

Small States Economic Development

Liechtenstein

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Economic Development – Historical Background

- **Overview**

- The principality of Liechtenstein used to be very poor, but turned to a very wealthy and modern country during second half of 20th century

- **Economic history**

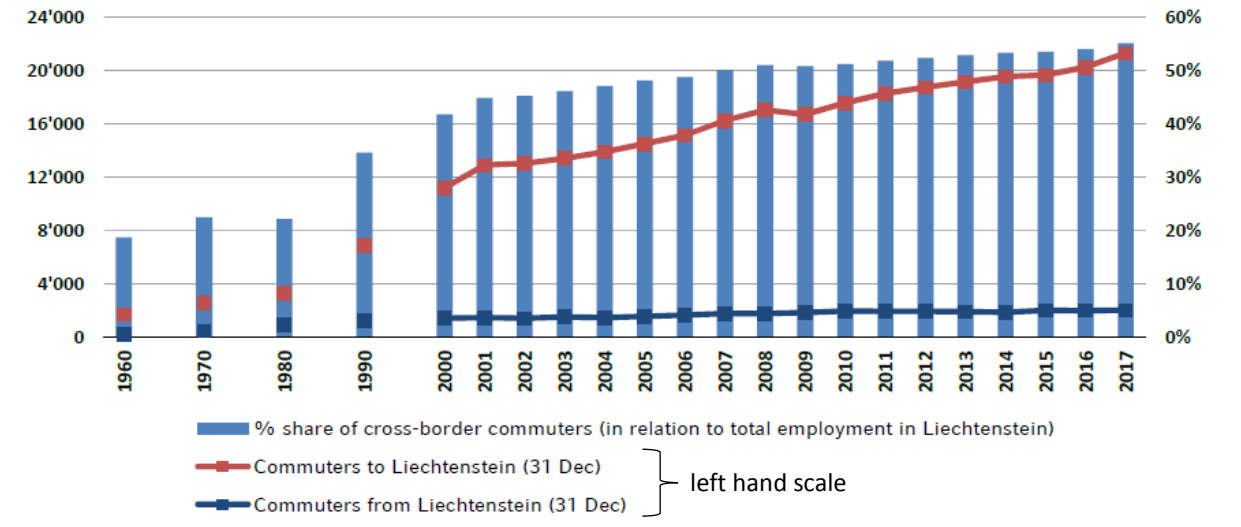
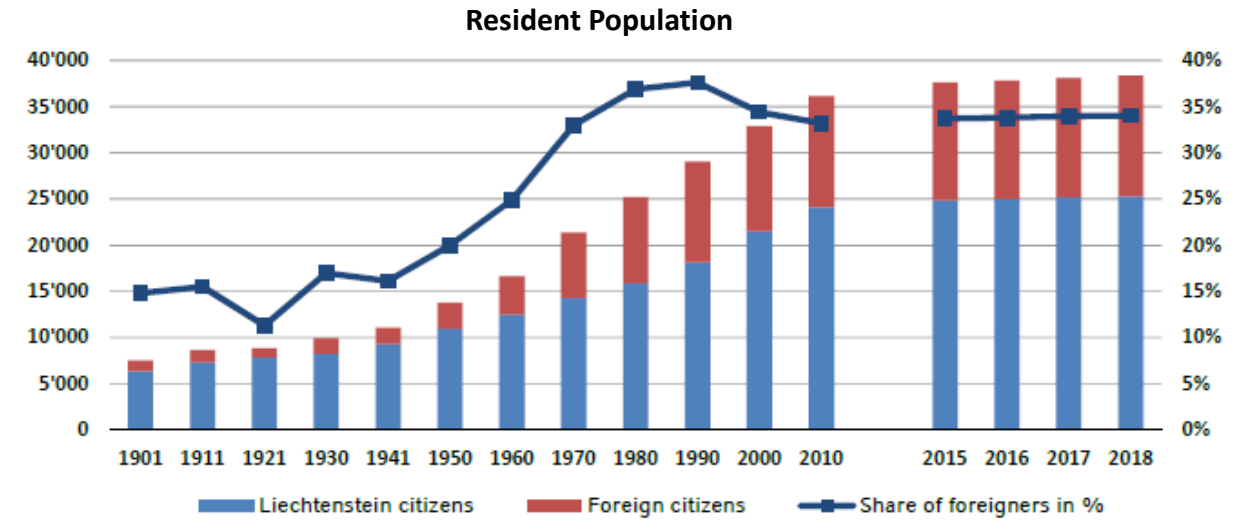
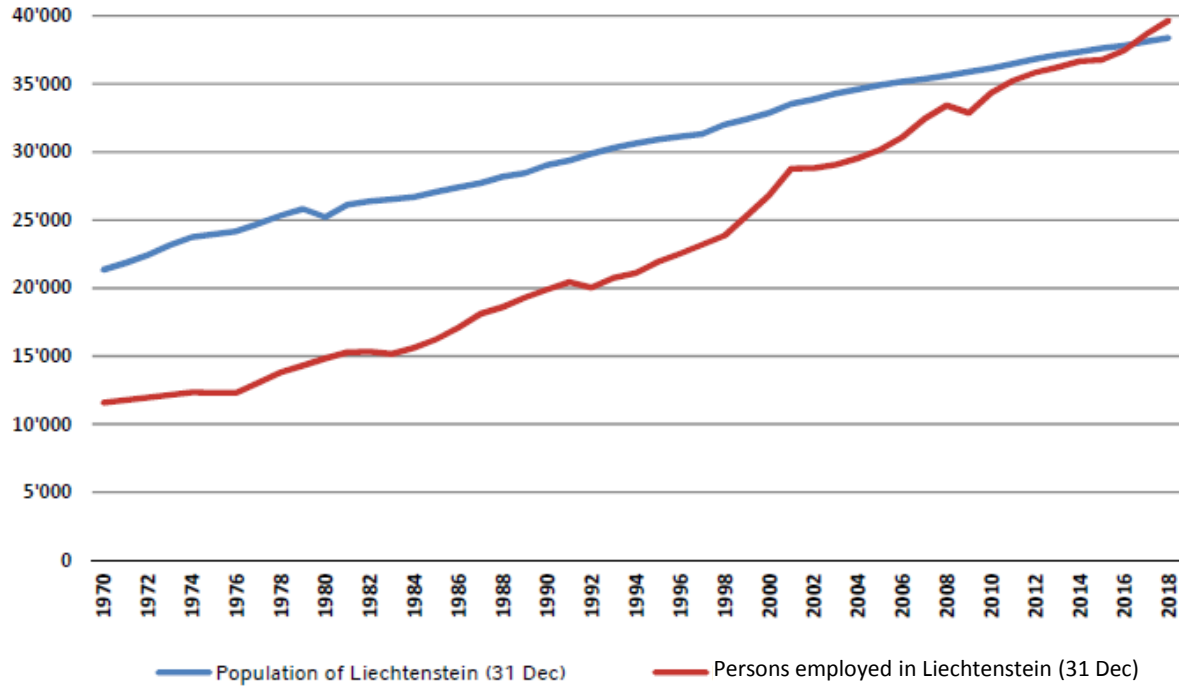
- Late (and weak) industrialization by the end of the 19th century (textile industry)
- Second wave of industrialization (machinery etc.) before/after World War II
- 1950/60ies: Launch of a boom in financial services sector

- **Economic structure**

- Highly diversified goods exports sector (machinery/tools, metal processing, etc.)
- Industrial sector accounts for almost 50% percent of gross value added, (GVA) financial sector still important (about 20% of total GVA)
- More employees than inhabitants (persistent increase of daily inward commuters)!

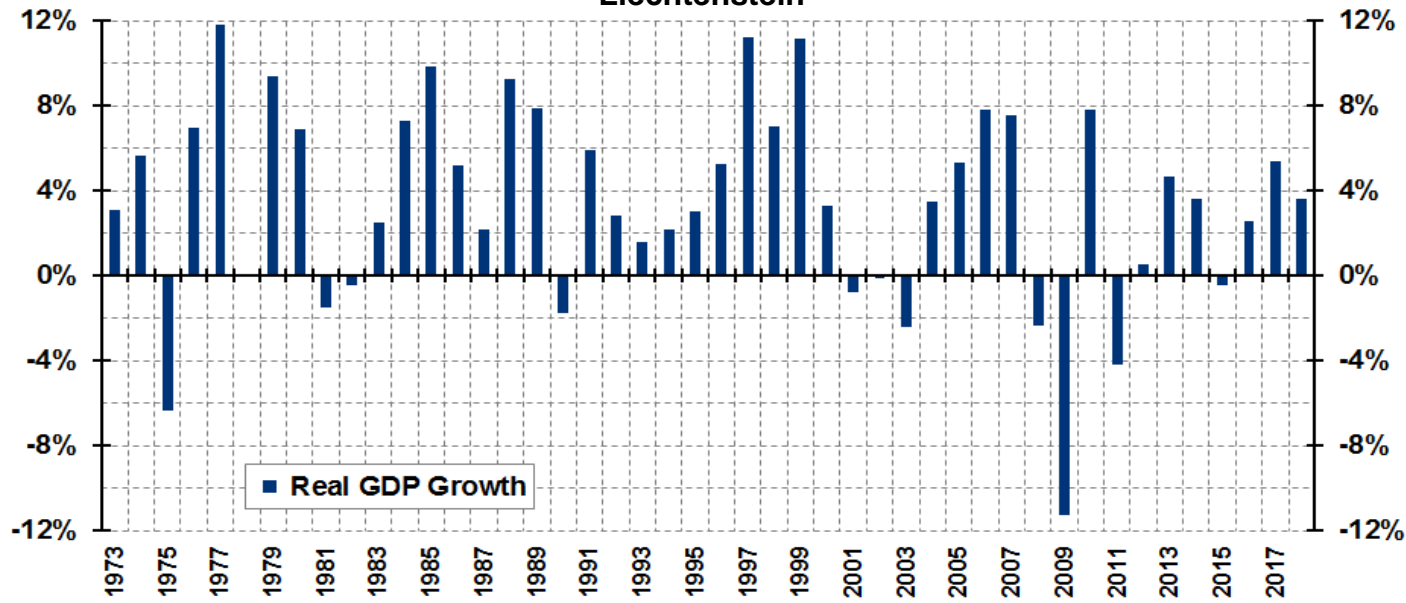
- **Economic trend**

- Growth trend has slowed down considerably in new millennium, especially after financial crisis (strong recovery since 2012)



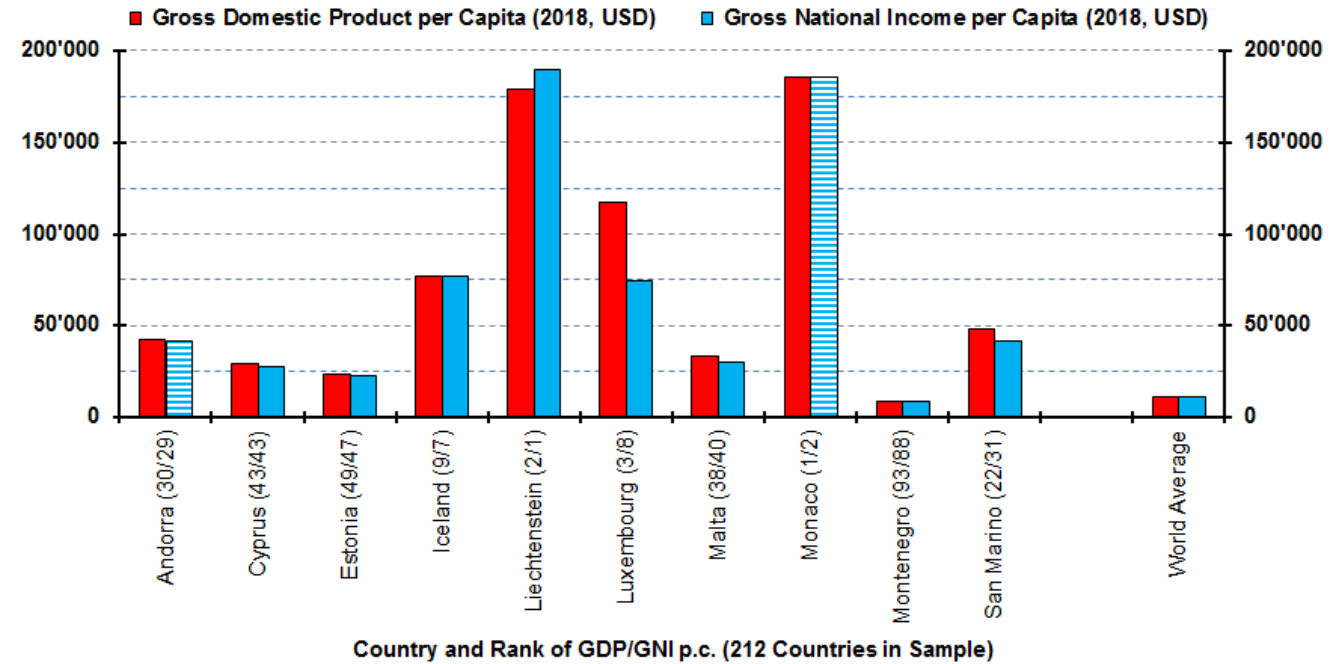
Sources: All three charts from "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)

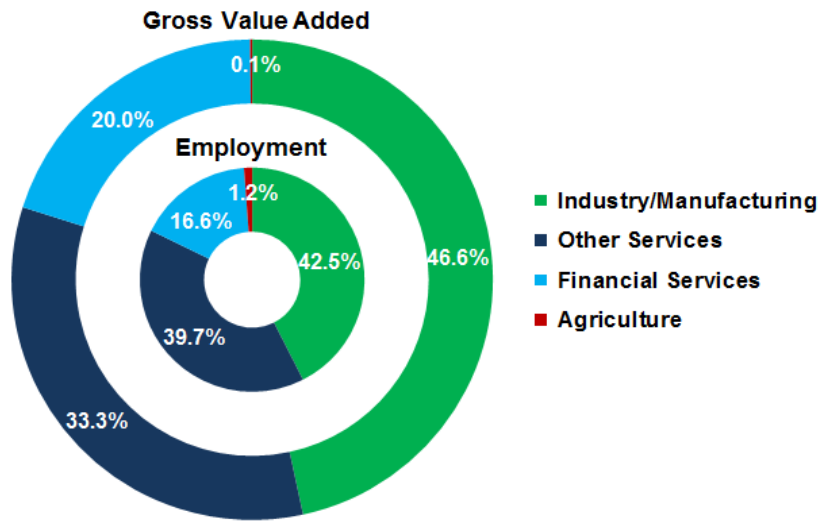
Liechtenstein



Source: Own calculations based on nominal national accounts figures (Office of Statistics)

Source: National Accounts Main Aggregates Database (UN)

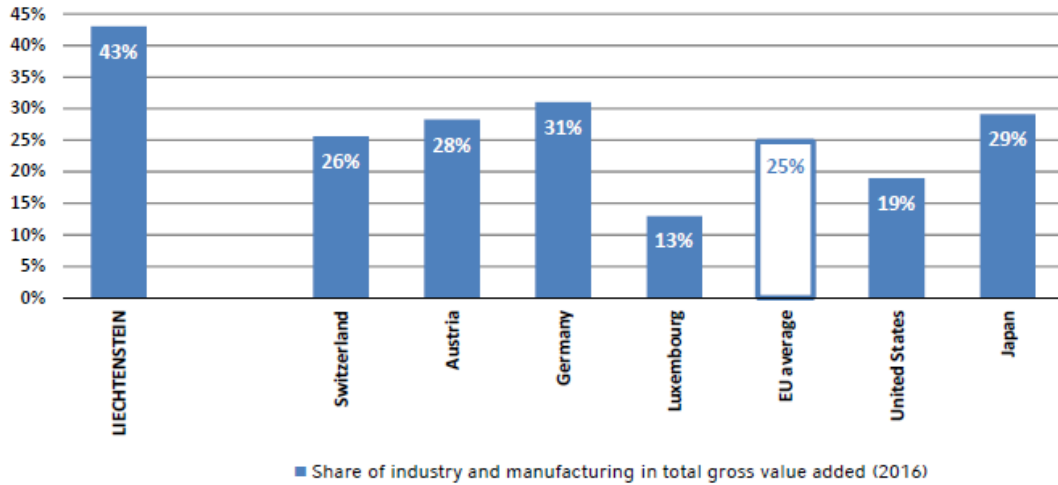




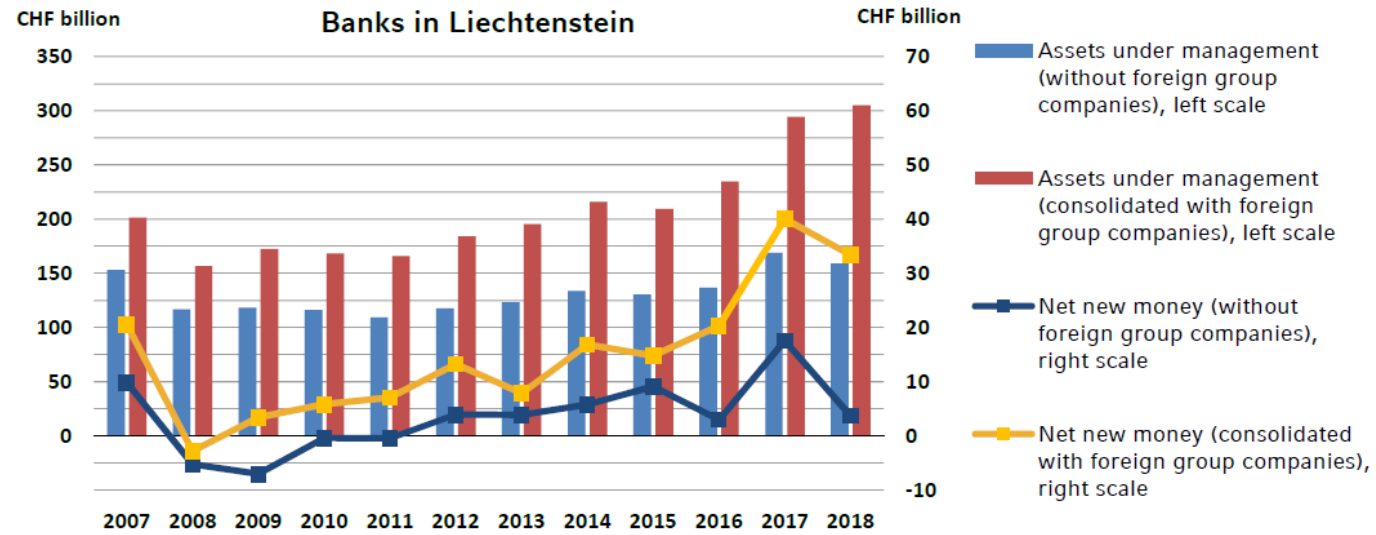
Source: Own calculations based on national accounts (Office of Statistics)

Enterprises and work-places by company size (2017)	1 to 9 workplaces		10 to 49 workplaces		50 to 249 workplaces		250+ workplaces	
	Enter-prises	Work-places	Enter-prises	Work-places	Enter-prises	Work-places	Enter-prises	Work-places
Agriculture	92	197	3	44	0	0	0	0
Industry/ manufacturing	453	1'270	119	2'558	24	2'658	8	8'273
General services	3'026	6'305	217	4'275	60	5'310	5	2'495
Financial services	583	1'641	104	2'000	12	1'023	4	1'975

Source: "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)

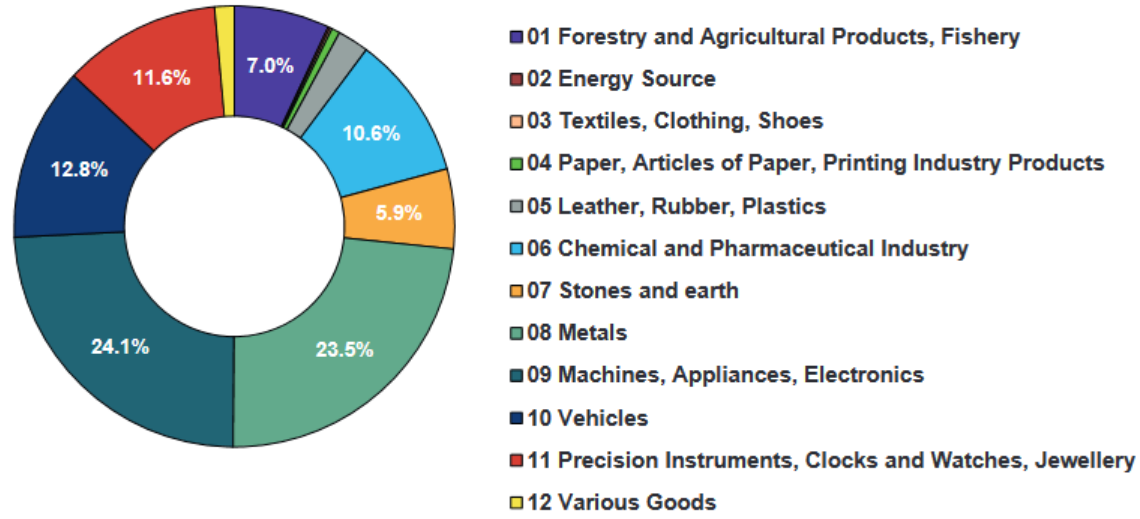


Source: "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)



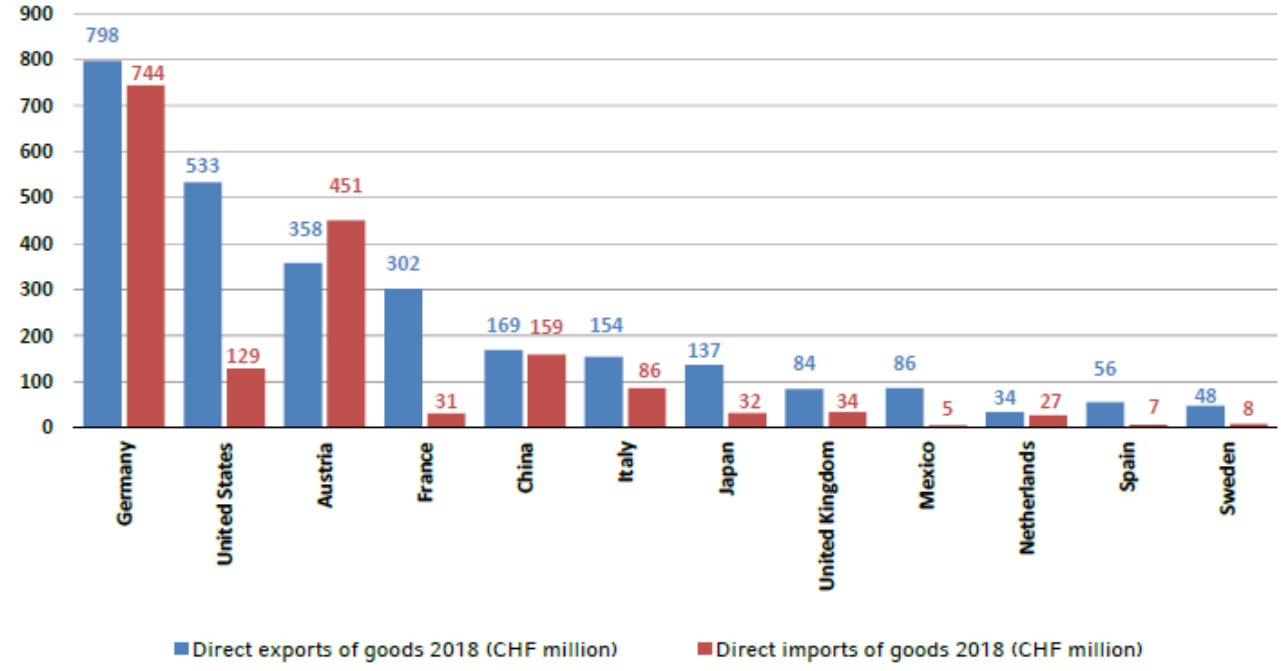
Source: "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)

**Goods Exports Liechtenstein
(Product Group Shares, Average 2009–2018)**



Source: Trade statistics (Office of Statistics)

Liechtenstein trade in goods



Source: Trade statistics (Office of Statistics)

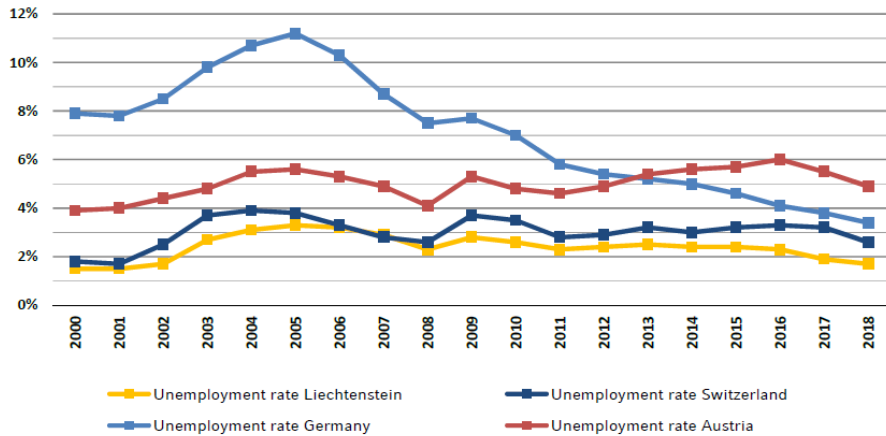
Trade in goods 2018	Liechtenstein	Switzerland	Austria	Germany	Luxembourg	Iceland
Imports of goods (€ billion)	1.8	239.0	155.6	1'029.7	20.2	6.0
Exports of goods (€ billion)	3.1	265.6	148.8	1'281.9	14.0	4.7
GDP (€ billion)	5.7	601.4	369.9	3'277.3	55.3	21.7
Export ratio	53.8%	44.2%	40.2%	39.1%	25.3%	21.7%
Foreign trade ratio	85.3%	83.9%	82.3%	70.5%	61.8%	49.3%

Export ratio: exports/GDP. Foreign trade ratio: (exports+imports)/GDP.

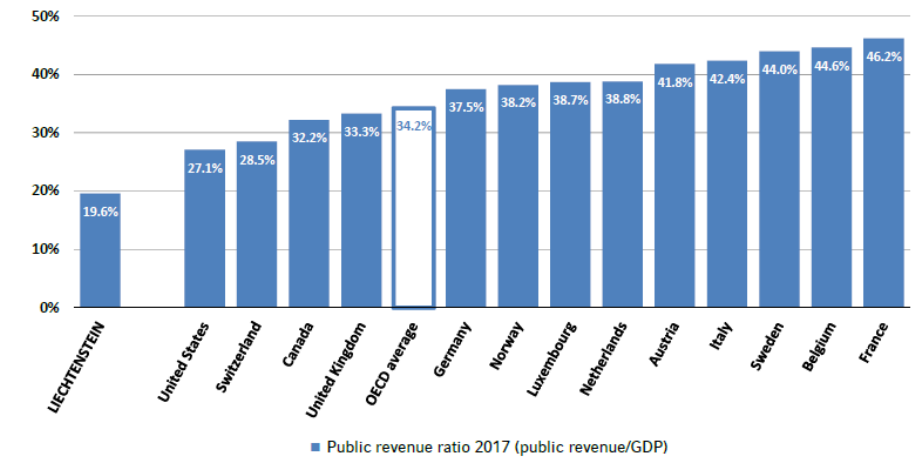
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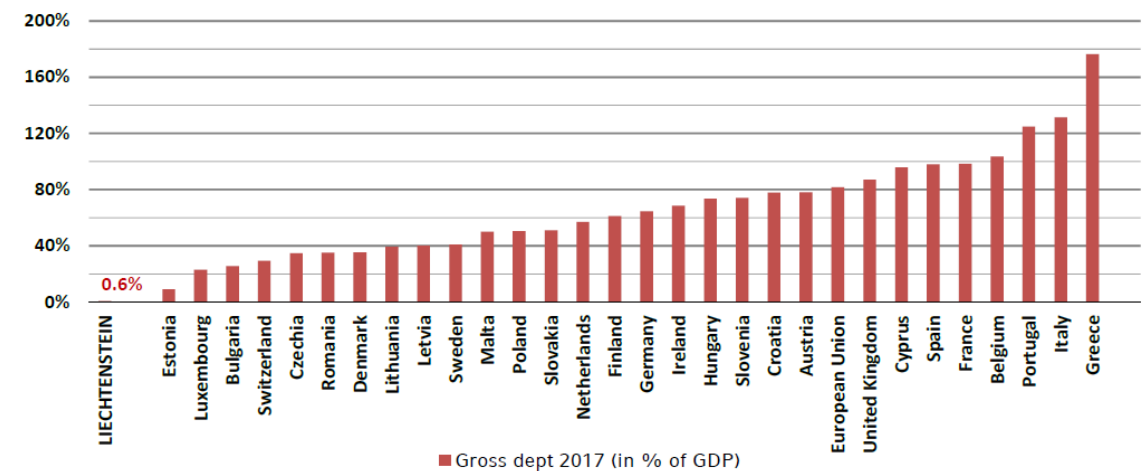
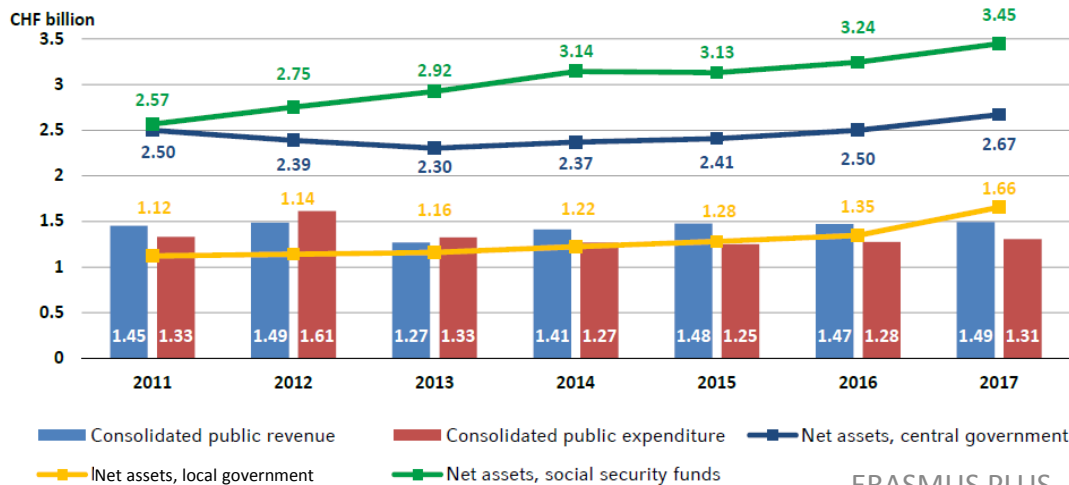
Economic Development – Country overview



Public revenue ratio

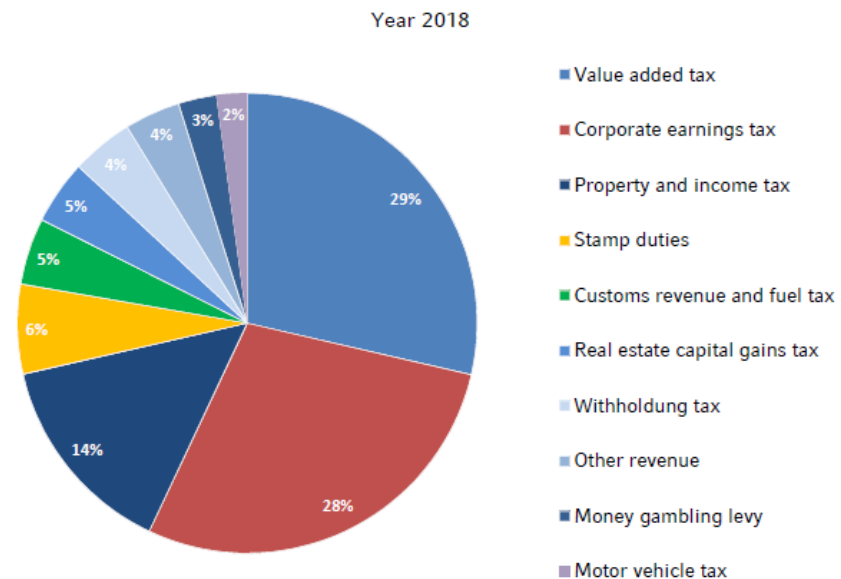


Source: All four graphs from "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)

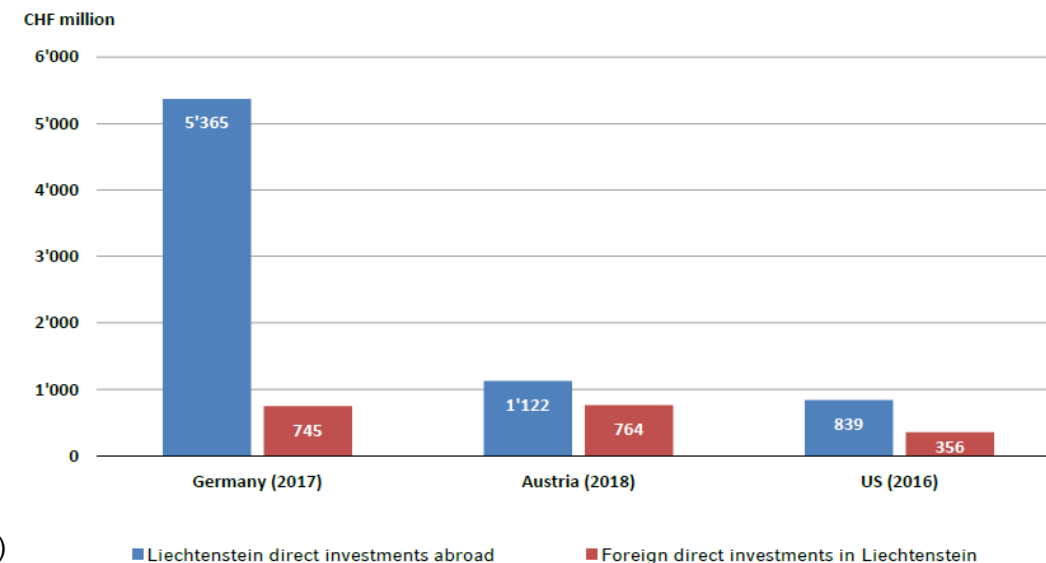
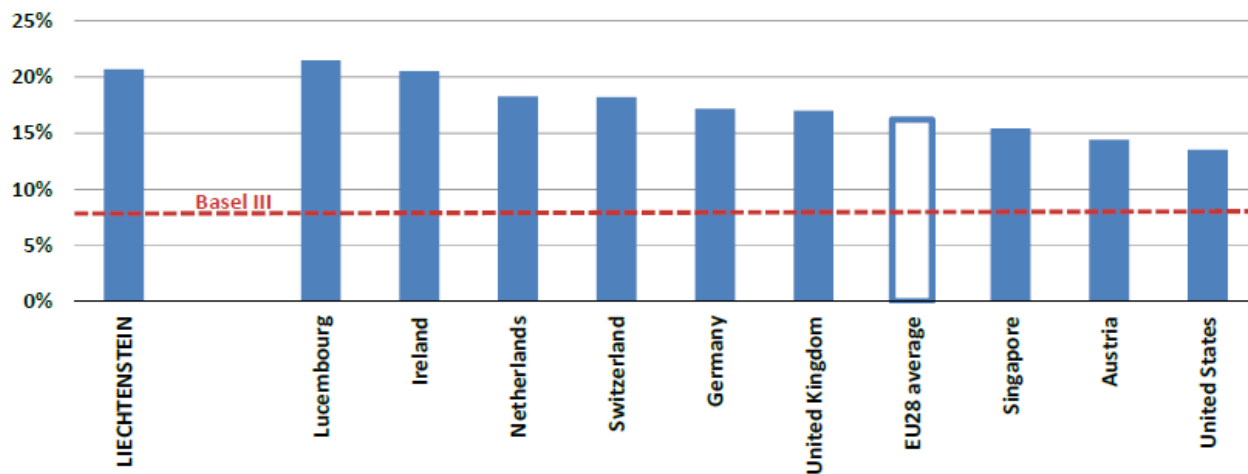


Standard & Poor's	S&P-rating	Population 2017	Area (km ²)	GDP 2017 (USD billion)	GDP/capita 2017 (USD)
LIECHTENSTEIN	AAA	37'922	160	6.3	166'022
Australia	AAA	24'450'561	7'741'200	1'408.7	66'545
Denmark	AAA	5'733'551	43'094	329.9	57'533
Germany	AAA	82'114'224	357'022	3'693.2	44'976
Canada	AAA	36'624'199	9'984'670	1'647.1	44'974
Luxembourg	AAA	583'455	2'586	62.3	106'806
Netherlands	AAA	17'035'938	41'543	830.6	48'754
Norway	AAA	5'305'383	323'802	399.5	75'295
Singapore	AAA	5'708'844	719	323.9	56'737
Sweden	AAA	9'910'701	450'295	535.6	54'043
Switzerland	AAA	8'476'005	41'277	678.9	80'101

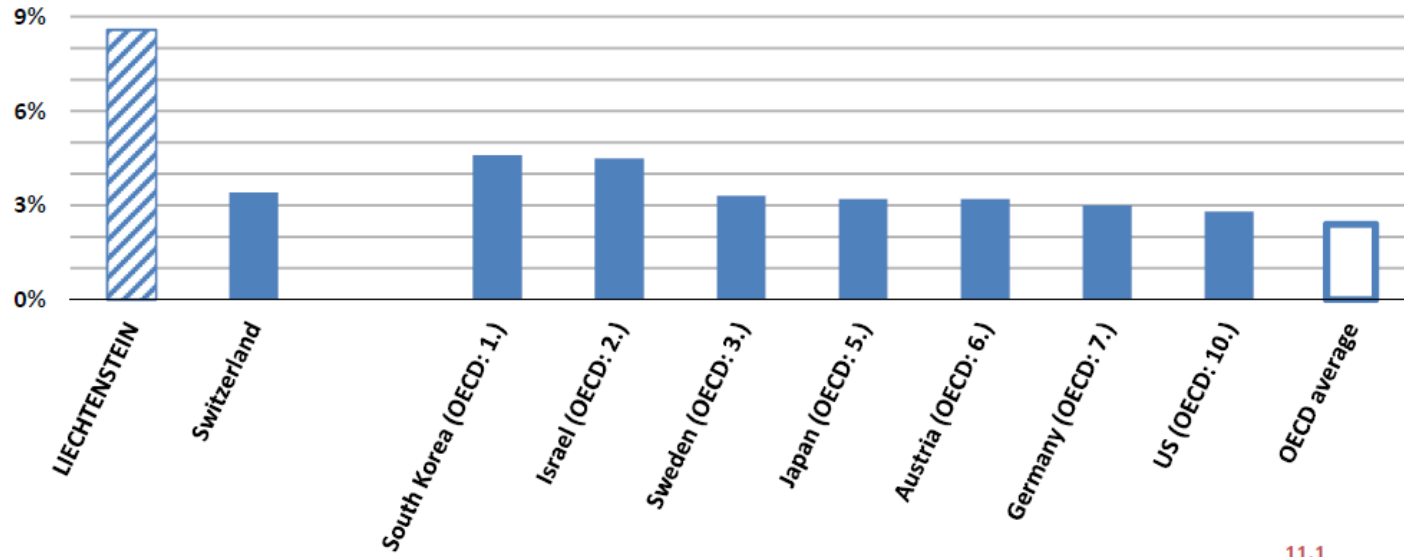
Central government revenue by type of tax



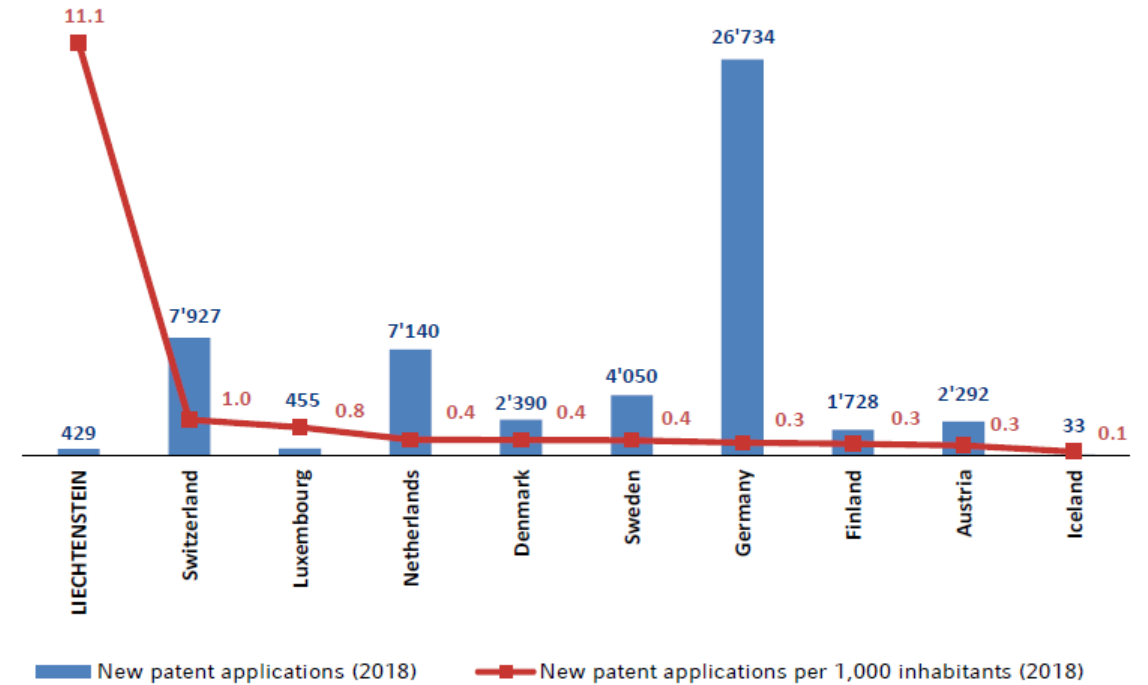
Tier 1 ratio



Source: All tables and graphs from "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)



Research and development spending in relation to GDP 2017.

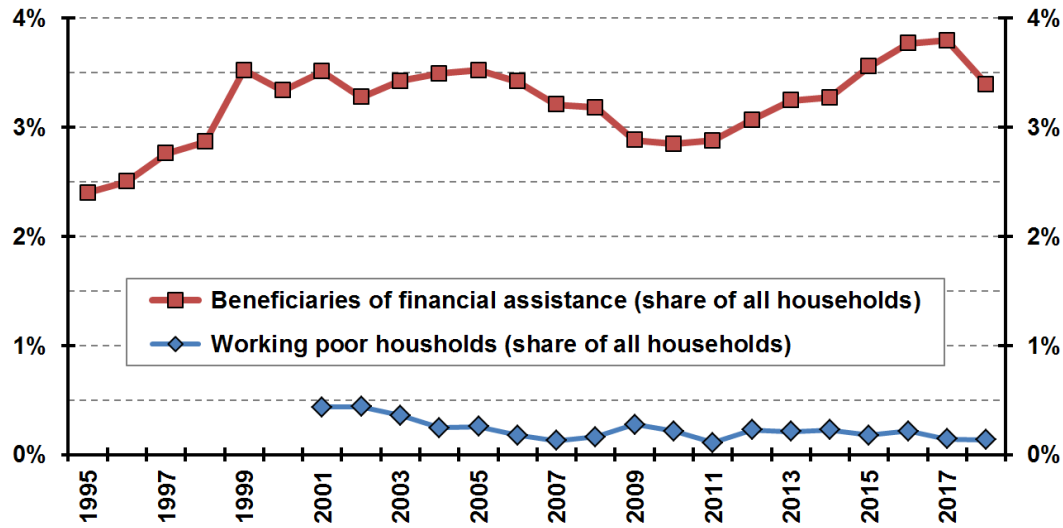
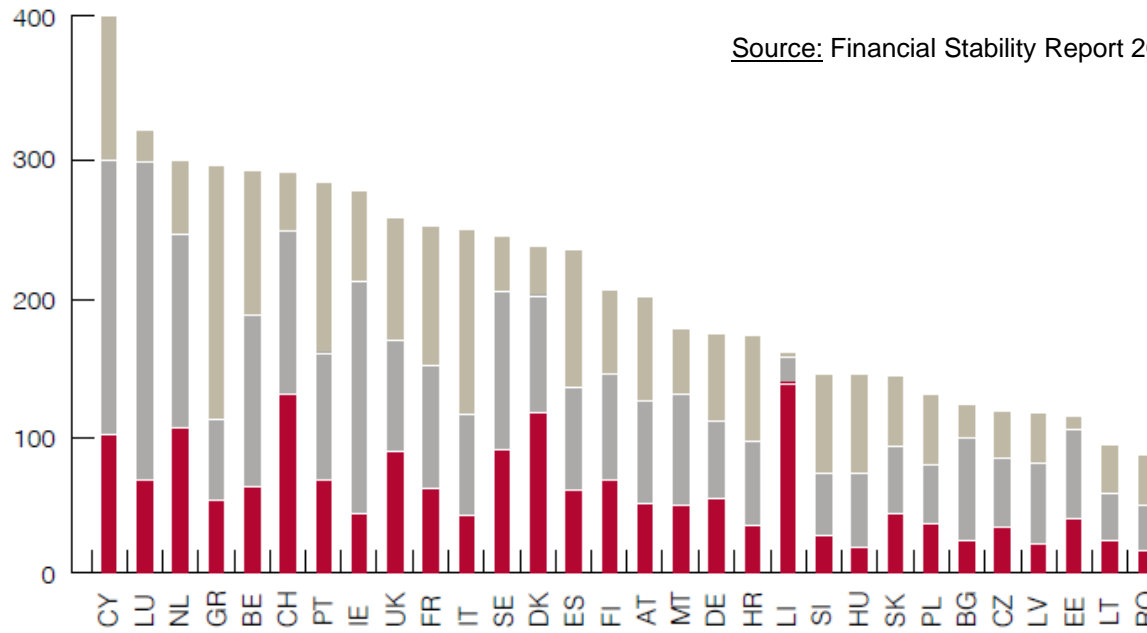


Source: Both graphs from "Economic and financial data on Liechtenstein" 2019 (Liechtenstein Government)

- Households
- Non-financial corporations
- General government

Source: Financial Stability Report 2019 (Financial Market Authority)

Figure 16
Sectoral indebtedness (percent of GDP)
 Source: ESRB, BIS, Office of Statistics, FMA, SNB, BFS. Data for Liechtenstein are estimated from various sources. Data refer to Q4/2018 or latest available.



Source: Own calculations based on data by Office of Statistics

Source: Own computations and tax statistics (Office of Statistics)



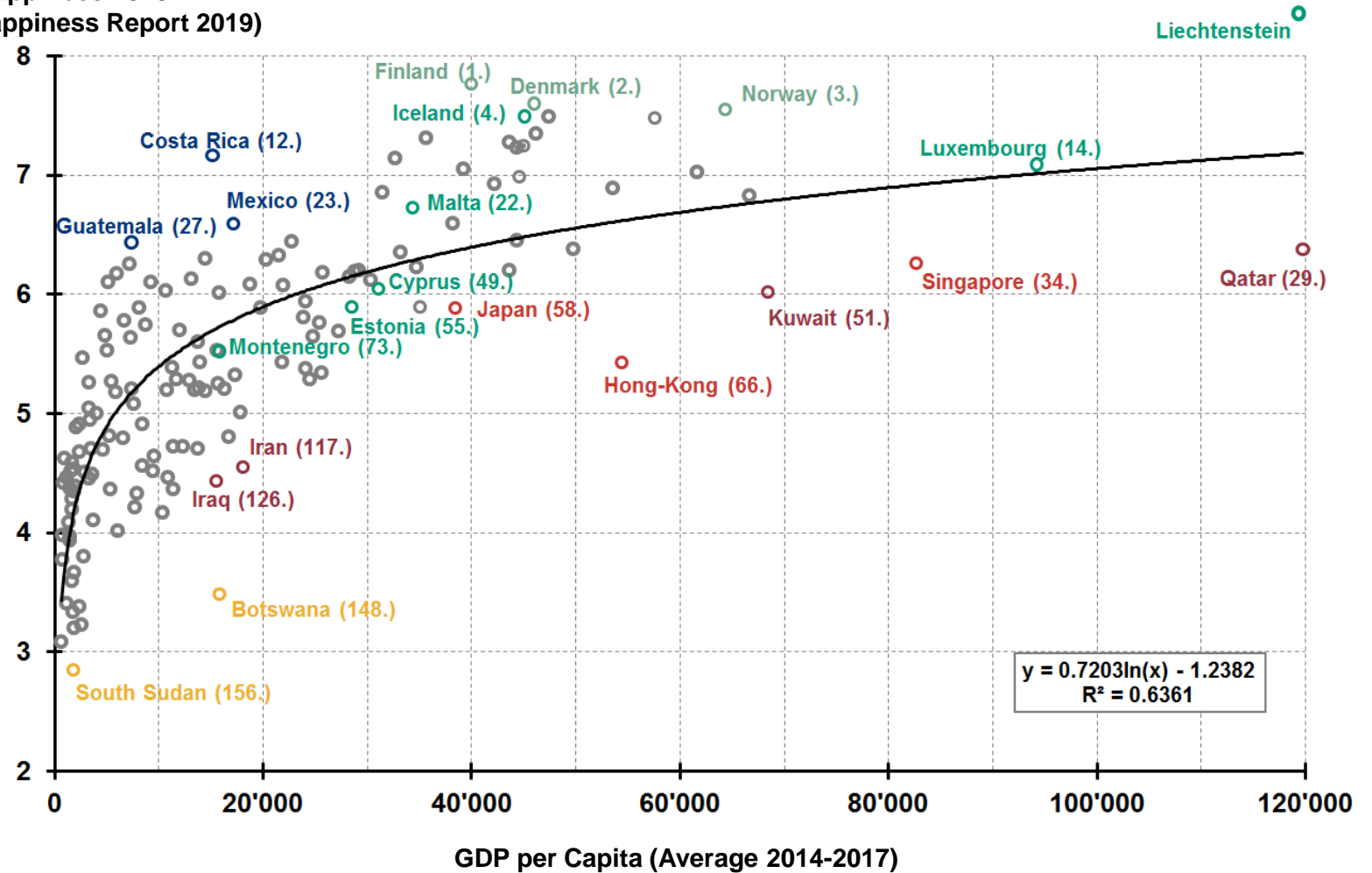
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Economic Development – Well-Being

- **Human Development Index (UN):**
 - Liechtenstein ranks at 18 in the HDI (189 listed countries)
- **World Happiness Report (UN):**
 - Liechtenstein not listed, but Liechtenstein-Institut (LIE-Barometer) asked same happiness (life satisfaction) question in survey: Liechtenstein's score in 2019 was 8.4 (scale: 0-10), well above country averages (World 5.4, OECD 6.7) and neighboring countries (Switzerland 7.5, Austria 7.2)
- **Sustainable Development Goals (UN):**
 - Liechtenstein “solar world champion” since 2015 with the highest per-capita installed photovoltaic capacity
 - Every municipality strongly committed to increasing energy efficiency and was awarded the title “Energy City”; Liechtenstein is the world’s first “Energy Country”
 - Liechtenstein world champion in organic farming: 38% (2016) of agricultural land is farmed organically
 - De facto gender equality, especially in politics and professional life, has not yet been achieved (SDG 5)
 - High dependence on fossil fuels (SDG 7), consumption and production are too resource-intensive (SDG 12)
 - Greenhouse gas emissions are falling, but still too high in terms of the climate Agreement of Paris (SDG 13)
 - Mobility in Liechtenstein is heavily reliant on individual motorized transport (SDGs 9 and 11)
 - Biodiversity in Liechtenstein is endangered (SDG 15)

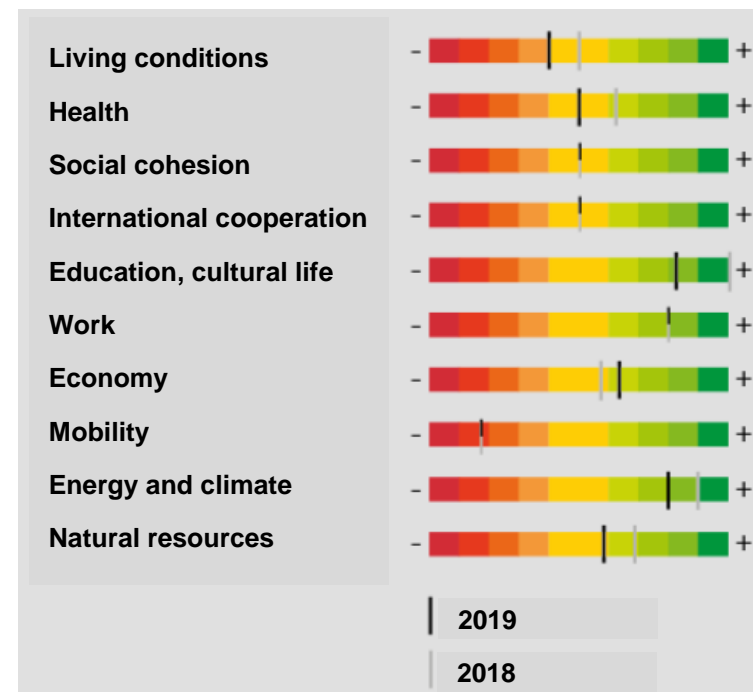
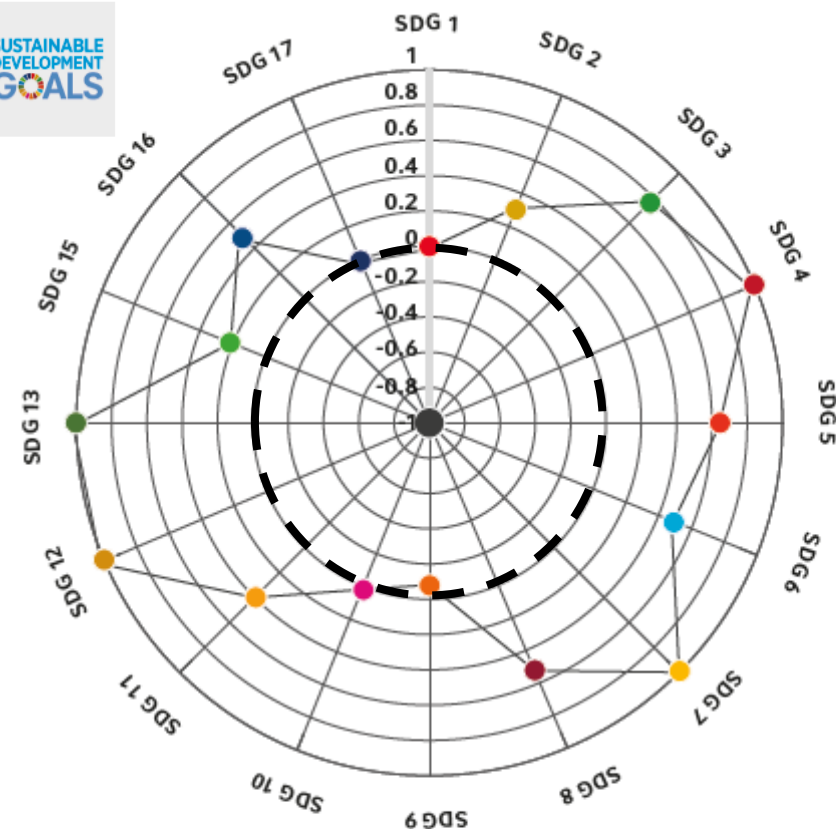
Happiness 2018 (World Happiness Report 2019)

Human Development Index (HDI)	
HDI rank	Value
2018	
VERY HIGH HUMAN DEVELOPMENT	
1 Norway	0.954
2 Switzerland	0.946
3 Ireland	0.942
4 Germany	0.939
4 Hong Kong, China (SAR)	0.939
6 Australia	0.938
6 Iceland	0.938
8 Sweden	0.937
9 Singapore	0.935
10 Netherlands	0.933
11 Denmark	0.930
12 Finland	0.925
13 Canada	0.922
14 New Zealand	0.921
15 United Kingdom	0.920
15 United States	0.920
17 Belgium	0.919
18 Liechtenstein	0.917



Happiness 2018 (World Happiness Report 2019), 156 Countries														
1	Finland	7.8	6	Switzerland	7.5	11	Australia	7.2	16	Ireland	7.0	21	United Arab Em.	6.8
2	Denmark	7.6	7	Sweden	7.3	12	Costa Rica	7.2	17	Germany	7.0	22	Malta	6.7
3	Norway	7.6	8	New Zealand	7.3	13	Israel	7.1	18	Belgium	6.9	23	Mexico	6.6
4	Iceland	7.5	9	Canada	7.3	14	Luxembourg	7.1	19	United States	6.9	24	France	6.6
5	Netherlands	7.5	10	Austria	7.2	15	United Kingdom	7.1	20	Czech Republic	6.9	25	Taiwan	6.4

Source: World Happiness Report (UN) and LIE-Barometer (Liechtenstein-Institut)



Source: "Report on the implementation of the 2030 Agenda for Sustainable Development" 2019 (Liechtenstein Government)

Explanation of the diagram:

- A positive number means that the SDG is showing a positive trend (i. e. towards greater sustainability)
- 0 means that there is no significant change
- A negative number means that the SDG is showing a negative trend (i. e. towards less sustainability)

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Economic Development: Challenges ahead

- **Economic challenges:**
 - Fiscal situation of public households is very good after some years of consolidation (positive net worth position instead of debts). Future consequences of pillar 1+2 (OECD Tax Proposal) unknown!
 - Strong Swiss Franc, low interest rates
 - Fundamental reforms in financial sector since 2008 and still ahead
 - Low productivity growth, slow goods exports (and import) growth since 2008
 - Availability of qualified employees
 - Financial crisis and economic aftermath
 - Economic volatility and vulnerability/resilience
 - Relatively high indebtedness of private households
 - Urban planning and solutions for traffic/mobility
- **Most important concerns among citizens (LIE-Barometer 2019, Liechtenstein-Institut):**
 - Health costs, traffic/transportation, retirement provision/demographic change, environment/climate, cost of living, real estate/housing prices, compatibility of occupation and family, health provision, urban/regional planning

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Economic Development: Key Recommendations

- Increase (female) labor participation, further improvements for the compatibility of occupation and family needed
- Increase of public investments in education and research desirable
- Aim at increasing ODA (Official Development and Assistance) spending, as the international ODA/Gross National Income target of 0.7 was only met in 2012 (currently around 0.5)
- Transformation of taxation and other incentives towards climate and SDG goals
- National planning scheme or fiscal incentives for more efficient land use
- Mobility: Better public transportation, road pricing

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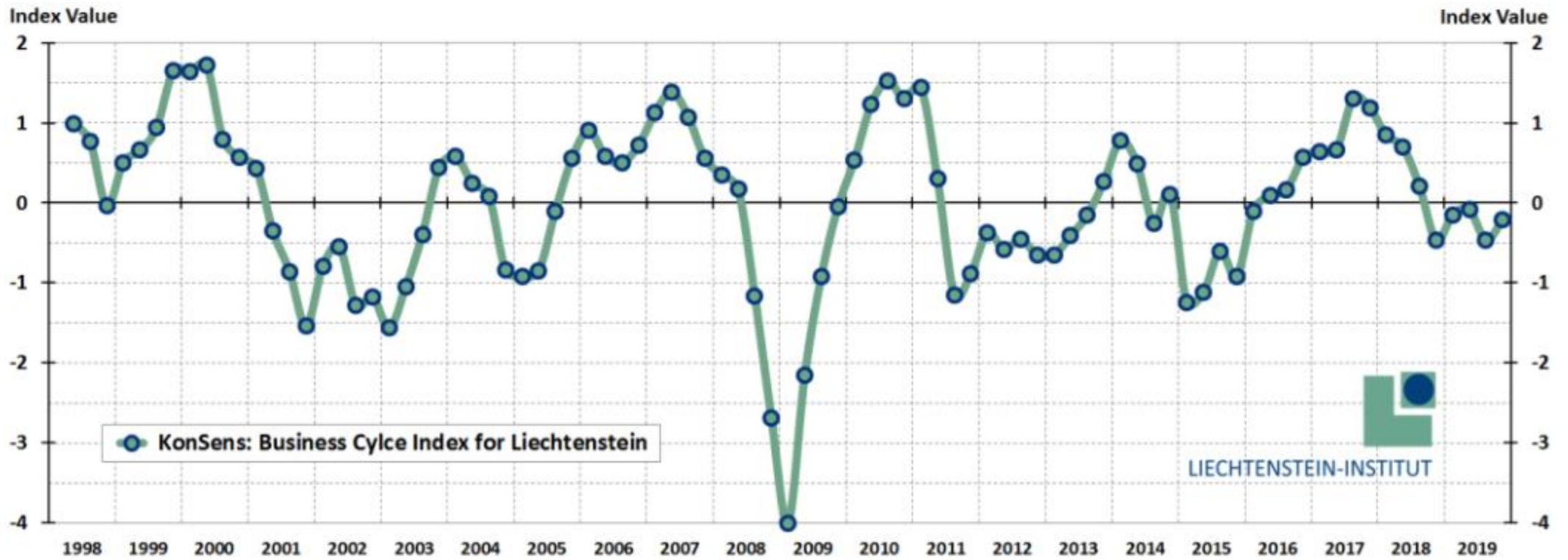
Economic Development: Current Strategies and Policies

- Attractive conditions for FinTech, Liechtenstein 1st country with legal basis for blockchain
- Introduction of Financial Stability Council
- FMA is considering additional measures to tackle private household indebtedness
- Enduring commitment to the applicable OECD standards of tax cooperation
- New government strategy papers due in 2020: Mobility strategy, energy strategy, climate vision, spatial/urban planning concept, education strategy
- "Liechtenstein Initiative", "Waterfootprint Liechtenstein"
- Liechtenstein as philanthropy center
- Related to SDG:
 - Currently only limited data and few indicators available for SDGs in Liechtenstein, government will study options for both improving the indicators and aligning them more closely with SDGs
 - Collaboration between state/private sector to implement SDGs has been and will be improved
 - Ensuring policy coherence as major challenge (given conflicting objectives between various SDGs)

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Economic Development: Forecast

- No official or scientific economic forecasts available for Liechtenstein
- Current assessment:
 - Labor market still booming and very likely to do so in near future
 - Business cycle indicator KonSens (4th quarter 2019) indicates that business cycle has cooled down (after three very good years) along with international tendencies. Yet, the KonSens value of close to 0 points at economic activity only slightly below average growth. According to the business survey, Liechtenstein industrial companies expect a solid economic situation (25 points in a range of -100 to +100).
 - Fiscal projections (2020-2023) expect enduring general government surpluses



Source: www.liechtenstein-institut/konsens