Caption: On 18 April 1978, the British daily newspaper Financial Times observes that the banking sector is gradually consolidating its position as the driving force of the Luxembourg economy.

Source: Financial Times (18.4.1978), "Banks still the major mainstay", Jeffrey Brown, Londres: Pearson PLC.

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URL: http://www.cvce.eu/obj/banks_still_the_major_mainstay_from_the_financial_times_18_april_1978-en-da86bb7e1-8db-4876-9f71-ef8057a5302c.html

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INTERNATIONAL banking has grown into a major economic force in Luxembourg. The Grand Duchy now boasts more than 90 separate banking establishments making the industry, after steel, the biggest single employer accounting for some 4 per cent of the national workforce. In any one year the banking industry can expect to contribute something like a tenth of the national taxes.

Against this background it is becoming increasingly obvious that the pressures on Luxembourg to keep its banking "freedoms" in step with the more rigid systems applied elsewhere in the financial world are not wholly external. And that as a result the Luxembourg authorities are themselves anxious to be seen steering a banking course as close as possible to a "compromise within a framework that maintains our national sovereignty in this respect."

In recent months it has become clear, for example, that the Grand Duchy's relationship with West Germany is far less strained. Bankers are now beginning to describe the state of play between the Commission Bancaire and the Bundesbank in terms of a "mutual approach" to a common difficulty. At the same time a number of fiscal measures in the governmental pipeline--aimed mostly at easing the tax burden on the capital markets--should soon remove some of the internal constraints upon the banking system.

On balance, the consensus view among bankers is that Luxembourg is not about to lose its place among the top handful of major international capital markets. The international financial community probably has as much room of the sort of controlled "offshore" capital market that Luxembourg has become as Luxembourg has of the international financial community.

Business--especially in Euro-markets which after all is really what Luxembourg is all about--it perhaps less brisk than it was even a year or two ago. Luxembourg was able to boast in the latter half of 1987 last year as a whole saw the global volume of outstanding Eurobonds rise by some 20 per cent and banking margins are curiously narrow, but there is still plenty of optimism in the air.

The rise of Luxembourg as an international banking centre stems directly from the rapid development and expansion of the market for Eurocurrencies that occurred in the 1980s. It was in 1983 that the U.S. authorities imposed Interest Equalisation Tax and thus effectively stopped many foreigners from tapping the New York capital market for funds. This led to the invention of the Eurobond and to a capital market in the vast and growing pool of dollars held outside America.

At the same time the German authorities were doing their best to crack the problem from the opposite end of the monetary spectrum. They needed to curb capital inflows and in implementing a 25 per cent, tax on non-resident holdings in DM bonds they effectively encouraged a capital market in foreign holdings of the Deutschebank.

It is in this latter market for Euro-DM that the Grand Duchy has most specialised in. To-day as a result there are something like 20 separate West German banking houses operating in Luxembourg and it has been estimated that these account for some 50 per cent. of the banking business in the country.

Successive years of high interest, coupled with a rigid Bundesbank control on the sort of lending that can and cannot be made, have forced the German banks to seek outlets for their money away from their domestic arenas. Luxembourg with its close geographic proximity and linguistic ties--not to mention banking "freedoms"--was an obvious choice. Once the trend had started it quickly developed into something of a headlong rush, and as a result Luxembourg has become the home of the Euro-markets second most important currency.

Regime

Luxembourg's liberal banking regime in terms of the level of financial information required by the authorities is enhanced--in the eyes of foreign bankers--by an attractively high debt to asset ratio and a low-level equity requirement. The permitted debt-equity ratio in the Grand Duchy is 25 per cent--a level of
is more convenient for matters like tax and reserve requirement avoidance than Luxembourg.

The most positive development in American banking in Luxembourg seems to be towards portfolio management. In the wake of the Credit Suisse debacle in Italy (at the Swiss bank's Chiasso branch), several U.S. banks are now claiming to have had a number of enquiries in this field of service. The advantages of Luxembourg for this kind of operation could be substantial. With its holding company and investment trust legislation the Grand Duchy has long been a port of entry for portfolio investment funds.

This is much more the case in Luxembourg than, say, in London and if the moves by the U.S. commercial banks into the securities business were to gain substantial ground. Luxembourg could prove the place for private client accounts to be handled.

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