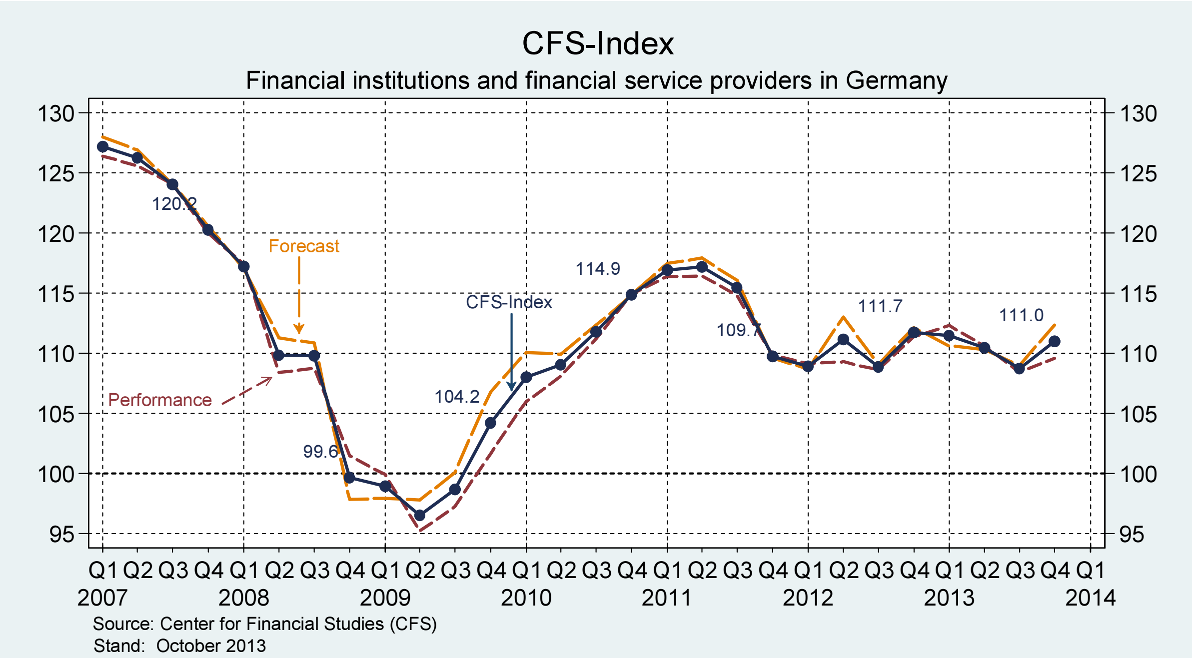
Press release

CFS Index increases significantly

Financial institutions expect downsizing to end in fourth quarter 2013 /
Special Survey: ECB enjoys utmost confidence in overcoming the financial crisis

FRANKFURT, 14 October 2013. At the beginning of the fourth quarter 2013 the CFS Index increases significantly by 2.3 to 111.0 points. The increase can mainly be attributed to the positive expectations among financial institutions and service providers in the financial center Germany for the fourth quarter. Besides, it is surprisingly evident that the trend in the employment development among financial institutions has reversed. For the first time in a year financial institutions expect a growing headcount in the fourth quarter.

In a special survey on the situation five years after the collapse of Lehman, a relative majority of 43% of the participants put utmost trust in the European Central Bank to find a solution for the banking crisis. Only one third expresses confidence in the national governments and only 10% in the European Commission. More than 60% of respondents in financial institutions consider the regulation of shadow banking important to overcome the financial crisis. Around 40% believe that an increase in equity is needed.



Turnaround in employment development among financial institutions

The **Revenue**/business volume among financial institutions slightly declines in the third quarter but remains stable among financial service providers. The overall level of the corresponding sub-index is significantly higher among financial service providers (119 points) compared to financial institutions (105.2 points). Expectations for the fourth quarter are also more optimistic among financial service providers.

Earnings strongly increase among the surveyed financial institutions in the third quarter. The corresponding sub-index rises by 3.4 to 108 points. Service providers could slightly strengthen their positive earnings position compared to the second quarter; the sub-index is now at a level of 116.5 points. While expectations for the fourth quarter are slightly decreasing among financial institutions, service providers look with great confidence to the end of the year 2013.

The sub-index **investment volume** remains stable at a level of 107.2 points among financial institutions at the end of the third quarter 2013. In contrast, the investment volume among financial service providers rises by 5.2 to 111.5 points and meets the positive expectations expressed at the beginning of the third quarter. Both groups expect an expansion of their investments in the fourth quarter with financial institutions anticipating a higher increase than service providers.

For the fourth quarter in a row, the sub-index **employment level** among financial institutions is under the neutral benchmark of 100 points and thus indicates reductions in headcount. However, the sub-index level of 97.2 points is significantly higher compared to the previous quarter's level. For the fourth quarter financial institutions predict the end of staff reductions with an index level above 100 points. Financial service providers further increase their headcount while also expecting staff growth for the fourth quarter.

Parallel to the trend reversal in the employment development, financial institutions are more optimistic about the international importance of the financial center Germany at the beginning of the fourth quarter.

Special survey

A. Five years after the Lehman collapse, an assessment of the situation

ECB enjoys utmost trust in overcoming the financial crisis

Five years after the beginning of the financial crisis, a relative majority of respondents (43%) put utmost trust in the European Central Bank (ECB) to substantially contribute to finding a solution for the financial and banking crisis in the next 12 to 24 months. 29% have confidence in the national governments and 11% in the European Commission to find a solution. Financial institutions put more trust in the EU Commission than service providers (17% compared to 5%). Only 5% of the surveyed financial institutions expect that the private banking sector will contribute to solve the crisis compared to 9% of service providers.

„The great confidence in the ECB's role expresses a realistic view on the power relations based on the experience of the last years", comments Jan Pieter Krahnen, Director of the Center for Financial Studies. "One reason could be the assumption that national governments are facing conflicts of interests towards resolving the banking crisis."

Which measures have to be introduced in the following 12 to 24 months to contribute to a resolution of the European financial and banking crisis? 55% of all respondents answered: the regulation of shadow banking; 44% said, the introduction of a single European supervisory mechanism was important, and around 40% mentioned reinforced equity requirements. 30% think that derivative market regulation is important and 26% consider the introduction of a Single Resolution Mechanism (SRM) important. Regulation of shadow banking has been especially given priority among the surveyed financial institutions (62% compared to 49% among service providers).

B. European balance sheet and stress tests ("Asset Quality Review, AQR")

Consolidation and resolution in the banking sector expected

In the context of the introduction of a single supervisory authority, the ECB plans to subject the balance sheets of European financial institutions to quality and stress tests. A significant majority of respondents (70%) answered that these tests are required or strongly required for the sustainable development of a banking union and the resolution of the crisis. However, only a narrow relative majority believes it likely or very likely that such a test will build confidence at the financial markets (48% compared to 42% „less or not likely").

“It is remarkable that the Asset Quality Review, on the one hand, is believed essential but, on the other hand, it is not entirely trusted”, says Jan Pieter Krahnen. “Apparently, there are either serious doubts about its implementation, or it is suspected that it might provide additional uncertainty in the event of a serious implementation.”

A relative majority of 45% expects that there will be banking consolidation as a consequence of the tests, while 20% expect banking resolution. Service providers express these expectations to a greater extent than financial institutions: 55% suspect consolidation (financial institutions: 36%), 29% suspect resolution (financial institutions: 10%).

A large majority of respondents assumes that the additional capital requirements for the financial institutions determined by the Asset Quality Review should be covered by raising new equity, followed by bail-in, government support and European funds (ESM).

Index calculation of the CFS Index
The CFS 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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For further information, please contact:
Marcus Fleig
Center for Financial Studies
House of Finance
Goethe University Frankfurt
email: fleig@ifk-cfs.de
phone: +49 69 798 30061
www.ifk-cfs.de/cfsindex