BOX 1

Liechtenstein's export performance in a global context

by Andreas Brunhart and Martin Geiger

Liechtenstein's goods exports growth stalled during the global financial crisis and has never fully recovered since. Although Liechtenstein's real goods exports had grown in tandem with global economic activity for decades before the global financial crisis, they have shown stagnation in recent years, as illustrated in Figure B1.1. In contrast, global exports of goods and services continued to grow after the crisis, despite a slowdown in globalisation, as evidenced by a stagnating global foreign trade ratio. Specifically, while global real GDP trends before and after 2007 have similar slopes, the trend for Liechtenstein's goods exports post-2007 is notably flatter. This indicates that Liechtenstein's goods exports dynamics have diverged from global trade and GDP growth trends.

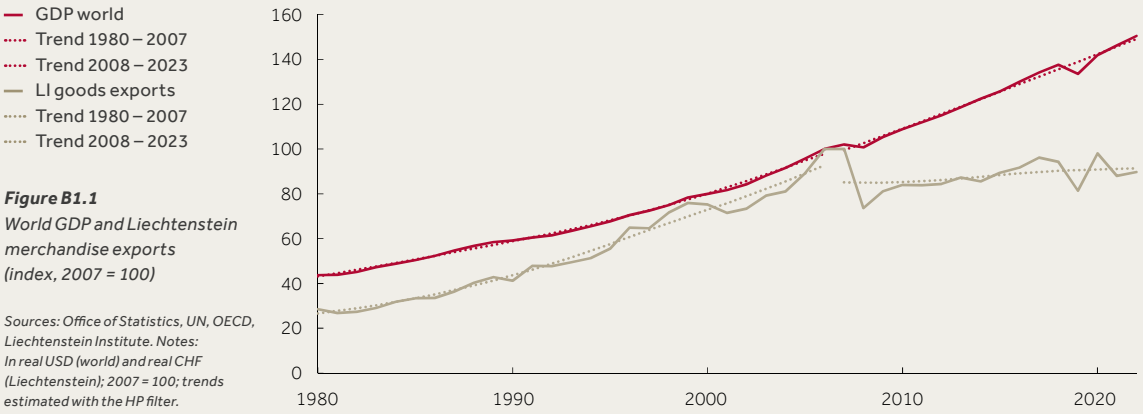


Figure B1.1
World GDP and Liechtenstein merchandise exports (index, 2007 = 100)

Sources: Office of Statistics, UN, OECD, Liechtenstein Institute. Notes: In real USD (world) and real CHF (Liechtenstein); 2007 = 100; trends estimated with the HP filter.

In recent years, Liechtenstein's export industry has lost price competitiveness. When comparing the performance of the EU countries' export industries to Liechtenstein's, while adjusting for an equal export structure by reweighting the EU sectoral export composition, the EU industry has performed more favourably on average. Conversely, the Swiss export industry, when adjusted according to Liechtenstein's trade weights, has also remained largely stagnant since the global financial crisis. This contrasts with the overall favourable performance of Swiss total exports, driven largely by significant growth in the chemicals and pharmaceutical sectors (see Berend, Brunhart, and Geiger, 2024). A key factor contributing to the weak real growth in goods exports within the Swiss franc area is deteriorating price competitiveness, exacerbated by the substantial appreciation of the Swiss franc. From 2007 to 2023, the real effective exchange rate (broad basket) appreciated by approximately 25 percent.

Despite the weak performance of goods exports, the gross value added and revenues of Liechtenstein's industry have increased. The industrial sector continues to be a key driver of economic growth in Liechtenstein. Figure B1.2 illustrates that real gross value added and real international revenues of large companies, as reported by the Liechtenstein Chamber of Commerce and Industry (LCCI), have significantly surpassed 2007 levels and outpaced the growth of goods exports. This divergence is due to Liechtenstein companies expanding their production capacities abroad to mitigate the impact of Swiss franc appreciation, while increasing their headquarters functions and research facilities within Liechtenstein. Additionally, the industrial sector in Liechtenstein benefits from substantial financial returns from production abroad (see also Berend, Brunhart, and Geiger, 2024).

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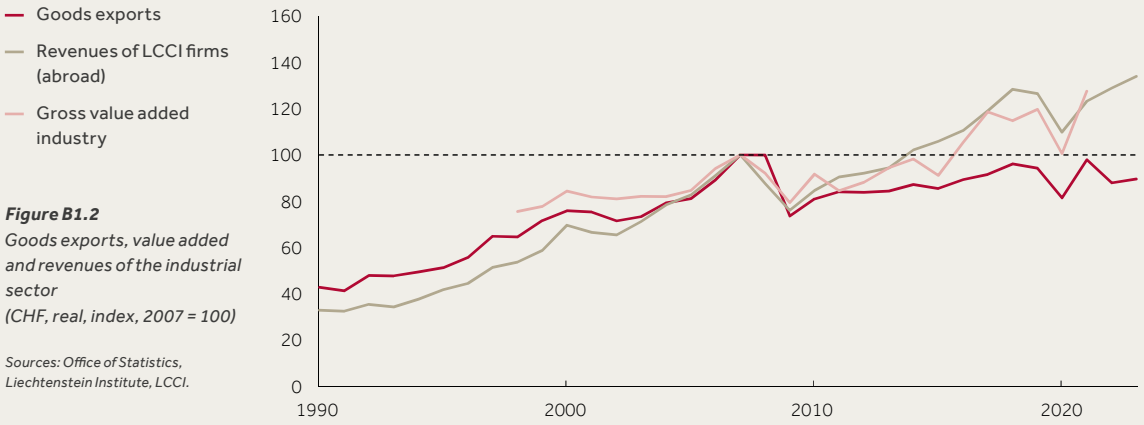


Figure B1.2
Goods exports, value added and revenues of the industrial sector
(CHF, real, index, 2007 = 100)

Sources: Office of Statistics, Liechtenstein Institute, LCCI.

The divergence between goods export dynamics and gross value-added can be observed across many traditional European industrial countries, indicating broad structural changes in the industrial sector. Figure B1.3, based on Brunhart (2024), compares 10-year growth rates of gross value-added in the industrial sector with industrial production growth, using a 45-degree line to represent equal growth rates. Eastern European countries are shown in red, while other European countries are shown in grey. For Liechtenstein, where industrial production volume indices are unavailable, real goods exports are used as a proxy for industrial production, given that the Liechtenstein industry primarily serves international markets. In panel A (2000 vs. 2011), there is no systematic difference between the two groups of countries. However, in panel B (2011 vs. 2021), it is evident that industrial production growth tends to surpass gross value-added growth among Eastern European countries. Conversely, in most Western European countries – including Liechtenstein, Switzerland, Austria, and Germany – gross value-added growth exceeds industrial production growth.

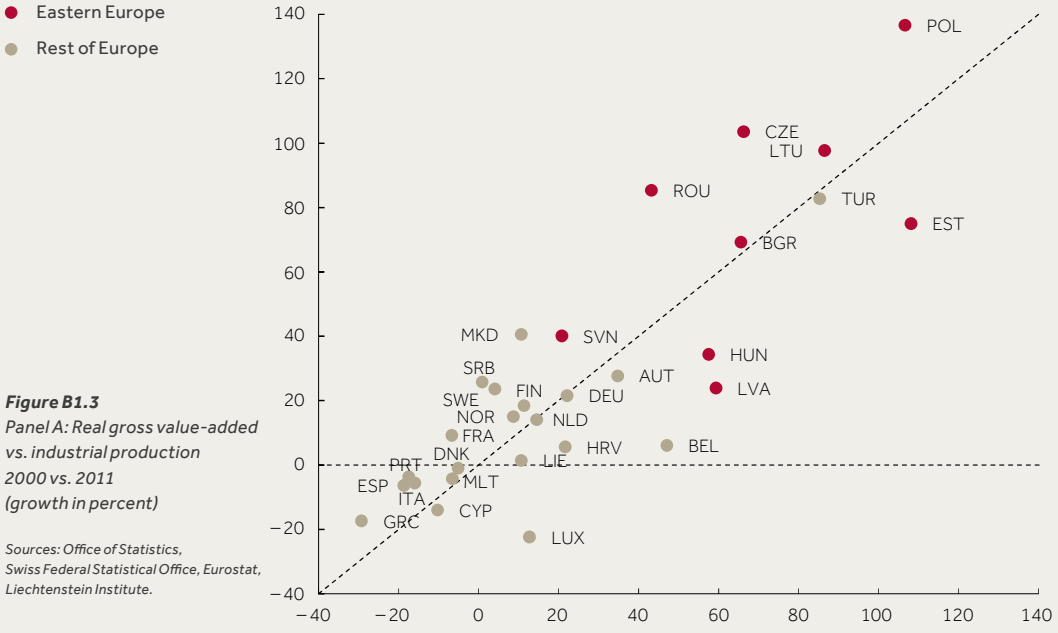


Figure B1.3
Panel A: Real gross value-added vs. industrial production 2000 vs. 2011
(growth in percent)

Sources: Office of Statistics, Swiss Federal Statistical Office, Eurostat, Liechtenstein Institute.

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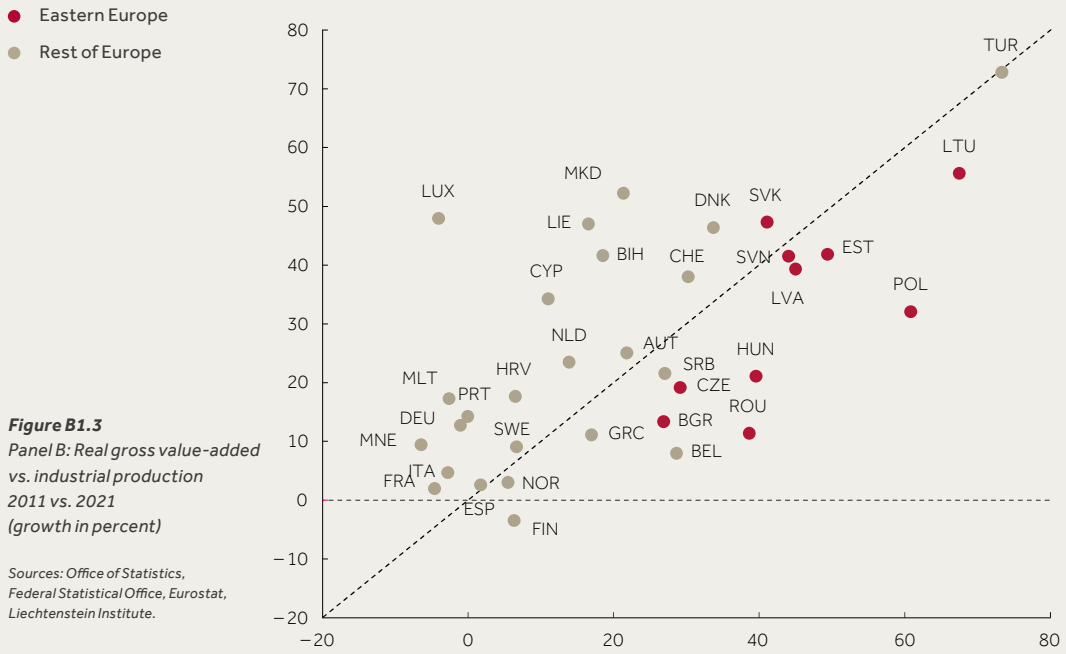


Figure B1.3
Panel B: Real gross value-added vs. industrial production 2011 vs. 2021 (growth in percent)

Sources: Office of Statistics, Federal Statistical Office, Eurostat, Liechtenstein Institute.

The structural changes in the industrial sector necessitate a re-evaluation of physical goods production and exports as economic indicators. Understanding these shifts in Liechtenstein's economy is crucial not only for economic policy and macroeconomic analysis but also for econometric modelling and timely business cycle evaluation and estimation. For instance, the Liechtenstein Institute's flash estimates for the previous year and quarterly GDP forecasts use real goods exports as a key explanatory variable, alongside other relevant indicators. Although goods exports remain a critical cyclical indicator for economic activity in Liechtenstein, the long-term relationship between goods exports, the gross value-added of the industrial sector, and GDP has evolved. This structural change has significant implications for statistical models that project macroeconomic aggregates.

References

Brunhart, A. (2024): "Strukturwandel Liechtensteins: Wertschöpfungswachstum trotz Exportstagnation". LI Facts 01 / 2024.

Berend, L., Brunhart, A. and Geiger, M. (2024): "Stagnation der liechtensteinischen Güterexporte: Bestandsaufnahme und Ursachensuche". LI Focus 01 / 2024.