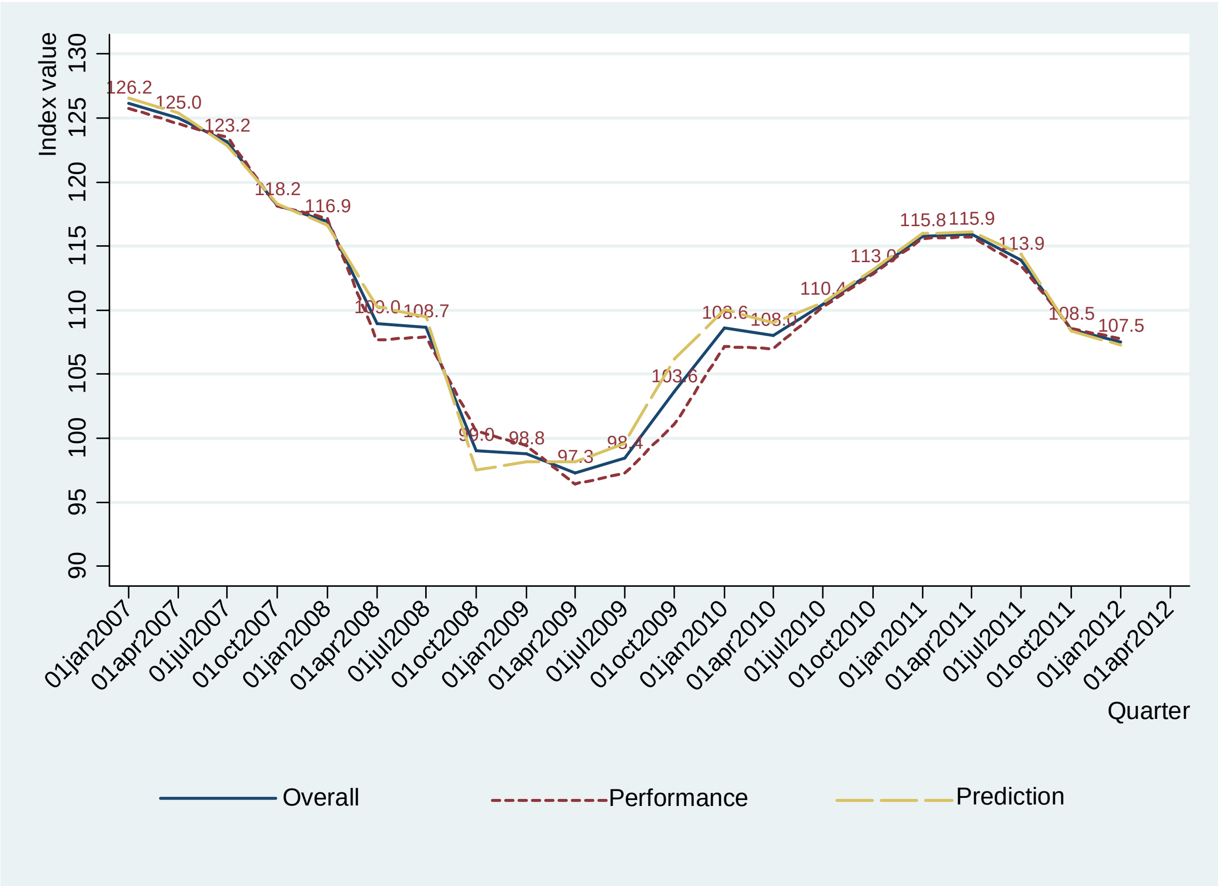
Press release

CFS Financial Center Index at a stable level
Financial institutes expect increases in income
Sovereign debt remains the root problem of the crisis

FRANKFURT, 25 January. The CFS Financial Center Index dropped by only 0.9 point to 107.5 since the last reporting. This demonstrates that business climate in the German financial sector remains stable in the first quarter of 2012. In the prior quarter, the change was more dramatic as the index sunk by 5.5 points. Both the assessment of the performance in the last quarter (107.5), as well as the outlook for the current developments (107.3) indicate a stable situation in all surveyed enterprises. The overall index lies at 107.5, i.e. it clearly remains as before in positive territory. The reasons for this minor drop are decreasing sales and shrinking employment levels.

Figure: CFS-Financial Center Index



Financial sector is stabilising

In the previous quarter the business climate improved a little bit (+1.5 point) in the group of *financial institutions and brokerage firms*. The main reason for it is an unexpected increase in profits (+11.4 points). Moreover, the survey showed that the *financial institutions and brokerage firms* expect their profits to increase in the current quarter (+5.4 points), while sales should slightly decrease (-1.8 points). Additionally, a majority of the respondents from this group expect a reduction in employment (-3.6 points).

The situation in the group of *financial sector service providers* deteriorated in the last quarter (-3.2 points). Although profits were assessed positively (+4.1 points), the group showed at the same time a significant decline in sales and employment numbers (-4.4 points and -5.6 points respectively). However, the expectations about business as a whole are still positive (+1.7 points). The respondents from this group of enterprises hope for higher profits (+2.5 points), an increase in employment (+2.0 points) as well as rising investments (+4.7 points).

The situation for the group *supervisory and academic institutions* deteriorated over the last months (-3.7 points). The main reason for that is a significant fall in employment (-14.2 points). The outlook for the current quarter is not positive either in terms of overall business climate (-7.6 points). The majority of firms in this group expect falling profits and investment levels.

As a whole, all groups consider the future international importance of Frankfurt as a financial center to be more positive than three months ago (+2.3 points).

Sovereign debt believed to be the main reason for the euro crisis

Answers to the question as to whether sovereign debt or the instability of the banking sector is responsible for the crisis revealed that the majority of respondents lay the blame on the public finances (sovereign debt was allocated 69% of the blame while the instability of the banking sector only 31%). This view was shared by banks as well as non-banks, and was also found to be stable among various juridical forms of the banks.

When asked about the likelihood of solving the European debt crisis by implementing the decisions taken at Brussels summit on December 9th, 2011, the respondents did not give a decisive answer. Financial institutions assess the likelihood that the problem will be solved by the announced measures at 46%, whereas non-financial institutions at 48%. Among financial institutions, the respondents from public sector banks and cooperative banks demonstrate most optimism with probabilities of 57% and 67% respectively, whereas representatives of private banks are slightly less optimistic, giving a likelihood of 46%.

To the question about the desired level of fiscal union to ensure a stable regulatory framework, less than 10% of the respondents answered that presenting national budgets to the European Commission for consultations should suffice. Considerably more respondents (46% from finance institutions and 45% from non-finance institutions) find the middle level of fiscal union, i.e. a full implementation of what was agreed at Brussels summit on 9th December 2011, to be necessary. A significant share of respondents would even prefer to see a higher level of fiscal union, which includes a common European fiscal policy, as well as an acceptance of the national budgets by the European parliament. This stance is shared by 39% of the respondents from *financial institutions* and the same number from *non-financial institutions*. Among private banks, a relative majority (46%) has the same opinion. On the other hand, public sector banks (61%) and cooperative banks (75%) see the middle level of fiscal union as sufficient.

Banks stress tests should become a regular supervisory policy instrument

A relative majority (42%) of the respondents believe that the bank stress tests carried out by the European Banking Authority decreased the trust within the financial markets even further. A further 34% of respondents said that the tests stabilised the situation, whereas 18% are of the opinion that the tests did not have any influence on the banking sector. Among financial institutions, a relative majority of 48% find that the stress tests have added to the trust crisis. This opinion is shared by a majority of private banks (54%) and a relative majority of public sector banks (39%), whereas representatives of cooperative banks believe in the stabilising influence of the tests. Also non-financial institutions put more weight on the stabilising effects (46%).

The majority (63%) of all respondents is of the opinion that the stress tests should be a regular instrument of supervisory policy in the future. This opinion is also shared by private banks (50%) and cooperative banks (100%). Public sector banks are more in favour of using the stress test only in exceptional situations.

There is no common stance as to whether the introduction of higher capital requirements of 9% by mid-2012 as announced by the EBA will lead to a credit crunch. On the one hand, a majority of financial institutions answered that a credit crunch will follow. On the other hand, this belief is not shared by non-financial institutions. Among the group of financial institutions, the most concerned about consequences of introduction of higher capital requirements are private banks (50%) and cooperative banks (50%), whereas only 39% of public sector banks worry that it will lead to a credit crunch.

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 signifies 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
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