CENTER FOR FINANCIAL STUDIES

Frankfurt Main Finance

Press release

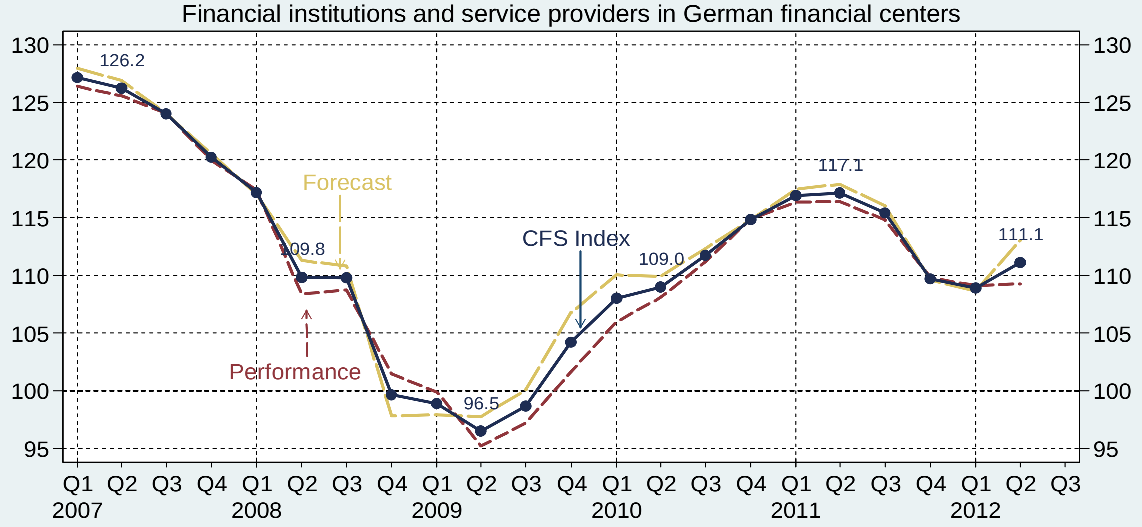
Optimistic forecasts raise CFS Financial Center Index

Financial institutions in the first quarter showed unexpected positive sales and earnings figures / companies are skeptical about the introduction of a financial transaction tax

Frankfurt, 12 April. The CFS Financial Center Index rose in the second quarter of 2012 by 2.2 points to 111.1 points. This shows that the business climate in the German financial sector improved for the first time since early 2011. The increase is due to an unanticipated revenue and earnings growth among the financial institutions as well as positive expectations for the second quarter. The financial sector service providers are much more optimistic than financial institutions across all indicators. In a special survey on the introduction of the financial transaction tax and other regulatory measures, approximately 400 companies of the German financial center expressed mostly skeptical opinion about the effects of such regulation. They argue that a European financial transaction tax will lead neither to a stabilization of the financial markets nor to the contribution of the banks to the costs of the financial crisis. However, the respondents fear a relocation of the business activities. An introduction of a binding debt limits and higher capital requirements is expected to bring negative effects on the business of the financial industry.

CFS Financial Center Index

Financial institutions and service providers in German financial centers



Source: Center for Financial Studies (CFS)
Date: April 2012

Quarter Year	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
CFS Index	96,5	98,7	104,2	108,0	109,0	111,7	114,9	116,9	117,1	115,4	109,7	108,9	111,1
Performance	95,2	97,2	101,6	106,0	108,1	111,2	114,9	116,3	116,4	114,8	109,8	109,1	109,3
Forecast	97,8	100,1	106,8	110,0	109,9	112,3	114,8	117,5	117,9	116,0	109,6	108,7	113,0

Source: Center for Financial Studies

Financial institutions strongly exceed their expectations from Q1

Sales and earnings of financial institutions increased in the first quarter of 2012 compared to the expectations in the previous quarter (+8.0 and +7.2 points respectively[1]). In contrast, among the service providers in the financial center both indicators were below the expectations (-4.8 and -6.9 points). Nevertheless, the service providers are more optimistic than the financial institutions in the second quarter. The financial institutions expect declines in their sales and earnings, whereas service providers forecast strong increases in these fields.

The investment and employment levels among financial institutions also exceeded the forecasts from the previous quarter (+0.2 and +3.6 points respectively). Employment in absolute numbers even increased although financial institutions forecasted a decline. Among the service providers, the investment was slightly below the expectations (-1.2 point) and the employment rose less sharply than it was forecasted (-3.1 point). As far as the outlook for the second quarter about investment and employment is concerned, service providers show more optimism than the financial institutions. They expect a slight increase in investment and a further strong increase in employment. Contrary, financial institutions foresee stagnating investments and a slight decrease in the number of employees. The absolute level of expectations concerning investments in the second quarter is similar for both groups of companies (107.2 and 111.0 points), whereas the employment forecast shows completely different sentiment (100.2 and 115.2 points).

In order to improve transparency and accountability, the panel members of the CFS Financial Center Index from this quarter on are going to be divided into two groups only: "financial institutions" and "service providers". Previously, four groups: "financial institutions and brokerage firms", "financial sector service providers", "supervisory and academic institutions" and "other service providers profiting from the financial center" were distinguished.

[1] All numbers in the brackets indicate difference between expectations and realization

Skepticism about the financial transaction tax and regulatory measures

More than a half of respondents (55%) opposes the introduction of a European financial transaction tax as proposed by the European Commission under the so-called "extended cooperation". The financial institutions (64%) are much more skeptical than the service providers (45%). Within the banking industry - among private, public and cooperative banks - the rejection rate does not vary significantly and is consistently above 60 percent. The majority of the panelists does not believe that a financial transaction tax will lead to a participation of the banks in the costs of the financial crisis (54%), reduce the price volatility in the markets (71%) or curb speculative transactions (66%). However, 48% of the respondents see the possibility that a financial transaction tax will reduce the high frequency trading (with “no” ratio of 38%). More than two thirds of the panel members (68%) suggests a shift of business activities to other countries as a result of taxation. "The arguments of politicians supporting the introduction of the tax have been broadly rejected by the survey participants" said Jan Pieter Krahnen, director of the Center for Financial Studies. "Our survey shows that the financial industry does not expect that steering effects will be achieved. It does not even assess the tax as a penalty, but shifts potential costs on shoulders of customers."

The respondents are mostly convinced that an introduction of a leverage ratio (total Tier 1 capital ratio: 3% of total assets) and a higher minimum equity capital ratio (total capital + capital conservation buffer 10.5%) will also have adverse effects on business volumes and income in the financial industry. About two-thirds of the respondents fear that there will be a reduction in credit availability in response to the introduction of such a debt limit. About 70 percent expect such an effect in response to a higher minimum equity capital ratio. In contrast, a majority of respondents believe that the introduction of a mandatory cash reserves and separation of commercial and investment banking a two-tier banking system will have neither positive nor negative impact on the company's figures.

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 centres. Frankfurt Main Finance has 27 members: Bankhaus Metzler, Commerzbank, Corealcredit Bank, Crédit Agricole Cheuvreux, Close Brothers Seydler Bank, Deutsche Bank, Deutsche Börse, Deka Investments, 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, GFT Technologies, Helaba Landesbank Hessen-Thüringen, House of Finance, ICF Kursmakler, Interxion, the State of Hesse, Lupus Alpha, Morgan Stanley, dr P. Keppler Verlag, Roland Berger Strategy Consultants, Royal Bank of Scotland, the City of Frankfurt, Steigenberger Frankfurter Hof, Tata Consultancy Services Deutschland, UBS Deutschland, vwd Vereinigte Wirtschaftsdienste, White & Case, WHU – Otto Beisheim School of Management and Wolfgang Steubing AG.

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