S&P Global Ratings

RatingsDirect®

Liechtenstein

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PRIMARY CONTACT

Thomas F Fischinger
Frankfurt
49-693-399-9243
thomas.fischinger@spglobal.com

SECONDARY CONTACT

Michelle Keferstein
Frankfurt
49-69-33-999-104
michelle.keferstein@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Wealthy economy, with competitive manufacturing and financial service sectors	The government's large asset position and social security funds provide ample leeway to react to potential further external and fiscal shocks.
--Liechtenstein might be challenged by further significant changes in international taxation, beyond the current agreement on a global minimum corporate tax regime.	--We expect the country to have better than expected 2021 results due to higher revenue amid pandemic-related fallout.
--The political system has a strong track record of efficient and predictable decision-making.	--S&P Global Ratings expects the government to maintain a budget surplus over the forecast horizon.
--The country benefits from access to the main European markets through its simultaneous membership of the European Economic Area and customs union with Switzerland.	--Limited data are available on the economy’s external position.

We project Liechtenstein's economy will see 3.2% growth in 2021 on the back of the strong rebound in domestic demand and economic recoveries of key trading partners. That said, we expect pre-COVID-19 nominal GDP levels to be reached only in 2023. This is supported by most recent economic indicators that suggest 17% year-on-year revenue growth for companies in first-half 2021, including stand-out performance from the manufacturing sector at 23%.

Future challenges to the country's economy might stem from international developments like the recent decision to implement a global minimum tax rate on corporate profits starting 2023. Nevertheless, in our view, the government's strong net asset position continues to provide a buffer against shocks, including from potential further changes in the international tax regime. The sovereign ratings on Liechtenstein also incorporate our view of limited monetary flexibility, as well as the lack of available external data.

Outlook

The stable outlook reflects our view of Liechtenstein's strong budgetary position, high policy effectiveness, and prudent regulatory flexibility to withstand international challenges to the country's tax model and economy. 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

Institutional and economic profile: Predictable policymaking and exceptionally high wealth levels

We expect Liechtenstein's export-oriented economy to rebound considerably--with 3.2% GDP growth in 2021--and average growth of 1.3% over 2022-2024 as demand continues to recover. In our view, the post-pandemic economic recovery will be mainly driven by exports and rebounding domestic consumption.

We estimate Liechtenstein's GDP contraction to be broadly in line with many other European economies in 2020, as external demand started to recover in second-half 2020. This is favorable for the export-oriented principality, although we note that growth in the small and open economy tends to be more volatile than seen in other European countries. The overall picture of a very wealthy country with low unemployment is unchanged since the pandemic had little impact on Liechtenstein's machinery and financial service sectors, which account for about 43% and 22% of GDP respectively. The manufacturing base contributes almost double the gross value added of the financial sector, which differentiates the country from other small sovereigns with large financial centers. In addition, the high share of small and midsize enterprises, with some world leaders in niche markets, also supports the country's' economic diversification.

Economic indicators suggest that companies reported a 17% year-on-year revenue recovery in first-half 2021, especially in the manufacturing sector with 23% year-on-year growth. Overall economic sentiment continued to brighten in the third quarter with most sectors seeing improving business conditions as demand recovers. Businesses expect a further improvement in the overall situation for the rest of 2021. Still, we expect that raw material shortages and soaring energy prices will pressure this year's economic growth.

Liechtenstein continues to benefit from its customs and currency union with Switzerland alongside unlimited access to the European Economic Area.

We believe that the government's short-time work scheme has cushioned the economic effects of the pandemic. Liechtenstein's labor market has remained strong, with the unemployment rate dropping to 1.5% in October from 1.9% at year-end 2020. The number of available jobs in the country remains higher than the total population, so a significant part of the workforce is filled by commuters, especially from Switzerland and Austria.

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 parliamentary elections in early 2021.

Liechtenstein's reputation as a small financial center remains exposed to changes in international norms for financial regulation and cooperation. We continue to expect that its policymakers will extend a track record of proactive and swift adoption of international standards along with international cooperation. So far, the country has implemented various transparency initiatives and established automatic exchange of tax information with over 100 jurisdictions.

Nevertheless, we believe that future challenges to the country's economy might stem from international developments, such as the recent agreement to implement a global minimum tax rate on corporate profits of 15% starting 2023. Liechtenstein, which currently applies a flat tax rate of 12.5%, has signed up to the agreement. All else being equal, it would likely lead to higher corporate tax revenue, although the impact on the tax base is not fully clear. In any case, we do not expect any significantly adverse hit to the government's budgetary position. This is based on our assumption of usually conservative government budgeting and the low probability of sudden outward migration of businesses due to taxation changes, as well as on the government's large asset position.

Flexibility and performance profile: Public finances will remain strong over the forecast horizon

Liechtenstein's budgetary performance remains strong. We estimate it will run a general government surplus of about 1.0% 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 little debt, relating to short-term loans contracted by some municipalities, at below 1% of GDP. We expect that budget surpluses during our forecast horizon will mean government assets build up over the next few years, strengthening Liechtenstein's ample fiscal buffers.

We expect the general government's liquid financial assets, including social security and pension funds, will be above 100% of GDP over our forecast horizon through 2024. Most of these fiscal assets are either denominated in Swiss francs or hedged against 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 in the past, 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 12x 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. This enables the sovereign to use the Swiss franc as legal tender and provides direct access to the Swiss National Bank (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. This set-up reduces Liechtenstein's monetary flexibility.

Our ratings continue to consider the lack of comprehensive data on Liechtenstein's external accounts, since there are no data available for external trade or 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. However, 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.

Sovereigns Key Statistics

Liechtenstein--Selected Indicators

	2015	2016	2017	2018	2019	2020	2021bc	2022bc	2023bc	2024bc
Economic indicators (%)										
Nominal GDP (bil. CHF)	6.0	6.2	6.4	6.7	6.6	6.2	6.4	6.6	6.7	6.8
Nominal GDP (bil. $)	6.3	6.2	6.5	6.8	6.7	6.6	7.2	6.9	6.8	7.0
GDP per capita (000s $)	166.6	165.0	169.9	178.2	171.9	169.8	182.0	174.8	171.5	174.1
Real GDP growth	0.1	2.5	4.1	4.2	(0.9)	(5.5)	3.2	1.5	1.3	1.3
Real GDP per capita growth	(0.6)	2.0	3.3	3.5	(1.8)	(6.3)	2.5	0.8	0.6	0.6
Exports/GDP	53.3	54.6	52.9	54.7	55.9	45.7	44.2	43.4	42.7	41.9

Liechtenstein--Selected Indicators

Unemployment rate	2.4	2.3	1.9	1.7	1.5	1.9	1.7	1.7	1.6	1.5
External indicators (%)										
Fiscal indicators (general government %)										
Balance/GDP	3.8	3.2	3.0	3.0	3.7	1.0	0.6	1.2	1.2	0.9
Change in net debt/GDP	(2.2)	(2.7)	(6.5)	1.2	(9.8)	(7.6)	(3.7)	(3.8)	(3.9)	(4.0)
Primary balance/GDP	3.8	3.2	3.0	3.0	3.7	1.0	0.6	1.2	1.2	0.9
Revenue/GDP	28.1	27.5	26.9	26.2	27.4	26.5	26.5	26.5	26.5	26.5
Expenditures/GDP	24.3	24.3	23.9	23.2	23.8	25.5	25.9	25.3	25.3	25.6
Interest/revenues	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	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)	(98.6)	(112.4)	(112.4)	(114.3)	(116.2)	(118.0)
Liquid assets/GDP	89.8	90.8	94.1	88.4	99.2	113.1	113.0	114.9	116.8	118.6
Monetary indicators (%)										
CPI growth	(1.1)	(0.4)	0.5	0.9	0.4	(0.7)	0.5	0.7	0.7	1.0
GDP deflator growth	(1.2)	(0.6)	(0.4)	0.7	(0.1)	(0.5)	0.2	0.3	0.5	0.6
Exchange rate, year-end (CHF/$)	1.0	1.0	1.0	1.0	1.0	0.9	0.9	1.0	1.0	1.0
Banks' claims on resident non-gov't sector growth	10.4	(3.0)	(44.0)	7.7	1.0	2.1	3.0	3.0	3.0	3.0
Banks' claims on resident non-gov't sector/GDP	386.5	368.0	198.6	204.0	208.1	225.9	225.0	227.9	230.7	233.2
Real effective exchange rate growth	7.5	(2.7)	(1.3)	(5.2)	1.0	1.4	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. 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	3	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 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 12x 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

- 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, Nov. 3, 2021
- Sovereign Ratings History, Nov. 3, 2021
- Sovereign Ratings Score Snapshot, Nov. 3, 2021
- Global Sovereign Rating Trends: Third-Quarter 2021, Oct 07, 2021
- Sovereign Risk Indicators, Oct 12, 2021. A free interactive version is available at http://www.spratings.com/sri.
- COVID-19 Impact: Key Takeaways From Our Articles, May 19, 2021
- 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

Ratings Detail (as of November 29, 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+
2-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.