



## Chart in focus

### Gross value-added in the financial sector

March 19, 2007

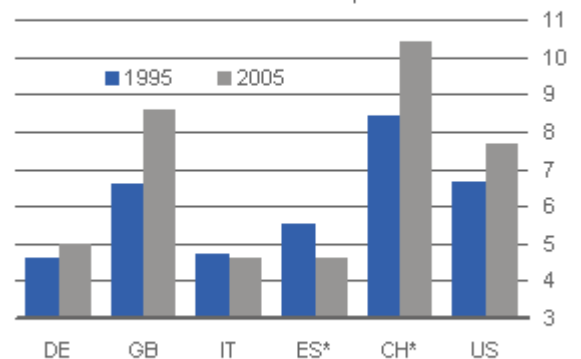
In modern economies the financial industry is one of the most important sectors. In terms of gross value-added, it ranks third in Germany for example, even ahead of mechanical and electrical engineering. At the same time, however, the sector's significance for the overall economy varies considerably in an international comparison. While in traditional financial centres such as Switzerland and the UK, banks and insurance companies account for more than 10% and 8%, respectively, of total value-added, the share is roughly 5% in other large economies. With banking accounting for over two-thirds (69%) of gross value-added in the financial sector, Germany scores somewhere in the middle of this ranking. Interestingly, the past decade saw the sector's share in Germany grow – in contrast to most other countries where financial service providers play a less dominant role than in Switzerland, for instance. It is striking to note the fundamentally different development of two groups of countries: those whose financial sector had already enjoyed above-average significance before 1995 saw its importance grow, whereas the remaining countries registered more or less flat growth.

This suggests that accumulative comparative advantages and hence a process of concentration probably driven primarily by economies of scale and geographically limited network advantages (knowledge spill-overs, labour pooling) can also be witnessed in the financial industry. So it can hardly come as a surprise that the financial sector has lately registered such a strong growth in Anglo-American countries as well as in countries with a long-standing banking and insurance tradition.

Probably another important factor is the degree of economic freedom in the individual financial centres. Countries with more market-oriented supervision such as Switzerland or the USA therefore show a noticeably more positive trend than markets subject to greater state intervention.

#### Gross value-added in the financial sector

Share of banks and insurance companies in %



\* Spain 2004; Switzerland: only banks, 2003

Sources: Eurostat, OECD, BEA, BFS

The consequences for individual financial centres are obvious: if size leads to even greater size, it is decisive to reach critical mass at least in some segments of the overall market in order to remain in the lead in an international arena. This is best achieved via persistently high intensity of innovation. In this context Germany has a very promising outlook, for instance as the global leader in the area of investment certificates.



Jan Schildbach (+49) 69 910-31717

...more information on **Banking, Financial Markets and Regulation**

[Chart in focus - Archive](#)