

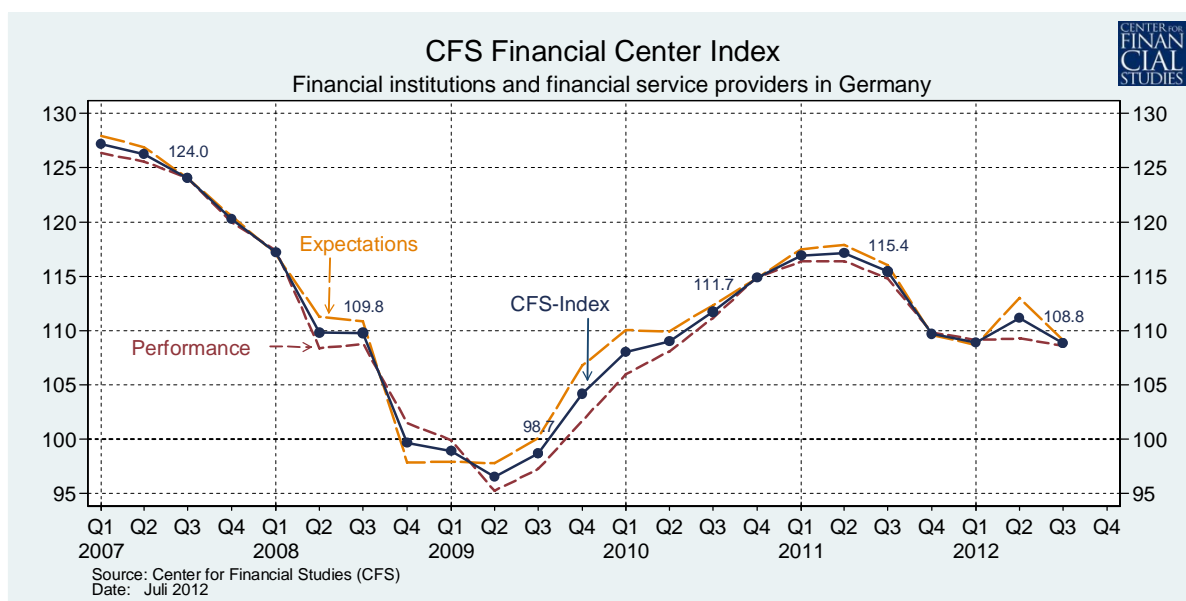
# Press release

## CFS Financial Center Index: the financial industry sentiment dampens

Revenues in the second quarter declined sharply / companies fear conflict of interest concerning banking supervision by the ECB / high probability is assumed for an exit from the eurozone

FRANKFURT, 16. July. The CFS Financial Center Index fell at the beginning of the third quarter 2012 by 2.3 points to 108.8 points. Thus, the business climate in the German financial industry is back to its level from last January. At the beginning of the second quarter both the surveyed financial institutions and service providers expected a more optimistic future within the next three months. The decline in the index is largely attributable to lower sales and earnings of financial institutions during the second quarter, as well as a revision of their profit expectations. The financial service providers' outlook for the third quarter has also deteriorated. Unlike the results of the financial institutions, their earnings improved in the second quarter.

In a special survey about the banking union, more than half of the 400 companies surveyed expressed their disapproval with the establishment of a European banking supervision located at the European Central Bank (ECB). A third of the respondents estimated the likelihood that the European Monetary Union will experience an exit of a member state within the next 2 to 3 years to be higher than 80%.



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

Source: Center for Financial Studies

### **Financial institutions with significant profits decline in the second quarter**

After a strong start this year, the surveyed financial institutions recorded significant declines in sales and earnings in the second quarter of 2012. The corresponding index values decreased from the previous quarter by 8.3 and 16.7 points respectively. The financial institutions recorded earnings well below their expectations from the previous quarter (-7.3 and -10.9 points). Accordingly, they lowered their expectations for the third quarter relative to the expectations from the previous one (-1.1 and -6.7 points). In contrast, the business volume of the financial service providers increased in the second quarter (+5.6 or +5.1 points), although the increase was less positive than expected (-7.2 and -10.1 points). Similarly to financial institutions, the service providers lowered their expectations for the third quarter (-8.3 and -7.3 points).

"The decline in business volume and profitability reflects the macroeconomic slowdown," said Prof. Dr. Jan Pieter Krahen, director of the Center for Financial Studies and academic supervisor of the CFS index. "The index results also suggest that many institutions try to reach higher capital requirements by reducing their business volume."

The investment and employment levels of financial institutions increased slightly (+0.2 and + 0.9 points). Their outlook for the third quarter is again sceptical (-2.2 and -2.8 points). Both indicators show a negative trend for the service providers (-0.4 and -2.9 points). The outlook for the third quarter is cautious, similar to the one reported by financial institutions (-3.0 and -2.9 points).

## **Financial institutions fear conflict of interests in banking supervision by ECB**

More than half of the surveyed financial institutions mention the avoidance of conflicts of interest and independence as the main criteria in the setup of a European-wide banking supervisor. About 60 percent demand to settle the supervision outside of the ECB, whereas 13.4 percent are in favour of continuing to leave the group of the national regulatory authorities in charge of oversight. Only about 10 percent of the respondents favour to entrust the European Banking Authority (EBA) with the supervision; 25.6 percent believe that a European banking supervision should be located with the ECB and 4.1 percent said they would split it between the ECB and EBA.

A quarter of the respondents support the decisions towards a banking union that were taken at the EU summit on 28<sup>th</sup> and 29<sup>th</sup> June 2012, whereas 22.5 percent reject the decisions. About half of the respondents make their final decision conditional on the precise formulation of the individual points in the proposal, which are not yet known. Overall, the surveyed financial institutions are more cautious than the financial service providers (pro: 14.8% vs. 33%; contra: 19.8% vs. 25%; depends on the formulation of individual points: 60.5% vs. 39.8%). Two-thirds of the financial institutions waiting for the clarification consider independence and the avoidance of conflicts of interest as the main criteria for a new banking supervisory body.

"It is remarkable that less than a quarter of the surveyed companies reject the way towards a European banking union", says Prof. Dr. Jan Pieter Krahen. The CFS Director interprets the fact that financial institutions make their answer to a greater extent conditional to the clarification of the details as follows: "The financial institutions are much more affected by the regulations which are still to be clarified than the financial service providers. Thus, their sensitivity with respect to the design details is much stronger."

On average, the surveyed companies estimate the probability that the European Monetary Union will experience an exit of a member state within the next two to three years, at 56 percent. One third of the respondents estimate the probability to be 80 percent or more. The financial institutions are in this respect slightly more pessimistic than the service providers.

### **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. 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.

### **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 Krahenen, Prof. Dr. Uwe Walz.

**We express our thanks for financial support of the project to Helaba Landesbank Hessen Thüringen and Frankfurt Main Finance.**

**For further information, please contact:**

#### **Marcus Fleig**

Center for Financial Studies  
House of Finance  
Goethe-Universität Frankfurt  
E-Mail: [fleig@ifk-cfs.de](mailto:fleig@ifk-cfs.de)  
Tel.: (069) 798-30061  
<http://www.financialcenterindex.com>