INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/76

PRINCIPALITY OF LIECHTENSTEIN

March 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PRINCIPALITY OF LIECHTENSTEIN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Principality of Liechtenstein, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 21, 2025 consideration of the staff report that concluded the Article IV consultation with Principality of Liechtenstein.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 21, 2025, following discussions that ended on January 20, 2025 with the officials of Principality of Liechtenstein on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 3, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Principality of Liechtenstein.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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PRESS RELEASE

PR25/078

IMF Executive Board Concludes 2025 Article IV Consultation with the Principality of Liechtenstein

FOR IMMEDIATE RELEASE

Washington, DC – March 27, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Liechtenstein on March 21, 2025.

After exhibiting significant volatility in 2020-23 with the pandemic and spillovers from Russia's war in Ukraine, growth has resumed, albeit at a low rate. After negative growth in 2022 and 2023, output is estimated to have increased by 0.5 percent in 2024. After peaking in August 2023, inflation has come down and recently receded to below 1 percent. The labor market remains tight with the unemployment rate well below the EU average. The Liechtenstein's fiscal framework has continued to deliver sizable surpluses, contributing to large and growing buffers. The financial sector contributes about 20 percent of GDP and banks are liquid and well-capitalized.

The economy is recovering moderately. GDP growth is expected to gain momentum in 2025. A recovery in external demand for industrial products and services and a steady increase in financial services are expected to support growth reaching 1 percent in 2025. Inflation is expected to remain below 1 percent, with risk of settling at very low levels in the medium term. The labor market is expected to remain tight and support private consumption and growth, with unemployment declining slightly in 2025. Over the medium-term, the economy is projected to achieve a potential growth rate of 2 percent—somewhat below the pre-pandemic average growth of 2.5 percent.

Risks to the outlook are tilted to the downside. As a highly open economy, a potential regional or global slowdown or accelerated geoeconomic fragmentation would adversely affect exports and impede recovery. This could be compounded by safe-haven flows to Switzerland. As Liechtenstein uses the Swiss franc, appreciation of the franc could affect Liechtenstein's exports. While households have high savings, elevated indebtedness poses risks in the event of a large shock. On the other hand, large fiscal buffers provide room to respond.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the first Article IV Consultation with Liechtenstein and commended the authorities' prudent economic policies that have delivered strong fundamentals, including large fiscal buffers and virtually no public debt. Directors noted, however, that risks to the outlook—stemming from a potential global slowdown, geoeconomic fragmentation, and global policy uncertainties—are tilted to the downside. Against this backdrop, Directors encouraged policies to enhance Liechtenstein's economic resilience further while addressing long-term challenges related to aging, climate, and growth-enhancing investment needs.

Directors welcomed the strong fiscal position and the fiscal framework that has allowed some flexibility in responding to shocks, including using automatic stabilizers. In view of the budget rule's tightening bias, which has delivered continued large surpluses during periods of economic downturn, expanding the focus of fiscal policy—beyond further accumulation of buffers—to ensure timely responses to shocks while addressing longer-term spending needs could be considered. Directors concurred that identifying, costing, and prioritizing large investment projects would strengthen medium-term budgeting and looked forward to progress in this regard.

Directors emphasized that continued close supervision of Liechtenstein's large and complex financial sector is needed to ensure financial stability and contain risks. They welcomed that the banking sector remains liquid and well-capitalized, with strong asset quality. Noting high household indebtedness, Directors encouraged the authorities to continue calibrating macroprudential policies in line with financial stability risks. Given the financial center model with a large international client base, they urged continued vigilance and sustained compliance with AML/CFT international standards. Further mitigating prudential risks in the fiduciary sector would also be important.

Directors stressed the importance of structural policies to address labor market imbalances, as well as cybersecurity and climate risks. They supported the authorities' focus on addressing skills shortages, increasing the labor supply, and sustaining productivity growth, including measures to boost labor participation by women and older workers. Addressing future pension system financing needs is critical to preserve sustainability. Directors encouraged the authorities to mitigate cybersecurity risks further and to advance their climate agenda.

Directors stressed that timely data are key to greater transparency and enhanced policymaking. They encouraged the authorities to close gaps in macroeconomic statistics, including by leveraging IMF technical assistance.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Liechtenstein: Selected Economic Indicators, 2022–2030 1/

(Percent of GDP, unless otherwise indicated)

Population (2023): 40,015 | Key export markets (2023): Germany (33%), Austria (15%)

Quota (current; millions SDRs/% of total): 100/0.02% | Per capita GDP (2023): $197,564

	2022	2023	2024	2025
	Est.		Proj.	
GDP				
Real GDP (Millions of CHF)	7,113.1	7,099.9	7,135.4	7,206.8
(Percent Change)	-5.0	-0.2	0.5	1.0
Nominal GDP (Millions of CHF)	7,044.9	7,099.9	7,212.1	7,343.9
(Percent Change)	-2.6	0.8	1.6	1.8
Prices				
GDP Deflator	3.0	0.9	1.1	0.8
Consumer Price Index (Period of Average) 2/	2.8	2.1	1.1	0.8
Consumer Price Index (End of Period)	2.9	1.7	0.8	0.8
General Government Finances				
Revenue	27.4	29.2	30.6	30.9
Expenditure	24.1	26.2	27.4	27.9
Balance	3.3	3.1	3.2	3.0
Public Debt	0.5	0.5	0.5	0.5
Labor Market 3/				
Population (Thousands)	39.7	40.0	40.3	40.7
(Percent Change)	0.9	0.9	0.8	0.8
Unemployment (Thousands)	0.5	0.6	0.6	0.6
Registered Unemployment Rate	1.3	1.4	1.4	1.4
Employment (Thousands)	42.5	43.2	44.0	44.7
(Percent Change)	2.8	1.5	1.9	1.7
Commuter share of Employment (Percent)	56.8	57.1	57.4	57.7
Gross Monthly Wage (Thousand) 5/	8.4	8.5	8.5	8.6
External				
Current Account	17.1	20.0	19.1	19.3
Trade Balance	8.6	10.9	10.2	10.6
Exchange Rates (Levels)				
Swiss francs per U.S. dollar (annual average)	1.0	0.9	...	...
Swiss francs per euro (annual average)	1.0	1.0	...	...
Nominal effective rate (avg., 2010=100)	135.9	144.5	...	...
Real effective rate (avg., 2010=100)	105.8	109.3	...	...

Sources: Liechtenstein authorities and IMF staff calculations.
1/ Liechtenstein does not compile price statistics. The authorities estimate real GDP by deflating nominal GDP using the Swiss GDP deflator. This approach is followed here. 2022 and 2023 are estimates. 2024 and onwards are projections.
2/ Swiss CPI is used as a proxy to measure Liechtenstein's inflation.
3/ Unemployment data refers to the Liechtenstein residents only. The employment data includes daily cross-border commuters who work in Liechtenstein. The wage data is updated every two years and estimated for the period in between. The Liechtenstein Office of Statistics produces the registered unemployment rate.

INTERNATIONAL MONETARY FUND

PRINCIPALITY OF LIECHTENSTEIN

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

March 3, 2025

KEY ISSUES

Context. Liechtenstein's fiscal framework has ensured surpluses, virtually no public debt, and accumulation of large fiscal buffers. Specialized, export-oriented industries and financial services based on private banking and wealth management underpin economic activity and high living standards, supported by a currency treaty and customs unions with Switzerland, membership in the European Economic Area, and sizable cross-border commuting. The authorities have pledged to address data gaps.

Outlook and risks. The economy is estimated to have grown at 0.5 percent in 2024 and is projected to pick up moderately in 2025. Inflation is expected to remain low, falling below one percent in the medium term. The labor market will remain tight. Fiscal surpluses will continue, along with accumulation of buffers. Risks are tilted to the downside, including a global slowdown, which would pose challenges for the export-oriented economy. As a financial center, Liechtenstein is susceptible to a range of risks due to dependency on foreign client base.

Key Policy Recommendations

- **Fiscal policy.** With large buffers and no independent monetary policy, fiscal policy should focus additionally on responding to shocks and addressing long-term spending needs from aging, climate, and public investments.

- **Financial sector.** Macroprudential policies should continue to be calibrated to address financial stability risks. The financial center model warrants continued focus on compliance and a strong AML/CFT framework.

- **Structural policies.** Measures are needed to narrow skills gaps for residents and increase domestic labor supply (women, older workers). Preserving pension system sustainability is essential in the face of adverse demographic trends.

- **Closing data gaps.** Priorities include improving timeliness of national accounts and establishing balance of payment statistics.

Approved By:
Mark Horton (EUR) and Martin Cihak (SPR)

The mission took place in Vaduz during January 7–20, 2025. The staff team comprised Kazuko Shirono (Head), Rodgers Chawani, Thomas Elkjaer, Tara Iyer (all EUR), and Andrew Baer (STA). Patryk Loszewski (Executive Director) and Philippe Alexander Zellweger (OED) participated. Marizielle Evio and Zhengting Yue assisted from IMF HQ. The mission met with the Hereditary Prince, the Prime Minister and Minister of Finance, the Deputy Prime Minister and Minister of Home Affairs, Economy, and Environment, representatives of the Ministry of Social Affairs and Culture, the Ministry of Foreign Affairs, Education, and Sport, and the Ministry of Infrastructure and Justice; the Financial Market Authority; the Office of Statistics; banks and other government and private sector representatives; the Liechtenstein Institute, and representatives of academia.

CONTENTS

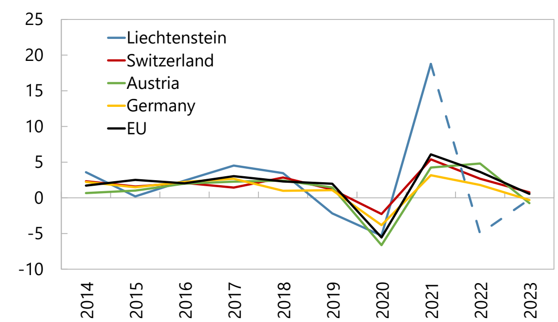
ANNEXES

CONTEXT AND RECENT DEVELOPMENTS

1. **Liechtenstein is a globally integrated small open economy with a large financial sector.** It has an export-oriented manufacturing sector supported by high investment in R&D (Annex I). It maintains close economic ties with Switzerland and the EU, including a customs union with Switzerland, use of the Swiss franc, and membership of the European Economic Area (EEA), with full access to the EU's single market (Annex II). Liechtenstein has high per capita income; half of those employed commute from neighboring countries. Parliamentary elections took place in February. A new government is expected to be in place around end-March. No major policy shifts are anticipated.

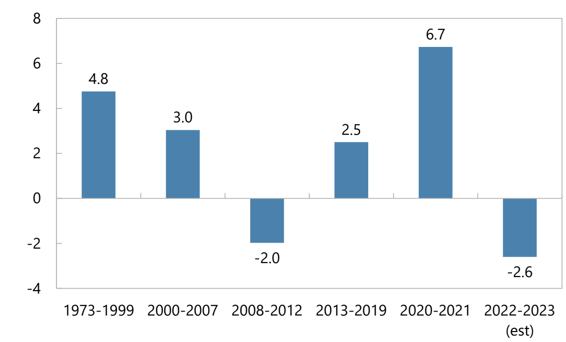
Text Figure 1. Liechtenstein: GDP Growth, KonSens Index, and Trade

Real GDP Growth: Cross-Country Comparison
(Percent, Annual Growth Rate)



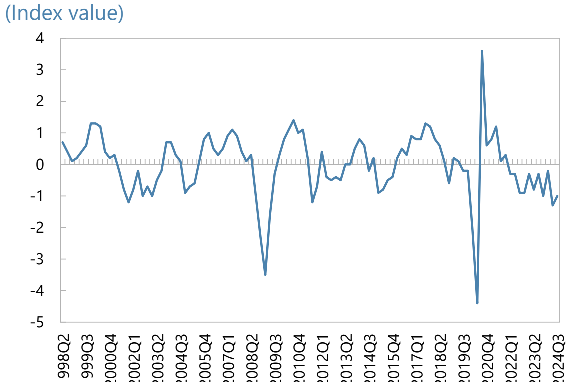
Sources: Liechtenstein Office of Statistics and IMF staff's calculations.
Notes: GDP for Liechtenstein after 2022 is estimated (dotted line).

Historical Periods of Growth
(Percent)



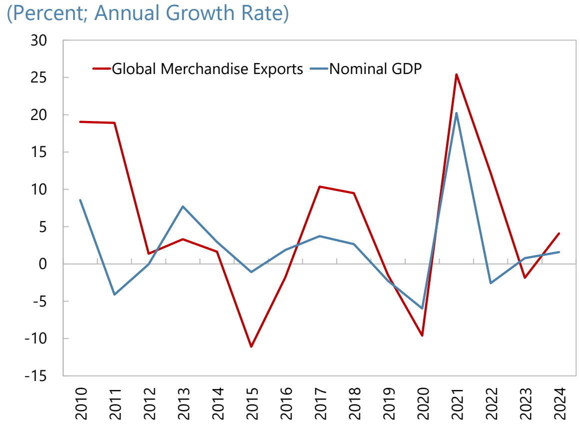
Source: Liechtenstein Authorities.

Business Cycle Index KonSens
(Index value)



Source: Liechtenstein Institute.
Notes: A KonSens-value higher (lower) than 0 can be interpreted as real GDP growth above (below) average compared to all quarters in the sample since 1998.

GDP and Global Exports
(Percent; Annual Growth Rate)



Source: Liechtenstein Authorities and IMF WEO.

2. **Macroeconomic data limitations pose a challenge.** Data are incomplete and not always timely or easily accessible, including for some key indicators (e.g., real GDP, BOP). This partly reflects

Liechtenstein's small administration; some data are aggregated with Switzerland. This was the first Article IV consultation for Liechtenstein, the IMF's newest member, and the consultation involved fact-finding to gain a clear understanding.

3. Activity has been volatile in recent years; inflation is low (Text Figure 1). Activity is more volatile than in Switzerland and Austria, as Liechtenstein is more open and susceptible to external shocks with GDP growth closely tracking global exports growth. Output contracted in 2020 with COVID-19 but rebounded in 2021. The economy contracted again in 2022 and 2023, by -5.0 percent and -0.2 percent, respectively,[1] reflecting disruptions in exports and spillovers from Russia's war in Ukraine. A business cycle index comprising 16 indicators has been negative for eleven consecutive quarters since 2022. Liechtenstein's inflation is proxied by the Swiss CPI in the absence of a Liechtenstein-specific CPI. After peaking at 3.5 percent in August 2023, inflation has come down and continues to surprise on the downside, reaching 0.4 percent in January, within the Swiss National Bank's 0–2 percent inflation band. The SNB reduced its policy rate from 1.0 to 0.5 percent in December 2024.

4. The labor market has remained tight and supported by commuters from neighboring countries. The unemployment rate has been below the EU average, and labor force participation is high (77.8 percent in 2023), although below that in Switzerland and other comparators. Wages are estimated to be higher than the averages in Switzerland and Austria.

5. Liechtenstein maintains a strong fiscal position with low taxes. The fiscal policy framework, mandated in the Financial Budget Act (FHG), has contributed to surpluses and virtually zero debt and accumulation of large buffers (¶12). The general government is small compared with Switzerland and European peers; expenditures were 24 percent of GDP versus 49 (EU) and 31.9 percent (Switzerland) and revenues were 27 percent of GDP compared to 45.5 (EU) and 32.1 percent (Switzerland), respectively, in 2023. A fiscal surplus of 3.1 percent of GDP was recorded in 2023, reflecting robust personal and corporate income taxes from the strong labor market and associated social contributions.[2] Net financial assets of the general government (including social security fund assets) are high, having peaked at 122 percent of GDP in 2020. Liechtenstein faces spending pressures from an aging population (health, pensions), the green transition, and the need for growth-enhancing public investments (¶15).

6. The financial sector is large relative to the economy. Measured in the broadest sense, i.e., including off-balance sheet items such as assets under management (AUM) by banks in Liechtenstein and their subsidiaries abroad, the financial sector is estimated at around 100x GDP (Text Figure 4). The sector contributes about 20 percent of GDP and employs 17 percent of the workforce. The banking sector, highly concentrated, accounts for the largest share, including both

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[1] The figure for 2023 is based on the Liechtenstein Institute's estimates and subject to change.

[2] Pandemic-related expenditures, smaller than peers, were phased out.

on- and off-balance sheet items (74x GDP). The investment fund sector is also large (14x GDP) and growing.[3] The trust sector has declined since a strict trust law was enacted in 2008 but remains important. The insurance sector is dominated by four companies with 62 percent of total premiums and relies heavily on the international market, with 99 percent of gross premiums generated abroad.[4]

7. **Estimates indicate large current account (CA) surpluses and a large positive net international investment position** (NIIP). CA estimates using 2021 data indicated a surplus of 18–20 percent of GDP that year.[5] The IIP is estimated at around 12x GDP, with FDI assets around 7x GDP, reflecting multinational companies headquartered in Liechtenstein and portfolio equity investments around 3.5x GDP. NIIP is around 8x GDP. CA surpluses are attributable to exports of manufactured goods and financial services and financial income from the large positive NIIP; they are likely to have continued. Compensation of daily commuters reduces the CA surplus, although the availability of labor from neighboring countries helps make the financial and manufacturing sectors competitive.

8. **While lack of comprehensive data hampers a quantitative assessment, the external position is likely to be stronger than fundamentals.** Trade data are compiled but incomplete, with bilateral trade data between Liechtenstein and Switzerland missing.[6] A large CA surplus likely remained through 2024, with the manufacturing sector remaining competitive due to R&D and strong labor supply, even though weak external demand from Europe and Swiss franc appreciation have affected exports. Data are not collected on services, but indirect measures such as growth in asset under management suggest that financial services exports likely performed well in 2024.

OUTLOOK AND RISKS

9. **After contracting in 2022-23, the economy is expected to have grown by 0.5 percent in 2024 and to continue to expand moderately in 2025.** A gradual recovery in external demand for industrial products and services[7] and growth in financial services are expected to support growth rising to 1 percent in 2025. The labor market will continue to be tight and support private consumption and GDP growth, with unemployment declining slightly in 2025. In the medium-term, the economy is projected to reach potential growth of 2 percent—below pre-pandemic average

[3] The growth is driven by Alternative Investment Funds (AIFs). In Liechtenstein, AIFs tend to have limited exposures to illiquid assets and thus be less subject to liquidity mismatches.

[4] The insurance sector's solvency capital requirement ratio is above 200 percent, well above the required threshold of 100 percent. Profitability is low and below the EU average, but this may be skewed due to intra-group arrangements.

[5] Liechtenstein does not yet compile BOP data; estimates produced by the authorities for the membership process are used as the basis.

[6] For IMF membership, bilateral trade between Switzerland and Liechtenstein was estimated with data from business revenue indicators from the Liechtenstein Chamber of Commerce and Industry (LCCI), among others.

[7] Some of the largest industrial companies, mostly private-owned, have strong balance sheets and positive profit margins with high rates of investment.

growth of 2.5 percent, supported by manufacturing and financial services (Text Figure 1). Inflation is expected to remain below 1 percent in 2025 and the medium-term, with risk of settling at very low or negative levels. The fiscal stance is expected to be somewhat more accommodative in the near-term driven by infrastructure and education investments. Over the medium-term fiscal surpluses are projected, supported by recovery in the economy and continued strong performance and tax revenue from the industrial and financial sectors.

10. Risks are tilted to the downside given the prevailing global uncertainty (Annex III). As a highly open economy, a potential regional or global slowdown or accelerated geoeconomic fragmentation or trade restrictions would adversely affect exports and impede recovery. This could be compounded by the safe-haven flows to Switzerland and appreciation of the franc, affecting Liechtenstein's exports. The financial center faces risks from dependency on a foreign client base. Elevated household indebtedness presents vulnerabilities to large shocks, but high savings mitigate risks. On the other hand, large fiscal buffers provide room to address shocks.

Authorities' Views

11. The authorities broadly shared staff's assessment on the outlook and risks. They noted that while the outlook for Liechtenstein as a small open economy is highly dependent on external conditions, its industrial companies[8] are globally competitive with high R&D and long-term focus and have demonstrated resilience and flexibility during volatility. The labor market is expected to remain tight with continued demand for skilled, cross-border commuters. The authorities stressed that banks are liquid and well capitalized; historical experience has shown that greater global uncertainty tends to increase safe-haven inflows to the sector. The banks have proven able to withstand negative Swiss franc interest rates. Businesses' tendency to retain skilled workers during downturns helps stabilize employment and maintain tax revenue streams.

POLICY DISCUSSIONS

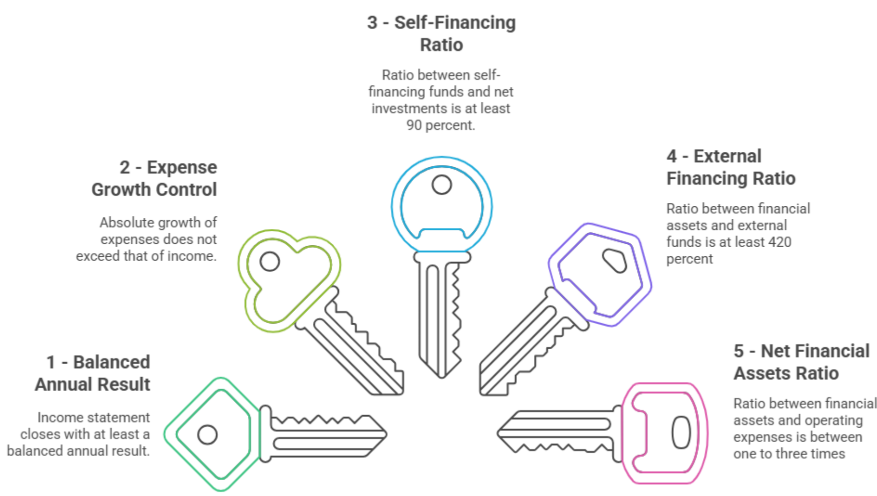
With large fiscal buffers in place and in the absence of independent monetary policy, fiscal policy should broaden its scope beyond further accumulation of buffers and focus on responding to shocks as needed and addressing medium-term challenges stemming from aging, climate, and growth-enhancing investment needs. Demographic changes will require further actions to address skills shortages and better integrate women and older workers in the labor market, as well as to close anticipated pension gaps. Financial sector policy should continue to focus on strengthening the safety net given the large size of the financial sector. Improving provision of economic data is key for transparency and timely policy action.

[8] These companies include a developer and distributor of products for prosthetic, restorative, and preventive dentistry and a manufacturer and service provider of power tools and equipment.

A. Fiscal Policy

12. The fiscal framework is built on a budget rule focused on the government's income statement[9] and set independently of macroeconomic developments. The government formulates a rolling four-year plan each year in line with the 2010 Financial Budget Act, which stipulates five benchmarks—see Text Figure 2, including a balanced income statement, upfront funding for capital projects, and ratios intended to preserve fiscal buffers relative to expenses. In practice, Benchmark 5 on the Net Financial Assets Ratio serves as a target for the buffer; financial assets are projected to exceed the threshold of 3x operating expenses as of end 2024. The rule requires the government to present remedial actions to parliament if benchmarks are unmet. The framework has led to virtually zero public debt and accumulation of substantial financial assets—approximately 100 percent of GDP including social security fund assets of 50 percent of GDP (Text Figure 3). This position has allowed the government to address shocks without borrowing, even though Liechtenstein is one of just 11 countries with AAA rating by S&P. All targets have been met consistently, except for Benchmark 2 on expenditure growth (Text Figure 3). While the government does not see missing Benchmark 2 as a problem, there may be a case to reassess the benchmark given recurrent breaches and in light of looming expenditure pressures.

Text Figure 2. Liechtenstein: Budget Rule: Five Benchmarks



Source: Liechtenstein Authorities.

13. Surpluses and accumulation of buffers are expected to continue. The 2025 budget envisages higher spending on investment, including a new hospital and a reserve allocation to the occupational pension scheme for state employees, offset by higher CIT and VAT revenues. A surplus of 3 percent of GDP is expected—just below the 3.2 percent in 2024. The government has fully implemented the OECD Pillar 2 Qualified Domestic Minimum Top-up Tax and the Income Inclusion

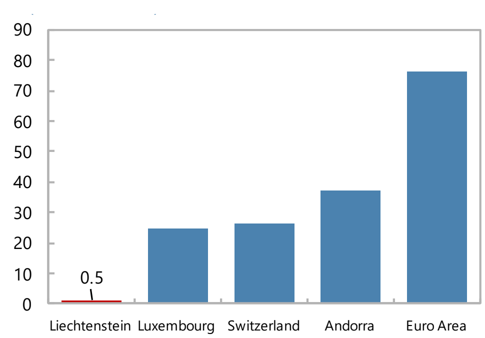
[9] The Financial Budget Act defines the income statement as comprising operational expenses and revenue of an accounting period that includes financial and extraordinary results (Article 8).

Rule as of January 2024 and plan to formalize the Undertaxed Payments Rule that may only come into effect in future. In the medium-term, surpluses are projected to remain above 3 percent of GDP, well above budget balance but in line with the historical average. The average surplus during 2014–2022 was 3.4 percent of GDP.

14. Fiscal policy appears to have been overly tight during shocks and delivered large surpluses rather than balance. During the pandemic in 2020, the authorities received a revenue windfall (CIT of 4.1 percent of GDP) and provided support to households and firms (1.8 percent of GDP) and made a one-off contribution to state pensions (1.6 percent of GDP) for long-term sustainability. That year, overall general government outcomes were not aligned with macroeconomic conditions—growth was -5.3 percent, while the general government balance recorded a surplus of 3.3 percent of GDP (accounting for the windfall). A similar misalignment was observed in 2022 when the economy contracted by -5 percent due to the energy shock, while the overall balance was in surplus of 3.3 percent of GDP. These episodes illustrate that the current fiscal framework's focus on balancing the income statement result could also constrain the magnitude of the responses to shocks. While the Principality has the necessary tools and buffers (see *Selected Issues Paper*) to dampen the impact of shocks—automatic stabilizers, including progressive personal income taxes and unemployment benefits—discretionary responses could be given more consideration, including creating provisions for ex-ante legislative support for timely, well-targeted, and time-bound fiscal measures to address shocks. Assessing links between macroeconomic conditions, policy intentions, and fiscal outturn is important. This will need to involve reduced lags in data on fiscal and macroeconomic outcomes to ensure timely evaluation of the duration and magnitude of shocks. Consideration could be given to reassessing the framework and rules in this light.

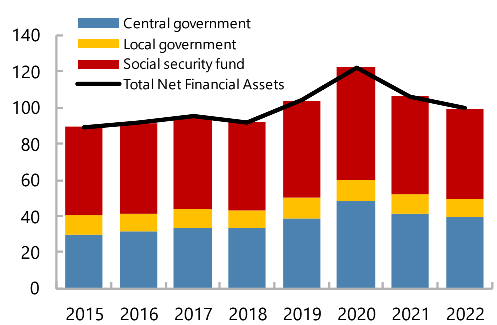
Text Figure 3. Liechtenstein: Government Debt, Net Assets, and Budget Rule Performance

General Government Debt
(Percent of GDP)



Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

General Government Financial Net Worth
(Percent of GDP)



Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

15. Liechtenstein faces long-term spending needs arising from aging, climate change, and necessary public investments.

- *Demographics:* The population 65 years and above is expected to increase from 20.1 in 2023 to 28.6 percent by 2060, adding to pension and health outlays. Pillar I pension projections indicate that assets will fall relative to annual expenditure from 9.8 in 2023 to below the statutory 5-year minimum in 2043. If reserves fall below the minimum threshold, the law suspends the inflation adjustment of the old-age, survivors' and disability insurance benefits.

- *Climate:* Liechtenstein is exposed to extreme weather events, including drought, flooding, and landslides; transitional risks towards a greener economy are also present. Reaching the authorities' climate targets—climate neutrality by 2050 and reduced greenhouse emissions by 55 percent (vis-à-vis 1990) by 2030—will necessitate more spending on renewable energy.

- *Energy:* Liechtenstein's electrical grid is interconnected with the Swiss grid. Electricity accounts for 35.6 percent of energy sources, compared to natural gas (20.1 percent), liquid fossil fuels (27.9 percent), and district heating and waste (10.8 percent). Domestic energy supply was just 13 percent in 2022, and the authorities see scope to enhance energy self-sufficiency over the long run via an expansion of photovoltaics.[10]

- *Growth-enhancing investment:* With declining growth, sustaining Liechtenstein's growth model will depend on a continued supply of skilled workers from neighboring countries and productivity-supporting investments, including for infrastructure and public services—improvements to the transport network and childcare including for foreign commuters.

16. Costing the potential impact of long-term spending needs would improve medium-term budgeting. The full extent of the medium-term spending pressures from demographics, climate, and growth-enhancing investments is yet to be assessed. To better assess their impact on the fiscal position, costing and planning of long-term spending needs and investments are important. While budget rules have some flexibility, they require upfront identification of financing. All large investment projects should be systematically identified, costed, and prioritized, with inclusion in the budget, funding sources, and implementation modalities set at a later stage.

Authorities' Views

17. The authorities broadly agreed with staff's assessment of fiscal policy. They noted that strong fiscal consolidation in 2013, at the time of the European crisis, set the basis for fiscal surpluses for a decade, contributing to substantial buffers and virtually zero public debt. They indicated that automatic fiscal stabilizers are integrated into the budget and functioning effectively. They pointed to the limited ability in fiscal policy to smooth the business cycle for a small, highly open economy. They, however, agreed that fiscal policy serves as the sole policy lever and that paying more attention to its role in responding to shocks may be beneficial going forward. There was consensus on long-term spending needs, including for climate and aging, and they recognized

[10] In response to the energy shock, Liechtenstein established a strategic gas reserve sufficient for two months of winter consumption.

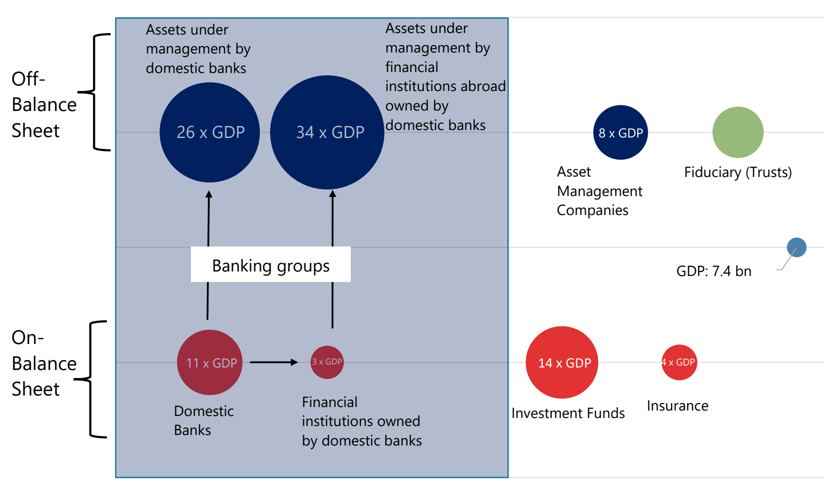
the value of investing in infrastructure and public services to sustain resident and non-resident workforce participation.

B. Financial Sector Policies

18. Liechtenstein's financial center strategy is anchored in full commitment to transparency, international and bilateral engagement, and a steadfast focus on strengthening the AML/CFT framework (see *Selected Issues Paper)*. Key measures have included reform of the law governing the fiduciary sector, adherence to automatic exchange of information in tax matters and the OECD's Base Erosion and Profit Shifting (BEPS) initiatives, and implementation of AML/CFT preventive measures. Financial supervision is fully integrated with European System of Financial Supervision, with the Financial Market Authority (FMA) as the independent national supervisory authority. EU financial regulations are transposed to national law and guidelines are followed for the different financial subsectors.[11] EU's bank resolution framework also applies, and the FMA has the functions of national Resolution Authority, including drawing up resolution plans. FMA also coordinates with the European Systemic Risk Board (ESRB), other EU institutions, and the Swiss authorities on financial stability matters. Liechtenstein's banks have the same access to SNB sight deposit accounts as Swiss banks and SNB standing facilities if they participate in the Swiss repo market. However, the banks are small relative to Swiss financial institutions and they have no access to SNB emergency liquidity assistance (ELA).

Text Figure 4. Liechtenstein: Financial System as of End 2023

(Percent of GDP)



Note: Staff estimates based on FMA's "Liechtenstein Financial Centre 2024" report. Three main caveats apply: first, data do not align fully with statistical standards on residency; second, double counting may occur; third, since no data are avaliable on the size of fiduciary sector, the size of the dot does not represent an estimate but only serves as an illustration.

[11] All EEA relevant EU legal Acts must be incorporated. EU regulations become directly applicable whereas Directives must be implemented in Liechtenstein law. Liechtenstein's current implementation rate of EU law is 99.4 percent.

19. Overall systemic risks seem contained although continued close oversight is warranted given the large size of the financial sector relative to the economy. Domestic financial institutions have little direct balance sheet connectivity. Bank AUM activities are off-balance sheet with no direct financial risks (¶21) while domestic exposure is limited and mostly to mortgages (¶22–23). The strengthening of the AML/CFT framework helps mitigate ML-TF risks (¶24–25). However, the financial center business model exposes financial institutions directly to global financial conditions and geopolitical developments, which could increase balance sheet or off-balance sheet risks. Adherence to sanctions is also becoming increasingly complex. Rigorous supervision and oversight as well as continued focus on strengthening financial safety net are key to ensure financial stability.

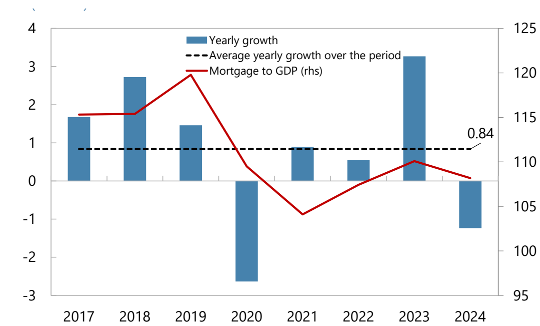
20. The banking sector is liquid and well-capitalized, but risks remain. The sector is focused on private banking and wealth management and dominated by three banks, accounting for over 90 percent of the sector and designated as other systemically important institutions (O-SII). AUM of banks is 60x GDP—95 percent managed by O-SIIs—with networks extending to Asia and the Middle East. The sector's capital and liquidity buffers are well above regulatory requirements and non-performing loans are low. However, profitability is under pressure, reflecting the high cost of the private banking model, compliance, and digitalization investments. AUM activities are off-balance sheet and do not present direct financial risks, but the international client base and cross-border activities warrant continued close monitoring, including for ML/TF risks and adherence to sanction regimes (¶25). Domestically, the main risks relate to mortgage lending (¶22–23).

21. High household debt calls for continued close monitoring and oversight. Household debt, which essentially are in mortgages, stands at around 110 percent of GDP despite modest growth in recent years (Text Figure 5). Non-performing loans are less than 1 percent. While the household sector in aggregate has large positive net worth (360 percent of GDP), some households are vulnerable to shocks. The share of households with negative net worth and net financial assets are 15 and 41 percent, respectively (Text Figure 5).[12] These households may be liquidity-constrained during economic downturns. Similarly, borrowers with a high debt-to-income ratio may face difficulties in servicing debt if shocks hit. Just over 15 percent of households have mortgage debt five times greater than their income. About half of these households have mortgage debt above CHF 1.0 million (Text Figure 5). However, the risk from households with debt exceeding CHF 1 Million is mitigated as close to 90 percent are households with gross worth—including both financial and non-financial assets—above CHF 1 million.

[12] Net worth is real asset plus financial asset minus financial liabilities, and net financial assets are financial assets minus financial liabilities. The value of real assets is likely underestimated, hence the share of households with negative net worth is likely overestimated. Valuations are based on tax records, which for real estate is transaction prices and for land is historical cost; both are under-estimating market prices, particularly for land prices.

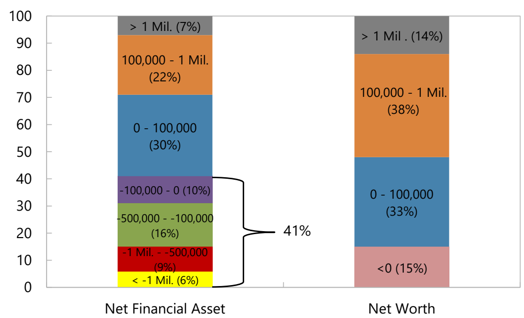
Text Figure 5. Liechtenstein: Household Sector Wealth and Debt

Credit to Households (Mortgages)
(Percent)



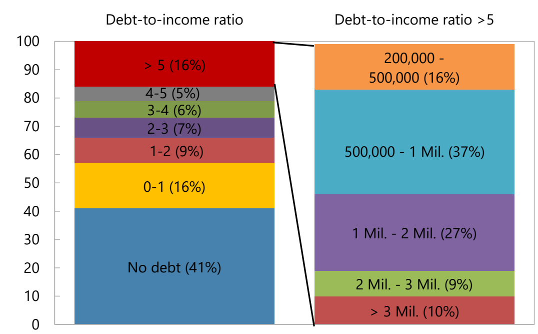
Source: Liechtenstein Authority and IMF staff calculations.
Note: 2020's GDP has been smoothened to avoid jumps from large flucturation of GDP.

Net Financial Assets and Net Worth
(CHF)



Source: Liechtenstein Authority.

Debt-to-Income Ratio
(Percent of annual income)



Source: Liechtenstein Authority.

22. Macroprudential policies should continue to be calibrated in line with the evolution of financial stability risks. Liechtenstein's macroprudential framework is overseen by the Financial Stability Council (FSC). The FMA employs a comprehensive macroprudential toolkit with capital-, lender-, and borrower-based measures for mortgage lending, and FMA communicates risks and their macroprudential policies in their annual financial stability report.

- Capital-based measures follow the EU Capital Requirement Directive. The O-SII buffer applies to the three largest banks, the sectoral systemic risk (SSRB) buffer relates to domestic mortgage exposures, and the countercyclical capital buffer (CCyB) is set to zero mainly reflecting low growth in mortgage lending. With banks' Common Equity Tier 1 ratio (CET1) being around 20 percent, well above EU averages, the capital and buffer requirements are adequate at their current levels. The authorities plan to implement CRR-III in 2025, which is expected to affect credit and market risks weights; FMA estimates the overall impact would be a 1–2 percent decrease in CET1 ratio.

- Since 2024, borrower-based measures include amortization requirements and maturity restrictions based on loan to value (LTV) limits and income-related affordability tests using loan service to income (LSTI) ratio (Text Table 1). There are exceptions-to-policy instructions and transitional arrangements for loans originated before implementation of these measures. Banks started to report data on these measures for new loan origination to FMA starting from September 2024, hence the coverage of existing loans is currently limited but will increase over time. The authorities plan to improve data availability on real estate and rental price indexes. Initial estimates on real estate prices indicates a long period with low growth compared to neighboring countries.

Text Table 1. Liechtenstein: Affordability Test and Amortization Requirement

LTV below 66 percent	LTV between 66.6 and 80 percent	LTV Above 80 percent
No amortization requirements unless affordability test not meet as measured by LSTI.	Always amortization requirements, regardless of LSTI.	Always categorized as exceptions to policies (ETP), where banks are allowed flexibility in justified cases. Closely monitered by FMA.
Transitional arrangements for loans issued before July 2024		

Source: Liechtenstein Authorities.

23. While AML/CFT framework is being strengthened, continued vigilance is warranted. The financial center model focused on non-residents involves inherent ML/TF risks; adherence to sanctions regimes is also important. Even small breaches carry risks that could, for example, jeopardize correspondent banking relationships, with possible negative impacts for the sector. The FMA initiated risk-based AML/CFT supervision in 2018, and an update of the national risk assessment (NRA) is scheduled for 2025. The authorities have continued to implement 2022 MONEYVAL recommendations, notably significantly increasing the number of onsite inspections, including for the fiduciary sector. The FMA also closely coordinates with the new EU Anti Money Laundering Authority (AMLA).

24. Closer oversight is warranted for the fiduciary sector, which is prone to operational and reputational risks (Annex III)**.** The number of trusts and foundations has been declining but adherence to AML/CFT and sanctions regimes is becoming increasingly demanding. Geopolitical fragmentation has accentuated the sector's inherent operational and reputation risks, also flagged by the US Treasury's Office of Foreign Assets Control (OFAC). The planned revision of the Professional Trustee Act, which would strengthen fit and proper requirements, provide FMA with more power to intervene, and utilizing existing authority to collect data, including on interlinkages with the financial sector, is an important step to further mitigate risks in the sector.

Authorities' Views

25. The authorities broadly agreed with staff's assessment and recommendations. They noted that high household indebtedness in the form of mortgages is a risk, which is why they have implemented a balanced set of macroprudential measures in response. The authorities expect to continue to gain further insight from the data on mortgages they started to collect in 2022 while work is underway to collect data on real estate prices. The authorities also pointed out that the large size of the financial sector compared to the economy should also be viewed in the context of off-balance sheet activities with no direct risks to the banks. They suggested that in case of rising geopolitical tensions, the resilience, stability, and safe-haven characteristics of the banking sector could lead to more inflows of wealth management business. They stressed their commitment to continuously strengthening their already comprehensive AML/CFT framework and diligent adherence to sanction lists. They consider that the financial sector has internalized the importance of strict adherence and compliance as essential for its own business needs.

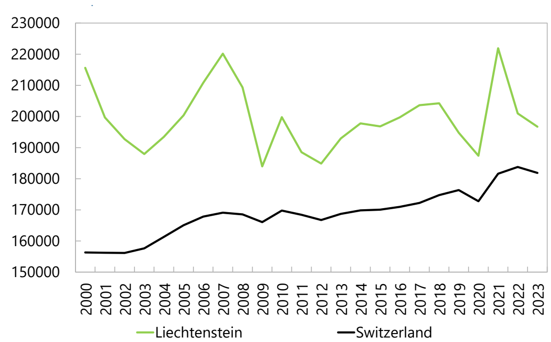
C. Structural Policies

Labor Market

26. Liechtenstein's labor market relies on cross-border commuters from neighboring Austria and Switzerland. Demand for skilled workers is high, exceeding the resident labor supply. Eighty percent of new jobs are filled by non-residents. The share of commuters has steadily increased to 57 percent of employment from 25 percent in the 1980s. Commuters have filled skills shortages, supporting productivity growth. They earn a wage premium relative to residents (see *Selected Issues Paper*). Demand for skilled non-residents is expected to grow further as jobs become more specialized.

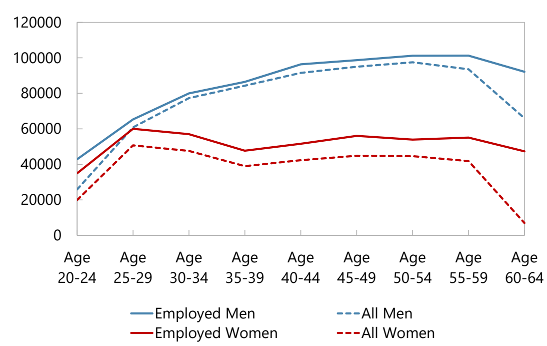
Text Figure 6. Liechtenstein: Productivity and the Gender Gap

Productivity
(Real GDP per FTE, CHF)



Source: Liechtenstein Authority.

Taxable Income by Gender and Age
(CHF)



Source: Liechtenstein Office of Statistics.

27. Continued reforms are needed to address skills shortages and support future productivity growth. Further growth of commuters could be limited by infrastructure constraints, including in transport. Taking stock of infrastructure needs to address constraints will be important. Continued growth of cross-border commuters would support productivity growth, which remains high but has stagnated over the past two decades compared to Switzerland (Text Figure 6). In addition, government efforts should continue to support residents attain required skills, prioritizing job training, reintegration, and skills development through targeted incentives. Planned measures appropriately focus on expanded educational offerings, career counseling, recognizing qualifications, providing training in shortage occupations such as STEM, and promoting lifelong learning.

28. Additional efforts are also needed to increase labor supply, including women and older workers. Female labor force participation has increased over time but remains lower than that of men. A sizeable gender wage gap also exists (~14 percent) higher than the EU average. Women's income also tends to decline with age, while it grows for men, leading to a significant difference in lifetime earnings (Text Figure 6). Government measures appropriately focus on offering flexible work options, extending parental leave for men, creating part-time positions aligned with qualifications, and subsidizing childcare. Additional infrastructure required for childcare facilities should be considered. As labor shortages are exacerbated by demographics, measures to increase the labor supply of older workers should be explored, including flexibility in retirement age and work schedules, offering pre-retirement career counseling, and improving work environments for extended employment in later years.

Pensions

29. The three-tiered pension system has substantial buffers and aims to provide a balanced, sustainable, and secure retirement income. The old age and survivors' insurance scheme (AHV)—Pillar I—provides basic old-age income to all citizens and guarantees a minimum monthly pension of CHF1,225 (US$1,384) and a maximum of CHF2,450 (US$2,769). Pillar I assets account for 60 percent of GDP, laying a foundation for retirement incomes with a replacement ratio of 35 percent (Text Figure 7). Pillar II, a mandatory occupational scheme for employed individuals, complements the public scheme. The scheme comprises 15 collective and company funds, financed under a defined contribution plan, except for one entity. Pillar II complements Pillar I with 120 percent of GDP of assets, along with private savings (Pillar III). Non-resident participation constitutes a unique feature of the pension system—the proportion of foreign commuters relative to number of actively insured persons is about 66 percent for Pillar I and 60 percent for Pillar II, respectively. Pension fund assets are invested predominantly in bonds and equities, like most peers, and mostly in Switzerland.

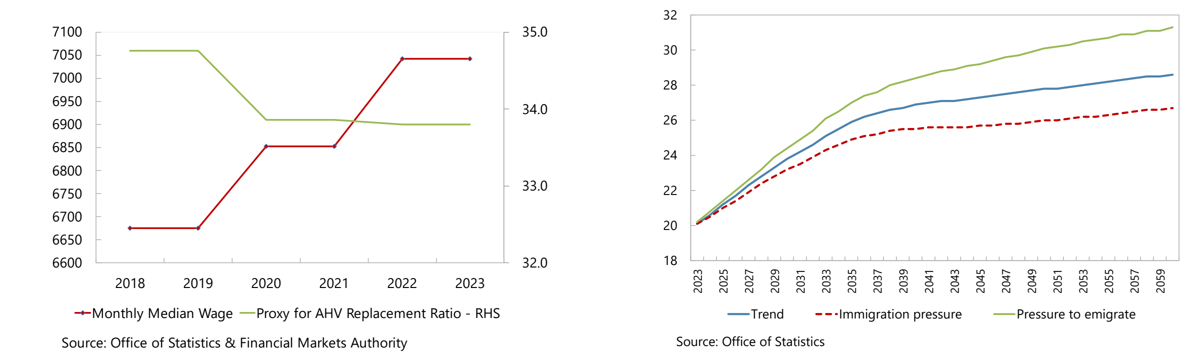
30. The pension system requires actions to address future financing gaps stemming from demographic changes (see S*elected Issues Paper*). While the population is expected to grow by 11 percent by 2060, the number of individuals over 65 is expected to increase by 59 percent, bringing the share of individuals aged 65 and older to 28.6 percent by 2060 from 20 percent at present. This will add to pension costs. Options to address rising pension costs include increasing the contribution of the state, employers, and/or insured persons. Currently, the state's contribution is pegged at CHF 30 million (equivalent to 6 percent in 2023 against previously 18–20 percent of annual expenditures of the AHV) while contributions from employers and employees are about

8.25 percent. There may also be scope for increasing the effective retirement age from the current 65 years for men and women considering higher life expectancy (81.8 years in 2020, 84.6 years in 2023).

Text Figure 7. Liechtenstein: Pensions and Demographics

Average Monthly Wage and AHV Replacement Ratio (CHF, percent)

Proportion of 65-Year Olds and Over (Percent)



Source: Liechtenstein Authorities and IMF Staff Calculations.

Climate

31. Climate reforms are progressing. Liechtenstein successfully met its Kyoto target, achieving a 20 percent reduction in GHG emissions. Recently, Parliament adopted a long-term climate strategy aiming for climate neutrality by 2050 and an interim target to reduce greenhouse gas emissions by 55 percent by 2030 relative to 1990. Efforts to reduce emissions primarily focus on the energy sector, which is responsible for 80 percent of all emissions, and aim to increase the use of renewable energy sources. The authorities intend to amend the Emission Trading Act to conform to the EU's directive, which involves a cap-and-trade system that encourages the use of low-carbon technology by allocating a finite amount of emission allowances to businesses. Newly constructed non-residential buildings are incentivized with federal and communal subsidies to have photovoltaic (PV) systems installed, and parallel incentives exist for all existing non-residential buildings (industrial, commercial, agricultural, and service sectors). Other efforts relate to switching to environmentally friendly heating systems or connecting to the Swiss district heating system. Estimating and incorporating climate related expenditures in the forthcoming update of the climate adaptation strategy and future budgets are important to advance the green transition.

Cyber Security

32. Policies to address cybersecurity risks have been implemented and continued oversight is needed. A National Cyber Security Unit was created in 2022 to monitor threats, protect critical infrastructure, and coordinate information sharing within the country and with neighboring authorities. This has been supplemented with a new unit within the FMA tasked with supervising and auditing cybersecurity at financial institutions. The unit will oversee implementation of the EU Digital

Operational Resilience Act that became effective in February 2025. Going forward, inter-institutional coordination between the unit and counterparts in both the public and private sectors remains key due to the evolving cybersecurity risks.

Authorities' Views

33. The authorities concurred that labor and skills shortages are key issues. They suggested that the supply of high-skilled commuters will continue to be high as wages and incentives are competitive relative to neighboring regions. They acknowledged the need to continue upskilling residents as well as to ease infrastructure constraints that affect commuters. The authorities agreed with the importance of increasing the labor supply of women and older workers by supporting childcare facilities and offering flexibility in retirement age and work schedules. They noted these are areas of focus in the strategies recently developed by the government.

34. The authorities consider the pension sector resilient and agree on the need to address future financing pressures. They noted that Pillar I assets are expected to decline below the minimum threshold and pointed to ongoing discussions on possible actions. However, a decision is yet to be made regarding which measures to implement, including raising the legal retirement age or higher state, employer, or individual contributions.

35. The authorities concurred that monitoring and reacting to cybersecurity threats is an important priority. They highlighted their commitment to continued inter-institutional and international collaboration, fully utilizing the recently established institutional framework for cybersecurity, including the new National Cyber Security Unit.

D. Data and Statistics

36. Closing data gaps and publishing timely statistics in line with international standards are key for monitoring of economic developments and informing policymaking. Liechtenstein has significant gaps in macroeconomic statistics that somewhat hamper surveillance; the authorities have pledged to address these. There is room for improving statistics in several dimensions (Annex V), including the timeliness of national accounts and compiling balance of payment (BOP) statistics (see *Selected issues paper*). Additional resources allocated to the Office of Statistics (OS) are a step in the right direction. Leveraging inter-institutional collaboration, including among the OS, FMA, Fiscal Authority, and the Liechtenstein-Institute, will further facilitate data collection, compilation, and dissemination. IMF TA could advance the work. Continued collaboration with the Swiss National Bank on BOP data issues is also important. Additional staff resources at the OS are likely needed to ensure timeliness of national accounts, public sector, and external sector statistics.

Authorities' Views

37. The authorities agreed that data gaps should be addressed, prioritizing national accounts and BOP statistics. First there will be a stock-taking of available source data and then a workplan will be developed. The authorities committed to encouraging collaboration among stakeholders, including the Liechtenstein-Institute, consulting with the OS on methodology, and with the FMA sharing relevant financial sector data and data governance expertise. The authorities requested IMF TA on national accounts in 2025, after new staff will have been onboarded at the OS.

STAFF APPRAISAL

38. **While volatile and negative in recent years, growth is estimated to have resumed in 2024 and is expected to pick up moderately in 2025 and over the medium term.** Liechtenstein's open, export-led economy remains vulnerable to shocks. As elsewhere in Europe, the economy and exports were affected by the pandemic and spillovers from Russia's war in Ukraine, albeit with greater volatility, reflecting Liechtenstein's reliance on exports. Modest growth was recorded in 2024; this should accelerate in 2025 and over the medium term. Inflation has returned to low levels, although with risks of becoming negative. While lack of data hampers a quantitative assessment, the external position is likely stronger than fundamentals. The labor market remains tight, reflecting skills shortages. Risks to the outlook are tilted to the downside, due to a potential global slowdown, geoeconomic fragmentation, and policy uncertainty in major economies.

39. **Following a decade of surpluses and building of sizable buffers, fiscal policy should expand its focus to responding to shocks and addressing long-term challenges**. Liechtenstein's fiscal framework demonstrated flexibility in responding to the pandemic. While automatic stabilizers offer a mechanism for responding to the business cycle, the budget rule seems to have tightening bias, with large surpluses continuing during the recent shocks. The fiscal framework has achieved its objectives of restructuring the budget and balance/surpluses, low/zero debt, and building of buffers. Accordingly, fiscal policy should move beyond building buffers to ensuring informed, timely responses to immediate needs and addressing longer-term challenges stemming from aging, climate, and growth-enhancing public investment. Costing of medium- and long-term spending needs has been limited so far as the budget rule requires upfront identification of financing and limits expenditure growth. Large investment projects should be systematically identified, costed and prioritized, with funding and implementation modalities set at a later stage.

40. **A continued prudent approach to financial supervision is needed to preserve financial stability and contain risks.** The banking sector is liquid, well-capitalized, and asset quality remains strong. However, profitability is under pressure due to the high cost of the private banking model and rising cost of compliance and digitalization. AUM activities are off-balance sheet and do not present direct financial risks, but close supervision is needed given the international client base.

41. **Macroprudential policies should continue to be adjusted to align with financial stability risks.** Household indebtedness remains high. While households have positive net worth in aggregate, some households with negative net worth or financial assets may become liquidity constrained during economic downturns. The authorities' comprehensive macroprudential toolkit should continue to actively aim at ensuring the stability in the mortgage market. Additional information on real estate market prices is needed to support macroprudential oversight.

42. Sustaining full, proactive compliance with international standards and ensuring regulatory parity with peers are essential to preserve the international financial center's position. The improvements in the AML/CFT regime demonstrate the authorities' commitment to containing related risks. The efforts to conduct risk-based supervision, update the ML/TF national risk assessment, comply with sanctions regimes, and enhance the number of on-site inspections are welcome. Going forward, the proposed amendment to the Professional Trustees Act, which would grant the FMA greater oversight and power to intervene and strengthen fit and proper requirements for trustees, is an important step to further mitigate prudential risks in the trust sector.

43. Further efforts are needed to address skills shortages, increase the labor supply, and sustain productivity growth. Cross-border commuters have contributed to filling in skills shortages and a tight labor market that has supported growth. However, productivity has stagnated over time. Measures have appropriately focused on provision of expanded educational offerings and job training programs to increase workforce potential and skills. As labor shortages are exacerbated by demographics, measures to enhance the labor supply of women and older workers should be expanded, including subsidizing childcare, parental leave for men, and flexible retirement age and work schedules.

44. Addressing future financing needs early should preserve pension system sustainability. Population aging, together with high and rising life expectancy, will increase future obligations. Higher contribution rates in the system are expected to be needed in the coming years, as growth of spending outpaces that of revenue. Increasing contributions by the state, employers, or employees—or raising the effective retirement age—would improve system sustainability.

45. Close oversight, inter-institutional coordination, and engagement with external partners are essential given the evolving cybersecurity risks. Work is underway to address cybersecurity risks, including newly establishing a unit within the FMA. In this regard, ensuring the new unit to be fully operational is important for supervising and auditing cybersecurity at financial institutions.

46. Gaps in macroeconomic statistics need to be addressed. The authorities recognize the need for timely data to support monitoring of developments and policymaking. Improving the timeliness of national accounts and establishing BOP statistics are priorities. Additional resources are a step in the right direction, although more resources may be needed. Efforts to leverage inter-institutional collaboration and external technical assistance TA will facilitate enhanced data collection, compilation, and dissemination.

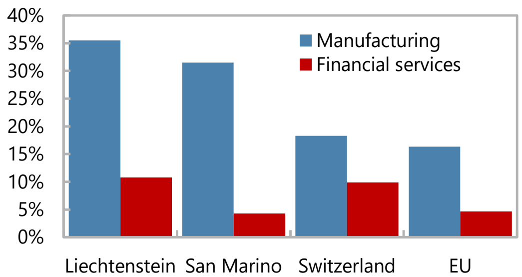
47. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Liechtenstein: Real Sector Activity

Manufacturing and financial services account for nearly half of nominal GDP.

Share of 2020 GDP by Production

(Gross Value Added, Current Prices)

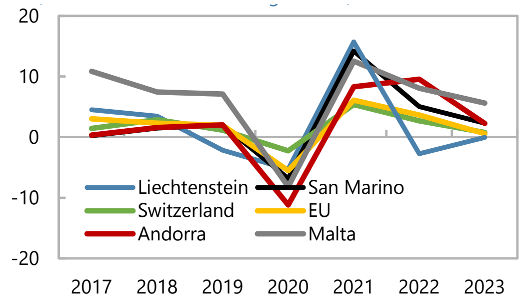


Sources: OECD; Liechtenstein Office of Statistics.

Dynamics mirror changes in the EU and Switzerland but are more volatile as in other small states.

Change in GDP, Constant Prices

(Annual Growth in Percentage Points)

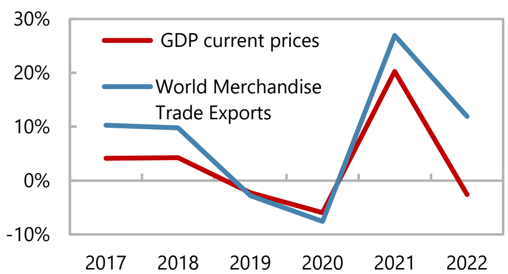


Sources: Liechtenstein Office of Statistics and IMF staff's calculation.

As an open export-oriented economy, GDP closely follows trends in global merchandise trade exports.

Change in GDP and Global Merchandise Trade Exports

(Percent, current prices, annual change)

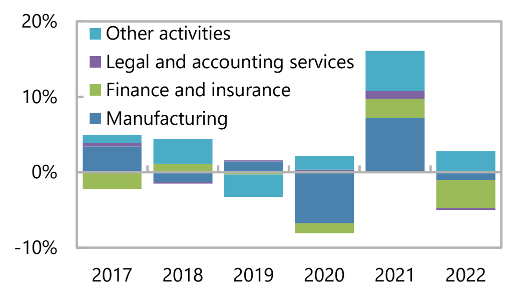


Source: Liechtenstein Authority; IMF Direction of Trade Statistics.

The recovery in 2021 was broad-based, while the decline in 2022 was led by finance and insurance services.

Contributions to GDP Growth

(Gross value added, current prices)

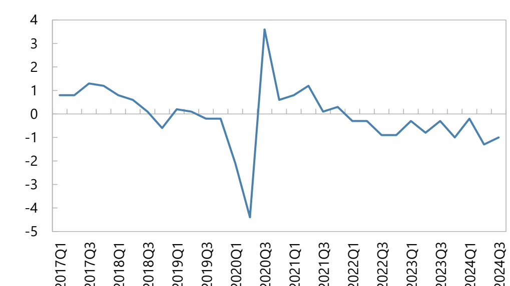


Source: Liechtenstein Office of Statistics .

Business cycle indicators point to weak real growth since 2022.

Business Cycle Index KonSens

(Index value)



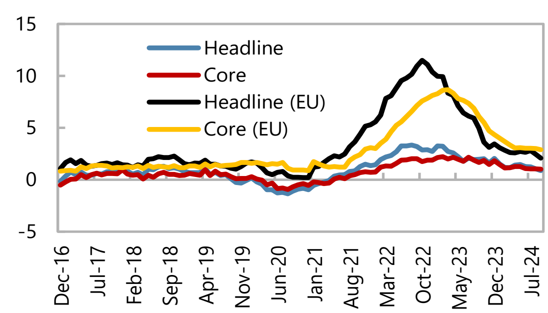
Source: Liechtenstein Institute.

Notes: A KonSens-value higher (lower) than 0 can be interpreted as real GDP growth above (below) average compared to all quarters in the sample since 1998.

Liechtenstein relies on Swiss inflation measures, with more stable headline and core inflation than the EU.

Switzerland vs. EU Inflation

(Year-on-year percent change; NSA)



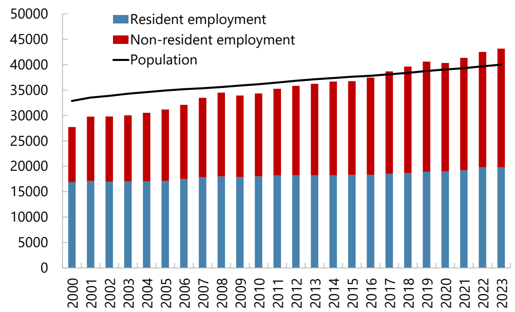
Sources: Eurostat; Haver Analytics; and IMF staff

Figure 2. Liechtenstein: Labor Market Developments

Growth in employment has outstripped population growth due to an increasing inflow of cross-border commuters…

Population and Employment

(Person)

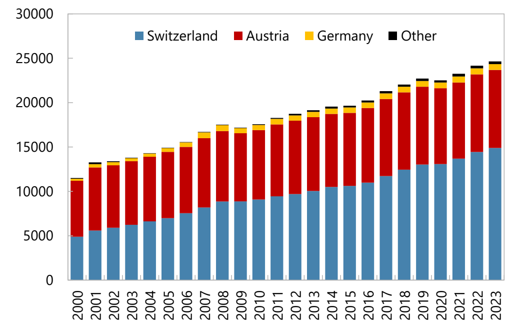


Source: Liechtenstein Office of Statistics.

…mainly from Austria and Switzerland.

Composition of Commuters to Liechtenstein

(Person)

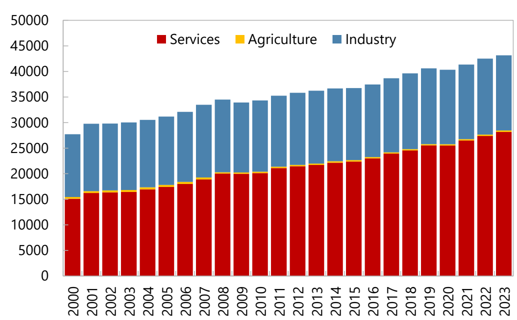


Source: Liechtenstein Authority.

The services sector accounts for an increasing share of employment, followed by industry.

Employment by Sector

(Person)

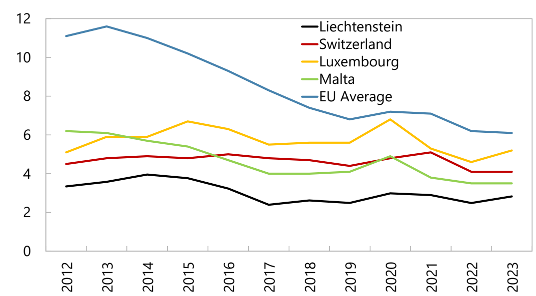


Source: Liechtenstein Office of Statistics.

The unemployment rate is relatively low in Liechtenstein but has risen slightly in 2023.

Unemployment Rate Across Countries

(Percent)

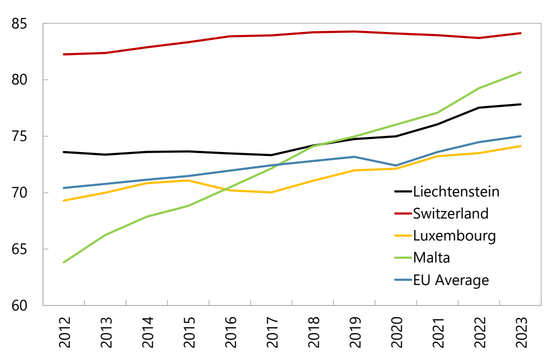


Source: Liechtenstein Authority and Eurostats.
Note: The unemployment rate in the chart follows ILO's definition, which includes both registered and uneregistered unemployment.

Labor force participation has increased but remains below some comparators.

Labor Force Participation Rate Across Countries

(Percent)

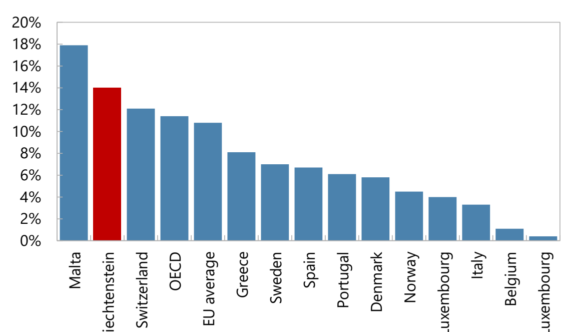


Sources: Liechtenstein Authorities, Haver Analytics, and IMF staff calculations.

The gender wage gap remains higher than the EU average and some other comparators.

Gender Wage Gap: International Comparison

(Percent, 2022)



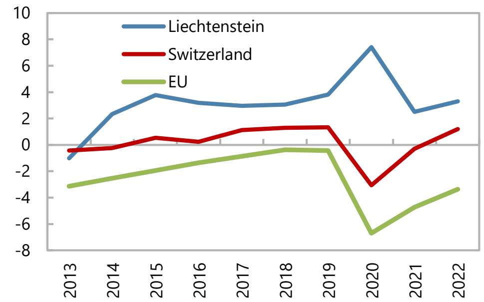
Source: Liechtenstein Authority and OECD.

Figure 3. Liechtenstein: Fiscal Sector Developments

Discipline and rules have led to surpluses including in 2020 when Switzerland and the EU recorded deficits.

General Government Net Lending and Borrowing

(Percent of GDP)

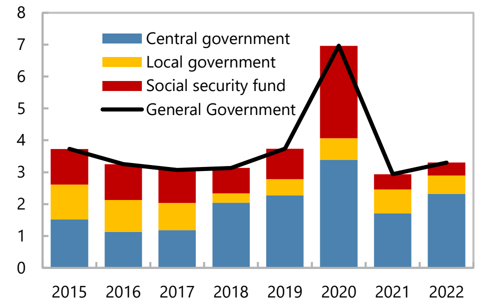


Sources: Liechtenstein Office of Statistics, Eurostat, and IMF staff calculations.

The central government comprises 70 percent of the balance except in 2020 when SS funds were substantial.

General Government Fiscal Balance, 2015–2022

(Percent of GDP)

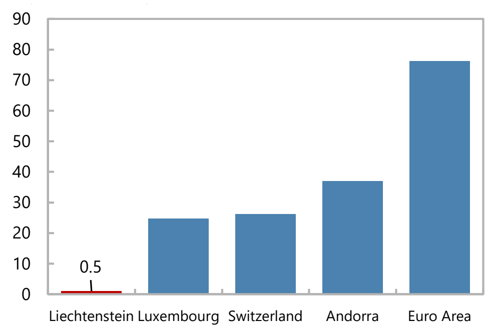


Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

The strong fiscal performance has led to virtually zero public debt.

General Government Debt

(Percent of GDP)

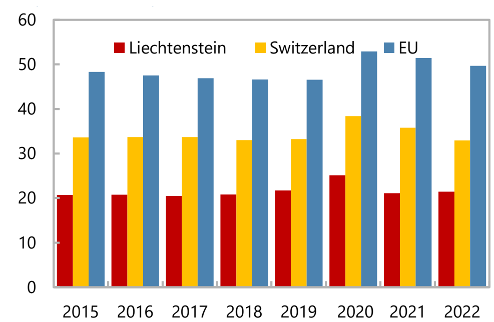


Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

Government expenditures average 21.5 percent of GDP, significantly lower than Switzerland and the EU.

General Government Spending

(Percent of GDP)

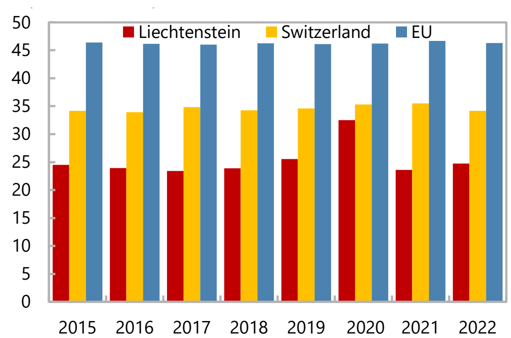


Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

Similarly, revenue collections average around 25 percent of GDP, substantially lower than Switzerland and the EU.

General Government Revenue

(Percent of GDP)

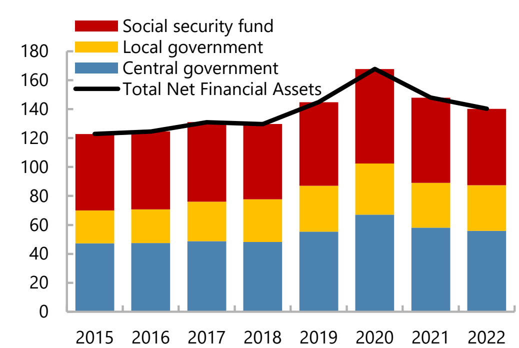


Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

The government's financial net worth averaged 111 percent of GDP for 2015–22.

General Government Net Financial Assets

(Percent of GDP)



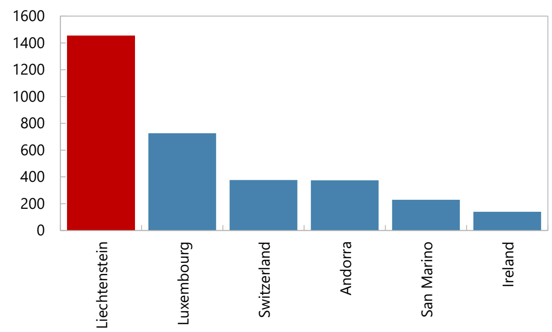
Sources: Liechtenstein Office of Statistics; and IMF staff calculations.

Figure 4. Liechtenstein: Financial Sector Developments

The size of the banking sector relative to GDP is the largest among its European peers…

Total Banks' Asset to GDP

(Percent, end-2023)

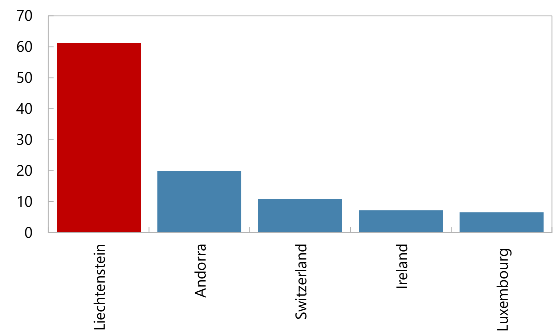


Sources: National Authority, IMF FSI database, and IMF staff calculations.

…and assets under management by banks relative to GDP is also the highest.

Assets Under Management to GDP

(Ratio, end-2022)

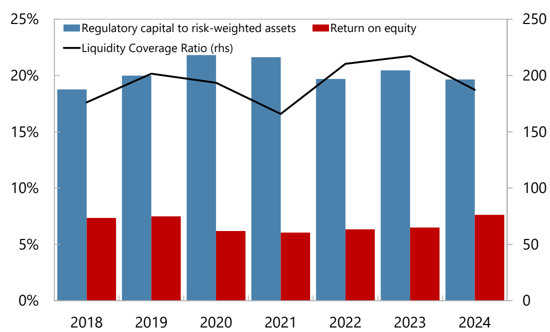


Sources: S&P, and IMF staff calculations.

Banks are well capitalized and retain a high liquidity ratio…

FSI Data

(Percent)

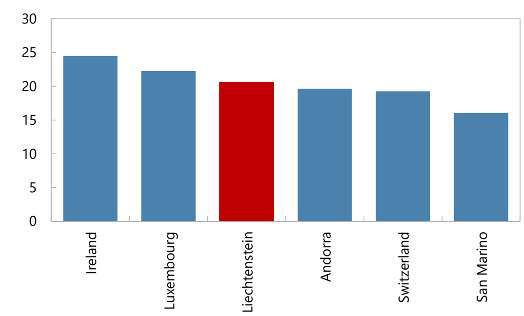


Source: Liechtenstein Authority.

…in line with the banking sector in some of the European peers.

Tier 1 Capital to Risk-Weighted Assets

(Percent, end-2023)

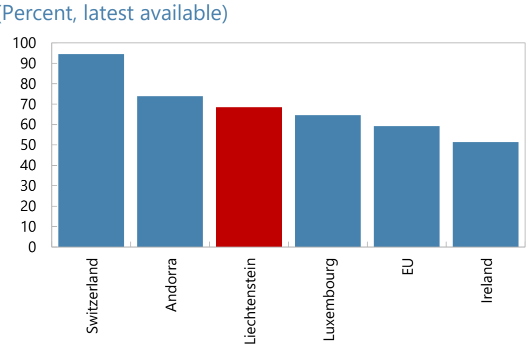


Source: IMF FSI database, Liechtenstein Office of Statistics, and Andorra Authority.

Cost-to-income are above EU average, reflecting high costs associated with the private banking model….

Cost-to Income Ratio

(Percent, latest available)

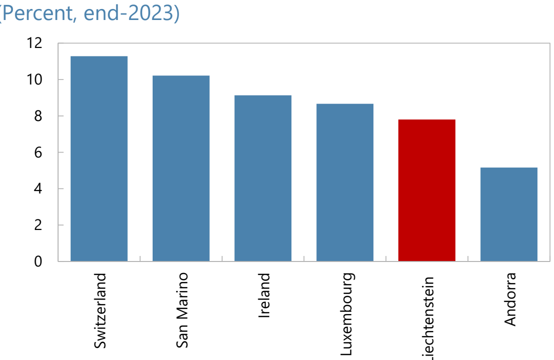


Sources: WBDI, IMF FSI database, and IMF staff calculations.

…and profitability is lower than its peers partly reflecting high levels of equity incentivized by national tax rules.

Return on Equity

(Percent, end-2023)



Source: IMF FSI database, Liechtenstein Office of Statistics, and Andorra Authority.

Table 1. Liechtenstein: Selected Economic Indicators, 2022–2030

(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Est		Projections						
GDP									
Real GDP (Billions of CHF) 1/	7,113.1	7,099.9	7,135.4	7,206.8	7,314.9	7,461.2	7,610.4	7,762.6	7917.9
(Percent Change)	-5.0	-0.2	0.5	1.0	1.5	2.0	2.0	2.0	2.0
Nominal GDP (Billions of CHF)	7,044.9	7,099.9	7,212.1	7,343.9	7,512.5	7,720.4	7,935.4	8,156.2	8385.9
(Percent Change)	-2.6	0.8	1.6	1.8	2.3	2.8	2.8	2.8	2.8
Prices									
GDP Deflator	3.0	0.9	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Consumer Price Index (Period of Average) 2/	2.8	2.1	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Consumer Price Index (End of Period)	2.9	1.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
General Government Finances									
Revenue	27.4	29.2	30.6	30.9	31.5	32.0	32.3	32.3	32.3
Expenditure	24.1	26.2	27.4	27.9	28.3	28.8	29.1	29.1	29.1
Balance	3.3	3.1	3.2	3.0	3.2	3.2	3.2	3.2	3.2
Public Debt	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Labor Market 3/									
Population (Thousands)	39.7	40.0	40.3	40.7	41.0	41.3	41.7	42.0	42.4
(Percent Change)	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Unemployment (Thousands)	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
(Percent of Labor Force) 4/	2.5	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Registered Unemployment Rate 5/	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Employment (Thousands)	42.5	43.2	44.0	44.7	45.5	46.3	47.1	47.9	48.8
(Percent Change)	2.8	1.5	1.9	1.7	1.7	1.7	1.7	1.7	1.7
Commuter share of Employment (Percent)	56.8	57.1	57.4	57.7	58.1	58.4	58.7	59.0	59.3
Gross Monthly Wage (Thousand)	8.4	8.5	8.5	8.6	8.7	8.8	8.9	9.0	9.1
External									
Current Account	17.1	20.0	19.1	19.3	19.2	18.9	18.9	18.9	18.8
Trade Balance	8.6	10.9	10.2	10.6	10.6	10.6	10.6	10.6	10.6
Exchange Rates (Levels)									
Swiss francs per U.S. dollar (annual average)	1.0	0.9	…	…	…	…	…	…	…
Swiss francs per euro (annual average)	1.0	1.0	…	…	…	…	…	…	…
Nominal effective rate (avg., 2010=100)	135.9	144.5	…	…	…	…	…	…	…
Real effective rate (avg., 2010=100)	105.8	109.3	…	…	…	…	…	…	…

Sources: Liechtenstein authorities and IMF staff calculations.

1/ Liechtenstein does not compile price statistics.The authorities estimate real GDP by deflating nominal GDP using the Swiss GDP deflator. Liechtenstein Institute estimated 2022 and 2023 data.

2/ Swiss CPI is used as a proxy to measure Liechtenstein's inflation.

3/ Unemployment data refers to the Liechtenstein residents only. The employment data includes daily cross-border commuters who work in Liechtenstein. The wage data is updated every two years, and estimated for the period in between.

4/ This represents the ILO consistent unemployment rate, which includes the registered and unregistered unemployed.

5/ The Liechtenstein Office of Statistics produces the registered unemployment rate.

Table 2a. Liechtenstein: Summary of General Government Operations, 2022–2030 1/

(Millions of CHF, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Est	Projections						
			(Millions of CHF)						
Revenue and Grants	1,927.5	2,075.9	2,204.8	2,268.4	2,369.3	2,467.2	2,564.8	2,633.6	2,708.5
Tax Revenue	1,038.4	1,127.6	1,177.0	1,196.8	1,255.7	1,339.5	1,404.7	1,452.0	1,495.7
Direct Taxes	633.4	714.8	764.3	776.7	789.1	808.6	827.5	853.0	880.5
Personal Income Tax	314.5	354.0	359.7	365.5	375.6	388.8	401.4	415.5	427.7
Corporate Income Tax	318.8	360.8	404.6	411.3	413.5	419.7	426.0	437.5	452.8
Indirect Taxes	405.0	412.8	412.7	420.1	466.6	531.0	577.3	598.9	615.2
VAT	239.5	254.3	274.1	264.4	270.2	279.7	289.5	293.6	297.8
Excises	5.8	7.3	6.2	6.4	6.6	6.4	6.5	6.5	6.5
Other Taxes (Incl. land, trade,other)	159.7	151.1	132.4	149.2	189.8	244.8	281.3	298.8	310.9
Social Contributions	427.3	472.5	490.0	507.6	525.1	540.4	557.7	575.7	595.4
Nontax Revenue	461.9	475.8	537.7	564.0	588.4	587.2	602.3	605.9	617.5
Grants									
Expenditure	1,696.9	1,857.3	1,975.1	2,050.2	2,128.4	2,220.3	2,309.1	2,373.3	2,440.2
Expense (Current Expenditure)	1,583.5	1,772.3	1,879.4	1,926.2	2,004.4	2,092.3	2,185.1	2,253.3	2,317.8
Purchase/use of goods and services	237.8	239.7	223.4	227.5	232.7	239.2	245.9	252.7	259.8
Compensation of employees	369.0	372.7	376.4	399.4	411.5	421.8	436.8	447.8	461.2
Interest	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Subsidies	62.2	55.2	79.5	79.5	79.5	79.5	81.7	84.0	86.4
Social security benefits	569.2	568.0	584.2	594.9	608.5	625.4	642.8	660.7	679.3
Other current expenditure	325.5	516.1	596.1	603.5	651.6	704.0	751.6	785.3	804.1
Capital transfer expenditure	19.3	20.2	19.3	21.0	20.0	21.9	25.8	22.5	26.6
Net Acquisition of financial Assets	113.4	85.0	95.7	124.0	124.0	128.0	124.0	120.0	122.3
Overall balance - surplus (+)/ deficit (-)	230.6	218.6	229.6	218.1	240.8	246.9	255.7	260.2	268.3
Net Financial Transactions	230.6	218.6	229.6	218.1	240.8	246.9	255.7	260.2	268.3
Gross Public Debt	36.3	35.0	36.3	35.0	36.3	40.7	40.7	40.7	40.7

Sources: Liechtenstein authorities and IMF Projections

1/ Latest available data is 2022 for expenditure and 2023 for revenue.

Table 2b. Liechtenstein: Summary of General Government Operations, 2022–2030 1/

(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Est	Projections						
			(Percent of GDP)						
Revenue and Grants	27.4	29.2	30.6	30.9	31.5	32.0	32.3	32.3	32.3
Tax Revenue	14.7	15.9	16.3	16.3	16.7	17.4	17.7	17.8	17.8
Direct Taxes	9.0	10.1	10.6	10.6	10.5	10.5	10.4	10.5	10.5
Personal Income Tax	4.5	5.0	5.0	5.0	5.0	5.0	5.1	5.1	5.1
Corporate Income Tax	4.5	5.1	5.6	5.6	5.5	5.4	5.4	5.4	5.4
Indirect Taxes	5.7	5.8	5.7	5.7	6.2	6.9	7.3	7.3	7.3
VAT	3.4	3.6	3.8	3.6	3.6	3.6	3.6	3.6	3.6
Excises	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Taxes (Incl. land, trade,other)	2.3	2.1	1.8	2.0	2.5	3.2	3.5	3.7	3.7
Social Contributions	6.1	6.7	6.8	6.9	7.0	7.0	7.0	7.1	7.1
Nontax Revenue	6.6	6.7	7.5	7.7	7.8	7.6	7.6	7.4	7.4
Grants									
Expenditure	24.1	26.2	27.4	27.9	28.3	28.8	29.1	29.1	29.1
Expense (Current Expenditure)	22.5	25.0	26.1	26.2	26.7	27.1	27.5	27.6	27.6
Purchase/use of goods and services	3.4	3.4	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Compensation of employees	5.2	5.2	5.2	5.4	5.5	5.5	5.5	5.5	5.5
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.9	0.8	1.1	1.1	1.1	1.0	1.0	1.0	1.0
Social security benefits	8.1	8.0	8.1	8.1	8.1	8.1	8.1	8.1	8.1
Other current expenditure	4.6	7.3	8.3	8.2	8.7	9.1	9.5	9.6	9.6
Capital transfer expenditure	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net Acquisition of financial Assets	1.6	1.2	1.3	1.7	1.7	1.7	1.6	1.5	1.5
Overall balance - surplus (+)/ deficit (-)	3.3	3.1	3.2	3.0	3.2	3.2	3.2	3.2	3.2
Net Financial Transactions	3.3	3.1	3.2	3.0	3.2	3.2	3.2	3.2	3.2
Gross Public Debt	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Sources: Liechtenstein authorities and IMF Projections

1/ Latest available data is 2022 for expenditure and 2023 for revenue.

Table 3. Liechtenstein: Balance of Payments, 2021–2030 1/

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Est		Projections						
	(Millions of CHF)									
Current Account Balance 2/	1,345.3	1,203.3	1,418.6	1,374.2	1,420.2	1,441.1	1,459.0	1,499.7	1,541.6	1,580.1
Trade Balance (Goods and Services)	743.8	603.1	770.8	738.6	777.6	795.5	817.5	840.5	864.1	885.7
Goods Balance	1,229.9	1,076.7	1,248.1	1,223.5	1,270.7	1,299.9	1,335.9	1,373.2	1,411.6	1,446.9
Exports	4,026.2	3,740.8	3,719.1	3,667.0	3,734.1	3,819.9	3,925.8	4,034.8	4,146.9	4,250.6
Imports	2,796.3	2,664.1	2,471.0	2,443.5	2,463.4	2,520.0	2,589.8	2,661.6	2,735.4	2,803.8
Services Balance	-486.2	-473.7	-477.4	-484.9	-493.1	-504.4	-518.4	-532.7	-547.5	-561.2
Exports	952.0	927.5	934.8	949.5	966.9	989.2	1,016.6	1,044.7	1,073.6	1,100.5
Imports	1,438.2	1,401.2	1,412.1	1,434.4	1,460.0	1,493.5	1,534.9	1,577.4	1,621.1	1,661.7
Primary Income	601.5	600.2	647.8	635.7	642.6	645.6	641.5	659.2	677.5	694.4
Net Financial Account (- financing) 3/	1,047.2	1,530.4	1,401.8	1,334.5	1,369.4	1,378.2	1,394.6	1,433.5	1,480.2	1,517.2
International Reserves (Stocks)	2,482.9	2,155.8	2,254.2	2,172.6	2,212.4	2,263.3	2,326.2	2,390.6	2,456.9	2,518.3
Change in international Reserves	298.1	-327.1	16.8	39.8	50.9	62.9	64.4	66.2	61.4	63.0
	(Percent of GDP)									
Current Account Balance	18.6	17.1	20.0	19.1	19.3	19.2	18.9	18.9	18.9	18.8
Trade Balance (Goods and Services)	10.3	8.6	10.9	10.2	10.6	10.6	10.6	10.6	10.6	10.6
Goods Balance	17.0	15.3	17.6	17.0	17.3	17.3	17.3	17.3	17.3	17.3
Exports	55.7	53.1	52.4	50.8	50.8	50.8	50.8	50.8	50.8	50.7
Imports	38.7	37.8	34.8	33.9	33.5	33.5	33.5	33.5	33.5	33.4
Services Balance	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7
Exports	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.1
Imports	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.8
Primary Income	8.3	8.5	9.1	8.8	8.8	8.6	8.3	8.3	8.3	8.3
Net Financial Account (- financing)	14.5	21.7	19.7	18.5	18.6	18.3	18.1	18.1	18.1	18.1
Change in International Reserves	4.1	-4.6	0.2	0.6	0.7	0.8	0.8	0.8	0.8	0.8

Sources: Liechtenstein authorities and IMF staff calculations.
1/ Most data are available only through 2021. 2022-23 are staff estimates and 2024-2029 are staff projections.
2/ Assumes secondary income is near zero.
3/ The net financial account is calculated as the difference between the current account and the change in international reserves.

Table 4. Liechtenstein: Banking Developments, 2017–23 1/

	2017	2018	2019	2020	2021	2022	2023
	(Billions of CHF)						
Total assets	82.4	86.3	92.6	94.4	100.4	107.3	103.1
Accounts receivable from banks	10.0	9.8	11.6	10.2	10.3	20.5	20.0
Loans	39.5	40.1	42.5	39.2	41.6	41.8	40.7
Other assets	32.9	36.4	38.5	45.1	48.5	45.0	42.4
Total liabilities and equity	82.4	86.3	92.5	94.4	100.4	107.3	103.1
Liabilities to banks	2.7	3.6	3.7	4.2	4.2	6.9	5.4
Deposits	64.9	67.2	72.1	72.3	77.4	80.3	76.6
Securities	4.2	4.2	4.7	5.0	4.9	5.3	5.6
Other liabilities	2.9	3.5	3.6	4.2	3.8	4.8	5.3
Equity	7.7	7.8	8.3	8.7	10.1	10.1	10.2
	(Percent of GDP)						
Total assets	1,293.2	1,319.2	1,447.3	1,570.1	1,389.0	1,523.2	1,452.1
Accounts receivable from banks	157.2	149.6	181.0	168.8	142.6	291.2	282.4
Loans	620.2	613.2	664.3	651.7	575.5	593.5	572.9
Other assets	515.7	556.3	602.0	749.6	671.0	638.5	596.8
Total liabilities and equity	1,293.2	1,319.2	1,445.4	1,570.1	1,389.0	1,523.2	1,452.1
Liabilities to banks	42.8	55.7	58.3	70.3	58.6	97.8	75.7
Deposits	1,018.0	1,026.1	1,127.4	1,202.7	1,070.9	1,139.7	1,079.2
Securities	66.4	64.2	72.9	82.5	68.3	75.0	79.4
Other liabilities	45.1	53.8	56.5	69.7	51.9	67.5	74.8
Equity	120.8	119.4	130.2	144.9	139.4	143.2	143.1

Sources: Liechtenstein authorities and IMF staff calculations.
1/ The table shows a consolidated view of the Banking System (i.e. Liechtenstein banks including foreign group subsidiaries).

Table 5. Liechtenstein: Financial Soundness Indicators, 2018–24 1/

(Percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024
Core FSIs	(Percent, unless otherwise indicated)						
Tier 1 capital to risk-weighted assets	18.8	20.0	21.8	21.6	19.7	20.4	19.7
Nonperforming loans net of provisions to capital	2.7	3.3	3.0	2.0	3.7	3.7	5.1
Capital to assets (leverage ratio)	7.9	8.3	8.4	8.8	7.6	7.8	8.1
Nonperforming loans to total gross loans	0.5	0.6	0.6	0.6	0.9	0.9	1.1
Provisions to nonperforming loans	37.5	37.2	37.0	49.0	46.4	42.3	35.8
Return on assets	0.7	0.7	0.6	0.7	0.7	0.7	0.7
Return on equity	7.3	7.5	6.2	6.0	6.3	6.5	7.6
Interest margin to gross income	21.8	19.8	17.8	16.7	19.1	21.8	16.3
Noninterest expenses to gross income	75.1	74.7	76.1	74.7	74.5	71.6	71.5
Liquid assets to total assets	32.4	34.7	35.8	37.0	42.0	39.0	37.6
Liquid assets to short-term liabilities	…	…	…	…	0.0	0.0	49.2
Liquidity coverage ratio	176.2	201.6	193.6	165.9	210.4	217.3	187.3
Net open position in foreign exchange to capital	18.0	17.0	20.2	26.1	26.5	25.5	29.4
Additional FSIs							
Large exposures to capital	47.4	64.1	97.6	86.5	87.3	88.7	88.4
Gross asset position in financial derivatives to capital	17.3	12.4	20.3	14.3	26.8	21.5	17.0
Gross liability position in financial derivatives to capital	19.0	17.7	25.0	17.0	29.3	30.5	19.0
Trading income to total income	12.3	15.0	17.3	12.6	13.6	17.3	19.0
Personnel expenses to noninterest expenses	61.0	63.0	64.2	64.6	63.7	64.5	66.1
Customer deposits to total (noninterbank) loans	60.9	62.2	63.5	63.7	79.6	82.4	78.2

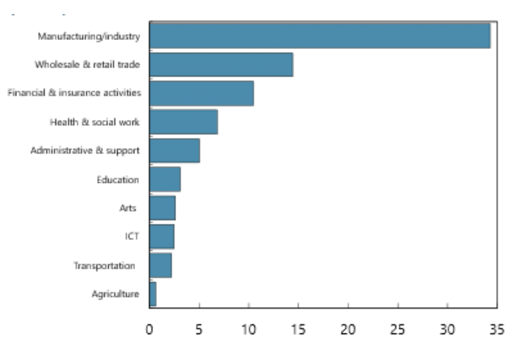
Sources: Liechtenstein authorities and IMF staff calculations.

1/ For 2024, data is as of Q3.

Annex I. Structural Characteristics of the Liechtenstein Economy

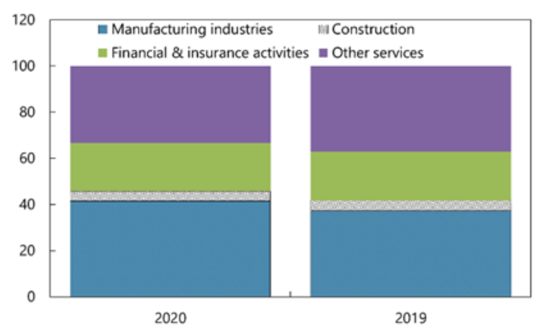
1. Liechtenstein is the only double-landlocked country in Europe. Manufacturing and financial services predominantly drive economic activity. The industrial and manufacturing sectors accounted for 42 percent of gross value added and 39 percent of employment in 2021, well above the EU averages (15 and 16 percent, respectively). Manufacturing is highly specialized, comprising machine and tool engineering, plant construction, precision instruments, and dental equipment. The sector is characterized by high R&D (6.2 percent of GDP in 2019). With CHF 773 billion in assets—100x GDP, the financial sector contributes about 20 percent of GDP and employs 12 percent of the workforce.

Employment by Economic Activity
(Percent)



Sources: Liechtenstein authorities and IMF staff calculations.

Cosmopolitan of Nominal Gross Value Added
(Percent)

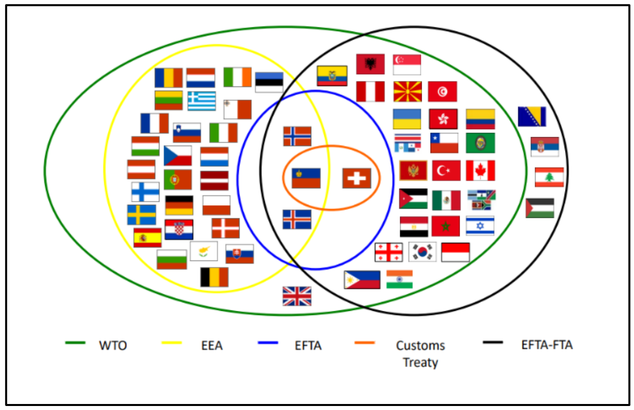


Sources: Liechtenstein authorities and IMF staff calculations.

2. Liechtenstein has relatively low taxes. The corporate income tax rate is 12.5 percent, with large exemptions for private asset structures. Resident companies are taxed on worldwide income, while non-resident companies pay taxes only on income earned in Liechtenstein. In line with the Customs Treaty with Switzerland, the VAT rate is 8.1 percent, significantly lower than the EU average (21 percent). Personal income tax rates are progressive, ranging from 2.5 to 22.4 percent, and vary by marital status and residency. Liechtenstein has signed 29 double-tax treaties, and 34 tax information exchange agreements.

Annex II. External Economic Relations

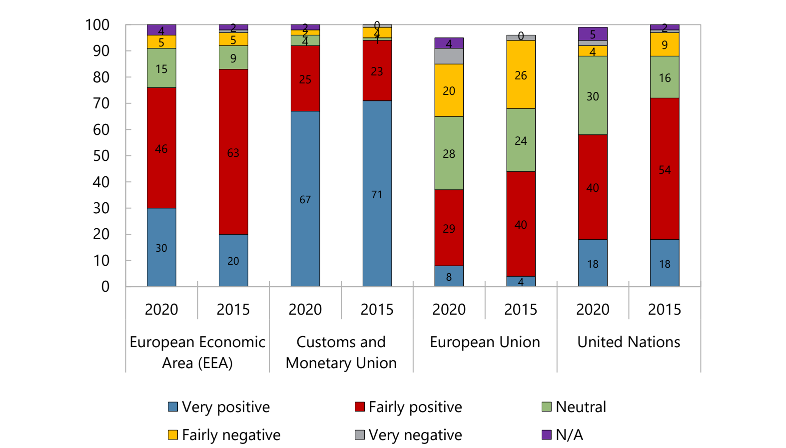
1. Liechtenstein's external policy is characterized by a phased, strategic, and largely economic focus. A three-pronged approach comprising neighborhood policy, international trade, and multilateral cooperation has fostered benefits from bilateral, regional, and global integration. Liechtenstein also leverages a favorable business climate, robust corporate infrastructure, and a geographical position in the center of Europe.



2. Ties with Switzerland have long anchored economic policy. The customs treaty of 1923 set a foundation for development. Liechtenstein introduced the Swiss franc as a legal tender in 1924; this was formally recognized by the Currency Treaty of 1980, which confirmed the Swiss National Bank's exercise of certain central bank functions in Liechtenstein. In addition to its partnership with Switzerland, Liechtenstein has pursued other international accords, including European Free Trade Association (EFTA) in 1991 enhancing Liechtenstein's regulatory framework, including intellectual property protection and competition policy.

3. European Economic Area (EEA) accession in 1995 brought further economic and social benefits. Public attitude has focused on economic gains in multilateral organizations, and EEA membership has enjoyed strong support (chart). It has led to unification of competition, energy, transportation, and economic policies and diversified business revenue streams. EEA passporting allows banks, insurers, and investment firms to offer services in EU member states. High transposition of EU legal acts (99.4 percent) has contributed to the attractiveness of the Principality for investors. Liechtenstein joined the International Court of Justice (1950), the Organization for Security and Co-operation in Europe (1975), the Council of Europe (1978), and the UN (1990).

Evolution of Public attitude to International Organizations
(Percent)



Sources: University of Liechtenstein.

Annex III. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Global Risks				
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**ST**	**Medium /High** While Liechtenstein's robust public finances and low debt levels provide resilience, the intensification of regional conflicts and disruptions to international trade could impair its export-driven economy given high integration in global value chains.	Continue to broaden and strengthen cooperation with other countries/partners to promote collaboration on trade policy, supply chain security, and geopolitical stability. Urge businesses to continue to diversify their supply networks to adjust for risks.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**ST**	**Medium** Commodity price volatility could increase production costs for firms, elevate household living expenses, and introduce liquidity and solvency risks for energy providers.	Maintaining and if necessary, adjusting the gas reserve as implemented by the government will help build buffers for energy needs. If necessary, protect vulnerable groups by providing targeted support.
• **Global growth surprises:** ○ **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. ○ **Acceleration.** Positive supply-side surprises,	**Medium**	**ST**	**High** Weakened external demand in key markets would weigh on domestic economic activity due to its relative openness. Heightened risk and volatility could also lead to large safe-haven capital inflows.	Carefully monitor potential implications on financial markets and calibrate measures to ensure financial stability as needed. Consider fiscal support in case of a severe growth downturn.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.				
Systemic financial instability High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs**.**	Medium	**ST**	**Medium / High** Cross-border spillovers have relatively little direct effect on the banks' balance sheet as wealth management is mostly off-balance sheet but could pose risk for banks' profitability since banks derives a large share of their profits from management services. Heightened risk/volatility may also trigger large safe-haven capital inflows.	Continue to strengthen regulation and supervision of banks and nonbank financial sectors to increase resilience.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	**ST, MT**	**Medium / High** The Liechtenstein economy is highly open and integrated with the global economy through trade and financial channels. Deepening geo-economic fragmentation would add pressure on growth in the near term, and lower potential in the long run.	Expand and enhance cooperation with other countries/partners to mitigate the risk of de-globalization. Increase diversification of supply chain network. Continue to strengthen regulation and supervision of bank and nonbank financial sectors to increase resilience.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	**ST, MT**	**Medium** With more interconnected financial institutions and increased digital reliance, cyber-attacks could lead to outages of information and communication technology systems undermining the protective goals of availability, confidentiality, and integrity.	Assess and address the vulnerabilities and other potential weaknesses exposed by cyberattacks. Ensure the cybersecurity oversight framework is fully operational. Urge businesses or institutions to have robust cyber defenses and business continuity plans to strengthen governance and risk management.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory	Medium	**ST, MT**	**Medium** Floods and landslides could damage physical assets like real estate, production facilities, infrastructure, or agricultural land, causing significant economic losses.	Strengthen preparedness for natural disasters and other climate-related extreme events. Promote green transition and strengthen supervisory framework to monitor climate-related financial risks to banks and green finance.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
uncertainty lead to stranded assets and low investment				
Domestic Risks				
High household indebtedness makes the residential real estate market vulnerable to shocks.	Medium	ST, MT	Medium (color) Liechtenstein has among the highest household indebtedness relative to GDP in the EEA/EU even though household assets are also sizable with positive net worth. If a portion of borrowers who are stretched on affordability lose their job or higher interest rates makes their mortgage more expensive, repayment challenges or default could rise.	Continue to monitor mortgage lending and the effectiveness of recently implemented measures to ensure that borrowers are not over-leveraged and can service their mortgages. Enhance the transparency in real estate prices and transactions through improved data compilation and availability. Monitor continuously the sector for early warning signs.
Delay in ratification of a package of measures between the EU and Switzerland. Agreement was reached in December 2024, but ratification could take time.	Medium	MT	Medium Liechtenstein relies on Swiss financial market infrastructure, but Switzerland is not in EU/EEA, which leads to some legal uncertainty. Potential use of alternative sources could come at a cost.	Continuously monitor EU regulations to identify potential areas of conflict and address them as needed.
Financial integrity failures.	Medium	ST, MT	Medium / High With the heavy reliance on international clients in private banking business, materialization of reputational risks related to ML/FT and sanctions list violation may have negative systemic impact, for instance loss of access to US correspondent banking relationships for Liechtenstein.	Continue to conduct and implement effective AML/CFT supervision and screening against sanction lists. Maintaining accurate and up-to-date information on beneficial ownership, including collecting more information for the fiduciary sector. Continue to work closely with international peers to enhance understanding of how to effectively enforce compliance with foreign sanctions.

Annex IV. External Sector Assessment

The external position in 2024 is assessed to be stronger than implied by fundamentals, reflecting expectations that that the large current account surplus, driven by Liechtenstein's globally integrated manufacturing and financial sectors, and the very strong fiscal position have continued in 2024. Policies aimed at promoting productivity-enhancing public investments by reducing fiscal surpluses and using fiscal buffers could support some rebalancing of the CA towards its norm.

1. **Limited data availability constrains the external sector assessment (ESA).** External data are compiled only for a small subset of the current account (some trade in goods is collected but does not include trade data between Liechtenstein and Switzerland), and fiscal reserves. Liechtenstein does not collect and compile data on its international investment position (IIP) even though it has made a one-off experimental IIP relying on mirror data from other countries, albeit with substantial gaps and uncertainties. Given insufficient data, neither the External Balance Assessment (EBA) nor EBA-lite is applicable to Liechtenstein. Accordingly, the external assessment is based on a qualitative analysis.

2. **Estimates indicate large current account surpluses and a large positive net international investment position (NIIP).** Current account estimates for the IMF membership and preliminary data indicate a continued surplus of 18–20 percent of GDP, attributable to exports of manufactured goods and financial services and financial income of the financial sector. IIP is around 12x GDP, with FDI asset around 7xGDP, reflecting the multinational companies headquartered in Liechtenstein, and portfolio equity investments around 3.5x GDP. NIIP is around 8x GDP.

3. **The manufacturing and financial sectors play a significant role in external sector dynamics**. Manufacturing is highly specialized and globally competitive. The sector is export-oriented and competitive in part due to high investment in R&D. The financial sector is based on private banking and wealth management services to non-residents, with assets under management (AUM) by banks of 70x GDP. Fees and commissions are derived as export of services. Indirect measures such as growth in AUM suggest that financial services exports likely performed well in 2024.

4. **Government deposits in Swiss franc are estimated to have reached CHF2.2 billion, 6.7 months of imports of goods and services, in 2024**, higher than EU peers. Reserves held by euro area economies are typically low relative to standard metrics.

5. **Policies aimed at promoting productivity-enhancing investments and addressing medium- and long-term spending needs by lowering fiscal surpluses and buffers could support external rebalancing and reduce CA surpluses.** Over the medium term, lower fiscal surpluses than currently planned are likely to be needed to ensure adequate public investment, support the green transitions, and aging needs. While the supply of labor remains stable, continued investment in training to enhance the employability of domestic workers could reduce the need for excess savings.

Annex V. CD Strategy to Develop Macroeconomic Statistics

Improved macroeconomic statistics will help better track economic developments and strengthen macro-financial monitoring and analysis. Considering capacity constraints associated with a small public administration, TA should first focus on improving national accounts and establishing balance of payments statistics. For the latter, coordination with the Swiss National Bank (SNB) will be important. The authorities should make the necessary resources available.

Current State

1. **The Office of Statistics (OS) produces demographic, social, and economic statistics.** Official statistics are governed by the 2008 Statistics Act and cover areas such as population and households, social security and health, housing, energy, labor, and public finance statistics. The OS compiles GDP by economic activity in nominal terms with a 22-month lag. Annual GDP using the expenditure approach and quarterly GDP are not compiled. OS heavily relies on administrative data, for instance tax returns, as source data to reduces the reporting burden. However, there are limitations to what data can be produced on this approach alone. For instance, while currently GDP estimates rely heavily on business income tax filings, direct surveys of Liechtenstein businesses would allow for improved timeliness. The OS disseminates government finance statistics on an annual basis with a 16-month lag.

2. **The Liechtenstein-Institute (LI), a private-public funded think tank, produces estimates of GDP in volume terms.** While LI mainly focuses on analysis of political and economic issues, it also produces estimates of real GDP with more timeliness than the nominal GDP produced by the OS. LI also produces a quarterly sentiment indicator (KonSens). Quarterly GDP and a monthly indicator of activity would complement KonSens.

3. **The Financial Market Authority (FMA) produces data on the financial sector.** These data are primarily disseminated through FMA reports, including the annual Financial Stability Report. Publishing these data in an electronic format would improve their user friendliness. While these data do not have sectoral consolidation or counterpart information, they provide substantial information, including for non-bank financial institutions. There are no data on size of the fiduciary sector.

4. **Overall, collaboration and data sharing among institutions in Liechtenstein are adequate.** The tax administration provides OS with administrative data from company income statements categorized by economic activity, as well as data on wealth and income tax, gross wages, value-added tax, and stamp duties that are used for nominal GDP statistics. The Office of Finance provides data for general government (state level, municipal level, and public social security funds). The FMA contributes economic data on banking and other financial sectors. Similarly, the Office of Public Health provides information on health insurance and accident insurance companies, which are published on the OS's website. Coordination with the SNB will be needed to estimate trade flows with Switzerland.

Data Gaps and CD Approach

Real sector. A thorough assessment of the current GDP methodology, developing an official measure of GDP in constant prices at the OS, and reducing dissemination lags are utmost priorities. OS and the IMF Statistics Department (STA) have initiated a stock-taking process. An additional staff member to compile national accounts is planned to join the OS in early 2025. TA will begin shortly thereafter. Improving timeliness of annual GDP is critical and will require use of preliminary and estimated tax data, financial reports, and other non-audited data sources.

External sector. The OS should identify staff resources to begin work on external sector statistics. Given that Switzerland and Liechtenstein are in a customs union, Liechtenstein does not collect its own customs data. Instead, there is scope for Liechtenstein and the SNB to work together to estimate goods and services trade flows between the countries. The FMA has developed an experimental IIP that can serve as a starting point for further development.[1] For the financial account, work on the experimental IIP can be improved and expanded to include calculation of flows based on stock data.

Public finance. In the near term, the fiscal reporting framework needs to be improved, particularly the timeliness and data sharing of budget outturns. IMF TA and training to improve the timeliness and frequency of government finance statistics more comprehensively could proceed after the priority areas of national accounts and BOP are addressed. Improved sectoral and functional classification would be priorities.

Financial sector. The FMA already produces an extensive set of financial sector statistics, but more data on sectoral consolidation and counterparts are needed, including for private credit. The FMA has compiled financial soundness indicators on an *ad hoc* basis and should start reporting these data to the STA. Additional data collection would be useful, including on real estate such as real estate prices as well as monetary and financial statistics in line with the IMF's Monetary and Financial Statistics Manual and Compilation Guide.

Price statistics. Liechtenstein produces no price statistics. The LI has prepared a trial GDP deflator by weighting detailed Swiss producer price indices to match the structure of the Liechtenstein economy, a step in the right direction. While the Swiss CPI is likely a good proxy measure of domestic inflation, a household expenditure survey to establish CPI weights and a pilot study of consumer prices in Liechtenstein would be valuable as a later priority.

Inter-agency coordination and data sharing. To support this CD work program, the authorities should consider forming an inter-agency group to coordinate statistics compilation and promote timely data sharing. The group should include representatives from the OS, FMA, the Ministry of Finance and the tax office.

[1] The Financial Stability Report 2023 made an initial and experimental IIP for Liechtenstein, using mirror data from other countries. While this trial IIP needs further work, it shows the importance of gross external assets and liabilities.

Annex VI. Data Issues

Table 1. Liechtenstein: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	NA	A	D	B	D	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	NA	A	D	B		
Granularity 3/	C		B	D	C		
			A		A		
Consistency			A	D		D	
Frequency and Timeliness	D	NA	D	D	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment: The data provided to the Fund has some shortcomings that somewhat hamper surveillance. National Accounts is only annual and in nominal terms, with the Liechtenstein Institute, a public-private funded research entity, estimating real GDP. No price statistics are produced and the authorities use Swiss price measures, which are a good proxy. No assessment is made on price statistics as it is produced by the Swiss authorities. Only a small subset of external trade statistics, merchandise trade, is covered and these have shortcomings. While the Financial Market Authority (FMA) produces detailed financial sector data including for OFCs, additional information on counterparts including credit to the private sector, and sectoral consolidation would be helpful as well as compiling monetary and financial statistics in line with Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG), with IMF technical assistance as needed. FMA reports Financial Soundness Indicators (FSI) to IMF's European Department and will work with Statistics Department to formalize FSI reporting to the IMF. The authorities have comprehensive FSIs for the banking sector, including additional indicators. For the OFCs, the authorities provided, among others, granular data on the total size of the sector and by subsectors, for insurance, combined ratios, ROE, ROA, for pensions, ROA, covered ratios, and total assets, for investment funds, total assets, liquidity profile, and number and type of funds. Authorities are encouraged to collect more data on interconnectedness of the OFC sub-sectors and enhance electronic accessibility of the data. Government Finance Statistics follows international standards but need to be disseminated timelier and with greater frequency.

Changes since the last Article IV consultation. Although this is the first Article IV, the authorities have started to make progress on addressing data gaps. They have taken steps to hire an additional national accounts compiler, and have started to coordinate with the Swiss Central Bank to estimate trade flows with Switzerland, a key milestone to compiling BOP.

Corrective actions and capacity development priorities. The authorities are keenly aware of the data shortcomings and are committed to improve their macroeconomic statistics. There is an agreement with the authorities that the priorities are to improve national accounts together with related deflators and to build external sector statistics. The sequence will be national accounts and then external sector statistics.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. See above on the discussion on real GDP produced by the Liechtenstein Institute.

Other data gaps. Other data gaps exist but given signficants gaps in national accounts and BOP, improving these areas is the main priority.

Table 2. Liechtenstein: Data Standards Initiatives

Liechtenstein does not participate in the IMF Data Standards Initiatives.

Table 3. Liechtenstein: Table of Common Indicators Required for Surveillance

(As of January 31, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Last Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Liechtenstein[8]	Expected Timeliness[6,7]	Liechtenstein[8]
Exchange Rates	31-Jan	31-Jan-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]					M	...	1M	...
Reserve/Base Money[9]	NA	NA	NA	NA	M	...	2M	...
Broad Money					M	...	1Q	...
Central Bank Balance Sheet[9]	NA	NA	NA	NA	M	...	2M	...
Consolidated Balance Sheet of the Banking System	23-Dec	24-Jun	A	A	M	...	1Q	...
Interest Rates[2]	23-Dec	24-Jun	A	A	D	...	...	...
Consumer Price Index[10]	NA	NA	NA	NA	M	...	2M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	22-Dec	24-May	A	A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	22-Dec	24-May	A	A	M	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	22-Dec	24-May	A	A	Q	...	2Q	...
External Current Account Balance[11]	2021	24-Jan	NA	NA	Q	...	1Q	...
Exports and Imports of Goods and Services[12]	24-Dec	25-Jan	M	M	M	...	12W	...
GDP/GNP	2022	24-Nov	A	A	Q	...	1Q	...
Gross External Debt					Q	...	2Q	...
International Investment Position					Q	...	3Q	...

1 Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
2 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3 Foreign, domestic bank, and domestic nonbank financing.
4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5 Including currency and maturity composition.
6 Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
7 Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for Liechtenstein and New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
8 Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."
9 Liechtenstein is in a currency treaty with Switzerland, does not have a central bank or control over monetary policy, and therefore does not compile these data.
10 No price statistics are produced, as the authorities use Swiss price measures as a proxy.
11 These data were estimated by the authorities as a one-time exercise and not disseminated.
12 Data excludes trade with Switzerland as the countries share a common customs administration.

INTERNATIONAL MONETARY FUND

PRINCIPALITY OF LIECHTENSTEIN

March 3, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of January 31, 2025)

Membership Status: Joined October 21, 2024.

General Resources Account:

	SDR Million	Percent of Quota
Quota	100.00	100.00
Reserve position in Fund	0.00	0.00

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	136.68	100.00
Holdings	136.68	100.00

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Overdue Obligations and Projected Payments to Fund[1]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement

The exchange rate arrangement of the Principality of Liechtenstein is an exchange arrangement with no separate legal tender. Liechtenstein's legal tender is the Swiss Franc. There is no central monetary institution in Liechtenstein. The Swiss franc was introduced as legal tender officially in 1924; on June 19, 1980, Liechtenstein signed a currency treaty with the Swiss Confederation (in effect on November 25, 1981) formalizing the monetary arrangement between Switzerland and Liechtenstein. The treaty recognized that Liechtenstein has legally adopted the Swiss Franc as its official currency and authorizes Liechtenstein to issue, in agreement with Switzerland, Swiss Franc coins, while not permitting Liechtenstein to issue Swiss Franc banknotes. Under the currency treaty, all relevant Swiss legal acts about money, credit, and currency issues automatically apply to Liechtenstein, unless special agreements are concluded between relevant Liechtenstein and Swiss authorities. At present, foreign exchange transactions in Liechtenstein are conducted through licensed commercial banks., investment firms, payment institutions, and foreign exchange bureaus.

Liechtenstein has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and of restrictions on the making of payments and transfers for current international transactions, except for those measures imposed solely for security reasons which have been notified to the Fund pursuant to Executive Board Decision No. 144 (52/51).

Statement by Mr. Loszewski, Executive Director for Principality of Liechtenstein and Mr. Zellweger, Advisor to Executive Director
March 21, 2025

On behalf of our Liechtenstein authorities, we thank staff for the insightful policy discussions and the thorough analysis and assessment presented in their first report on Liechtenstein, the Fund's newest member country since October 2024. The authorities concur with the staff's appraisal and underline their appreciation of staff's valuable recommendations. The report highlights Liechtenstein's extraordinarily strong economic fundamentals, while introducing the key characteristics of the country's economy to a wider audience. The authorities consent to the publication of the report.

Key characteristics of the economy

With a small, strongly industrialized, and highly export-oriented economy, Liechtenstein is one of the wealthiest countries in the world on a per capita basis. The industrial sector accounts for over 42 percent of GDP; a further 20 percent are provided by the internationally oriented financial sector. Liechtenstein's institutions and political system are highly stable, and its government is committed to a liberal market economy, with a focus on creating stable conditions and a prudent regulatory framework. The country is well-integrated into the global economy as a member of the World Trade Organization and the European Free Trade Association. Liechtenstein joined the European Economic Area in 1995, and since then has been fully participating in the European Single Market, on an equal footing with the European Union (EU) member states, like Iceland and Norway. It maintains strong ties with its German-speaking neighbors and has shared a customs union and currency with Switzerland for more than a century. Liechtenstein's economy is highly diversified, driven by specialized, innovative, and export-oriented manufacturing companies that often serve as global champions in niche markets. The country is home to globally active companies as well as to a high number of small- and medium-sized enterprises. Expenditures on research and development, accounting for around 6.5 percent of GDP, are the highest in the world and primarily stem from private companies. The government's structure is lean, maintaining a public spending ratio of below 22 percent of GDP. Taxes are generally low. The standard of living is exceptionally high with life expectancy exceeding 84 years, and absolute poverty is nonexistent. The economy is highly attractive to commuters, with more employees than residents working in the country. While the share of the financial sector in terms of GDP is relatively large, it remains highly stable due to well-capitalized and liquid banks, alongside strong oversight from the Financial Market Authority (FMA).

Outlook and risks

Given Liechtenstein's strong reliance on exports, a global economic slowdown or intensified geopolitical fragmentation could negatively affect the country's recovery after the contraction of its economy in 2022-23. As a small and open economy highly sensitive to global developments, maintaining adherence to a rules-based global order is of paramount importance. Past downturns have demonstrated that businesses in Liechtenstein tend to retain their workers to preserve specialized skills. The government has supported these efforts through short-term work compensation schemes, for example during the COVID-19 pandemic, which was facilitated by the accumulation of fiscal buffers over decades. Liechtenstein's businesses have also demonstrated resilience and flexibility, including in adapting to sharp appreciations of the Swiss franc and prolonged periods of negative interest rates. Meanwhile, the financial sector remains well-positioned to navigate economic uncertainty, with high capital and liquidity reserves.

Fiscal policy

Liechtenstein has virtually no public debt and is one of only eleven countries in the world with a AAA rating with a stable outlook by S&P Global. Its government reserves originate from the selective sale of state assets, combined with a prudent budgetary approach and conservative investment strategy. Five fiscal rules ensure that Liechtenstein's budget remains consistently balanced. Over the past decade, this prudent approach has resulted in budget surpluses in nine out of ten years, with only a small deficit recorded in 2022. For 2025, the authorities project a balanced budget. As a result, Liechtenstein has accumulated substantial fiscal buffers, even during periods of economic downturn. Considering that the fiscal multiplier in a small, open economy is close to zero, fiscal policy focuses on strategic economic support on the supply side instead of broad demand-side economic interventions. This supply side support primarily aims at preserving production capacity—particularly specialized labor—to facilitate a swift recovery after a crisis. Against this background, the authorities consider that shocks are addressed adequately by fiscal policy, as evidenced by continuous achievement of policy objectives, notably stable employment even in severe downturns. Automatic stabilizers, such as progressive personal income taxes and unemployment benefits, are in place to help mitigate economic shocks during downturns. That said, the authorities share staff's assessment that long-term spending needs will become increasingly important given the effects from climate change and an aging population. They also recognize the importance of investing in growth-enhancing infrastructure and public services to support sustainable economic development. Importantly, the authorities recognize that fast-evolving geopolitical and economic circumstances call for an ongoing discussion on strategic spending needs. The authorities look forward to engaging in discussions with the Fund on these topics.

Financial sector

The banking and insurance sector in Liechtenstein accounts for approximately 11 percent of GDP, rising to around 20 percent when including all financial services such as tax advice, auditing, and other related services. The country is home to eleven banks managing over 490 billion Swiss francs in assets (including foreign subsidiaries). Liechtenstein's banks have historically been well-capitalized, with all major banks maintaining Tier 1 capital ratios around 20 percent, well above the European average. Liquidity indicators reflect a strong funding base, asset quality is high among very low non-performing loan ratios, and banks continuously focus on a growth strategy, underscoring the resilience of their business model. The financial sector focuses on private banking and international wealth management, implying an international client base and certain associated (reputational) risks. In full recognition of these factors, Liechtenstein's financial center strategy is firmly anchored in compliance with all international standards and regulations. The country was an early adopter of the automatic exchange of information in tax matters and has fully implemented the OECD's Base Erosion and Profit Shifting (BEPS) initiatives. Comprehensive AML/CFT policies as well as rigorous sanctions screening measures are in place and are constantly being updated. Liechtenstein maintains up-to-date beneficial ownership information across the entire financial sector, including fiduciary services, in full compliance with EU regulations. In 2022, MONEYVAL, the European regional body of FATF, praised Liechtenstein's supervisory system for its effectiveness, resulting in the country being one of few in MONEYVAL's regular follow-up procedure. Financial supervision is fully integrated into the European System of Financial Supervision, with the FMA serving as the independent national regulator. EU financial regulations are swiftly transposed into Liechtenstein law, allowing financial intermediaries from Liechtenstein to fully participate in the European Single Market with passporting rights. As part of the Swiss franc currency area, Liechtenstein's financial sector is fully integrated into Switzerland's financial market infrastructure. Macroprudential measures remain appropriate for addressing key financial risks, primarily stemming from the large financial sector and high household indebtedness. The authorities agree with staff's recommendations to continuously update the macroprudential policy mix as necessary to continue ensuring financial stability.

Structural policies

Liechtenstein's specialized economy depends on highly skilled workers, including commuters from neighboring countries. In 2023, Liechtenstein's average unemployment rate was exceptionally low at 1.4 percent. However, as skills shortages remain a challenge, the authorities invest in education, innovation, and workforce development. In collaboration with the private sector, they are implementing measures to increase labor force participation among women and older workers. To address remaining gender differences in the labor market, including the gender wage gap, the authorities have, for example, expanded childcare options within schools and provide financial support for childcare costs. Extended parental leave will take effect in 2026. Discrimination—particularly based on gender, marital status, or pregnancy—is prohibited under both private and public law. Work on a comprehensive gender equality strategy is ongoing and is expected to be finalized until summer. The authorities also continue to invest heavily in critical infrastructure and productivity-enhancing investments, particularly in healthcare and transportation. Liechtenstein's pension system is well-funded, with reserves in the first two pillars (basic public and mandatory occupational schemes) totaling 180 percent of GDP. Voluntary third pillar (private) savings supplement these reserves and support the country's efforts to address financial pressures from an aging population.

Statistics

Liechtenstein is in its first year of membership in the Fund, and the authorities fully recognize the need to improve data timeliness to meet their obligations. Historically and in recognition of the small size of the country and its administration, they have prioritized minimizing administrative burdens on businesses, relying primarily on tax data for statistical reporting. While this approach ensures accuracy, it compromises timeliness. Going forward, the authorities will work closely with staff to enhance national accounts reporting and, subsequently, to establish balance of payments statistics. This effort will require strong collaboration among key institutions, and the government has already allocated additional resources to the Office of Statistics to pursue these tasks. Improving statistical quality and timeliness will—beyond meeting obligations towards the Fund—strengthen economic understanding and support more responsive policymaking, ultimately benefiting Liechtenstein and its people.