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### German budget and survey indicators marked last week

- A relatively lean week in terms of statistical data was marked by the adoption of the German budgetary proposal for this year (voting in the parliament is planned for September) and by a series of publications of economic sentiment survey indicators.
- A significant increase in expenditure is planned in the adopted German budgetary proposal, with planned net borrowing of EUR 143 billion, i.e., 3.2% of GDP, approximately double than planned in the previous preliminary budget draft with the expectation of a gradual deficit increase in the upcoming years. Preliminary borrowing would thus cover EUR 81.7 billion of the central budget deficit (of which EUR 32.1 billion or more than 1% of GDP refers to military expenditures exempt from the debt rule) and an additional EUR 37.2 billion of a special infrastructure fund, i.e., EUR 24.1 billion of the defence fund. Thus, the largest part of the deficit comes from defence expenditures, which, despite the gradual reduction of extraordinary allocations for the military initiated after the beginning of the war in Ukraine, will reach 2.4% of GDP in 2025, with an increase to 3.5% by 2029. Planned increase in defence spending would thus be the largest and fastest compared to other countries, given that the recently concluded NATO summit agreed to increase defence spending to 3.5%, but by 2035. Considering that the adoption of the legislative framework for a special infrastructure fund is only expected in the upcoming months, it is unlikely that the targeted amount of almost EUR 40 billion will be spent in this year's final months and it is more likely that we will see a more tangible impact of new infrastructure investments on the economy only during the following year. Therefore, although numbers suggest a strong fiscal expansion, this year's impact on the economy growth could still be less than expected with a stronger spill-over on the next two years in which the German economy growth rate could accelerate to 1%, i.e., 1.6% after this year's weak 0.3%.
- Along with the adoption of the German state budgetary proposal, this week was also marked with a series of publications of economic sentiment survey indicators. The unchanged level (50.2) of the composite PMI suggests an economic stagnation in the turn from Q2 to Q3, where the industrial sentiment indicator has stabilised with indications of growth of orders and activities in the upcoming period, while the service sector returned to the demarcation level with still somewhat more favourable future expectations.

**The German government adopted the 2025 budget proposal**

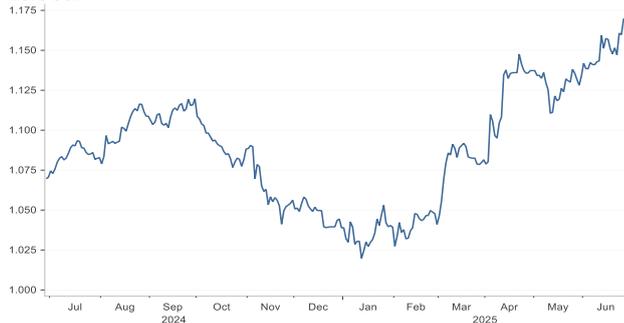
**Survey indicators point to improved expectations...**

Simultaneously, PMI improved in Germany, while deterioration was noted in France. National indicators further confirmed the above divergence, considering that the German IFO indicator recorded its sixth consecutive monthly growth, supported mostly by better expectations of future trends, and the assessment of the current situation remained almost unchanged, while the French INSEE consumer sentiment indicator continues to stagnate below the long-term average. At the same time, the composite index of the European Commission's Economic Sentiment Indicator (ESI) surprisingly decreased to 94 from the previous 94.8 in the eurozone, due to the deterioration of consumer sentiment and the industrial and retail sector, whereas recovery was recorded in services and construction. All in all, despite the disappointing ESI, survey indicators maintained a positive note especially in the part of expectations which we associate with the announced changes in German fiscal policy, but do not exclude the possibility that the economic actors are now less pessimistic regarding the impact of tariffs and uncertainty on future trends. However, such interpretation should be taken with a dose of caution considering the approach of the expiration date of the 90-day delay in the application of reciprocal tariffs and the uncertainty surrounding the negotiations with the U.S.

... which needs to be considered with a degree of caution as 9 July looms ahead

- Pressures on Fed resulted in the continuation of depreciation of the dollar to the euro so the week finished at 1.1704 dollars to the euro, up by 1.6% w-o-w and the highest level in the last almost four years.
- Euribor recorder a milder growth on shorter tenors, and on medium to longer ones a decline of up to 10 bps in the previous week. At the end of the week, 3M and 6M were down to 1.9, i.e., 2.0%.
- Crobex maintained a positive trend and increased by 1.3% w-o-w to 3,607 points due to growth of all sectoral indices (CROBEXindustry +2.5% to 2,642, CROBEXnutris +0.02% to 858, CROBEXtourist +4.3% to 4,697). Crobis was down by 0.1% w-o-w to 99.1 points.

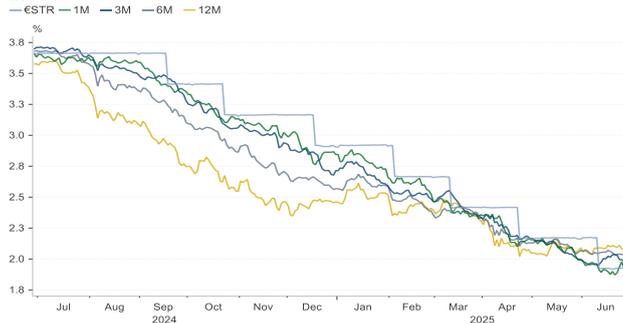
### EUR/ USD



Source: ECB

MACROBOND

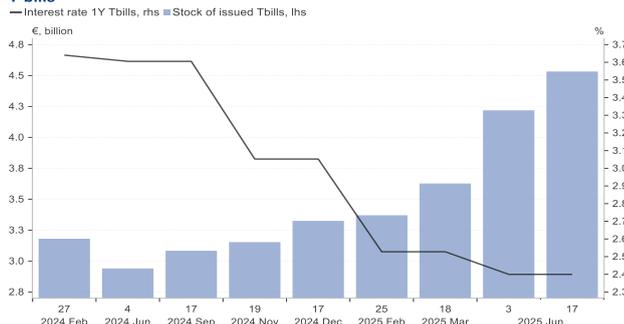
### Euribor



Source: EMMI, ECB

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### T-bills



Source: MoF

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### Crobex/Crobis



Source: Zagreb Stock Exchange

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