

Economic context & policy approaches in small advanced economies

July 2016

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Listing of selected advanced economies

Small advanced economies

Country	Population	GDP/Cap (USD)
Iceland	329,000	50,855
Luxembourg	563,000	101,994
Estonia	1,316,000	17,425
Ireland	4,635,000	51,351
New Zealand	4,650,000	37,045
Norway	5,205,000	74,822
Finland	5,472,000	41,974
Singapore	5,535,000	52,888
Denmark	5,660,000	52,114
Hong Kong	7,311,000	42,390
Switzerland	8,238,000	80,675
Israel	8,371,000	35,343
Austria	8,556,000	43,724
Sweden	9,879,000	49,866
Belgium	11,337,000	40,107
Netherlands	16,935,000	43,603

Large advanced economies

Country	Population	GDP/Cap (USD)
Australia	24,016,000	50,962
Canada	35,825,000	43,332
Spain	46,384,000	25,865
South Korea	50,629,000	27,195
Italy	60,796,000	29,867
France	64,275,000	37,675
United Kingdom	65,097,000	43,771
Germany	81,900,000	40,997
Japan	126,926,000	32,486
United States	321,601,000	55,805

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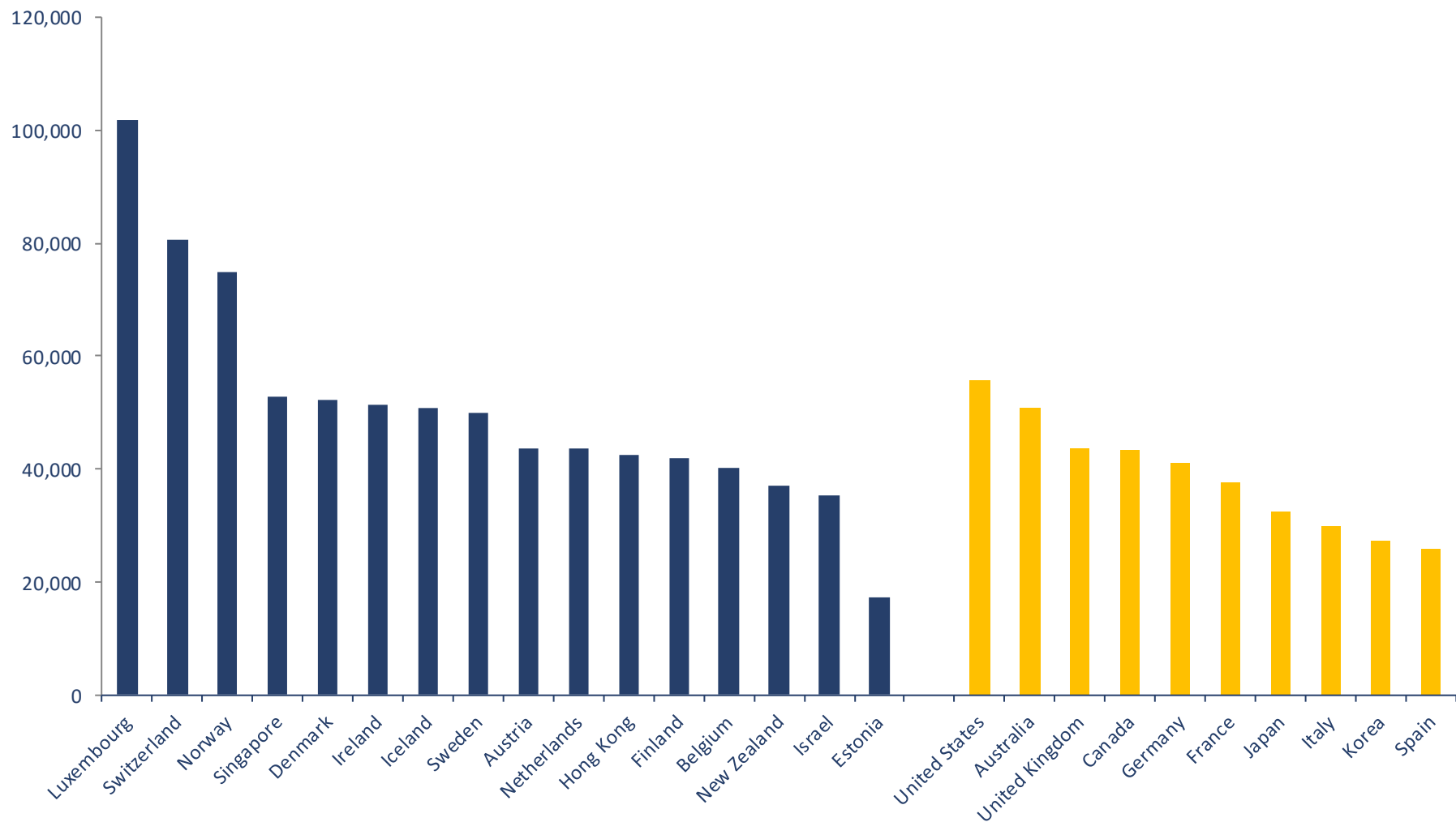
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Small advanced economies have strong per capita income performance

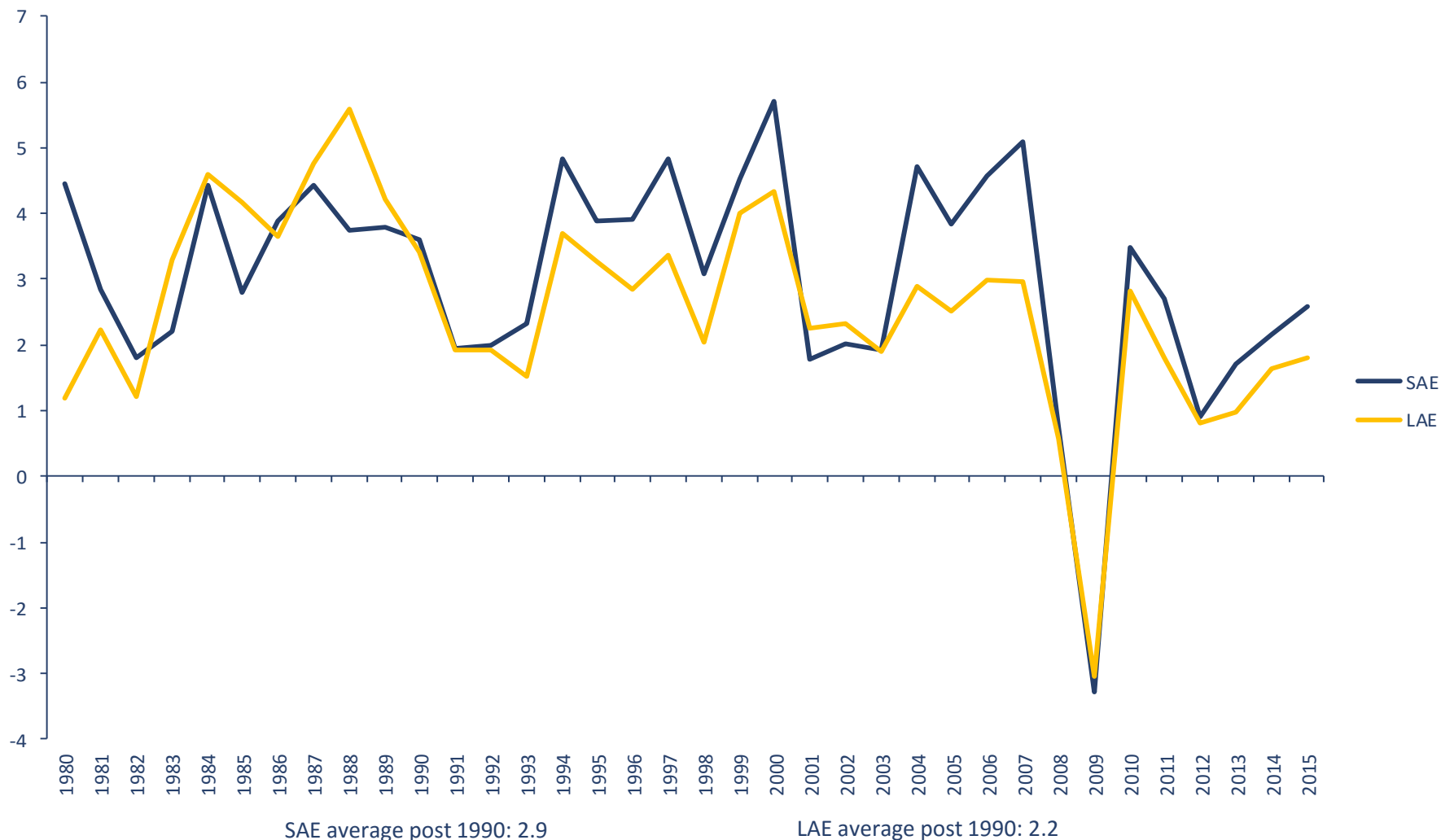
Real per capita income, USD, 2015



Source: IMF, World Economic Outlook, April 2016

Small advanced economies have consistently out-grown large advanced economies, particularly over the past 25 years

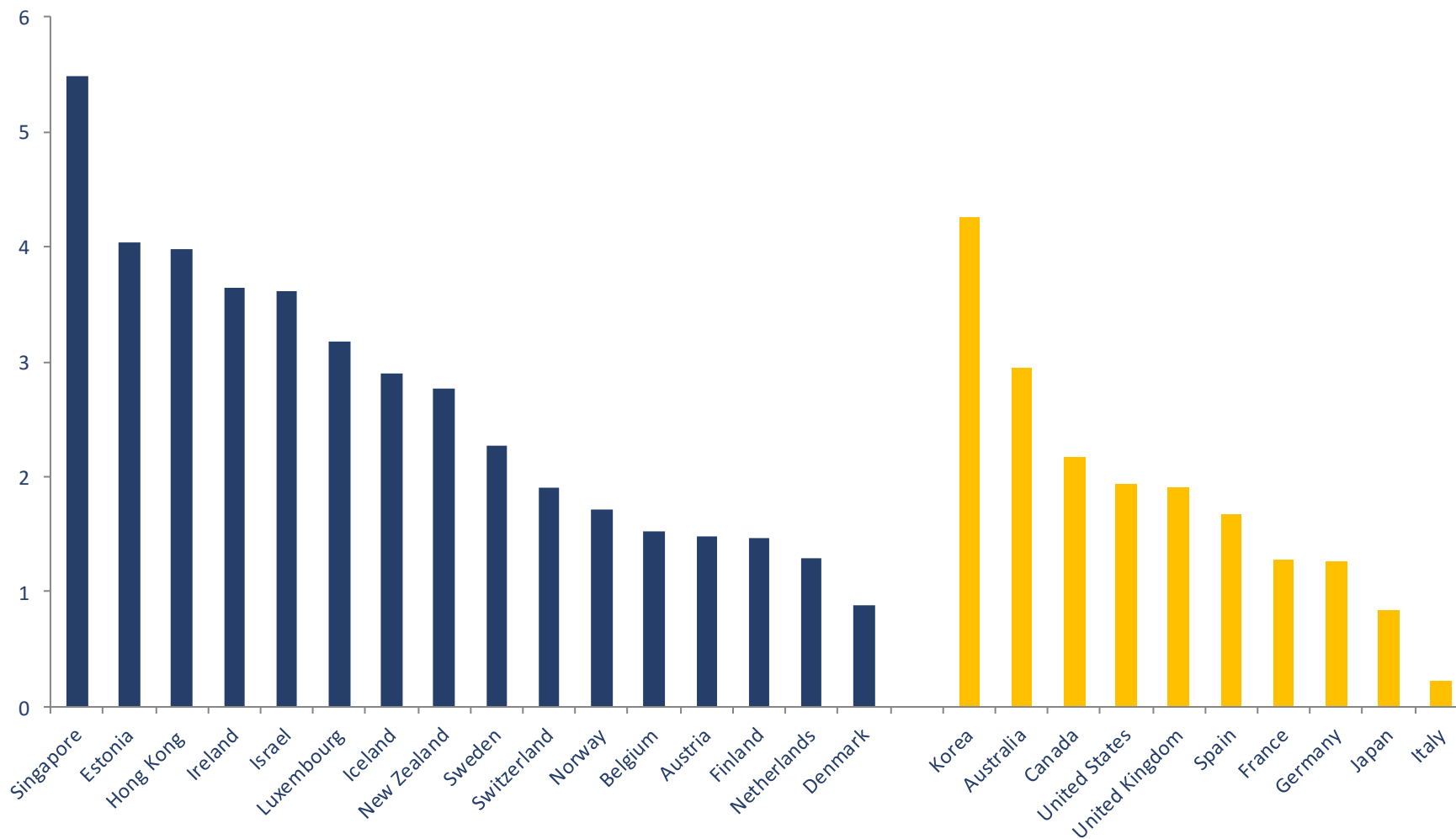
Real GDP growth, %, 1980-2015



Source: IMF World Economic Outlook, April 2016; Landfall Strategy Group calculations

This strong growth performance by small advanced economies has been fairly broad-based, and with some very strong performers

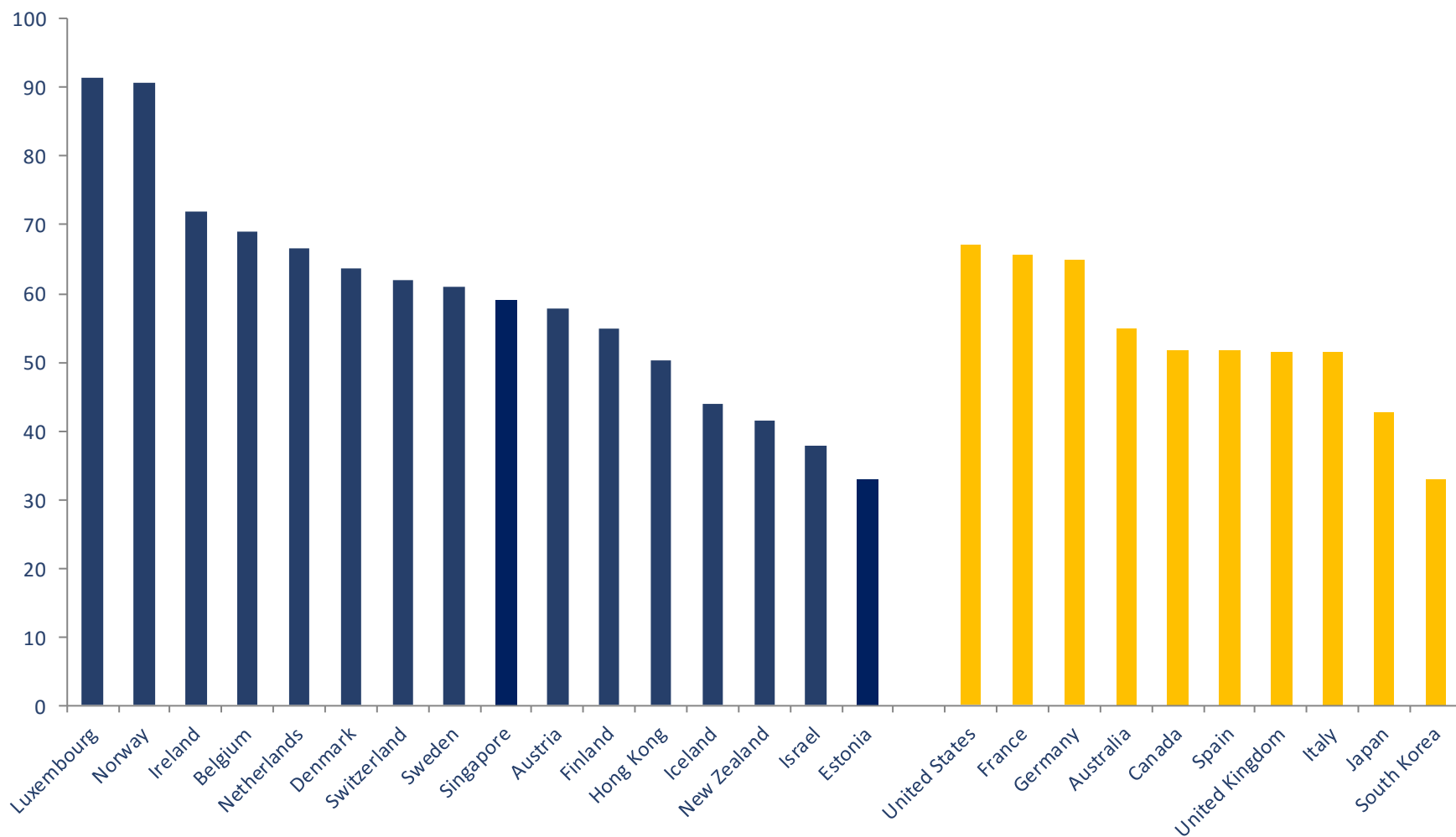
Real GDP growth, %, average, 2000-2015



Source: IMF, World Economic Outlook, April 2016; Landfall Strategy Group calculations

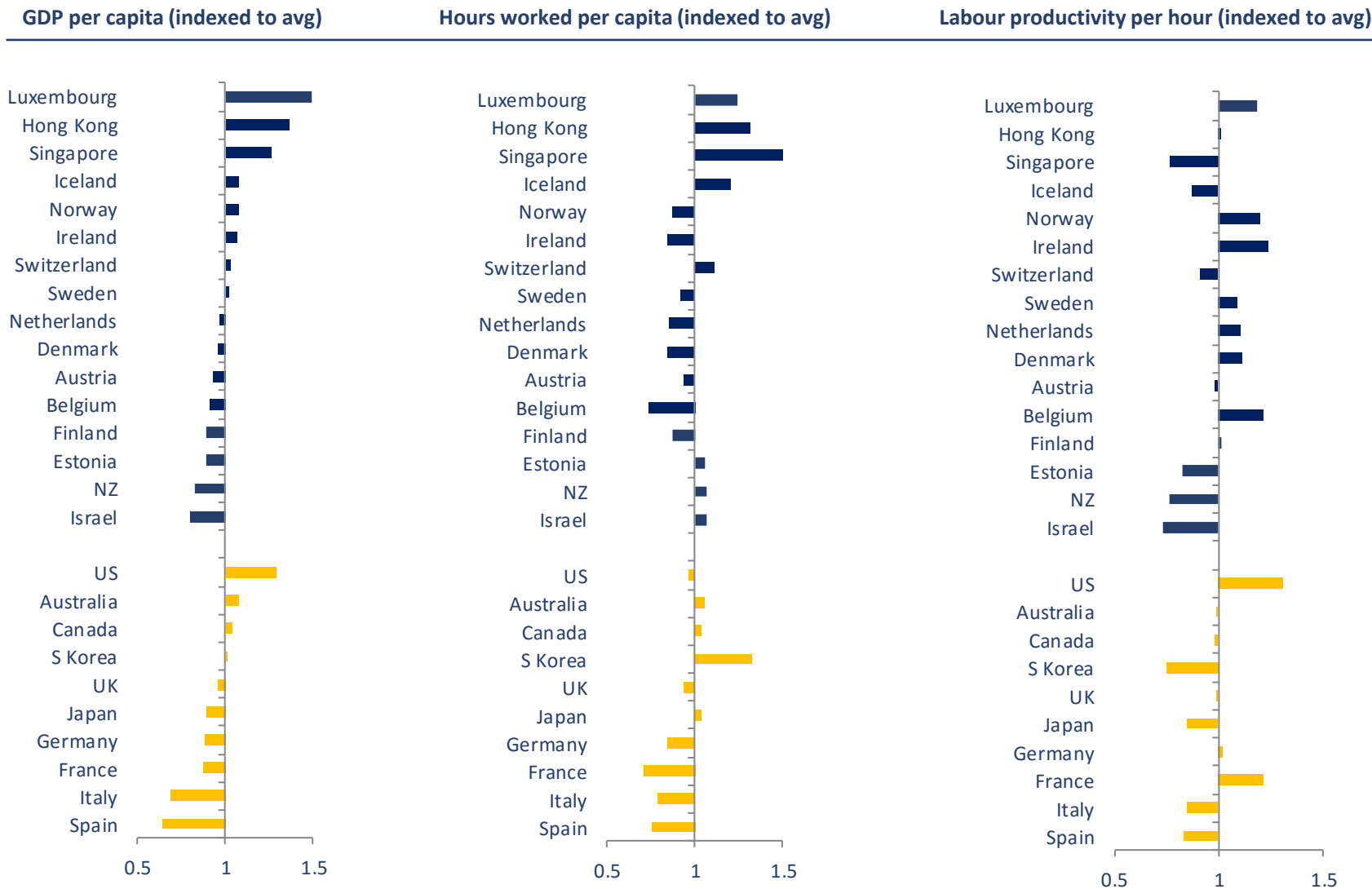
Many small advanced economies have high levels of labour productivity, although the average is similar to large economies

Labour productivity (GDP per hour worked), 1990 USD, (GK PPPs), 2015



Source: The Conference Board Total Economy Database, May 2016; Landfall Strategy Group calculations

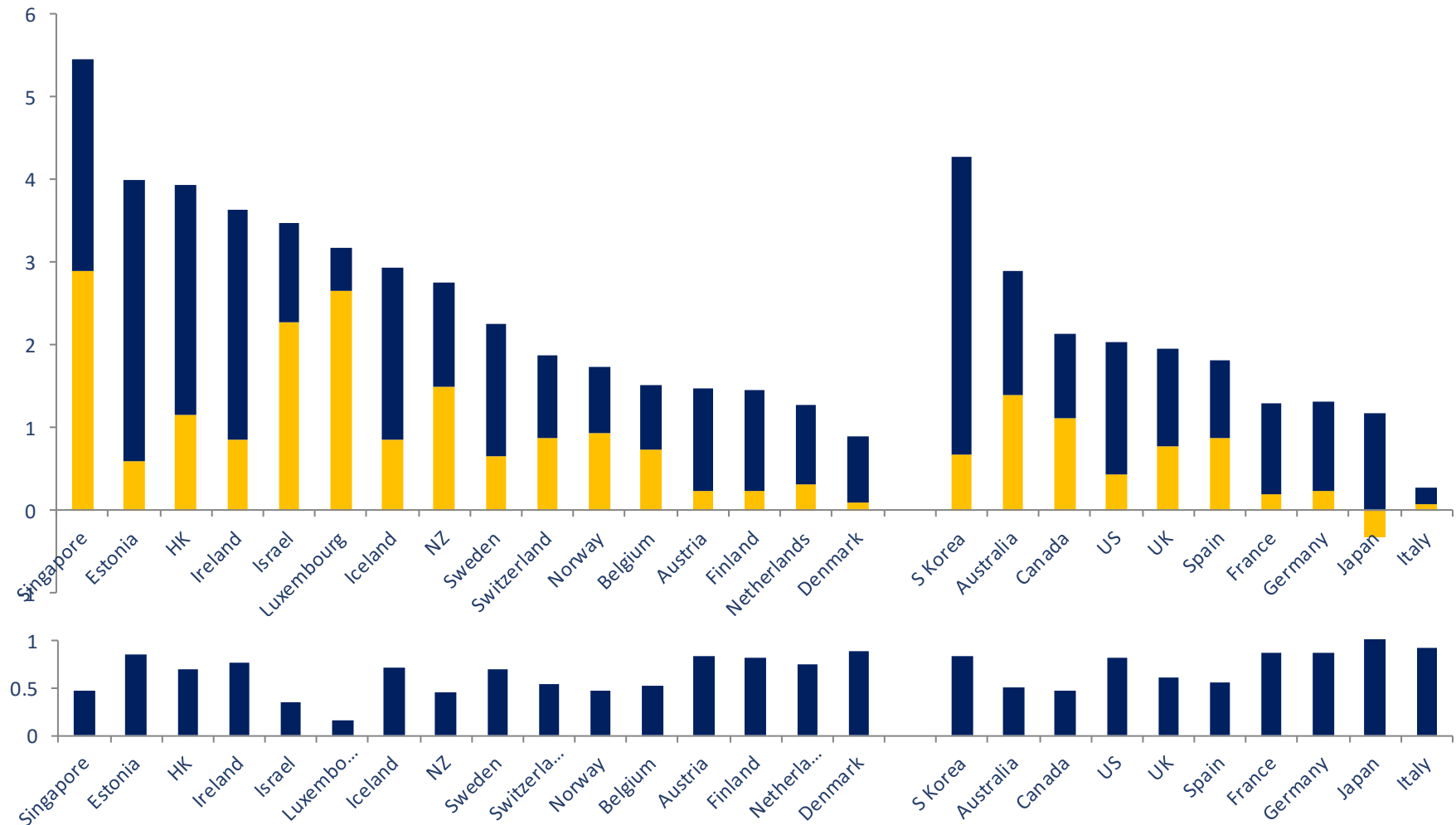
There is variation in small country growth models; but most small European economies have strong labour productivity contributions



Source: The Conference Board Total Economy Database, May 2016; Landfall Strategy Group calculations

There is significant variation in the productivity contribution to GDP growth: it is strong in some high and low GDP growth economies

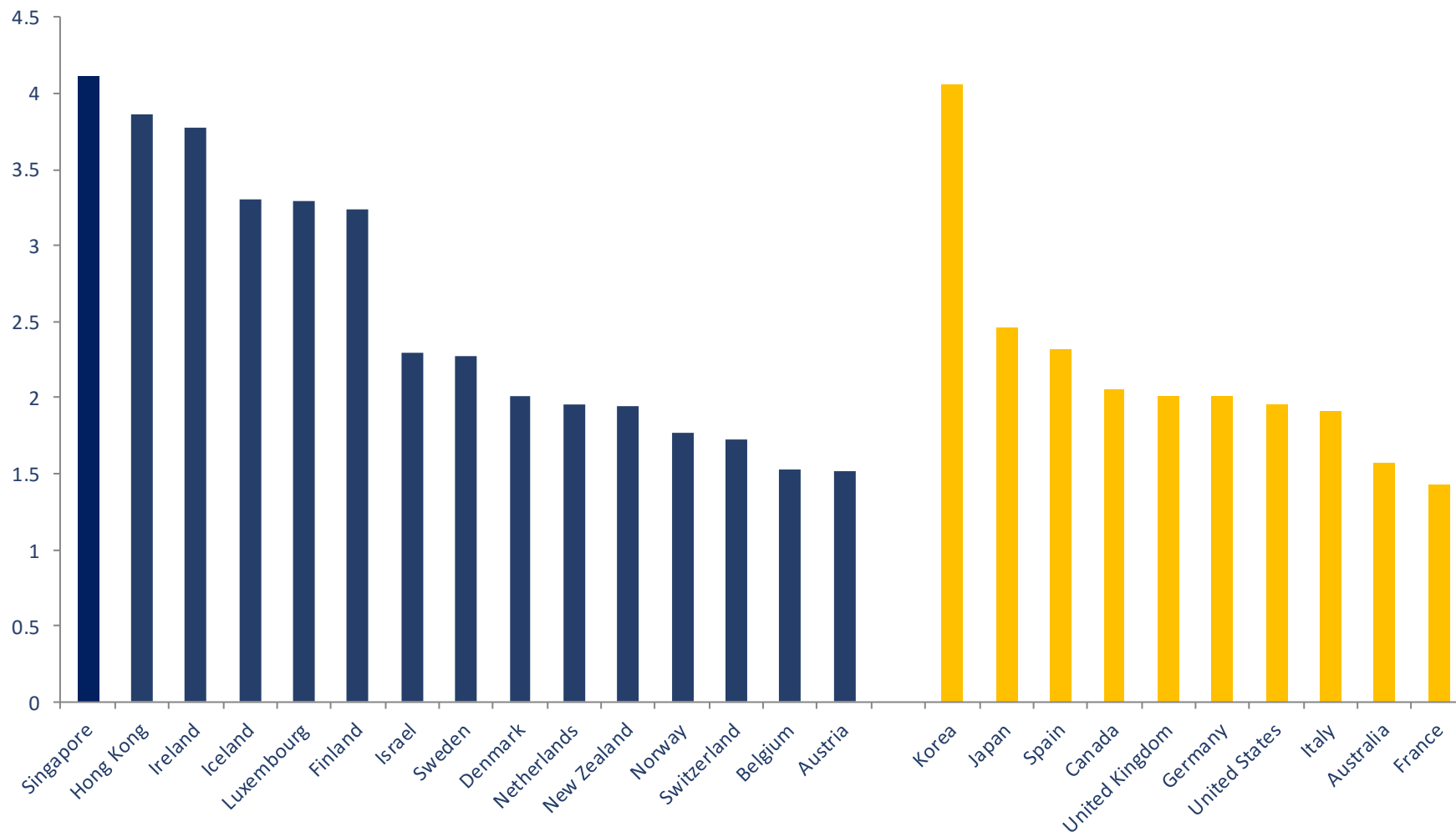
GDP growth decomposition: growth in hours worked (yellow), LP growth (blue); share of GDP growth from LP growth; 2000-2015



Source: The Conference Board Total Economy Database, May 2016; Landfall Strategy Group calculations

Many small advanced economies also experience higher levels of economic volatility

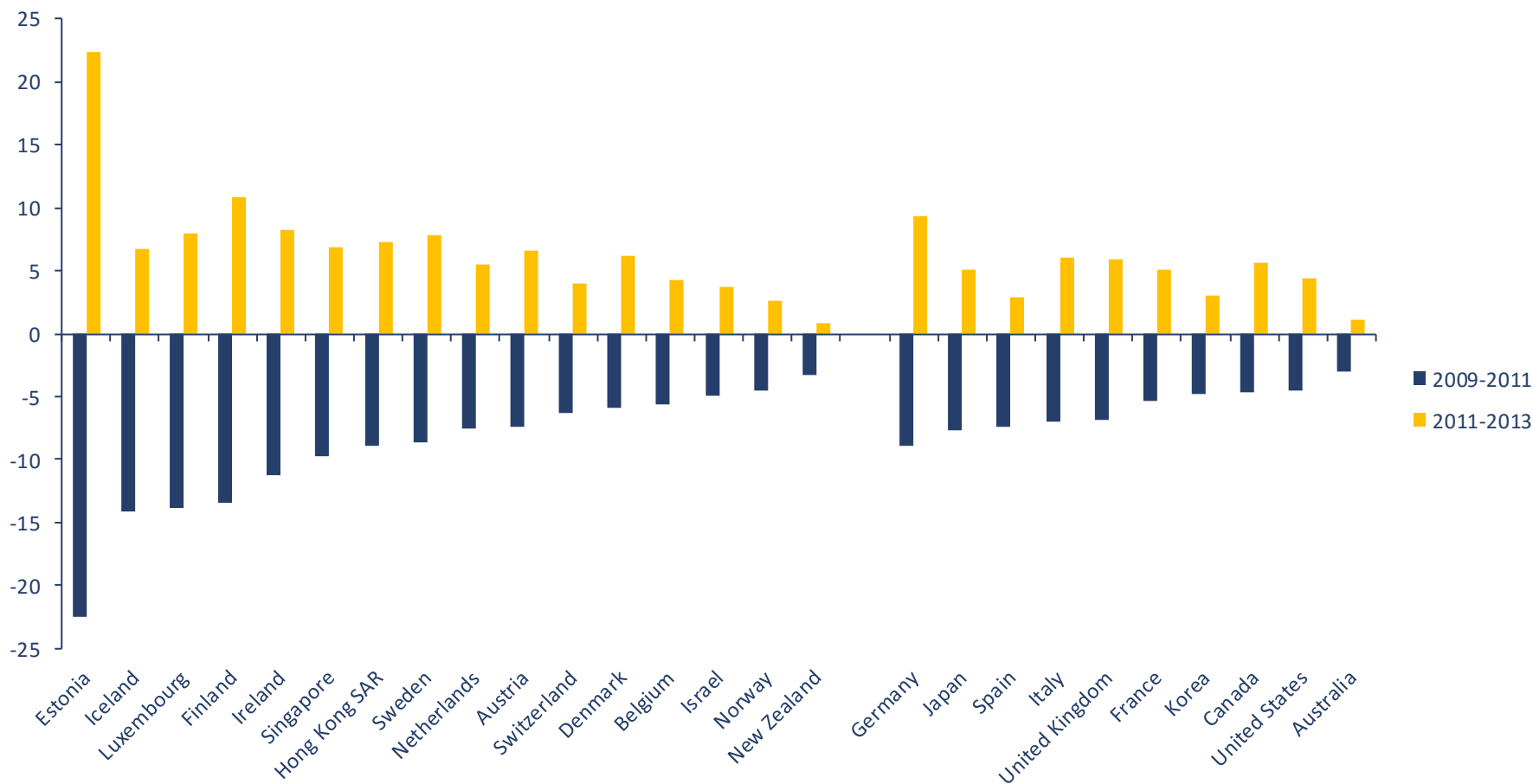
Standard deviation of real GDP growth, %, 1980-2015



Source: IMF World Economic Outlook, April 2016; Landfall Strategy Group calculations

Many small advanced economies experienced a marked slow-down in growth rates during the global financial crisis

Real GDP growth change, % (difference between 2007 and 2009; between 2009 and 2011)

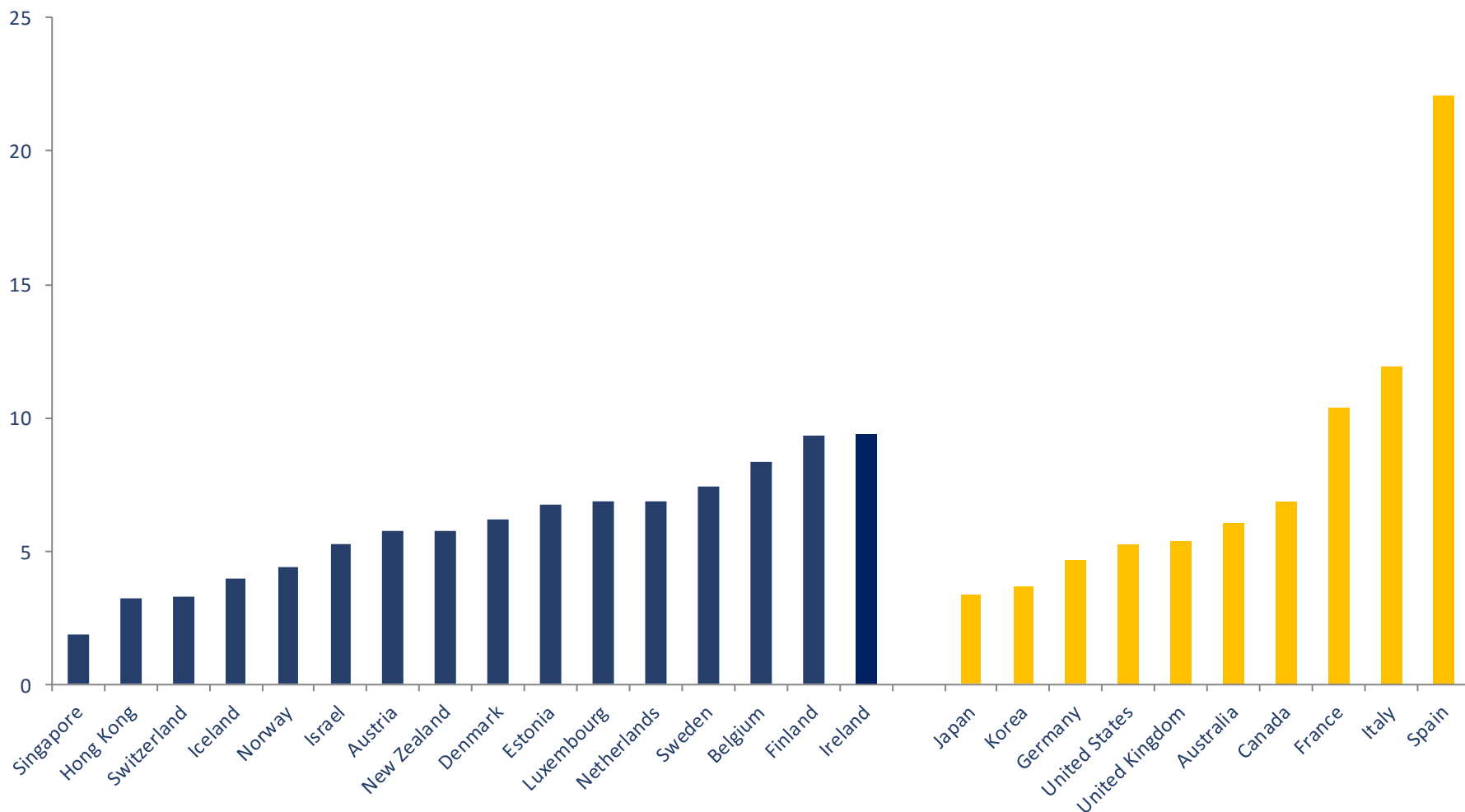


SAE average 2007-09: -8.3
SAE average 2009-11: 6.0

LAE average 2009-11: -6.2
LAE average 2009-11: 4.9

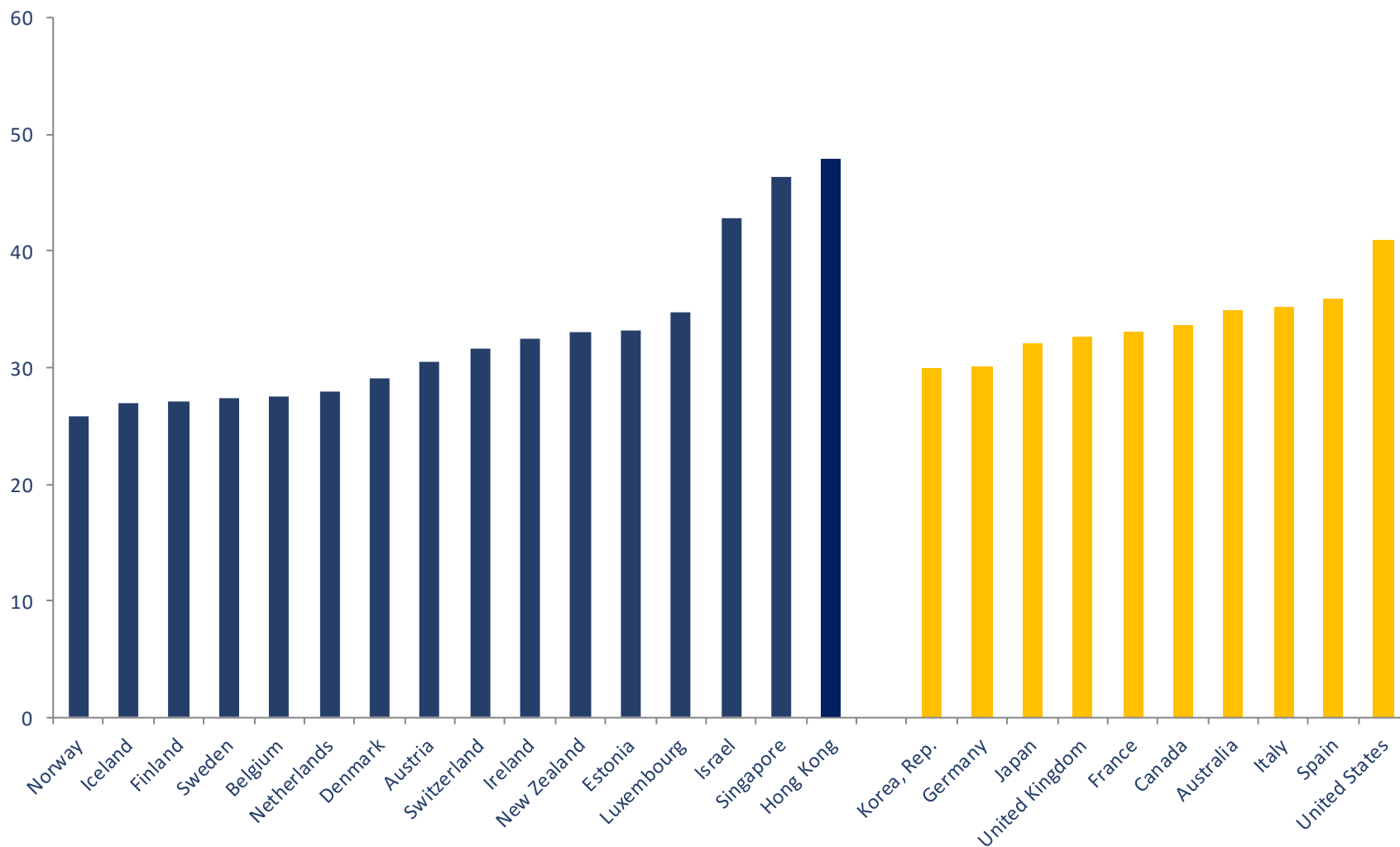
Several low GDP growth economies record relatively low rates of unemployment, but there is a broad distribution

Unemployment rate, %, 2015



There is a broad range of income inequality outcomes: some are low (the Nordics) while some are high (Israel, Singapore & Hong Kong)

Gini coefficient, 2012 (or most recent available)



Source: World Bank; OECD; official sources

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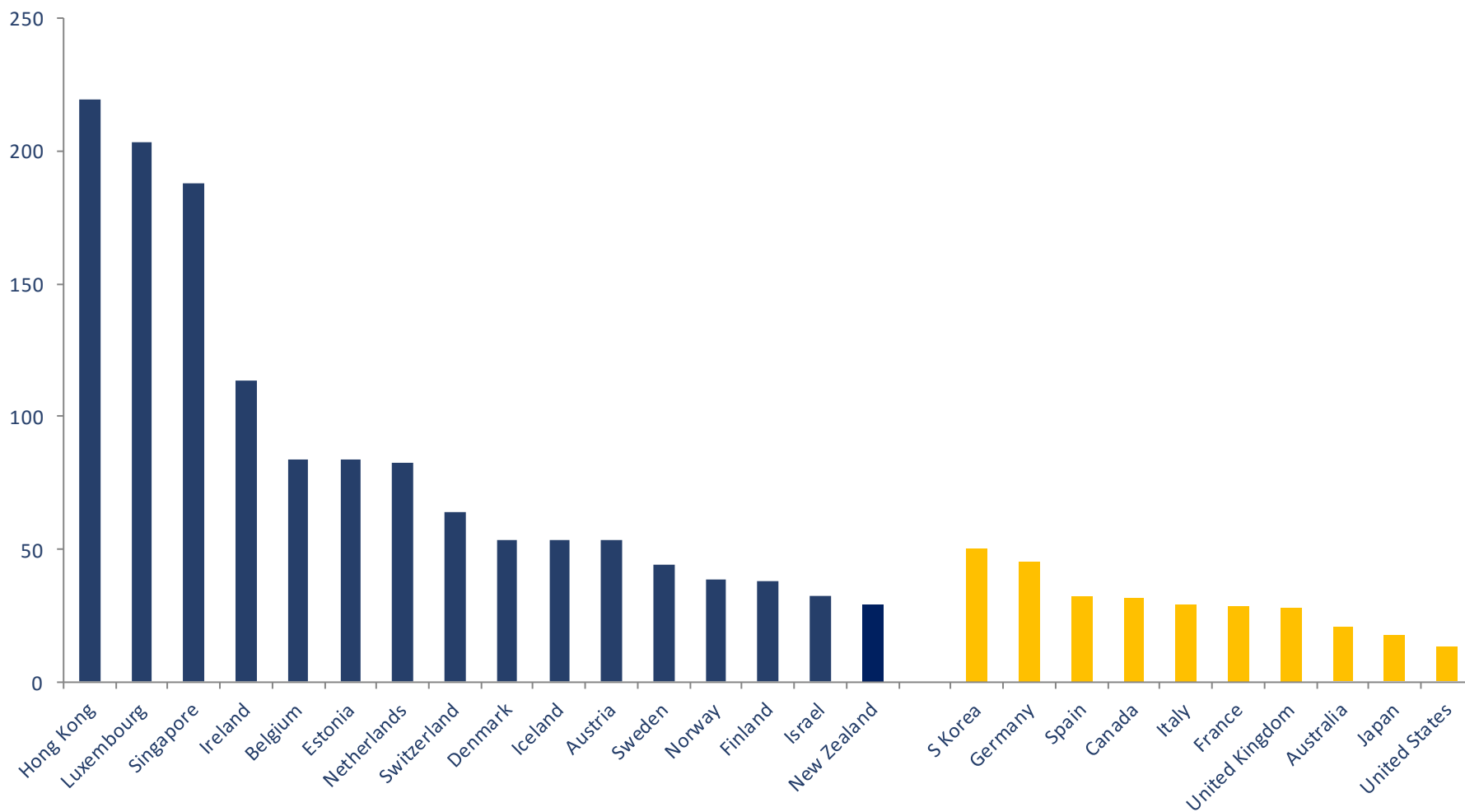
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Small advanced economies have significantly higher export shares than most larger advanced economies

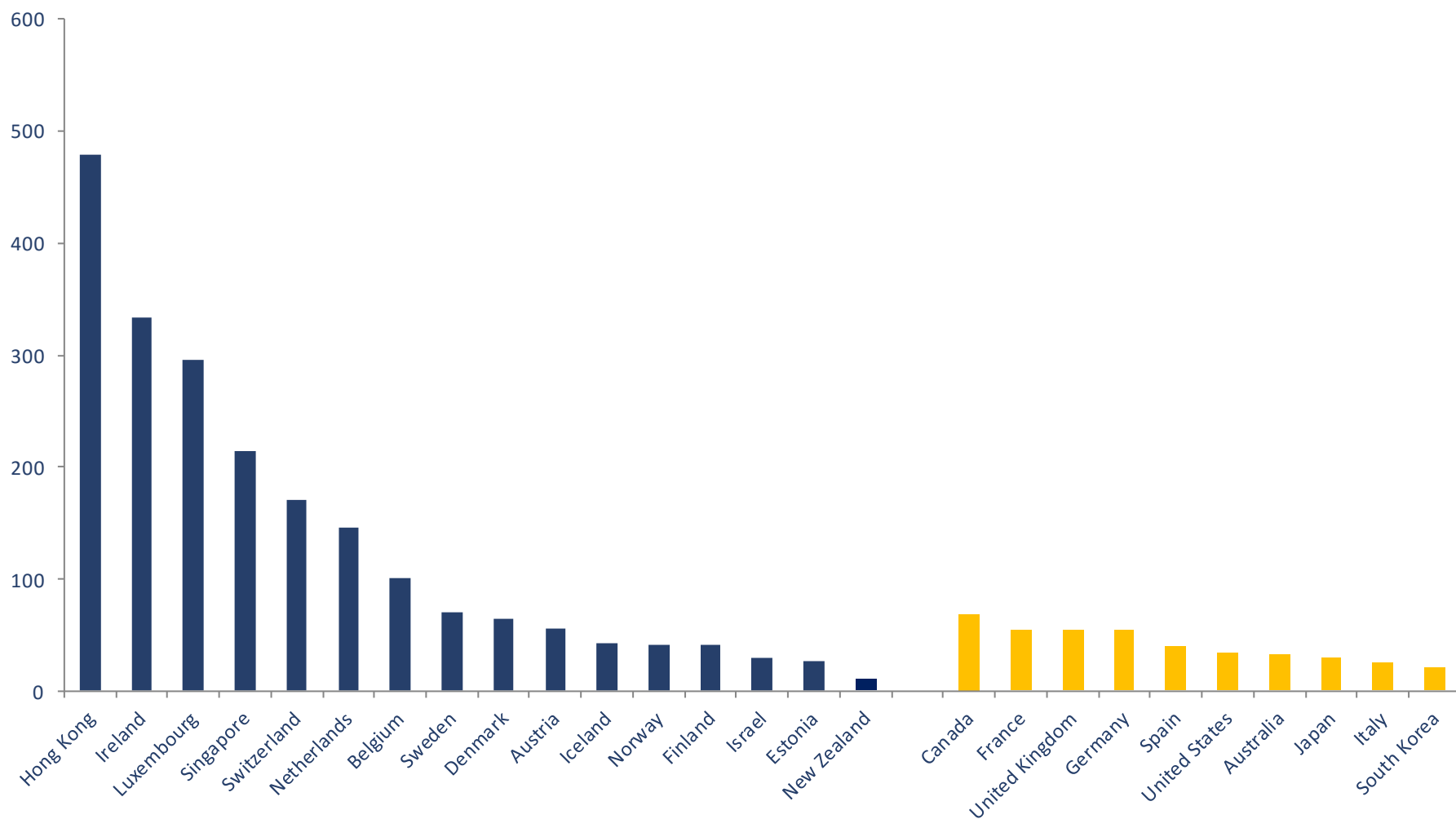
Exports of goods & services, % of GDP, 2014



Source: World Bank, WDI, June 2016; Landfall Strategy Group calculations

Small advanced economies also have very high levels of outward direct investment

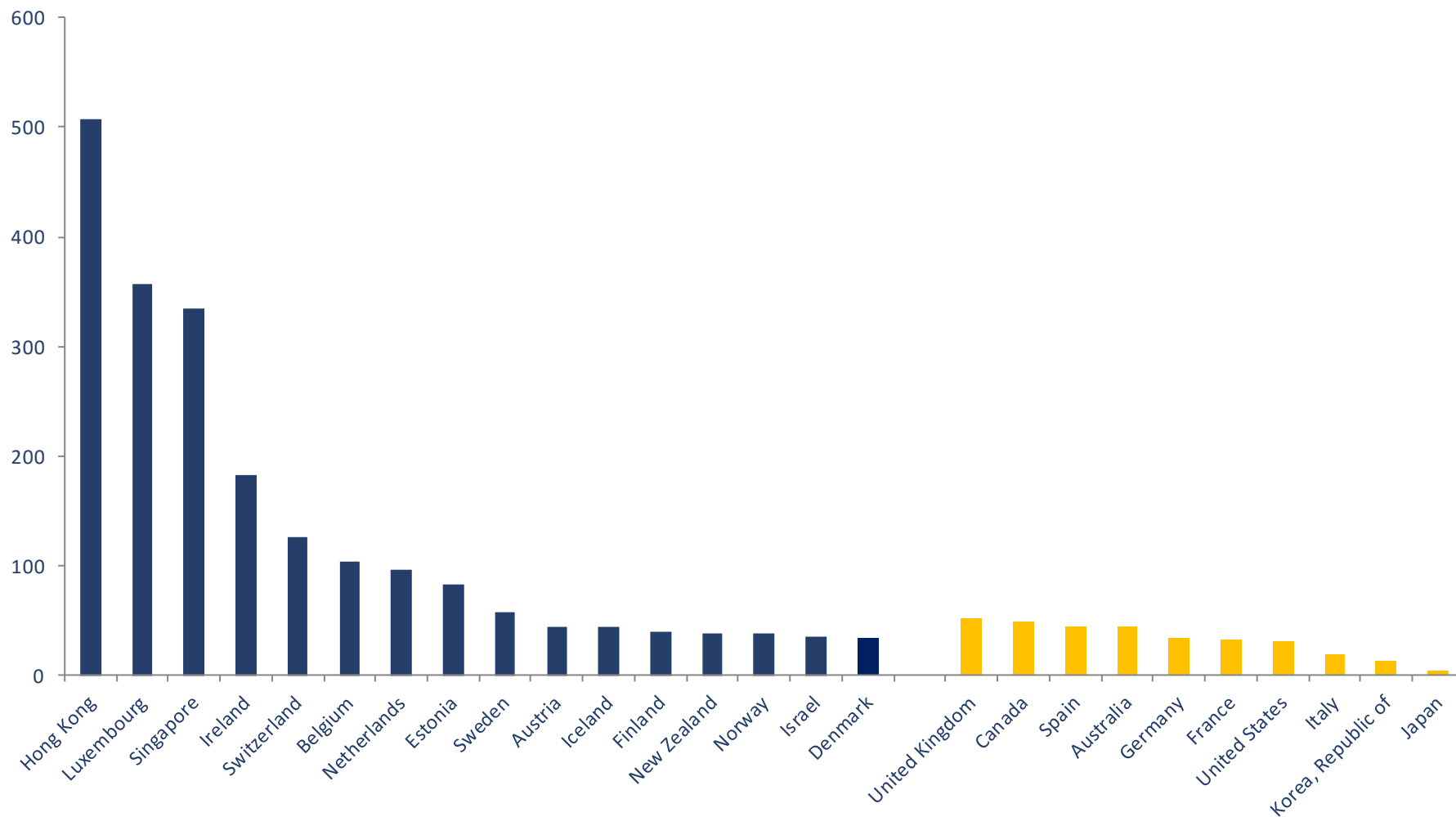
Outward direct investment stock, % of GDP, 2015



Source: UNCTAD

Small advanced economies have high levels of inward direct investment; this is core to some small countries' economic strategies

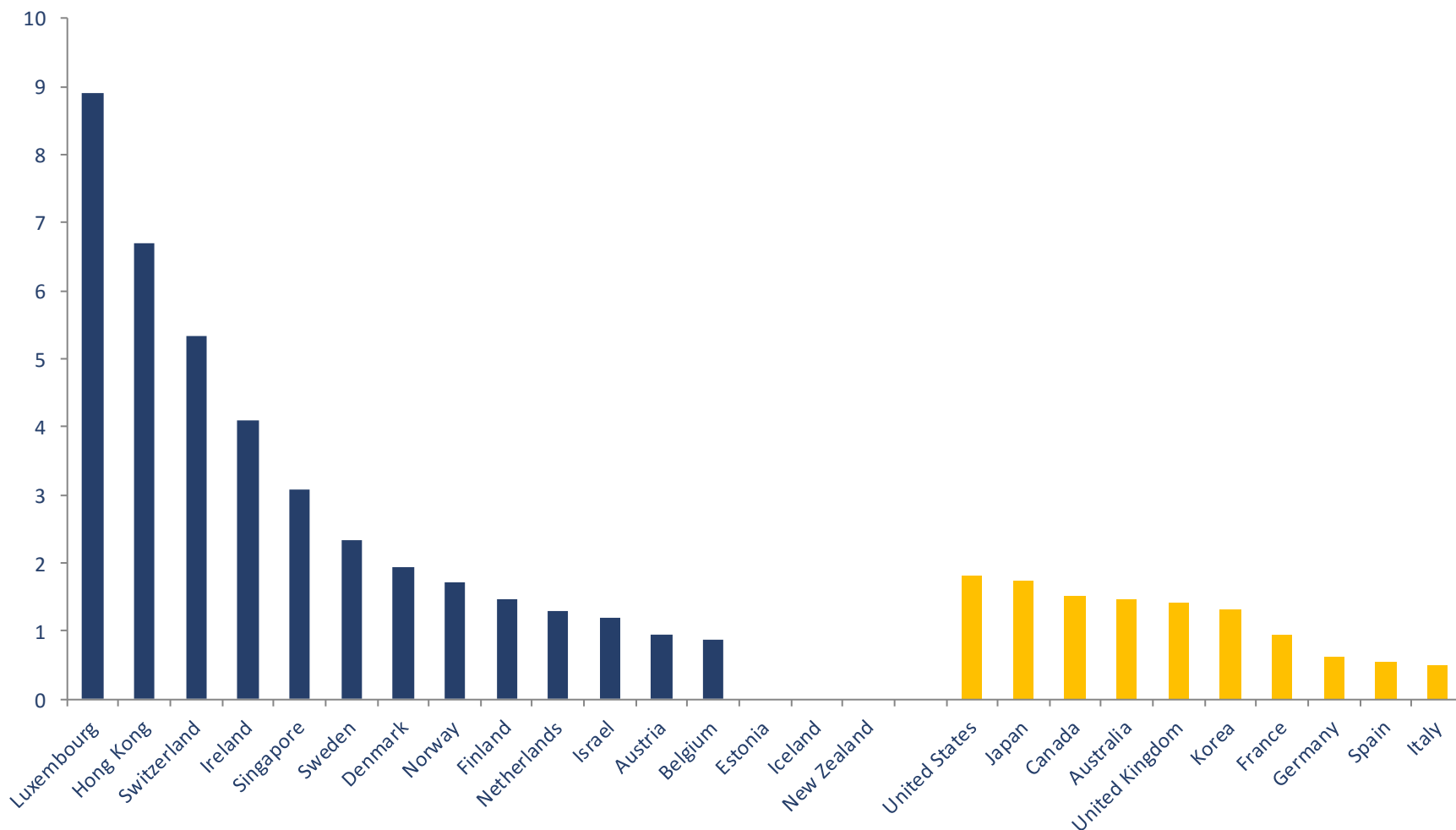
Inward direct investment stock, % of GDP, 2015



Source: UNCTAD

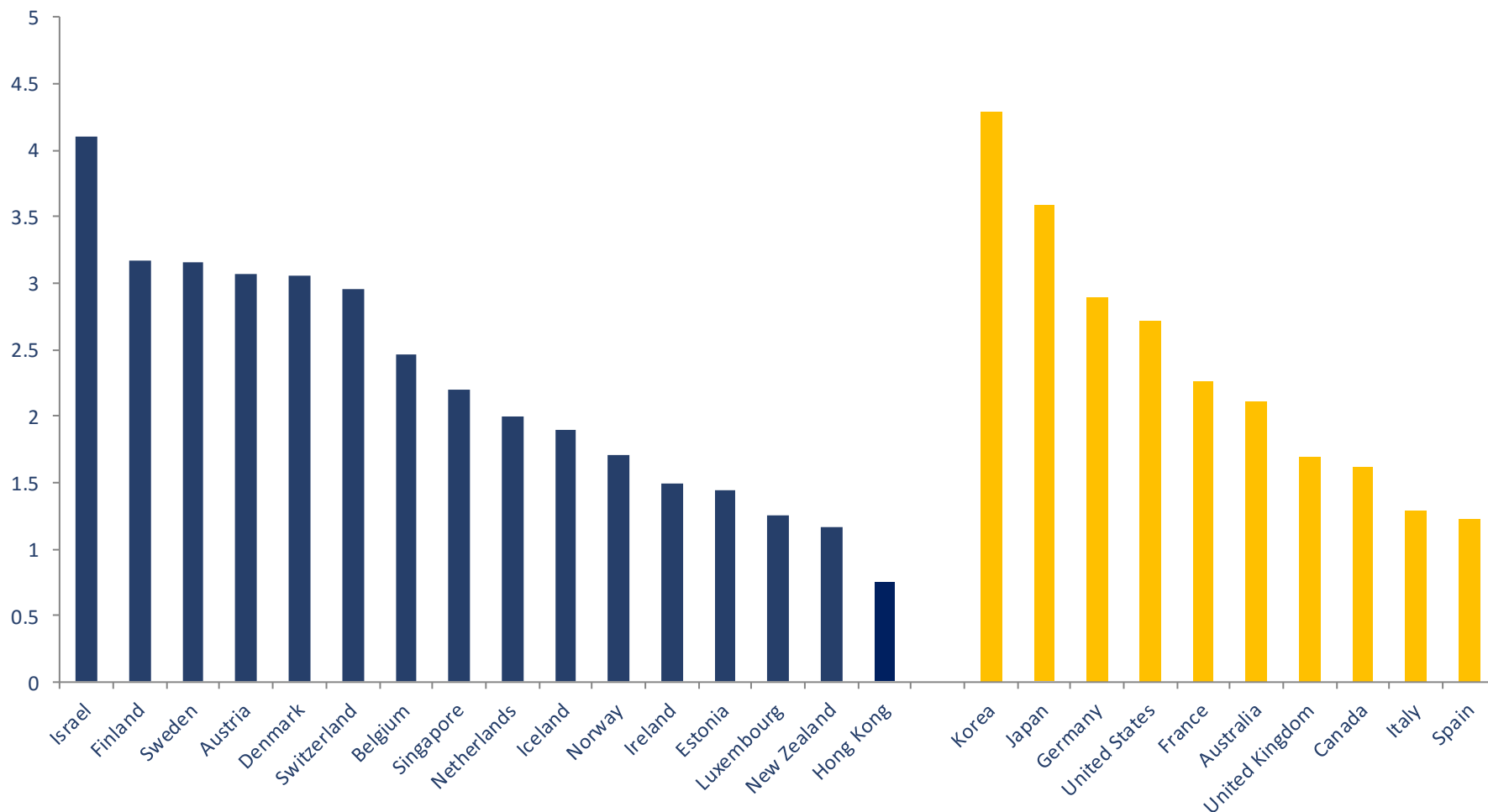
Small advanced economies produce a significant number of large multinational companies

Forbes Global 2000 companies per million population, 2016



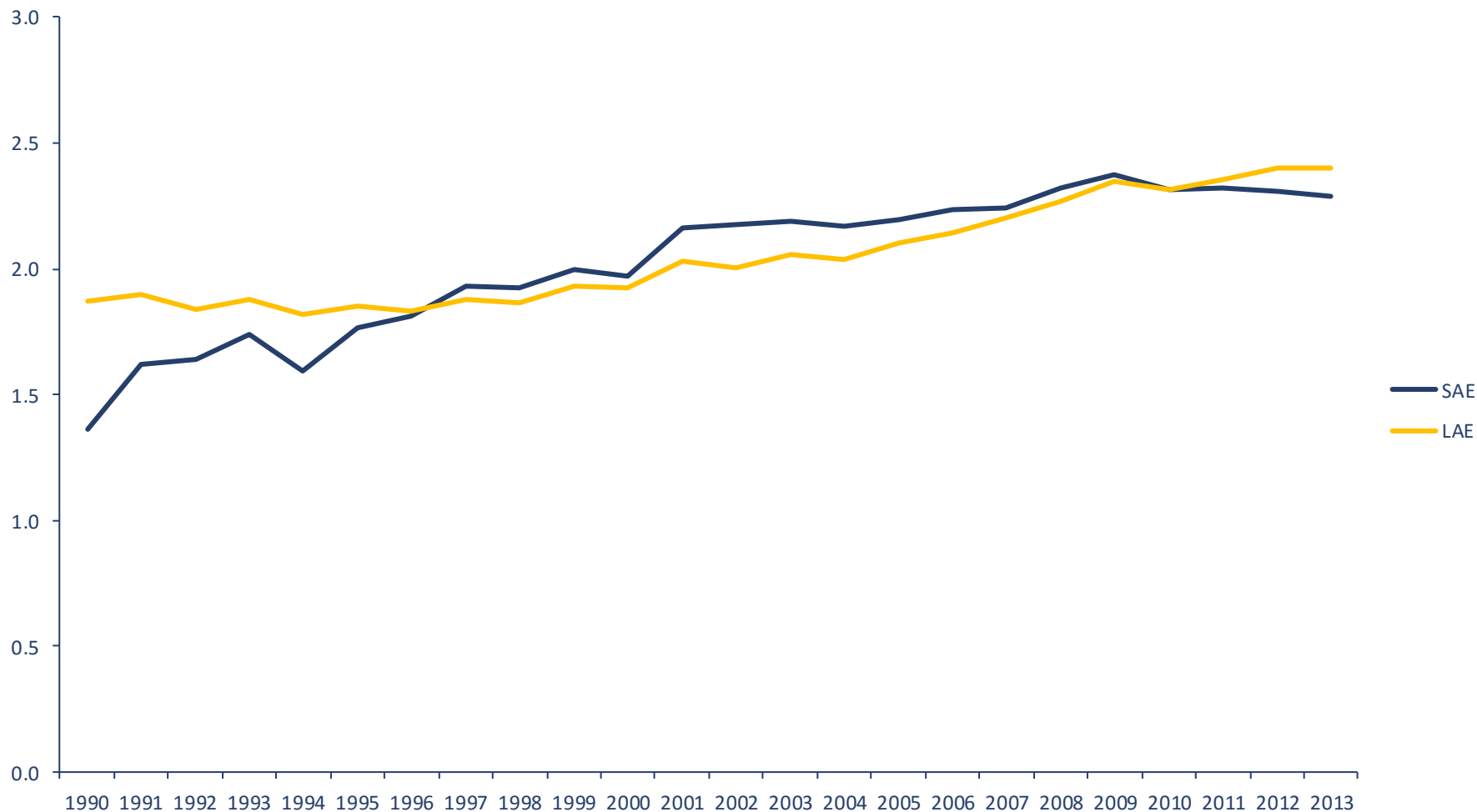
Several small advanced economies have sustained high levels of investment in R&D

GERD as a % of GDP, 2014



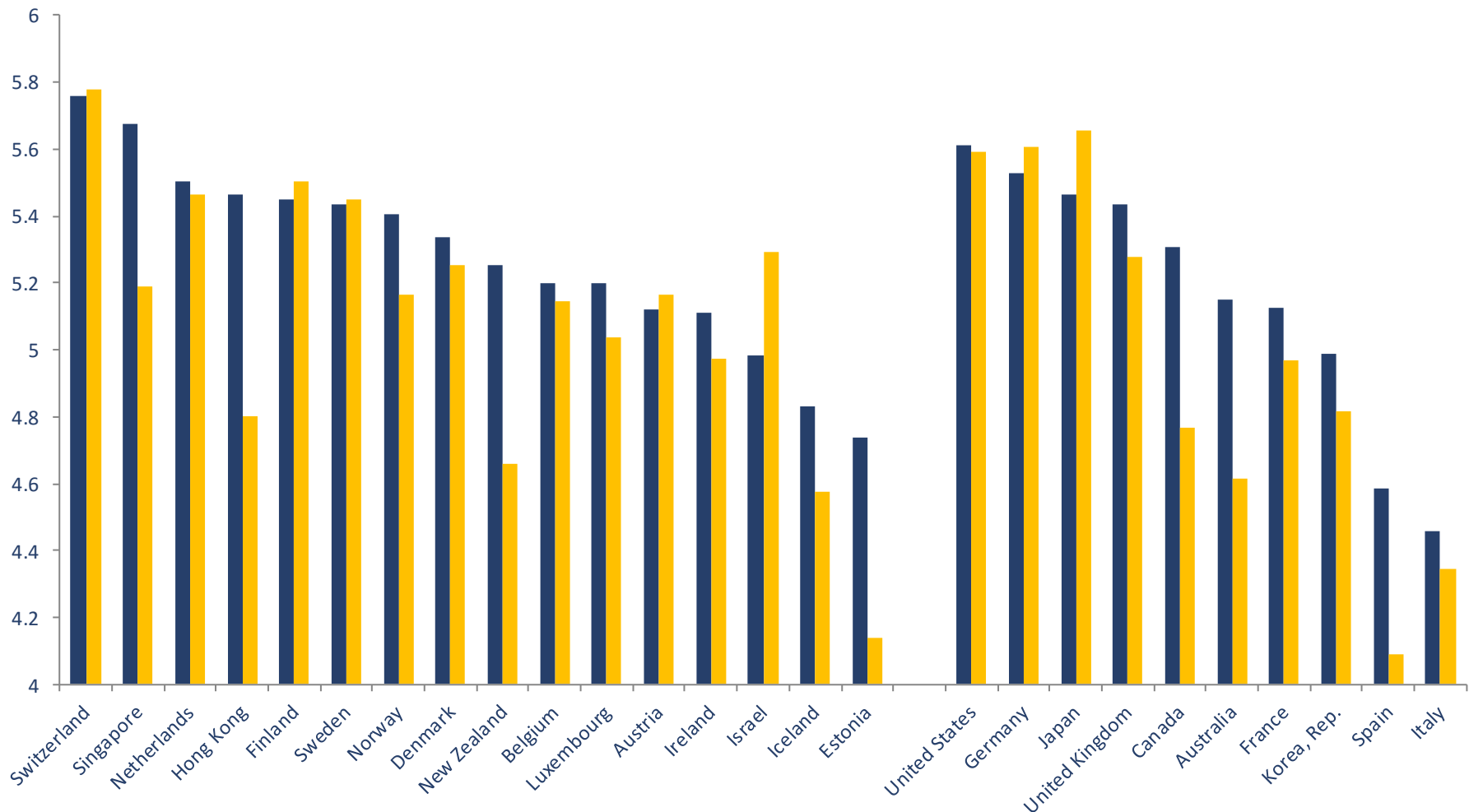
R&D spending in small advanced economies accelerated from the mid 1990s, before stabilising

GERD as a % of GDP, 1990-2014



Many small economies score well on innovation, as well as on overall measures of competitiveness

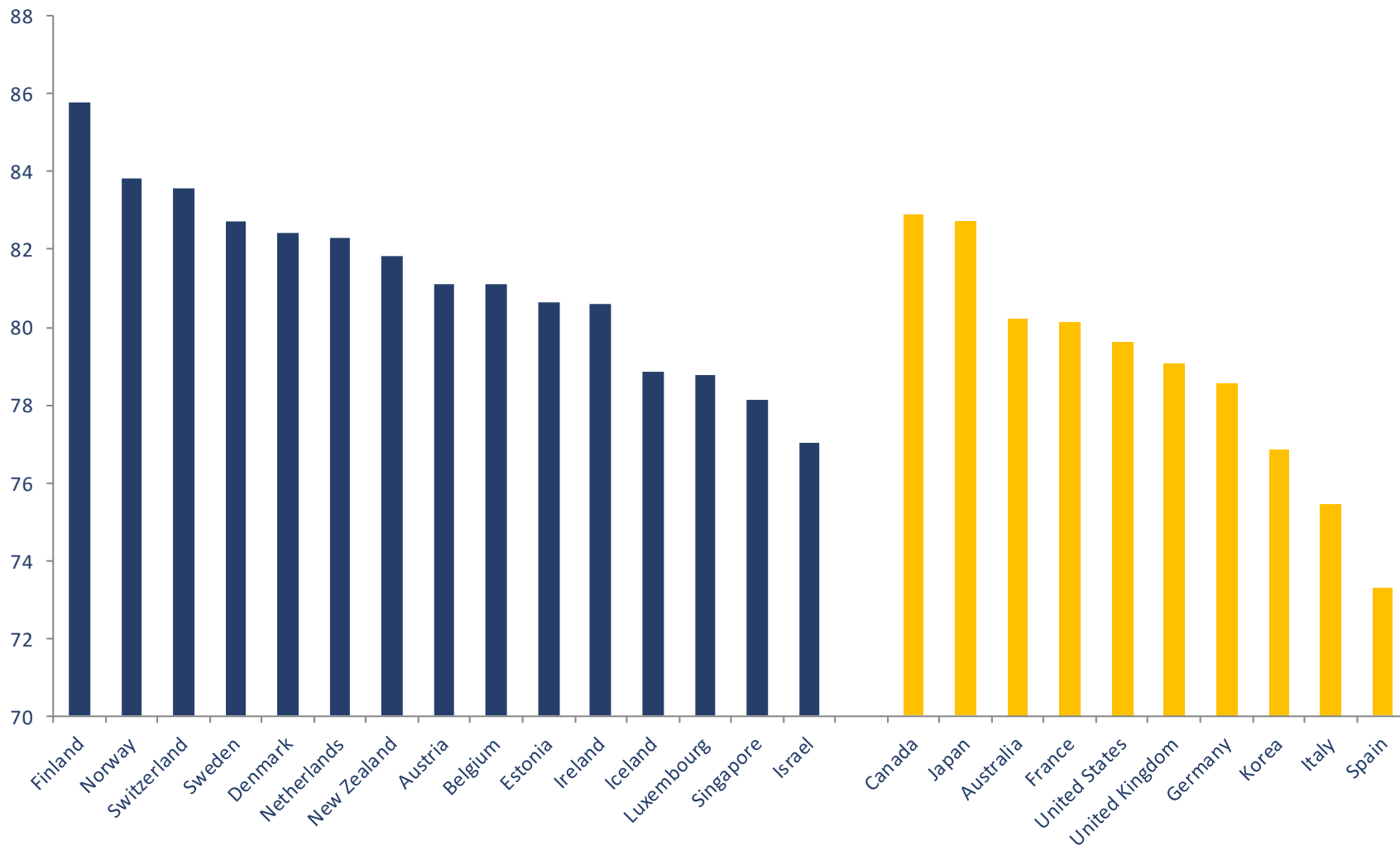
Overall GCR Competitiveness scores; scores on Innovation & Business Sophistication pillar



Source: 2015/16 Global Competitiveness Report, World Economic Forum

Many small advanced economies score highly on measures of human capital, particularly in Northern Europe

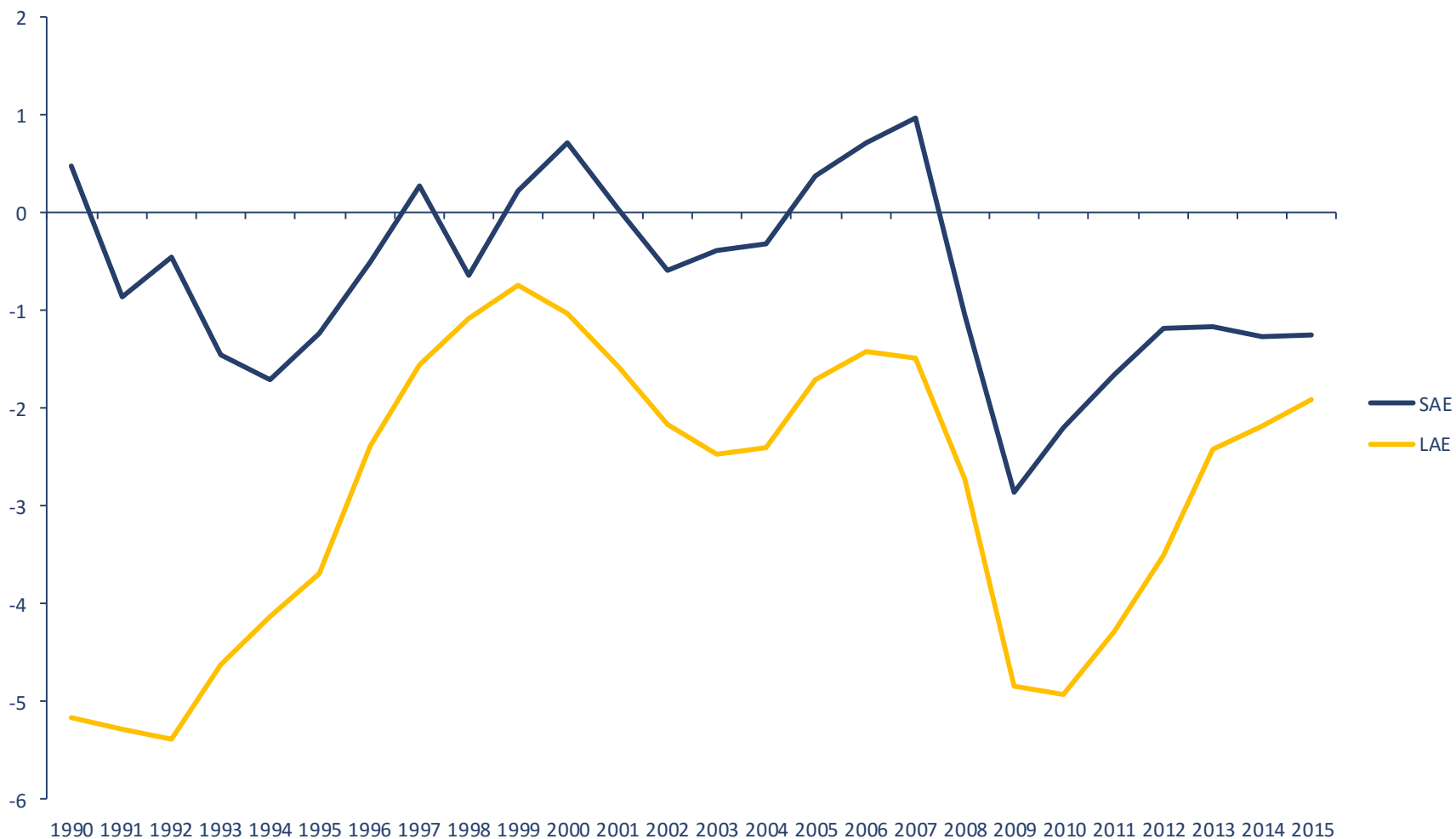
Human Capital Index



Source: 2015 Human Capital Report, World Economic Forum

Small advanced economies have consistently run tighter fiscal policy, throughout various business cycles

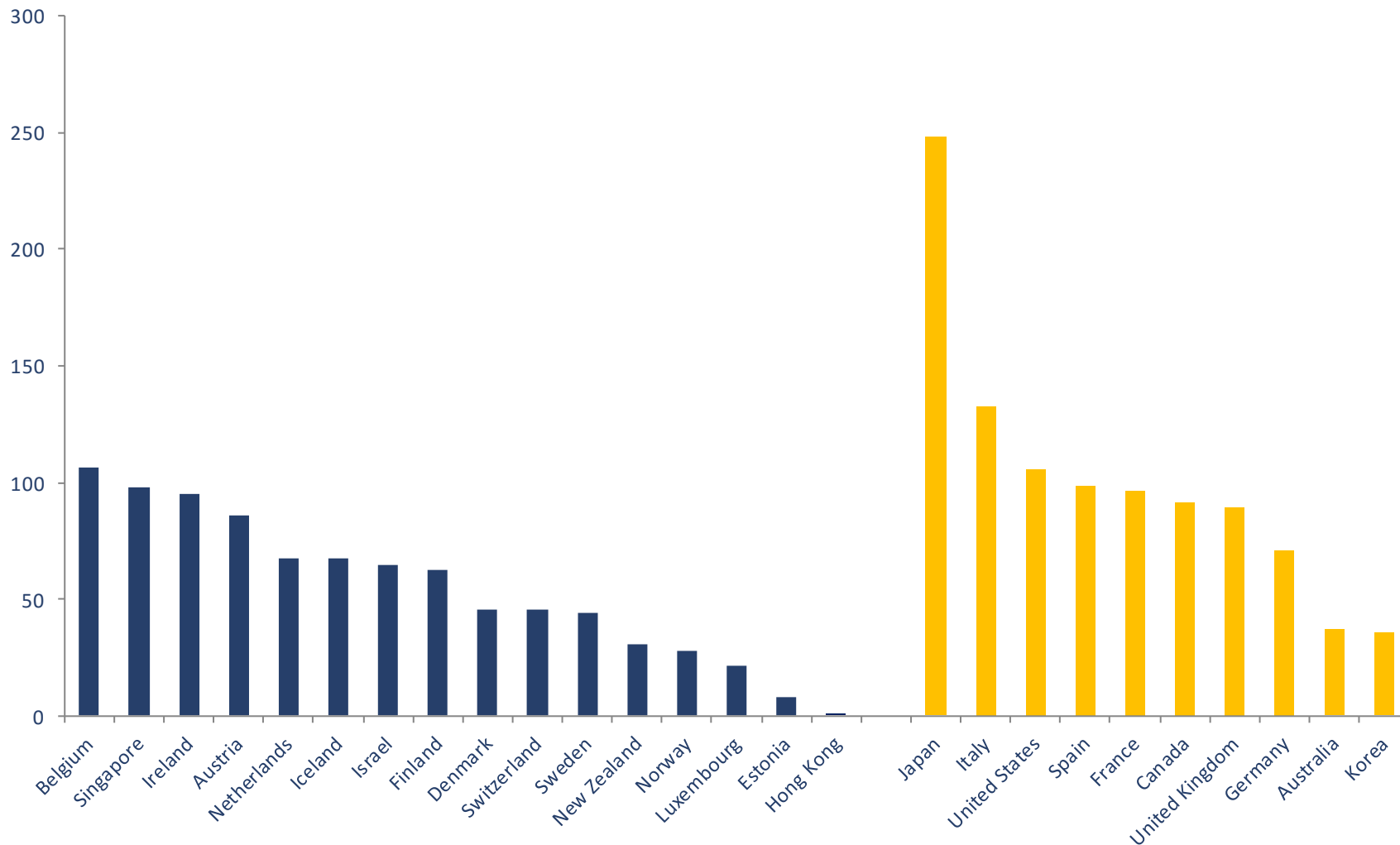
General government structural balance, % of potential GDP, 1990-2015



Source: IMF, World Economic Outlook, October 2015; Landfall Strategy Group calculations

Small advanced economies tend to have lower levels of public debt than larger economies

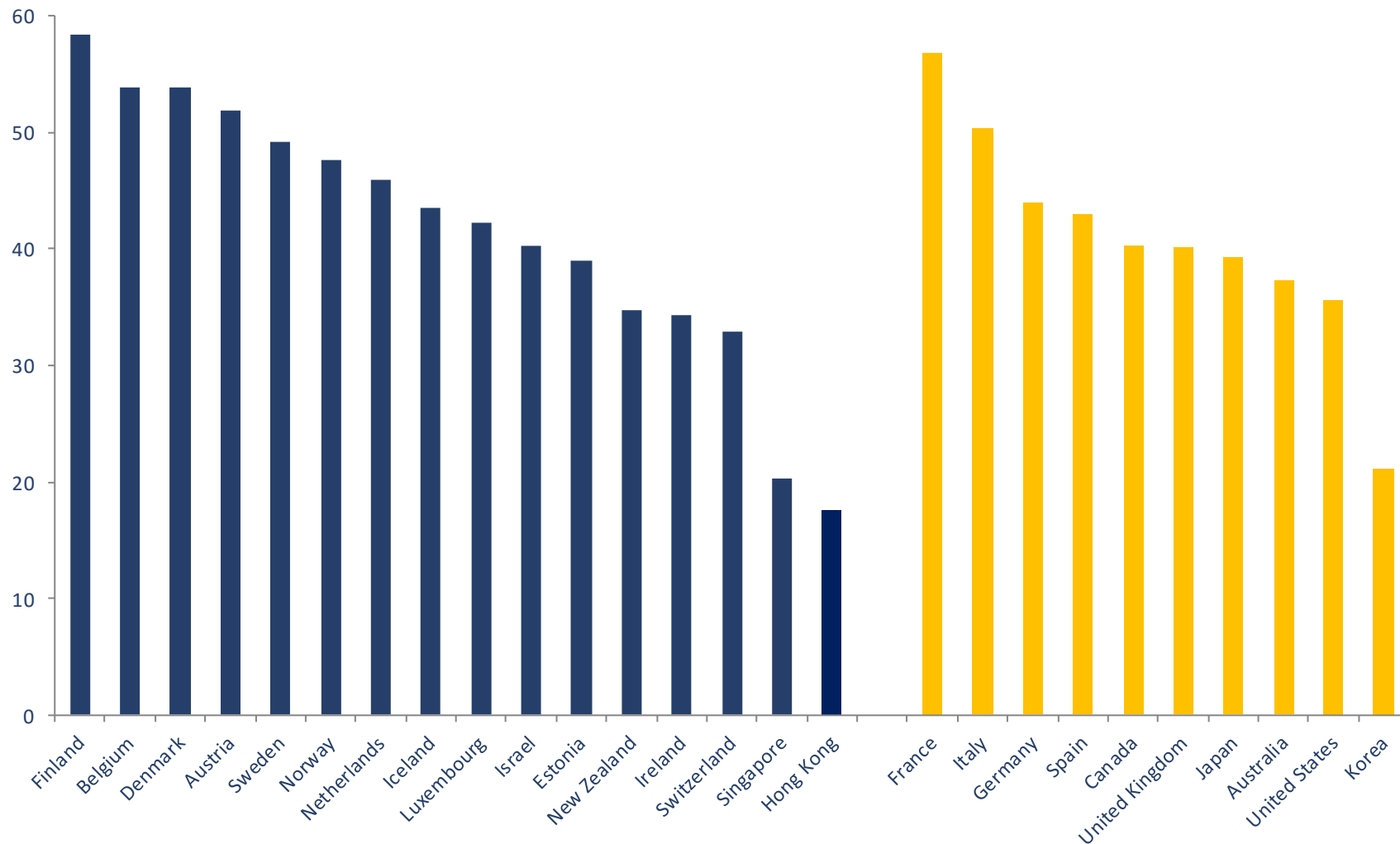
General government gross debt, % of GDP, 2015



Source: IMF World Economic Outlook, April 2016; Landfall Strategy Group calculations

Several successful small advanced economies have high levels of government spending, although there is a wide distribution

General government expenditure, % of GDP, 2015



Source: IMF World Economic Outlook, April 2016; Landfall Strategy Group calculations

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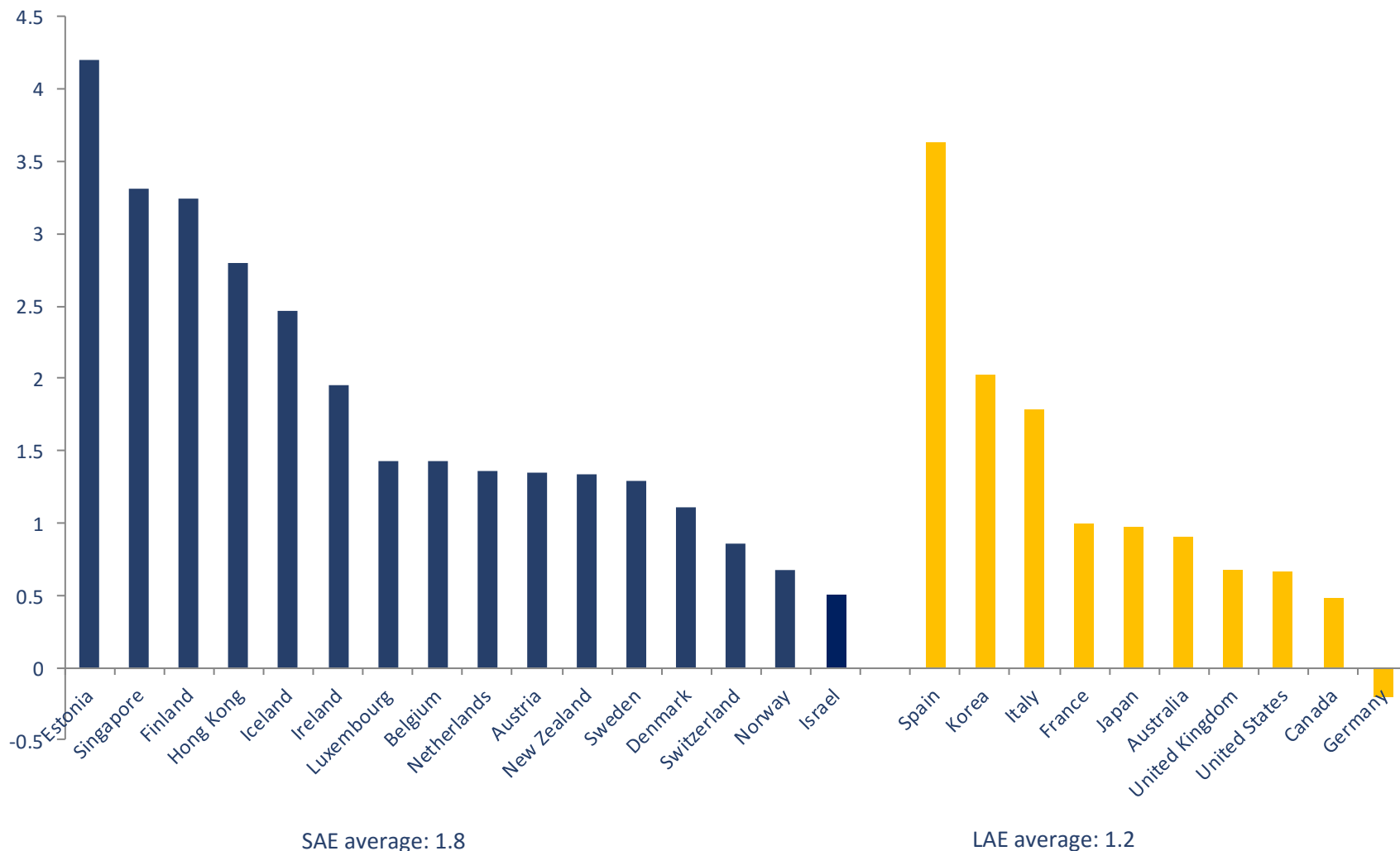
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Almost all small advanced economies have had a drop of more than ~1% in GDP growth; more than larger economies

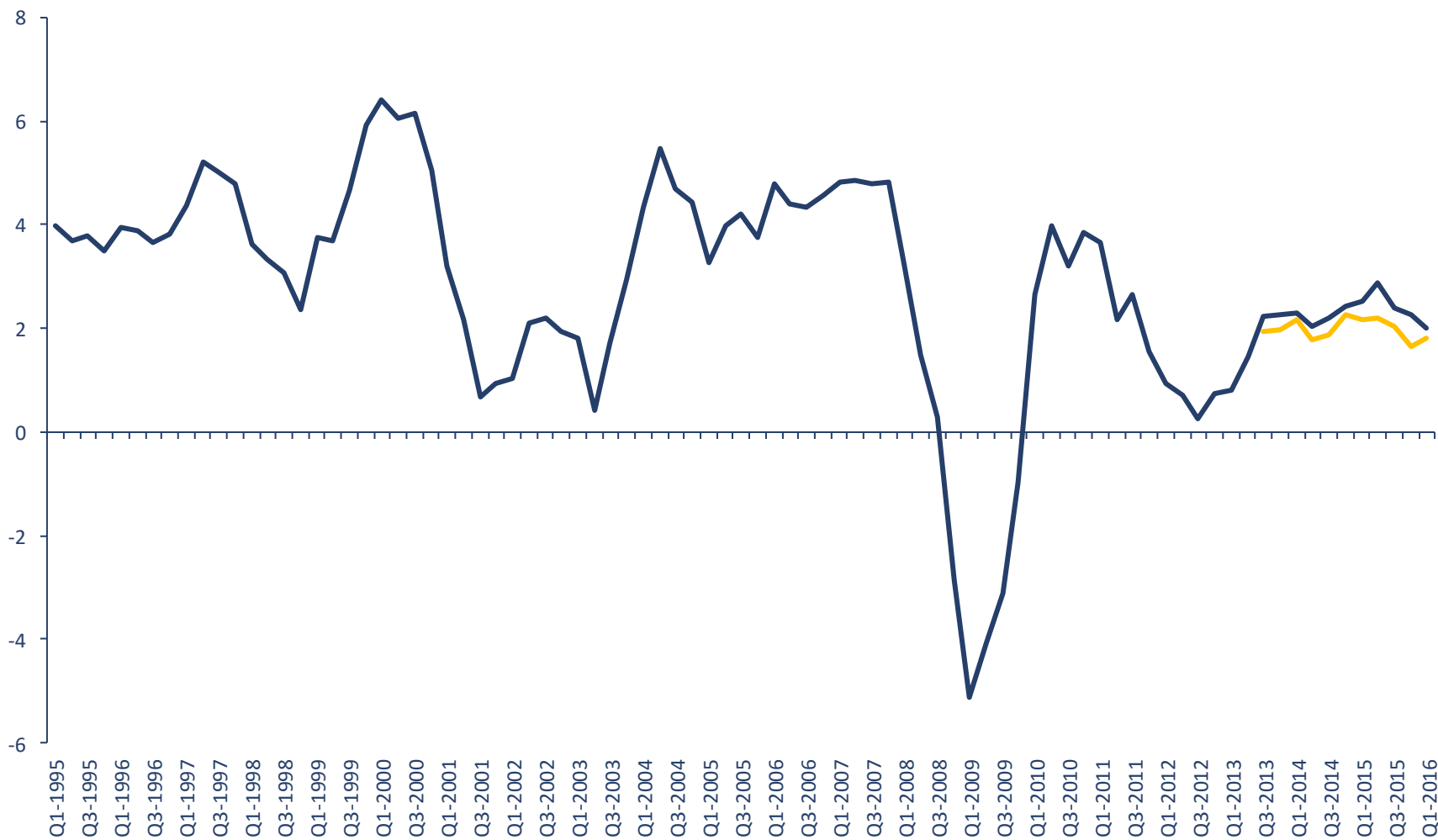
Real GDP growth, % difference, 2011-15 v 2002-07



Source: IMF World Economic Outlook, April 2016; Landfall Strategy Group calculations

Small advanced economies growth has stalled at relatively low levels, and has weakened further over the past 18 months

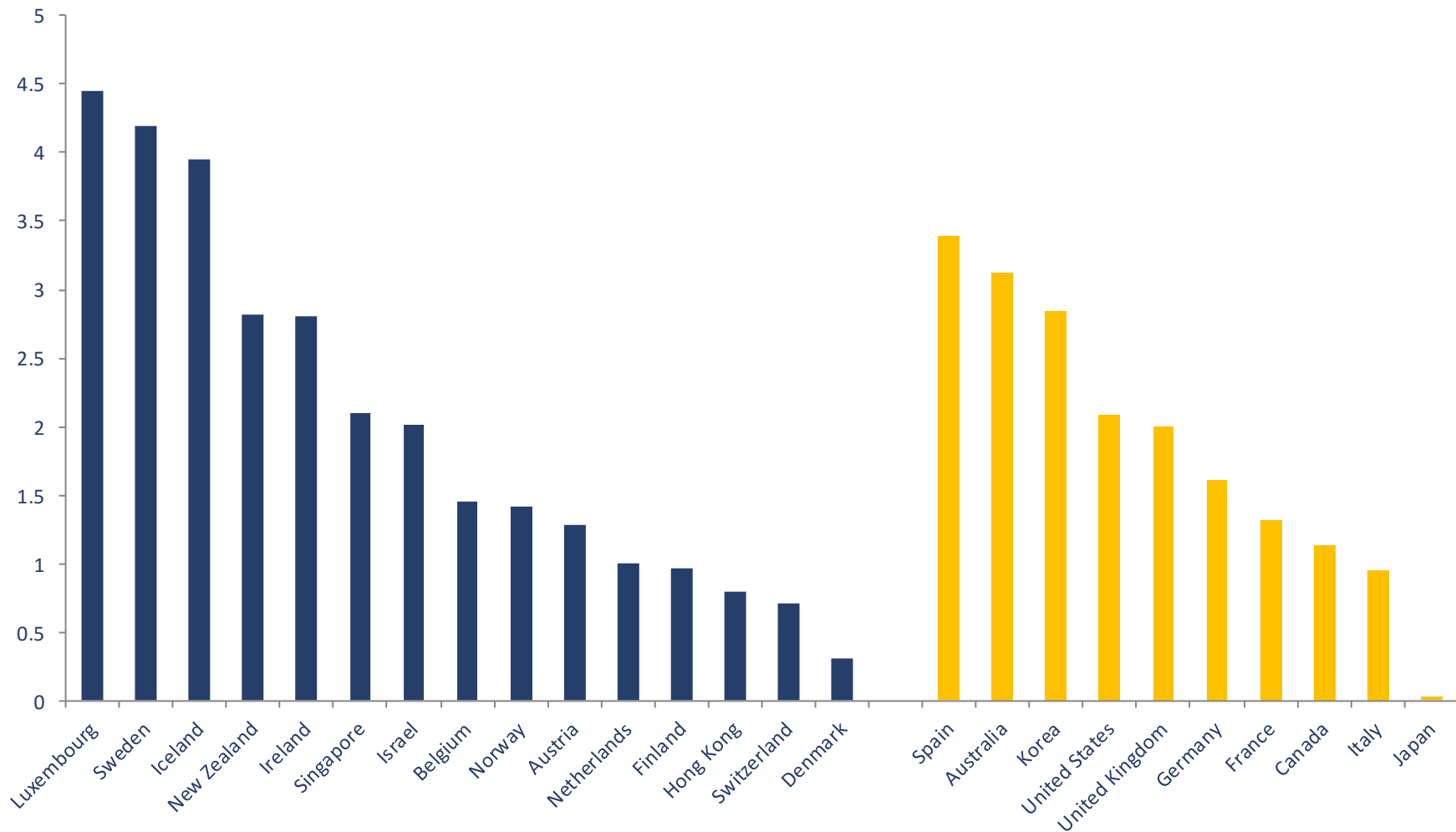
Real GDP growth (sa), %, compared to quarter of previous year, SAE group average and SAE group excl Ireland & Iceland, Q1 1995 – Q1 2016



Source: OECD; SingStat; Hong Kong Census & Statistics Dept; Landfall Strategy Group calculations

Most small advanced economies have growth rates of less than 2% in Q1

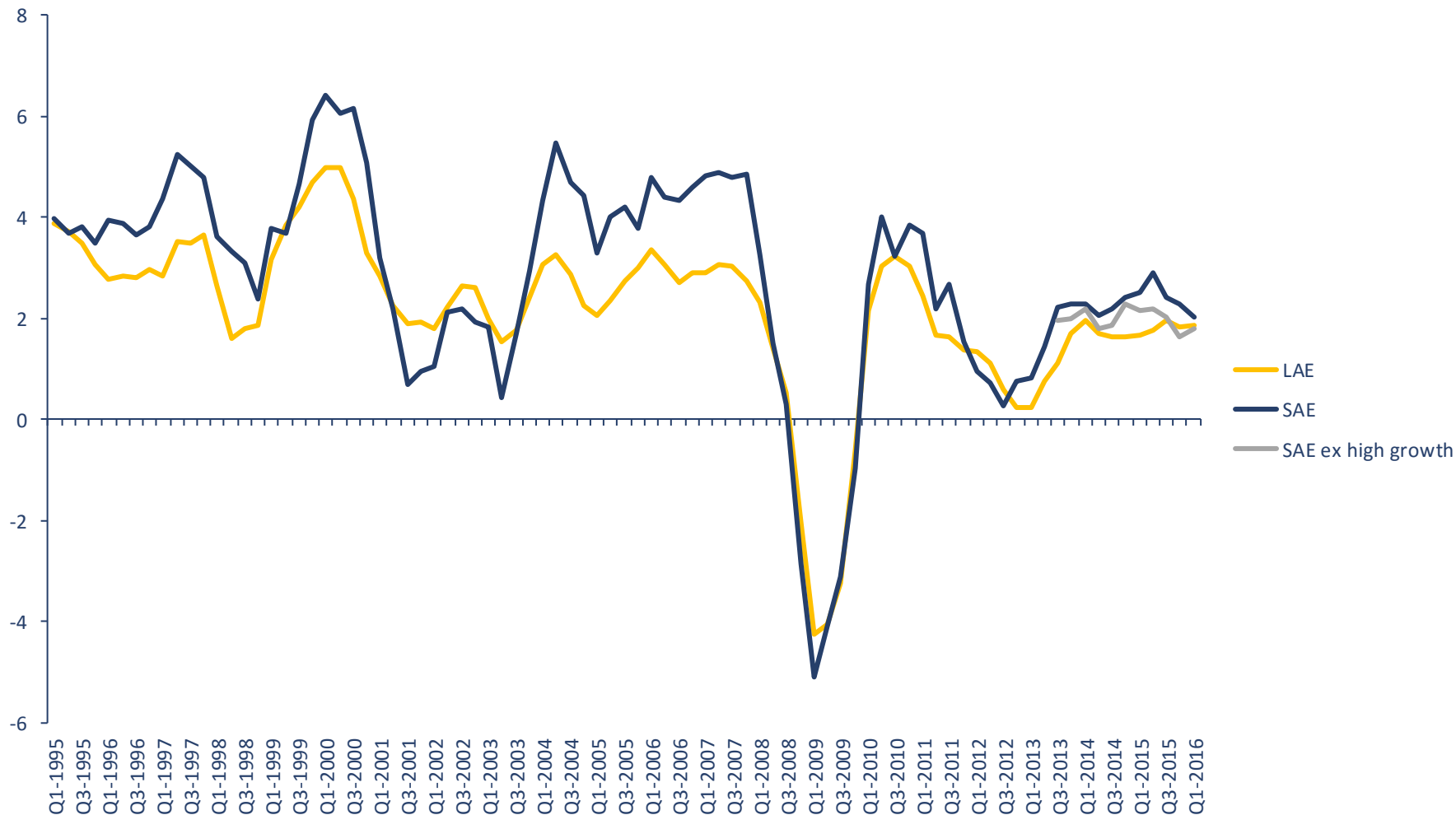
Real GDP growth (sa), %, compared to quarter of previous year, Q1 2016



Source: OECD; SingStat; Hong Kong Census & Statistics Dept; Landfall Strategy Group calculations

Excluding high growth Ireland and Iceland, growth in small advanced economies has converged to the larger economies

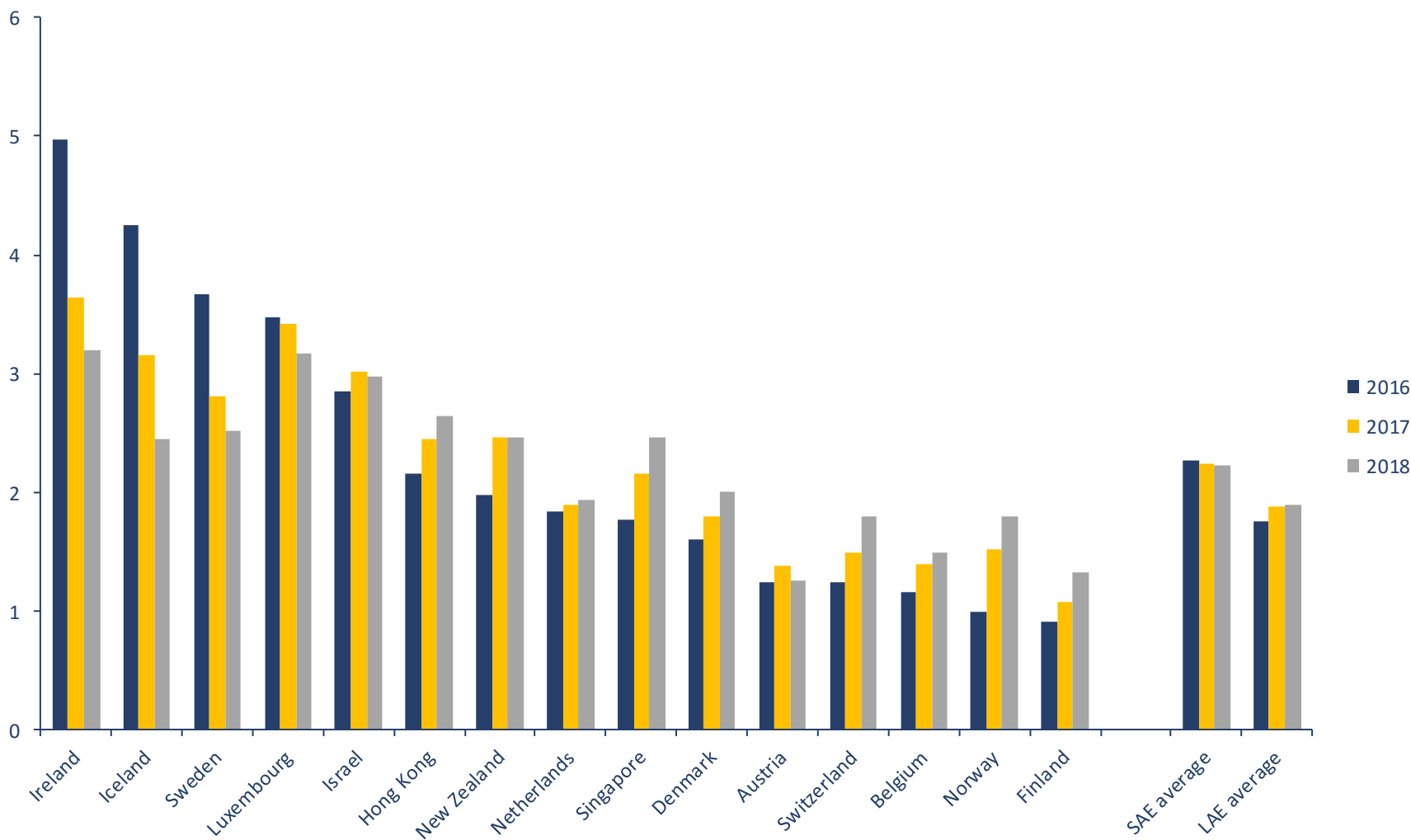
Real GDP growth (sa), %, compared to quarter of previous year, SAE group average and SAE group excl Ireland & Iceland, Q1 1995 – Q1 2016



Source: OECD; SingStat; Hong Kong Census & Statistics Dept; Landfall Strategy Group calculations

The IMF forecast small advanced economy growth rates to strengthen only slightly over the next few years

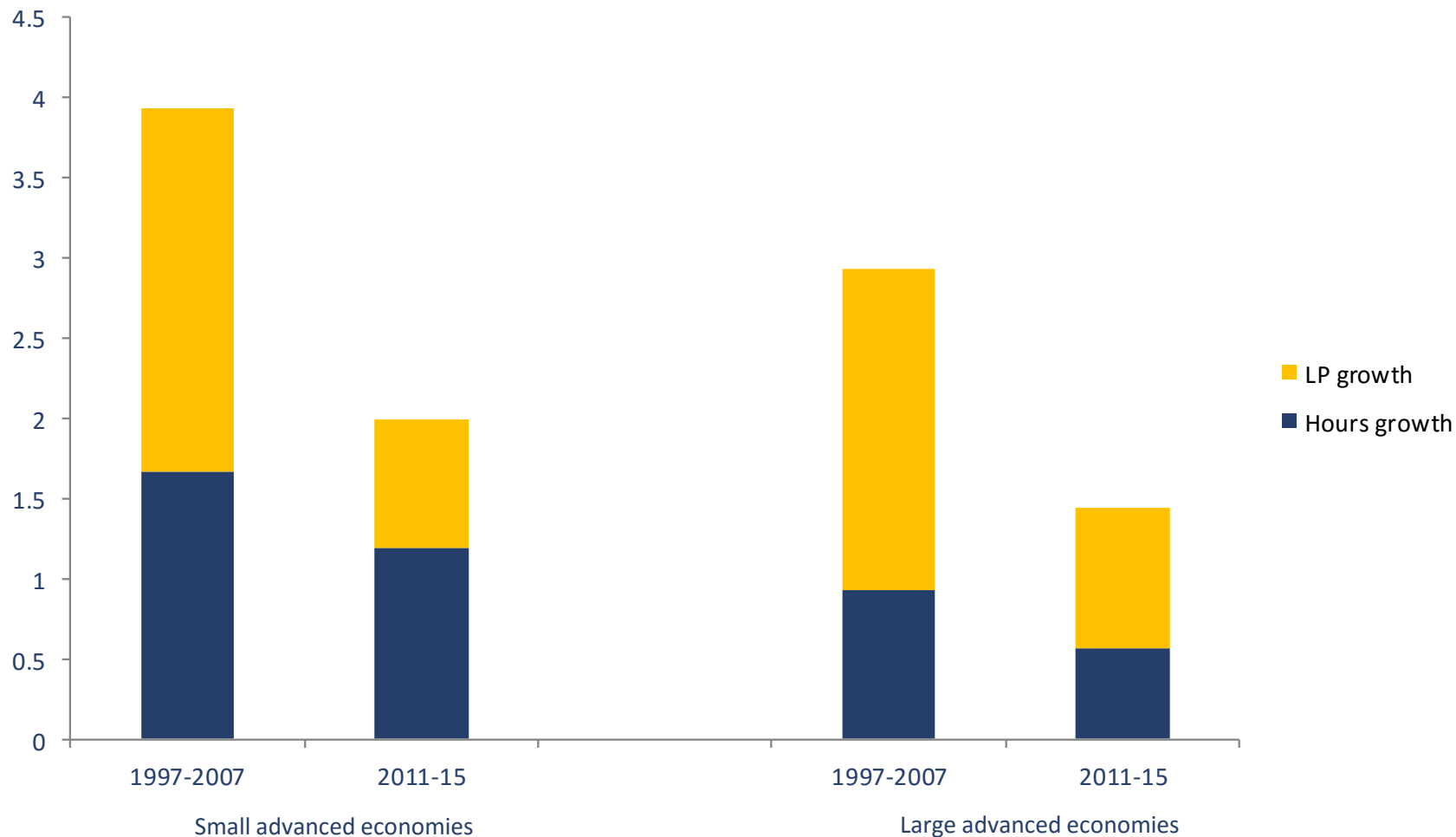
Forecast real GDP growth, %, 2016, 2017, 2018



Source: IMF, World Economic Outlook, April 2016

The post-crisis growth slow-down has come primarily through the productivity channel, particularly for small countries

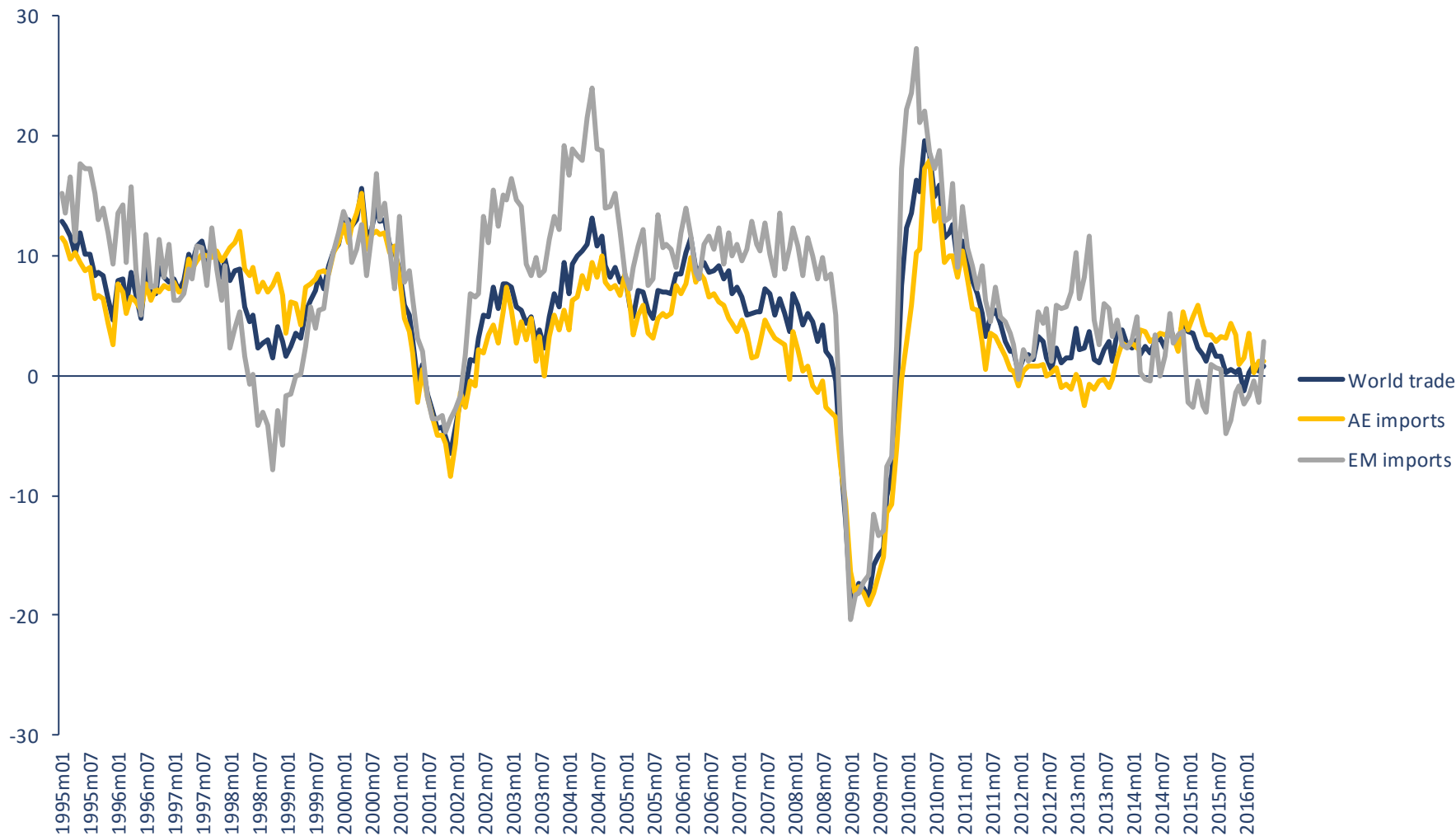
GDP growth decomposition



Source: The Conference Board Total Economy Database, May 2015; Landfall Strategy Group calculations

World trade growth has been weak since the crisis, and particularly over the past 18 months – driven by slowing emerging markets

Trade growth (volume), %, rolling 12 monthly, January 1995 – May 2016



Source: CPB World Trade Monitor, July 2016 (www.cpb.nl); Landfall Strategy Group calculations

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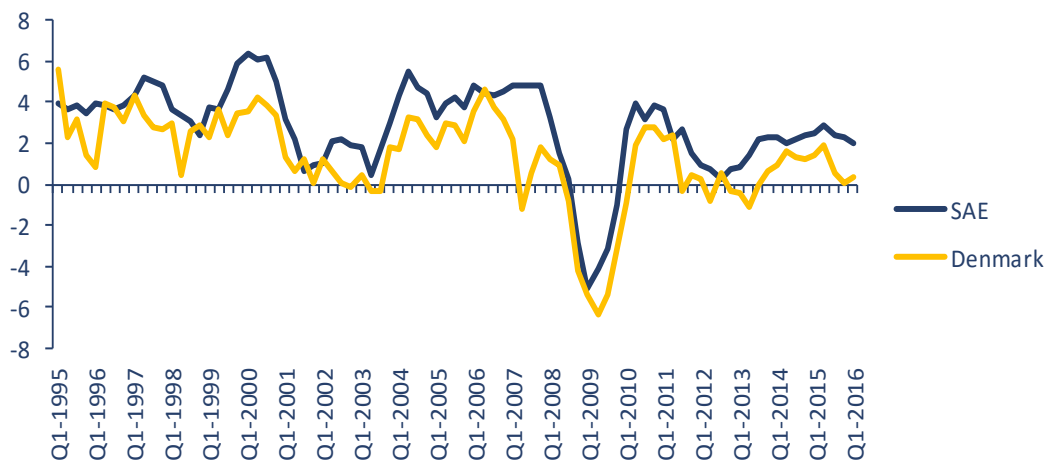
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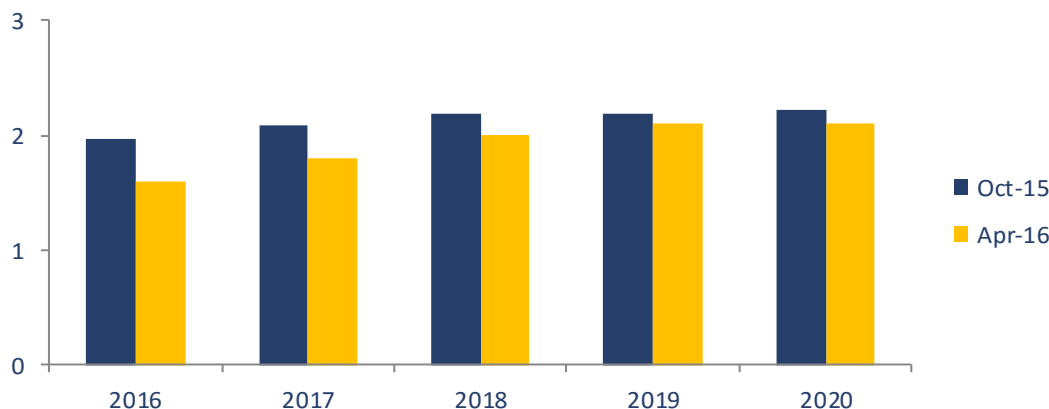
Denmark

GDP growth, Q1 1995 – Q1 2016



Denmark's forecast growth trajectory has been reduced, but remains positive

Forecast real GDP growth, % (April 2016 v October 2015)



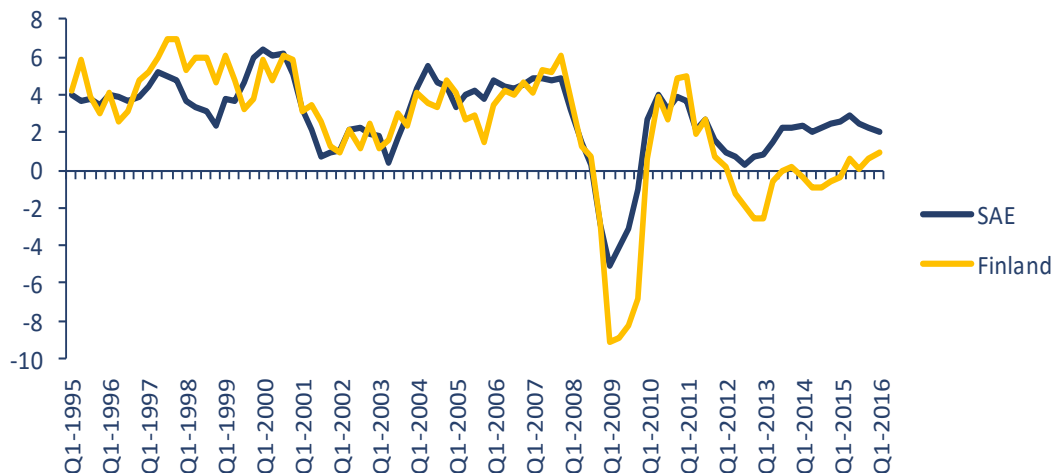
Source: OECD; IMF World Economic Outlook, April 2016

Commentary

- ✦ Danish Q1 growth was revised down to 0.3%, up from 0.1% in Q4 (also revised down). One of the weak points in the GDP data was the export contribution (-2.1% yoy growth in Q1). This weakness may persist given the weakness evident in global trade flows.
- ✦ The IMF has marked down the Danish growth outlook over the 2016-2020 period: and from 2.0% to 1.6% in 2016.
- ✦ Denmark has one of the best performing stock markets among advanced economies.
- ✦ Danish interest rates were raised by 10bp in January to a (still very low) -0.65%, as they maintain the peg against the euro. But the kroner is back to the levels of early 2015 when it last fought off speculation.
- ✦ Danish inflation was 0.3% in the year to June.
- ✦ Fitch affirmed Denmark's 'AAA' credit rating, with a stable outlook (noting the government remains committed to eliminating the structural deficit by 2020).

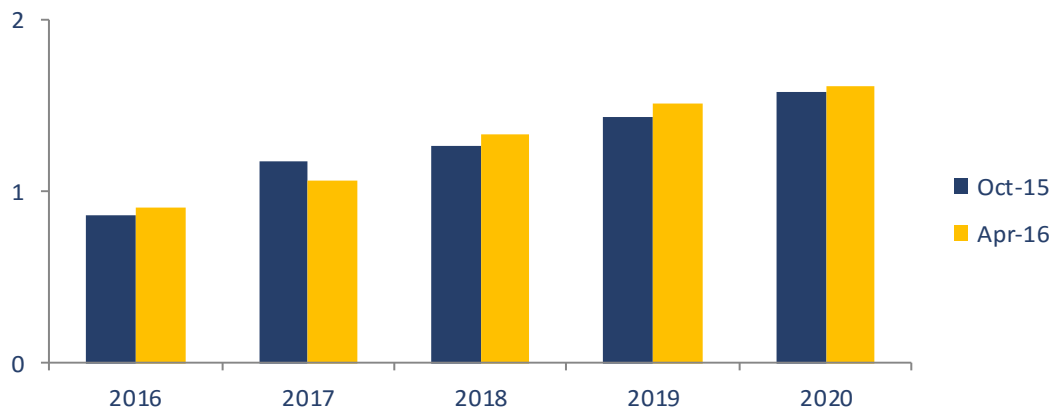
Finland

GDP growth, Q1 1995 – Q1 2016



Finland's growth outlook has been slightly marked up by the IMF

Forecast real GDP growth, %, 2016-2020 (April 2016 v October 2015)



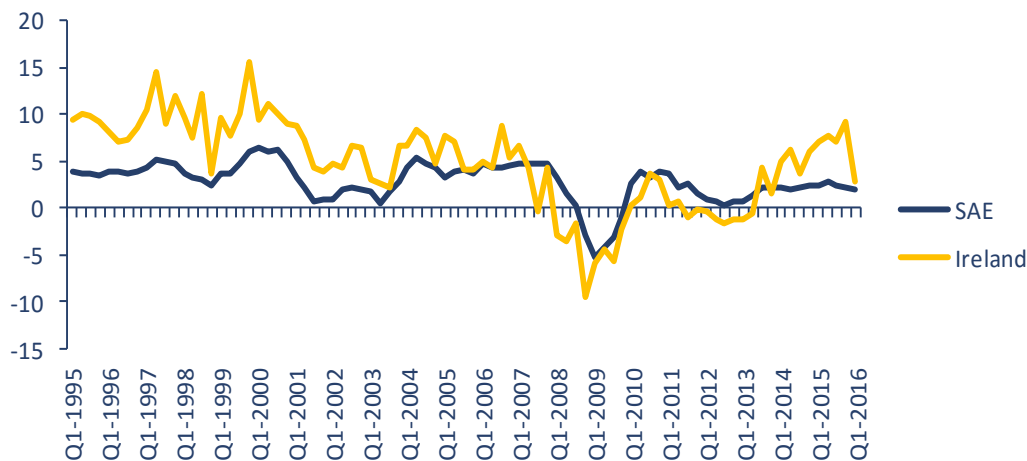
Source: OECD; IMF World Economic Outlook, April 2016

Commentary

- ✦ Finland's GDP grew by a stronger 1.0% in Q4, up from 0.6% in Q4. This lifts Finland off the bottom of the small advanced economies group rankings.
- ✦ The IMF has modestly raised its estimate of Finland's growth outlook, suggesting that the economy has bottomed out. Growth is forecast to rise from 0.9% in 2016 to 1.6% in 2020.
- ✦ Finland is continuing its efforts to restore its competitive position through 'internal devaluation'. Labour market reforms are still being discussed: if agreement is not reached, the Finance Minister has warned that change will be imposed.
- ✦ The OECD economic survey of Finland noted weak productivity and rising costs that compounded has just been released. Economy Minister Olli Rehn estimated a 10-15% competitiveness gap with Sweden or Germany.
- ✦ Fitch reduced Finland's credit rating from AAA to AA (in line with S&P).

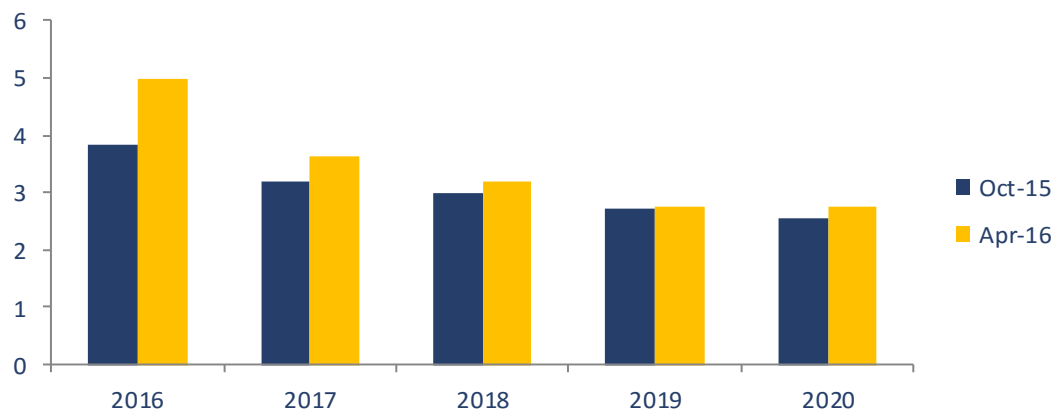
Ireland

GDP growth, Q1 1995 – Q1 2016



Ireland's growth trajectory is marked up again, reflecting an ongoing strong recovery

Forecast real GDP growth, %, 2016-2020 (April 2016 v October 2015)



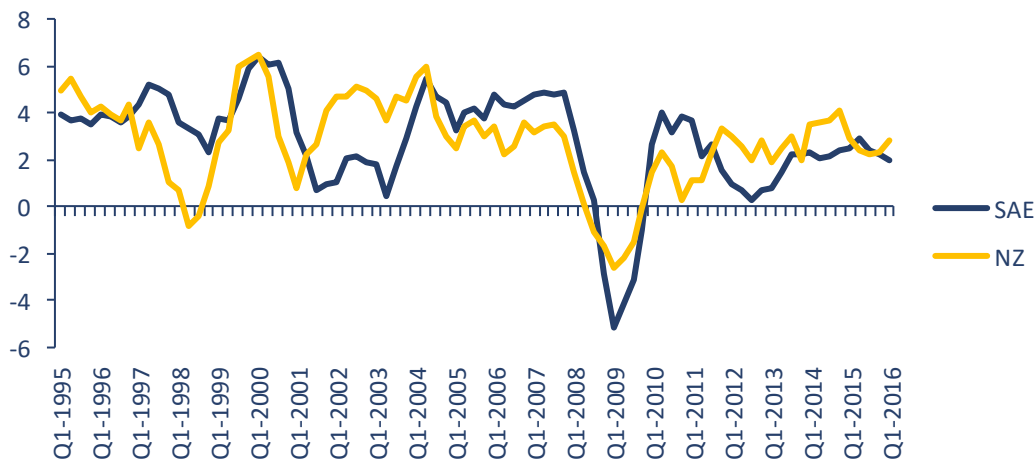
Source: OECD; IMF World Economic Outlook, April 2016

Commentary

- ✦ Ireland's Q1 2016 GDP growth reduced to 2.8%, after a remarkable 9.3% in Q4. Quarterly growth in Q1 was -2.1%. There was also a substantial upward revision in Irish GDP growth for 2015 (to 26%), reflecting substantial foreign investment into Ireland, although not all of this reflects actual economic activity in Ireland. [I exclude these revisions from the data]
- ✦ The IMF increased its 2016 growth forecast from 3.8% to 5%, and also increased its growth outlook for the subsequent years: growth is expected to settle at just under 3%.
- ✦ Ireland's unemployment continues to reduce. Unemployment came in at 7.8% in June, down from 9.8% 12 months ago.
- ✦ The Brexit vote is a major source of strategic risk for the Irish economy. The Irish stock market is down more sharply than most European indices.
- ✦ Ireland has issued a 100 year government bond, a notable milestone after the crisis (at a yield of just 2.35%).

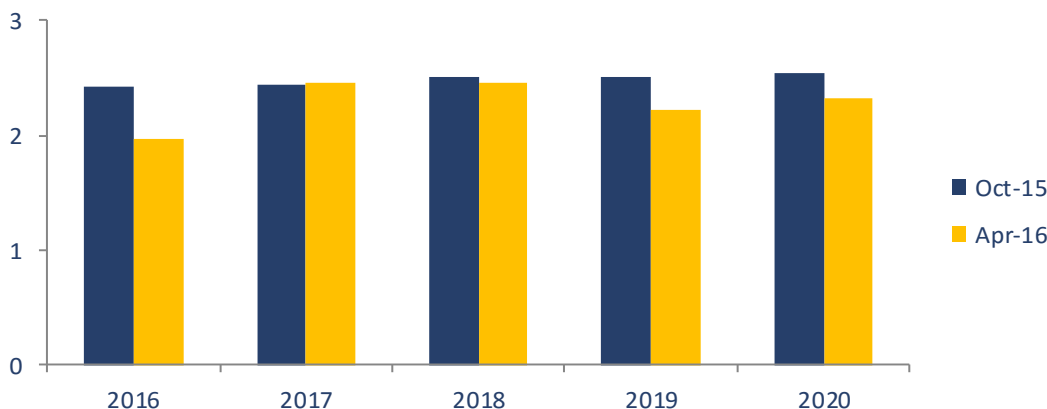
New Zealand

GDP growth, Q1 1995 – Q1 2016



New Zealand's growth outlook has been lowered, particularly for 2016

Forecast real GDP growth, %, 2016-2020 (April 2016 v October 2015)



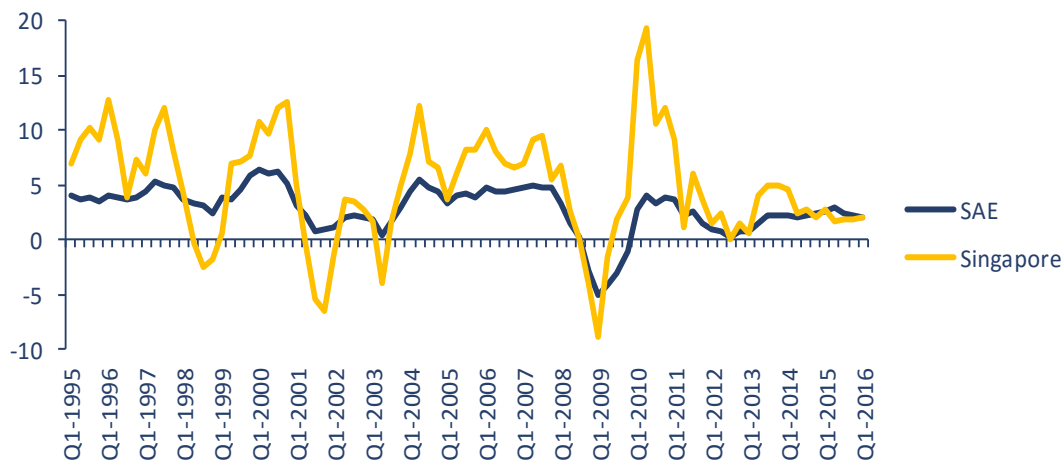
Source: OECD; IMF World Economic Outlook, April 2016

Commentary

- ✦ Q1 GDP growth was reported at 2.8%, up from 2.3% Q3. Ongoing record migration arrivals (~1.3% of population) are supporting GDP growth. Dairy prices continue to reduce significantly, but tourism is growing strongly.
- ✦ The IMF has lowered its 2016 growth forecast by about 0.5%, relative to the October forecast, to 2.0%. The growth outlook is also slightly softer than previously forecast.
- ✦ New Zealand's unemployment rate fell to 5.2% in March, beating expectations.
- ✦ A fiscal surplus (NZD 2.3b) was reported for the 11 months to February, ahead of forecast on strong tax revenue growth.
- ✦ The RBNZ continues to signal loose monetary policy, with a further rates cut expected in August to address a high NZD and low inflation. Housing prices continue to accelerate, creating financial stability risks: further macro-prudential policy measures have been announced.

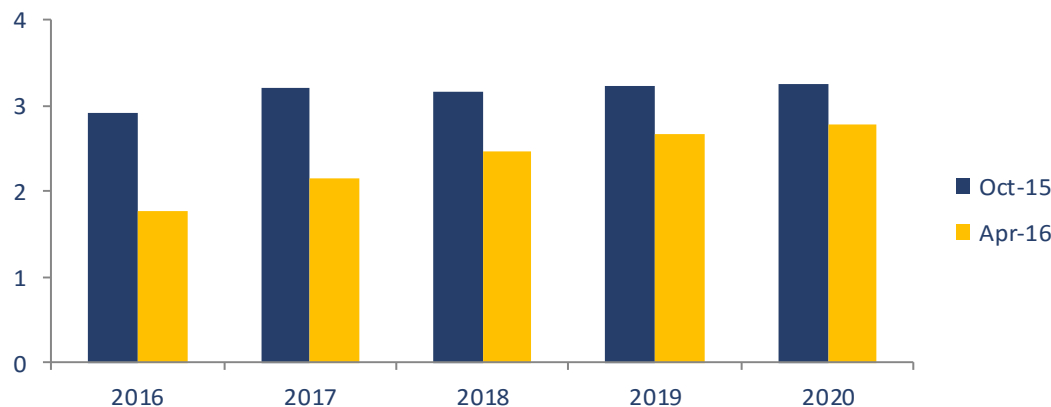
Singapore

GDP growth, Q1 1995 – Q1 2016



Singapore's growth outlook has been marked down significantly

Forecast real GDP growth, %, 2016-2020 (April 2016 v October 2015)



Source: OECD; IMF World Economic Outlook, April 2016

Commentary

- ✦ Q1 GDP growth was revised to 2.1%, up from 1.8% in Q4, slightly better than expected. Even so, growth in 2015 was the slowest since 2009.
- ✦ Flash estimates from MTI reported Q2 2016 growth of 2.2%. The official 2016 forecast is for 1-3% growth.
- ✦ Singapore experienced the largest downward IMF revision of forecast 2016 growth: down from 2.9% in October to 1.8% in the April Outlook. Growth in future years has also been marked down sharply, by an average of 0.8% over the 2016-2020 period.
- ✦ The MAS eased monetary policy in April, setting the exchange rate appreciation path to zero, citing a weak growth and inflation outlook.
- ✦ Singapore's non oil domestic exports (NODX) shrank 2.3% in the year to June.
- ✦ The Singapore Budget, delivered in March, raising spending by over 7% (including increased investments to support industrial transformation).

Landfall Strategy Group

Landfall Strategy Group is a Singapore-based research and advisory firm that provides insight and advice on economic, policy and geopolitical issues that face small advanced economies. Our unique focus on understanding the behaviour, performance and outlook across small advanced economies provides the basis for distinctive perspectives on issues facing specific small advanced economies, as well as on emerging global and regional developments.

Landfall Strategy Group's clients are governments, firms, and financial institutions in small advanced economies, as well as those in other countries that value a small country view on the global outlook. The core belief is that a small advanced economies perspective adds substantial new value: small advanced economies share many common characteristics; are not scaled-down versions of large economies; and serve as the canaries in the mine of the global economy.

In addition to this monthly small advanced economies tracking update, we prepare regular client notes on emerging economic and policy issues across the small advanced economies group, in-depth analysis of priority issues, and commissioned research on economic and policy issues that are specific to particular small advanced economies (often involving benchmarking against other small advanced economies). Please contact me if you would like to learn more about these services.

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