# Press release

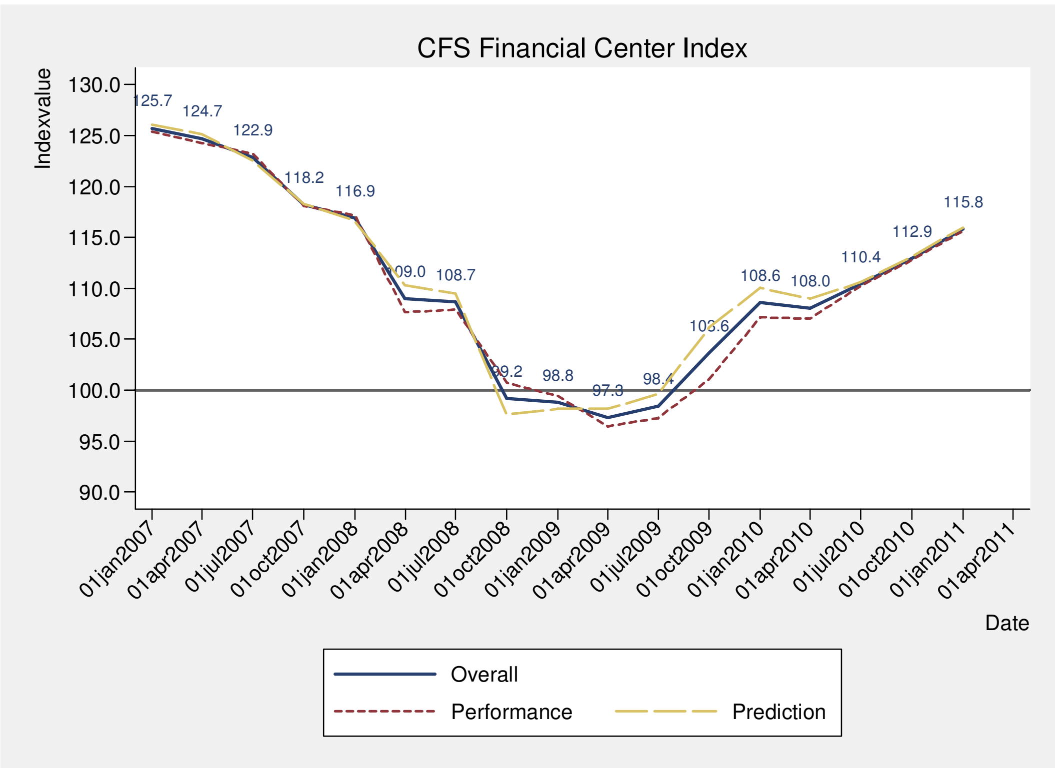
## CFS Financial Center Index continues to rise

### Financial institutions to hire and invest more / Euro crisis expected to intensify

**1. Index Development**

FRANKFURT, 1 February. The CFS Financial Center Index shows that financial institutions are in the market to hire new staff. Rising by another 2.9 points compared to the last quarter the index has reached a value of 115.8 points. Again both subindices (performance of the last quarter and projection of the next quarter) have increased across all areas of value creation (revenue, profits, employment, investments), indicating a further improvement of the business climate.

Figure 1:




The various groups of participants in the survey (financial institutions and brokerage, financial sector service providers, supervisory and academic institutions, connected enterprises) demonstrate slightly different trends. The financial institutions including banks have seen a substantial rise in employment and investments (+ 7.5 and 6.1 points, respectively). Not only did they surpass their last quarter's survey expectations considerably, for the first time since October 2008 their employment subindex passed the threshold of 100 points. This indicates a net increase of employment. "Banks start to catch up with the rest of the financial sector. For the first time since the collapse of Lehman the financial sector's nucleus creates jobs," explains CFS Director Professor Dr. Jan Pieter Krahnen.

The providers of financial sector services have not performed as strongly as expected and missed their expectations slightly (- 2.6 points). After showing very strong numbers the first three quarters of 2010 the service providing sector of accountancy firms, consultancies and law firms have, however, stabilized on a very high level at 120.1 points and continue with strong expectations for 2011 since the projection for the first quarter is at 122.7 points.

The overall positive trend of the figures also translates into the intention of most firms to invest in new business or to expand existing branches.

**2. Special survey: Euro crisis**

The majority of the financial sector (80%) expects the Euro crisis to continue or even deepen further in 2011. A mere 15% believe that the situation will improve this year. With respect to possible measures to resolve the Euro crisis, the survey panel was confronted with 3 questions covering (1) the issuance of Eurobonds, (2) a haircut on bonds of struggling EU Member States and (3) a European harmonization of national economic policies. For each measure the panelists were asked to give both their expectation and their personal preference (see Figure 2).

**Eurobonds face opposition, Haircut earns approval**

Contrary to public comments the majority of the panel expects that a common bond will be issued by the euro zone in 2011. Four out of five, however, oppose the issuance of Eurobonds. Almost 70% of the panelists are in favor of a haircut on bonds of EU Member States that are struggling with heavy budgetary deficit. Proponents of this measure are to be found especially among the service providers (75%), and to a lesser extent among the banks (55%). Roughly 80% of those that expect a haircut, envisage that it will be enforced within the next three years, mainly in 2012 and 2013. Most of the financial service sector providers would welcome a haircut already in 2011.

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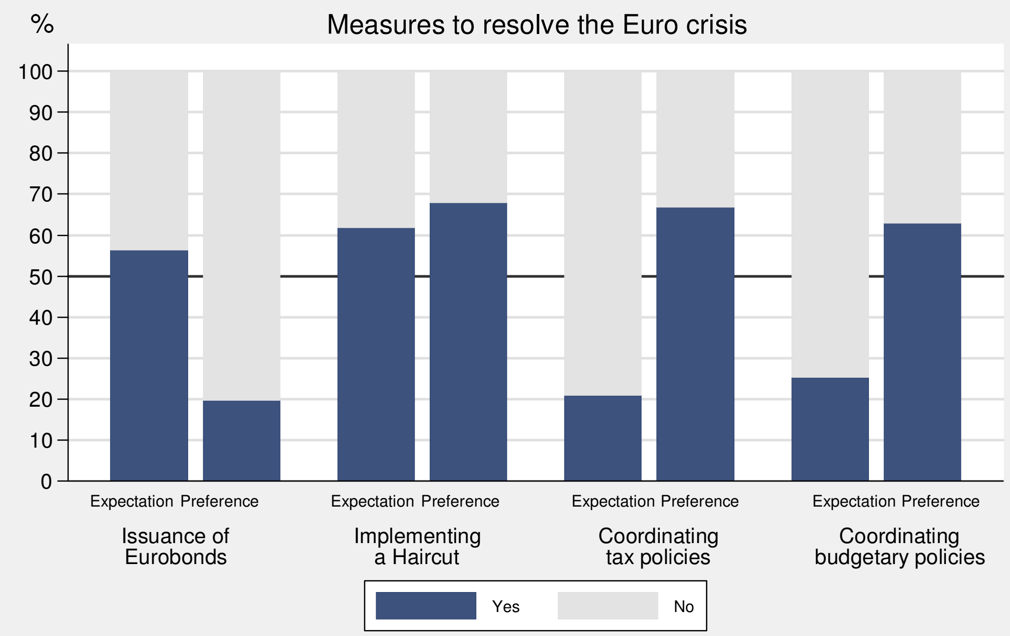
**European coordination of national tax and budgetary policies**

The majority of the respondents – especially those that welcome the issuance of Eurobonds – regards it as necessary for the EU Member States to harmonize their national tax and budgetary policies: “A greater coordination of national policies on the European level seems to be a pivotal requirement for the issuance of Eurobonds“, says Krahnen. The financial sector is, however, not very optimistic about the chances for such a coordination effort; only few expect successful action in this field in 2011.

Many respondents agree on what should happen to countries that do not fulfill the criteria of the growth and stability pact. 70% of the panel believe that, in these cases, sanctions should apply automatically and without exceptions.

The stabilizing measures to fight the Euro crisis could also have an effect on the ECB: Every second panelist sees the independence of the ECB at stake.

Figure 2:




*The bar chart shows the expectations and the preferences of leading executives of the financial sector in Germany for four selected stabilization measures in the Euro area. The panel is the CFS Financial Center index panel of about 500 executives. Read for example: "Whereas 55 % of the panel expect the issuance of Eurobonds, only 20 % support it."

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**Index calculation of the CFS Financial Center Index**

The CFS Financial Center Index is based on a quarterly management survey of currently 400 enterprises of the financial center of Germany. The survey contains four questions about the participant's view on different business parameters (transaction volume, profits, employment and investment in product- and process innovations). The answers to the questions may be given as "positive", "neutral", or "negative" and a response is requested for the previous and the current quarter. The index is compiled from different sub-indices, as all participants are allocated to branch-specific groups. Within each group, a balance of the share of positive and negative responses is evaluated and transformed into performance data. These performance data are then aggregated in order to constitute the CFS Financial Center Index. Due to construction, the maximum index value is 150, the minimum index value is 50; a value of 100 signalizes a neutral business sentiment. The survey-panel consists of enterprises and institutions of the financial industry and selected companies, which profit from the financial sector.

**History and Future prospects**

The CFS Financial Center Index is part of the Hessian project "Financial Center Monitoring", which is to measure the competitiveness of the financial center of Germany in a European context. The project is supported by Helaba, the Landesbank Hessen-Thüringen. More information about the CFS Financial Center Index, e.g. an overview of the survey and a broad definition of the German financial center can be found at: www.financialcenterindex.com.

**Profile CFS**

The Center for Financial Studies (CFS) is a financially independent research institute, affiliated to Goethe University Frankfurt. CFS conducts independent and internationally-oriented research on financial markets, financial intermediaries and monetary economics and interacts as the German partner with other international research centers specifically on the subject of financial market architecture and the role played by banks and stock exchanges. President of CFS is Prof. Dr. Dr. h.c. mult. Otmar Issing. Chairman of the supporting association: Dr. Rolf-E. Breuer. Overall management of the institute is conducted by the directors Prof. Michael Haliassos, Ph.D., Prof. Dr. Jan Pieter Krahnen, Prof. Dr. Uwe Walz.

**Profile Frankfurt Main Finance**

In Frankfurt Main Finance, the financial industry, the State of Hesse, the City of Frankfurt, as well as scientific institutions and the services sector have joined forces in order to strengthen Frankfurt's position in competition among the world's financial centers. As of October 15, 2009, Frankfurt Main Finance has 27 members: Bankhaus Metzler, Commerzbank, Corealcredit Bank, Crédit Agricole Cheuvreux, Deutsche Bank, die Deutsche Börse, Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA), DWS Investments, DZ Bank, Fides Falk Financial Services, Frankfurter Sparkasse, Frankfurt School of Finance and Management, Frankfurter Volksbank, Helaba Landesbank Hessen-Thüringen, House of Finance, ICF Kursmakler, Interxion, KDB Krall Demmel Business Consulting, the State of Hesse, Morgan Stanley, P. Keppler Verlag, Royal Bank of Scotland, the City of Frankfurt, Tata Consultancy Services Deutschland, vwd Vereinigte Wirtschaftsdienste, White & Case, WHU – Otto Beisheim School of Management and Wolfgang Steubing AG.

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CENTER FOR FINANCIAL STUDIES

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