Liechtenstein

As a member of the European Economic Area (EEA), the Liechtenstein economy takes part in the European single market and due to the customs and Swiss Franc currency union, the country is strongly linked to the Swiss economy. Generally, Liechtenstein's diversified economy is on a moderate path to growth with optimistic outlook and Liechtenstein's AAA-rating with stable outlook was confirmed by Standard & Poor's end of November 2022 despite the pandemic and Russia-Ukraine conflict. In 2021, direct exports of goods by Liechtenstein companies recovered by 22.9% and were at a similar level before pandemic and employment is back on the growth path. The average unemployment rate decreased remarkably to 1.6% (- 0.3%) and is at a comparatively extremely low level.

By the end of 2021, there were 12 fully licensed banks operating in Liechtenstein. Four of them are subsidiaries of Swiss, Luxembourgish and Chinese institutions, the others are Liechtenstein banks. The LGT Group is the largest private banking group owned by the princely family and the LLB Group listed on the Swiss Stock Exchange but majority-owned by the Liechtenstein government.

Owing to the very limited home market, Liechtenstein banks are very internationally-oriented and have representations in more than 20 countries. Their activities traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. However, smaller banks, in particular, are engaging more in other business areas, such as Bank Frick which has built up a high level of competence in e-commerce/payment solutions as well as in blockchain banking over the last few years.

Due to its unique position, Liechtenstein is part of the EURO payment area (SEPA), but also affiliated to the Swiss Franc payment systems.

Due to the narrow business model of the Liechtenstein banking sector, the lending business focuses on mortgages, which increased by 2.7% compared to the previous year, and Lombard loans. Total loans are stable around CHF 30.0 billion and amounted to 40.0% of total assets, whereas the share of both loan types is more or less equal. Residential mortgages amount to 80% of total mortgages and are mainly secured by Liechtenstein or Swiss real estates. The average LTV for residential mortgages is less than 50%. Commercial loans do not have a significant share of the loan portfolio of Liechtenstein banks.

Deposits increased by 6.5% at CHF 47.6 billion. Households account for less than 30 % of total domestic deposits (CHF 18.4 billion). Sustainability has always been at the core of the Liechtenstein financial centre's values and culture and is a key pillar of its long-term strategy, the so-called Roadmap 2025 with an emphasis on growth through sustainability and digitalisation. LGT is one of the pioneers in the area of sustainability, not just in Liechtenstein but worldwide as well. Consequently, the positive trend towards sustainable investments from the last years onwards has persisted, and the percentage of sustainable investments continuously increased. All three major banks have committed to net-zero with ambitious targets and joined the Net-Zero Banking Alliance (NZBA) in 2021. With regard to digitalisation and blockchain in particular, Liechtenstein has taken on a pioneering role at the national level in that it was one of the first countries in the world to adopt the Trustworthy Technologies Act (TVTG) on 1 January 2020.

A demanding environment encompassing hardly predictable global economic outlook and political disorder in leading countries accompanied with high inflation, volatile financial markets and costly regulation continued to challenge the sector. Even in time of such challenges and the restraint shown by investors, the banks attained stable net profits and assets under management (AuM). To sum up, the banking sector can again look back on a successful year in 2021.

The consolidated AuM reached a new peak once again (up 16.2% to CHF 424.6 billion) whereas the growth in Liechtenstein amounts to 11.9% (CHF 200.6 billion). Even more important is the fact that net new money could be attracted, CHF 13.0 billion by Liechtenstein banks and CHF 38.1 billion on a consolidated level. Total balance sheet assets increased to CHF 77.3 billion (up 4.9%).

The result from normal business activity decreased by 21.7% to CHF 238.4 million. This unexpected decline is strongly influenced by a one-time impact.

Liechtenstein banks are distinguished by their financial strength and stability. They have solid and high-quality equity capital resources with an average core capital (CET 1 ratio) of more than 20% and a leverage ratio of around 7%, both at individual and consolidated level. The high average liquidity coverage ratio (LCR) of around 170% shows that security and stability are very important for the banks.

The national economic significance of the financial centre is disproportionately high, compared with other countries. It is one of the central pillars of Liechtenstein's national economy. The financial sector contributes a total of 22% to Liechtenstein's GDP and 17% to the workforce. The banks continue to be important employers. More than 40 full-time positions were created in 2021. The banking industry employs a total of 2,287 people (full-time equivalents) and offers 56 apprentices an attractive entry into their careers, with a share of women exceeding 50%. With a stake of around 36% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more prominent.

Contributor: Liechtenstein Bankers Association info@bankenverband.li