S&P Global
Ratings

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# Liechtenstein

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This report does not constitute a rating action.

## Credit Highlights

### Overview

| Institutional and economic profile | Flexibility and performance profile |
| --- | --- |
| Liechtenstein is a small, wealthy, open, and export-oriented economy with competitive manufacturing and financial service sectors. | Thanks to conservative budgeting and strong tax revenue, public finances will remain resilient to economic uncertainties. |
| --The principality might wrestle with significant changes in international taxation beyond the current agreement on a global minimum corporate tax regime. | --Liechtenstein’s extensive government assets and social security funds will remain a key rating strength and provide sizable leeway to react to potential external and fiscal shocks. |
| --The current government will uphold its strong track record of efficient, predictable, and timely policy decision-making. | --That said, there is limited data available on external accounts for the principality. |
| --The country continues to benefit from good market access through its simultaneous memberships in the European Economic Area and the customs union with Switzerland. | --We expect inflation to remain elevated this year, but low in a global comparison, before it aligns with the inflation target of the Swiss National Bank (SNB) by 2024. |

**S&P Global Ratings assumes that Liechtenstein's real GDP growth will stagnate this year due to lower external and domestic demand, before recovering to 1.5% by end-2024.** The key economic risks for Liechtenstein’s economy include its trade and energy exposure through its most important trading partners like Germany, Austria, and Italy. The difficult trade conditions in Germany, in particular, will materially weigh on Liechtenstein's economy.

**We expect the ramifications of this year's global banking turmoil will be limited for Liechtenstein.** Most of the principality's banking sector is engaged in less risky private wealth management. Furthermore, banks comply with EU, U.K., and U.S. sanctions, leaving the sector with low and declining exposure to Russian clients.

# Outlook

The stable outlook reflects our view that Liechtenstein's strong budgetary position, extensive financial buffers, along with its high policy effectiveness and prudent regulatory framework, will protect the principality's creditworthiness from the economic fallout of the war in Ukraine and tightening financial conditions.

## Downside scenario

We could lower the ratings if we observed a significant weakening of the principality's public finances. We could also lower the ratings if we observed that increased international tax or financial regulatory pressure on Liechtenstein, among other financial centers, severely constrained government revenues and hindered political strategy and effectiveness over a prolonged period.

# Rationale

## Institutional and economic profile: Liechtenstein's growth will prove resilient amid a still-cloudy global economic outlook

We expect that Liechtenstein's economy will improve in 2023, with real GDP growth expected at 0.2%, following last year's 2.8% contraction, then steady at 1.5% in 2024-2026. This year's slow growth mainly reflects the indirect consequences of the Russia-Ukraine war, weaker foreign demand, inflationary pressures, monetary policy tightening, as well as concerns over the recent global banking turmoil. Ramifications of the war in Ukraine will emerge through energy supply concerns and tightened trade conditions of Liechtenstein's major trading partners; as of end-2021, Germany accounts for 35.3% of goods exports, while the U.S. and Austria represent 10.3% and 9.4%, respectively. Direct trade links to Russia and Ukraine, combined, remain relatively limited, representing about 2% of goods export in 2021. Liechtenstein has reduced some of its gas dependency by, for example, diversifying the country's energy toward sustainable sources such as photovoltaic. Additionally, Liechtenstein set up a gas reserve covering the country's energy needs for two to three winter months; this should be in place until 2025. Although immediate energy concerns have eased since summer 2022, Liechtenstein's energy supply will remain highly reliant on flows from Germany and Austria.

That said, compared to other economies, Liechtenstein's small, open, and export-oriented economy has historically adapted quickly to economic volatility. We think that economic sentiment in Liechtenstein regained momentum during first-quarter 2023 because of the flexibility of its economic agents compared with other European peers. In this context, we note that economic sentiment regained momentum in the first quarter this year especially for non-metal industry and insurance companies.

Nevertheless, the labor market will remain remarkably tight with ongoing labor shortages. The unemployment rate rose slightly in March 2023 to 1.4% from 1.3% in 2022, but we expect it will remain at this level for the next several years. The number of available jobs in the country remains higher than the total population, so commuters, notably from Switzerland and Austria, fill a sizable part of the workforce.

Although we think Liechtenstein's economic growth tends to change more than other European countries', we assume the principality will continue to enjoy high wealth levels and low unemployment rates.

The diversification of Liechtenstein's economy supports our view of the country's credit quality. Manufacturing contributes about 37.3% of gross value added. Compared with other small sovereigns with large financial centers, Liechtenstein's manufacturing sector stands out for contributing materially to gross value added. Liechtenstein's finance services sector represents 10.8% of gross value added. Furthermore, the high share of small and midsize enterprises--some of which are world leaders in niche markets--supports Liechtenstein's economic diversification, in our view.

Liechtenstein continues to benefit from its customs and currency union with Switzerland as well as its full access to the European Economic Area. Some Ukrainian refugees have returned home, leaving the number of refugees in Liechtenstein broadly stable at about 1% of the population. Although Ukrainian refugees represent a small percentage of the principality's population and the number will likely remain lower than for its neighbors because of Liechtenstein's small size, it will present a relatively greater burden on the budget.

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 coalition parties that have been in power for decades and continuously form a coalition, including after the last parliamentary elections in early 2021. The government's reform agenda is on track, and major topics include demography, digitalization, and climate. Energy-related goals, such as reaching net zero gas emissions by 2050, gained momentum since the start of the Russia-Ukraine war. Moreover, current coalition talks include focus on a four-month unpaid parental leave per parent and its financing.

Liechtenstein's reputation as a small financial center remains exposed to changes in international norms for financial regulation. This includes the implementation of the global minimum tax rate on corporate profits effective as of 2024. The government is working to implement the global minimum tax rate in January 2024 to a 15.0% tax on corporate profits from a flat 12.5% currently. We do not expect the usually conservative approach to significantly hurt the government's budgetary or asset positions, nor do we anticipate sudden outward migration of businesses due to taxation changes. We continue to expect that the Liechtenstein government will extend its track record of proactive and swift adoption of international standards and cooperation across borders.

Authorities are working on IMF progression, with various exchanges with the respective parties already held. The formal application is pending, and the formal process will likely start in June, which increases the likelihood of completing the process in the next 12-18 months. In our opinion, the IMF accession efforts will likely improve the quality of Liechtenstein's statistical data, especially on the external side.

## Flexibility and performance profile: Surpluses and ample government assets could absorb additional spending if needed

Liechtenstein's general government budget balance will likely post a surplus of roughly 1.5% of GDP this year. Targeted energy support measures, totaling Swiss franc (CHF) 11 million, or less than 1% of GDP in 2023, will somewhat counterbalance tax revenue growth this year, before the general government budget balance recovers to an average of 2.1% of GDP in 2024-2026. We now estimate a budget surplus of 2.8% in 2022, versus our previous forecast of a 1.7% surplus, based on higher-than-expected tax revenue that more than offset lower financial income from general government financial assets.

Generally, total government assets depend not only on the performance of the central government's budget, but also on returns achieved in financial markets. Both the government and social security assets posted negative returns last year because of their conservative portfolio structure and high financial market volatility. We note that most of these government assets are invested in bonds and are either denominated in Swiss francs or hedged against exchange rate risk.

That said, the general government's liquid financial assets, including social security and pension funds, dropped last year to 105.2% of GDP from 118.3% in 2021. The ratio should remain well above 100% of GDP on average through 2026, however, since we anticipate a recovery of the financial performance already this year. Some valuation risks linger, especially given the recent financial market volatility. But we project that the steady budget surpluses will support continued accumulation of government assets over the next few years, further strengthening Liechtenstein's ample fiscal buffers.

Overall, we believe that Liechtenstein's budgetary framework can accommodate potential challenges from an economic slowdown. The central government has no debt outstanding, while in the wider, general government perimeter, including 11 municipalities and the social security system, debt is small, totaling less than 1% of GDP and related to short-term loans contracted by some municipalities.

We believe Liechtenstein's financial services industry poses a moderate contingent liability for the government. The sector comprises banks, asset managers, insurance companies, and trust and company service providers. The banks' assets represent roughly 13x the local GDP. We expect the spillover effects of the current turmoil in the global banking sector to be limited, considering that Liechtenstein's banking sector is mainly engaged in less risky private wealth management. We also understand the banking sector's exposure to Russian clients remains relatively small and is reducing. Sanctions in Liechtenstein are the same as those applied in the EU, the U.S., and the U.K., and they include measures targeting Russian clients on the sanctions list, among other restrictions. We believe these factors do not represent a material risk to the banking system or banks' reputation. Nevertheless, in our view, Liechtenstein's banks are still sensitive to reputation risks, despite improvements to transparency and anti-money laundering policies over the past decade.

Most banks appear well capitalized and follow a comparably low-risk model as asset managers. However, we note that banks' revenue is highly sensitive to weaker global wealth and capital market valuations, and competition among global private banks is high. 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 July 12, 2022, on RatingsDirect).

Liechtenstein is in a contract-based monetary union with Switzerland, and its economy is closely synchronized with its larger neighbor. This enables the principality 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, in our view.

Inflation has declined over the past months--reaching roughly 2.6% year-on-year in April 2023 from 2.8% at year-end 2022--as energy prices cool down. Inflation in Liechtenstein is generally lower than its European peers--7.0% for the eurozone in April--due to the strong Swiss franc, which lessens the imported inflation somewhat. Inflation in the principality will average about 2.5% this year before reducing to 1.5% in 2024.

Our rating on Liechtenstein incorporates the lack of comprehensive data on Liechtenstein's external accounts since there are no data available for external trade and balance of payments. However, there is more visibility on certain aspects of the country's international investment position through financial institutions' aggregated external accounts. This has also improved transparency vis-à-vis Swiss counterparties, indicating the sector's high external creditor position. That said, currently, 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 the Liechtenstein government has started to actively work on address this deficiency, which we believe will benefit from IMF membership and related technical assistance on statistics.

## Liechtenstein--Selected Indicators

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023bc | 2024bc | 2025bc | 2026bc |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic indicators (%)** | | | | | | | | | | |
| Nominal GDP (bil. CHF) | 6.4 | 6.5 | 6.4 | 6.0 | 6.6 | 6.6 | 6.7 | 6.9 | 7.1 | 7.2 |
| Nominal GDP (bil. $) | 6.5 | 6.7 | 6.4 | 6.4 | 7.2 | 6.9 | 7.4 | 7.5 | 7.5 | 7.6 |
| GDP per capita (000s $) | 169.9 | 174.4 | 166.1 | 164.0 | 182.8 | 174.1 | 183.8 | 186.8 | 186.5 | 186.3 |
| Real GDP growth | 4.1 | 1.9 | (2.2) | (5.3) | 8.1 | (2.8) | 0.2 | 1.5 | 1.5 | 1.5 |
| Real GDP per capita growth | 3.3 | 1.2 | (3.1) | (6.0) | 7.4 | (3.7) | (0.5) | 1.0 | 0.8 | 0.8 |
| Exports/GDP | 52.3 | 54.8 | 53.5 | 47.6 | 53.5 | 49.0 | 48.0 | 46.8 | 45.9 | 44.9 |
| Unemployment rate | 1.9 | 1.7 | 1.5 | 1.9 | 1.6 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 |
| **Fiscal indicators (general government %)** | | | | | | | | | | |
| Balance/GDP | 3.0 | 3.1 | 3.8 | 7.4 | 2.7 | 2.8 | 1.5 | 1.9 | 2.1 | 2.4 |
| Change in net debt/GDP | (6.5) | 1.3 | (10.1) | (11.2) | (4.6) | 12.6 | (4.8) | (5.0) | (5.1) | (5.3) |
| Primary balance/GDP | 3.0 | 3.1 | 3.8 | 7.4 | 2.7 | 2.8 | 1.5 | 1.9 | 2.1 | 2.4 |
| Revenue/GDP | 26.9 | 26.8 | 28.4 | 38.7 | 28.2 | 27.6 | 27.5 | 26.8 | 26.8 | 26.8 |
| Expenditures/GDP | 23.9 | 23.7 | 24.6 | 31.3 | 25.5 | 24.8 | 26.0 | 24.9 | 24.7 | 24.4 |
| Interest/revenues | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Debt/GDP | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Debt/revenues | 2.2 | 2.0 | 2.2 | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 | 1.9 | 1.9 |
| Net debt/GDP | (93.5) | (89.8) | (102.0) | (119.7) | (114.2) | (101.2) | (103.8) | (106.2) | (109.3) | (112.3) |
| Liquid assets/GDP | 94.1 | 90.4 | 102.7 | 120.3 | 114.8 | 101.7 | 104.3 | 106.7 | 109.8 | 112.8 |
| **Monetary indicators (%)** | | | | | | | | | | |
| CPI growth | 0.5 | 0.9 | 0.4 | (0.7) | 0.6 | 2.8 | 2.5 | 1.5 | 1.5 | 1.6 |
| GDP deflator growth | (0.4) | 0.8 | (0.1) | (0.7) | 1.1 | 3.3 | 2.0 | 1.0 | 0.5 | 0.7 |
| Exchange rate, year-end (CHF/$) | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 |
| Banks' claims on resident non-gov't sector growth | (44.0) | 7.7 | 1.0 | 2.1 | 1.8 | 0.5 | 0.5 | 1.8 | 1.8 | 1.8 |
| Banks' claims on resident non-gov't sector/GDP | 198.6 | 208.4 | 215.4 | 233.8 | 217.9 | 218.1 | 214.5 | 212.9 | 212.4 | 211.6 |
| Real effective exchange rate growth | (1.0) | (5.1) | 0.7 | 2.3 | 0.6 | 2.2 | 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

## Liechtenstein--Selected Indicators

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. 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.

## Ratings Score Snapshot

| 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 over the long term. Extensive checks and balances between institutions; Unbiased enforcement of contracts and respect for rule of law. |
| Economic assessment | 1 | Based on GDP per capita ($) as per the Selected Indicators table above. |
| External assessment | 2 | Given the customs and currency union between Switzerland and Liechtenstein, there is limited availability of comprehensive information on Liechtenstein'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) hold large liquid financial assets above 100% of GDP. |
| Fiscal assessment: debt burden | 2 | Based on net general government debt (% of GDP) as per Selected Indicators in Table 1. Banks' contingent liabilities are assessed as moderate because banks' aggregated balance sheets account for more than 13x of local GDP. In addition, reputational risk for Liechtenstein remains, which can impact banks' profitability. |
| 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. Liechtenstein 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 | -- | |
| *Final rating* | AAA | |
| Foreign currency | AAA | |
| Notches of uplift | 0 | We do not believe that default risks 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 List, May 17, 2023
- Sovereign Ratings History, May 17, 2023
- Sovereign Ratings Score Snapshot, May 4, 2023
- Sovereign Risk Indicators, April 10, 2023. A free interactive version is available at http://www.spratings.com/sri.
- Banking Industry Country Risk Assessment: Liechtenstein, July 12, 2022

### Ratings Detail (as of May 25, 2023)*

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