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# Principality of Liechtenstein

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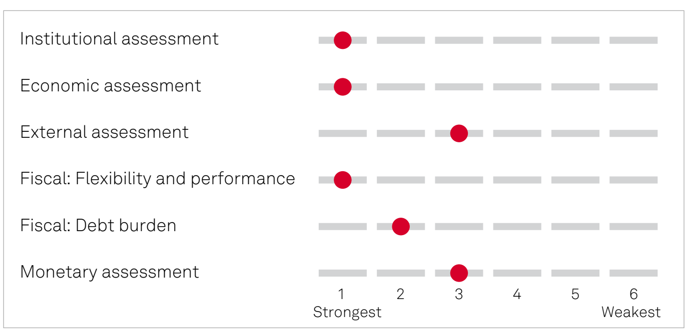
This report does not constitute a rating action.

## Ratings Score Snapshot




| Sovereign credit rating |
| --- |
| Foreign currency |
| **AAA/Stable/A-1+** |
| Local currency |
| **AAA/Stable/A-1+** |

## Credit Highlights

### Overview

| Institutional and economic profile | Flexibility and performance profile |
| --- | --- |
| Liechtenstein is a small, wealthy, open and diversified economic structure supported by many global players in niche markets. | Public finances will remain in surplus throughout the forecast horizon because of spending controls and strong tax revenue growth. |
| --The principality depends on significant changes in international taxation beyond the recently introduced global minimum corporate tax rate. | --Ample government assets and social security funds offer room to weather any external and fiscal shocks. |

## Overview

| Institutional and economic profile | Flexibility and performance profile |
|---|---|
| --We think the government will maintain policies after the parliamentary election in 2025. Liechtenstein has acquired a strong track record of efficient, predictable, and timely policy decision-making. | -- Accession to the IMF appears on track, likely resulting in better data availability and timeliness on the principality's economic and external accounts. |
| --We consider the principality's good market access through memberships in the European Economic Area and the customs union with Switzerland favorable. | -- We expect inflation this year to remain muted in an international comparison and be aligned with the inflation target of the Swiss National Bank (SNB). |

**S&P Global Ratings projects Liechtenstein's real economic growth to rebound to 1.2% in 2024 from an estimated 0.2% in 2023.** Although its small-open economy is sensitive to developments from its key trading partners such as the U.S, Germany, and Austria, its industry is quickly adapting to changing macroeconomic conditions.

**IMF membership is likely to improve the timeliness and availability of the country's statistical information.** We understand the IMF accession is likely by autumn this year. If confirmed, it will provide Liechtenstein with another liquidity buffer in case of need besides the SNB. Moreover, the IMF will provide technical assistance for the compilation of external and economic accounts.

# Outlook

The stable outlook reflects our view that Liechtenstein's strong budgetary position and extensive financial buffers, along with its high policy effectiveness and prudent regulatory framework, will protect the principality's creditworthiness from global economic and financial uncertainty.

### Downside scenario

We could lower the ratings if the principality's public finances weakened materially and international tax or financial regulatory pressure on Liechtenstein, among other financial centers, increased. This could severely constrain government revenue and hinder political strategy and effectiveness over a prolonged period.

# Rationale

### Institutional and economic profile: Economic growth will remain robust, benefiting from continuous political stability

Liechtenstein's economic growth will recover to 1.2% in 2024 from an estimated 0.2% in 2023, before reaching 1.4% on average over 2025-2027. This is based on our assumption on the recovery of its major trading partners, Germany, the U.S., and Austria. While we project economic growth in the U.S. and Austria to be fairly robust, at about 2.5% and 0.7% in real terms, respectively, the growth outlook for Germany remains more muted, with 0.3% real GDP growth for 2024. Excluding Switzerland, these countries account for about 55% of total exports (2022). The improved economic outlook from 2023 can also be seen in the principality's economic sentiment indicators, which have improved but remain in negative territory.

Liechtenstein continues its policy agenda in diversifying toward sustainable energy sources. While we expect diversification to progress moderately, the high reliance on energy flows from

Germany and Austria will remain. The country's gas reserves, covering two-to-three winter months, will be in place at least until April 2025, in our view.

The small and open economy is resilient to economic volatility. The economy is diversified, with machinery accounting for about 42% of GDP, and the financial and insurance service sectors for 12%. Its manufacturing base contributes a large share to gross value added, which is a key differentiator from other small sovereigns with large financial centers. Moreover, the principality has many small and midsize exporting-oriented companies, which are global leaders in niche markets. Therefore, they are relatively quick to adapt to customer needs and pass on prices. This structural setup leaves Liechtenstein's economy less vulnerable but economic growth more volatile compared with that of other sovereigns. Still, we project the principality to continue posting high wealth levels coupled with low unemployment in an international comparison.

The economy's labor market will remain tight across sectors. The lack of skilled labor will keep unemployment at low single digits. In April 2024, Liechtenstein's unemployment rose slightly to 1.6% from 1.4% in the previous year. The number of available jobs in the country remains higher than its total population because a sizable part of the workforce is filled by commuters, mainly from neighboring countries Switzerland and Austria.

Liechtenstein continues to benefit from its customs and currency union with Switzerland, alongside full access to the European Economic Area. Total refugee inflow from Ukraine to Liechtenstein will likely remain lower than neighboring countries. Still, it will present a greater burden on the budget as refugees from Ukraine represent about 1.5% of the principality's population.

The parliamentary elections in February 2025 are unlikely to lead to major changes. Liechtenstein's political system is based on a constitutional hereditary monarchy and has a strong track record of predictable and effective policymaking, reflecting strong checks and balances and a mature institutional framework. This is underpinned by the two ruling parties that have been in power for decades and continuously form a coalition.

Liechtenstein's reputation as a small financial center remains exposed to changes in international norms for financial regulation, such as the implementation of the global minimum tax rate on corporate profits effective as of 2024. With the rate, corporate profits for bigger companies are now taxed at 15% from 12.5% previously according to the Organisation for Economic Co-operation and Development minimum tax rate. We understand that there have been no major company reallocations nor any positive effects on the government's budgetary position so far. Since our most recent publication (see "Liechtenstein 'AAA/A-1+' Ratings Affirmed; Outlook Stable," published Nov. 24, 2023, on RatingsDirect), the principality also negotiated various bilateral trade agreements, such as with India or Denmark, with further talks being held. We continue to expect that the government will extend its track record of proactive and swift adoption of international standards and cooperation across borders.

## Flexibility and performance profile: Budget surpluses, ample government assets, and likely IMF accession provide a large buffer for Liechtenstein's economy in case of need

We project Liechtenstein to consistently post general government surpluses of 2.0% on average through 2027. We estimate that in 2023 the authorities posted a general government surplus of 2.6% of GDP. This is up from 1.8% of GDP in our previous publication as the central government reported growth across most revenue items while under-executing on spending.

Generally, total government assets depend not only on the performance of the central government's budget, but on returns achieved in financial markets. Both the government and social security assets posted positive returns in 2023 despite their conservative portfolio structure and financial market volatility. Most of these government assets are invested in bonds and are either denominated in Swiss francs or hedged against exchange rate risk.

Nevertheless, the general government's liquid financial assets, including social security and pension funds, recovered to 102% of GDP from 95% in 2022. The ratio should remain well above 100% of GDP on average through 2027, since financial performance has recovered from its low in 2022. Valuation risk remain prevalent in light of global uncertainty and the conservative portfolio structure. Nevertheless, consistent budget surpluses will support the steady accumulation of government assets over the next few years, further strengthening the principality's already-high fiscal buffers.

Overall, we think Liechtenstein's budgetary framework includes sufficient buffers to accommodate potential challenges arising, for example, from a more pronounced economic slowdown or higher inflow of refugees from Ukraine. The central government has no debt outstanding and the general government, including 11 municipalities and the social security system, has very little debt--below 1% of GDP--which relates to short-term loans contracted by some municipalities.

We think Liechtenstein's financial services industry poses a moderate contingent liability for the government. The sector comprises banks, asset managers, insurance companies, trusts, and company service providers. The principality's banks are predominantly active in private banking and have favorable funding profiles and strong capitalization. Banks' assets are about 14x local GDP. Their comparably low-risk model makes them more sensitive to a reduction in global wealth and capital market valuations. Liechtenstein continues to apply sanctions against Russia and Belarus, in line with the EU and in close collaboration with the U.S, and these do not represent a material risk to its banking system or its reputation, although we understand they had a minor financial impact on the overall sector. Nevertheless, the principality's banks are generally vulnerable to reputational risks, despite improvements to transparency and anti-money-laundering policies over the past decade. Under our Banking Industry Country Risk Assessment, we assess Liechtenstein at '2' (where '1' is the lowest risk and '10' the highest; see "Banking Industry Country Risk Assessment: Liechtenstein," published Sept. 21, 2023).

The principality is in a contract-based monetary union with Switzerland, and its economy is closely synchronized with its larger neighbor. This enables the sovereign to use the Swiss franc as legal tender and provides direct access to the SNB's liquidity facilities against eligible collateral, on par with any Swiss financial institution. However, Liechtenstein has no vote on the SNB's monetary policy council and receives no benefits from seigniorage (profit made by a government by issuing currency). This setup reduces Liechtenstein's monetary flexibility.

Inflation is relatively low in a global comparison and is falling. It reached 1.4% year on year in April 2024 from 2.1% at year-end 2023. There has been some minor volatility in recent months, but inflation in Liechtenstein continues to be lower than in its European peers--2.4% year on year for the euro area in April--due to the strong Swiss franc, which reduces the imported inflation somewhat. Inflation in the principality will average about 1.5% this year before dipping to 1.1% by 2027.

Our rating on Liechtenstein incorporates the lack of comprehensive data on its external accounts since no data are available for external trade and balance of payments. However, there is more visibility on some aspects of the country's international investment position through financial institutions' aggregated external accounts. This has also improved transparency vis-a-vis Swiss counterparties, indicating the sector's high external creditor position. Still, the data on the external accounts of the public sector and nonfinancial private sector remain unavailable. We therefore base our assessment of Liechtenstein's external position on that of Switzerland, factoring in the absence of comprehensive external data.

We understand that the Liechtenstein government has started to actively work to address this deficiency, by compiling a complete external dataset. Moreover, we understand that the principality plans to work on the timeliness and composition of national accounts. We think these efforts will be supported by technical assistance from the IMF and the SNB. IMF accession will continue as planned with a completion by September this year, in our view. If concluded on favorable terms, this accession could not only improve the country's data availability and timeliness but also provides another source of liquidity.

## Liechtenstein--Selected Indicators

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024bc | 2025bc | 2026bc | 2027bc |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic indicators (%)** | | | | | | | | | | |
| Nominal GDP (bil. CHF) | 6.5 | 6.4 | 6.0 | 7.1 | 7.0 | 7.1 | 7.3 | 7.5 | 7.6 | 7.8 |
| Nominal GDP (bil. $) | 6.7 | 6.4 | 6.4 | 7.7 | 7.3 | 7.9 | 8.3 | 8.1 | 8.3 | 8.5 |
| GDP per capita (000s $) | 174.4 | 166.1 | 164.0 | 196.2 | 184.9 | 197.2 | 206.1 | 200.5 | 202.5 | 205.7 |
| Real GDP growth | 1.9 | (2.2) | (5.3) | 15.7 | (3.0) | 0.2 | 1.2 | 1.4 | 1.5 | 1.5 |
| Real GDP per capita growth | 1.2 | (3.1) | (6.1) | 15.0 | (3.9) | (0.7) | 0.5 | 0.7 | 0.8 | 0.8 |
| Real investment growth | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Investment/GDP | N/A | N/A | N/A | N/A | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Savings/GDP | N/A | N/A | N/A | N/A | 0.0 | N/A | N/A | N/A | N/A | N/A |
| Exports/GDP | 54.8 | 53.5 | 47.6 | 49.9 | 50.2 | 49.6 | 48.4 | 47.2 | 46.2 | 45.1 |
| Real exports growth | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Unemployment rate | 1.7 | 1.5 | 1.9 | 1.6 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| **External indicators (%)** | | | | | | | | | | |
| Current account balance/GDP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A | N/A | N/A | N/A | N/A |
| Current account balance/CARs | N.M. | N.M. | N.M. | N.M. | N.M. | N/A | N/A | N/A | N/A | N/A |
| CARs/GDP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A | N/A | N/A | N/A | N/A |
| Trade balance/GDP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net FDI/GDP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net portfolio equity inflow/GDP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross external financing needs/CARs plus usable reserves | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Narrow net external debt/CARs | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Narrow net external debt/CAPs | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net external liabilities/CARs | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net external liabilities/CAPs | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Short-term external debt by remaining maturity/CARs | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Usable reserves/CAPs (months) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Usable reserves (Mil. $) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Fiscal indicators (general government %)** | | | | | | | | | | |
| Balance/GDP | 3.1 | 3.8 | 7.4 | 2.5 | 1.8 | 2.6 | 1.9 | 2.0 | 2.1 | 2.1 |
| Change in net debt/GDP | 1.3 | (10.1) | (11.2) | (4.3) | 12.4 | (7.1) | (4.9) | (5.0) | (5.2) | (5.3) |
| Primary balance/GDP | 3.1 | 3.8 | 7.4 | 2.5 | 1.9 | 2.6 | 1.9 | 2.0 | 2.1 | 2.1 |
| Revenue/GDP | 26.8 | 28.4 | 38.7 | 26.3 | 27.5 | 28.6 | 27.2 | 26.7 | 26.8 | 26.8 |
| Expenditures/GDP | 23.7 | 24.6 | 31.3 | 23.8 | 25.7 | 26.0 | 25.4 | 24.7 | 24.7 | 24.7 |
| Interest/revenues | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Debt/GDP | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| Debt/revenues | 2.0 | 2.2 | 1.5 | 2.0 | 1.8 | 2.8 | 2.8 | 2.8 | 2.7 | 2.7 |
| Net debt/GDP | (89.8) | (102.0) | (119.7) | (106.5) | (94.7) | (100.6) | (103.0) | (105.6) | (108.4) | (111.3) |
| Liquid assets/GDP | 90.4 | 102.7 | 120.3 | 107.0 | 95.2 | 101.4 | 103.8 | 106.3 | 109.1 | 112.1 |
| **Monetary indicators (%)** | | | | | | | | | | |
| CPI growth | 0.9 | 0.4 | (0.7) | 0.6 | 2.8 | 2.1 | 1.5 | 1.4 | 1.2 | 1.1 |
| GDP deflator growth | 0.8 | (0.1) | (0.7) | 1.3 | 2.5 | 1.0 | 1.3 | 1.0 | 0.8 | 0.8 |

## Liechtenstein--Selected Indicators

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Exchange rate, year-end (CHF/$) | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 |
| Banks' claims on resident non-gov't sector growth | 7.7 | 1.0 | 2.1 | 1.8 | (0.4) | 0.5 | 1.8 | 1.8 | 1.8 | 1.8 |
| Banks' claims on resident non-gov't sector/GDP | 208.4 | 215.4 | 233.8 | 203.1 | 203.5 | 202.1 | 200.6 | 199.3 | 198.3 | 197.4 |
| Foreign currency share of claims by banks on residents | N/A | N/A | N/A | N/A | N/A | 0.0 | 0 | 0 | 0 | 0 |
| Foreign currency share of residents' bank deposits | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Real effective exchange rate growth | (5.1) | 0.9 | 2.3 | 0.9 | 4.3 | 2.0 | N/A | N/A | N/A | N/A |

Sources: Office of Statistics (Economic /Monetary/ Fiscal/Debt/External Indicators); International Monetary Fund (Monetary Indicators).

Adjustments: None

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. N.M.--Not meaningful. CHF--Swiss franc. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

## Liechtenstein--Rating Component Scores

| Key rating factors | Score | Explanation |
|---|---|---|
| Institutional assessment | 1 | Proactive policymaking and a strong track record in managing past economic and financial crises and delivering economic growth. Ability and willingness to implement reforms to ensure sustainable public finances and economic growth. Extensive checks and balances between institutions. Unbiased enforcement of contracts and respect for the rule of law. |
| Economic assessment | 1 | Based on GDP per capita ($) as per the Selected Indicators table above. |
| External assessment | 3 | Given the customs and currency union between Switzerland and Liechtenstein, there is limited availability of comprehensive information on the principality's trade and external statistics. We base Liechtenstein's initial external score on that of Switzerland and define Switzerland as the "host country." We believe this leads to an underestimation of external risks on the basis of available statistics. |
| Fiscal assessment: flexibility and performance | 1 | Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1. Based on liquid assets to GDP as per Selected Indicators in Table 1. The general government (central and local government, and the social security system) holds large liquid financial assets, at above 100% of GDP on average. |
| Fiscal assessment: debt burden | 2 | Based on net general government debt (% of GDP) as per Selected Indicators in Table 1. We assess banks' contingent liabilities as moderate because their aggregated balance sheets account for about 14x local GDP. In addition, reputational risk for Liechtenstein remains, which can affect banks. |
| Monetary assessment | 3 | Liechtenstein uses the Swiss franc, which we treat as an actively traded currency. The Swiss National Bank (SNB) has a track record in monetary authority independence with market-based monetary instruments and has the ability to act as a lender of last resort for the financial system. The consumer price index is low and in line with that of its trading partners. Liechtenstein-based banks' access to SNB facilities is on par with that of Switzerland-based banks. The principality is a member of the Swiss franc area through a customs and monetary union with Switzerland, restricting individual monetary flexibility. |
| Indicative rating | aaa | As per Table 1 of "Sovereign Rating Methodology". |
| Notches of supplemental adjustments and flexibility | 0 | |
| *Final rating* | | |
| Foreign currency | AAA | |
| Notches of uplift | 0 | Default risks do not apply differently to foreign- and local-currency debt. |
| Local currency | AAA | |

### Liechtenstein--Rating Component Scores

| Key rating factors | Score | Explanation |
|---|---|---|

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

# Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

# Related Research

- Sovereign Ratings History, May 17, 2024
- Sovereign Ratings List, May 17, 2024
- Sovereign Ratings Score Snapshot, May 7, 2024
- Sovereign Risk Indicators, April 8, 2024. A free interactive version is available at http://www.spratings.com/sri
- Liechtenstein 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Nov. 24, 2023
- Banking Industry Country Risk Assessment: Liechtenstein, Sept. 21, 2023
- Default, Transition, and Recovery: 2022 Annual Global Sovereign Default And Rating Transition Study, April 28, 2023

### Ratings Detail (as of May 27, 2024)*

| | |
|---|---|
| **Liechtenstein** | |
| Sovereign Credit Rating | AAA/Stable/A-1+ |

## Ratings Detail (as of May 27, 2024)*

| | |
|---|---|
| Transfer & Convertibility Assessment | AAA |
| **Sovereign Credit Ratings History** | |
| 26-Feb-2016 | AAA/Stable/A-1+ |
| 12-Feb-2016 | AAA/Watch Neg/A-1+ |
| 02-Dec-1996 | AAA/Stable/A-1+ |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.