

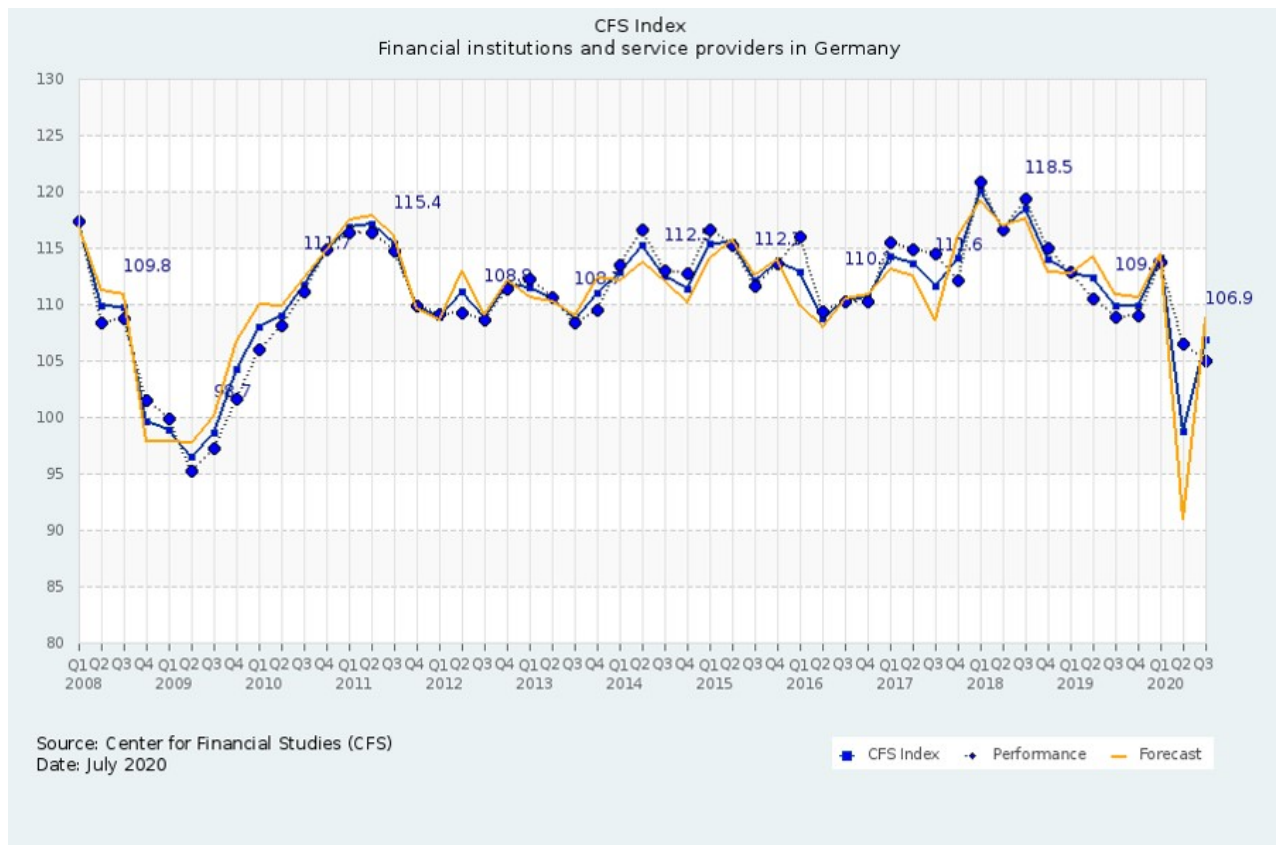
Press Release

CFS Index recovers significantly

Financial sector views current situation far more positively than in the previous quarter / Financial institutions report strong growth / Service provider figures still on the decline

FRANKFURT, 30 July 2020. The CFS Index, which measures the business climate of the German financial sector on a quarterly basis, rises by 8.1 points to 106.9 points. This means that a positive growth level above the neutral line of 100 points has now been reached again. This is the sharpest rise since the index surveys began in 2007 and it immediately follows the steepest decline on record, which caused the CFS Index to slip below 100 points in the previous quarter. The unexpectedly positive current development reflects growth in revenues, earnings and investment combined with less severe job cuts at the financial institutions in the second quarter. However, the positive mood is dampened by declining revenue, earnings, investment and employment figures among the service providers. As for the current quarter, financial industry expectations as a whole have noticeably improved over the past three months.

“The financial institutions expect their performance to be driven by a V-shaped economic recovery coupled with a modest rate of credit defaults. With such optimism, the industry sees itself as part of the solution, not as an impending risk to financial stability,” comments Professor Andreas Hackethal, Director of the Center for Financial Studies.



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Owing to the corona crisis, the **future international importance of the Financial Centre Germany** was judged to have declined sharply in the second quarter. This value now remains almost unchanged in the third quarter, falling just -0.1 points to the low level of 111.3 points.

“The CFS Index’s positive development is a result of the rapid and decisive political reactions to the Corona crisis. The numerous comprehensive aid measures and loans launched by KfW on behalf of the federal government, among others, are effective,” explains Dr Lutz Raettig, President of Frankfurt Main Finance e.V. “In addition, I expect further positive developments, when the Brexit negotiations are picking up speed again, as an agreement should be reached during the German Presidency of the Council.”

Revenue, earnings, investment and employment figures are positive for financial institutions and declining for service providers in the second quarter / Financial industry is optimistic for the third quarter

Contrary to previous expectations, the surveyed financial institutions report significant growth in their **revenues**/business volume in the second quarter of 2020, with the corresponding index value rising by 9.5 points to 121.9 points. By contrast, the service providers have now reached a neutral level with a decrease of -8.0 points to 100.5 points. Nevertheless, a far sharper decline was predicted in the previous quarter’s survey. The financial institutions anticipate a slight decline in the third quarter, while the service providers are very optimistic once again.

The **earnings** of both groups developed in line with their revenues in the second quarter of 2020. The corresponding sub-index for the financial institutions climbs 4.5 points to 107.8 points, which puts it 3.4 points above the previous year's level. The service providers report a drop in earnings growth of -8.9 points to a now negative growth level of 97.5 points. Though significant, this decline is less dramatic than previously expected. As for the current quarter, the financial institutions expect to maintain their positive level and the service providers expect their phase of negative growth to come to an end.

The growth in **investment volume** in product and process innovations among the financial institutions also increased in the second quarter, but not to the same extent as the revenue and earnings figures. The corresponding sub-index rises by 1.0 points to 102.8 points and is now 3.3 points below the previous year's level. The service providers report an extreme decline in investment volume of -13.7 points to a level of 94.4 points. This drop is considerably steeper than the decline in revenues and earnings among the same group. For the current quarter, both sectors rate their situation slightly more positively.

Financial institutions: job cuts continue to ease in the second quarter / Service providers: first job cuts since 2009

Job cuts at the financial institutions, which have been ongoing for some time, are less severe in the second quarter of 2020 than in the previous quarter. The **employee numbers** sub-index rises accordingly by 2.3 points to 97.5 points and is just 1.1 points below the previous year's level. As predicted in the previous quarter, the service providers report job cuts for the first time since 2009. The corresponding sub-index falls by -6.5 points to 99.0 points and is now 13.4 points down on the previous year. Looking to the current quarter, the financial institutions anticipate a slight acceleration in job cuts. Conversely, the service providers expect their employment situation to improve again.

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The results are based on a quarterly management survey in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. The CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, the CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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