

# Barclays Wealth Insights



Volume 5: Evolving Fortunes

In co-operation with the Economist Intelligence Unit

# About Barclays Wealth

Barclays Wealth, the UK's leading wealth manager with total client assets of £133 billion worldwide (as of 31 December 2007), serves affluent, high net worth and intermediary clients worldwide. It provides international and private banking, fiduciary services, investment management and brokerage. Thomas L. Kalaris, the Chief Executive of Barclays Wealth, joined the business at the start of 2006.

Barclays Wealth is part of the Barclays Group, a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services with an extensive international presence in Europe, the USA, Africa and Asia. It is one of the largest financial services companies in the world by market capitalisation. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs over 134,000 people. Barclays moves, lends, invests and protects money for over 27 million customers and clients worldwide.

For further information about Barclays Wealth, please visit our website [www.barclayswealth.com](http://www.barclayswealth.com).

## About this report

Written by the Economist Intelligence Unit on behalf of Barclays Wealth, this fifth volume of Barclays Wealth Insights, entitled Barclays Wealth Insights: 'Evolving Fortunes', looks at how levels and distribution of household wealth will change over the next decade.

It is based on two main strands of research. First, the Economist Intelligence Unit compiled a Household Wealth Index that includes 50 countries, to examine how the number of households with wealth over certain thresholds will change over the next ten years. Data was also compiled on the proportion of households within each country with wealth over certain thresholds, average wealth held, and the ratio of household wealth to gross domestic product (GDP). Three main measures of household wealth were used: financial, non-financial and aggregate.

Second, the Economist Intelligence Unit conducted a series of interviews with wealth experts from around the world. Our thanks are due to the interviewees for their time and insight.

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# Foreword

At Barclays Wealth, we are dedicated to providing our clients with the means to manage their wealth successfully. As part of this, we constantly strive to better understand their individual needs, objectives and aspirations.

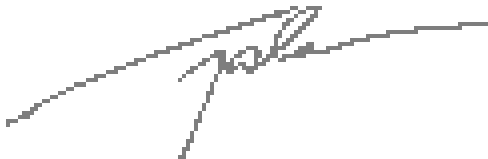
In partnership with the Economist Intelligence Unit, we publish a series of in-depth quarterly reports under the title 'Barclays Wealth Insights'. The reports set out to stimulate debate and provide a definitive picture of what being wealthy really means in the 21st century.

Our first report published at the beginning of 2007 was entitled, 'The Future of Wealth 2006-2016' and examined the unprecedented level of growth in wealth within the G7 and its global implications.

'Evolving Fortunes', the fifth in the influential Insights series, builds on those findings with an in-depth analysis of how the global distribution of household wealth is likely to change during the next decade.

A unique Household Wealth Index forms the core of this report, designed to predict numbers of wealthy households, concentration and level of wealth to form a fascinating ranking of the world's wealthiest countries. Without giving too much away, the Household Wealth Index predicts a clear global shift of wealth as we see countries traditionally referred to as 'emerging markets' leapfrog mature markets to stake their claim to a place on the world's economic stage. The implications of this growth are profound and the pages ahead provide a fascinating read for anyone looking to maximise the opportunities that lie ahead.

We hope that you find this latest Barclays Wealth Insights report a thought-provoking and enlightening resource and look out for further additions to the series to be released later in the year.



**Thomas L. Kalaris**  
Chief Executive  
Barclays Wealth

# Our Insights Panel

**Osama Ibrahim Al-Saleh**, Executive Vice-President of the Investment Dar, Kuwait

**Gerard Aquilina**, Head of International Private Banking at Barclays Wealth

**Stephan Binder**, Partner in the Shanghai office of McKinsey

**Fergal Byrne**, Author of Barclays Wealth Insights report

**Michael Dicks**, Head of Research and Investment Strategy at Barclays Wealth

**Alexander Kotchoubey**, Managing Director of Renaissance Investment Management

**Stuart Pearce**, Chief Executive of the Qatar Financial Centre Authority

**Professor K Ramachandran**, the Indian School of Business

**Jan Smith Ramos**, Director of Financial Services and Co-Founder of InfoAmericas, a research organisation

**Roman Scott**, Managing Director of financial advisory firm Calamander Capital

**Catherine Tillotson**, Head of Research at Scorpio Partnership

**René Werner**, President of Werner and Associés, a Brazilian advisory firm

# Introduction

We are currently witnessing a seismic shift in the location of wealth around the world.

The rise of the market economy in both former and current communist states, together with globalisation, technological and demographic change, and a growing thirst for commodities, have combined to produce conditions under which the mass creation of wealth has been made possible in many low-income countries around the world.

Over the coming decade, the gap in wealth between the world's most developed countries and the leading 'emerging markets' will continue to narrow

At the same time, the continuing economic dominance of the world's established powerhouses can no longer be taken for granted. This shift in the balance of power is already well under way, as can be seen from the way in which countries such as China, India and the Gulf nations are being relied upon to sustain the momentum of the global economy as developed countries in North America and Europe start to run out of steam.

Over the coming decade, the gap in wealth between the world's most developed countries and the leading 'emerging markets' will continue to narrow, with many new millionaires created in China, India, Russia and other countries that are undergoing rapid development. This trend suggests that a point will soon come when it is more appropriate to say that these countries are central players in the global economy, and should no longer be classed as emerging or developing.

The rapid rate of growth and often spectacular returns from local equity and real estate markets have attracted a new and often inexperienced investor public in the new wealth centres. Home bias and an undiversified approach to the allocation of assets is a common characteristic and investor education will play an increasingly important role.

Barclays Wealth Insights 'Evolving Fortunes', examines how personal wealth will change over the coming decade in 50 countries around the world, and explores the factors that will drive these trends. Our analysis is based on a new Household Wealth Index, created especially for this report, which predicts how the global distribution of household wealth will change over the next ten years. For investors, entrepreneurs and executives who are keen to understand the changing patterns and flow of personal wealth, the forecast paints a vivid picture of a rapidly evolving global financial landscape.

# Executive summary

Household Wealth Index*: Top 10 countries in 2007	
USA	1
Japan	2
UK	3
France	4
Italy	5
Germany	6
China	7
Spain	8
Canada	9
Australia	10

Household Wealth Index: Top 10 countries in 2017	
USA	1
Japan	2
China	3
UK	4
Germany	5
France	6
Italy	7
India	8
Canada	9
Spain	10

\* Rankings of 50 countries in order of overall net wealth held by the domestic sector in US dollars

**In the coming decade, the so-called 'BRIC countries' (Brazil, Russia, India and China) are expected to make the most significant wealth gains in our wealth forecast of 50 countries.** In 2007, the countries in the study are ranked in order of overall wealth held by the domestic sector in US dollars. But, only one of the BRICs, China, makes the top 10 of our Household Wealth Index. Looking ahead to 2017, however, China leaps from seventh to third place, and is joined in the top 10 by India. Additionally, Russia and Brazil both experience considerable growth, moving respectively from 19<sup>th</sup> to 11<sup>th</sup> and 15<sup>th</sup> to 12<sup>th</sup> position.

**Leapfrogging emerging markets displace other, more developed economies.** The rise in the rankings of a number of key emerging markets in our Household Wealth Index inevitably displaces several more developed countries. These countries will not necessarily become less wealthy over the coming decade – it is largely the sheer economic power of

leading emerging markets that causes them to be leapfrogged. Some of the countries affected by this trend include Australia, which falls from 10<sup>th</sup> to 16<sup>th</sup> place, South Korea, which falls from 12<sup>th</sup> to 15<sup>th</sup>, and Portugal, which falls from 25<sup>th</sup> to 34<sup>th</sup>.

**By 2017, there will be 12 countries with one million US\$ millionaire households.** In 2007, there were seven countries around the world that contained more than one million millionaire households: Canada, France, Germany, Italy, Japan, the UK and the US – the countries of the G7. During the next decade, they will be joined by five new countries: Spain, the Netherlands, Australia, Taiwan and South Korea. Despite their considerable progress in wealth terms over this period, emerging markets are some way behind according to this measure. Brazil ranks highest in 16<sup>th</sup> place, with 675,000 millionaire households in 2017.

Concentration of US\$ millionaires by country in 2007	
USA	16.6m
UK	4m
Japan	3.6m
France	3m
Italy	2.8m
Germany	2.4m
Canada	1.1m

Concentration of US\$ millionaires by country in 2017	
USA	29.7m
Japan	10.7m
UK	5.3m
Germany	4.1m
France	3.8m
Italy	3.2m
Canada	2m
Spain	1.5m
Netherlands	1.3m
Australia	1.2m
Taiwan	1.2m
South Korea	1.1m

**The hotspots of highest wealth density will remain consistent over the next decade.** The countries with the highest percentages of dollar millionaires in the study tend to be small, densely populated financial centres, such as Singapore, Hong Kong and Switzerland. There is no change at the top of the table between now and 2017.

Countries rising through the ranks in terms of density of millionaires include Japan, Denmark and the Netherlands. At the other end of the table, Brazil and Turkey are climbing the list, but the density of millionaires in China will remain largely unchanged over the next decade, causing its ranking to fall.

Density of households with net wealth in excess of US\$1 million in 2007 (per cent)	
Hong Kong	26.4
Singapore	23.3
Switzerland	22.3
Denmark	17.9
UK	15.6
Ireland	14.8
USA	14.7
Australia	11.9
Italy	11.8
France	11.7

Density of households with net wealth in excess of US\$1 million in 2017 (per cent)	
Singapore	40.7
Hong Kong	39.4
Switzerland	28.1
USA	24.2
Denmark	21.7
Japan	21.3
UK	18.9
Ireland	17.7
Netherlands	17.6
Belgium	17.0

A growing allocation to equities suggests that the investor culture is maturing in key markets but education remains important.

Regulatory change and deepening capital markets are offering households in the new leading wealth centres a more diversified range of investment options.

In China, allocation to equities has increased from 10 per cent in 2004 to 16 per cent in 2007, in Russia it has increased from 49 per cent to 66 per cent and in India from 60 per cent to 69 per cent. By contrast, allocation to equities in the US, UK and Germany has remained more or less constant over the same period. With the development of local capital markets and growing appetite among investors to participate in their countries economic growth, investor education must remain a priority to ensure that the newly wealthy select appropriate investments and portfolios.



# Global wealth trends 2007-17

The Economist Intelligence Unit's wealth forecast examines changes in household wealth over the next decade for 50 countries.

Figures quoted throughout the report include: rankings in a Household Wealth Index (based on the cumulative net worth in US dollars held by the household sector in a country); numbers of households with overall wealth above certain thresholds (usually US\$1 million, US\$3 million and US\$5 million); and the density, or percentage, of households with net wealth over a certain threshold. Household wealth can also be broken down into two components: financial, which includes holdings such as cash, shares, bonds and other liquid assets; and non-financial, which consists mainly of property and land.

The most important development over the next decade, according to our research, is the rapid escalation in household wealth in the key emerging markets of China, India, Russia and Brazil. In 2007, only China makes the top ten wealthiest countries in the world in our Household Wealth Index. By contrast, in 2017, India will have moved into 8<sup>th</sup> position and Russia and Brazil will claim 11<sup>th</sup> and 12<sup>th</sup> positions.

By 2017, it seems clear that the term 'emerging markets', which was first coined in the 1980s by the fund manager Antoine van Agtmael, will be an outmoded way of describing these four countries. While in terms of absolute numbers of wealthy households

China and India will still be some way behind the other denizens of the top ten, with Brazil and Russia advancing to just outside the premier ten, the sheer economic clout of these huge economies – and their dramatic growth in wealth – mean that they will have well and truly emerged on to the global stage.

**Among more developed countries, the US is expected to continue to dominate the Household Wealth Index**

The world's second largest economy in 2007, Japan, also maintains its second place. The UK retains a strong position and shows significant growth in terms of numbers of wealthy households, while France, Germany, Italy, Canada and Spain also show steady progress.



‘Evolving Fortunes examines how personal wealth will change over the coming decade in 50 countries around the world.’

The world's top 10  
wealth centres in 2017

# 1. United States

In 2017, the position at the top of the Household Wealth Index will be held by the US, just as it was in 2007.

Table 1 - Country outlook - United States

	2007	2017
Ranking in Household Wealth Index	1	1
Total net wealth as a percentage of GDP	462 per cent	491 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	1.4 million (1) *	3.5 million (1)
Number of high net worth households with overall wealth in excess of US\$3 million	3.5 million (1)	7.9 million (1)
Number of high net worth households with overall wealth in excess of US\$1 million	16.6 million (1)	29.7 million (1)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	14.7 per cent (7)	24.2 per cent (4)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$39.8 trillion	US\$84 trillion
Average net worth per household	US\$565,000	US\$943,000

\* The numbers in parentheses refer to the country's ranking out of 50 countries.

When wealth is split into its financial and non-financial components, the US also leads the rankings both now and in 10 years time. It currently has 16.6 million households with overall wealth in excess of US\$1 million, and this figure is expected to increase to 29.7 million by 2017. No other country in the world will come close to this growth in absolute terms.

Over the next decade, the US will also see the number of households with wealth in excess of US\$5 million increase from 1.4 million to 3.5 million. Again, no other country in the world comes close to this kind of increase.

Despite the ongoing shift in the balance of global economic power, it is clear that the US will remain the world's greatest wealth centre for the foreseeable future. Its high net worth households (those with wealth in excess of US\$1 million) currently wield a colossal US\$39.8 trillion of wealth between them, which is equivalent to almost two and a half times the US's annual GDP.

The reasons for the US's dominance of the wealth tables are well understood. It has an environment that is highly supportive of entrepreneurship, deep and well-established capital markets, world-class infrastructure and a huge domestic market.

The retail investor culture is also extremely well established in the US. Our research shows that, out of the net financial wealth of households, around 45 per cent is held in equities – a far higher figure than for the other nine

countries in our top 10. Since 2002, the US stock market has recovered well from the bear market that followed the dotcom bust. The Standard & Poor's composite of 500 leading stocks, the S&P 500, has risen by 67 per cent during this period, although if the figures for 2007 are compared with those for the period two years earlier, in 2005, there has been only an 11 per cent increase.

Holdings in real estate in the US make up 46.4 per cent of overall net wealth, which is slightly below average for the developed countries covered by this study. Since 2000, according to the Economist House Price Index, there has been a 75 per cent increase in property prices in the US, although there was a drop between 2006 and 2007, and further slides are expected as the fallout from the subprime crisis continues to settle.

As the housing downturn and the credit crunch take their toll on households and companies in the US, many commentators expect the economy to slip into recession. The Economist Intelligence Unit expects US growth to fall to 0.8 per cent in 2008, and believes that the economy will experience a recession during the year. It expects growth to recover only slowly, to 1.4 per cent, in 2009, owing to the lingering effects of the housing downturn and continued balance-sheet adjustment by banks.

Despite this gloomy short-term outlook, it is clear that the long-term outlook for wealth creation in the US remains bright. For the foreseeable future, the world's largest economy will also remain the world's wealth capital.

#### S&P 500

2000	2001	2002	2003	2004	2005	2006	2007
1,320.28	1,148.08	879.82	1,111.92	1,211.92	1,248.29	1,418.30	1,468.36

# The world's top 10 wealth centres in 2017

## 2. Japan

Currently the world's second-largest economy, Japan has been slowly recovering in recent years following the bursting of the property and stock market bubble.

Table 2 - Country outlook - Japan

	2007	2017
Ranking in Household Wealth Index	2	2
Total net wealth as a percentage of GDP	436 per cent	526 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	55,000 (7)	472,000 (2)
Number of high net worth households with overall wealth in excess of US\$3 million	337,000 (5)	1.5m (2)
Number of high net worth households with overall wealth in excess of US\$1 million	3.6 million (3)	10.7 million (2)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	7.3 per cent (17)	21.3 per cent (6)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$6.3 trillion	US\$21.6 trillion
Average net worth per household	US\$386,000	US\$722,000

Between 2002 and 2007 the country has achieved steady economic growth, and restructuring over the same period has greatly improved the health of the corporate sector, leading to job creation and gradually boosting consumer demand.

This process has also created a new generation of wealthy households, which have been able to capitalise on the opportunities that restructuring has made possible. Over the forecast period, Japan retains its second position in the Household Wealth Index. There are currently around 3.6 million households with wealth in excess of US\$1 million in Japan, but that figure will rise to 10.7 million by 2017 – more than 26 times the absolute number found in China.

Further up the scale, our research shows that there will also be a dramatic increase in the number of households in Japan with wealth in excess of US\$5 million. In 2007, there were around 55,000 households that exceeded this threshold – the seventh-highest number in our study. By 2017, however, that figure will rise to 472,000, putting Japan second-highest behind the US on this measure.

Despite this rosy picture, Japan suffers from its share of problems, including a highly unfavourable demographic profile. Among developed countries, it has one of the lowest fertility rates in the world, at only 1.33 births per woman of child-bearing age in 2001. It also has a rapidly ageing population, in part due to a life expectancy that is

among the highest in the world. Taken together, these factors are causing the labour force to shrink significantly, which will hamper the country's ability to create wealth.

Japan also continues to face a range of economic challenges. Although the Nikkei stock market index has recovered substantially since 2002, it is still at only a fraction of its 1989 peak. Productivity remains low in Japanese industry, and domestic consumption has not taken off to the extent that has been expected, despite a rise in business investment and exports and a fall in unemployment.

In contrast with the vast majority of other developed countries, in Japan real estate prices have fallen since 2000, and currently stand at just 74 per cent of their value eight years ago, according to *The Economist's* House Price Index. Land prices have fallen consistently since the bursting of the property bubble, in some cases by as much as 80 per cent, although recent evidence suggests that Japan is finally pulling out of its asset price deflation. In September 2007, government data was released showing that commercial land prices in Japan had risen for the first time in 16 years.

This depreciation in the value of real estate has encouraged households to be particularly cautious savers. According to our research, 49 per cent of total household assets are held in cash, and just 14 per cent are held in equities.

#### Nikkei Stock Average

2000	2001	2002	2003	2004	2005	2006	2007
13,785.69	10,542.62	8,578.95	10,676.64	11,488.76	16,111.43	17,225.83	15,307.78

# The world's top 10 wealth centres in 2017

## 3. China

China is a towering economic giant and the global economy's industrial powerhouse.

Last year, the country's economy grew by a blistering 10.2 per cent, compared with growth of just 2.2 per cent in the US. This explosive expansion, which has gathered momentum over the past three decades since China began its cautious programme of liberalisation, has created a vast pool of wealth and a new affluent class.

The increase in numbers of high net worth households for China is among the highest in the study. Our research suggests that there are 22,000 households with wealth in excess of US\$1 million, and that this will rise to 409,000 – an increase by a factor of 19. Further down the wealth scale, the numbers are even more striking: there are currently 88,000 households with wealth in excess of US\$500,000 and 2.6 million with wealth in excess of US\$100,000. Over the next decade, these figures will rise to 1.8 million and 75.7 million respectively.

These figures may be large in absolute terms, but they represent only a small proportion of the overall population. "With China, the authorities face challenges concerning the sustainability and distribution of wealth," says Michael Dicks, Head of Research and Investment Strategy at Barclays Wealth. "In particular, they will need to ensure a broad participation in the economy's success to prevent the emergence of social problems and to manage asset prices so that they do not become misaligned from economic fundamentals."

As in other large and successful emerging markets, the stock market has been a major source of wealth creation in China. The capitalisation of the domestic Shanghai stock market has increased approximately seven-fold in the past three years, to reach US\$3.6 trillion in 2007. At the same time, there has been a dramatic increase in the amount of money raised through initial public offerings (IPOs). Over the past

three years, there have been 464 IPOs in China, which have raised US\$134 billion, according to figures from Ernst & Young, the audit firm.

Wealthy Chinese, in common with the wealthy in many emerging markets, hold much of their wealth in cash. According to our research, around 64 per cent of the net financial wealth of households is held in cash – a far higher figure than for most of the other countries covered by our research. The equity culture, on the other hand, is less well developed, with Chinese currently holding around 16 per cent of their assets in stocks and shares. It should be noted, however, that this weighting has increased dramatically in the past few years as opportunities for retail investors have expanded.

Roman Scott, Managing Director of financial advisory firm Calamander Capital, describes the typical wealthy Chinese portfolio as a "bar-bell" structure, with large amounts of cash at one end of the bar-bell, stocks at the other and not much in between. "Wealthy Chinese tend to have a strong presence in high-velocity, high-volatility stocks," he says. "They hold shares for a very short time and they trade ceaselessly. The Chinese are far more trading-oriented than investors in the US and Europe, and they are more comfortable taking on risk. But they only take risks with a very small percentage of their holdings. For every dollar they trade, they hold two dollars in cash."



Table 3 - Country outlook - China

	2007	2017
Ranking in Household Wealth Index	7	2
Total net wealth as a percentage of GDP	216 per cent	208 per cent
Number of households with overall wealth in excess of US\$1 million	22,000 (31)	409,000 (23)
Number of households with overall wealth in excess of US\$500,000	88,000	1.8 million
Number of households with overall wealth in excess of US\$100,000	2.6 million	75.7 million
Percentage of households with overall wealth in excess of US\$1 million (ranking)	Negligible	0.1 per cent (46)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$41.6 billion	US\$795.4 billion
Average net worth per household	US\$18,000	US\$74,000

This portfolio structure may to some extent be determined by the scarcity of medium-risk financial assets in China, but Mr. Scott believes that it has more to do with an innate attitude to risk among Chinese investors. "In Hong Kong, there is a much broader range of asset classes and we still observe similar investment behaviour to that on mainland China," he says. "There is a mix of very low-risk and very high-risk assets, and a lot of trading."

Ongoing liberalisation of the banking sector has provided wealthy Chinese with a broader range of investment choices. For example, in early 2006 commercial banks were allowed to provide offshore wealth management services to local clients, and in May 2007 the China Securities Regulatory Commission enabled retail investors to invest in authorised overseas equity funds.

Despite this ongoing programme, the banking system in China remains tightly controlled. "The reality is that for all but the very wealthiest Chinese, who have bank accounts in Hong Kong, there is no access to the sophisticated investment tools, new wealth management platforms, wide-ranging risk and asset classes that are available in the developed markets," says Mr. Scott.

The high rates of return that have been generated in local markets have dissuaded many Chinese investors from looking overseas. The recent performance of the Chinese real estate market is a good example of how attitudes to risk can become skewed. "You often hear wealthy Chinese asking why they should invest overseas when they can get 10-15 per cent risk-free returns in the local property market," says Stephan Binder, a partner in the Shanghai office of McKinsey, the management consultancy. "Of course, these returns are not risk-free."

A home bias and overreliance on real estate is a characteristic of China and many other emerging markets, according to Mr. Dicks. "The tendency is for

people to have a bias towards home markets in every asset class, and this also applies to property markets," he says. "Individuals often have a simplistic and overly optimistic perception of likely future capital gains that leads them to over invest in property following a period of house price appreciation."

Gerard Aquilina, Head of International Private Banking at Barclays Wealth, believes that investor education is the key to the continuing development of the Chinese investment market. "As in other emerging markets, many wealthy Chinese do not yet have the necessary financial sophistication or understanding of risk and diversification," he says. "Financial education is absolutely essential, through either the financial services industry or the Government. Investor education is absolutely essential to avoid over concentration in any one asset class."

There are many questions that cloud the near-term development of the Chinese economy. Worries about inflation persist, although these fears have been tempered by the prospect of a global slowdown. Political uncertainty remains a concern. China's growing inequality, which has overtaken that of the US and Russia, is placing strains on the political system. Environmental degradation is also a problem.

But despite these concerns, most commentators expect the business environment in China to continue to improve, and few doubt that China's long-term macroeconomic prospects are positive. There will be further liberalisation, with most sectors expected to be opened up within the next four years. Private-sector small and medium-sized enterprises (SMEs) will thrive as access to finance improves. Over the next 25 years, Chinese GDP is expected to surpass that of Germany and Japan, making China the second-largest economy in the world.

# The world's top 10 wealth centres in 2017

## 4. United Kingdom

The UK is one of the leading centres of wealth in the world.

In terms of the number of high net worth households, it is currently exceeded only by the US, although our forecast shows that it will be nudged into third place by Japan over the next decade. Looking at financial assets only, 3.1 per cent of households have wealth in excess of US\$1 million, rising to 7.6 per cent by 2017.

Further up the wealth scale, the UK is currently home to 274,000 households with wealth in excess of US\$5 million. Over the next decade, our research shows that this figure will increase to 396,000 – the third-highest number in the study.

Table 4 - Country outlook - United Kingdom

	2007	2017
Ranking in Household Wealth Index	3	4
Total net wealth as a percentage of GDP	562 per cent	529 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	274,000 (2)	396,000 (3)
Number of high net worth households with overall wealth in excess of US\$3 million	722,000 (2)	1 million (3)
Number of high net worth households with overall wealth in excess of US\$1 million	4 million (2)	5.3 million (3)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	15.6 per cent (5)	18.9 per cent (7)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$9.3 trillion	US\$12.6 trillion
Average net worth per household	US\$599,000	US\$710,000

A vibrant and enterprising financial services sector, a favourable disposition towards free enterprise, flexible labour markets and deep capital markets all combine to create an environment that is highly conducive to wealth creation. In recent years, the UK has also attracted large numbers of wealthy non-domiciled residents from countries such as Russia.

Proposed changes to the non-domiciled tax regime, however, have provoked furious debate. The new regime will require overseas residents in the UK to pay a £30,000 annual tax levy in order to avoid paying tax on their overseas income and capital gains. These moves have attracted praise from some quarters, but have generated anger and resentment among many leading figures in the financial services sector, who fear an exodus of talent should non-domiciles be forced to pay the levy.

More generally, fears about the ongoing fallout from the subprime crisis continue to be felt. The UK relies heavily on the financial services sector – according to official estimates, it made up 9.4 per cent of the economy in 2006 and, over the past decade, contributed about 30 per cent of all corporate tax revenue. Any major downturn affecting the financial sector would have a greater short-term impact on wealth creation in the UK than in other European countries, which do not have the concentration of financial services activity seen in London.

If lending to households and companies is tightened in the UK as a result of the credit crisis, domestic demand growth is set to moderate. As a result, the Economist Intelligence Unit forecasts that real GDP growth will slow from an estimated 3.1 per cent in 2007 to 1.7 per cent this year, before recovering modestly to 2.1 per cent in 2009.

Asset allocation in the UK among retail investors is heavily weighted towards property and pensions. Around 64 per cent of overall net wealth is allocated to property, and around 55 per cent of total financial assets is allocated to pensions and life insurance products, which invest this wealth on behalf of individuals.

The strong allocation to property is perhaps not surprising, given the rapid rises in UK property prices that have been seen in recent years. According to The Economist's House Price Index, the value of property has increased by 125 per cent since 2000. Over the past year, however, house prices have begun to slide, and the uncertain outlook for the real estate market, coupled with the squeeze on real incomes exerted by higher inflation, is forecast to dampen consumer demand.

Compared with the US, the equity culture is less entrenched in the UK, with only about 14 per cent of total financial assets held by retail investors currently invested in stocks and shares. Retail allocation to equities has actually decreased in recent years, from a peak of 24 per cent in 1999 at the height of the technology boom.

#### FTSE

2000	2001	2002	2003	2004	2005	2006	2007
6,370.25	5,558.43	4,595.34	4,047.13	4,520.77	5,157.02	5,922.78	6,404.01

# The world's top 10 wealth centres in 2017

## 5. Germany

Germany is the only country among the G7 to improve its position in the Household Wealth Index over the next decade, rising from sixth place to fifth place.

Table 5 - Country outlook - Germany

	2007	2017
Ranking in Household Wealth Index	6	5
Total net wealth as a percentage of GDP	380 per cent	433 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	91,000 (5)	208,000 (5)
Number of high net worth households with overall wealth in excess of US\$3 million	301,000 (6)	601,000 (4)
Number of high net worth households with overall wealth in excess of US\$1 million	2.4 million (6)	4.1 million (4)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	6 per cent (20)	10.3 per cent (20)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$4.6 trillion	US\$8.5 trillion
Average net worth per household	US\$318,000	US\$443,000

In terms of absolute numbers of high net worth households, Germany scores well, with 2.4 million in 2007, rising to 4.1 million by 2017. But the proportion of these households is relatively small, at 6 per cent in 2007, rising to 10.3 per cent by 2017.

The reunification of Germany in 1989 presented the country with a wide range of social and economic problems to overcome, among them a wealth distribution that lagged considerably behind other developed European economies. However, as our figures illustrate, wealth distribution continues to improve.

Germany enjoys a number of advantages, such as robust infrastructure, a strong manufacturing base and a highly skilled workforce. Wealth transfer is also expected to accelerate as family-owned companies in the large Mittelstand sector either sell out to corporate or financial buyers, or hand over the reins to the next generation.

Unlike in many other European countries, there has been no dramatic increase in real estate prices in Germany in recent years. German households hold around 64 per cent of their wealth in their property, according to our research. German investors are famously risk-averse, and this is borne out by the allocation of their financial assets. Our research shows that investors allocate around 24 per cent of their assets to equities and 34 per cent to cash. In spite of this cultural bias, it is perhaps surprising that the allocation to equities remains so low in Germany. Since 2002, the value of the DAX stock market index has almost trebled – a far stronger performance than that of comparable indices in the US or UK.

#### DAX index

2000	2001	2002	2003	2004	2005	2006	2007
6,433.61	5,160.10	2,892.63	3,965.16	4,256.08	5,408.26	6,596.92	8,067.32



‘The most important development over the next decade, according to our research, is the rapid escalation in household wealth in the key emerging markets of China, India, Russia and Brazil.’

# The world's top 10 wealth centres in 2017

## 6. France

France will see slow but steady growth in the number of its millionaire households over the next decade, from 3 million to 3.8 million.



Table 6 - Country outlook - France

	2007	2017
Ranking in Household Wealth Index	4	6
Total net wealth as a percentage of GDP	519 per cent	469 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	163,000 (3)	217,000 (4)
Number of high net worth households with overall wealth in excess of US\$3 million	438,000 (3)	576,000 (5)
Number of high net worth households with overall wealth in excess of US\$1 million	3 million (4)	3.8 million (5)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	11.7 per cent (10)	14.2 per cent (14)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$6.8 trillion	US\$8.7 trillion
Average net worth per household	US\$518,000	US\$592,000

Further up the scale, the number of households with wealth in excess of US\$5 million will also increase modestly, from 163,000 to 217,000.

The environment for wealth creation in France is expected to remain relatively strong over the forecast period. The country has excellent infrastructure, a highly productive workforce and world-leading international companies, such as Arcelor Mittal, L'Oréal, Suez and Total, all of which reported strong profits in 2007.

These advantages, however, are offset by restrictive labour conditions, an onerous regulatory environment and high levels of state involvement in business affairs. New president, Nicolas Sarkozy, has promised a programme of structural reforms, but it remains to be seen how effective these will be.

French retail investors have a higher allocation to equities than their counterparts in either the UK or Germany, with 29 per cent of total assets allocated to stocks and shares, and a similar proportion to cash. It is also notable that property makes up a very substantial 71.8 per cent of overall household wealth in France. Again, this figure is higher than for either the UK or Germany. Since 2000, The Economist's House Price Index shows that real estate values have more than doubled in France.

Just as the UK is debating the pros and cons of taxing non-domiciled residents, so too France has its own tax controversy. The solidarity tax on wealth, or ISF, applies to all households with net worth of more than €720,000. The tax starts at 0.55 per cent, rising to 1.8 per cent, and applies to all assets, whether revenue-generating or not. Complaints about the stringency of the ISF have encouraged many wealthy French individuals, including the singer Johnny Hallyday and the footballer Zinedine Zidane, to leave the country.

# The world's top 10 wealth centres in 2017

## 7. Italy

Of all the G7 countries, Italy is forecast to achieve perhaps the most modest performance in terms of wealth creation in the next decade.

Table 7 - Country outlook - Italy

	2007	2017
Ranking in Household Wealth Index	5	7
Total net wealth as a percentage of GDP	615 per cent	551 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	136,000 (4)	168,000 (7)
Number of high net worth households with overall wealth in excess of US\$3 million	388,000 (4)	471,000 (6)
Number of high net worth households with overall wealth in excess of US\$1 million	2.8 million (5)	3.2 million (6)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	11.8 per cent (9)	13.6 per cent (17)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$6.7 trillion	US\$8 trillion
Average net worth per household	US\$549,000	US\$596,000

Between 2007 and 2017, it drops from fifth to seventh place in the Household Wealth Index, while the number of millionaire households in the country increases only slightly, from 2.8 million to 3.2 million. Further up the wealth scale, there is a similarly modest increase in the number of households with wealth in excess of US\$5 million, from 136,000 to 168,000.

Italy has a strong culture of small and medium-sized family businesses, which has provided a solid foundation for wealth, but the limited resources of these companies means that further international expansion is difficult. Italy is generally perceived as less welcoming of foreign investment than most other European countries, and there is often considerable opposition to takeovers by overseas companies. The country also has one of the world's most rapidly ageing populations, and over time this is likely to reduce the number of next-generation entrepreneurs who will come through the ranks.

# The world's top 10 wealth centres in 2017

## 8. India

In less than two decades, India has been transformed from a slow-growing agrarian country into one of the world's most dynamic economies.

Gross Domestic Product (GDP) has grown at an average of more than 8 per cent annually over the past three years and by 8.7 per cent in the most recent fiscal year, making India the second-fastest-growing major economy in the world. This economic boom has led to an unprecedented level of wealth creation.

India also has one of the fastest-growing affluent markets in the world. Although the country starts from a very low base, our Household Wealth Index suggests that there will be 411,000 households with wealth in excess of US\$1 million in the country by 2017. The numbers of mass affluent, with wealth over US\$500,000, is expected to rise from a negligible figure in 2007 to 1.9 million by 2017.

In recent years, the Indian stock market, which has seen a five-year bull run, has generated significant wealth. The Bombay Sensex Index has risen sixfold over the past five years, and climbed by 47 per cent in 2007. There has been a run of IPOs on the back of this: 237 over the past three years, according to figures from Ernst & Young. Some 25 per cent of Indian billionaires have made their fortunes through IPOs, according to *Business Standard*, an Indian newspaper.

Indian industrial families have often been beneficiaries of these IPOs. "Indian industrial families are unusually global in outlook," says Mr. Aquilina. "It is not unusual to

see family enterprises spread across the world with family members in Kenya, Canada, the UK and so on. They draw great strength from their ability to bring together and share ideas and expertise, and to benefit from collective knowledge," he says.

Self-made entrepreneurs have also benefited from these IPOs, with Indian entrepreneurship on the rise. "A wave of successful, high-growth businesses grew up around the software industry," says Professor K. Ramachandran of the Indian School of Business. "But this entrepreneurial spirit has not been limited to the software industry. People are generally more confident and optimistic about the possibilities of building their own businesses. We are also seeing a trend where members of industrial families are setting up new businesses, often diversified. These businesses start with favourable access to capital, social and support networks."

Table 8 - Country outlook - India

	2007	2017
Ranking in Household Wealth Index	14	8
Total net wealth as a percentage of GDP	224 per cent	264 per cent
Number of high net worth households with overall wealth in excess of US\$1 million	Negligible	411,000 (22)
Number of high net worth households with overall wealth in excess of US\$500,000	Negligible	1.9 million
Number of high net worth households with overall wealth in excess of US\$100,000	2.1 million	29 million
Percentage of households with overall wealth in excess of US\$1 million (ranking)	Negligible	0.2 per cent (42)
Wealth held by high net worth households with wealth in excess of US\$1 million	Negligible	US\$1.7 trillion
Average net worth per household	US\$12,000	US\$57,000

As in many emerging markets, the wealthy in India have historically kept much of their wealth in tangible goods. Recent research by McKinsey reveals that Indian households hold more than half of their savings in physical assets like land, houses, cattle and gold. The latter has always had pride of place among Indians, who are the world's largest consumers of gold. Recent estimates suggest that the population owns US\$200 billion in gold, equal to nearly half of the country's bank deposits.

More recently, affluent Indians, in keeping with the preference for tangible investments, have been investing in the Indian property market. Indian real estate has generated stellar returns on the back of low interest rates, strong demand and a huge influx of investment from sovereign wealth funds and Middle East investment groups, among others. Our research shows that property currently accounts for around 43 per cent of overall household wealth in India.

"There has been a widespread investment in Indian real estate by all sectors of the affluent community," says Professor Ramachandran. "You would be unlikely to come across a wealthy Indian today who does not have a strong presence in real estate."

India's financial markets have expanded and deepened in recent years, according to research by the McKinsey Global Institute. The country's financial assets stood at US\$1.8 trillion in 2006, more than double its GDP – a higher ratio than in Latin America, Eastern Europe or Russia. Compared with other emerging markets, there is a very strong allocation to the equity markets among retail

investors in India. Our research shows that around 69 per cent of household financial assets are allocated to equities, compared with 25 per cent to cash. The proportion allocated to equities has increased gradually in recent years, from 60 per cent in 2004 to its present level of 69 per cent.

Although Indian financial markets are maturing, many affluent Indians have yet to take on board more conventional ideas of risk and diversification. Catherine Tillotson, Head of Research at Scorpio Partnership, points out that many affluent Indians, who see themselves as low-risk investors, often have concentrated risk patterns due to their heavy exposure to local equity markets. "With stock markets historically achieving 40 per cent rates of return, it has been hard for investors to really consider diversifying by looking at other markets," she says. "Perceptions of risk are very different when you have been used to achieving 40 to 50 per cent growth rates every year."

Longer term, India's economic prospects look rosy, although there remain obstacles to growth, including poor infrastructure, trade barriers and a shortage of skilled labour. India's increasing integration into the global economy, favourable demographics and improving levels of productivity augur well for the continuing rapid growth of the economy.

# The world's top 10 wealth centres in 2017

## 9. Canada

A healthy economy, strong growth and high living standards combine to make Canada one of the world's wealthiest countries.

Table 9 - Country outlook - Canada

	2007	2017
Ranking in Household Wealth Index	9	9
Total net wealth as a percentage of GDP	322 per cent	372 per cent
Number of high net worth households with overall wealth in excess of US\$5 million	69,000 (6)	176,000 (6)
Number of high net worth households with overall wealth in excess of US\$3 million	191,000 (7)	429,000 (7)
Number of high net worth households with overall wealth in excess of US\$1 million	1.1 million (7)	2 million (7)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	8.9 per cent (13)	15.2 per cent (12)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$3.4 trillion	US\$6.3 trillion
Average net worth per household	US\$373,000	US\$597,000

Among the G7 economies it is surpassed only by the US in terms of per-capita GDP: Canada's per-capita GDP stands at around US\$41,050 at market exchange rates, compared with US\$45,790 for the US. Our research shows that there are currently 1.1 million households in Canada with wealth in excess of US\$1 million, and that this will rise to 2 million by 2017. The proportion of households with wealth in excess of this level is 8.9 per cent, rising to 15.2 per cent by 2017.

In a symbolic moment for the country, September 2007 saw the value of the Canadian dollar exceed that of the US dollar for the first time since 1976, pushed up by demand for Canada's commodities. Canada also boasts strong economic fundamentals, with 10 years of federal budget surpluses and a current-account surplus that contrasts with the deficit of its southern neighbour. Although close ties with the US as a result of the North American Free-Trade Agreement (NAFTA) could dent growth should market conditions in the world's largest economy deteriorate as expected, it is likely that this would be partly offset by demand for commodities, such as oil, gas, metals and other minerals, in which Canada is relatively rich.

To the south of the US, Mexico is the other signatory of NAFTA. It is 20<sup>th</sup> in the Household Wealth Index rankings, and our forecast suggests that it will climb to 18<sup>th</sup> place by 2017. It currently has 96,000 high net worth households, and this figure is expected to rise to 345,000 by 2017.

Mexico has derived substantial benefits from its relationship with the US: around two-thirds of foreign direct investment (FDI) comes from its neighbour, while about 70 per cent of exports are destined for the US. Mexico is one of the world's largest oil producers, despite holding only around 1 per cent of global reserves. It is also home to cement manufacturer Cemex, one of the world's leading emerging-market multinationals, with annual sales of US\$18 billion.

Like Canada, however, Mexico is dependent to some extent on the fortunes of the US, although it will be more resilient in the event of a future downturn in the US economy than may once have been the case. Further constraints on wealth creation include a complex tax regime, resistance to the liberalisation of some sectors, such as energy, and inflexible labour market regulations.

# The world's top 10 wealth centres in 2017

## 10. Spain

Following its accession to the European Union in 1986, Spain quickly developed a reputation as an attractive destination for foreign investment, thanks to its large and growing domestic market and relatively low wage costs.



Table 10 - Country outlook - Spain

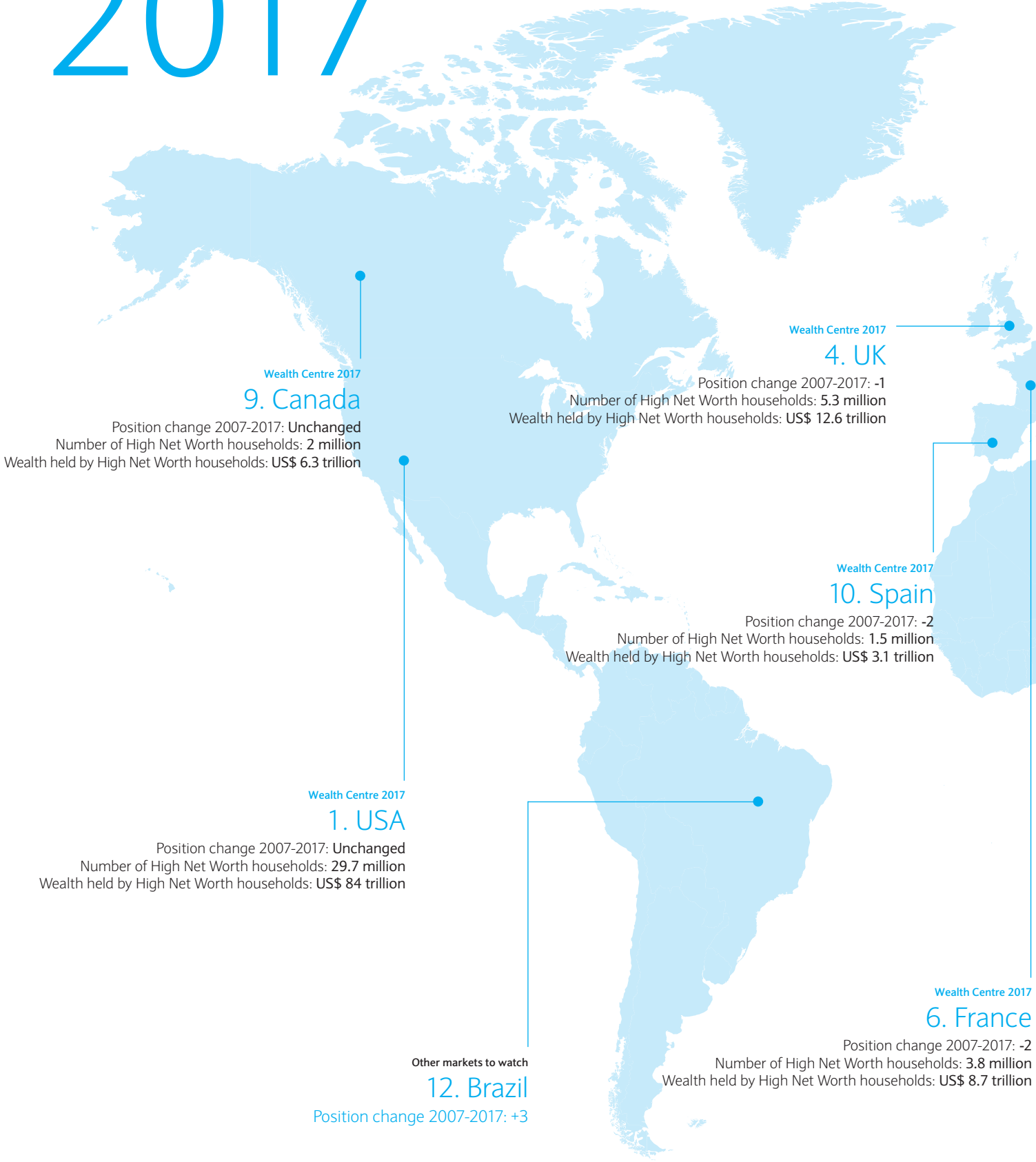
	2007	2017
Ranking in Household Wealth Index	8	10
Total net wealth as a percentage of GDP	359%	355%
Number of high net worth households with overall wealth in excess of US\$5 million	45,000 (11)	77,000 (11)
Number of high net worth households with overall wealth in excess of US\$3 million	130,000 (10)	215,000 (10)
Number of high net worth households with overall wealth in excess of US\$1 million	977,000 (8)	1.5m (8)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	6.3% (18)	8.9% (21)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$2 trillion	US\$3.1 trillion
Average net worth per household	US\$331,000	US\$427,000

Many multinationals thrived in this environment and the Spanish economy benefited from these strong inflows of FDI. More recently, Spain had developed its own local champions that have emerged onto a local stage with bold cross-border acquisitions. For example, construction company Ferrovial purchased a majority stake in the UK airport authority BAA, the utility Iberdrola acquired Scottish Power, while banking group Santander acquired Abbey.

Strong economic performance has created a fruitful environment for wealth creation. Spain is currently ranked eighth in our Household Wealth Index, although it slides to tenth over the forecast period, in large part because of the strong performance of China and India. It currently has 977,000 households with more than US\$1m in assets, and this number is forecast to rise to 1.5 million by 2017.

There are clouds on the horizon, however. A significant proportion of wealth has been created on the property market, but with house prices faltering, there will be limited growth in this sector over the next few years. Rising interest rates also present a problem because many leading Spanish businesses have financed their expansion with large amounts of borrowing.

# Wealth Centres 2017



Wealth Centre 2017

## 9. Canada

Position change 2007-2017: Unchanged  
Number of High Net Worth households: 2 million  
Wealth held by High Net Worth households: US\$ 6.3 trillion

Wealth Centre 2017

## 4. UK

Position change 2007-2017: -1  
Number of High Net Worth households: 5.3 million  
Wealth held by High Net Worth households: US\$ 12.6 trillion

Wealth Centre 2017

## 10. Spain

Position change 2007-2017: -2  
Number of High Net Worth households: 1.5 million  
Wealth held by High Net Worth households: US\$ 3.1 trillion

Wealth Centre 2017

## 1. USA

Position change 2007-2017: Unchanged  
Number of High Net Worth households: 29.7 million  
Wealth held by High Net Worth households: US\$ 84 trillion

Wealth Centre 2017

## 6. France

Position change 2007-2017: -2  
Number of High Net Worth households: 3.8 million  
Wealth held by High Net Worth households: US\$ 8.7 trillion

Other markets to watch

## 12. Brazil

Position change 2007-2017: +3

Wealth Centre 2017

## 5. Germany

Position change 2007-2017: +1  
Number of High Net Worth households: 4.1 million  
Wealth held by High Net Worth households: US\$ 8.5 trillion

Wealth Centre 2017

## 7. Italy

Position change 2007-2017: -2  
Number of High Net Worth households: 3.2 million  
Wealth held by High Net Worth households: US\$ 8 trillion

Other markets to watch

## 11. Russia

Position change 2007-2017: +8

Wealth Centre 2017

## 2. Japan

Position change 2007-2017: Unchanged  
Number of High Net Worth households: 10.7 million  
Wealth held by High Net Worth households: US\$ 21.6 trillion

Wealth Centre 2017

## 3. China

Position change 2007-2017: +4  
Number of High Net Worth households: 409,000  
Wealth held by High Net Worth households: US\$ 795.4 billion

Other markets to watch

## 16. Hong Kong

Position change 2007-2017: -1

Other markets to watch

## 28. Malaysia

Position change 2007-2017: +7

## 25. Singapore

Position change 2007-2017: +3

Wealth Centre 2017

## 8. India

Position change 2007-2017: +6  
Number of High Net Worth households: 411,000  
Wealth held by High Net Worth households: US\$ 1.7 million

Other markets to watch

## The Gulf

Growth in GDP estimated at 8.3 %



‘In many Middle East countries there is a strong cultural bias towards investing in physical assets or direct business transactions.’

Other markets to watch

# More wealth than ever before in Russia

Just outside the top ten, Russia moves eight places from 19<sup>th</sup> to 11<sup>th</sup> position in our Household Wealth Index.

As a result, there is more wealth in Russia than ever before. Our research suggests that there are currently around 17,000 households in Russia with wealth in excess of US\$1 million, and this is predicted to increase to around 508,000 by 2017. This is still, however, a relatively small proportion of the population – negligible currently and rising to one per cent by the end of the forecast period.

There is no tradition of wealth in modern Russia. The first wave of modern Russian wealth creation dates from the controversial privatisation programme of the 1990s, when the Soviet system was being dismantled. Vast fortunes were created almost overnight as insiders were able to win exclusive government contracts and acquire assets at subsidised prices.

In recent years, the stock market has been the predominant source of wealth creation in Russia. Over the past three years, the Russian RTS stock market index has more than tripled in value, and there have been 52 IPOs raising almost US\$42 billion, according to Ernst & Young. The allocation of household wealth to equities has increased gradually in recent years: our research shows that this allocation stood at 49 per cent in 2004 but had reached 66 per cent by 2007.

Money from share sales has helped to swell the fortunes of established and well-connected Russian businessmen. However, these tend not to be self-made entrepreneurs in the western sense of the word.

“The legal and financial frameworks in Russia are very cumbersome to the small or medium-sized business owner,” says Alexander Kotchoubey, Managing Director of leading Russian investment-management company Renaissance Investment Management. “To be successful in Russia, you need to have high-level contacts and relationships with people in power. Entrepreneurship and new business growth will, however, be crucial to the next stage of Russian economic development.”

Real estate has been the other main dynamo of wealth creation in Russia, and our research shows that property accounts for around 60 per cent of all household wealth. High rates of economic growth, a shortage of suitable residential and commercial property, more widely available credit and an influx of foreign capital investment have led to a property boom, during which investors have been able to enjoy double or triple digit returns. Moscow, where property prices are among the highest in the world, has been the main centre of attention. As the Moscow market is now cooling, the focus is shifting to St Petersburg and secondary cities like Ekaterinburg.

Table 11 - Country outlook - Russia

	2007	2017
Ranking in Household Wealth Index	19	11
Total net wealth as a percentage of GDP	129 per cent	178 per cent
Number of households with overall wealth in excess of US\$1 million	17,000 (32)	508,000 (19)
Number of households with overall wealth in excess of US\$500,000	127,000	1.8 million
Number of households with overall wealth in excess of US\$100,000	2.8 million	16.7 million
Percentage of households with overall wealth in excess of US\$1 million (ranking)	Negligible	1 per cent (34)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$136.8 billion	US\$1.33 trillion
Average net worth per household	US\$31,000	US\$120,000

Property is an attractive investment in emerging markets like Russia because it is tangible: you can see it, touch it and feel it," says Mr. Aquilina. "Property has also been a traditional hedge against inflation. Russian investors have been among the leading property investors in the south of France, the UK and other international markets for many years."

Ms. Tillotson believes that Russian attitudes to risk and investment have been defined by the country's recent political and economic history. "Russians have little experience of normal financial risk," she says. "In Russia, the wealthy are either used to the idea of losing all their money, or making returns of 50 to 100 per cent, as in the recent performance of the property and stock markets. Political risk overshadows all other risks. Corruption and the risk of appropriation remain ever-present."

These fears undoubtedly help to explain Russians' preference for cash holdings. "Wealthy Russians traditionally hold large amounts of their wealth in cash, and offshore. These are their 'sacred assets'," says Mr. Kotchoubey. "Their most important priority has been to protect their wealth and to make sure it is safe."

Although there has not until recently been a culture of wealth in Russia, experts say that wealthy Russians are developing a better understanding of the principles of modern finance. "It's no longer just about protecting their assets," says Mr. Kotchoubey. "Affluent Russians are no longer happy with negative returns from their cash holdings. Many are looking at new investments, for ways of increasing their exposure to riskier assets. And we are beginning to see more interest in rouble-denominated funds."

Indeed, with amnesties being offered to bring money back onshore, many affluent Russians are putting their money to work in the mainstream economy. But they are still cautious about taking on political risk. "A lot of the offshore Russian money that is starting to come back onshore is being channelled through offshore corporate structures, so investors still have a measure of protection," says Ms. Tillotson. "Cyprus, for example, is the largest foreign investor in Russia, largely for this reason."

Looking to the future, there is little doubt that Russia's oil and gas industry will continue to generate vast amounts of wealth. But experts worry about Russia's dependence on oil and gas to the detriment of other parts of the economy. Continuing uncertainty about property rights, corruption and the inexorable centralisation of power in the hands of former president Vladimir Putin also weigh on prospects for the future development of the Russian economy.

Moreover, Russia has an unfavourable demographic profile, due to low birth rates and relatively low life expectancy compared with developed countries. Since 1992, the population has shrunk by more than 6 million. Russia's demographic shortcomings have serious implications for the country's future, because they are likely to result in a shortage of the labour resources required to sustain high economic growth rates.

Nevertheless, Mr. Kotchoubey remains optimistic about the continuing development of the Russian economy. "There is always more to be done," he says, "but it takes time. I believe the Russian regulators are adapting and moving as fast as is feasible to implement change."

Other markets to watch

# Brazil will lead BRICs on number of US\$ millionaire households

Although it may not yet have experienced the heady growth that other leading emerging markets have enjoyed, Brazil is nevertheless an emerging-market success story.

By 2017, it will hold 12<sup>th</sup> position in the Household Wealth Index. According to our research, the number of households in Brazil with wealth in excess of US\$1 million is forecast to be 675,000 by 2017 – a considerably higher figure than its emerging market peers of China, India and

Russia. By 2017, Brazil will also be home to the largest number of millionaires in Latin America – it will overtake Mexico, which currently has more millionaires, in 2013.



Table 12 - Country outlook - Brazil

	2007	2017
Ranking in Household Wealth Index	15	12
Total net wealth as a percentage of GDP	187%	267%
Number of high net worth households with overall wealth in excess of US\$1 million	Negligible	675,000 (16)
Number of households with overall wealth in excess of US\$500,000	450,000	2.6m
Number of households with overall wealth in excess of US\$100,000	6.3m	15m
Percentage of households with overall wealth in excess of US\$1 million (ranking)	Negligible	1 per cent (34)
Wealth held by high net worth households with wealth in excess of US\$1 million	Negligible	US\$869 billion
Average net worth per household	US\$44,000	US\$102,000

Brazil's abundant mineral resources, natural gas and oil deposits, and large forestry and agricultural sectors, have been the key to much of its wealth. The country is the world's largest exporter of a wide range of commodities, for which demand has been booming, particularly as a result of the rapid development of China and India.

A surging stock market has also produced considerable wealth. The benchmark Brazilian Bovespa index has risen by almost 250 per cent in the past three years and climbed by 47 per cent in 2007 alone. In US dollar terms, levels of growth have been even higher. Since 2005, there have been 98 IPOs on the main market of the Bovespa, according to Ernst & Young. Allocation among household investors to equities has increased gradually, from 21 per cent in 2004 to 25 per cent in 2007.

Brazil's wealth has historically been concentrated in the hands of a number of rich industrial families, many of which have benefited from these share sales. But entrepreneurship is becoming more important, bureaucracy and red tape notwithstanding, according to René Werner, President of Werner and Associés, a Brazilian advisory firm. "Brazilians are naturally very entrepreneurial, and you can feel an increasingly entrepreneurial mood in the business community," he says.

Past economic and political uncertainty, and a long history of hyperinflation, led many wealthy Brazilians to hold their assets offshore. More recently, improved economic and political stability has encouraged many of them to turn their attention to the domestic market.

In the past few years, wealthy Brazilians have invested heavily in real estate. The property market boom has been driven by an emerging middle class with aspirations to own their own houses, together with a shortage of suitable property. At the same time, there has been a loosening of credit conditions, while a burgeoning mortgage market has allowed many more Brazilians to buy property for the first time.

When it comes to international investment, there has been a trend away from US dollar holdings towards Europe in the past few years, according to Jan Smith Ramos, Director of Financial Services and co-founder of InfoAmericas, a research organisation. "Some of this can be attributed to the Patriot Act in the US," he says. "Many wealthy Brazilians are concerned that their money could be taken away if the US administration turned against them. This has clearly influenced some Brazilians to invest in Europe. Of course, this has been helped by the close ties many Brazilian families have with the continent."

Looking forward, Brazil's overall economic outlook remains positive, despite concerns about the sluggish pace of economic reform, infrastructure problems and continuing inequality. Over the next few years, the Economist Intelligence Unit expects the economy to grow at a slightly slower rate than in the past four years, on the back of the government's prudent macroeconomic policy stance and the ongoing development of the domestic market. In the longer term, Brazil's commodity riches, energy self-sufficiency and young population, together with further economic liberalisation, should help to ensure that the economy's longer-term prospects remain bright.

Other markets to watch

# The Gulf Co-operation Council

No one told the six countries of the Gulf Co-operation Council (GCC) that there was an economic downturn.

As recession in the US becomes ever more likely, and as the business world in North America, Europe and Asia is gripped by a credit squeeze, the economic success story of the oil-rich Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates [UAE]) continues unabated. Growth in GDP for the UAE for 2008 is forecast by the Economist Intelligence Unit at 8.3 per cent, and it is expected to reach 11.7 per cent in Qatar. The latter country also has one of world's highest levels of per-capita GDP, at around US\$64,000.

Much of this rapid increase in liquidity can, of course, be attributed to demand for commodities, which is currently being driven in large part by resource-hungry Asian countries. According to the IMF, annual oil exports from the GCC countries have reached US\$400 billion, and are forecast to rise to US\$450 billion next year.

Other factors, however, have also played a part in the huge increase in wealth in the region. Low interest rates, the repatriation of finance in the wake of the September 11 2001 terrorist attacks, and the policy decision of many GCC governments to diversify their economies beyond hydrocarbons have all played a role. Liquidity generated from fossil fuels has been invested in huge, multi-billion-dollar infrastructure projects, including upstream oil and gas facilities, and in civil

projects, such as roads, ports, airports and new business districts. This large-scale investment creates huge opportunities in property, construction, engineering and other related industries and, by extension, substantial new wealth.

As a result of these trends, privately held wealth in the region has increased significantly. According to the Qatar Financial Centre Authority, onshore liquid assets held in the GCC countries totalled US\$78 billion in 2004, equivalent to 16 per cent of regional GDP. The data also states that, whereas the largest source of wealth in North America and Europe tends to be business ownership and corporate income, in the GCC it is most likely to be family inheritance.

Large family businesses tend to be the dominant economic force within the region, and to date there has been not been the kind of thriving entrepreneurial SME sector that exists in Europe or North America. "The businesses that have made most money in the region have tended to be those that have been established for some years, in industries such as construction, property or hotel management," says Stuart Pearce, Chief Executive of the Qatar Financial Centre Authority. "The families that control these businesses have been able to generate wealth as a result of the investments made by the government in their economies."

In many GCC countries there is a strong cultural bias towards investing in physical assets or direct business transactions. "Real estate remains by far the preferred asset class for investors in the GCC," says Osmah Ibrahim Al-Saleh, Executive Vice-President of the Investment Dar, an Islamic finance and investment institution based in Kuwait. "Investors are familiar with this asset class – there is a 'bricks-and-mortar' mentality."

This preference for the tangible has been reinforced recently by two separate events: first, the bruising stock market correction of early 2006, which left many retail investors in the region nursing significant losses; and second, the real estate boom in the UAE and elsewhere, where property prices have been increasing rapidly for a number of years. Some commentators warn, however, of a bubble forming, with concerns being raised about a glut of new-build property about to enter the market that could cause an excess of supply.

Despite a deepening of the investor culture in recent years, the process that investors adopt for asset allocation is not always carefully considered. Mr. Al-Saleh points out that, traditionally, many investors have merely chased the most attractive returns. He believes, however, that this situation is starting to change. "Over the past two years, there has started to be a much greater focus on discipline in asset allocation in the GCC," he says. "Investors are moving away from the mentality of just chasing the highest returns and putting all your money in one basket. There is much greater emphasis now on portfolio diversification and allocation in terms of asset classes, geography and regions, and so on."

The growth in private wealth has attracted a large number of private banks and wealth-management firms to the region. "You certainly see a trend for private banks putting assets on the ground, and you're also seeing a lot of interest from fund managers who want to be closer to their clients," says Mr. Pearce. "They can do that because in Bahrain, Dubai and Qatar there are legal and regulatory constructs that allow them to operate in an environment that they understand."

Table 13 - Country outlook - UAE

Trade flows in the United Arab Emirates	2004	2005	2006	2007	2008	2009	2010	2011
Foreign direct investment inflows (US\$bn)	10.0	12.0	16.0	15.0	12.0	11.8	12.3	13.0
Inward foreign direct investment stock (US\$bn)	16.2	28.2	44.2	59.2	71.2	82.9	95.2	108.2
Foreign direct investment outflows (US\$bn)	2.2	3.7	4.0	3.8	3.0	3.8	4.0	4.5
Outward foreign direct investment stock (US\$bn)	3.4	10.1	14.1	17.8	20.8	24.6	28.6	33.1

Although the UAE does not publish official FDI figures, semi-official data suggest that inflows are high and rising. The UN Conference on Trade and Development (UNCTAD) puts FDI inflows into the UAE at US\$12bn in 2005-some 60% of total inflows into the Gulf Co-operation Council (GCC) that year. In view of the ongoing real-estate boom in the country, which is drawing investors to Dubai and to Abu Dhabi, the Economist Intelligence Unit estimates that FDI inflows rose to US\$16bn in 2006. Based on these figures and trends, we estimate that the stock of FDI stood at US\$44bn or 27% of GDP in 2006. With international oil prices forecast to

remain above their long-term average over the next five years, and concomitant liquidity in the region therefore expected to remain high, we expect the stock of FDI to exceed US\$100bn by 2011 (around 33% of GDP). The lack of official data makes it difficult to analyse the sources of FDI into the UAE, but in mid-2007 the Ministry of Finance and Industry published its *Investment Environment Report 2006*, which stated that in 2006 the EU accounted for 35% of FDI, followed by other GCC countries with 26%, Asia-Pacific (led by Japan) with 19% and the Americas with 2%.

## Other markets to watch

# Hong Kong, Singapore and Malaysia - growing Asian wealth centres

Hong Kong is currently home to the world's highest density of millionaire households, although our forecast suggests that it will still lose this distinction to Singapore over the coming decade.

Among a population of just 7 million there are 597,000 households with net worth in excess of US\$1 million, and while the population is expected to remain fairly steady over the forecast period, the number of households with wealth above US\$1 million is forecast to increase to 980,000. Hong Kong boasts a world-class

infrastructure, low rates of taxation and a strategic position as the gateway to China's booming economy. These factors are likely to prove highly influential in cementing its position as one of the key wealth centres in Asia over the coming decade.

Table 14 - Country outlook - Hong Kong

	2007	2017
Ranking in Household Wealth Index	16	17
Total net wealth as a percentage of GDP	1152%	962%
Number of high net worth households with overall wealth in excess of US\$5 million	62,000 (7)	148,000 (8)
Number of high net worth households with overall wealth in excess of US\$3 million	145,000 (9)	312,000 (8)
Number of high net worth households with overall wealth in excess of US\$1 million	598,000 (12)	980,000 (13)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	26.4 per cent (1)	39.4 per cent (2)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$1.8 trillion	US\$3.6 trillion
Average net worth per household	US\$1m	US\$1.7m

Although Hong Kong boasts the highest wealth density in our study, Singapore currently stands close behind and indeed eclipses the former on this measure by 2017. Around 23.3 per cent of its residents have wealth in excess of US\$1 million, and this is forecast to rise to 40.7 per cent by 2017. In recent years, Singapore has made efforts to diversify its economy away from manufacturing toward higher-value-added activities, such as technology

and financial services. Previously protected sectors, such as financial services, have been liberalised, while various bilateral free-trade agreements have been negotiated to promote FDI. Singapore is also home to Temasek, one of the largest sovereign wealth funds, which holds a 9 per cent stake in Merrill Lynch as well as stakes in both Standard Chartered and Barclays.

Table 15 - Country outlook - Singapore

	2007	2017
Ranking in Household Wealth Index	28	25
Total net wealth as a percentage of GDP	575%	558%
Number of high net worth households with overall wealth in excess of US\$5 million	22,000 (14)	68,000 (14)
Number of high net worth households with overall wealth in excess of US\$3 million	54,000 (15)	146,000 (14)
Number of high net worth households with overall wealth in excess of US\$1 million	245,000 (18)	463,000 (20)
Percentage of households with overall wealth in excess of US\$1 million (ranking)	23.3 per cent (2)	40.7 per cent (1)
Wealth held by high net worth households with wealth in excess of US\$1 million	US\$672 billion	US\$1.6 trillion
Average net worth per household	US\$882,000	US\$1.7m

The government of Malaysia, which lies to the north of Singapore, has set itself the task of attaining developed nation status by 2020. In recent years, Malaysia has had notable successes in attracting FDI, and in positioning itself as an attractive base for high-technology manufacturing and services. In our forecast, it rises through the Household Wealth Index rankings from 35<sup>th</sup> to 28<sup>th</sup> place. Despite the optimistic outlook, inequalities

in wealth distribution are currently far more pronounced compared with more developed countries. Our forecast shows that there are currently 0.8 per cent of households with wealth in excess of US\$1 million, and that this proportion will rise to 3.6 per cent by 2017.

# Conclusion

During the next decade, much will change in the global wealth landscape. There will be many millions of new dollar millionaires, and they will be spread over a far wider selection of countries around the world than has historically been the case.

In terms of sheer numbers, there will be little change at the top - countries such as the US, the UK, France, Germany and Japan will still have many more high net worth individuals than anywhere else. But these dominant wealth centres are being joined by other, rapidly emerging, economies in which wealth creation opportunities are swelling the ranks of high net worth households.

For luxury-goods companies and providers of services to a wealthy population, this development will be highly encouraging. The traditional markets of North America and Europe will continue to be core, vital sources of revenue, but by contrast, the wealth centres of Asia and key markets featured in the Household Wealth Index will provide exciting, dynamic and great potential for wealth generation during the next decade.

For financial investors, the opportunities for wealth creation through capital markets in rising economies are becoming more widespread. Deregulation, privatisation and the opening up of the financial services sector have given rise to growing numbers of IPOs, private-equity deals, mergers and acquisitions, and other such transactions. This trend, coupled with strong performance in many emerging-market stock markets, has helped to divert assets in these regions away from the more traditional “tangible” investment strategies of real estate or direct investment in business.

There can be no certainty about any prediction, and there are many factors that could derail the potential growth of wealth in both developed and developing countries. Political uncertainty, governance scandals, financial mismanagement and currency crises have all unexpectedly undermined economic development in the past, and will certainly do so again. Nevertheless, setting these risks aside, it is clear that the overall trend emerging from our research is a narrowing of the wealth gap between the traditional wealth centres of the G7 and the new economic powerhouses of China, Russia, India and other such countries. Over time, the widespread possession of wealth will cease to be something that we automatically associate with a handful of economic superpowers.

# Appendix

## Appendix 1 - The Economist Intelligence Unit

This report was prepared by Barclays Wealth in co-operation with the Economist Intelligence Unit. As part of the research, the Economist Intelligence Unit conducted in-depth interviews with a range of industry experts; created the wealth forecast used in the main report and analysed the findings.

## Appendix 2 - Additional data

Household Wealth Index*: Countries in 2007	
USA	1
Japan	2
UK	3
France	4
Italy	5
Germany	6
China	7
Spain	8
Canada	9
Australia	10
South Korea	11
Taiwan	12
Switzerland	13
India	14
Brazil	15
Hong Kong	16
Netherlands	17
Belgium	18
Russia	19
Mexico	20

Household Wealth Index: Countries in 2017	
USA	1
Japan	2
China	3
UK	4
Germany	5
France	6
Italy	7
India	8
Canada	9
Spain	10
Russia	11
Brazil	12
South Korea	13
Netherlands	14
Taiwan	15
Australia	16
Hong Kong	17
Mexico	18
Switzerland	19
Belgium	20

## Appendix 2 - Additional data - continued

Household Wealth Index*: Countries in 2007	
Denmark	21
Sweden	22
Austria	23
South Africa	24
Portugal	25
Greece	26
Norway	27
Singapore	28
Ireland	29
Finland	30
Poland	31
Turkey	32
Israel	33
New Zealand	34
Malaysia	35
Thailand	36
Argentina	37
Chile	38
Hungary	39
Venezuela	40
Czech Republic	41
Indonesia	42
Romania	43
Philippines	44
Colombia	45
Pakistan	46
Kazakhstan	47
Slovakia	48
Peru	49
Bulgaria	50
Sri Lanka	51
Ecuador	52

Household Wealth Index: Countries in 2017	
Sweden	21
South Africa	22
Austria	23
Denmark	24
Singapore	25
Turkey	26
Greece	27
Malaysia	28
Poland	29
Portugal	30
Norway	31
Thailand	32
Ireland	33
Israel	34
Argentina	35
Finland	36
Chile	37
Indonesia	38
Venezuela	39
Philippines	40
Czech Republic	41
Hungary	42
New Zealand	43
Colombia	44
Romania	45
Pakistan	46
Kazakhstan	47
Peru	48
Slovakia	49
Bulgaria	50
Sri Lanka	51
Ecuador	52



Number of households with net worth greater than US\$1 million in 2007 (000s)		
1	USA	16658
2	UK	4068
3	Japan	3596
4	France	3004
5	Italy	2768
6	Germany	2381
7	Canada	1086
8	Spain	977
9	Australia	929
10	Switzerland	744
11	Taiwan	601
12	Hong Kong	598
13	Belgium	458
14	Denmark	447
15	South Korea	433
16	Netherlands	411
17	Sweden	332
18	Singapore	245
19	Norway	224
20	Austria	220
21	Ireland	210
22	Portugal	187
23	South Africa	163
24	Greece	141
25	New Zealand	134
26	Israel	105
27	Mexico	96
28	Finland	84
29	Malaysia	48
30	Chile	23
31	China	22
32	Russia	17
33	Poland	15
34	Hungary	14
35	Argentina	13
36	Thailand	11
37	Czech Republic	5
38	Slovakia	2
39	Romania	1
40	Peru	1

Number of households with net worth greater than US\$1 million in 2017 (000s)		
1	USA	29744
2	Japan	10677
3	UK	5280
4	Germany	4117
5	France	3767
6	Italy	3232
7	Canada	1979
8	Spain	1501
9	Netherlands	1315
10	Australia	1187
11	Taiwan	1156
12	South Korea	1053
13	Hong Kong	980
14	Switzerland	967
15	Belgium	786
16	Brazil	675
17	Sweden	631
18	Denmark	550
19	Russia	508
20	Singapore	463
21	Austria	418
22	India	411
23	China	409
24	South Africa	405
25	Norway	356
26	Mexico	345
27	Greece	307
28	Ireland	287
29	Israel	268
30	Portugal	266
31	Malaysia	244
32	Finland	193
33	New Zealand	118
34	Chile	116
35	Argentina	100
36	Turkey	88
37	Poland	88
38	Thailand	72
39	Hungary	67
40	Czech Republic	47

Number of households with net worth greater than US\$3 million in 2007		
1	USA	3.5m
2	UK	722,000
3	France	438,000
4	Italy	388,000
5	Japan	337,000
6	Germany	301,000
7	Canada	191,000
8	Australia	170,000
9	Hong Kong	145,000
10	Spain	130,000
11	Switzerland	126,000
12	Taiwan	82,000
13	Denmark	71,000
14	Belgium	57,000
15	Singapore	54,000
16	Netherlands	49,000
17	South Korea	45,000
18	Sweden	41,000
19	Norway	33,000
20	Ireland	31,000
21	Austria	26,000
22	Portugal	19,000
23	Greece	19,000
24	New Zealand	17,000
25	Israel	14,000
26	Mexico	11,000
27	Finland	8,000
28	Malaysia	6,000

Number of households with net worth greater than US\$3 million in 2017		
1	USA	7.9m
2	Japan	1.5m
3	UK	1m
4	Germany	601,000
5	France	576,000
6	Italy	471,000
7	Canada	429,000
8	Hong Kong	312,000
9	Australia	233,000
10	Spain	215,000
11	Netherlands	214,000
12	Taiwan	187,000
13	Switzerland	184,000
14	Singapore	146,000
15	South Korea	140,000
16	Belgium	111,000
17	Sweden	99,000
18	Denmark	96,000
19	Norway	61,000
20	Austria	53,000
21	South Africa	49,000
22	Ireland	45,000
23	Greece	45,000
24	Mexico	45,000
25	Russia	43,000
26	China	43,000
27	Israel	42,000
28	Malaysia	37,000

Number of households with net worth greater than US\$5 million in 2007		
1	USA	1,352,000
2	UK	274,000
3	France	163,000
4	Italy	136,000
5	Germany	91,000
6	Canada	69,000
7	Hong Kong	62,000
8	Japan	55,000
9	Australia	54,000
10	Switzerland	48,000
11	Spain	45,000
12	Taiwan	28,000
13	Denmark	23,000
14	Singapore	22,000
15	Belgium	20,000
16	Netherlands	15,000
17	Ireland	11,000
18	Norway	10,000
19	Sweden	9,000
20	Austria	9,000
21	South Korea	9,000
22	Greece	7,000
23	Israel	4,000
24	Mexico	3,000
25	Portugal	2,000
26	Malaysia	2,000
27	New Zealand	2,000
28	Finland	1,000

Number of households with net worth greater than US\$5 million in 2017		
1	USA	3.5m
2	Japan	472,000
3	UK	396,000
4	France	217,000
5	Germany	208,000
6	Canada	176,000
7	Italy	168,000
8	Hong Kong	148,000
9	Australia	80,000
10	Netherlands	79,000
11	Spain	77,000
12	Switzerland	71,000
13	Taiwan	69,000
14	Singapore	68,000
15	South Korea	45,000
16	Belgium	40,000
17	Denmark	33,000
18	Sweden	32,000
19	Norway	22,000
20	Austria	19,000
21	Greece	17,000
22	Ireland	16,000
23	Mexico	16,000
24	Israel	15,000
25	China	15,000
26	Malaysia	14,000
27	Portugal	7,000
28	Finland	7,000

Density of households with net wealth in excess of US\$1 million in 2007 (per cent)		
1	Hong Kong	26.4
2	Singapore	23.3
3	Switzerland	22.3
4	Denmark	17.9
5	UK	15.6
6	Ireland	14.8
7	USA	14.7
8	Australia	11.9
9	Italy	11.8
10	France	11.7
11	Norway	10.8
12	Belgium	10.2
13	Canada	8.9
14	New Zealand	8.6
15	Taiwan	8.0
16	Sweden	7.8
17	Japan	7.3
18	Spain	6.3
19	Austria	6.2
20	Germany	6.0
21	Netherlands	5.7
22	Israel	5.0
23	Portugal	4.7
24	Greece	3.6
25	Finland	3.4
26	South Korea	2.4
27	South Africa	1.3
28	Malaysia	0.8
29	Chile	0.5
30	Hungary	0.4
31	Mexico	0.4
32	Czech Republic	0.1
33	Argentina	0.1
34	Poland	0.1
35	Slovakia	0.1
36	Thailand	0.1

Density of households with net wealth in excess of US\$1 million in 2017 (per cent)		
1	Singapore	40.7
2	Hong Kong	39.4
3	Switzerland	28.1
4	USA	24.2
5	Denmark	21.7
6	Japan	21.3
7	UK	18.9
8	Ireland	17.7
9	Netherlands	17.6
10	Belgium	17.0
11	Norway	16.4
12	Canada	15.2
13	Taiwan	14.8
14	France	14.2
15	Sweden	14.0
16	Australia	13.7
17	Italy	13.6
18	Austria	11.1
19	Israel	10.6
20	Germany	10.3
21	Spain	8.9
22	Finland	7.8
23	Greece	7.5
24	New Zealand	6.9
25	Portugal	6.5
26	South Korea	5.5
27	Malaysia	3.6
28	South Africa	2.9
29	Chile	2.1
30	Hungary	1.9
31	Czech Republic	1.3
32	Mexico	1.2
33	Brazil	1.1
34	Russia	1.0
35	Argentina	0.9
36	Poland	0.6

## Appendix 3 - Methodology

The Household Wealth Index is based on a prediction to 2017 of the number of wealthy households (those with assets over US\$1m, US\$500k and US\$250k) in 50 countries around the world. Where a significant proportion of wealthy households exist in a country, we will also provide data on households over the US \$3m threshold).

The forecast is based on data that measures aggregate wealth, financial wealth (currency and deposits, loans, bonds and shares, and insurance and pension fund reserves) and non-financial wealth (primarily dwellings and land). A distribution has been applied to the data to calculate the number of households with assets in excess of US \$500K, US \$1m and US \$3m.

For about 20 countries, full information on financial balance sheets is available from official sources. These include national statistical offices (NSOs), OECD and EuroStat. For a more limited number (around 10-15) the non-financial balance sheet is also available. For countries outside this, financial balance sheets has been estimated on the basis of partial data which is available. In these cases the financial accounts is estimated using a combination of other data sources including data from the IMF International Financial Statistics, IMF Balance of Payments, IMF Supplementary accounts, bond market data from the Bank for International Settlements (BIS) and locally-sourced stock and bond market information.

The IMF provides detailed financial accounts data for the financial sector and the central bank. From this we have been able to derive the assets and liabilities of the financial sector. Next, the liabilities of the total domestic economy were calculated. Domestic economy bond liabilities data were sourced primarily from the BIS. Similarly, domestic equity liabilities has been calculated using local stock market information. The difference between the bond and equity liabilities of the total economy and those of the financial sector has been apportioned between the remaining sectors the economy (households, corporate and government). The same procedure was then followed for currency and deposits liabilities.

Total financial assets are calculated using the net position with the rest of the world, by asset category, which is derived from data published in the IMF Balance of Payments Statistics. For the most categories, total assets are assumed to be equal to total liabilities plus the net position with the rest of the world. However, while loans conform to the same identity, we reverse this calculation: total domestic loan assets are assumed to be equal to the total loan assets of the financial sector, and total domestic loan liabilities are calculated using the rest-of-world position.

This provides a complete set of financial assets and liabilities for the total economy and for the financial sector. The difference between the two is apportioned across the remaining sectors using coefficients based on the countries for which we have full stock data.

For countries where no officially published non-financial balance sheets are available, the data is imputed on a cross-country estimate based on countries for which data is available. This enables us to produce out-of-sample estimates based on variables such as per capita income levels, income gains and population density as well as the level of financial assets.

Wealth distribution data is only available for a limited number of countries. However, we can utilise this information to estimate the relationship between the income distribution and wealth distribution. Even though the income and wealth distributions are very different shapes (with wealth being even more concentrated in the upper decile than income), there is a strong relationship between the two curves which is what we estimate. As income distribution is much more widely available, this is then used to estimate the wealth distribution across many more countries. We estimate a continuous income distribution using quintile data to derive Lorenz curves, which plot the distribution of income across households. We then use this income Lorenz curve and use this to estimate the distribution of wealth. These distributions are then applied to total Household Net Worth in each country in order to determine the number of households in the different bands of wealth.

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