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S-Financial Climate

September 16, 2026



Deka-S Financial Climate in the Third Quarter of 2026: A Roller-Coaster Ride in Sentiment

- The Deka-S Financial Climate Index rose from 78.1 to 89.4 points in the third quarter. However, it remains below the 100-point mark, above which the overall outlook would be classified as above average. This increase was driven primarily by the economic climate, which surged from 63.7 to 85.1 points (with expectations playing a key role here: from 52.8 to 88.6 points).
- This marks a continuation of the period of pronounced mood swings this year. The geopolitical influences on macroeconomic development are also clearly evident in the assessments of the executive boards of German savings banks. A gloomy spring (second quarter) following the outbreak of war in the Middle East was followed by a better summer. The federal government's reform decisions contributed to the improved outlook in the third quarter, though they did not generate a sense of optimism. Against the backdrop of new reform debates and a resurgent energy price crisis, sentiment could take another downward turn in the fourth quarter.
- Government investments are having an impact, but a more comprehensive agenda is needed, particularly to strengthen small and medium-sized enterprises in the long term. This includes future-proof social security and pension systems, as well as effective investments in climate adaptation and greater European autonomy in the field of artificial intelligence - with faster approvals for data centers, affordable energy, and the public sector serving as the primary customer for European solutions.
- DSGV President Prof. Dr. Ulrich Reuter commented: "Billions in public funds provide an important boost. But real growth can only occur where companies regain confidence and make long-term investments. Confidence cannot be mandated. It grows when investments in Germany become profitable again," Press Conference: "Small and Medium-Sized Enterprises in Transition," September 15, 2026.
- The savings banks assess the respective local labor markets as largely uneventful. Only a few board members report high to very high levels of job cuts in their business areas. This suggests that the obvious challenges facing German industry as a whole are particularly concentrated in certain sectors.

 **Finanzgruppe**
Deutscher Sparkassen- und Giroverband

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Economy Update

Relief once again

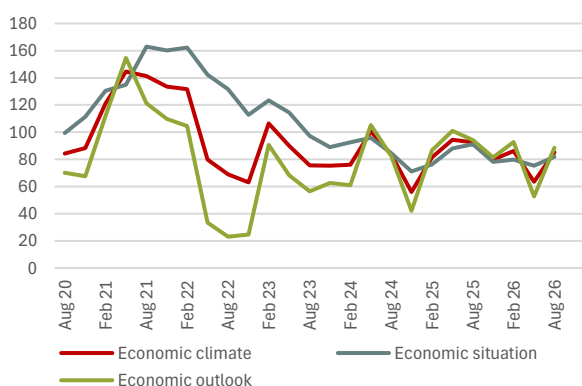
The assessment of the economy and financial markets by the executive boards of German savings banks was somewhat more positive again in the third quarter. The Deka-S Financial Climate Indicator rose from 78.1 to 89.4 points. It was primarily the economic outlook that sparked the upturn in sentiment. This continues the yo-yo pattern in economic sentiment seen this year. Hopes at the beginning of the year for political and economic improvements were abruptly dashed by the war in the Middle East and the onset of rising energy prices. Over the summer, however, the economic pressures turned out to be surprisingly mild, as the release of oil reserves and unexpectedly high supply levels alleviated the oil shortage. In addition, the federal government's reform decisions sparked a brief "economic boom in Germany." This upturn, however, is fragile. Renewed debates over the planned pension reform, as well as a return to high crude oil prices, could once again drive the economic yo-yo downward in the final quarter of this year.

Imagine there's a war in the Middle East, and no one notices

Fighting continues in the Middle East, and the Strait of Hormuz remains virtually impassable, but the economy is still thriving. Germany's gross domestic product rose by 0.3% in the second quarter of 2026 compared to the previous quarter. No one had expected this—neither the forecasters nor the financial market analysts, companies, and savings bank executives who participated in the surveys. Consequently, forecasts and survey results have recently become more optimistic again. Three notable developments are emerging.

- First, it was primarily economic expectations for the future - which had fallen sharply as a result of the war in the Middle East - that have now been revised upward. Following the initial uncertainty, the economic impact of the war is now more clearly discernible, and it is more moderate than originally feared. Accordingly, economic expectations in our survey have also improved significantly, though they remain below pre-war levels (Fig. 1). However, with the renewed escalation of the situation

Fig. 1 Economic Climate (100 = neutral)

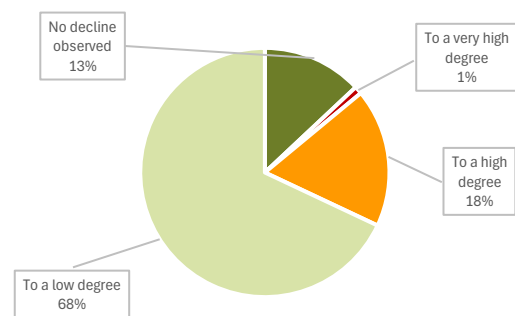


Sources: DekaBank, Research Center for Savings Bank Development, DSGV

in the Persian Gulf and the fading hope for a return to the pre-war status quo, economic risks persist.

- The assessment of the current economic situation is proving surprisingly robust. This may also be due to the fact that there have been no major disruptions in the labor market. Unemployment did rise noticeably in 2022 as a result of the war in Ukraine, but only slightly following the outbreak of the war in the Middle East: From March to August 2022, the number of unemployed had increased by nearly 180,000 people, while in the same period of the current year, the increase was only 16,000. This is also consistent with the observations of the Sparkasse board members (Fig. 2): There is no evidence of widespread, dramatic job cuts - a more in-depth look at specific industries and regions is necessary here.

Fig. 2 Job Cuts? (Responses, in %)



Question: "The media frequently reports on business closures and job losses, particularly among small and medium-sized enterprises. Have there been any job cuts in your region over the past 12 months in ..."

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

- Third, economic expectations, the business climate, and most notably the assessment of the current economic situation, at around 82 points, remain well below the neutral mark of 100 points, at which pessimists and optimists are in balance. In other words, negative assessments currently predominate.

This caution is justified, as the challenges in the second half of the year are significant even aside from the ongoing conflict in the Middle East. Heat, drought, and low water levels are weighing on economic performance in the third quarter. Consumers bought less and curtailed their leisure activities due to the heat. Companies had to scale back production due to low water levels and the resulting strain on supply chains. In addition to these immediate pressures, there is concern that the reform package announced by the federal government will be unraveled and "watered down" after the state elections - which did not fall within the survey period and will not do so in the future. Instead of accelerating

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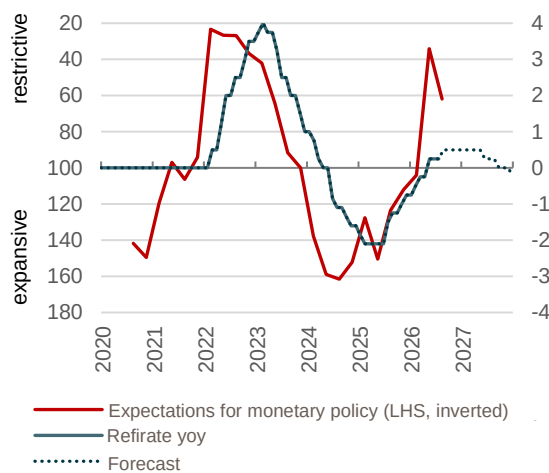
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the pace of reform now to reap the benefits as quickly as possible, there is once again a threat of disputes and protracted discussions. Rather than scaling back the reform package, a second one should be rolled out immediately afterward. After more than a decade of economic policy stagnation, simply too many problems have piled up.

The pressure on monetary policy is easing

The outbreak of the Middle East war sent the inflation rate soaring once again. As a result, in the most recent survey, savings bank executives anticipated a noticeably more restrictive monetary policy. In the meantime, however, it has become clear that the resurgence of inflation fell short of fears. Consequently, a less restrictive monetary policy is now expected compared to the last survey. Nevertheless, only a few tankers continue to pass through the Strait of Hormuz because of the high risk of coming under fire. As long as the conflict remains unresolved, there will continue to be a risk to future inflation trends, which is reflected in the still-elevated expected policy rate path (Fig. 3).

Fig. 3 Key Interest Rate and Monetary Policy Expectations



Quellen: DekaBank, Forschungszentrum für Sparkassenentwicklung, DSGV

Credit conditions have deteriorated slightly

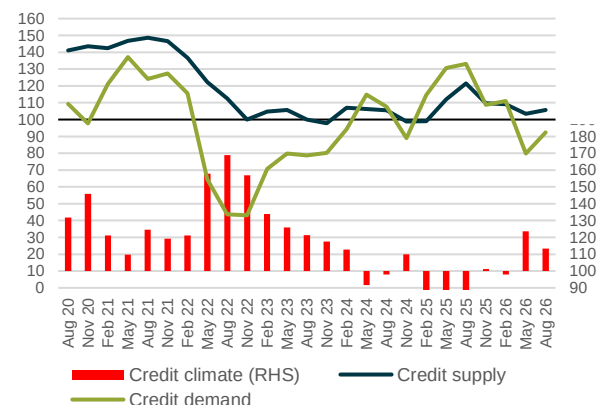
The sharp decline in demand for credit, which the savings banks reported in the last survey, was due to geopolitical uncertainty and economic concerns. In times like these, businesses and homebuilders hold back on investments. Now that the initial concerns have proven to be overly pessimistic, demand for credit is picking up again. This is also reflected in the savings banks' aggregate business results: In the first half of 2026, they approved 84.4 billion euros in new loans, which is 3.5 percent more than in the same period last year. It is particularly noteworthy that commercial lending is also picking up again: New lending to businesses

and the self-employed rose by 5.8 percent in the first half of the year. However, this is still not a high growth rate for periods of economic recovery.

We also asked specifically about the role of ESG criteria in credit supply and demand. However, from the perspective of savings bank executives, these do not constitute barriers to investment. Rather, it is the uncertainties, the increased interest costs, and other bureaucratic burdens that are preventing a truly strong upswing from taking hold.

Since the savings banks have simultaneously increased their credit supply again - albeit not to the same extent - the credit climate has nevertheless deteriorated somewhat. It remains positive, however (Fig. 4). This is extremely encouraging, as one has to look back as far as the turn of the year 2023/24 to find a period with two consecutive positive credit climate readings.

Fig. 4 Credit Conditions



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

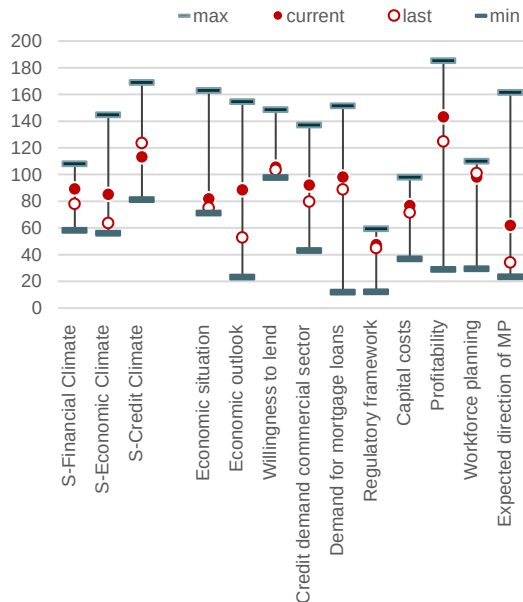
Conclusion

According to the German savings banks, the economic and financial environment has moved sideways this year amid high volatility. Challenges in the second quarter were offset by an improvement in the third quarter (Fig. 4). This is set against the backdrop of the unpredictable impacts of geopolitics. The impact of the war in the Persian Gulf on the global economy and thus also on Germany remains difficult to assess. The economy itself will be bolstered by the federal government's spending programs in 2026 (with the peak of the expansionary effects expected in the course of 2027), which will at least once again result in measurable growth in gross domestic product. However, no further growth effects are foreseeable. The savings banks' sentiment barometer remains in the "low" range overall. There are no signs of a genuine upswing in sentiment.

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Fig. 5 Overview of Indicators



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

Fig. 6 Deka-S Financial Climate



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

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 broken down into perspectives on the current situation and future expectations. In addition, there are varying special questions relating to the current economic or monetary situation. Three key indicators are derived from the responses across the ten thematic areas: the S-Financial Climate, the S-Economic Climate, and the S-Credit Climate.

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, while the opposite a completely negative assessment yields an index value of zero.

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

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