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The Current Economic Situation

The Geneva Financial Center (GFC) has been conducting an economic survey of its banks, wealth managers and other financial intermediaries since 2002. The results obtained reflect their analyses and perceptions of their business performance and the outlook for the Geneva Financial Center.

At the end of September 2023, the banking sector comprised 87 banks present in Geneva and employed just under 18,000 staff. In detail, there were 22 commercial and wealth management banks and 50 foreign-owned banks. There were also more than 700 independent wealth managers, over 3,000 financial intermediaries, nearly 500 insurance companies, more than 1,300 trustees and accountants and more than 600 law firms and notaries' offices. This great diversity contributes to the success of the Financial Center which continues to play a leading role in economic growth.

The results of the short-term 2023-2024 economic survey reveal the strength and resilience of the banking and financial sector, despite the uncertainties surrounding the war in Ukraine (see page 7) and the rapid rise in interest rates.

After 2021, which had been an excellent year, and 2022, which saw a decline in stock market prices, 2023 brought a feeling of optimism. This is hardly surprising given the economic environment in Switzerland. According to SECO the first half of 2023 was robust, even though the picture varied from one sector to another. The service sector, which includes finance, progressed while value creation in the industrial sector declined. The economic survey therefore reflects the strength and recovery of the Financial Center.

This dynamic trend is fully reflected in the wealth management sector, which is one of the three pillars of the Geneva Financial Center, together with commercial and retail banking and commodity trade finance.

In 2023, unlike the previous year, wealth management was booming. In fact, the great majority of financial institutions reported a rise in assets under management. This trend reversal is particularly apparent in banks with over 200 employees. Although in the first six months of 2022 more than half of them stated that their volume of assets under management was down by 8%, at present a large number of them report an increase which, in some cases, exceeds 8%. In the course of 2022, the war in Ukraine profoundly destabilized the financial markets but they have since ceased to be the primary influencing factor. New inflows and outflows almost balanced each other in terms of asset volume. Foreign exchange effects had little impact.

The overall trend in net inflows of funds is undoubtedly another strong indicator of the health of the Geneva Financial Center. The diagnosis for the first half of 2023 is quite encouraging compared to the same period in 2022. More than two-thirds of banking institutions, wealth managers and other financial intermediaries benefited from an increase in net inflows of funds. Half of small institutions benefitted from an increase of between 6 and 10%. The finding for the large banks is similar: a significant number of them reported growth of more than 10%. Clearly, their clientele continued to require services provided by the Geneva banks which remained as attractive as ever, especially in Europe and the Middle East. All these factors lead to the same conclusion: client confidence remains intact.

The banks and financial service providers remained optimistic in the second half of 2023 since the vast majority of banks benefited from a favourable trend with an upturn in investor activity and a turnaround in commission-based income. Under the impact of tighter monetary policy in response to rising inflation, the increase in interest rates

> **All the indicators show that the Geneva Financial Center remains attractive and that banking operators take an optimistic view of 2024**
>
> allnews, 12 October 2023

50%

of financial operators reported an increase in their assets under management in the first half of 2023

which had begun in 2022 continued to exert its influence in 2023. The 2023-2024 economic survey shows that the impact on the banking institutions was substantial. For the record, in 2020 and 2021, the central banks set interest rates that were either negative or close to zero. Consequently, cash was a cost item for the banks if they did not pass the negative interest rates on to their clients. However, clients were actively investing during these two years, which helped to maintain commission-based income. The return to positive interest rates and their rapid rise reversed this wealth management dynamic in 2023. This rate rise helped to sustain the increase in net income from interest rate transactions. However, it also created a "wait and see" attitude on the part of clients who preferred to make time deposits. This caution was heightened by the conflict in Ukraine and by the lack of visibility.

According to the International Monetary Fund (IMF), increases in real interest rates are likely to be temporary. Once inflation is brought under control, the IMF expects the central banks to ease their monetary policy. In this context, one thing is certain: financial operators have no control over interest rate trends. They are decided by the central banks according to growth and inflation. It is becoming increasingly clear that inflation is proving to be persistent and is forcing the central banks to prolong their tight monetary policy. At the international level, the world economy saw practically no growth in 2023 and lacks real incentives that could offset the adverse consequences of the increase in interest rates and inflation. The Swiss financial system is not an island, and is also dependent on the economic policies of its counterparts abroad.

This interconnection also applies to access to foreign markets. Switzerland is a global leader in cross-border wealth management, with a market share of around 25%. It is consequently an export industry in the conventional sense of the term to the extent that most services are provided in Switzerland, whereas two-thirds of clients are domiciled abroad. In fact, 40% of cross-border private assets under management originate from clients situated in the European Union (EU) and account for around CHF 1,000 billion in assets.

Whether for private or institutional wealth management, access to the European market in particular remains a strategic priority in order to maintain employment, especially in the "front office" on Swiss territory. As was the case in 2022, Luxembourg continues to be the destination of choice when activities are transferred abroad. In this respect, the Geneva Financial Center welcomes the reference to a so-called "institution-specific" approach, or in regulatory terms a "licence-based" approach, linked to the resumption of the regulatory dialogue between Switzerland and the EU, in the final negotiating mandate with the EU which Switzerland adopted on 8 March 2024 (see page 16).

In the light of the above considerations, the banking and financial operators are fairly confident about 2024 and expect to see a favourable development in their consolidated financial statements. This is despite a changing environment, characterized by two factors. Firstly, the high debt levels of many countries leave a sword of Damocles hanging over the markets, which could lead to a major correction. Secondly, some observers expert only moderate growth in assets under management originating from abroad. Nevertheless, these uncertainties do not taint the optimism and pragmatism shown by the banks and wealth managers with regard to employment. For the third consecutive year, 2023 saw an increasing labour shortage in an economy that was close to full employment. The financial sector continued to make a major contribution to the maintenance and creation of employment opportunities in Geneva.

In the 2023-2024 economic survey, taxation is still causing concern but is no longer the number one factor, due to victories in the ballot boxes with the rejection of Initiatives 179 (double taxation of dividends) and 185 (increase in wealth tax) in 2023. At cantonal level, the issue of security takes precedence over other matters. This broad field encompasses cybersecurity. In order to strengthen the cyber-resilience of the Swiss financial Center, the Swiss Bankers Association (SBA), the Swiss Insurance Association (ASA) and the Federal authorities established the Swiss Financial Sector Cyber Security Centre (Swiss FS-CSC) association in April 2022. The fact is that the infrastructure of the Financial Center and of Switzerland as a whole depends on a small number of service providers. This is why it is essential to involve all the stakeholders in a joint approach, which is what the Swiss FS-CSC is doing. Like fintech and sustainable finance, this area is particularly dependent on the development of cutting-edge training (see page 27).

Confidence is the order of the day for 2024, with expectations placed on cybersecurity and education and training in particular