

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 2023 despite the pandemic and Russia-Ukraine conflict. In 2023, direct exports of goods by Liechtenstein companies increased by 4.7%. The average unemployment rate is with 1.4% at a comparatively extremely low level.

By the end of 2023, there were 11 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 dependent on international market access (in particular EEA passporting). Some banks are active in Switzerland as well as outside Europe, particularly in Asia, with subsidiaries, branches or representative offices in almost 30 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 and Lombard loans. 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.

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 2023.

The earnings situation improved compared to the previous year, partly due to the international turnaround in interest rates. The result from ordinary activities (EBT) totalled CHF 784.8 million at consolidated level (previous year: CHF 753.5 million). On an individual basis, EBT also increased from CHF 278.9 million to CHF 573.5 million.

Although net new money inflows (consolidated) decreased in 2023 (CHF 30.9 billion) compared to the previous year (CHF 38.2 billion), assets under management (AuM) rose to CHF 439.0 billion on a consolidated basis and were therefore significantly higher than in the previous year (CHF 411.4 billion). Looking at the wider period, assets under management increased significantly by CHF 89.0 billion (+25.4%) at consolidated level and by CHF 16.8 billion (+9.6%) at individual institution level compared to pre-pandemic times (end of 2019).

The consolidated balance sheet total of Liechtenstein's banks fell by around CHF -4.2 billion year-on-year to CHF 102.6 billion at the end of 2023, meaning that the banking sector's balance sheet total is around 15 times Liechtenstein's GDP. The cost-income ratio of the Liechtenstein banks including foreign group companies fell slightly compared to the previous year from 71.0% to 70.7% (consolidated).

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 7.6%, both at individual and consolidated level. The high average liquidity coverage ratio (LCR) of around 180% 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 21% to Liechtenstein's GDP and 16% to the workforce. The banks continue to be important employers. More than 170 full-time positions were created in 2023. The banking industry employs a total of 2,621 people (full-time equivalents), 38.7% of these were women. With a stake of around 37% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more prominent.