

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

Press release

The financial centre continues its transformation in 2003

On the occasion of the traditional year-end celebration gathering the personnel of the Commission de Surveillance du Secteur Financier, the Director general, Mr Jean-Nicolas SCHAUS, drew the first conclusions from a year marked by a slight return of growth for the financial sector.

1° One of the most significant events in the **banking sector** is the trend reversal of the ordinary result observed since the end of the first semester. The quarterly banking income was on the increase again during the third quarter. It is very likely that this trend will be confirmed at the end of the year, putting the financial centre in a favourable position in order to benefit from the improvement of the economic and financial situation expected in 2004. Indeed, the cost/income ratio remains stable and still compares favourably with the situation of banks abroad.

This positive note should however be considered in the light of less favourable developments. The balance sheet total stabilised only in June 2003 following a continuous decline that had started in December 2001. As in the previous years, the number of banks decreased and will most probably reach 169 at the end of the year (against 177 banks as at 31 December 2002). Though the mergers resulting from intragroup restructuring at international level are the main cause thereof, it should also be noted that some establishments closed their doors due to insufficient business or profitability. Finally, the deterioration of bank employment is evident. Based on figures as at 30 September 2003, bank employment decreased by some 1000 units in one year. The decrease in employment has thus been speeding up since June 2002.

As regards the financial sector as a whole, the employment trend moves along the same lines, but the fall is less strong. The outsourcing phenomenon of certain functions or activities implies that the reduction in bank employment does not necessarily translate a dead loss of employment, but, at least in part, a transfer of personnel to different entities.

2° The rise in stock markets had a beneficial impact on the total assets of **undertakings for collective investment**, which register an increase of more than 10% compared to 2002. The amount of net capital investment (more than EURO 65 billion) proves that the attractiveness of the Luxembourg fund industry is intact, while the number of undertakings for collective investment and of compartments is on the decline.

The major event witnessed by the sector was the implementation of the Law of 20 December 2002 transposing into national Law the third European Directive on undertakings for collective investment in transferable securities (UCITS). The first management company complying with the Directive obtained its authorisation at the end of the year. Several dozens of funds are already operating under the new legislation. The development prospects for the fund industry are very favourable.

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3° The number of entities active in the sector of the **other professionals of the financial sector** subject to the supervision of the CSSF remained stable, down from 144 to 142. This sector was marked by quite intense legislative activity in 2003, aiming at promoting innovation and extending the product range of the financial centre, notably with the coming into force of the Law of 2 August 2003.

The first goal of the Law is to ensure that the entire financial sector is subject to prudential supervision. Going one step further, the Law allows to bring under the scope of the financial sector a certain number of activities, which are not of a financial nature a priori, but which turn into financial activities when carried out in a closely related or complementary manner to a financial activity. These new categories of PFS, which notably take account of the needs generated by specialisation and outsourcing phenomena, include administrative agents of the financial sector, client communication agents, IT systems and communication networks operators of the financial sector, as well as professionals performing services of setting up and management of companies. This new legislation makes Luxembourg one of the first countries to grant a status of supervised professional of the financial sector to companies active in IT and communication and allows to export these services from Luxembourg to the foreign financial sector.

Commenting on the overall development of the financial sector, Mr SCHAUS underlined its ability to adapt and innovate in a difficult environment. The transformation of the financial centre went through a decisive stage in 2003. Though it is still too early to draw final conclusions, the Luxembourg financial sector seems to enter a new stage, characterised by a stabilisation of activities, the preservation of significant added value, but also by the lack of appropriate growth dynamics able to act as driving force behind the Luxembourg economy as a whole, as was the case in the late 1990s. Given this context, the Director general considered that the terms “reason” and “reasonable behaviour” should be the leitmotiv for the year 2004, as far as the analysis of opportunities of the centre, as well as the analysis of the challenges it must take up, are concerned.

Luxembourg, 18 December 2003