



Friday, 5th January 2024

**Deka-S financial climate in the 4th quarter of 2023:
 Positive capital markets despite economic downturn**

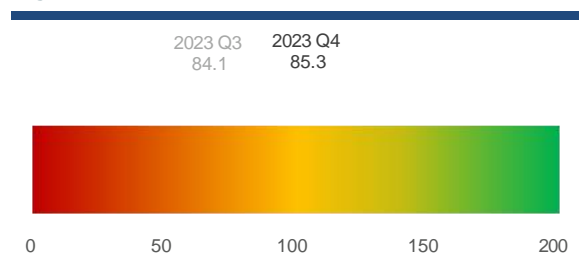
Despite the continuing economic slump in Germany, the savings banks are optimistic about 2024. The Deka-S Financial Climate rose slightly in the 4th quarter to 85.3 points (previous quarter: 84.1 points). Economic expectations and demand for property loans rose slightly in this quarter. In economic terms, however, this still tends to indicate the lower half of the exceptionally wide range of economic forecasts for the German economy currently being traded on the forecasting market, which currently ranges from minus 0.5 to plus 0.9 percent for 2024. Nevertheless, the savings bank managers' outlook for the financial markets is positive. Both bonds and equities are expected to perform better than in 2023, which is already a good year. This is due in particular to the prospect of a further easing of inflation and thus lower key interest rates from the central banks.

2024: Hopes based on relaxed financial market conditions

In the current survey of savings bank board members on the S-Financial Climate (Figs. 1 and 2), the focus is naturally on expectations for 2024.

The result is a mixed picture. When it comes to the economy and growth, the savings banks are quite sober about the coming year. In principle, more than three quarters of the savings banks' board members assume that Germany's gross domestic product will develop below average in 2024, while only two percent believe that our economy will grow at an above-average rate (Fig. 3). On the one hand, the global economic cycle

Fig. 1 Deka-S financial climate, Q4 2023



with its pronounced weakness in demand for capital goods, for which no improvement is expected in the coming months, is having a negative impact. On the other hand, the general conditions for companies in Germany are also difficult, and

Fig. 2 Recovery of the S financial climate paused

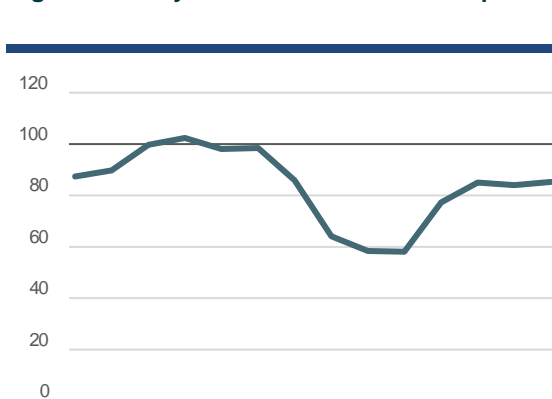
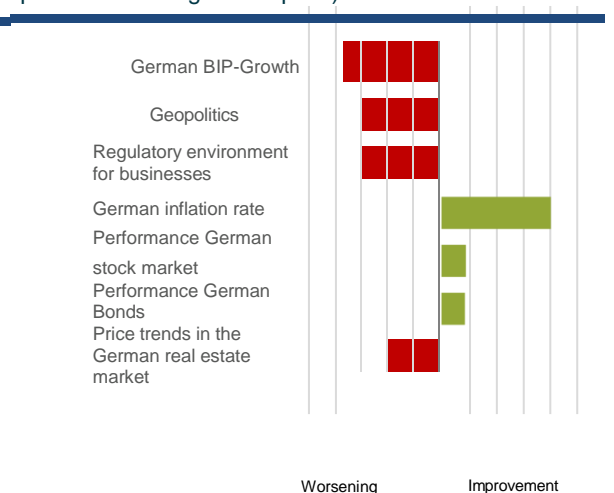


Fig. 3 Expectations for 2024 (balances from shares of "positive" and "negative" reports)*



Source DekaBank Research Center for Savings Bank Development, DSGV

Source: DekaBank Research Center for Savings Bank Development, DSGV

* GDP growth: above average - below average; geopolitics: more secure - less secure, inflation and real estate prices: higher - lower; everything else: better - worse.



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no improvement is expected for the savings banks in the near future. Demographic trends are exacerbating the labor shortage, climate change is driving up energy costs, infrastructure is outdated and the level of regulation is high.

Around 60 % of all savings bank board members expect **geopolitical uncertainty** to increase and only 3 % a reduction. There are also no rays of hope with regard to the **regulatory corset** for companies, which has long been perceived as increasingly restrictive: 67% expect the situation to deteriorate further, none expect it to improve. These impressions are compatible with the overall economic figures. Germany's potential growth, i.e. the economy's normal long-term "cruising speed", is only 0.8% per year and has therefore halved since 2015. According to calculations by the German Council of Economic Experts, it will halve again in the coming years.

Optimistic about the financial markets

However, it would be wrong to attribute pessimism to the savings bank managers. Firstly, no economic slump is expected. And secondly, local credit managers see further easing on the horizon for one of the biggest economic policy issues of the last two years, inflation. An overwhelming majority of 80% expect the decline in inflation to continue and none expect it to rise again. From this, the savings banks derive a cautiously optimistic financial market picture. The majority expect bonds and equities to perform better in 2024 than in 2023. Key interest rates have peaked. At 100 points, the sub-index on monetary policy expectations is now moving increasingly towards the easing of monetary policy in the coming year (Fig. 6). This would mean a significant reduction in stress for the economy and the financial sector following the extraordinarily sharp rise in interest rates in recent quarters.

One sector in which the reduction in stress levels is highly welcome is the real estate sector. Although the savings bank board members are relatively certain that real estate prices will remain under pressure in the coming year, they do not see this as a threat to financial stability. 21% of credit managers expect serious disruptions in individual cases. In contrast, 69% see little or no serious impact

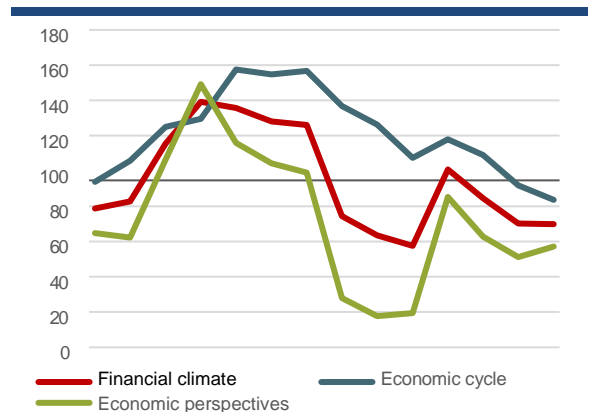
on financial market stability from real estate price trends.

A weak economy, major challenges

The overall climate index - the S-Financial climate - which is used by the savings banks to describe the conditions in the German economy has improved slightly from 84.1 points to 85.3 points, thus only making up for the decline in the previous quarter. This still cautious assessment is not surprising: Germany is in a phase of stagnation: in the past six quarters, gross domestic product has not increased on average, and there is a high risk that further quarters of stagnation will follow. In a recession, economic players expect the economy to bounce back like a rubber band stretched downwards. In a stagnation, the economic rubber band hangs limply, and there is no fantasy of a rapid improvement.

This lack of economic fantasy is also reflected in the **S-financial climate**, which moved sideways at a low level in the fourth quarter (Fig. 4). This reflects a slight improvement in economic expectations and a deterioration in the assessment of the situation. In principle, more than three quarters of the savings bank board members expect German gross domestic product to grow at a below-average rate. In our view, this is a very realistic assessment. The economic climate in the savings banks does not indicate that the sideways movement in the German economy will end any time soon.

Fig. 4 Weak and sideways economic climate



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

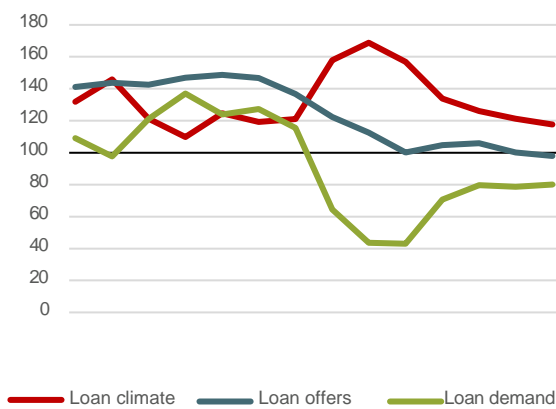


Friday, 5th January 2024

Loan climate: largely stable

In view of the sluggish economy, there has also been little change with regard to the credit market. The credit climate has fallen again slightly from 121.3 to 117.6 points, but continues to signal that the demand for credit is not being restricted by the supply of credit (Fig. 5). On the contrary, demand for credit, which is subdued due to the economy and monetary policy (values below 100), continues to meet a largely neutral supply of credit (97.8 points).

Fig. 5 Loan climate deteriorates further

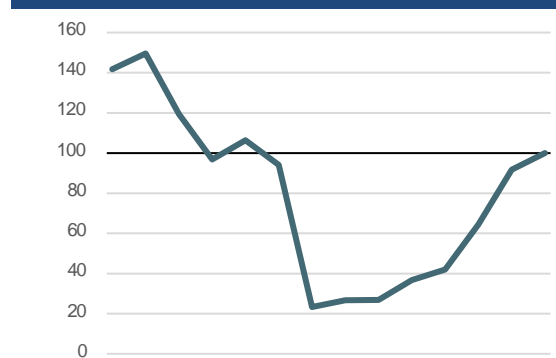


Source: DekaBank, Research Center for Savings Bank Development, DSGVO

Monetary policy: interest rate peak reached

Ultimately, this subdued demand for credit is also desired by monetary policy in order to get inflation under control. And in the opinion of the savings banks' board members, the European Central Bank will be increasingly successful in doing so. A clear majority of over 80% expect

Fig. 6 Monetary policy has almost reached the highest degree of restriction



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

the inflation rate to continue to fall until 2024, while not a single board member expects it to rise!

Accordingly, the savings bank board members expect that the degree of monetary policy restriction will not need to be increased any further (Fig. 6). However, the very clear interest rate cut fantasies on the money markets cannot be understood. The markets are expecting up to three key interest rate cuts, which is not reflected in the assessments of market participants from the savings banks. Nevertheless, it remains the case that the savings bank situation looks forward to the 2024 capital market year with confidence.

Summary: Deka-S Financial Climate Q4 2023

	2023 Q4	2023 Q3	
S-Finanzklima	85.3	84.1	🟢
S-Konjunkturklima	75.3	75.7	🔴
S-Kreditklima	117.6	121.3	🔴
Konjunkturlage	89.0	97.2	🔴
Kreditvergabebereitshaf	97.8	100.0	🔴
Regulatorische Rahmenbedingungen	16.5	28.7	🔴
Kapitalkosten	55.6	53.3	🟢
Profitabilität	173.9	173.8	🟢
Konjunkturperspektive	62.6	56.5	🟢
Kreditnachfrage (gewerblich)	80.2	78.7	🟢
Nachfrage nach Realkrediten	84.6	75.0	🟢
Personalplanung	94.5	86.1	🟢
Erwartungen an die Geldpolitik	100.0	91.7	🟢

Deka-S-Finanzklima-Index: Konstruktion

The Deka-S Financial Climate Index was developed in cooperation between the Research Center for Savings Bank Development at the University of Magdeburg, headed by Prof. Horst Gischer, and DekaBank with the involvement of the German Savings Banks and Giro Association (DSGV). The index is calculated from the results of a quarterly survey of 361 savings banks. It consists of ten subject areas, each of which can be divided into perspectives on the current situation and future expectations. In addition, there are changing special questions relating to the current economic or monetary situation.

The evaluation algorithm is based on the balances of positive and negative answers to each question. A completely neutral result results in an index value of 100. A completely positive assessment in all questions by all participants means an index value of 200 points; in the opposite negative variant, the index value is zero.



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