Liechtenstein

November 25, 2024

This report does not constitute a rating action.

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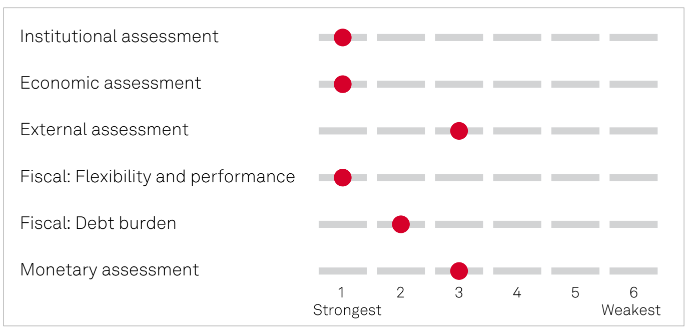
Ratings Score Snapshot



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
The principality is a small, wealthy, open, and export-oriented economy with many companies that are global leaders in niche markets.	We forecast general government surpluses through 2027 because of restrained spending and strong tax revenue growth.
--The principality depends on significant changes in international taxation.	--Ample liquid government assets and social security funds provide large buffers to potential external or fiscal shocks.
--We expect economic and budgetary policy continuity following the parliamentary election in 2025.	--Liechtenstein's recently established IMF membership will likely result in better data availability and timeliness on its economic and external accounts.
--The principality's economy benefits from its memberships in the European Economic Area and the customs union with Switzerland.	--We estimate inflation to remain very low in an international comparison over our forecast horizon and aligned with the inflation target of the Swiss National Bank (SNB).

S&P Global Ratings projects Liechtenstein's real economic growth at 0.6% in 2024, following the estimated 0.2% in 2023. The small and open economy is sensitive to external developments, resulting in some economic volatility. Nevertheless, its industries, with many small and midsize companies, are fast in adapting to changing macroeconomic conditions and weathering uncertainties.

Liechtenstein's recent IMF membership will likely improve the timeliness and availability of statistical information, in our view. The country joined the IMF in October this year. Its membership will provide another liquidity buffer in case of need besides its own liquid reserves. Moreover, the IMF can provide technical assistance for the compilation of Liechtenstein's 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 modest this year before strengthening next year

We project Liechtenstein's real GDP growth at 0.6% in 2024, up slightly from an estimated 0.2% in 2023, before reaching 1.4% on average over 2025-2027. We have slightly revised our economic growth projections downward compared to our previous publication, since global demand and the economic recovery of Liechtenstein's major trading partners remain suppressed. While we project the U.S. to post real GDP growth of 2.7% this year, the growth outlook for Germany and Austria is weak. We expect Germany to broadly stagnate, while in Austria we forecast a recession (-0.4% in real terms) for 2024. Excluding Switzerland, the two countries accounted for about 63% of Liechtenstein's exports in 2023.

Liechtenstein continues to gradually implement its policy agenda of diversifying toward sustainable energy sources. Still, its high reliance on energy flows from Germany and Austria will continue. Liechtenstein has extended its gas reserve holdings until midyear 2027, covering two-to-three winter months of its energy needs.

Liechtenstein's small and open economy is quick to adapt to its economic swings. It is diversified, with machinery accounting for about 39% of GDP, and the financial and insurance service sectors about 12%. Its manufacturing base contributes a large share to gross value added compared to that of other small sovereigns with large financial centers. We also note that Liechtenstein is home to many small and midsize export-oriented companies, which are global leaders in niche markets. Therefore, they are relatively quick to adjust to customers' needs and pass on prices. This structural setup leaves Liechtenstein's economy less vulnerable to downturns, but economic growth may be more volatile than for other sovereigns. Overall, we estimate the principality will maintain high wealth, with relatively low unemployment in an international comparison.

The labor market's performance will remain strong, in our view, because the lack of skilled labor will keep unemployment at low single digits. In October 2024, Liechtenstein's unemployment rose slightly by 0.3% to 1.7% compared to the previous year. Still, the number of available jobs in the country remains high compared to its total population because a sizable part of the workforce is filled by commuters, mainly from neighboring Switzerland and Austria.

Liechtenstein continues to benefit from its customs and currency union with Switzerland, alongside full access to the European Economic Area. The total refugee inflow from Ukraine to Liechtenstein will likely remain lower than in neighboring countries. Still, it will become a greater burden on the budget because 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 in the government's composition or the country's reform agenda. The principality'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, which took effect in 2024. With this, corporate profits for bigger companies are now taxed at 15%, up from 12.5% previously, according to the Organisation for Economic Co-operation and Development's minimum tax rate. We do not expect any major company reallocations or positive effects on the government's budgetary position. Liechtenstein continues to negotiate and strengthen various bilateral trade agreements, such as with the U.S. and Denmark. The government will maintain its track record of proactive and swift adoption of international standards and cooperation across borders, in our view.

Flexibility and performance profile: Persistent budget surpluses, ample government assets, and the recent IMF accession provide large buffers for Liechtenstein's economy

Liechtenstein will continue to post general government surpluses of 1.9% of GDP on average through 2027. We revised our estimates for 2023 upward to 3.6% of GDP from 2.6% previously due to better expected performance of local governments. Energy relief measures put in place in 2022 have already been terminated and will not burden the 2025 budget. Like other countries, a key focus area is the move toward sustainable energy, which is laid down in Liechtenstein's Energy Strategy 2030 and Energy Vision 2050. For 2025, various subsidies such as for photovoltaic and energy-efficient renovations, totaling Swiss franc (CHF) 17 million (or about $19 million), are planned. Besides this, refugee expenditure will also increase to CHF 17.3 million from CHF 8.3 million in 2023.

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's and social security assets posted positive returns in 2023 despite their conservative portfolio structures 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.

The general government's liquid financial assets, including social security and pension funds, increased to 104% of GDP in 2023 from 95% in 2022. The ratio should remain well above 100% of GDP on average through 2027, since financial performance has recovered since 2022. We note that valuation risk remains prevalent, considering global uncertainty, slow global economic recovery, and the generally conservative portfolio structure. Still, consecutive budget surpluses will support the steady accumulation of government assets over the next few years, adding to the principality's already-high fiscal cushion.

In our view, the principality’s budgetary framework includes sufficient room to accommodate potential challenges, for example, stemming from a delayed economic recovery or intensifying geopolitical uncertainties. The central government has no debt outstanding and the general government, including 11 municipalities and the social security system, has very little debt--less than 1% of GDP--which relates to short-term loans contracted by some municipalities.

We believe that 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 correspond to about 14x local GDP, which is extremely high in an international comparison. At the same time, banks’ comparably low-risk model and focus on private banking and wealth management limit the impact on the local economy in adverse scenarios. However, the focus on private banking makes the industry more sensitive to a reduction in global wealth and capital market valuations. Moreover, extreme market volatility could lead to margin calls and losses on Lombard lending, despite banks' generally conservative risk management. 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 some financial impact on the overall sector. We also note improvements to transparency and anti-money-laundering policies over the past decade. However, the principality's banks, like all private banks in general, remain vulnerable to reputational risks. 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. 16, 2024).

The principality is in a contract-based monetary union with Switzerland, and its economy is closely synchronized with that of its larger neighbor. This enables the sovereign to use the Swiss franc as legal tender and provides direct access for financial institutions 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 stood at 0.6% year on year in October 2024, very low in an international comparison. There have been some minor fluctuations this year, but compares favorably with 2.0% on average year on year for the euro area in October, due to the strong Swiss franc, which reduces imported inflation somewhat. We assume inflation in the principality will average roughly 1.3% this year before falling to 1.0% by 2027.

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

We understand that Liechtenstein's government has started to work actively to address this deficiency, by compiling a complete external financial dataset. Moreover, we understand that the timeliness and composition of national accounts will be improved. These efforts will be supported by technical assistance from the IMF and the SNB. Liechtenstein joined the IMF at the end of October this year. In our view, IMF membership will not only improve the country's data availability and timeliness, but allow some liquidity leeway in case of need.

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	7.2	7.4	7.6	7.7
Nominal GDP (bil. $)	6.7	6.4	6.4	7.7	7.4	7.9	8.3	8.1	8.2	8.4
GDP per capita (000s $)	174.4	166.1	164.0	196.2	185.5	197.7	204.8	199.4	201.3	204.5
Real GDP growth	1.9	(2.2)	(5.3)	15.7	(2.7)	0.2	0.6	1.6	1.4	1.5
Real GDP per capita growth	1.2	(3.1)	(6.1)	15.0	(3.6)	(0.7)	(0.1)	0.9	0.7	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	N/A	N/A	N/A	N/A	N/A	N/A
Savings/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exports/GDP	54.8	53.5	47.6	49.9	46.4	48.0	47.3	46.1	45.1	44.1
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	1.7	1.6	1.5	1.4
External indicators (%)										
Current account balance/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current account balance/CARs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CARs/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Trade balance/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net FDI/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net portfolio equity inflow/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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	3.3	3.6	1.7	1.9	2.0	2.0
Change in net debt/GDP	1.3	(10.1)	(11.2)	(4.3)	9.4	(7.1)	(4.9)	(5.1)	(5.2)	(5.4)
Primary balance/GDP	3.1	3.8	7.4	2.5	3.3	3.6	1.7	1.9	2.0	2.0

Liechtenstein--Selected Indicators

Revenue/GDP	26.8	28.4	38.7	26.3	27.5	28.9	27.2	26.7	26.8	26.8
Expenditures/GDP	23.7	24.6	31.3	23.8	24.1	25.3	25.5	24.8	24.8	24.8
Interest/revenues	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Debt/GDP	0.5	0.6	0.6	0.5	0.6	0.9	0.9	0.8	0.8	0.8
Debt/revenues	2.0	2.2	1.5	2.0	2.1	3.0	3.1	3.1	3.0	3.0
Net debt/GDP	(89.8)	(102.0)	(119.7)	(106.5)	(97.3)	(103.3)	(106.6)	(109.0)	(111.9)	(114.7)
Liquid assets/GDP	90.4	102.7	120.3	107.0	97.9	104.2	107.4	109.8	112.7	115.5
Monetary indicators (%)										
CPI growth	0.9	0.4	(0.7)	0.6	2.8	2.1	1.3	1.1	1.1	1.0
GDP deflator growth	0.8	(0.1)	(0.7)	1.3	2.5	0.9	1.0	0.9	0.8	0.8
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)	(2.8)	3.0	3.3	2.0	2.0
Banks' claims on resident non-gov't sector/GDP	208.4	215.4	233.8	203.1	202.8	194.9	197.6	199.1	198.7	198.1
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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	(5.3)	0.8	2.3	0.9	3.7	2.5	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	

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 Score Snapshot, Nov. 7, 2024
- Sovereign Ratings List, October 9, 2024
- Sovereign Ratings History, October 9, 2024
- Sovereign Risk Indicators, October 7, 2024. A free interactive version is available at http://www.spratings.com/sri.
- Banking Industry Country Risk Assessment: Liechtenstein, September 16, 2024

Ratings Detail (as of November 19, 2024)*

Liechtenstein	
Sovereign Credit Rating	AAA/Stable/A-1+
Transfer & Convertibility Assessment	AAA

Ratings Detail (as of November 19, 2024)*	
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.