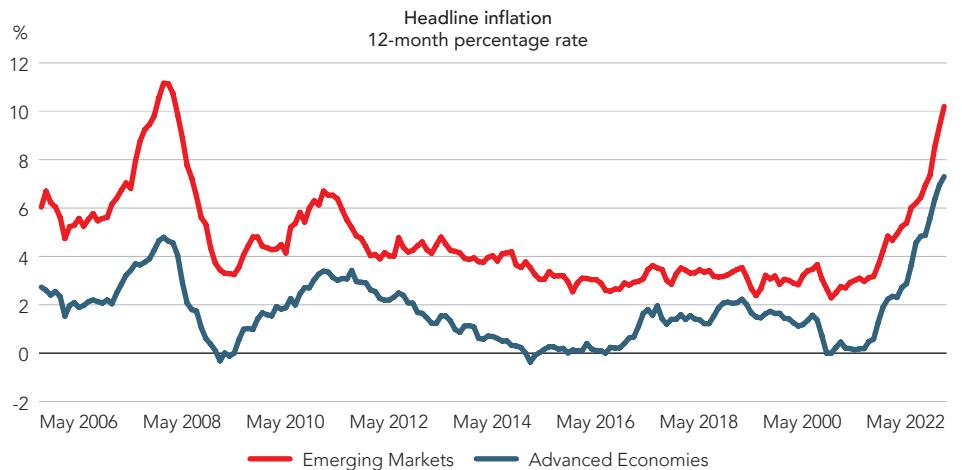
High inflation is resulting in falls in real disposable incomes putting downward pressure on private demand, especially household consumption. Prices of both food and energy are rising especially rapidly. The result is a cost-of-living crunch on low-income households in advanced economies and across virtually all low and middle-income countries, where these two categories account for a high share of spending.

Risks of a global recession have increased but our central case is that growth will be positive if rather weak. Employment growth may support total consumption. Nonetheless, with the exception of the Covid recession of 2020, global GDP growth this year and next will be the weakest since the GFC of 2007-09. In its June Economic Outlook, the OECD downgraded its global GDP forecasts to just 3% for this year and 2.8% in 2023.

**HIGH INFLATION IS RESULTING IN FALLS IN REAL DISPOSABLE INCOMES PUTTING DOWNWARD PRESSURE ON PRIVATE DEMAND, ESPECIALLY HOUSEHOLD CONSUMPTION. PRICES OF BOTH FOOD AND ENERGY ARE RISING ESPECIALLY RAPIDLY.**



**CHART 5: Emerging Markets inflation even higher than in advanced economies**



Source World Bank (2022)

# 1. Global and regional analysis

**THE STRONG POST-PANDEMIC RECOVERY OF MID TO LATE 2021 HAS GIVEN WAY TO A SHARP SLOWDOWN IN GROWTH WITH INCREASED RISKS OF RECESSION IN MANY ECONOMIES.**

**A MAJOR FACTOR IN THIS HAS BEEN A SURGE IN INFLATION, EXACERBATED BY THE WAR IN UKRAINE. BOTH THE GLOBAL CONFIDENCE AND ORDERS INDICES FELL IN Q2, BUT THE DROP IN CONFIDENCE WAS MUCH GREATER THAN IN ORDERS.**

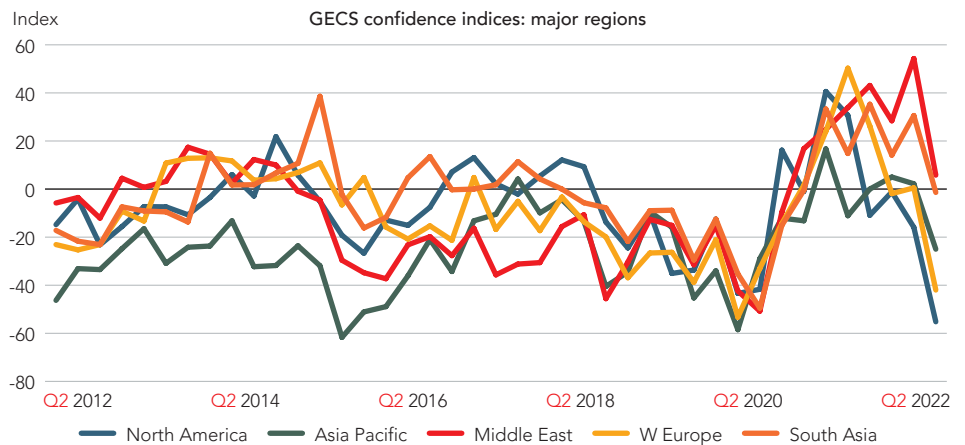


This GECS records a decisive shift in the global economic outlook. The strong post-pandemic recovery of mid to late 2021 has given way to a sharp slowdown in growth with increased risks of recession in many economies. A major factor in this has been a surge in inflation, exacerbated by the war in Ukraine (Chart 6). Both the global confidence and orders indices fell in Q2, but the drop in confidence was much greater than in orders. Indeed orders – a lead indicator of economic activity – are above their long-run average. The employment index is also well above its long-run average, despite dropping

in Q2. Jobs markets are tight and employment rising in many economies, providing some offset to the effects of high inflation on real incomes.

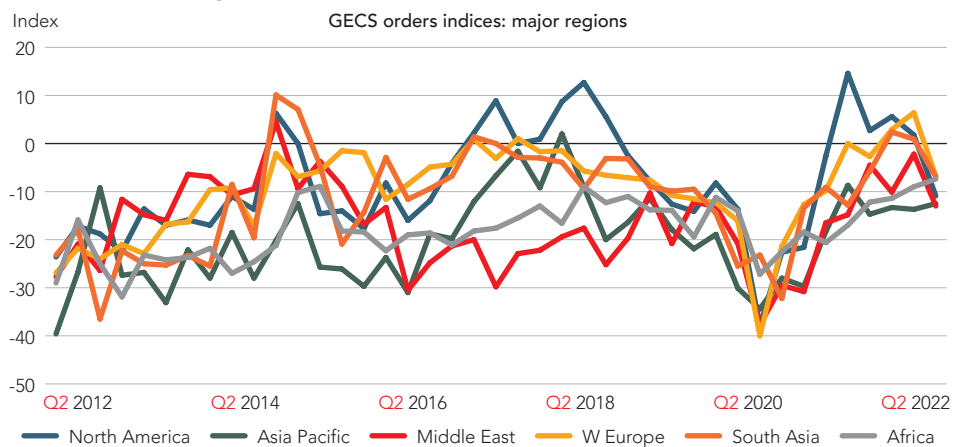
The change in orders in Q2 has resulted in a degree of convergence among regions in terms of order levels (Chart 7). In the immediate post-pandemic period, the regional pattern of orders illustrated better growth prospects in advanced economies than in EMs. This divergence has now been substantially reduced with most regional orders consistent with continued modest growth.

**CHART 6: Global confidence indices diverging**



Source: ACCA/IMA (2012–22)

**CHART 7: Convergence in orders in Q2**



Source: ACCA/IMA (2012–22)

In the Q2 survey respondents were asked to identify what they perceived to be the two biggest risks from a list of five. The results, with the Q1 responses for comparison, are shown in Chart 8. The most notable change is the fall in concerns about Covid and increase in perceived risks related to inflation and rising interest rates. But in all three GECS in which this question has been asked, supply shortages and supply chain issues have

remained the highest ranked risk. Hopes that this issue would fade in importance as this year progressed are fading.

The GECS index of concern about operating costs jumped again in the latest survey reaching another record high. (Chart 9). Almost 70% of respondents in Q2 expressed concern about rising operating costs. The dramatic rise in cost concerns over the last year or so

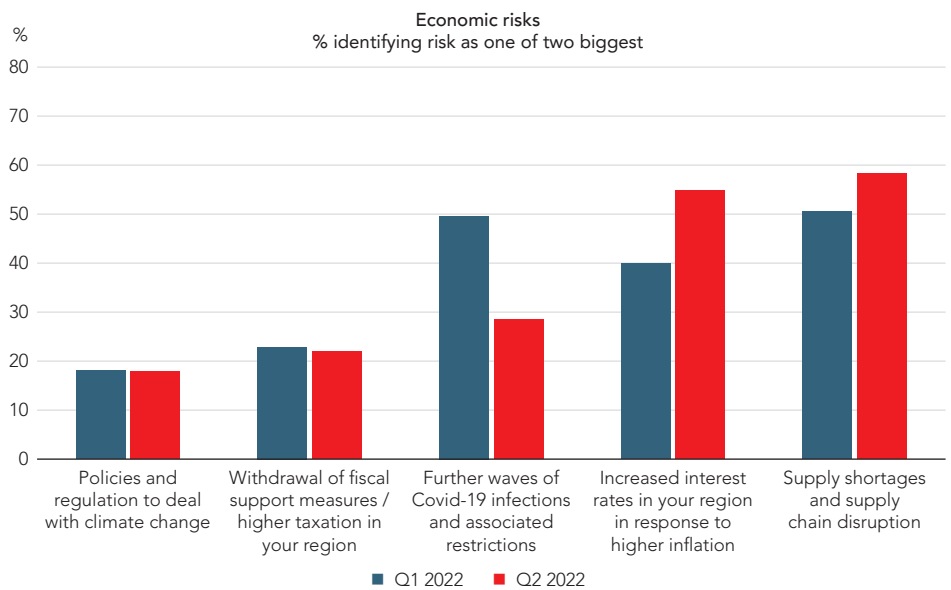
has correlated with rising energy and transport costs caused by supply shortages. Recently, costs have been pushed even higher by the rise in other commodity prices in the wake of Russia's invasion of Ukraine.

Upward pressure on wages as employees seek compensation for high inflation in a tight jobs market may exacerbate cost – and inflation – concerns.

**THE MOST NOTABLE CHANGE IS THE FALL IN CONCERNS ABOUT COVID AND INCREASE IN PERCEIVED RISKS RELATED TO INFLATION AND RISING INTEREST RATES.**



**CHART 8:** GECS perceived economic risks

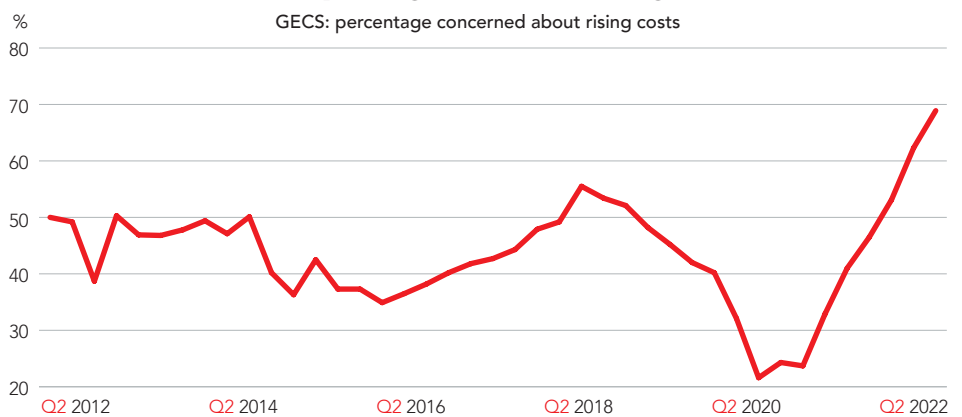


Source ACCA/IMA (2022)

**ALMOST 70% OF RESPONDENTS IN Q2 EXPRESSED CONCERN ABOUT RISING OPERATING COSTS. THE DRAMATIC RISE IN COST CONCERNS OVER THE LAST YEAR OR SO HAS CORRELATED WITH RISING ENERGY AND TRANSPORT COSTS CAUSED BY SUPPLY SHORTAGES.**



**CHART 9:** Concern about operating costs hits record high



Source: ACCA/IMA (2012–22)

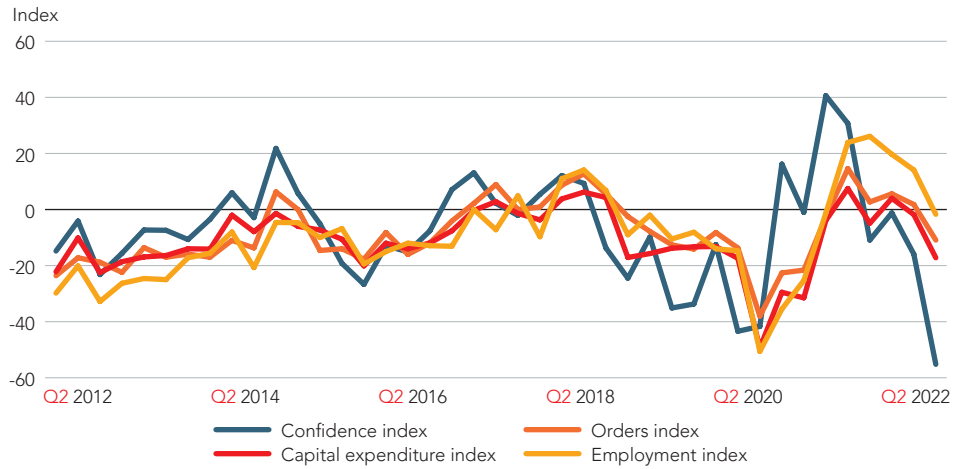


## Regional picture

### NORTH AMERICA

Confidence collapsed in Q2 and is now at a record low – even lower than during the Covid-19 pandemic. Orders also fell but are well above their 2020 lows and only slightly below the long-run average. US inflation has surged to a 40-year high and the US Federal Reserve is engaged in aggressive monetary tightening. This has started to undermine confidence and slow growth. But the employment index remains well above its long run average and the jobs market is an area of strength with employment growth continuing apace.

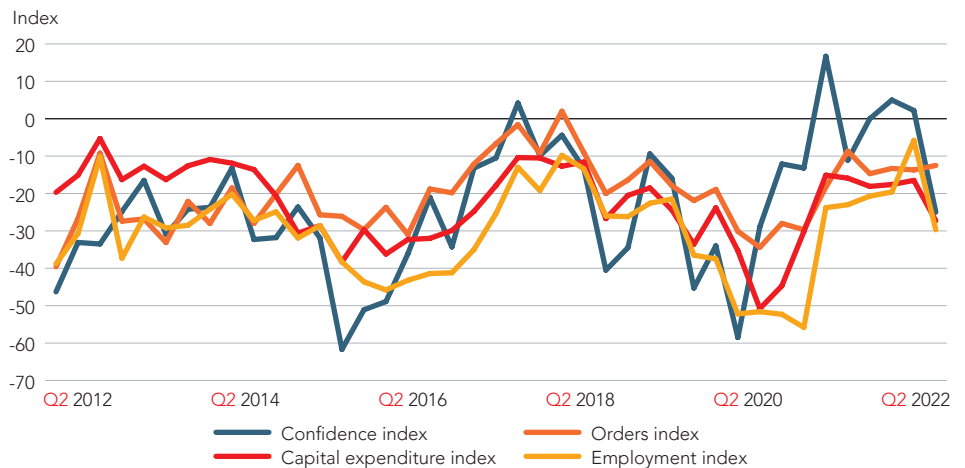
CHART 10: North America



### ASIA-PACIFIC

Confidence fell but by the least among the major regions. Moreover, there was a slight increase in the orders index, one of only two regions to record a rise. An improved picture in China, helped by the lifting of the Shanghai lockdown, is likely to have been a positive influence. In addition, the region has avoided the surge in inflation seen elsewhere: for example, consumer price inflation in China was just 2.1% in May. Nonetheless the region will suffer from reduced demand for its exports as growth in advanced economies slows, possibly to a standstill.

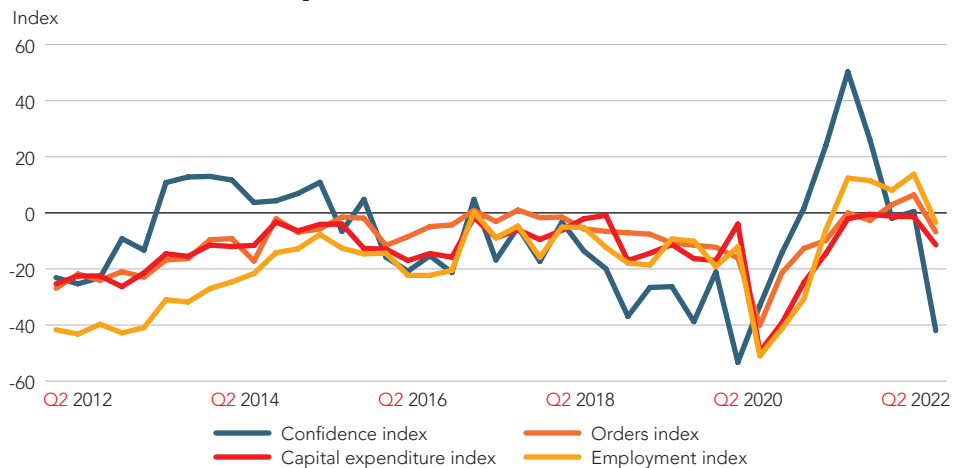
CHART 11: Asia-Pacific



### WESTERN EUROPE

Confidence plunged in Q2 but remains a little way above its Covid-19 low. Orders, employment and capital spending indices also declined by fairly large margins. As well as rising inflation (euro-zone inflation was 8.1% in May) the region is exposed to Russia through dependency on oil and especially natural gas. Interest rates are already rising in the UK and the European Central Bank has indicated it will begin to do so in July. Growth will be negligible in the coming months, although the GECS does not point to recession.

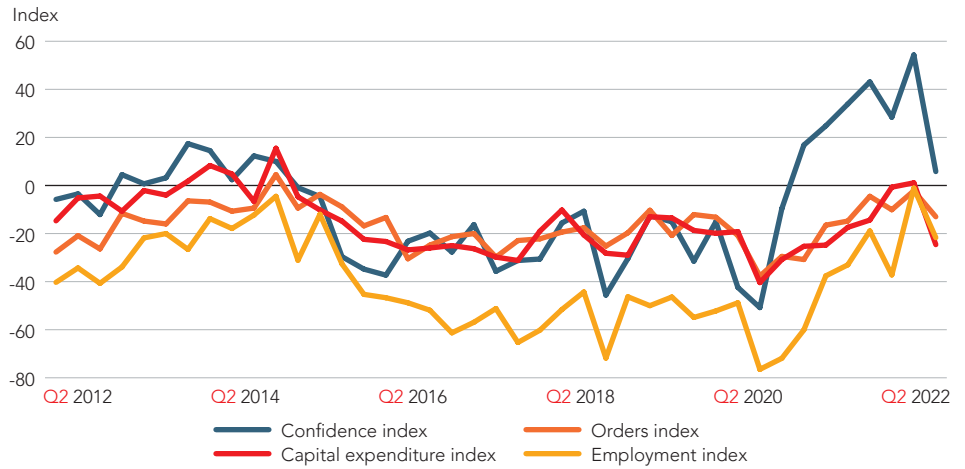
CHART 12: Western Europe



**MIDDLE EAST**

In Q2 the Middle East suffered the biggest fall in confidence among regions, and one of the biggest falls in the orders balance. This should be seen in the context of the strongest regional performance in the previous survey and the key indices remain at satisfactory levels. The Q2 survey has captured more fully the region’s dependence on Russia/ Ukraine for imports of wheat and other non-oil commodities. Oil prices, which had already risen ahead of the Russia/ Ukraine conflict have been relatively stable at a high level over Q2 but this was not sufficient to outweigh other factors.

**CHART 13: Middle East**

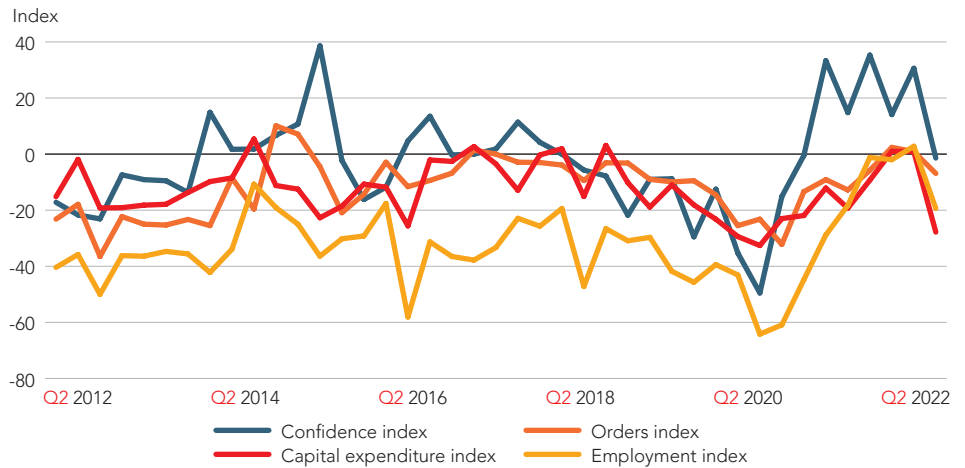


Source: ACCA/IMA (2012–22)

**SOUTH ASIA**

Falls in confidence and orders in the South Asia GECS were broadly in line with the global average for the quarter. In India, the region’s largest economy, the central bank has raised interest rates from 4% to 4.9% since May as it grapples with inflation which is rising towards 7%. Throughout the region the price of key imports such as fuels and edible oils have increased sharply in the wake of the war in Ukraine. The aftermath of the pandemic and war will be a significant increase in the numbers living in extreme poverty.

**CHART 14: South Asia**

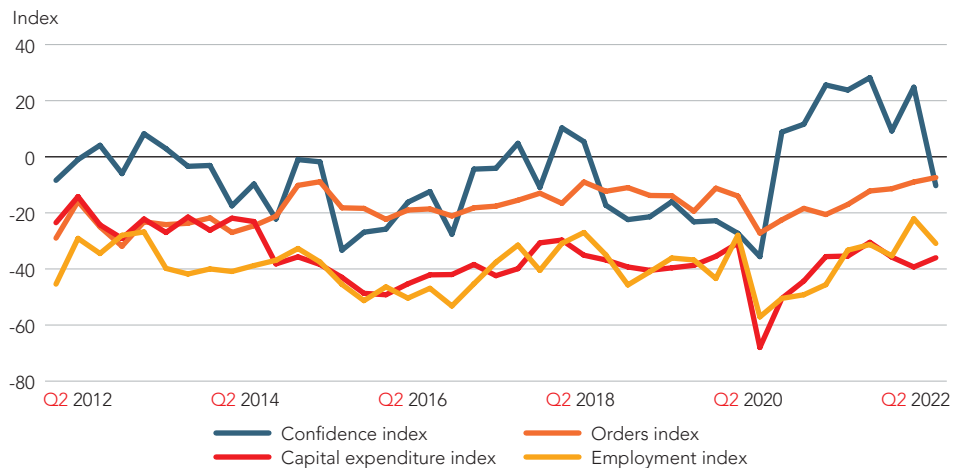


Source: ACCA/IMA (2012–22)

**AFRICA**

Confidence fell in Q2 in line with the overall large drop in the global measure. But there was a slight increase in orders, the fifth consecutive quarter of gradual improvement. There was also a modest recovery in the capital expenditure index. But the region is affected by higher oil and wheat prices. Higher US interest rates and tightening global financial conditions also pose a debt default risk for some heavily indebted economies in the region. There will be no strong rebound in activity across the region, with the possible exception of commodity exporters benefiting from higher prices.

**CHART 15: Africa**



Source: ACCA/IMA (2012–22)

## 2. Thematic analysis

THIS ARTICLE EXAMINES THE IMPACT OF BREXIT ON TRADE, AND ON THE JOBS MARKET IN THE UK AS FREE MOVEMENT ENDED.

### **Brexit – economic divergence begins**

In 1972 Chinese premier Zhou Enlai was asked about the impact of the French revolution. “Too early to say” was the reply. (Though he may have misunderstood the question.) There is no doubt that it is far too early to judge the economic impact of the UK’s departure from the European Union (EU). Technically the UK left in January 2020 but remained in the single market and customs union until the end of the year. From the beginning of January 2021 free movement of people, goods, services and capital ended, replaced by a Trade and Co-operation Agreement (TCA). Under the TCA UK-EU trade remains free of tariffs and quotas but is subject to customs checks, sanitary inspections etc. At the same time a points-based immigration policy was introduced, applying to EU and non-EU citizens alike. Even under normal economic conditions caution would be required in interpreting data over the first months of the new UK-EU economic relationship. But, of course, this has coincided with the Covid-19 pandemic, lockdowns, supply chain disruptions and more recently a surge in commodity prices and inflation, exacerbated by war in Ukraine. Any conclusions will inevitably be tentative, but there are early indications of new trends in the two key areas relating to trade and migration.

### **Trade effects difficult to assess – so far**

The effect of Brexit on UK trade is the most significant channel through which economic effects will emerge. Judgement has to be made against a backdrop of a declining trend in the share of UK trade with the EU. Since the start of 2021 UK exports to and imports from the EU are up around 4%, but exports to the non-EU are up 5% over the same period, while non-EU imports are up by 34%. (See Charts 16 and 17.) The latter figure has been boosted especially by the price of imported fuels notably gas from Norway. UK trade volumes overall are down compared with the pre-pandemic peak reached in 2019. A study by the think tank The UK in a Changing Europe (2022) found that UK export performance had not been affected by Brexit so far, but that there had been an effect on imports. However, the study also found a dramatic fall in the number of trade relationships between UK exporters and EU importers, suggesting that many smaller UK companies are no longer exporting to the EU because of the higher fixed costs of doing so.

An accurate assessment of the impact of Brexit on UK trade is vital as it is the trade channel that will be the primary source of any long-term damage to UK growth. Just as free trade boosts growth, so



more costly trade will hurt growth – and the UK leaving the EU has raised the cost of around 40% of UK trade, albeit not dramatically. The UK's Office for Budget Responsibility (OBR) estimates that Brexit will reduce total UK trade by 15% compared with what it would have been in the EU. The OBR argue that the consequent reduction in choice, innovation and flow of new ideas will in turn drag down productivity growth, resulting in a permanent loss of 4% of GDP.

At present it is impossible to disentangle Brexit effects from other special factors impacting UK trade. But while the jury is still out on a 15% Brexit-driven drop in trade, the long-term trend of decline in both exports and imports to and from the EU as a share of total trade has been exacerbated. As for the rest of the world, the replication of many trade relationships with non-EU countries that the UK enjoyed while a member of the EU is a positive development. But other agreed deals,

such as with Australia and Singapore, cover a small fraction of UK trade while significant deals with countries such as the US and India are rather distant prospects. A fairly clear early conclusion is that there will be some loss of trade with the EU and that this will not be fully compensated by a rise in trade with the rest of the world – but the relative magnitudes of this shift in trade is highly uncertain and will remain so for some time.

THE STUDY ALSO FOUND A DRAMATIC FALL IN THE NUMBER OF TRADE RELATIONSHIPS BETWEEN UK EXPORTERS AND EU IMPORTERS, SUGGESTING THAT MANY SMALLER UK COMPANIES ARE NO LONGER EXPORTING TO THE EU BECAUSE OF THE HIGHER FIXED COSTS OF DOING SO.



A FAIRLY CLEAR EARLY CONCLUSION IS THAT THERE WILL BE SOME LOSS OF TRADE WITH THE EU AND THAT THIS WILL NOT BE FULLY COMPENSATED BY A RISE IN TRADE WITH THE REST OF THE WORLD.



CHART 16: UK exports

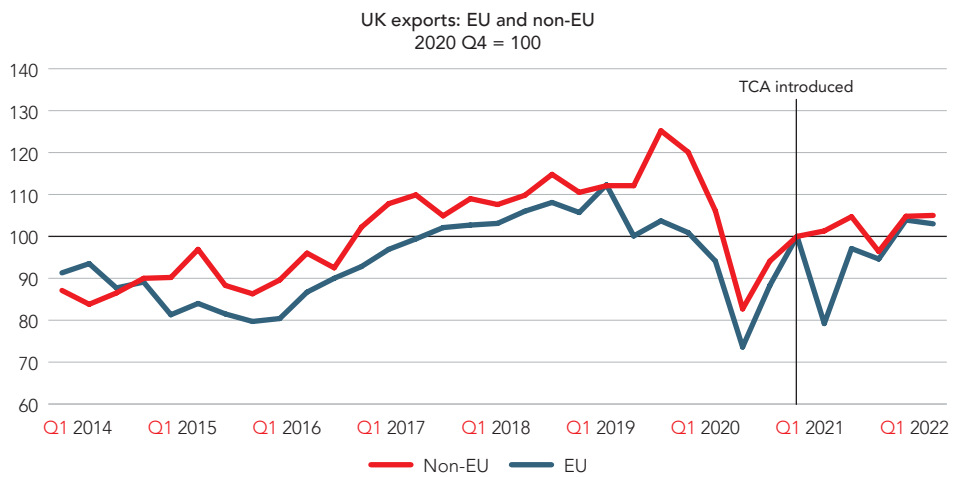
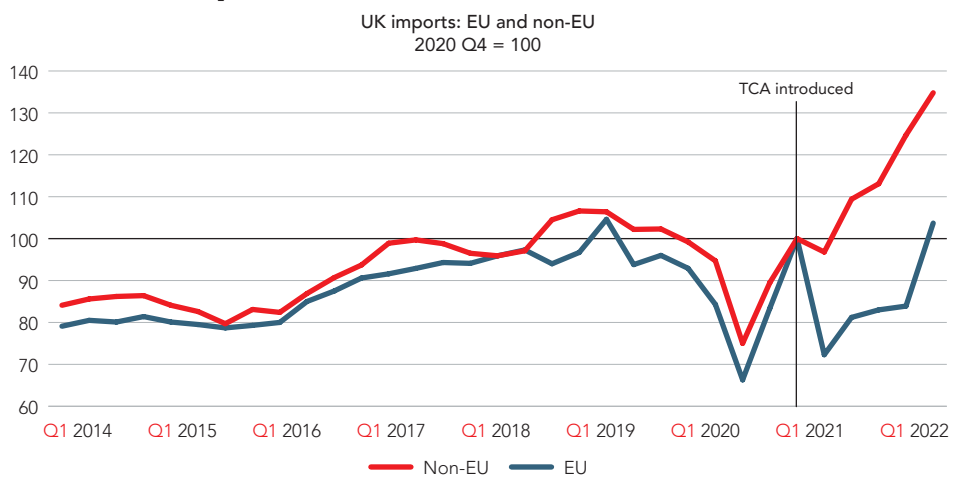


CHART 17: UK imports



**Migration flows have changed significantly**

The other area where divergence is likely to have significant and early economic effects is in the jobs market as free movement ended. Unlike for trade where effects only began to emerge after the introduction of the TCA in 2021, changes in migration began soon after the 2016 referendum. Annual net EU migration fell from 280,000 in the (year to March) 2016 to 49,000 in the year to March 2020 – a fall of 82% (ONS 2021). As well as the political uncertainty created by Brexit, the 20% fall in the value of sterling also reduced the attractiveness of the UK to EU citizens. But net EU migration did remain positive through this period. The onset of the Covid-19 pandemic in early 2020 resulted in many EU citizens leaving the UK, turning EU net migration negative. There is uncertainty about the exact numbers but the ONS current estimate is that EU net migration was -94,000 in 2020 (Chart 18.) It should be noted that the vast majority of EU citizens living in the UK – around five million – have stayed under the EU Settlement Scheme.

Recently published experimental data using a new methodology has estimated that net EU migration in the year to June 2021 was approximately zero while non-EU migration was 239,000. There is also full data on visa applications for 2021 illustrating the pattern of inward migration in the first full year of the new immigration scheme. Last year, 60% of successful skilled worker visa applications came from just four non-EU countries, India, Nigeria, the Philippines and the US, while less than 10% came from EU countries. The total number of inward migrants remains high with around 150,000 skilled worker visas granted in 2021 plus an additional 50,000 of temporary work visas relating to sectoral skills shortages in agriculture and social care (Home Office 2022). The evidence accumulating since 2016 suggests that the pattern of migration has shifted towards skilled workers from non-EU countries and away from low-skilled EU workers. As demand has recovered post-pandemic this shift has revealed shortages of workers in sectors such as retail and hospitality, pushing up wages in these sectors.

There are other areas where UK-EU divergence is already happening or very likely to occur in the near future.

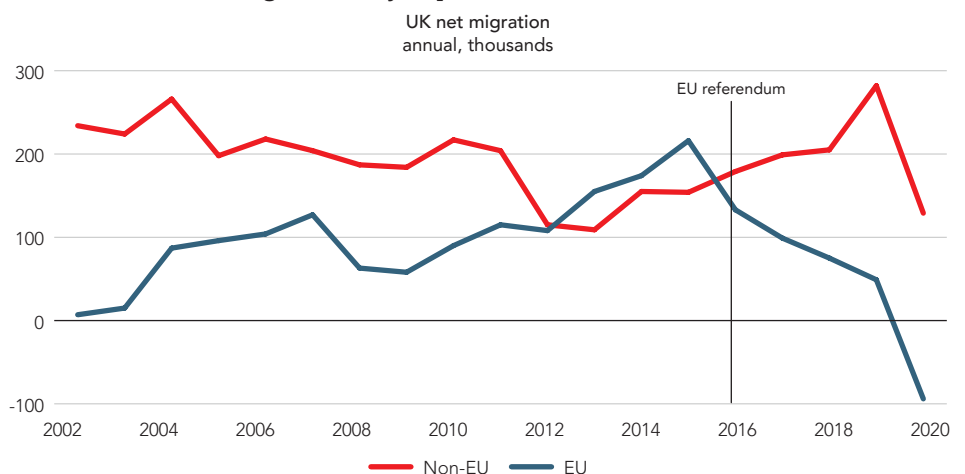
An example of the former is agricultural support where the UK is replacing the Common Agricultural Policy (CAP) with a different approach to farming subsidy centred on the environment. The latter is financial services where UK policy has shifted to actively seeking divergence from the EU and greater regulatory alignment with financial centres such as New York and Singapore.

An early conclusion from the short post-Brexit period is that the tectonic plates have shifted and the UK and EU are beginning to move apart after almost 50 years of closer integration. Trade and jobs in the UK remain closely tied to the EU. But the process of disengagement has begun. Brexit is an economic shock, like the Global Financial Crisis of 2007-09. Dynamic market-driven economies overcome shocks and rise to new challenges. Ultimately whether the UK enjoys rising productivity and a strong trend rate of GDP growth will be determined by domestic policies on competition, regulation, education and training, macroeconomic stability etc. This has always been the case – before, during and now after the UK’s membership of the EU.

UNLIKE FOR TRADE WHERE EFFECTS ONLY BEGAN TO EMERGE AFTER THE INTRODUCTION OF THE TCA IN 2021, CHANGES IN MIGRATION BEGAN SOON AFTER THE 2016 REFERENDUM.



**CHART 18:** Net EU migration stayed positive until 2020



Source: Office of National Statistics (2021)

# 3. The global economic outlook

POST-PANDEMIC RECOVERY HAS NOW GIVEN WAY TO A WORRYING COMBINATION OF WEAK TO NEGLIGIBLE ECONOMIC GROWTH, ELEVATED INFLATION AND A HIGH DEGREE OF UNCERTAINTY.

## Taming inflation at the cost of recession?

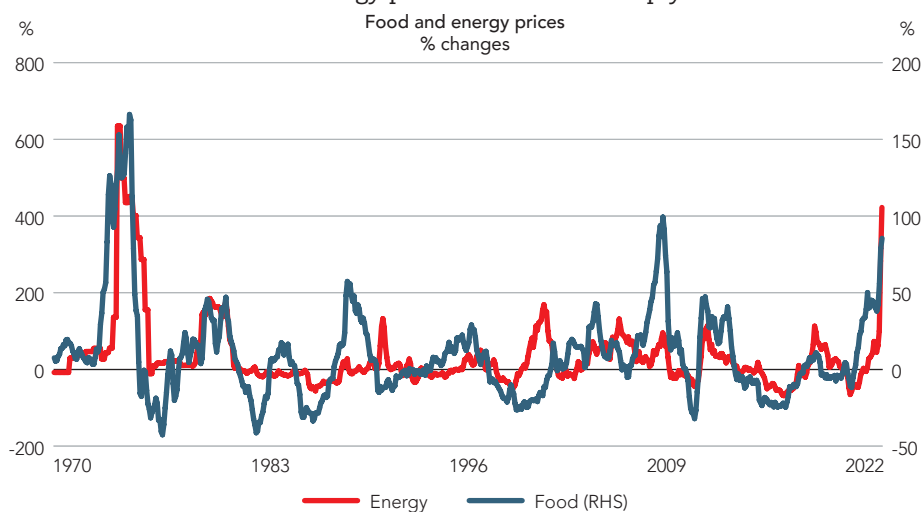
Post-pandemic recovery has now given way to a worrying combination of weak to negligible economic growth, elevated inflation and a high degree of uncertainty. War in Ukraine is an important but by no means an exclusive explanatory factor in this difficult economic outlook. By pushing commodity prices higher, the Ukrainian conflict has given a significant further boost to inflation. But inflation was already high and rising before February's outbreak of hostilities. A strong rebound in demand fuelled by a massive monetary and fiscal response to the Covid pandemic had run up against supply shortages, resulting in a surge in price pressures. Recent developments – the war in Ukraine and continued supply chain issues emanating from China – have demonstrated that the spike in inflation would not be temporary as many central banks had assumed through much of 2021. Belatedly central banks have started to tighten monetary policy with more on its way. For example, in June the US Federal Reserve lifted interest rates by 75bps to 1.75% with financial markets discounting rates at over 3% by the end of 2022. Also in June, the central banks of the UK, Canada, Switzerland, Australia and India were among those that raised interest rates. Global growth is already softening as inflation erodes real incomes;

the effect of significantly tighter monetary policy raises the risk of recession in many advanced economies. In the meantime, supply shortages persist, notably as a result of the zero Covid policy in China that reduced activity at major ports including Shanghai.

Across the global economy high inflation is resulting in falls in real disposable incomes putting downward pressure on private demand, especially household consumption. The war in Ukraine has pushed both food and energy inflation up significantly at the same time, for the first time since the 1970s (Chart 19). This is posing a severe cost of living crunch on low-income households in advanced economies and across virtually all low and middle-income countries, where these two categories account for a high proportion of spending.

Global financial conditions have tightened in recent months as financial markets moved to discount significant increases in US interest rates. Government bond yields have risen and stock market volatility has increased: the US Standard & Poor's 500 stock market index is now in official bear market territory having fallen by more than 20% from its recent peak. As well as undermining confidence, such tightening is of particular concern for the outlook in many heavily-indebted emerging markets.

CHART 19: Both food and energy prices have risen sharply



Source: World Bank (2022)

Risks of a global recession have increased but our central case is that growth will be positive if rather weak. Jobs markets are tight with unemployment rates close to, or even below, pre-pandemic rates in many advanced economies. But the supply of workers may increase in coming months as receding Covid fears prompt discouraged workers back to the jobs market. Employment growth would then support total consumption. In addition, much of the household savings accumulated during lockdowns remains available to smooth spending over a period of squeezed real incomes. Nonetheless, with the exception of the Covid recession of 2020, global GDP growth this year and next will be the weakest since the GFC of 2007-09. In its June Economic Outlook, the OECD downgraded its global GDP forecasts to 3% for this year and 2.8% in 2023; compared with its December 2021 pre-war forecast this is a cut of almost two percentage points in expected global growth over the two years.

### U.S.

Having recovered quickly from Covid-induced recession the US is now facing an acute policy challenge. Robust economic growth, a tight jobs market and supply chain issues, compounded by the effects of war in Ukraine, have pushed inflation up to 8.6% in May – a 40-year high. The Federal Reserve has responded with aggressive monetary tightening, raising interest rates by 75 basis points to 1.75% at its June meeting with rates likely to have reached at least 3% by the end of the year. This degree of tightening, from close to zero at the start of the year, will slow economic growth, along with the cut in real incomes caused by high inflation. Fiscal consolidation is also now underway as generous pandemic-related support schemes are ended. The challenge is to bring inflation back down to close to the 2% target without triggering recession. This objective will be easier to achieve if pressure in the jobs market is eased by an increase in the participation rate as discouraged workers return to the jobs market, easing upward pressure on wages. But if oil prices spike higher or supply chain issues deteriorate then inflation could become more entrenched and require an even greater degree of monetary tightening. The scale of the challenge facing the Federal Reserve is underlined by the recent rise in inflation expectations among US households.

Risks of a US recession in the next year have risen but more likely is a sustained period of weak growth, lasting until inflation falls back. The OECD forecasts GDP growth of 2.5% this year and just 1.2% in 2023.

### China

After reasonable growth of 1.3% in the first three months of the year, the Chinese economy has weakened significantly through Q2 and may even have contracted slightly. The primary reason for this is a sharp slowdown in consumer spending and industrial production caused by strict and prolonged lockdowns as a result of China's 'zero Covid' policy. In particular the lockdown of the commercial capital Shanghai will have damaged activity at the macroeconomic level. In the 12 months to May retail sales fell by 6.7%; over the same period industrial production was up just 0.7%. Further local lockdowns are inevitable while the current policy remains in place. In addition, a slowing real estate market is still a major drag on the wider economy, affecting consumption, investment and local government finances.

But there are some positive offsets – policy is being eased, both monetary and fiscal. Lower interest rates and reduced reserve requirements on the banking sector will stimulate credit growth in some sectors, while on the fiscal side resources have been released for increased infrastructure spending. China is also relatively unaffected by the war in Ukraine, although commodity import prices have increased. But there has not been a significant rise in annual consumer price inflation, which is just 2.1% in May. China's official GDP growth target this year is 5.5%, a rate that even the OECD has described as "ambitious". The OECD's own forecast is for 4.4% GDP growth this year and 4.9% in 2023. The latter is consistent with China's long-term growth potential, but the economy will be worse in the near term before approaching this trend rate.

### Euro-zone

The euro-zone is the most exposed of the major economies to the effects of Russia's invasion of Ukraine, including through dependence on Russian gas. The effect of higher food and energy prices has helped push euro-zone inflation to 8.1% in May, hurting real incomes and spending. Supply chain issues arising from China's

zero Covid policy lockdowns are a further drag on short-term growth, especially in Germany. After 0.3% quarterly GDP growth in Q1, the economy may well have stagnated in Q2. Through the second half and into 2023 growth will be weak but recession is likely to be avoided, helped by easier fiscal policy and spending of accumulated household savings.

There are significant downside risks, not least the possibility that Russian gas supplies are cut off before alternative sources can be found and delivered. In addition, the European Central Bank has clearly signalled that it will start raising interest rates in July and hike again in September, lifting rates by a total of three quarters of one percent. These will be the first rate increases since 2011 and will also follow the ending of the ECB's asset purchase programme (APP). The APP involved the ECB buying large quantities of the government bonds of euro area countries: by doing so it prevented a repeat of the debt crisis that threatened the existence of the euro in the years after the GFC of 2007-09. The shift in ECB policy triggered a widening of yield spreads between Italian and German government bonds, raising the prospect of renewed doubts about debt sustainability in the euro-zone.

### UK

The economy has slowed in recent months, the monthly series recording GDP growth of just 0.2% in the three months to April. On a quarterly basis the economy grew by a healthy 0.8% in Q1, but is likely to record a small contraction in Q2. The sharp rise in consumer price inflation, to a 40-year high of 9.1% in May has cut real disposable incomes and is hurting consumer spending. Despite specific fiscal measures designed to mitigate some of the rise in energy prices, fiscal policy overall is being tightened through higher payroll taxes. Moreover, monetary policy is now being tightened; in June the Bank of England increased interest rates by ¼ percentage point for the fifth consecutive meeting, taking rates to 1.25%. Rates are likely to reach at least 2% by the end of the year, while inflation is projected by the Bank of England to exceed 10% by October. The outlook for the rest of the year is for negligible economic growth and there is a material risk of recession (two consecutive quarters of falling GDP). The OECD forecasts zero UK GDP growth in 2023.

**Emerging markets**

The war in Ukraine has significantly knocked growth prospects in most EMs, even as their recovery from the pandemic was incomplete. The surge in food and energy prices is a major negative influence on EM growth since households spend a higher proportion of incomes on these two essentials than in advanced economies. Hence the squeeze on real incomes is greater. In addition, slower growth in advanced economies means reduced demand for EM exports. Nor is there policy flexibility to offset these downward influences. Indeed, rising inflation and higher US interest rates have resulted in many EMs raising interest rates to both control inflation and reduce the chances of capital outflows. Debt levels as a percentage of GDP in EMs are at record levels, having increased during the Covid-19 pandemic, raising concerns about debt sustainability in many EM economies (see Chart 20). In its latest Global Economic Prospects report the World Bank cut its 2022 GDP forecast for EMs by over a percentage point to 3.4%, almost half the growth rate of 2021 (World Bank 2022). As a result, income per head in EMs will be 5% below its pre-pandemic level by the end of this year, resulting in an extra 75 million more people in absolute poverty than before the pandemic.

The impact of the war will not be evenly distributed across EMs. Certain commodity exporters will be net beneficiaries as higher prices for their exports offset the effects of slower global growth. For example, the World Bank upgraded its growth forecasts for Argentina and Saudi Arabia in its June update, reflecting their reliance on agricultural and oil exports respectively. By contrast economies with close trade links with Russia/Ukraine have had growth downgrades including for example Kazakhstan and Zimbabwe. And there is Russia and Ukraine, both of which will suffer deep economic contractions this year. The World Bank predicts that sanctions will help drive a near 9% contraction in Russian GDP, while in Ukraine a collapse in activity of around 45% is projected.

**Risks to the global outlook**

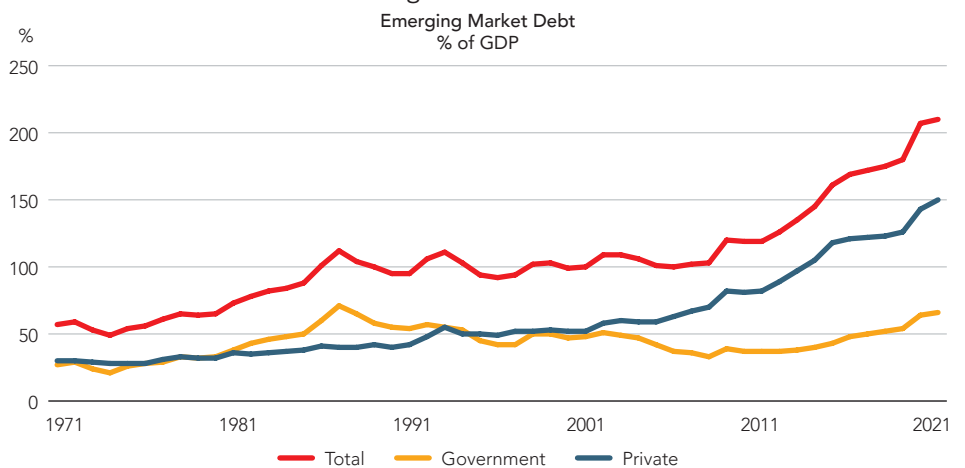
A major risk is that inflation continues to surprise to the upside. This could occur through a renewed surge in oil or other commodity prices or supply chain disruption in China. Alternatively continued tight jobs markets may result in wage growth accelerating as workers gain compensation for high inflation, risking a wage-price spiral. This would entrench inflation expectations and require a greater degree of monetary

tightening than currently expected in order to bring inflation under control. This could be sufficient to cause recession and trigger a debt crisis among many emerging markets. There is also scope for central bank policy mistakes that result in an overshoot of tightening and an unnecessary recession. This risk is heightened because monetary tightening, at least by the US Federal Reserve and Bank of England, is taking the form of both higher interest rates and quantitative tightening (QT). QT is the sale of assets purchased during Quantitative Easing policies and is a withdrawal of liquidity. A combination of higher interest rates with QT is a new experience for central banks and therefore more likely to result in policy mistakes. On the upside a more rapid resolution of supply chain issues and softer commodity prices in the wake of reduced demand could bring inflation down quickly into next year. This in turn could allow interest rate cuts to support growth.

**DEBT LEVELS AS A PERCENTAGE OF GDP IN EMS ARE AT RECORD LEVELS, HAVING INCREASED DURING THE COVID-19 PANDEMIC, RAISING CONCERNS ABOUT DEBT SUSTAINABILITY IN MANY EM ECONOMIES.**



**CHART 20: EM debt is at record high levels**



Source: World Bank (2022)



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# Appendix I:

## Economies covered by Q2 survey responses

NORTH AMERICA	MIDDLE EAST	ASIA PACIFIC	CENTRAL & EASTERN EUROPE	SOUTH ASIA	WESTERN EUROPE	AFRICA	CARIBBEAN	CENTRAL & SOUTH AMERICA
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	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.

## CONTACTS

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