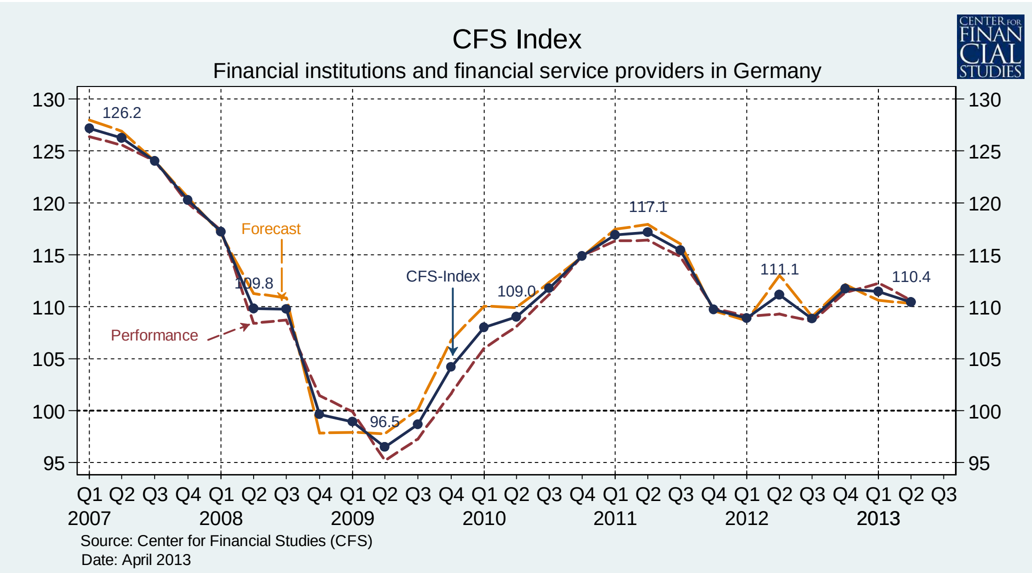
Press release

CFS Index holds steady

Upward trend in earnings and business volume slows down in the first quarter / Special survey on banking union: Large majority against European-wide deposit insurance

FRANKFURT, 22 April. The CFS Index held steady at the level of 110.4 points at the beginning of the second quarter of 2013. While earnings and business volumes for both financial institutions and financial service providers have risen constantly in the recent quarters, this upward trend experienced a slowdown in the first quarter of 2013. The financial institutions further reduced their employment level and predict further staff reductions. Professor Jan Pieter Krahnen, Director of the Center for Financial Studies, explains: “The slight downward movement of the index reflects different trends in the labor market of the financial industry: declining numbers of employees amongst financial institutions are in contrast to increasing numbers of employees at service providers. This may be due to the growing importance of regulatory requirements in the financial industry.“ In contrast, the investment of the financial institutions rose sharply; the corresponding sub-index climbed to its highest level since the second quarter of 2011.

In a special survey on the European banking union, about 80 percent of the surveyed companies in the German financial industry objected the idea of connecting national deposit insurances into a European-wide system. In contrast, more than three-quarters of the companies surveyed classify the establishment of a single supervisory and a single resolution mechanism in response to the Cyprus crisis as urgent or very urgent.



Earnings growth slows down, downsizing continues

After two very good quarters, the **earnings** among the surveyed financial institutions and service providers in the financial center slowed down in the first quarter of 2013. The sub-index earnings for the financial institutions currently remains at 107 points – about 10 points less than at the beginning of the year. For the service providers, the sub-index fell more than 12 points. Both groups had expected weaker earnings, but the actual values realized in this category even fell below the predicted numbers. For the second quarter of 2013, the financial institutions expect moderately positive earnings, while the service providers predict a significant improvement in their performance.

The upward trend in the business volume / **revenue** also slowed down. The corresponding sub-index decreased among financial institutions by 4.7 points and among financial service providers by nearly 3 points. However, the sub-index among financial service providers still remains at a very high level of around 120 points. The expectations for the second quarter of 2013 are stable.

The **investment volume** of financial institutions was higher than those of the financial service providers. With an increase of 4 points, the sub-index for financial institutions climbed to 110 points, which is the highest level since the second quarter of 2011. The sub-index for the service providers remained at a stable, relatively high level of around 112 points. The expectations for the current quarter are moderately optimistic in both groups.

The sub-index **employment level** for the financial institutions is again, likewise in the fourth quarter of 2012, under the neutral benchmark of 100 points. This indicates that further staff reductions took place in the first quarter of 2013. On the one hand, the index value of 98.7 points indicates a less severe reduction than in the previous quarter. On the other hand, a stronger decline is expected for the second quarter of 2013. In contrast, the financial service providers continued to increase their employment level, even if this happened at a slower pace than in the previous quarter. For the second quarter of 2013, service providers expect further increases in their employment level.

Special survey: European banking union

Large majority rejects common European-wide deposit insurance

About 80 percent of the respondents agree with the opinion that national deposit guarantee schemes should remain independent under the uniform EU rules and should not be linked (by means of reciprocal use) among themselves.

In contrast, more than four-fifths of the respondents described the establishment of a single European supervisory authority as urgent or very urgent in the light of the recent developments in Cyprus. Around three-quarters held the establishment of a single resolution mechanism to be urgent or very urgent. In contrast, a European deposit insurance is believed by half of the respondents to be a less urgent matter.

A relative majority of respondents (40 percent) believe that the events in Cyprus will accelerate the realization of a European banking union. The surveyed service providers demonstrated more confidence on this issue (50 percent) compared with financial institutions (30 percent).

Deposit insurance commitment for small savers declines in credibility

In the opinion of more than 60 percent of the respondents, the credibility of the deposit insurance commitment for savers of up to 100,000 euros has decreased during the Cypriot crisis, as it became clear that in an emergency situation, the politicians are ready to withdraw previous promises. On the other hand, 17 percent of the respondents claim that the credibility has increased, because the risks of questioning the deposit insurance have now become clear. Professor Jan Pieter Krahnen, Director of the Center for Financial Studies, explains: "A strengthening of the credibility of national deposit guarantee schemes has priority over a Europe-wide manifestation of deposit insurance."

About 85 percent of the respondents agree that the decision not to involve small savers in bail-out costs of the Cypriot banks is the right one.

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 Krahnen, Prof. Dr. Uwe Walz.

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