Liechtenstein open to bank data exchange talks with EU

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• Secrecy helped create big Liechtenstein banking industry• Financial sector in crisis over global clampdown on tax evasion• Hope EU would accept British-style amnesty deal• Budget cuts raise questions over prized political stability

By Emma Thomasson

VADUZ, May 16 (Reuters) - Liechtenstein is reluctantly prepared to discuss exchanging data on bank clients in response to a new European Union push for more transparency from the secretive principality and other tax havens, its prime minister said.

"We have signalled that we are ready for talks although we can't conceal that automatic exchange of information is not our favourite solution," Liechtenstein's new Prime Minister Adrian Hasler, 49, told Reuters in an interview in the capital Vaduz.

Secrecy has fostered an usually large banking industry in the tiny Alpine state wedged between Austria and Switzerland, helping make the 36,000 inhabitants of a territory slightly smaller than Washington D.C. among the world's wealthiest.

But its financial industry has been in crisis since 2008 when data from the country's biggest bank LGT, owned by the princely house whose wealth dominates the country, revealed hundreds of rich Germans had hidden assets in Liechtenstein, prompting the government in Vaduz to promise Berlin and other EU capitals that it would help pursue tax dodgers from abroad.

The 27 European Union finance ministers gave their officials approval on Tuesday to start formal negotiations with Switzerland and the tax-haven microstates of Liechtenstein, San Marino, Andorra and Monaco about surrendering bank data on an automatic basis, exposing savers to tax claims. (Full Story)

The move came after EU members Luxembourg and Austria signalled in recent weeks they would lift their own bank secrecy rules after long resisting pressure from neighbours inside the bloc who argue that it helps their citizens evade taxes. The United States is also pushing for an end to such practices.

A final EU accord will be some way off. Hasler, who was police chief until his conservative party won a legislative election in February, said even if the country were to agree to exchange information on foreign clients, it would need time to give a new legal basis to untaxed foreign assets in its banks.

Liechtenstein's favoured solution would be to negotiate with the whole of the EU an amnesty like that it agreed with Britain in 2009, Hasler said. That arrangement let 5,000 British-based clients make a one-off, flat-rate payment for past earnings in Liechtenstein as long as they paid British taxes in future.

STRUGGLING BANKS

While expressing openness to discuss exchanging client data with the EU, Hasler said Liechtenstein would be more selective in future about striking bilateral tax deals after agreeing some 30 since 2009, which the local financial industry has criticised as capitulating too fast to global pressure over tax.

Liechtenstein's banks have struggled with asset outflows in recent years due to the tax issue, compounded by rocky markets and a rise in the Swiss franc - its currency since 1924.

They managed a total of 184.3 billion francs ($190.45 billion) in 2012, helped by net new assets of 13.2 billion, although most of that went to LGT, the bank owned by the ruling family, as LLB

LLB.S and VP Bank, the country's second and third biggest banks, grappled with net outflows.

The family of Prince Hans-Adam, the last European monarch to exercise substantial political power, was estimated by Forbes in 2011 to be worth some $5 billion, half of that the value of LGT and close to the annual GDP of the entire country.

The banking sector contributes about a third of national output and directly accounts for 16 percent of jobs.

Hasler hopes the financial industry can continue to flourish at a similar size, or slightly smaller, if it can adapt to the loss of untaxed assets:

"Liechtenstein has great advantages: political and financial stability, Swiss franc, princely house in the background, AAA rating ... central location in Europe," he said. "If we can use these advantages, we have a chance for the future."

Though the princely family saw a move to curb its powers defeated in a referendum last year, questions were raised again about that prized stability after the conservative coalition saw its grip on the 25-seat parliament loosened as the government struggled with an unprecedented hole in its budget; opposition parties won seven seats, up from one, in February's election.

After decades of plenty, Hasler says painful cuts are needed to fill the gap caused by aggressive tax cuts agreed before the financial crisis and exacerbated by the tax woes of the banks.

"It is clear to everybody that we have a good situation because we have state reserves. But if nothing changes, that will melt like butter in the sun," Hasler said. "That would really bring problems for the country as a business location."

Wilfried Marxer, director of the Liechtenstein Institute - a largely government-funded research body - said most citizens in the close-knit country understood the need for spending cuts.

"Stability is not in danger. The ruling coalition is very harmonious and not likely to fall apart like in Italy or Israel. Even the opposition parties are not very radical," he said.