S&P Global
Ratings

RatingsDirect®

Liechtenstein

Primary Credit Analyst:
Thomas F Fischinger, Frankfurt + 49 693 399 9243; thomas.fischinger@spglobal.com

Secondary Contact:
Michelle Bozem, Frankfurt (49) 69-33-999-104; michelle.bozem@spglobal.com

Table Of Contents

Liechtenstein

This report does not constitute a rating action.

Key Rating Factors

Sovereign Credit Rating
AAA/Stable/A-1+

Institutional and economic profile	Flexibility and performance profile
Prosperous economy based on wealth management services and highly competitive manufacturing • Liechtenstein has high income levels and low unemployment rates, unchanged even in times of a pandemic. • The country's economic model might be challenged if current proposals regarding a global minimum corporate tax regime were implemented at rates well above the current ones in Liechtenstein. • The political system has a strong track record of efficient and predictable decision-making, while retaining a focus on international cooperation.	***Large and resilient fiscal buffers, despite government revenue shortfalls due to the pandemic*** • We expect the Principality to continue its strong track record of budget surpluses. • The central government's large asset position and social security funds provide ample leeway to react to potential further external and fiscal shocks, should the need arise. • Limited visibility on external data, due to monetary union with Switzerland.

Outlook

The stable outlook reflects our view of Liechtenstein's strong budgetary position, its high policy effectiveness, and regulatory flexibility to withstand international challenges to the country's tax and economic model. We believe the principality has sufficient financial buffers to weather the pandemic's economic effects and protect Liechtenstein's extraordinarily high economic wealth.

Downside scenario

Pressure on the ratings could occur if we observed increased international tax or financial regulatory pressure on financial centers, including Liechtenstein. This could severely constrain the government's political strategy and effectiveness over a prolonged period. In addition, a significant weakening of the principality's financial situation, for example from persistent deficits, could weigh on the ratings.

Rationale

Liechtenstein' economy has displayed strong resilience in the face of the adverse economic and budgetary impact of the COVID-19 pandemic, thanks to its exceptionally high income levels and the general government's strong fiscal net asset position.

Despite the adverse cyclical impact of the economic recession in Liechtenstein and many of its key trading partners, the principality posted a significant fiscal surplus in 2020. The state was able to mitigate its revenue shortfalls and increased expenditure, thanks to a one-off influx of tax revenue, and we expect it to maintain its surplus also during 2021-2024.

Results of February 2021 elections led to no major change in the government coalition, despite both parties having the same number of seats in parliament. We therefore expect Liechtenstein's predictable and proactive policymaking and high international cooperation to continue. Future challenges to the country's economic model might stem from international developments like the most recent proposal to implement a global minimum tax rate on corporate profits.

The sovereign ratings on Liechtenstein also incorporate our view of limited monetary flexibility, as well as the lack of availability of external data because of the country's contract-based currency union with Switzerland, forming a common currency area.

Institutional and economic profile: Proactive policymaking to address potential challenges to its fiscal, regulatory, and economic policies

Alongside with the global recovery from the 2020 pandemic-induced recession, we expect Liechtenstein's GDP to recover considerably in 2021. We note that GDP growth in the small and open economy tends to be more volatile than in other jurisdictions, but this did not change the overall picture of a very wealthy economy with low unemployment, even in times of a pandemic. Liechtenstein benefits from its customs and currency union with Switzerland. At the same time, Liechtenstein has unlimited access to the European Economic Area. The two main pillars of Liechtenstein's economy are its globally competitive machinery industry (machinery, engines, and tool-building) and financial services, with nearly 43% and 22% contributing to GDP, respectively. We note that the pandemic so far has had little impact on these industries, especially financial services. The strong manufacturing base differentiates Liechtenstein from other small sovereigns with large financial centers. The manufacturing sector's share of gross value added is nearly twice the contribution from the financial sector. Economic diversification is further underpinned by the high share of small and midsize enterprises, including some world leaders in their niche markets.

Economic data for Liechtenstein is usually available with a time lag. Official data from the authorities currently references only an estimate of economic growth for 2019, which points to a shallow recession. Liechtenstein depends on the economic developments in its key trading partners, predominately Switzerland, Germany, and Austria. We estimate economic contraction in 2020 was more pronounced than in the eurozone due to Liechtenstein's export-driven economy, with a decline in real GDP of about 8%. For 2021, the economic rebound in Switzerland should also lead to a similar development in the principality, with a more pronounced recovery of about 6% that reflects the comparably large effect that individual contributing sectors can have on the economy's output. The number of overnight stays from January to October 2020 declined by around 30% versus the same period of the previous year. Tourism contributes less than 1% to GDP, however.

Liechtenstein's labor market performance has remained very strong, with quasi-full employment, even during the pandemic. At year-end 2020, the principality had only 1.9% unemployment. The pandemic lead to a loss in the number of jobs by 0.15% in 2020 after growth at rates of about 2.5% over the last few years. The state has implemented various support packages to increase short-term employment schemes ("Kurzarbeit") to preserve jobs in the country, the use of which skyrocketed in the second quarter of 2020 and has been declining ever since, although the number of petitions for the scheme remain high. We expect the highly flexible labor market will absorb any potential layoffs, given we expect significant economic rebound in 2021. The number of available jobs in the country is higher than the total population, so a significant part of the workforce is filled by commuters from neighboring Switzerland and Austria. Despite temporary border closures to Austria in 2020 due to the pandemic, commuters from neighboring Austria and Switzerland were always able to work in the principality, and the trade of goods was not blocked. Even adjusted for these commuters, domestic GDP per capita remains among the highest globally.

The two ruling coalition parties have been in power for decades and continue to form a coalition, supported by a vast majority after the parliamentary elections in early 2021. The country's political system is based on a constitutional hereditary monarchy. Although the prince has extensive powers under the constitution, it also contains checks and balances between the prince and the parliament. One of the most effective checks is the extensive use of direct democracy via referenda.

Due to its position as a small financial center, Liechtenstein's reputation remains exposed to changes in international norms for financial regulation and fiscal cross-border cooperation. The country's policymakers have established a track record of proactively and swiftly adopting international standards in recent years. Moreover, the country has made significant efforts to increase cooperation within international organizations regarding international tax regimes. The country has implemented various transparency initiatives, as well as base-erosion and profit-shifting standards, and established automatic exchange of tax information with over 100 jurisdictions, including an agreement with Switzerland. Moreover, Liechtenstein expanded in recent years its double-taxation agreements and put in force a considerable number of new tax-information-exchange agreements with other countries, including a multilateral convention on administrative assistance in tax matters.

Nevertheless, future challenges to the country's economic model might stem from international developments, such as the most recent proposal to implement a global minimum tax rate on corporate profits.

Flexibility and performance profile: Large fiscal buffers supported by consistent fiscal surpluses

Liechtenstein's budgetary performance track record is very strong. Despite the pandemic's adverse impact on the budget in 2020, the principality achieved a record-high budget surplus thanks to a one-off influx of tax revenue, which more than offset pandemic-related shortfalls and additional expenditure. The principality used parts of the surplus to increase reserves in the social security system. The principality's budgetary plans point to small operating deficits, which we expect Liechtenstein will outperform as in the past, also thanks to revenue achieved from invested funds. All political parties in the parliament are committed to preserving the high financial reserves as a cushion for unforeseen needs. As of year-end 2020, the principality had Swiss franc 2.3 billion (equivalent to 39% of GDP in 2020) of liquid financial assets, which are predominately invested abroad.

We expect Liechtenstein will run general government surpluses below 1% of GDP on average during 2021-2024. Overall, the central government has no debt outstanding and the general government (including 11 municipalities and the social security system) has very low debt, relating to short-term loans contracted by some municipalities. We expect that on the back of budget surpluses during our forecast horizon, government assets will accumulate further over the next few years, additionally strengthening Liechtenstein's ample fiscal flexibility.

We expect the general government's liquid financial assets, including social security and pension funds, will be around 100% of GDP over our forecast horizon through 2024. The majority of these fiscal assets are either denominated in Swiss franc or hedged against the exchange rate risk. Total government assets depend not only on the performance of the central government's budget, but also on returns achieved on assets in financial markets. As witnessed previously, some valuation risks remain, due notably to currency and equity market volatility.

The economy's financial industry consists of banks, asset managers, insurance companies, and trust and company service providers. We believe the sector poses a moderate contingent liability for the government. For example, banks' assets represent more than 10x local GDP. In our view, most banks are well capitalized, and follow a comparably low risk model as asset managers. 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 March 2, 2021, on RatingsDirect).

Liechtenstein is in a contract-based monetary union with Switzerland, and its economy is closely synchronized with its larger neighbor. The sovereign has no vote on the Swiss National Bank's (SNB's) monetary policy council and receives no benefits from seigniorage. Being the junior member reduces Liechtenstein's monetary flexibility. The monetary union is based on a 1980 currency treaty, which establishes the Swiss franc as legal tender for Liechtenstein. The treaty also provides the principality's banks direct access to SNB liquidity facilities against eligible collateral on par with any Swiss financial institution.

Our ratings also consider the lack of comprehensive data for external accounts. There is virtually no data available for external trade or balance of payments within the Swiss franc area due to the customs union. However, we have more clarity on certain aspects of the country's international investment position through the publication of financial institutions' aggregated external accounts. This has also improved transparency vis-à-vis Swiss counterparties, indicating the sector's high external creditor position. But 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.

Key Statistics

Table 1

Liechtenstein Selected Indicators										
(Mil. CHF)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Economic indicators (%)										
Nominal GDP (bil. CHF)	6.0	6.1	6.4	6.7	6.6	6.1	6.4	6.5	6.7	6.9
Nominal GDP (bil. $)	6.3	6.2	6.5	6.8	6.7	6.5	7.1	6.9	7.0	7.1

Table 1

Liechtenstein Selected Indicators (cont.)

(Mil. CHF)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GDP per capita (000s $)	166.6	165.0	169.9	178.2	172.0	165.3	179.4	174.8	176.1	177.8
Real GDP growth	0.1	2.5	4.1	4.2	(0.9)	(8.0)	6.0	1.4	1.4	1.4
Real GDP per capita growth	(0.6)	2.0	3.3	3.5	(1.8)	(8.7)	5.3	0.6	0.6	0.6
Exports/GDP	53.3	54.6	52.9	54.7	55.8	46.9	44.3	43.4	42.4	41.5
Unemployment rate	2.4	2.3	1.9	1.7	1.5	1.9	1.7	1.7	1.7	1.7
External indicators (%)										
Fiscal indicators (general government; %)										
Balance/GDP	3.8	3.2	3.0	3.0	3.7	1.0	0.5	1.0	1.0	1.0
Change in net debt/GDP	(2.2)	(2.7)	(6.5)	1.2	(9.8)	(7.8)	(3.7)	(3.8)	(3.8)	(3.9)
Primary balance/GDP	3.8	3.2	3.0	3.0	3.7	1.0	0.5	1.0	1.0	1.0
Revenue/GDP	28.1	27.5	26.8	26.2	27.4	26.5	26.5	26.5	26.5	26.5
Expenditures/GDP	24.3	24.3	23.9	23.2	23.7	25.5	26.0	25.5	25.5	25.5
Interest/revenues	0.1	0	0	0.1	0.1	0	0	0	0	0
Debt/GDP	0.6	0.5	0.6	0.5	0.6	0.7	0.6	0.6	0.6	0.6
Debt/revenues	2.0	1.9	2.2	2.0	2.2	2.5	2.4	2.3	2.3	2.2
Net debt/GDP	(89.3)	(90.3)	(93.5)	(87.9)	(98.5)	(115.5)	(112.6)	(114.3)	(115.5)	(116.8)
Liquid assets/GDP	89.8	90.8	94.1	88.4	99.1	116.1	113.2	114.9	116.1	117.4
Monetary indicators (%)										
CPI growth	(1.1)	(0.4)	0.5	0.9	0.4	(0.7)	0.3	0.3	0.4	0.6
GDP deflator growth	(1.2)	(0.6)	(0.4)	0.7	(0.1)	(0.5)	0	0.5	1.0	1.0
Exchange rate, year-end (LC/$)	0.99	1.02	0.98	0.98	0.97	0.88	0.94	0.95	0.96	0.96
Banks' claims on resident non-gov't sector growth	10.4	(3.0)	(44.0)	7.7	1.0	0	3.5	3.5	3.5	3.5
Banks' claims on resident non-gov't sector/GDP	386.5	368.0	198.6	203.9	208.0	227.3	222.0	225.5	228.0	230.6
Real effective exchange rate growth	7.5	(2.7)	(1.2)	(5.4)	0.2	(2.2)	N/A	N/A	N/A	N/A

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

Table 2

Liechtenstein 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	3	Given the customs and currency union between Switzerland and Liechtenstein, there is limited availability of comprehensive information on trade and external statistics of Liechtenstein. We base Liechtenstein's 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, amounting to over 90% 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 sheet accounts for Swiss franc (CHF) 86.3 billion, which is more than 13x the GDP in 2018. 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.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	0	
Final rating		
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

- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, May 21, 2021
- Sovereign Ratings History, May 21, 2021
- COVID-19 Impact: Key Takeaways From Our Articles, May 19, 2021
- Sovereign Ratings Score Snapshot, May 5, 2021
- Global Sovereign Rating Trends: First-Quarter 2021, April 9, 2021
- Sovereign Risk Indicators, April 12, 2021. A free interactive version is available at http://www.spratings.com/sri.
- Default, Transition, and Recovery: 2020 Annual Sovereign Default And Rating Transition Study, April 12, 2021
- Banking Industry Country Risk Assessment: Liechtenstein, March 2, 2021
- Sovereign Debt 2021: Developed EMEA's Commercial Borrowing Could Reach $1.4 Trillion, March 1, 2021
- Sovereign Debt 2021: Global Borrowing Will Stay High To Spur Economic Recovery, March 1, 2021
- Global Sovereign Rating Trends 2021: Mounting Debt And Uncertainty Underpin A Negative Outlook Bias, Jan. 27, 2021
- Government Liquid Assets And Sovereign Ratings: Size Matters, Aug. 27, 2018

Ratings Detail (As Of May 31, 2021)*	
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.

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com