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S-Financial Climate

March 28, 2025

The Deka logo is displayed in white text on a red background. It consists of three vertical bars of increasing height to the left of the word "Deka".

S-Financial Climate in the first quarter of 2025: hopeful picture with blemishes

- The sentiment for the German economy among the management boards of savings banks improved in March. With a value of 97.9 points (previous quarter 91.7), the S-Financial Climate is approaching a historically normal level after the political uncertainties of the previous quarter. This means that the German savings banks now consider the business environment to be normal, from the economy and monetary conditions to the business situation. According to this assessment, the risk of recession has decreased, but a major upturn is also not expected.
- Overall, the savings banks share the general brightening of economic expectations, which have been given new impetus following the "financial turnaround" in the wake of the formation of a new federal government. However, there can be no talk of euphoria. There are patches of skepticism mixed in with the brighter picture. For example, regional financial managers only expect progress in the areas of defense and infrastructure where new ways are now being taken with new funds at the expense of the debt ratio. The majority of experts are pessimistic about further reforms, for example in the areas of bureaucracy and regulation, energy or the reform of the tax and social system. In the eyes of the savings banks, the economic turnaround has not yet been achieved.

 **Finanzgruppe**
Deutscher Sparkassen- und Giroverband

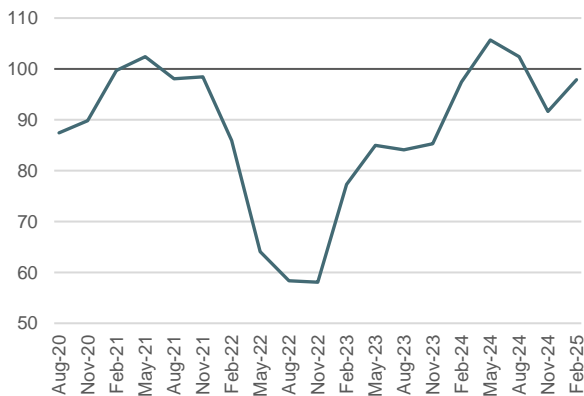
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S-Financial Climate rises again

The S- Financial Climate recovered somewhat in the first quarter of 2025. However, with an increase from 91.7 points to 97.9 points, the decline in the previous month could not be fully compensated for (Fig. 1).

Fig. 1 Deka-S financial climate, Q1 2025

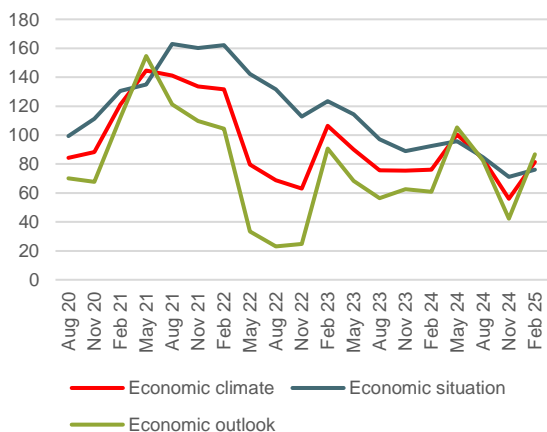


Sources: DekaBank, Research Center for Savings Bank Development, DSGV

Economic picture between tariff threats and policy change

The rise in the S economic climate, which summarizes the economic indicators from the survey as a sub-indicator of the S financial climate, contributed significantly to this improvement (Fig. 2). The data was collected after the Bundestag elections, during a period in which the signs of a fiscal policy turnaround through spending increases in the defense and infrastructure sectors by a new government were becoming clearer, although the measures had not yet been passed by the Bundestag and Bundesrat. However, the de-

Fig. 2 Economic situation at a low point with falling economic expectations



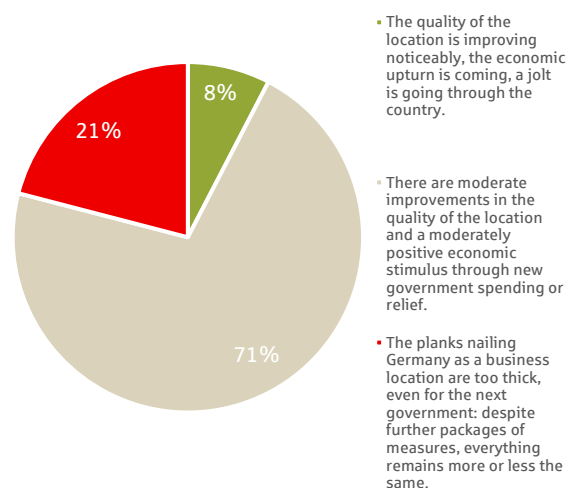
Sources: DekaBank, Research Center for Savings Bank Development, DSGV

velopments were already sufficiently concrete for the savings bank board members to focus primarily on an improvement in the future, while their assessment of the current situation is only slightly better. Translated, the figures mean: The economic recovery will not come overnight, but there are justified hopes for an improvement.

In the previous survey (Q4 2024), concerns about future US policy dampened confidence, and the events of recent weeks and months have proved the savings banks' board members right. The renewed confidence in the German economy is in contrast to the declining expectations in the US and is therefore likely to be due to the special influence of the upcoming special funds for infrastructure and the removal of defense spending from the debt brake.

However, the savings banks are aware that higher spending without simultaneous economic reforms will only increase Germany's potential growth to a limited extent. There is only cautious optimism when it comes to the ability of a new German government to implement reforms. 71% of those surveyed believe that the new government will bring about a moderate improvement in the quality of the location and slight economic stimulus. Admittedly, the level from which the topic is viewed is very low. A minority of 8% are very optimistic and even expect the country to experience a jolt in terms of economic policy.

Fig. 3 What expectations do you have with regard to the economic policy performance of a new federal government?



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

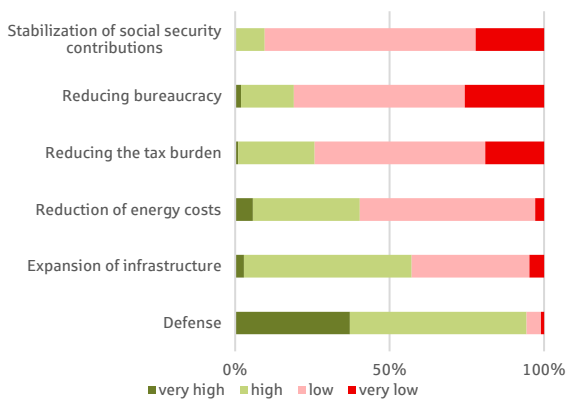
The areas in which progress is expected are relatively clearly defined. In particular, they believe the new government has a great deal of confidence in the repositioning of national defense - 94% see a high to very high probability of this (Fig. 4). The improvement of the inadequate infrastructure

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in Germany is still considered likely by 57%. In the other policy areas - lowering energy costs and the tax burden, reducing bureaucracy and stabilizing social security contributions - scepticism still prevails. This is a sobering outlook. From the perspective of growth economics, without progress in these areas, most of the planned additional expenditure threatens to become nothing more than an economic flash in the pan over two to three years.

Fig. 4 How do you rate the likelihood of progress in the following policy areas within the coming legislative period?



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

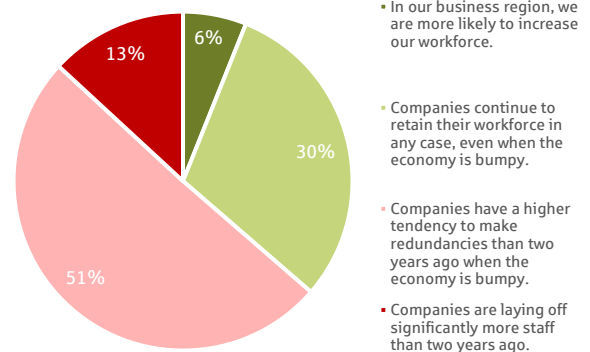
Still no easing on the labor market

In the wake of many years of stagnation, unemployment has also risen in Germany. Although it is still well below the level of the early 2000s, the strong structural change in various sectors of the economy will put more pressure on the labor market in the future than in the past. Just over half of local financial managers (51%) report that companies in their business area are increasingly willing to make redundancies if business is not going well. In a further 13%, there is even a noticeable number of redundancies, breaking the previously prevailing pattern of "hoarding" (skilled) workers in the hope of better times to come. If the economic hopes are not fulfilled, there is further potential for redundancies: In 30% of savings bank regions, holding on to workers is still the predominant strategy. In any case, expectations for the labor market are subdued for the rest of the year. Just 6% of respondents report an increase in jobs on average in their business region. (Fig. 5).

The credit climate is falling ...

... and thus fits into the picture of a gradual economic recovery, as the cause of the slowdown lies in an increasing demand for credit with a constant supply. While demand for corporate loans has picked up noticeably in the hope of

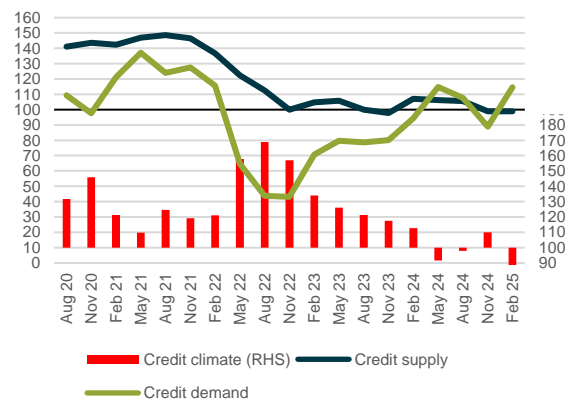
Fig. 5 What developments do you currently perceive on the regional labor market in your business area?



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

better business, the savings banks' willingness to lend remains at an average level (Fig. 6). The increase in interest rates in response to the fiscal policy announcements in Germany is also contributing to this. However, there is no sign of tensions or credit shortages, as credit supply and demand are still too close together for that.

Fig. 6 Credit climate



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

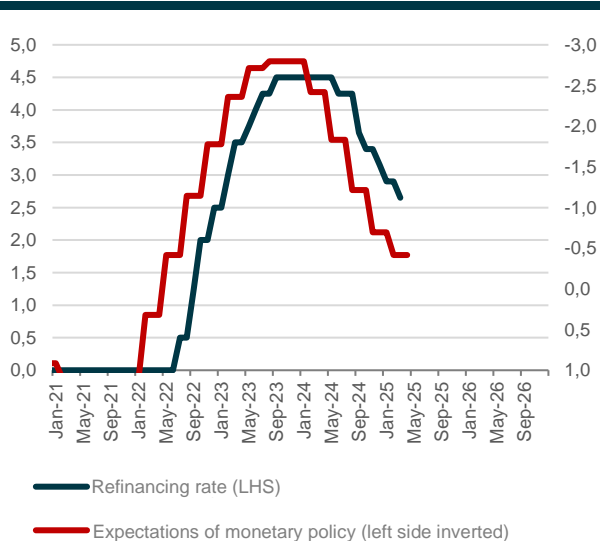
Expectations of a more expansionary monetary policy

The European Central Bank cut its key interest rate for the sixth time in March and is gradually approaching a neutral level. The final steps are now being taken after careful consideration of the economic data. Although the savings banks expect further easing, the pace will slow (Fig. 7).

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Fig. 7 Key interest rate and the S-indicator



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

Conclusion

The mood for the German economy among the management boards of the savings banks improved in March. After the political uncertainties of the previous quarter, it is approaching a neutral level. Overall, the savings banks share the brighter economic expectations, which have been given new impetus following the “fiscal turnaround” following the formation of a new German government. However, there can be no talk of euphoria. There are skeptical spots in the brighter picture. For example, regional financial managers only expect progress in the areas of defense and infrastructure where new money is being used to break new ground at the expense of the debt ratio. The majority of experts are pessimistic about further reforms, for example in the areas of bureaucracy and regulation, energy or the reform of the tax and social system. In the eyes of the savings banks, the economic turnaround in Germany has not yet been achieved.

Summary: Deka-S Financial Climate Q1 2025

	2025 Q1	2024 Q4	
S-Financial Climate	97.9	91.7	↑
S-Economic Climate	81.4	56.0	↑
S-Credit Climate	84.5	110.0	↓
Economic situation	76.2	71.1	↑
Economic outlook	86.7	42.2	↑
Willingness to lend	99.0	98.9	↑
Demand for credit (commercial)	114.6	88.9	↑
Demand for real loans	143.7	142.2	↑
Regulatory framework conditions	21.0	12.2	↑
Cost of capital	72.8	73.6	↓
Profitability	134.3	124.7	↑
Personnel planning	103.8	110.0	↓
Expectations of monetary policy	127.6	152.2	↓

Interpretation aid: the indicators can have values between 0 and 200. First, the balances are calculated from the proportions of positive and negative responses. These can be between -100 (only negative responses) and +100 (only positive responses). The value 100 is then added. The financial climate of 58.4 therefore means that the balance was -41.6, i.e. there were more negative responses.

For the additional question, the proportion of those expecting a later interest rate turnaround was subtracted from the proportion expecting an earlier one. Neutral was nominated at 100.

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

Deka-S Financial Climate Index: Construction

The Deka-S-Finanzklimaindex 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 343 savings banks. It consists of ten subject areas, each of which can be divided into a perspective on the current situation and expectations for the future. In addition, there are changing special questions relating to the current economic or monetary situation.

The evaluation algorithm is based on the balance 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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