02

Advanced Commonwealth Economies

2.1 Recent macroeconomic developments and outlook

Overview

The seven advanced countries of the Commonwealth – Australia, Canada, Cyprus, Malta, New Zealand, Singapore and the UK – are a diverse group of developed, industrialised economies that span four continents. All are highly integrated into the global economy through regional trade blocs: the economies are export-oriented and very much dependent on the fate of the global economy. Particular exposure to China can be a source of vulnerability for some. The biggest short-term challenge is probably faced by the UK, which could still leave the EU without a formal agreement in 2021. This would risk a significant disruption for the UK's economy and its closest trading partners.

In general, the challenges facing the Commonwealth group of advanced economies mirror those in other developed countries. While they are broadly experiencing steady expansion, escalating trade wars – notably between China and the USA – represent the key external risk. Malta's economy is the fastest growing, with annual real gross domestic product (GDP) expansion in 2018 exceeding the 6 per cent mark.

Economic performance

Commonwealth advanced countries continued to recover at a modest pace, with encouraging figures for both domestic demand and exports. Average GDP growth for the group of countries for 2018 stood at 3.2 per cent, ranging from expansion of 6.6 per cent in Malta to 1.4 per cent in the UK.

Cyprus and Malta continue to reap the benefits of their citizenship by investment schemes, which have supported a boom in construction. Rising tourism receipts are a factor in Malta's fast growth, with exports of services related to remote gaming and the financial services sector the main reason for this. The uncertainties surrounding Brexit have held back the UK's economic recovery despite broadly favourable economic conditions. However, risks remain tilted downwards on account of rising economic uncertainties and trade tensions.

Prices, wages and employment

Labour markets have been buoyant in most of the seven countries, with unemployment at historically low levels in both Malta and the UK. While the employment picture has gradually improved in Cyprus since the crisis in 2012, youth unemployment and the number of long-term unemployed remain key challenges.

This buoyancy in labour markets has meant that migratory flows continue to play an important role in Malta and New Zealand. However, supply constraints are being felt elsewhere, notably in Singapore, where restrictions have been placed on foreign workers.

Inflationary pressures have been relatively low and mostly contained within targets, broadly accepted to be below, but close to, 2 per cent over the medium term. Canada and the UK are the only two advanced Commonwealth countries to have exceeded this mark, each reporting an inflation rate of 2.3 per cent. Singapore, which experienced a period of deflation, returned to positive territory with an inflation rate of 0.4 per cent in 2018.

Trade developments

Trade developments continue to hinge on the global economic environment. The advanced economies of the Commonwealth are all export-oriented and have experienced a positive run as a result of favourable broad-based cyclical economic conditions.

The three European countries have demonstrated strong export economies driven mainly by services and tourism. Cyprus and Malta have shown strong increases in exports of services and tourism, with both countries reporting record levels of arrivals during 2018 and predicted to hit 3 million and 4 million tourist arrivals, respectively, by the end of 2019. On the other hand, the UK has benefited from the depreciation of the pound sterling following the Brexit referendum, with tourist arrivals reaching an all-time high of 39.2 million in 2017 and total exports of goods and services increasing by 10.6 per cent over 2016.

In Canada, the improving US economy has supported the exports of services, while the Asian region benefited from China's expansion, although its GDP growth slowed to an estimated 6.1 per cent in 2019. Commodity exports in Australia and New Zealand have supported growth, while the upswing in the electronics market has supported the expansion of exports in Singapore.

However, looking forward, the outlook remains tilted to the downside owing to increasing trade tensions on a global level, and this may impinge on global economic growth, which in turn will negatively affect trade. A disorderly exit from the EU is still possible for the UK, which would disrupt trade with its main partners. In any case, the uncertainty is damaging the UK economy at a time of rising geopolitical risk.

Fiscal developments

The fiscal situation of most advanced Commonwealth countries continues to improve, although debt remains an issue in some places, such as the UK, with a debt to GDP ratio of 85 per cent. Cyprus and Malta have made significant progress in this respect, with the Cypriot authorities strengthening the tax system following the 2012 crisis, although the debt to GDP ratio remains high – the fourth-highest in the EU in 2018. The Maltese government has overseen a return to a fiscal surplus and external debt has entered a downward trend. Citizenship investment schemes have proved beneficial for both countries. In the UK, a period of consolidation has brought 'fiscal headroom' of around £26.6 billion, but the Chancellor of the Exchequer has warned that a 'no deal' Brexit could cost the UK Treasury £90 billion.

In Canada, fiscal improvements have been registered at federal level and the focus will increasingly be on fiscal consolidation in the provinces. In Singapore, government finances remain healthy. It is expected that Australia and New Zealand will launch public investment programmes.

In terms of fiscal policy, it is imperative that advanced economies rebuild their fiscal buffers in case there should be a global slowdown. Such a buffer will allow governments to intervene in the economy through supportive fiscal policy. The main challenges all revolve around demographics and an ageing population, as these will impinge on social security entitlements and also healthcare costs. The Singaporean government is in fact focusing heavily on these challenges to ensure they are tackled in a holistic and sustainable manner.

Outlook

The main risks for the economies of the advanced economies of the Commonwealth reflect the global economy and are on the downside. Global trade uncertainties abound. The China–USA trade war and eventual tariffs could lead to a global slowdown. Australia, New Zealand and Singapore are heavily exposed to developments in China.

Brexit continues to present serious uncertainty to the global economy and to the UK's main trading partners, such as Cyprus and Malta, which are highly exposed to the UK for international trade. Canada too faces rising uncertainty, as US tax reform may have consequences for the country's economy.

Therefore, in general, the outlook remains highly uncertain, with signs of a slowing global economy, which will obviously have implications for the performance of the economies under study.

As more nations have to deal with high-impact hurricanes, extreme temperatures, rising CO_2 emissions and natural disasters, environmental risks have started to weigh more heavily on the progress of advanced and developing countries alike. Climate change is becoming one of the most defining issues of our time and the greatest challenge to sustainable development. The Sustainable Development Report 2019 (Sachs et al., 2019) acknowledges that some countries have started to act by preparing nationally determined contributions and increasing financing to combat global warming. Notwithstanding, it calls for more ambitious plans to realistically prevent runaway climate change. None of the seven advanced countries of the Commonwealth is currently on track to achieving the environmental goals. Worse, high-income countries in general obtain their worst rankings on environment-related indicators such as life below water and life on land.

Rising income inequalities and growing polarisation of sectors of society are also posing a significant risk to the global economy, so much so that the World Economic Forum's Global Risks Report 2019 (WEF, 2019) ranks these two variables first and third, respectively, among underlying trends to shape the world over the next 10 years. Environmental concerns are considered the second-most-pressing risk.

With an overall score of 79.5 on the Sustainable Development Goal index, New Zealand ranks first among the seven advanced economies of the Commonwealth and lies in 11th place in comparison with 162 other countries. The UK, Canada and Malta rank in 13th, 20th and 28th place, respectively. Australia ranks 38th, Cyprus 61st and Singapore, with an overall index score of 69.6, 66th.

In terms of income inequality measured by the Gini coefficient, where 0 is complete equality and 100 is total inequality, Malta has achieved the best result in terms of income inequality of the seven advanced Commonwealth countries, with an index of 29.4. UK ranks last in this respect, with an index of 37.7.

2.2 Australia

Country data	
Population (millions) (2017)	24.6
Area '000 km^2	7,741.2
GDP (US$, billion, 2018)	1,418.3
GDP per capita, PPP current international US$ (2018)	52,373
Currency	Australian dollar (AUD)

Economic performance

Australia has continued on its now two-decade trajectory of robust and resilient performance. Following the end of the commodity price and mining investment boom of the early 2000s, the Australian economy is continuing with its adjustment and rebalancing. Annual growth continues to remain moderate, with growth averages throughout the past few years hovering below 3.0 per cent. The housing market is also cooling off following a long boom, and accumulated vulnerabilities related to house prices and debt levels remain high. The financial sector remains robust, with banks broadly well capitalised and profitable. Public infrastructure investment, together with tax reform based on a reduction in both personal and corporate tax, is expected to support economic performance.

Prices, wages and employment

Over the past few years, headline inflation has continued to hover around the floor of the Reserve Bank of Australia, which is set at 2–3 per cent. Low inflation is driven mainly by strong retail competition and one-off declines in administered prices. This is expected to continue weighing in on inflation rates. On the other hand, the positive economic performance has supported employment growth. Unemployment has continued on its downward trend since 2016 and today stands close to 5.0 per cent. Although wage growth remains relatively weak, the latest data point to a reversal reflecting prevailing labour market conditions.

Trade developments

The Australian economy has benefited significantly from its closeness to and the growth of the Asian economies. In fact, exports of goods and services have been on upward trend, outstripping both domestic demand and GDP growth. The current account deficit narrowed significantly in 2017 and 2018 as a result of improved terms of trade, explained by a lower interest differential on Australian bonds relative to foreign bonds compared with longer-term averages, and increased resource exports, including liquefied natural gas and coal. Exports of metal ores and minerals remain strong and on an upward path. From an exchange rate perspective, there has been a widening interest differential in favour of the US dollar with some pointers indicating continued overvaluation of the Australian dollar. However, going forward, it is expected that the current account deficit will remain below 3 per cent of GDP, lower than historical averages.

Fiscal developments

Fiscal policy has been supportive of macroeconomic performance. The fiscal deficit has been narrowing over the past few years and is expected to hover to less than 1 per cent of GDP in 2018. This is notwithstanding the fact that government has adopted a supportive fiscal policy. Higher investment outlays on infrastructure and a tax reduction programme are expected to be implemented. The fiscal deficit is expected to swing into surplus in 2019. Following the strong rise in public debt over the past decade, this is expected to stabilise at the 40 per cent of GDP level before starting a downward path post-2020.

Outlook

The adjustment process towards potential growth and full employment is expected to continue in the coming years. A big drive towards general public infrastructure spending across a number of Australian states is expected to support the process. Employment growth is set to remain buoyant with a resulting increase in personal consumption. Exports will continue but resource-based exports are set to slow down, while lower growth in China, as well as recent tensions over Chinese port restrictions and Australian coal shipments, is likely to affect exports of goods and services. Although the outlook is generally positive, downside risks to economic growth remain on the high side. On the external side, global economic growth remains uncertain and Australia's reliance on exports to China remains a key risk and vulnerability.

2.3 Canada

Country data	
Population (millions) (2017)	36.71
Area '000 km^2	9,984.67
GDP (US$, billion, 2018)	1,711.39
GDP per capita, PPP current international US$ (2018)	49,651
Currency	Canadian dollar (CAD)

Economic performance

For two consecutive years, the Canadian economy was beleaguered by slow economic growth, from which it rebounded in 2017, with real GDP expanding by 3.0 per cent, the fastest rate among the G7 countries. This reflected a strengthening US economy, rising oil prices and a supportive policy framework. Domestic demand also picked up, although household debt remains high. Business investment has remained subdued, however, and exports of goods and services have disappointed – in 2018 real GDP growth cooled to 1.9 per cent. The financial sector has remained strong, although it is exposed to the sometimes-volatile real estate market. Although economic performance has improved, the recovery has been moderate and subject to significant downside risks, which means it has been fragile.

Prices, wages and employment

The economic recovery in 2017 had a positive impact on the labour market – Canada's unemployment rate fell below 6 per cent - a record low. The employment rate has also increased, with labour force participation stabilising. The services sector is the main driver of the improved performance in labour markets. Falling unemployment rates have also affected wage growth, which has continued on its upward trend. This has also had the effect of increasing minimum wages in some provinces. Inflation has remained moderate but it went up to 2.3 per cent in 2018, its highest level since 2011.

Trade developments

Canada has long pursued deep economic integration with its southern neighbour: the USA is the destination of around 75 per cent of Canada's exports and the source of 52 per cent of its imports (2018). The EU is Canada's second-largest export market, accounting for 7.7 per cent of shipments, followed by China (4.1 per cent) and Japan (2.1 per cent). The strong recent performance of the US economy has led to a boost to Canadian exports. In addition to its membership of the North Atlantic Free-Trade Agreement – a trilateral bloc signed with Mexico and the USA in 1994 – Canada has 14 free trade agreements with 51 countries, including the Canada-EU Comprehensive Economic and Trade Agreement.

Despite this, the external trade sector presents some challenges. The increase in oil and gas exports reflects the increase in prices, while non-energy exports continue to disappoint, mainly as a result of competitiveness issues. On the other hand, growth in services-based exports has continued, driven primarily by transportation and commercial services. Although the trade deficit has narrowed on account of the improved oil terms of trade, the Canadian dollar remains slightly overvalued, negatively affecting the country's competitiveness. Uncertainties around global trade tensions and the impact of US tax reform will present key challenges to Canada's external sector.

Fiscal developments

Over the past couple of years, the fiscal deficit in Canada has widened as a result of the fiscal stimulus implemented to support the economy. There have been improvements in the federal government fiscal balance but wide discrepancies exist at provincial level. This improvement is also being ring-fenced to reduce the government debt ratio. Moving ahead, the government is focusing on strengthening its fiscal buffers and on continuing to reduce its government debt to GDP ratio to the pre-crisis level. Improvements in the federal fiscal balance give the government more leeway to support inclusive growth by promoting social and gender equity. Key measures include more generous tax benefits for low-income workers and raising the highest income eligibility threshold, incentives to encourage more female participation in the workforce and more support to indigenous communities, mostly in areas of housing and health.

Outlook

The uncertainties facing the global economy driven by increased trade tensions will affect Canada's outlook. In addition, internally, the economy is expected to face capacity constraints, and tightening of both fiscal and monetary policy is likely to weigh in on private consumption. Strength in the US economy has been encouraging for Canadian exporters (real GDP grew by 2.9 per cent in 2018), but it is expected to slow in 2019 and further in 2020. External sector risks are rising, mainly caused by a slowing Chinese economy, intensified trade war discourse and tighter financial conditions.

International efforts to tackle global warming may also momentarily disrupt economic development, as countries could be forced to cut down on fossil fuel imports in substitution for cleaner sources of energy. Countries investing in research and development (R&D) and new green technologies could turn this into an opportunity for growth, however. According to the Sustainable Development Report 2019, Canada has not yet made any significant inroads in this respect. The challenge for the country may be less daunting, however, as it is already on target with reference to availability of affordable and clean energy: around 22 per cent of total energy consumption is generated from renewable sources.

2.4 Cyprus

Country data	
Population (millions) (2017)	1.18
Area '000 km^2	9.25
GDP (US$, billion, 2018)	24.49
GDP per capita, PPP current international US$ (2018)	39,973
Currency	Euro (EUR)

Economic performance

Cyprus's economy has recovered strongly since the 2012–2013 banking crisis. With a growth rate exceeding 4.0 per cent in 2018, the country maintained strong growth momentum. Growth has been driven primarily by foreign investment aided by the government's citizenship by investment scheme. This has boosted investment in the construction sector, which has also been supported by strong performance in tourism and professional services. Private consumption has also expanded robustly, aided by the improved labour market conditions. Moving ahead, it is expected that performance will be maintained as foreign-financed investments – in residential properties, education, health, energy and tourism infrastructure – are underway that are anticipated to leave a positive economic effect. However, more progress on structural reforms is required to be able to sustain such momentum.

Prices, wages and employment

Despite strong economic performance and a narrowing output gap, inflationary pressures remain subdued as core inflation remains close to negative. This is consistent with weak wage pressures and the limited capacity of the labour market. Although improved economic performance has reduced unemployment, it remains above 7.0 per cent. Employment has increased, mainly in the tourism and construction sectors, where wage pressures remain weak. Cyprus faces a challenge of high youth unemployment, and the share of long-term unemployed has more than doubled, requiring key policy responses aimed at strengthening the education system to provide intensified individual support, labour market-oriented curricula and dual education apprenticeships to better connect work- and school-based programmes. In addition, an increasing share of the employed are working part time, further confirming the weak and sluggish employment market.

Trade developments

A member of the EU since 2004, Cyprus has developed as a trading hub in the eastern Mediterranean. More than a third of Cyprus' trade in goods is with the EU, with exports primarily heading to Greece, followed by the UK, Sweden, Germany and France. Around 25 per cent of exports are destined for the Middle East and North Africa. An increase in tourism has supported this growth in exports; however, the current account deficit has widened on account of higher imports following an increase in domestic consumption. Export competitiveness is expected to remain strong as unit labour costs remain subdued. Projections for the tourism sector remain healthy, which also reflects increased investment in accommodation and ancillary services. This notwithstanding, Cyprus remains exposed to ongoing weakness in the Greek economy, the UK's intended departure from the EU and overall political stability in the region.

Fiscal developments

In line with its strong economic momentum, Cyprus' fiscal performance has been largely positive. The primary general government balance has improved by more than 1 percentage point in a year and stands at 4.3 per cent of GDP. Improved tax revenues and inflows from the citizenship schemes have supported this improvement. Public debt is declining but remains high. In 2018, notwithstanding a contraction of over 9 percentage points, the debt to GDP ratio stood at 96.1 per cent. Going forward, continued progress in the fiscal sector hinges on continued reform in public sector spending.

Outlook

The economic outlook for the Cypriot economy remains favourable. Growth is expected to remain strong, driven mainly by the continued strong performance of the tourism sector. Higher investment inflows in various economic sectors including hospitality and real estate will also continue to support economic performance. The export sector is expected to retain its competitive advantage. However, further reforms are needed to continue strengthening the banking and financial sectors and to ensure the necessary safeguards are in place to combat money laundering and terrorist financing risks more effectively. Risks remain on the downside. The government intends to gradually reduce its dependence on its citizenship by investment schemes and construction investment.

2.5 Malta

Country data	
Population (millions) (2017)	0.47
Area '000 km^2	0.32
GDP (US$, billion, 2018)	14.51
GDP per capita, PPP current international US$ (2018)	45,606
Currency	Euro (EUR)

Economic performance

Malta has been the fastest-growing and best-performing EU country in recent years. Real GDP growth exceeded 6.0 per cent in 2018 amid strong services-based exports, coupled with a construction boom facilitated by inflows from the country's citizenship by investment. This strong showing has had strong positive impacts on the labour market, which is becoming heavily dependent on migrant inflows. Several bottlenecks are appearing, meanwhile, as the economy faces capacity constraints. In fact, such constraints may negatively affect Malta's competitiveness, suggesting the country's economy has approached its peak – real GDP growth is expected to slow to around 5.0 per cent in 2019 and further in 2020. Increasing reputational problems, particularly with regard to money laundering and institutional monitoring reports, could also undermine further economic development if Malta's attractiveness to foreign investment is somewhat tarnished.

Prices, wages and employment

Strong economic performance has naturally had a very strong impact on the labour market. Unemployment is at historic lows and strong employment growth has been supported by increased labour participation, and primarily by inward migratory flows. In fact, the share of foreign workers has tripled over the past five years. The labour market remains buoyant, with demand outstripping supply. The inflow of foreign workers, and rising labour force participation, has helped contain wage growth. This is under pressure, however, especially in sectors that are facing supply constraints. Inflation has also picked up – to around 2 per cent in 2018 – driven primarily by tourism-related services.

Trade developments

Driven by strong exports in services, Malta's current account has remained on a positive trend, with a growing surplus. Strong performance in sectors such as remote gaming and tourism has supported the expansion in exports. In addition, new export sectors such as blockchain, cryptocurrencies and medical cannabis are expected to generate further growth in the coming years. Meanwhile, import intensity has decreased on the basis of not only greater reliance on services sectors but also energy reform that saw Malta's imports of oil plummet – as it buys electricity from the European grid and has now shifted its power stations to gas. Malta's external competitiveness is expected to support growth in new export-oriented sectors.

Fiscal developments

Malta's strong economic performance supported by its citizenship by investment schemes has had a positive impact on its fiscal position. In fact, following a long period of deficits, the general government deficit swung into surplus and record amounts are being achieved. Excluding the significant proceeds from the citizenship schemes, the structural balance remains in surplus driven by large tax revenues. Strong performance on the fiscal balance is set to continue, as is the downward trajectory in the debt to GDP ratio, as the ration has fallen beyond the 50 per cent mark. However, Malta's high reliance on citizenship schemes and taxation revenue makes it vulnerable to regime changes.

Outlook

The outlook for the Maltese islands remains positive, with growth expected to remain above 4 per cent on account of strong domestic demand and robust export sectors. Investment levels, primarily in real estate, are also expected to support the economy. A significant public sector investment programme aimed at improving the island's general infrastructure is expected to contribute significantly to this growth.

However, the economy continues to face bottlenecks as the labour market continues to tighten, and an increase in general wage levels and prices is likely. Meanwhile, as an export-focused economy, Malta remains vulnerable to headwinds in the global economy and in particular to EU countries and the UK. Furthermore, it is essential to safeguard the jurisdiction's good name, especially in an increasingly complex international context.

2.6 New Zealand

Country data	
Population (millions) (2017)	4.79
Area '000 km^2	267.71
GDP (US$, billion, 2018)	203.40
GDP per capita, PPP current international US$ (2018)	40,135
Currency	New Zealand dollar (NZD)

Economic performance

New Zealand has developed an open, advanced market economy buttressed by strong trade links with Australia, China, the EU and Japan. It was ranked 16th on the UN's 2018 Human Development Index and third on the Index of Economic Freedom for the same year. Hit hard by the global financial crisis in 2007-2008, the economy has rebounded, boosted by a free trade agreement with China, although growth has slowed in recent years: real GDP expanded by 2.9 per cent in 2018 and it is expected to grow by around 2.3 per cent in 2019 and 2020. Reconstruction efforts post-2011 and 2016 earthquakes have represented an important contributor to growth, but improving terms of trade, strong external demand from Asia and supportive economic policies have also been a factor.

Strong migratory flows have also supported growth. Employment gains have aided domestic demand while stronger commodity prices have also supported agricultural exports. Although residential investment has been low, new incentive programmes and policy responses are expected to support a recovery, aiding the positive economic momentum. These programmes are also expected to put a brake on real estate prices, which in recent years have increased faster than growth in average incomes, with consequences on household credit growth and affordability constraints, notably for first-time home buyers.

Prices, wages and employment

The closing output gap has been a strong contributor to the improved labour market. In particular, record-high migratory inflows have led to employment growing above trend. Unemployment continued to decrease through 2017, with indicators pointing to full employment. This increase in migratory flows has contained wage pressures. Inflation remains on the lower end of the Reserve Bank of New Zealand's inflation target of 1–3 per cent. Despite a temporary hike in commodity prices, downward pressures on prices for imported goods and services have kept inflation on the lower end.

Trade developments

The external position of New Zealand remains strong thanks to strong export growth. In particular, New Zealand's export sectors have benefited from increased demand for both goods and services, notably meat and dairy products, from China (the country's second-largest export market). On the other hand, it has become increasingly exposed to China's economic prospects. The terms of trade remain strong and the New Zealand dollar remains moderately overvalued.

Fiscal developments

New Zealand public finances remain in good shape. Fiscal discipline, primarily expenditure reviews, together with strong revenues have allowed the government to register fiscal surpluses since 2015, and these are expected to continue going forward. Debt remains particularly low, below the 20 per cent of GDP level, and no expansion is projected.

Outlook

Growth is expected to remain strong on the back of anticipated expansionary fiscal policy and an increase in population growth. Capacity constraints are expected to become more significant, exerting upward pressures on wages and inflation. Investment programmes, especially in infrastructure, are expected to be the basis of expansionary fiscal policy. Although risks are broadly balanced, the economy remains susceptible to the external environment. Weaker-than-expected global growth, particularly growth in China, will negatively affect the country's export sector. This will be exacerbated in particular by the ongoing trade disputes, which are likely to hurt smaller countries more than larger ones.

Moreover, strong economic performance has not translated into strong per capita income growth. Much of the growth has been centred around the major cities, with less progress registered in the regions. New Zealand's policy agenda is now geared towards supporting more productive, sustainable and inclusive growth. The initial emphasis has been placed on minimum wage increases to tackle income inequality; productivity, including R&D and education; tax reform aimed at shifting incentives towards broader business investments; and establishment of a three-year provincial growth fund for regional development.

2.7 Singapore

Country data	
Population (millions) (2017)	5.61
Area '000 km^2	0.72
GDP (US$, billion, 2018)	361.11
GDP per capita, PPP current international US$ (2018)	100,345
Currency	Singapore dollar (SGD)

Economic performance

Singapore has developed into one of the world's most open and dynamic market economies – a major entrepot linking South-East Asia to the rest of the world. Average income per capita topped US$100,000 in 2018 at purchasing power parity - the third-highest in the world, behind Qatar and Luxembourg.

At independence in 1965, Singapore relied on its port, a modest electrical assembly industry and some oil refining. A rapid expansion in refining ensued and, in 1967, attracted by tax incentives, Texas Instruments set up a semiconductor plant. Other electronics companies followed, and Singapore swiftly became a world player in the electronics industry.

Pharmaceuticals subsequently developed, alongside financial services and tourism. Since the late 1990s, policy has aimed to increase the innovative R&D aspects of electronics, biotechnology and other high-tech sectors, although manufacturing remains a key sector. Hit hard by the global financial crisis in 2007–2008, the economy rebounded strongly, although real GDP growth has stabilised at around 3 per cent in recent years. It expanded by 3.1 per cent year on year in 2018, but annual growth is expected to slow to less than 1 per cent in 2019, largely as a result of the China–USA trade war.

Prices, wages and employment

Singapore's overall unemployment rate has continued to decline and stands at close 2.0 per cent. However, the labour force contracted in 2017 for the first time since 2003, owing to ongoing restrictions on foreign workers. In fact, employment of residents increased. In addition, the slowing growth of the working-age population and demographics will present one of the main challenges for the country. Following a period of deflation, inflation has turned positive, on account of higher prices for imported oil and changes in administered prices. However, inflation remains stable.

Trade developments

The strong export-driven economy continues to support the substantial positive current account and its external position as a regional economic hub and as a founding member of the Association of Southeast Asian Nations (ASEAN), set to continue promoting economic growth, social progress and cultural development in the region. Strong manufacturing exports, especially electronics, have supported the significant current account surplus; however, the country's import content has increased too.

Moving forward, Singapore is transforming its economy and industries with the aim of cementing its position as a regional hub and major centre for hi-tech manufacturing. Its growing reliance on China as a market for its exports is a risk, however, given current trade tensions. Nevertheless, it is expected that the current account will remain in surplus for the foreseeable future.

Fiscal developments

On the back of prudent fiscal policy, Singapore's fiscal position has strengthened significantly over the past few years on account of cyclical and one-off factors. The fiscal balance as at 2018 was close to 5 per cent of GDP, with higher-than-projected revenues. However, the rise in spending on healthcare underlines the significance of the ageing population to Singapore's future. Significant fiscal surpluses mean the Singaporean government has a policy buffer, even in the face of demographic challenges and the expected increase in expenditure.

Outlook

The outlook for Singapore remains positive. Growth is expected to remain moderate and broad-based. The government is focused on transforming the economy, making it embrace the opportunities the digital era is bringing across all industries. It is expected that such a structural transformation will allow Singapore to achieve higher productivity levels and improved growth. Risks are also broadly balanced and stem primarily from the external sector.

The main risks relate to a slowdown in the electronics sector as well as the slowdown of China's economy and escalating trade tensions. Ongoing regional uncertainties may lead to some additional volatility. In the longer term, demographics and population ageing will present some major challenges to

Singapore, as will climate change. Singapore placed in 66th position out of 162 countries in the latest Sustainable Development Report 2019, getting the green light when it comes to poverty eradication, quality education and industry innovation and infrastructure. On climate action, such as reductions in CO_2 emissions and marine protection, no improvements have been registered as yet, and it remains unclear how Singapore will reach these Sustainable Development Goal targets over the short to medium term.

2.8 United Kingdom

Country data	
Population (millions) (2017)	66.02
Area '000 km^2	243.61
GDP (US$, billion, 2018)	2,828.64
GDP per capita, PPP current international US$ (2018)	45,705
Currency	Pound sterling (GBP)

Economic performance

The UK is an advanced market economy, ranking sixth globally with reference to nominal GDP. The services sector contributes 80 per cent of total GDP, with financial services particularly important. Since the referendum to leave the EU in 2016, uncertainty has gripped the UK economy, leading it to register sluggish growth. Business investment remains considerably lower than expected in the context of relatively favourable external conditions. Weak domestic demand has also contributed, on the basis of slow real income growth. However, net exports are positive on account of a weaker sterling and strong global demand. The uncertainty over the nature of a post-Brexit trade agreement with the EU will certainly continue to dampen the economy – it is likely to enter recession in 2020 – and the risks clearly remain on the downside.

Prices, wages and employment

Despite moderate growth, unemployment is at a historic low, with the increase in labour force participation coming mainly from older workers and also UK-based workers as migratory flows decrease in view of uncertainties around Brexit. As uncertainties abound on the future of EU workers in the UK, more migratory flows are expected to occur in the coming months and year. Given the limited capacity in the labour market, labour costs are on the increase too. In addition, the depreciation of the pound sterling post-Brexit referendum has supported inflation growth.

With a Gini index of 37.7, UK tops the list for income inequality in comparison with the other advanced Commonwealth nations. Productivity levels in the UK are also lower than in peer economies and improvements on this front, since the financial crisis of 2008, have fallen short of expectations. Brexit could compound this through reduced foreign investment, trade and immigration.

In the short term, the key reform priority is strengthening human capital, including support for retraining, to help facilitate adjustments for both low-skilled and specialised workers. Government initiatives to improve support for childcare costs and doubling the free childcare available to three and four year olds of working parents will continue to promote economic opportunities for women and help address gender pay inequalities. The introduction of T-level technical qualifications and reforms to apprenticeship funding is also aimed at reducing income inequality and the skills gap and fostering social mobility.

Trade developments

The sterling depreciation that happened in 2016 post-Brexit referendum supported export growth in line with the stronger global economy. This has led to a narrowing in the current account balance, although the deficit exceeds average historical values. Going forward, the effect of Brexit remains uncertain, as the possible increase in trade barriers between the EU will impinge negatively on UK exports to the EU, its largest trading partner. A disorderly departure from the EU may lead to further depreciation of sterling, which could increase the UK's export competitiveness. As a result, although external trade developments remain uncertain, the risks remain on the downside.

Fiscal developments

Over the past decade, the UK has followed a fiscal consolidation policy path. This has been broadly successful: the latest deficit is below 2 per cent of GDP. However, at 85 per cent of GDP, general government debt remains relatively high, especially from a cross-country perspective. Bringing the ratio down should be a priority, as this will allow the government to build fiscal buffers, especially if a hard Brexit will require a supportive fiscal policy. However, spending pressures pose numerous risks to the current fiscal stance, in particular in relation to pledged increases in healthcare-related expenditures.

Outlook

The outlook for the UK remains plagued by uncertainty. Three years after the referendum on EU membership, there are still three possibilities for the country: leaving the EU with a deal, remaining in the EU or leaving with no deal. A disorderly exit would significantly disrupt external trade in both goods and services, with the latter losing their passporting rights into the EU. It is expected that such uncertainty will continue to constrain investment growth although, on the upside, the UK would have fewer impediments to negotiating bilateral trade deals. This uncertainty will also significantly dent the UK economy and the downside risks remain high.

2.9 Advanced economies: Key challenges

The global economy has slowed considerably since strong growth was registered in 2017 and early 2018. The slowing of China's economy coupled with growing trade tensions with the USA and the euro area's lost momentum have all contributed to increased uncertainty about the stability of the global economy. Advanced economies are all facing a number of challenges.

Trade tensions. Over recent months, there has been a notable increase in trade tensions between advanced economies, primarily between China and the USA. These are all fomenting uncertainty about the global economy. Such tensions are also affecting the external sector of numerous countries, as international trade has slowed down. Meanwhile, the same concerns are having an impact on business investment and productivity growth and are disrupting global supply chains.

Global risks. The slowdown in China and the new coronavirus outbreak is a cause for concern for many nations, especially those whose exports are highly dependent on the Chinese economy. While the UK has agreed an extension of existing terms with the EU during 2020, negotiations on future trade relations could prove challenging, and a 'no deal' outcome remains possible. This could trigger market and economic disruption in Europe and beyond.

Global economy. Global economic momentum has lost steam and, as a result of a number of risks, there are further concerns that it will slow down further. This will negatively affect all of the advanced economies, as exports will be hard hit.

Limited policy buffers. Most advanced countries are also facing a lack of policy tool arsenals for if the global economy slows down and they are required to intervene. The majority of countries do not have strong fiscal buffers that can be used to aid in a supportive fiscal policy stance. Meanwhile, low interest rates have reduced capacity with regard to accommodative monetary policies.

Sustainability. As more and more people demand action on environmental protection, sustainability becomes more central to many global organisations' social and economic strategies. Innovation in technology will be key to achieving global sustainability as it empowers businesses to adopt new technological solutions to keep up with society's changing priorities.

Demographics. Most advanced economies will be facing a key demographic challenge in the medium to long term. As populations continue to age, there will be increased pressures on public spending to finance rising healthcare and other associated expenditure. This will put stress on both the general productivity of the countries and, more importantly, on their fiscal situation. Income and wealth inequalities, as well as gaps in health and education outcomes by population groups, are also important policy challenges in developing and advanced countries alike.

2.10 Advanced economies: Policy priorities

In view of the increased uncertainties facing the global economy, and the limited policy space most advanced economies are operating in, the biggest priority should be for each and every government not to take any policy missteps. As discussed throughout this chapter, each country is facing downside risks, mainly external in nature as a result of the slowdown in the global economy. Although each country faces specific policy priorities, there are some common threads between countries and experiences.

Competitiveness. Improving competitiveness is a cornerstone of all policy priorities across the advanced economies. As different countries have shown, improving competitiveness can be a central point in enhancing economic growth, bolstering the labour market and improving public finances. The Singaporean initiative aimed at transforming industries on the basis of the digital era is commendable, as is Malta's interventions to attract new industries to its shores.

Ageing population. Advanced economies are experiencing immense pressure from their ageing populations. Health and pension-related expenditures are expected to increase in the coming years, leading to strain on fiscal positions. It is of prime importance that attention be given to this area that has such a strong impact on fiscal sustainability.

Global cooperation. During the global crisis in 2008, the world came together to find a common response to financial meltdown. Today, the reality is different: the cooperative spirit seems to have waned. It is therefore important that the advanced economies continue to work together and stress the importance of global cooperation and collaboration. Such a policy will also support the alleviation of trade tensions by reiterating the importance of global trade.

Technological solutions. In the past, technological innovations may not always have worked in the best interests of the environment. Today, technology may be the world's only hope to solve the environmental woes it has created. Some of the most recognised tech advancements in recent years have been in the clean energy sector, including solar, wind and hydroelectric power, the technology behind battery-powered cars that will cut down on CO_2 emissions and the high-tech gadgets that make our homes smarter and more energy-efficient. Countries, advanced and developing alike, will do well to embrace these advancements.

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