

avenir analysis

Guaranteed Benefits for Cantonal Banks

The hidden costs of explicit government guarantees and tax exemptions

Most cantonal banks enjoy extensive privileges: explicit government guarantees and tax exemptions. As highlighted in Avenir Suisse's new analysis, the Swiss Confederation hence loses tax revenues worth several hundred million Swiss francs, and national financial equalization is distorted.

More than 200 years after the creation of the first cantonal bank, the privileges of these (partially) government-owned financial institutions perpetuate. Even today, 21 cantonal banks benefit from an explicit government guarantee from their cantons. In the event of a crisis, the cantons are legally required to cover the bank's commitments. Exemption from tax liability is also widespread. Fifteen cantonal banks are exempt from direct federal tax, and ten of these institutions pay no cantonal or municipal taxes either.

A risk for taxpayers, a disadvantage for private banks

In the event of a crisis, explicit government guarantees entail high costs for taxpayers. Several examples show that the damage caused by this privilege is considerable. Lukas Schmid, author of the study, warns: "As in the historical examples of Solothurn, Berne and Geneva, a crisis at a cantonal bank will burden taxpayers for years to come."

Explicit government guarantees also distort competition in the financial center. They reduce the risk of bank failure, which translates into a better credit rating. As a result, the cost of capital is lower for cantonal banks than for private banks: cantonal banks therefore enjoy an unfounded competitive advantage.

As our analysis shows, the distorting effects on competition translate into significant sums. On average, the benefit due to explicit government guarantees amounts to 585 million francs per year. According to estimations, it could even reach 800 million francs. The cantonal bank of Zurich obtains the biggest financial benefit, the largest of its peers. Depending on the method of calculation, it saves between 85 and 295 million francs a year on cost of capital.

Saving taxes at the Confederation's expense

In addition, many cantonal banks do not pay taxes. This results in higher profits and, consequently, higher dividends for cantons that have a bank. The big loser in this tax measure is the Swiss Confederation. Every year, it loses around 190 million francs.

The tax exemption also has other sensitive consequences that many are unaware of. This is because unequal tax treatment distorts national financial equalization calculations. As the study points out, cantons which tax their cantonal banks or which have no cantonal banks are at a disadvantage.

Time to end special privileges

Lukas Schmid underlines: "Historically, the preferential treatment given to cantonal banks was understandable. However, they are no longer relevant today." The tax exemption at federal level is particularly questionable. Especially since this unfair treatment could easily be corrected.

Explicit government guarantees should also be abolished. In the past, when rural areas lacked banking services, such privileges may have been justified. However, in today's Swiss financial market, with its many players and digital services, talks of a supply shortage are no longer relevant. It is therefore high time to abolish explicit government guarantees, which are extremely costly in the event of a crisis.

avenir analysis: "Kantonalbanken: Garantiert im Vorteil" ("Guaranteed Benefits for Cantonal Banks"), Lukas Schmid, 12 pages, available online in German and French from 26.02.2025 at [avenir-suisse.ch](https://www.avenir-suisse.ch)

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