

Optimism + pessimism = realism



Jean-Jacques Rommes, ABBL

Photo: Steve Eastwood

“As an optimist I have to explain the strengths of Luxembourg and why it is good to do business here. But my pessimistic side will see that we have to preserve what we have by identifying threats and minimising them by warning about everything that erodes competitiveness.” Thus Jean-Jacques Rommes, general manager of the Luxembourg Bankers Association (ABBL) introduced his talk to the ABAL lunch on 8th November. He then went on to list 14 potential threats to banks and Luxembourg’s competitiveness.

The first part of his talk dealt with the results of post crisis ‘banker bashing’ that have made the business more expensive globally. For example, the current deposit guarantee scheme in Luxembourg is virtual, with funds made available by members when needed. Rommes said the European Commission proposal would have the funds deposited beforehand, depriving the banks of capital.

Effects of Basel III unknown

Then there are the suggestions for an investor compensation scheme which would collect 0.5% of assets from all financial institutions: a measure which would equate to 10 billion euros on Luxembourg funds. He said the mooted transaction (Tobin) tax would kill trade if not levied worldwide and that the European Commission proposal for a financial activities tax would also be dangerous.

While these measures are relatively unlikely to come into force, the Basel III capital rules will increase costs. He admitted that this measure was necessary but said no one knows how it will affect Luxembourg. Banks are well capitalised here, but the headquarters may decide to take this for their own use, he noted, a move which would cut profitability here.

Employment costs upward spiral

He then turned to local cost threats. The latest salary indexation tranche cost banks 60 million euros a year,

with all businesses paying an extra 350 million euro, he reckoned. Then there was the equalisation of accident insurance between blue and white collar trades. This will see the employers of office workers paying 1.25% instead of 0.45% on each wage packet: a 1.85% increase of wage costs from 1st January. Rommes is currently battling with the unions over the collective labour agreement: the unions want an annual 2.8% salary increase but the employers have called for the abolition of the June bonus, an effective 4% pay cut. He recognised this was important for its status as a “benchmark” deal in the country.

New tax threats

There are also substantial threats regarding new taxes. Rommes said that while health costs have risen 6-8% annually over the last decade the government should be able to find a way to avoid having to increase subscriptions. So although the 0.1 point increase in health insurance payments will cost less than 3 million euros, he thinks it sets a precedent. Similarly, the 2 point increase in employers’ solidarity tax could have been avoided and with it, the extra 25 million euros burden on the productive sector. Given this track record, he fears that the government will resort to higher charges when it seeks to defuse the pensions time bomb during the looming tripartite discussions.

FATCA suicide pact

On top of all of this comes the US Foreign Account Tax Compliance Act which will force banks to prove their clients are not US citizens dodging tax. Rommes estimated the cost to banks would be \$10 per account. However, he said the sanction of a 30% charge on all transactions with non-compliant banks was so harsh that it would inflict “suicidal” damage on the US and world economy. The politicians are on the case, he said, so there are hopes it can be moderated.

Text: Stephen Evans