Makro Research
S-Financial Climate

June 29th, 2026

Deka-S Fiancial Climate in the Second Quarter of 2026: Hope for Stabilization

- Things can only get better from here. That is the message of the S-Finance Climate Index for the second quarter of 2026. In the second half of 2025, it was still disappointed expectations regarding economic policy reforms that had dampened the mood among the executive boards of savings banks in Germany. As 2026 progressed, the global economy faced additional strain from the military conflict in the Persian Gulf and the blockade of the vital crude oil route through the Strait of Hormuz. The index fell to 78.1 points, well into the pessimistic zone. Should the geopolitical situation in the Persian Gulf stabilize sustainably as a result of the peace process currently underway, a noticeable improvement in economic sentiment can also be expected within the S-Finanzgruppe.

- Furthermore, an economic boost is expected from the infrastructure investment programs in Germany that have been in the works for some time. However, support for municipal budgets is urgently needed in this regard, as confirmed by regional credit managers' assessments of the municipal financial situation. According to the savings banks' assessment, this financial situation is overwhelmingly very poor.

Finanzgruppe
Deutscher Sparkassen- und Giroverband

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Economy Update

Donald Trump's Play Balls

It's not just since the start of the war in Iran that the markets, economic indicators, and ultimately the forecasts have been at the mercy of Donald Trump. One moment a tariff is announced, the next it's reduced. One moment the war escalates, the next there's talk of peace again. A similar about-face occurred during the survey period for the current S-Financial Climate. Under the weight of the ongoing conflicts in the Middle East, the S-Financial Climate Index took a nosedive: In the second quarter of 2026, it fell as sharply as it did after the outbreak of the war in Ukraine, dropping by 21.5 points to a level of 78.1 points (Fig. 1). This underscores just how heavily the war against Iran weighed on the economy and, above all, created uncertainty. However, it is also true that, as the geopolitical situation stabilizes, a significant improvement in the index values is expected in the second half of the year. The recent shift toward negotiations between Iran and the U.S. did not occur during the survey period..

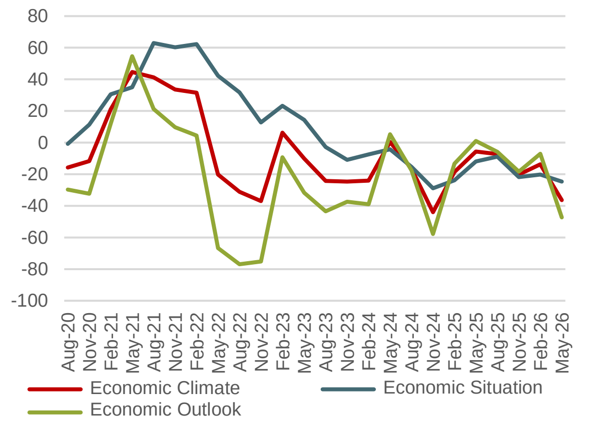
Fig.1 Deka-S-Financial Climate, Q2 2026

Source: DekaBank, Research Center for Savings Bank Development, DSGV

A look at the business climate reveals where the potential signs of an economic slowdown are likely to come from (Fig. 2). The Sparkasse board members assess the economic situation as only slightly worse. While the majority of Sparkasse representatives saw a noticeable to moderately severe impact on local businesses (72%), only 3% perceived a severe impact. This is because the oil supply was stabilized by the release of global oil reserves. In addition, at the start of the war, there was still "panic buying" aimed at replenishing companies' stockpiles. This helped stabilize production. What has deteriorated significantly, however, are economic expectations. Concerns about supply chain bottlenecks and uncertainty likely played a significant role here.

In the coming weeks, following the signing of the Memorandum of Understanding between Iran and the U.S., peace negotiations will take place. If these negotiations are successful, economic expectations in particular will improve somewhat, though uncertainty is likely to remain high for

Fig. 2 Economic Climate



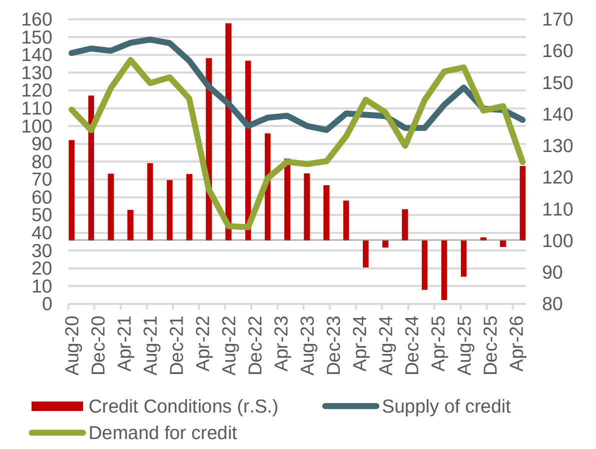
Sources: DekaBank, Forschungszentrum für Sparkassenentwicklung, DSGV

the time being. At any rate, the price of oil is falling significantly, thereby providing relief to consumers and businesses.

Credit conditions have deteriorated slightly

Such times of uncertainty are detrimental to investment. A company will invest in new machinery only if it is foreseeable that the investment costs can be recouped. However, this predictability is often lacking at present. Savings banks are therefore reporting a noticeable decline in demand for credit (Fig. 3).

Fig. 3 Credit Climate



Source: DekaBank, Research Center for Savings Bank Development, DSGV

However, since the savings banks' willingness to lend has declined only slightly, the lending climate has improved, thereby significantly reducing the risk of a credit crunch.

Makro Research
Economy Update

A Challenging Environment for Public Investment

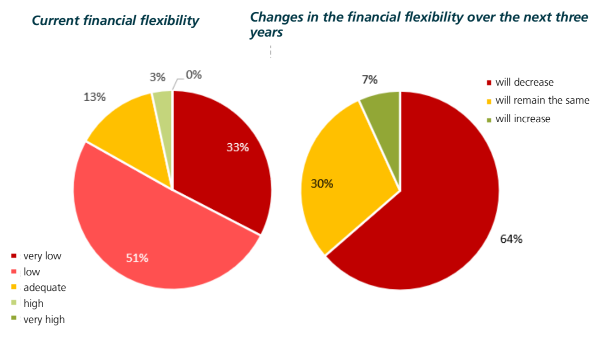
While hopes for a comprehensive reform package have so far been dashed, many are pinning their hopes on the special infrastructure fund. So far, funding from this source has been scarce and—at least last year—was often misused.

Local governments are a key driver of public investment. We therefore asked the savings banks—which are deeply rooted in their regions—how they assess local governments' financial leeway, with a particular focus on infrastructure. The result is sobering (Fig. 4): 84% of savings bank board members rate this scope as low or even very low. As a result, there is likely to be little impetus coming from local governments at present. According to 30% of savings bank board members, this situation will not change; 64% even expect the financial leeway to deteriorate over the next three years.

Against this backdrop, DSGV President Prof. Dr. Ulrich Reuter stated on the occasion of the Municipal Action Day on June 22: "Anyone who assigns new responsibilities must also ensure reliable funding. The federal and state governments bear responsibility here." Strengthening the financial capacity of local governments—which, as historical experience has shown, can drive investment dynamics—is therefore crucial to Germany's long-term viability.

Monetary policy is becoming more restrictive

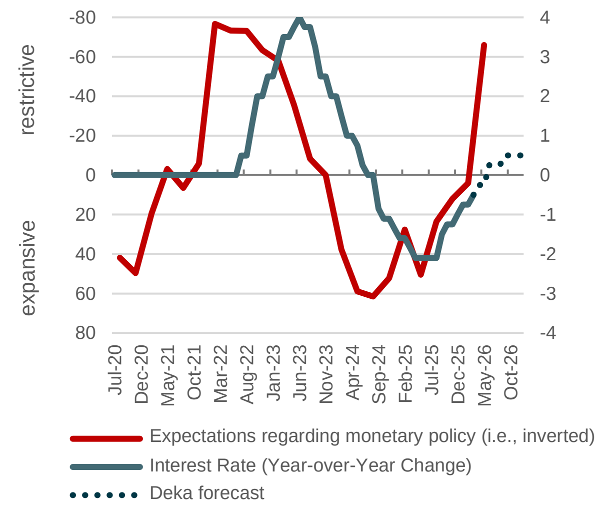
Fig. 4 Local Governments' Financial Leeway for Investment Purposes (Particularly in Infrastructure)



Source: DekaBank, Research Center for Savings Bank Development, DSGV

The war in Iran triggered a significant surge in energy commodity prices, though the scale of this increase remained smaller than during the war in Ukraine. Although no second-round effects are yet evident, and although companies' pass-through of price increases has so far been moderate, the expectations of savings bank executives point toward a noticeable tightening of monetary policy (Fig. 5). Even if the economic damage caused by the war in Iran can perhaps be quickly offset and sentiment improves noticeably in the coming months, the effects on inflation and interest rates will linger significantly longer—presumably well into next year.

Fig. 5 Key Interest Rate and the S-Indicator



Source: DekaBank, Research Center for Savings Bank Development, DSGV

Conclusion

The first half of 2026 was marked by a setback in expectations for an economic recovery in Germany. There is a good chance that these expectations will be met in the second half of the year. For the stimulus from the approved infrastructure programs to take effect, the funds must be used to strengthen municipal budgets for investment purposes.

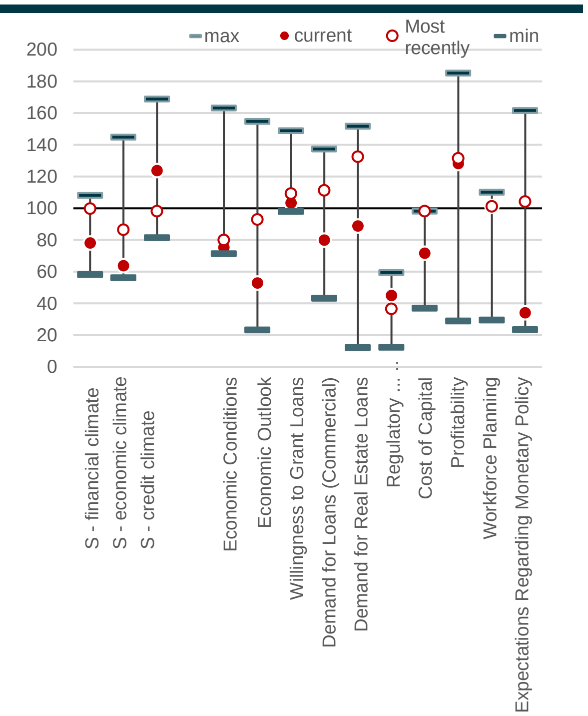
Deka-S Financial Climate Index: Construction

The Deka-S Financial Climate Index was developed through a collaboration between the Research Center for Savings Bank Development at the University of Magdeburg, led by Prof. Horst Gischer, and DekaBank, with the involvement of the German Savings Banks and Giro Association (DSGV). The index is calculated based on the results of a quarterly survey of 338 savings banks. It consists of ten thematic areas, each of which can be subdivided into perspectives on the current situation and future expectations. In addition, there are rotating special questions relating to the current economic or monetary situation.

The evaluation algorithm is based on the net balance of positive and negative responses to each question. A completely neutral result yields an index value of 100. A completely positive assessment across all questions by all participants results in an index value of 200 points; in the opposite, negative scenario, the index value is zero.

The Deka-S Financial Climate Index was first calculated in the fall of 2020.

Fig. 7 Overview of Indicators



Source: DekaBank, Research Center for Savings Bank Development, DSGV

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Authors:

Dr. Ulrich Kater, Dr. Andreas Scheuerle

Publisher:

Chefvolkswirt Dr. Ulrich Kater
DekaBank, Makro Research
Tel. (0 69) 71 47 - 28 49
E-Mail: economics@deka.de

Internet: https://deka.de/deka-gruppe/research
Impressum: https://deka.de/deka-gruppe/impressum