INTERNATIONAL MONETARY FUND

Liechtenstein as a Financial Center

Thomas Elkjaer

SIP/2025/046

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on March 5, 2025. This paper is also published separately as IMF Country Report No 25/77.

2025
APR

SELECTED ISSUES PAPER

 SIP/2025/046

IMF Selected Issues Paper
European Department

Liechtenstein as a Financial Center
Prepared by Thomas Elkjaer

Authorized for distribution by Kazuko Shirono
April 2025

***IMF Selected Issues Papers* are prepared by IMF staff as background documentation for periodic consultations with member countries.** It is based on the information available at the time it was completed on March 5, 2025. This paper is also published separately as IMF Country Report No 25/77.

ABSTRACT: Liechtenstein has strategically positioned itself as a prominent financial center in the wake of the global financial crisis and increasing demands for transparency. The strategy emphasizes transparency, compliance and robust regulatory framework aligned with international standards. The financial sector is outsized compared to its economy, with significant assets under management reflecting its focus on international clients. Unlike many other financial centers, Liechtenstein does not significantly host shell corporations. While systemic risks are mitigated by off-balance sheet and unleveraged operations, the financial center model carries compliance and reputational challenges. Continued vigilance remains paramount for the sustainability of its financial center strategy.

RECOMMENDED CITATION: Elkjaer, Thomas. 2025. “Liechtenstein as a Financial Center”. IMF Selected Issues Papers, SIP/2025/046. Washington D.C. International Monetary Fund.

JEL Classification Numbers:	E44, F24, F65, G28, H26
Keywords: [Type Here]	International Financial Center, Liechtenstein, Off-shore, AML/CFT, Tax Evasion and Avoidance, Regulatory Compliance, Foreign Direct Investments, Asset under Management.
Author’s E-Mail Address:	Telkjaer@imf.org

SELECTED ISSUES PAPERS

Liechtenstein as a Financial Center

Liechtenstein

Prepared by Thomas Elkjaer

INTERNATIONAL MONETARY FUND

PRINCIPALITY OF LIECHTENSTEIN

SELECTED ISSUES

March 5, 2025

Approved By

Prepared By Thomas Elkjaer[1]

CONTENTS

[1] The authors would like to thank Mark Horton and Kazuko Shirono (both IMF EUR) and the Liechtenstein authorities for helpful comments and suggestions. Zhengting Yue provided excellent research assistance.

LIECHTENSTEIN AS A FINANCIAL CENTER[1]

Liechtenstein actively pursues an international financial center strategy. Following the global financial crisis and international demands for transparency, Liechtenstein focused on transparency and compliance. This paper describes the financial center, its strategy, its evolution, and related risks.

A. Introduction: The Financial Center Strategy

1. Liechtenstein pursues an international financial center strategy. The strategy aims to secure growth and development through well-paying jobs, a robust economy, and a strong tax base. An international financial center concentrates financial institutions that mainly serve non-resident clients. For Liechtenstein, the sector primarily focuses on asset management for international institutional investors and private clients. Liechtenstein has leveraged its dual access to the EU and the Swiss financial markets and low taxes to attract international business. The authorities adhere to and enforce international standards and rules, transparency, and a predictable legal system.

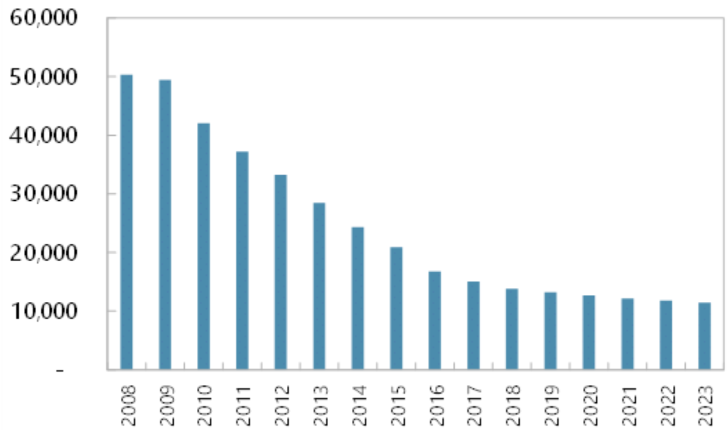
2. Liechtenstein has shifted away from a model of secrecy to transparency and compliance. Money laundering and tax evasion scandals occurring between the 1970's–2000's put pressure on Liechtenstein, particularly immediately after the Global Financial Crisis. It repositioned the financial center model, with adherence to international norms becoming the cornerstone of the new strategy. Liechtenstein's approach to international cooperation was overhauled and a completely new regulatory framework according to international standards was established including the implementation of FATCA and Automatic Exchange of Information in Tax Matters as an early adopter.

3. The shift has had an important impact on the regulatory approach. FMA was established in 2005 to ensure financial market stability, protect clients, prevent abuse, and comply with international standards. FMA publishes an annual stability report. Supervision is fully integrated with the European System of Financial Supervision framework, and Liechtenstein, as a member of EEA, is compliant with European financial market regulations, which are transposed to national law.

4. The shift has also had an important impact on the financial sector. The sector has internalized the value of adherence to international regulations, including AML/CFT requirements and sanctions adherence. The strongest impact has been on the fiduciary sector. Since the authorities enacted a new law in 2008, the number of trusts and foundations has decreased by 80 percent (see Figure 1). The regulatory framework is constantly being adapted. For instance, the Professional Trustee Act is under review to strengthen the fit & proper requirements for trustees, provide FMA with more power to intervene, and enhance data availability, including data on interlinkages with the financial sector.

[1] Prepared by Thomas Elkjaer (EUR).

Figure 1. Number of Trusts and Foundations



Source: Liechtenstein Authorities.
Note: There are no data on the size of trusts, type of assets and interlinkage with the financial sectors.

B. Structure of the International Financial Center

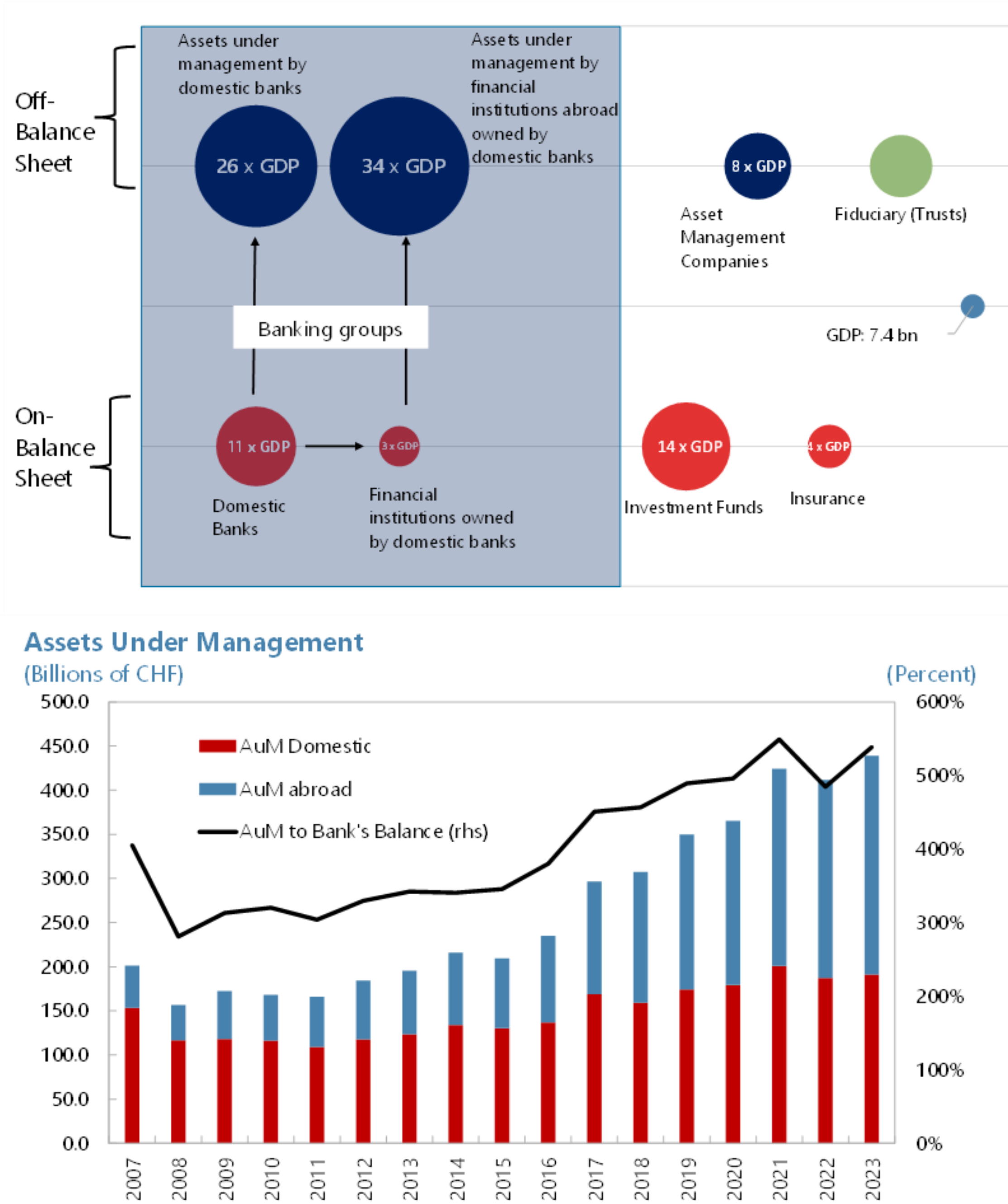
Characteristics

5. Like other international financial centers, the financial sector in Liechtenstein is outsized compared to the economy. The financial sector in the broadest measure, i.e. including both on-balance and off-balance sheet and activities in foreign subsidiaries, was CHF 773 billion in 2023, 100x GDP, while in the narrowest measure, i.e. domestic banks, it was CHF 81.5 billion or 11x GDP (see Figure 2).[2] A proxy for international clients' holdings is the combined size of assets under management (AuM), either by banks or asset management companies, and investment funds, which is CHF 539 billion and makes up 75 percent of the total financial sector. These activities are either off-balance sheet (AuM) or unleveraged (investments funds). Since 2007, AuM has more than doubled, and the growth has mostly been abroad as banks have expanded their management networks in Europe, the Middle East, and Asia, (see Figure 2). In addition, insurance companies write premiums overwhelmingly for non-residents.

6. Unlike some financial centers, Liechtenstein is not a host for shell corporations. Some offshore centers host Special Purpose Enterprises (SPEs), companies with few or no employees, minimal production, and no activities beyond holdings and financing. Liechtenstein is different in that inward FDI into resident SPEs as a percentage of GDP is low and that most inward FDI is not in SPEs but in companies with physical production presence in Liechtenstein (Figure 3).

[2] Some caveats apply to the size of the financial sector, see note 1 in Figure 2.

Figure 2. Financial System 1/ 2/



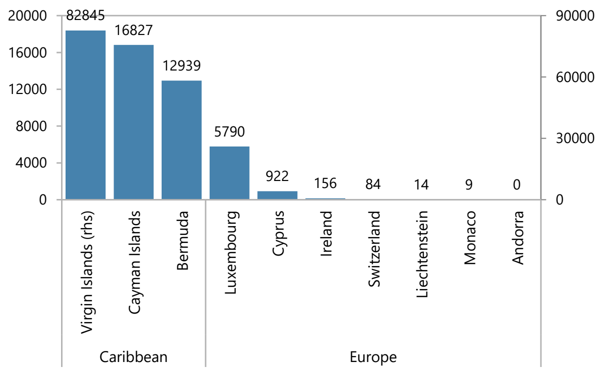
Sources: Liechtenstein Authorities and IMF staff's calculation

1/ 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 available on the size of fiduciary sector, the size of the dot does not represent an estimate but only serves as an illustration.

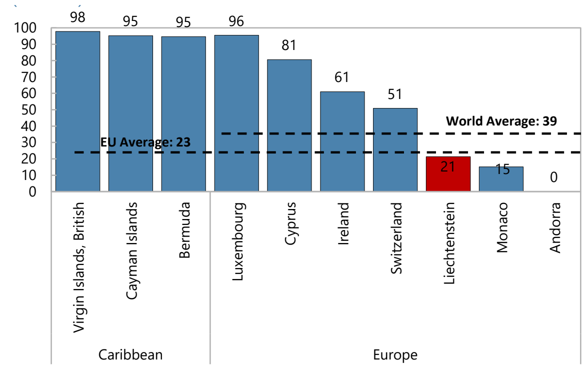
2/ Banks' balance sheets on a consolidated level.

Figure 3. Inward FDI

Inward FDI Position Into Resident SPEs to GDP, 2017
(Percent)



Ratio of Inward FDI Into SPEs to Total Inward FDI end-2017
(Percent)



Source: Damgaard, Elkjaer and Johannesen (2024) and IMF staff calculations.
Note: The chart data is uncertain due to (i) Liechtenstein does not report these data, instead the data is either mirror data, i.e. data from other countries, or estimated based on Orbis company database, (ii) some FDI relationships through trust holdings may not be reflected.

C. Risks

7. Being a financial center carries important risks. There are compliance and reputational risks, particularly in AML/CFT, cross-border activities, and wealth management. Obfuscation of ownership or the origin of assets through complex structures can be a complication for both the financial sector and the supervisory authority. Nonadherence can jeopardize international banking relationship and Liechtenstein's statue as a financial center.

8. There are also specific operational and legal risks. Liechtenstein relies on Swiss financial market infrastructure, but Switzerland is not in EU/EEA. Against this background, the access of Liechtenstein's financial sector to Swiss FMI is subject to legal uncertainty, particularly in cases where the Swiss regulatory and supervisory regime is not considered equivalent to the EU regime. The use of alternative providers in the EU could be costly and potentially undermine Liechtenstein's access to the Swiss franc currency area in the worst case. These risks are less urgent given a moratorium until 2030 on the EU's equivalence decisions on key components of the Swiss FMI.

9. AuM are off-balance sheet and investments funds are unleveraged, mitigating balance sheet risks. Wealth management activities are mostly off-balance sheets with the related on-balance sheet activities largely consisting of collateralized Lombard loans (around 20 percent of total assets) and simple deposits from AuM clients. Off-balance sheet activities present no direct risks to the banks. While the activities of investment funds are on-balance sheet, funds in Liechtenstein are typically unleveraged and maturity profiles does not point to liquidity mismatches. Therefore, the fund sector is not likely to be a source of systemic risk.

10. The international business model entails high touch service and compliance costs. The AuM business model is operationally challenging. Private banking and wealth management entails high-touch service and high compliance demands, which are labor intensive and drives cost. Employees (on an FTE basis) in banks in Liechtenstein (foreign subsidiaries not included) has increased from 2.300 in 2016 to 3.300 in 2023. Higher growth in cost than revenue is driving the cost-to-income ratio up (78.3 percent at second quarter 2024). AuM are banks' main business model and important for long-term profitability. In the first half of 2024, 56 percent of revenue came from net commissions mostly generated from the AuM business, which is sensitive to global financial conditions and geopolitical fragmentation.

D. Conclusion

11. Liechtenstein pursues an international financial center strategy. Like other IFCs, the financial sector in Liechtenstein is outsized compared to the economy. Unlike many financial centers, Liechtenstein is not a host for shell corporations. In response to the Global Financial Crisis in 2008-09 and international pressure, Liechtenstein shifted away from secrecy to transparency. This shift profoundly impacted the regulatory approach, with a strong focus on compliance with international standards and regulations, including for the financial sector. A significant part of the financial operations is either off-balance sheet or unleveraged and thus present no direct financial risks. However, the international financial center strategy carries inherent risks given the international client base. Robust financial sector oversight and compliance with international regulations, including AML/CFT requirements, should continue to be key elements of Liechtenstein's international financial center strategy.