All data in the edition are the last available data published as of 31 August 2020

The quoted data set in this report are the last available data, published in the official source's web sites. The sources are Ministry of Finance, Bulgarian National Bank, National Statistic Institute, National Employment Agency, Bulgarian Industrial Association. The electronic system used for collecting the data from the official sources is Macrobond.

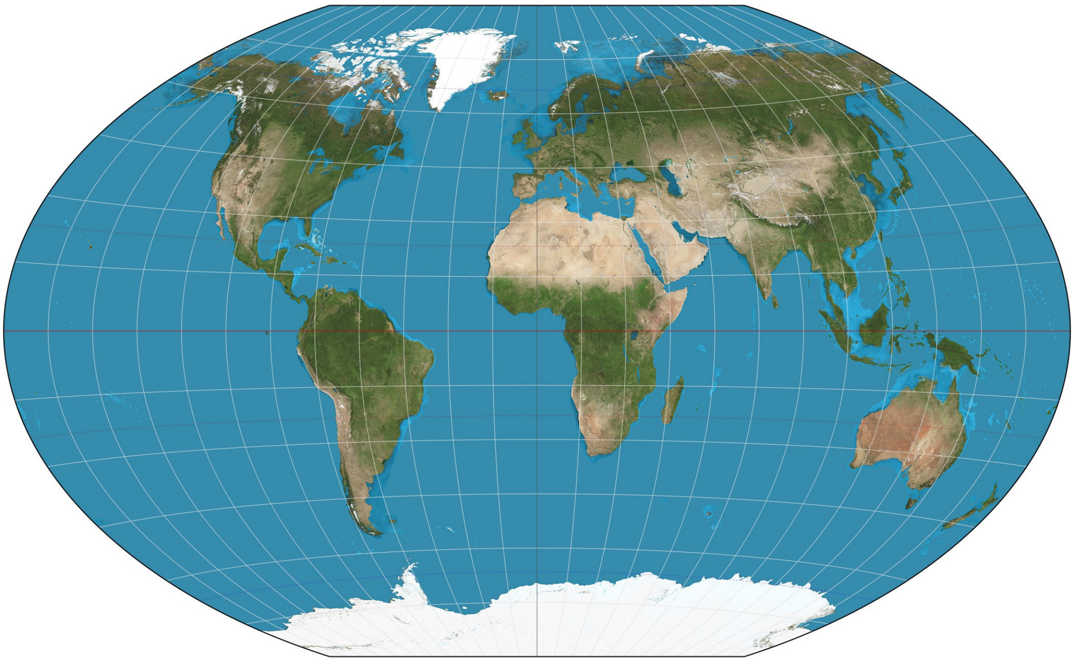
United Bulgarian Bank
Chief Economist
Department

For contacts:
Petia Tzekova
Chief Economist
e-mail:
Petia.Tzekova@ubb.bg
tel.:+359 2 811 2980

Petar Ignatiev
Chief Analyst
e-mail:
Petar.Ignatiev@ubb.bg
tel.:+359 2 811 2982

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



September, 2020

- **The Euro Area economy shrank -11.8% qoq in Q2 2020, slightly less than initial estimates of a -12.1% fall. Among the bloc's largest economies, Spain posted the biggest decrease in economic activity (-18.5%), followed by France (-13.8%), Italy (-12.8%) and Germany (-9.7%). The Euro Area economy shrank -14.7% year-on-year in the three months to June of 2020, slightly less than initial estimates of a -15% fall. The Eurozone consumer prices are expected to fall -0.2% from a year earlier in August 2020. The Euro Area seasonally-adjusted unemployment rate rose to 7.9% in July 2020 from a downwardly revised 7.7% in the previous month. Among the bloc's largest economies, the highest jobless rates were recorded in Spain (15.8%), Italy (9.7%), and France (6.9%) while the lowest was observed in Germany (4.4%). Considering the European Union as a whole, the jobless rate was 7.2% in July, up from 7.1% in the prior month. Our 2020 base case annual growth forecast for euro area is -8.3%. We expect recovery of 5.2% in 2021.**
- **Italy's GDP shrank by -12.8% qoq in Q2 2020, compared to a preliminary reading of a -12.4% plunge and following a revised -5.5% contraction in the previous period. Year-on-year, the economy contracted a record -17.7%, entering a steep recession. Consumer prices in Italy fell -0.5% year-on-year in August of 2020, following a -0.4% decrease in the previous month. Italy's unemployment rate rose to 9.7% in July of 2020 from an upwardly revised 9.3% in the previous month. We expect a contraction of Italian GDP of -10.7% in 2020. We expect a recovery in Italy of 4.1% in 2021.**
- **France's economy shrank by a record -18.9% yoy in Q2 2020, entering a steep recession, as coronavirus-induced lockdowns hit activity and consumption. The French economy shrank at a record -13.8% qoq 2020, in line with preliminary estimates, and following a -5.9% fall in the previous period. Annual inflation rate in France eased to 0.2% in August of 2020 from 0.8% in July. The unemployment rate in France declined to 7.1% in Q2 2020. We expect a decline of GDP growth in France of -10.5% in 2020 and recovery of 6.4% in 2021.**
- **Spain's economy shrank by a record -22.1% yoy in Q2 of 2020, entering a steep recession and compared to market expectations of a -19.7% fall. Spain's gross domestic product shrank by -18.5% qoq in Q2 2020. The harmonized index of consumer prices decreased 0.6% over a year earlier, after declining -0.7% in July. Spain's unemployment rate rose to 15.33% in Q2 2020. We expect a decline of GDP in Spain of -12.7% in 2020 and recovery of 7.2% in 2021.**
- **Slovenia's economy shrank -13% yoy in Q2 2020, after an upwardly revised -2.5% contraction in the previous period. On a seasonally adjusted quarterly basis, the economy shrank at a record -9.6%, following an upwardly revised -4.8% contraction in the prior period. Consumer prices in Slovenia fell -0.1% yoy in August of 2020, retreating after a 0.3% rise in July. Slovenia's unemployment rate stood at 9.2% in June 2020, little-changed from two-and-a-half-year high of 9.3% in the previous month and well above 7.3% in the same period last year. We expect a decline of GDP in Slovenia of -10% in 2020 and recovery of 7% in 2021.**
- **Lithuanian economy shrank -5.5% qoq in Q2 worse than an earlier estimate of a -5.1% contraction and compared to a 0.3% growth in the previous period. On a yearly basis, the GDP contracted by -4.2%, the first contraction since the first quarter 2010, reversing a 2.4% expansion in the previous period. Lithuania's annual inflation rate increased to 1.3% in August of 2020, the most since March, from 1.0% in the previous month. Unemployment Rate in Lithuania increased to 13.70% in August from 12.80% in July of 2020.**
- **Poland's gross domestic product shrank by -8.2% from a year earlier in Q2 2020. On a quarterly basis, the economy shrank by a record -8.9%, entering a recession. Poland's annual inflation rate was confirmed at 2.9% in August 2020, little-changed from the previous month's 3.0%. Poland's unemployment rate came in at 6.1% in July of 2020, unchanged from the previous month. We expect a decline of GDP in Poland of -3% in 2020 and recovery of 4.8% in 2021.**
- **The Romanian gross domestic product contracted -10.5% yoy in Q2 2020. On a seasonally adjusted quarterly basis, the economy shrank -12.3%, the most since the data began in the second quarter 1995, after a 0.3% growth in the first quarter. Romania's annual inflation rate edged down to 2.7% in August 2020 from 2.8% in the previous month, below market estimates of a 2.8% rise. Romania's seasonally adjusted unemployment inched up to 5.4% in July 2020 from an upwardly revised 5.3% in the previous month. We expect a decline of GDP in Romania of -10% in 2020 and recovery of 6% in 2021.**
- **Britain's gross domestic product slumped by -21.7% yoy in Q2 2020, the biggest fall since comparable records began in 1956 and compared with market expectations of a -22.4% plunge. UK gross domestic product shrank by -20.4% qoq in Q2 2020. Annual inflation rate in the United Kingdom slowed sharply to 0.2% in August of 2020 from 1% in July. The UK unemployment rate rose to 4.1% in the three months to July of 2020 from 3.9% in the previous period, matching market expectations. For the UK, we expect a contraction of -9.5% in 2020. We expect a recovery in UK of 6% in 2021.**

- **The Gross Domestic Product (GDP) in the United States contracted -9.10% in Q2 2020. Annual inflation rate in the US increased to 1.3% in August of 2020 from 1% in July, beating market forecasts of 1.2%. The US unemployment rate fell to 8.4% in August of 2020 from 10.2% in the previous month, below market expectations of 9.8%. In the US, we expect growth to contract -5.5% in 2020. We expect a recovery in US of 4.5% in 2021.**
- **The Japanese economy shrank 7.9% qoq in Q2 2020 compared with the preliminary reading of a 7.8% decline and market consensus of an 8.1% drop, and after a 0.6% fall in Q1. On an annualized basis, the Gross Domestic Product (GDP) in Japan contracted 9.90% in Q2 2020 over the same quarter of the previous year. Japan's consumer price inflation dropped to 0.2% yoy in August from 0.3% in July 2020, as the pandemic continued to hamper consumption excluding food. The unemployment rate in Japan edged up to 2.9% in July 2020 compared to 2.8% in the prior month and market expectations of 3%. We expect growth in Japan to contract -5.1% in 2020. We expect a recovery in Japan of 2.5% in 2021.**
- **In Q2 2020 China reported 3.4% yoy growth. On a seasonally adjusted quarterly basis, the Chinese economy reported 11.5% qoq increase. In particular, the Chinese recovery has been led by investment and the industrial sector, rather than by consumption and the services sector. China's annual inflation rate eased to 2.4% in August 2020 from 2.7% in the previous month and in line with market expectations. Unemployment Rate in China decreased to 5.60% in August from 5.70% in July 2020. We maintain our outlook of the Chinese economy growing only 1.8% in 2020 before recovering to 8.1% growth in 2021.**
- **Turkey's economy shrank -9.9% yoy in Q2 2020, after a downwardly revised 4.4% growth in the previous period and compared with market expectations of -11.8% plunge. On a seasonally adjusted quarterly basis, the economy shrank -11%, the most on record, following a downwardly revised -0.1% fall in the previous quarter. Turkey's consumer price inflation rate stood at 11.77% yoy in August 2020, little-changed from the previous month's 11.76%. The unemployment rate in Turkey rose to 13.4% in June of 2020 from 13% in the same month of the previous year, the highest since February amid the coronavirus crisis. We expect a decline of GDP in Turkey of -4% in 2020 and recovery of 5% in 2021.**
- **Governing Council of the ECB took the following monetary policy decisions: (1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. (2) The Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of EUR 1,350 billion. (3) Net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of the year. (4) The Governing Council will also continue to provide ample liquidity through its refinancing operations.**
- **The Bank of England’s Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present is to respond to the economic and financial impact of the Covid-19 pandemic. At its meeting ending on 16 September 2020, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.1%. The Committee voted or the Bank of England to continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at GBP 745 billion.**
- **The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee decided to keep the target range for the federal funds rate at 0 to 0.25% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.**

- At the Monetary Policy Meeting held September 17, 2020, the Policy Board of the Bank of Japan decided upon the following. (1) Yield curve control The Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent 0%. (2) Guidelines for asset purchases. With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines. a) The Bank Of Japan will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively. b) As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2 trillion and about JPY 3 trillion, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of JPY 7.5 trillion for each asset.

- The PBOC intends to maintain relatively high interest rates in China, in stark contrast to its peers elsewhere, and expects the current rate differential between the higher-yielding 10-year Chinese government bond and the 10-year US Treasury to stay above 2% “for the foreseeable future”. As it stands, the recovery of the Chinese economy has proceeded without China’s central bank going all-in with monetary policy loosening. Consequently, and in contrast to many other major central banks, the PBOC still has plenty of options in its monetary policy toolkit it could resort to if it feels the need.

- The Turkish lira TRY fell to a new record low of 7.5649 against the US dollar on 17.09.2020. The lira has lost over 25% against the USD this year amid concerns about depleting foreign exchange reserves, inflationary pressures and a sizable current account deficit. The policy rate in Turkey has been cut from 24% in July 2019 to 8.25% in May 2020, total 15.75% cut. The political pressures on the central bank is to stimulate growth at all costs. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. Turkish bank stocks, hardest hit by a selloff of Istanbul equities from foreigners, are trading at a record discount to local industrial sectors.

- The Brent price increases 0.15 USD/BBL or 0.35% to 43.450 USD/BBL on September 18. The price of crude oil increases 0.10 USD/BBL or 0.24% to 41.070 USD/BBL on September 18. Oil prices were higher on 18.09.2020, amid hopes over a recovery in fuel demand. Sentiment was also lifted by reports that finance ministers and central bankers from China, Japan, and South Korea agreed today to redouble their efforts to help the region recover from the COVID-19 pandemic. Meanwhile, OPEC+ said Thursday that the group will take action on members that are not complying with massive output cuts to support the global oil market.

- In the first part of September the prices of the main grain contracts on the world stock markets continued to rise. Wheat in the US rose by USD 2.00 to 250.00 USD / ton, that in France follows the same direction by plus EUR 1.50 to 195.00 EUR / ton. Prices in both Ukraine and Russia again reacted more seriously, adding USD 8.00 to USD 225.00 and USD 227.00/ton, respectively. For corn, expectations are for a very good harvest, but its use for biofuels has led to an upward trend - plus USD 10.00 to 194.00 USD / ton in Chicago, plus USD 4.00 in Ukraine to 187.00 USD / ton. Barley in Ukraine also increased by USD 4.00, while in France there was no change and the corresponding quotations are 190.00 USD / ton and 176.00 EUR / ton. For rapeseed in the European Union / Euronext / after a week of calm, prices also rose by EUR 8.50 to 392.50 EUR / ton. Unrefined sunflower oil on the Rotterdam Stock Exchange continued goes up steeply, this time the rebound is a record - plus USD 110.00 to 1080.00 USD / ton, and refined sugar followed the wave of increase and added USD 13.90 to 368.20 USD / ton on the London Stock Exchange.

- **In Bulgaria the new cases of Covid-19 from 44 to 21.09.2020. The total number of laboratory-confirmed infections in the country is 18,863. 13,580 were cured and 761 died.**
- **As of October 1, 2020, Bulgaria will join the Unified Restructuring Mechanism, together with the accession to the Unified Supervisory Mechanism and the beginning of close cooperation between the Bulgarian National Bank and the European Central Bank.**
- **In January – July 2020 the current and capital account was positive amounting to EUR 1,560.6 million (2.7% of GDP2), compared with a surplus of EUR 1,493.4 million (2.5% of GDP) in January – July 2019. In January – July 2020 the current account was positive and amounted to EUR 968.3 million (1.7% of GDP), compared with a surplus of EUR 928.1 million (1.5% of GDP) in January – July 2019. In January – July 2020 the balance on goods was negative amounting to EUR 548.1 million (1% of GDP), compared with a deficit of EUR 1,716.8 million (2.8% of GDP) in January – July 2019. Current Account to GDP in Bulgaria is expected to reach 1% in 2020. In the long-term, the Bulgaria Current Account to GDP is projected to trend around 3% in 2021 and 0.6% in 2022.**
- **In January-July 2020, the net flows of foreign direct investments in Bulgaria recorded a positive value of EUR 1,407.4 million (2.5% of GDP) in January – July 2020, growing by EUR 494.8 million (54.2%) from January – July 2019 (positive value of EUR 912.6 million, 1.5% of GDP.**
- **In July 2020 the foreign reserves of the BNB amounted to BGN 55.3 billion (EUR 28.2 billion) and increased by 14.4% yoy, maintaining the stability of the Currency Board in Bulgaria. Foreign reserves to GDP in Bulgaria is expected to reach 47% 2020. In the long-term, the Bulgaria Foreign reserves to GDP is projected to trend around 48% 2021 and 49% in 2022.**
- **According to the seasonally adjusted data, GDP decreased by 8.5% in Q2 of 2020 compared with the same quarter of 2019 GDP in Q2 of 2020 declined by 11.4% in EU compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria decreased by 10.0%. GDP Annual Growth Rate in Bulgaria is expected to be -8% in 2020. Looking forward, we estimate GDP Annual Growth Rate in Bulgaria to stand at 5% in 2021 and 3% in 2022.**
- **In August 2020, the total business climate indicator increases by 0.5 percentage points in comparison with the previous month, which is due to the more favourable business climate in service sector. Business climate indicator in Bulgaria is expected to be 15.00 index points by the end of 2020. Looking forward, we estimate Business Confidence in Bulgaria to stand at 21.00 in 2021 and 23.00 index points in 2022.**
- **According to the preliminary data in July 2020 the Industrial Production Index, seasonally adjusted, increased by 2.3% as compared to June 2020. In July 2020 the working day adjusted Industrial Production Index fell by 6.0% in comparison with the same month of 2019. Industrial Production in Bulgaria is expected to decline by – 9% yoy. Looking forward, we estimate Industrial Production in Bulgaria to stand at 5.4% in 2021 and 3.2% in 2022.**
- **According to the preliminary seasonally adjusted data in July 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.1% compared to the previous month. Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.**
- **According to the preliminary data, in July 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% below the level of the previous month. In July 2020 the working day adjusted index of production in construction decreased by 3.9% in comparison with the same month of 2019. Construction Output in Bulgaria is expected to be -2.0% yoy in 2020. Looking forward, we estimate Construction Output in Bulgaria to stand at 5.5% in 2021 and 5% in 2022.**
- **In July 2020, during the continuing epidemic situation in the country, the revenues from overnight stays in June 2020 reached BGN 122.4 million, or by 64.6% less compared to June 2019.**
- **The consumer price index in August 2020 compared to July 2020 was 100.0%, i.e. the monthly inflation was 0.0%. The inflation rate since the beginning of the year has been -0.5% and the annual inflation in August 2020 compared to August 2019 was 1.2% .The annual average inflation, measured by CPI, in the last 12 months (September 2019 - August 2020) compared to the previous 12 months (September 2018 - August 2019) was 2.5%. Inflation Rate in Bulgaria is expected to be 0.5% in 2020. Looking forward, we estimate Inflation Rate in Bulgaria to stand at 2.2% in 2021 and 2% in 2022.**
- **At the end of August 2020 the unemployment rate in Bulgaria is 7.5% ot lessby 0.4 pps compared to July but 2.2 pps higher compared to August 2019. Registered Unemployment Rate in Bulgaria is expected to be 9.0% in 2020. Looking forward, we estimate Unemployment Rate in Bulgaria to stand at 8% in 2021 and 7% in 2022.**

- **At the end of July 2020 Bulgaria's budget balance presented 1.5% of full year projected GDP. Bulgaria's fiscal reserve amounted at BGN 8.89 billion or 8.4% of GDP. As of August 2020, the surplus of revenues over expenditures under the CFP is expected to be BGN 1,533.4 million (1.3 % of the forecast GDP). Government Budget in Bulgaria is expected to reach -3.0% of GDP by the end of 2020. In the long-term, the Bulgaria Government Budget is projected to trend around -1.0% of GDP in 2021 and 0% in 2022.**
- **As at end-July 2020, central government debt stands at BGN 24,266.1 million and presented 20,7% of full year GDP projection. Government Debt to GDP in Bulgaria is expected to be 23% by the end of 2020. Looking forward, we estimate Government Debt to GDP in Bulgaria to stand at 24% in 2021 and in 2022.**
- **Bulgaria issued dual-tranche EUR 1.25bn 10yr and EUR 1.25bn 30yr Eurobond offering. The transaction marks several milestones as it is the second largest deal for the Government with the 10yr achieving the lowest ever coupon / yield / re-offer spread for Bulgaria. It is also worth mentioning that the 30yr tranche is the longest tenor Bulgaria issued in. This offering has further populated Bulgaria's curve and increased its overall liquidity.**
- **In January-July 2020, the assets of the banking system increased by 2% mom and by 1.4% yoy, respectively to BGN 117.7 billion with the main contribution to the growth of deposits and balance sheet capital. Gross loans and advances to customers amounted to BGN 67.2 billion and increased by 0.3% mom and by 7.3% yoy, respectively. The attracted funds from clients amount to BGN 94.8 billion and increase by 1.5% mom and by 8.1% yoy, respectively. The equity in the balance sheet of the banking system at the end of July 2020 amounted to BGN 15.0 billion, increasing by BGN 302 million (2.0%) during the month.**

GLOBAL TRENDS

Advanced countries' economies

Eurozone

The Euro Area economy shrank -11.8% qoq in Q2 2020, slightly less than initial estimates of a -12.1% fall. Still, it is the biggest contraction on record, pushing the economy to a recession as the coronavirus restrictions hurt most sectors. Among the bloc's largest economies, Spain posted the biggest decrease in economic activity (-18.5%), followed by France (-13.8%), Italy (-12.8%) and Germany (-9.7%). The Euro Area economy shrank -14.7% year-on-year in the three months to June of 2020, slightly less than initial estimates of a -15% fall. Household consumption went down -15.9%, investment plunged -21.1%, government spending decreased -2.5%. Also, exports sank -21.5% and imports dropped -20.7%. **The Eurozone consumer prices** are expected to fall -0.2% from a year earlier in August 2020, the first decline since May 2016 and well below market expectations of a 0.2% rise, a preliminary estimate showed. Prices should fall for both energy products (-7.8% vs -8.4% in July) and non-energy industrial goods (-0.1% vs 1.6%). **The Euro Area seasonally-adjusted unemployment rate** rose to 7.9% in July 2020 from a downwardly revised 7.7% in the previous month but slightly below market expectations of 8%. It was the highest jobless rate since November 2018, as the coronavirus pandemic hit the labor market. Among the bloc's largest economies, the highest jobless rates were recorded in Spain (15.8%), Italy (9.7%), and France (6.9%) while the lowest was observed in Germany (4.4%). Considering the European Union as a whole, the jobless rate was 7.2% in July, up from 7.1% in the prior month. In the euro area, the retail sector has taken the lead on the recovery while the industrial sector and exports are lagging behind. The recovery from the sharp economic contraction inflicted by the Covid-19 pandemic continues, though there remains substantial uncertainty surrounding the strength of that recovery. The downside risks continue to outweigh the upside risks, but there are signals that the worst is behind us and that new strict lockdowns are less likely going forward given rising objections in society, but also thanks to more efficient and targeted precautionary measures. This, on balance, leads to a slightly more optimistic picture, though our overall economic outlook is still relatively cautious. **Our 2020 base case annual growth forecast for euro area is -8.3%. We expect recovery of 5.2% in 2021.**

Italy

Italy's GDP shrank by -12.8% qoq in the three months to June 2020, compared to a preliminary reading of a -12.4% plunge and following a revised -5.5% contraction in the previous period. That was the steepest pace of contraction since comparable series began in the 1960s as the country was one of the hardest hit by the coronavirus pandemic. The government was forced to introduce rigid restriction measures from March 9th, which were only gradually eased from May 4th. Both consumer spending (-6.7% vs -4% in Q1) and gross fixed capital formation (-2.6% vs -1.4%) declined at a faster pace, while government expenditure went down -0.2%, the same as in the prior period. Also, external demand contributed negatively to the GDP (-2.4%). Year-on-year, the economy contracted a record -17.7%, entering a steep recession. **Consumer prices in Italy** fell -0.5% year-on-year in August of 2020, following a -0.4% decrease in the previous month and in line with preliminary estimates. It was the fourth consecutive month of falls in the consumer prices, as cost declined faster for transport (-3.9% vs -3.3%). On a monthly basis, consumer prices edged up 0.3%, after a -0.2% drop in July. **Italy's unemployment rate** rose to 9.7% in July of 2020 from an upwardly revised 9.3% in the previous month and above market expectations of 9.1%. It was the highest jobless rate since September of 2019, as the coronavirus pandemic continues to hit the labour market. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, rose to 31.1% from 29.6% in June, the highest since February of 2019. **We expect a contraction of Italian GDP of -10.7% in 2020. We expect a recovery in Italy of 4.1% in 2021.**

Spain

Spain's economy shrank by a record -22.1% yoy in Q2 of 2020, entering a steep recession and compared to market expectations of a -19.7% fall, a preliminary estimate showed, as coronavirus-induced lockdowns hit activity and consumption. Spain's gross domestic product shrank by -18.5% on quarter in the three months to June 2020, the steepest period of contraction on record and compared to market expectations of a -16.6% fall, a preliminary estimate showed. The contraction was triggered by one of Europe's strictest coronavirus lockdowns, which dragged the country to its steepest recession ever. **Consumer prices in Spain** fell -0.5% year-on-year in August of 2020, following a -0.6% decrease in the prior month, matching a preliminary estimate. It was the fifth consecutive month of deflation. The harmonized index of consumer prices decreased -0.6% over a year earlier, after declining -0.7% in July, in line with a preliminary estimate. On a monthly basis, both consumer prices and the harmonized index were flat 0%, matching a preliminary estimate. **Spain's unemployment rate** rose to 15.33% in the second quarter of 2020, the highest since the first quarter of 2018, but below market expectations of 16.70% with the extent of the coronavirus crisis being masked by leaving out people on furlough and those not meeting technical jobless criteria. **We expect a decline of GDP in Spain of -12.7% in 2020 and recovery of 7.2% in 2021.**

France

France's economy shrank by a record -18.9% yoy in Q2 2020, entering a steep recession, as coronavirus-induced lockdowns hit activity and consumption. The French economy shrank at a record -13.8% on quarter in the second quarter of 2020, in line with preliminary estimates, and following a -5.9% fall in the previous period. The economic recession deepened as the COVID-19 outbreak took a huge toll on the economy, with non-essential activities being closed between mid-March and the beginning of May. The French central bank expects the economy to shrink -10% in 2020 and rebound 7% in 2021 and 4% in 2022, according to forecasts made in June of 2020. **Annual inflation rate** in France eased to 0.2% in August of 2020 from 0.8% in July, matching preliminary estimates. On a monthly basis, consumer prices were down -0.1%. The harmonized index also gained 0.2% on the year and declined -0.1% on the month. **The unemployment rate** in France declined to 7.1% in the second quarter, the lowest level since the three months to June 1983 and below market expectations of 8.3%, due to a sharp fall in the number of jobless persons declaring themselves actively looking for work during the period of lockdown. **We expect a decline of GDP growth in France of -10.5% in 2020 and recovery of 6.4% in 2021.**

Slovenia

Slovenia's economy shrank -13% yoy in Q2 2020, after an upwardly revised -2.5% contraction in the previous period. The GDP fell for the second consecutive quarter and at the sharpest pace on record, mainly due to the negative impact of the country's coronavirus-induced lockdown. Consumer spending declined -16.6%, much faster than a -5.8% contraction in Q1 2020; and gross fixed capital formation slipped -16.7%, after decreasing -5.5%. Meanwhile, government expenditure rose 1.5%, slowing from a 4.9% increase in the previous period. Regarding net trade, exports plunged -24.5% (vs -1.9% in Q1) and imports slumped -25% (vs -1.9% in Q1). On a seasonally adjusted quarterly basis, the economy shrank at a record -9.6%, following an upwardly revised -4.8% contraction in the prior period. **Consumer prices in Slovenia** fell -0.1% yoy in August of 2020, retreating after a 0.3% rise in July. The largest downward impact came from lower prices of petroleum products. On a monthly basis, consumer prices were flat 0%. **Slovenia's unemployment rate** stood at 9.2% in June 2020, little-changed from two-and-a-half-year high of 9.3% in the previous month and well above 7.3% in the same period last year. **We expect a decline of GDP in Slovenia of -10% in 2020 and recovery of 7% in 2021.**

Lithuania

Lithuanian economy shrank -5.5% on quarter in the three months to June 2020, worse than an earlier estimate of a -5.1% contraction and compared to a 0.3% growth in the previous period. This was the second straight quarter of contraction in GDP and the steepest fall since the first quarter 2009. On a yearly basis, the GDP contracted by -4.2%, the first contraction since the first quarter 2010, reversing a 2.4% expansion in the previous period. **Lithuania's annual inflation rate** increased to 1.3% in August of 2020, the most since March, from 1.0% in the previous month. On a monthly basis, consumer prices went down -0.2% in August, after a -0.3% drop in July. **Unemployment Rate** in Lithuania increased to 13.70% in August from 12.80% in July of 2020.

Poland

Poland's gross domestic product shrank by -8.2% from a year earlier in the second quarter of 2020, the biggest pace of contraction on record, as restriction measures imposed to curb the spread of the coronavirus hit activity and demand. Household consumption tumbled 6.3% and fixed investment dropped 1.8%, while government spending grew by 0.8% for the second consecutive period. Net external demand contributed positively to the GDP as imports fell more than exports. On a quarterly basis, the economy shrank by a record -8.9%, entering a recession. **Poland's annual inflation rate** was confirmed at 2.9% in August 2020, little-changed from the previous month's 3.0%. On a monthly basis, consumer prices edged down 0.1% in August, after a 0.2% decrease in July. **Poland's unemployment rate** came in at 6.1% in July of 2020, unchanged from the previous month and in line with market expectations. It remains the highest jobless rate since February of 2019, as the number of unemployed increased by 3 thousand from a month earlier to an over two-year high of 1,030 thousand. A year ago, the jobless rate was lower at 5.2%. **We expect a decline of GDP in Poland of -3% in 2020 and recovery of 4.8% in 2021.**

Romania

The Romanian gross domestic product contracted -10.5% yoy in Q2 2020, matching the preliminary estimates, after a 2.4% expansion in the previous period. This was the first contraction in the GDP since the fourth quarter 2010 and the steepest contraction since the series began in the first quarter 1996, as household consumption tumbled (-13.3% vs 3.8% in Q1) while both exports (-28.5% vs -5.5%) and imports (-21.6% vs 0.8%) slumped. On a seasonally adjusted quarterly basis, the economy shrank -12.3%, the most since the data began in the second quarter 1995, after a 0.3% growth in the first quarter. **Romania's annual inflation rate** edged down to 2.7% in August 2020 from 2.8% in the previous month, below market estimates of a 2.8% rise. On a monthly basis, consumer prices went up 1.5% in August, following a flat reading 0% in July. **Romania's seasonally adjusted unemployment** inched up to 5.4% in July 2020 from an upwardly revised 5.3% in the previous month. This was the highest jobless rate since December 2016. **We expect a decline of GDP in Romania of -10% in 2020 and recovery of 6% in 2021.**

Great Britain

Britain's gross domestic product slumped by -21.7% yoy in Q2 of 2020, the biggest fall since comparable records began in 1956 and compared with market expectations of a -22.4% plunge, a preliminary estimate showed. There was a widespread disruption to economic activity due to the coronavirus pandemic and the government's efforts to contain it. UK gross domestic product shrank by -20.4% in the second quarter of 2020, the most since comparable records began in 1955 and compared to market expectations of a -20.5% contraction, a preliminary estimate showed. That was the second consecutive quarterly decline in GDP, officially entering a recession, due to the COVID-19 pandemic and the government measures taken to reduce transmission of the virus. Private consumption accounted for more than 70% of the decline in the GDP, down by -23.1%; there were also notable falls in gross fixed capital formation (-25.5%) and government consumption (-14.0%). Net external demand contributed positively as imports fell more than exports. **Annual inflation rate** in the United Kingdom slowed sharply to 0.2% in August of 2020 from 1% in July, compared to forecasts of a flat reading. It is the lowest reading since December of 2015, amid a big fall in prices in restaurants and cafes, arising from the Eat Out to Help Out Scheme (-2.8% vs +1.8% in July). Other downward contributions came from lower air fares (-20.6% vs -1.9%) and clothing prices (-1.6% vs a flat reading 0%). On a monthly basis, consumer prices fell -0.4%, the biggest drop since January of 2019. **The UK unemployment rate** rose to 4.1% in the three months to July of 2020 from 3.9% in the previous period, matching market expectations. It was the highest jobless rate since the three months to October 2018, as the coronavirus pandemic hit the labour market. The quarterly rise was mainly driven by an increase for unemployed people aged 18 to 24 years and people who have been unemployed for up to six months. **For the UK, we expect a contraction of -9.5% in 2020. We expect a recovery in UK of 6% in 2021.**

USA

The Gross Domestic Product (GDP) in the United States contracted -9.10% in Q2 2020 over the same quarter of the previous year. Still, it is the biggest contraction ever, pushing the economy into a recession as the coronavirus pandemic forced many businesses including restaurants, cafes, stores and factories to close and people to stay at home, hurting consumer and business spending. Private inventory investment and personal consumption expenditures (PCE) decreased less than previously estimated. In contrast, business investment fell more, mainly due to structures and intellectual property products. The recovery will depend on the capacity of the country to control the pandemic and avoid more waves of infections. Fed officials see the US economy shrinking 6.5% in 2020. **Annual inflation rate** in the US increased to 1.3% in August of 2020 from 1% in July, beating market forecasts of 1.2%. It is the highest rate since March. On a monthly basis, consumer prices went up 0.4%, also above forecasts of 0.3%. Excluding food and energy, annual core inflation edged up to 1.7% from 1.6%. **The US unemployment rate** fell to 8.4% in August of 2020 from 10.2% in the previous month, below market expectations of 9.8%, and marking the 4th straight decline after April's all-time high of 14.7%. Still, the jobless rate remains well above 3.5% in February, before the pandemic hit but lower than the 2008/2009 Global Financial Crisis peak of 10%. Official figures still may be far off the reality as many people are being classified as employed even though they are absent from work. The US shows signs of a clear recovery in the economy since the trough was reached in the second quarter. Furthermore, while a number of high frequency indicators suggest that the rebound in Q3 GDP will be quite strong, there are still a number of reasons to remain cautious. Despite these positive signals, we currently maintain our cautious outlook on the US economy, as the strength of the recovery remains questionable particularly as there is uncertainty as to if, when and how fully a further fiscal stimulus might replace income support measures that have now run out. **For the US, we expect growth to contract -5.5% in 2020. We expect a recovery in US of 4.5% in 2021.**

Japan

The Japanese economy shrank 7.9% on quarter in Q2 2020, compared with the preliminary reading of a 7.8% decline and market consensus of an 8.1% drop, and after a 0.6% fall in Q1. This was the third straight quarter of contraction and the steepest on record, amid the severe impact of the COVID-19 crisis. Private consumption tumbled, falling for the third straight quarter (-7.9% vs -0.7% in Q1); government spending dropped the most in four years (-0.6% vs flat reading); and capital expenditure slumped (-4.7% vs 1.7% gain in Q1) and worse than estimates of a 3.1% fall. In addition, net external demand subtracted 3.0% off growth, with exports falling the most since Q1 2009 (-18.5% vs -5.4% in Q1) and imports declining for the third straight quarter (-0.5% vs -4.2%). On an annualized basis, the Gross Domestic Product (GDP) in Japan contracted 9.90% in the second quarter of 2020 over the same quarter of the previous year. **Japan's consumer price inflation** dropped to 0.2% yoy in August from 0.3% in July 2020, as the pandemic continued to hamper consumption excluding food. On a monthly basis, consumer prices edged down 0.1% after edging up 0.2%. Core consumer prices, which exclude fresh food, fell a sharp 0.4% after remaining unchanged in the two previous months. **The unemployment rate** in Japan edged up to 2.9% in July 2020 compared to 2.8% in the prior month and market expectations of 3%. It was still the highest jobless rate since May 2017 and is higher than the 2.2% in the same month of the previous month. **We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.**

China

In Q2 2020 China reported 3.4% yoy **GDP growth**. On a seasonally adjusted quarterly basis, the Chinese economy reported 11.5% qoq increase. Indeed, China is the only major economy that is expected to grow in 2020, with its swift economic turnaround in Q2 offsetting the substantial growth decline the country experienced in Q1. A closer look at the data, however, reveals a ‘two-speed’ economic recovery that is in contrast with developments in Europe and the US. In particular, the Chinese recovery has been led by investment and the industrial sector, rather than by consumption and the services sector. This is evident in the breakdown of Q2 GDP data, where consumption remained fairly weak and subtracted 2.4% from year-over-year growth (which amounted to 3.2% yoy). Investment, meanwhile, contributed a positive 5.0% to second quarter GDP growth. This two-speed recovery can also be seen in more frequent industrial production and retail trade data. Industrial production has grown in yearover- year terms from April through August, with the pace of growth quickening to 5.6% yoy in August from 4.8% yoy in July. In comparison, retail trade in August posted the first year on year increase of 2020 but was up only 0.5% yoy, following an annual decline in July of 1.1%. Evidence of a pick-up on the consumer side of the economy may warrant an upgrade to our relatively conservative 2020 growth forecast of 1.8%, but for now we keep that outlook stable given still substantial uncertainty. **China's annual inflation rate** eased to 2.4% in August 2020 from 2.7% in the previous month and in line with market expectations. This was the lowest figure since May. On a monthly basis, consumer prices rose 0.4% in August, following a 0.6% gain in July. **Unemployment Rate** in China decreased to 5.60% in August from 5.70% in July 2020. **We maintain our outlook of the Chinese economy growing only 1.8% in 2020 before recovering to 8.1% growth in 2021.**

Turkey

Moody's Investors Service ("Moodys") has downgraded the government of Turkey's issuer and senior unsecured debt ratings to B2 from B1 and downgraded its senior unsecured shelf rating to (P)B2 from (P)B1 on 12.09.2020. The negative outlook has been maintained. **Turkey's economy** shrank -9.9% yoy in Q2 of 2020, after a downwardly revised 4.4% growth in the previous period and compared with market expectations of -11.8% plunge. It was the sharpest contraction since the first quarter of 2019, as the coronavirus pandemic hit the economy. Household consumption shrank -8.6%, following a 4.5% expansion in the first quarter of the year; and government spending contracted -0.8%, after growing 3.2%. Additionally, fixed investment slumped -6.1%, following a -0.3% drop in the prior period. Exports plunged -35.3% (vs- 0.3% in Q1) and imports declined at a softer -6.3% (vs -21.9% in Q1). On a seasonally adjusted quarterly basis, the economy shrank -11%, the most on record, following a downwardly revised -0.1% fall in the previous quarter. **Turkey's consumer price inflation rate** stood at 11.77% year-on-year in August 2020, little-changed from the previous month's 11.76% and compared to market expectations 11.91%, even as the lira hit an all-time low. The annual core inflation rate, which excludes volatile items such as energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to 11.03% in August from 10.25% in July. **The unemployment rate** in Turkey rose to 13.4% in June of 2020 from 13% in the same month of the previous year, the highest since February amid the coronavirus crisis. The youth jobless rate aged between 15-24 years increased to 26.1% from 24.8% in June of 2019. **We expect a decline of GDP in Turkey of -4% in 2020 and recovery of 5% in 2021.**

Policy of the central banks

European Central Bank (ECB)

At meeting in 10 September 2020 the Governing Council of the ECB took the following monetary policy decisions:
(1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.
(2) The Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of EUR 1,350 billion.
(3) Net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of the year.
(4) The Governing Council will also continue to provide ample liquidity through its refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III) has registered a very high take-up of funds, supporting bank lending to firms and households.
The Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Bank of England (BoE)

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present is to respond to the economic and financial impact of the Covid-19 pandemic. At its meeting ending on 16 September 2020, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at GBP 745 billion. The outlook for the economy remains unusually uncertain. The Monetary Policy Committee's central projections in the August Monetary Policy Report assumed that the direct impact of Covid-19 on the economy would dissipate gradually. They were also conditioned on the assumption of an immediate, orderly move to a comprehensive free trade agreement with the European Union on 1 January 2021. Conditional on those assumptions, UK GDP was projected to continue to recover. Activity was also supported by substantial fiscal and monetary policy actions. Nonetheless, the recovery in demand took time as health concerns were expected to drag on activity. The unemployment rate was projected to rise markedly, consistent with a material degree of spare capacity, before declining gradually. Conditioned on prevailing market yields, CPI inflation was expected to be around 2% in two years' time. Recent domestic economic data have been a little stronger than the Committee expected at the time of the August Report, although, given the risks, it is unclear how informative they are about how the economy will perform further out. The recent increases in Covid-19 cases in some parts of the world, including the United Kingdom, have the potential to weigh further on economic activity, albeit probably on a lesser scale than seen earlier in the year. As in the August Report, there remains a risk of a more persistent period of elevated unemployment than in the central projection. The Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

Federal Reserve

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals. The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 0.25% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses. In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Bank of Japan (BoJ)

At the Monetary Policy Meeting held September 17, 2020, the Policy Board of the Bank of Japan decided upon the following.
(1) Yield curve control The Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent 0%.
(2) Guidelines for asset purchases. With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines.
a) The Bank Of Japan will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively.
b) As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2 trillion and about JPY 3 trillion, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of JPY 7.5 trillion for each asset.

PBoC

In other major economies, the response of central banks to Covid-19 has led to the dramatic loosening of monetary policy. Moves towards accommodative policy have seen interest rates slashed and large-scale asset purchase programmes unveiled in an attempt to cushion economies from the impact of Covid-19. The PBOC has adopted a different, more nuanced strategy. It noted in its first-quarter monetary policy report, published in May, that the policy moves of other major central banks meant “major economies have less room for policy manoeuvre”. The PBOC has adopted a more cautious policy stance, removing “targets for credit growth and interest rate cuts” and with support for China’s real economy directed “via [required reserve ratio]-facilitated bond issuance and targeted lending”. The PBOC intends to maintain relatively high interest rates in China, in stark contrast to its peers elsewhere, and expects the current rate differential between the higher-yielding 10-year Chinese government bond and the 10-year US Treasury to stay above 2% “for the foreseeable future”. As it stands, the recovery of the Chinese economy has proceeded without China’s central bank going all-in with monetary policy loosening. Consequently, and in contrast to many other major central banks, the PBOC still has plenty of options in its monetary policy toolkit it could resort to if it feels the need. Looking ahead, PBOC governor Yi Gang said that in the second half of 2020, China’s “monetary policy will be more flexible and appropriate and better targeted, and existing policies to stabilise businesses and safeguard employment will be fully implemented”. All economies have been hit by the global health emergency that is Covid-19. Even so, China is exhibiting some signs of recovery while the PBOC still has plenty of policy options that could be deployed if required.

Central Bank of Turkey

The Turkish lira TRY fell to a new record low of 7.5649 against the US dollar on 17.09.2020. The lira has lost over 25% against the USD this year amid concerns about depleting foreign exchange reserves, inflationary pressures and a sizable current account deficit. The policy rate in Turkey has been cut from 24%in July 2019 to 8.25% in May 2020, total 15.75% cut. The political pressures on the central bank is to stimulate growth at all costs. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. Turkish bank stocks, hardest hit by a selloff of Istanbul equities from foreigners, are trading at a record discount to local industrial sectors. An index of major local banks has slid 32% this year, while the Borsa Istanbul Industrials Index has gained 17%. The lenders are trading at a 61% discount, based on estimated 12-month earnings, the widest gap since at least 2006. Bank stocks are typically favored among foreign investors, partly because of their relatively high liquidity. That means they have felt the worst of the USD 5.6 billion in net outflows of Istanbul stocks by non-residents so far in 2020, on track to make this a record year for redemptions from foreign investors. Turkish banks may be profitable and remain well capitalized, but a 21% slide in the lira and concerns about policies that prioritize economic growth above all else, pushing record credit stimulus, have deterred foreign institutions. The Monetary Policy Committee (the Committee) has decided to keep the policy rate (one-week repo auction rate) constant at 8.25%. Along with the pandemic-related rise in unit costs, exchange rate and credit developments restrain the demand-side disinflationary effects, and the trends of core inflation indicators have increased. As the normalization process continues, supply-side factors, which have prevailed recently due to pandemic-related restrictions, will phase out. The gradual normalization of pandemic-specific financial measures and recent tightening steps taken in liquidity management are judged to support macro financial stability. However, depending on the course of the pandemic, uncertainties regarding domestic and external demand conditions remain significant. Accordingly, the Committee decided to keep the policy rate unchanged, while continuing with liquidity measures. The Committee assesses that maintaining a sustained disinflation process is a key factor for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, monetary stance will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives.

International commodity prices

Oil

The Brent price increases 0.15 USD/BBL or 0.35% to 43.450 USD/BBL on September 18. The price of crude oil increases 0.10 USD/BBL or 0.24% to 41.070 USD/BBL on September 18. Oil prices were higher on 18.09.2020, amid hopes over a recovery in fuel demand. Sentiment was also lifted by reports that finance ministers and central bankers from China, Japan, and South Korea agreed today to redouble their efforts to help the region recover from the COVID-19 pandemic. Meanwhile, OPEC+ said that the group will take action on members that are not complying with massive output cuts to support the global oil market. WTI crude rose over 9%, while the global benchmark is also on track for a weekly gain, as Hurricane Sally cut US crude output. Reuters reported that US onshore drillers began a clear-up 17.09.2020 after the hurricane weakened and started rebooting rigs in the Gulf of Mexico. Brent crude on 18.09.2020 also rose and the international crude benchmark is on track for a massive weekly gain. Supporting prices this week were data from both the EIA and API showing a surprise draw in oil inventories and more supply disruption in the US Gulf of Mexico. On top of that, Saudi Arabia pledged full compliance with the cuts, putting pressure on the UAE, Nigeria and Iraq, the alliance's quota violators, to extend the compensation period from September until the end of December.

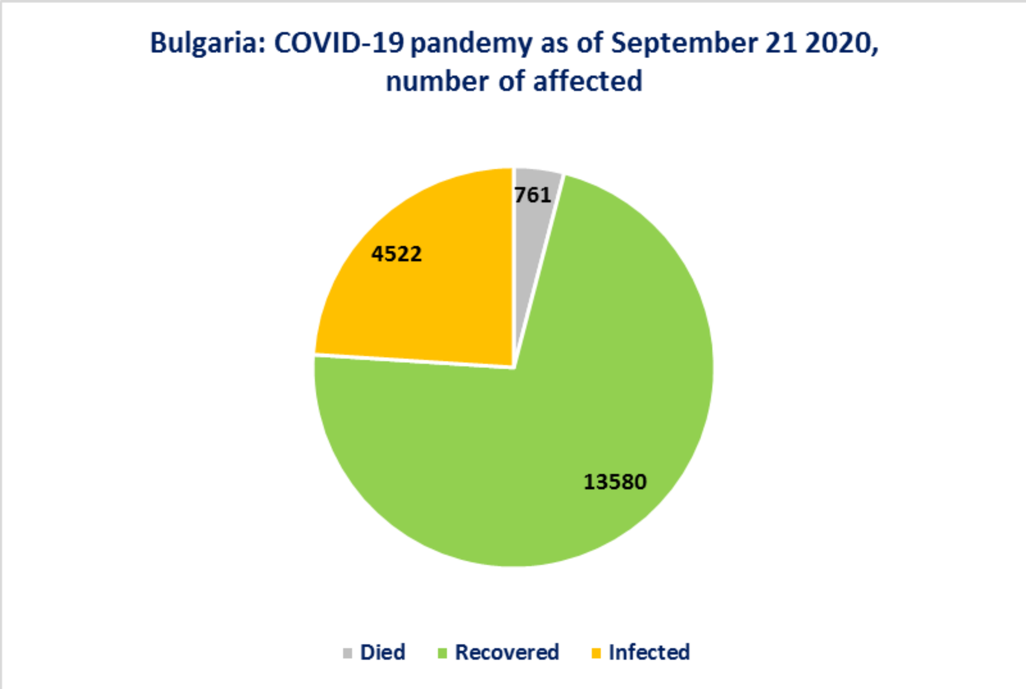
Agriculture goods

In the firs part of September the prices of the main grain contracts on the world stock markets continued to rise. Wheat in the US rose by USD 2.00 to 250.00 USD / ton, that in France follows the same direction by plus EUR 1.50 to 195.00 EUR / ton. Prices in both Ukraine and Russia again reacted more seriously, adding USD 8.00 to USD 225.00 and USD 227.00/ton, respectively. For corn, expectations are for a very good harvest, but its use for biofuels has led to an upward trend - plus USD 10.00 to 194.00 USD / ton in Chicago, plus USD 4.00 in Ukraine to 187.00 USD / ton. Barley in Ukraine also increased by USD 4.00, while in France there was no change and the corresponding quotations are 190.00 USD / ton and 176.00 EUR / ton. For rapeseed in the European Union / Euronext / after a week of calm, prices also rose by EUR 8.50 to 392.50 EUR / ton. Unrefined sunflower oil on the Rotterdam Stock Exchange goes up steeply, this time the rebound is a record - plus USD 110.00 to 1080.00 USD / ton, and refined sugar followed the wave of increase and added USD 13.90 to 368.20 USD / ton on the London Stock Exchange. In the "Grain" sub-district of the Sofia Commodity Exchange AD most of the offers remain at the previous price levels. Bread wheat is sought at 310.00 BGN / ton, the supply is with a small difference of 310.00 - 320.00 BGN / ton. The fodder is in demand at 300.00 BGN / ton. The corn moved up - 290.00 - 295.00 and 300.00 - 305.00 BGN / ton for buying and selling, respectively. In the case of oilseed sunflower from a place, the demand prices followed the world trend and rose significantly - 700.00 - 710.00 BGN / ton, the sellers also quoted high at 720.00 - 740.00 BGN / ton. All prices are without VAT.

II.BULGARIA: ACCENTS AND PROJECTIONS

HEALTH

In Bulgaria the new cases of Covid-19 from 44 to 21.09.2020. The total number of laboratory-confirmed infections in the country is 18,863. 13,580 were cured and 761 died. The Ministry of Health wants an extension of the epidemic until the end of September. A survey of teachers shows that most prefer to return to the classrooms at the beginning of the school year, and that they are massively opposed to a hybrid form of education. The new procedure for compensation of employers in the field of transport and tourism makes it possible to keep nearly 22 thousand jobs in the sectors, and farmers submit applications for support under the extraordinary measure COVID.



EXTERNAL SECTOR

Bulgaria will join the Unified Restructuring Mechanism

As of October 1, 2020, Bulgaria will join the Unified Restructuring Mechanism, together with the accession to the Unified Supervisory Mechanism and the beginning of close cooperation between the Bulgarian National Bank and the European Central Bank. restructuring of significant credit institutions and cross-border groups within the meaning of Regulation (EU) № 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and uniform procedures for the restructuring of credit institutions and certain investment firms under the Single Restructuring Mechanism and the Single Fund for Restructuring restructuring and amending Regulation (EU) № 1093/2010. The ECA will also monitor the process of planning the restructuring of smaller banks, the so-called less significant institutions. As a national body for restructuring of a member state participating in the Banking Union, the Bulgarian National Bank will have a representative in the Plenary Session and the Extended Executive Session of the ECA with the same rights and obligations as all other members, including the right to vote. BNB Kalin Hristov - Deputy Governor, Head of the Issuance Department, has been appointed as a representative of the Bulgarian National Bank in the Plenary Session and the Extended Executive Session of the ECA.

Balance of payments

The current and capital account recorded a surplus of EUR 427.7 million in July 2020, compared with a surplus of EUR 743.1 million in July 2019. In January – July 2020 the current and capital account was positive amounting to EUR 1,560.6 million (2.7% of GDP), compared with a surplus of EUR 1,493.4 million (2.5% of GDP) in January – July 2019. The current account was positive amounting to EUR 309.6 million in July 2020, compared with a surplus of EUR 609.2 million in July 2019. In January – July 2020 the current account was positive and amounted to EUR 968.3 million (1.7% of GDP), compared with a surplus of EUR 928.1 million (1.5% of GDP) in January – July 2019. The balance on goods recorded a deficit of EUR 10.8 million in July 2020, compared with a deficit of EUR 231.3 million in July 2019. In January – July 2020 the balance on goods was negative amounting to EUR 548.1 million (1% of GDP), compared with a deficit of EUR 1,716.8 million (2.8% of GDP) in January – July 2019. Exports of goods amounted to EUR 2,451.5 million in July 2020, dropping by EUR 220.6 million (8.3%) from EUR 2,672 million in July 2019. In January – July 2020 exports of goods totalled EUR 15,517.1 million (27.3% of GDP), dropping by EUR 1,220.5 million (7.3%) year-on-year (from EUR 16,737.6 million, 27.6% of GDP). In January – July 2019 exports grew by 6.4% year-on-year. Imports of goods amounted to EUR 2,462.3 million in July 2020, dropping by EUR 441 million (15.2%) from July 2019 (EUR 2,903.4 million). In January – July 2020 imports of goods totalled EUR 16,065.2 million (28.3% of GDP), down by EUR 2,389.2 million (12.9%) from January – July 2019 (EUR 18,454.4 million, 30.4% of GDP). In January – July 2019 imports grew by 6.1% year-on-year. Services recorded a positive balance of EUR 321 million in July 2020, compared with a surplus of EUR 872.8 million in July 2019. In January – July 2020 services recorded a surplus of EUR 1,622.5 million (2.9% of GDP) compared with a positive balance of EUR 2,565.9 million (4.2% of GDP) in the same period of 2019. The net primary income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 16.7 million, compared with a deficit of EUR 173.3 million in July 20193. In January – July 2020 the balance on primary income was negative and equated to EUR 743.2 million (1.3% of GDP), compared with a deficit of EUR 1,142.3 million (1.9% of GDP) in January – July 2019. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 16.1 million, compared with a positive balance of EUR 141.1 million in July 2019. In January – July 2020 the net secondary income was positive amounting to EUR 637.1 million (1.1% of GDP), compared with a positive balance of EUR 1,221.3 million (2% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 118.1 million, compared with a positive balance of EUR 133.9 million in July 2019. In January – July 2020 the capital account recorded a surplus of EUR 592.3 million (1% of GDP), compared with a positive balance of EUR 565.4 million (0.9% of GDP) in January – July 2019. The financial account recorded a negative balance of EUR 181.6 million, compared with a positive value of EUR 441.3 million in July 2019. In January – July 2020 the financial account recorded a net inflow of EUR 1,556.5 million (2.7% of GDP) compared with an inflow of EUR 1,243.7 million (2% of GDP) in January – July 2019. The balance on direct investment was negative amounting to EUR 941.7 million, compared with a negative balance of EUR 324.1 million in July 2019. In January – July 2020 direct investment recorded a negative balance of EUR 1,332.8 million (2.3% of GDP), compared with a negative balance of EUR 683.5 million (1.1% of GDP) in January – July 2019. Direct investment – assets dropped by EUR 40.6 million compared with an increase of EUR 67.4 million in July 2019. In January – July 2020 direct investment – assets grew by EUR 133.1 million (0.2% of GDP) compared with an increase of EUR 222.8 million (0.4% of GDP) in the same period of 2019. Direct investment – liabilities grew by EUR 901.1 million in July 2020, compared with an increase of EUR 391.5 million in July 2019. In January – July 2020 direct investment – liabilities grew by EUR 1,466 million (2.6% of GDP), compared with an increase of EUR 906.3 million (1.5% of GDP) in the same period of 2019. The balance on portfolio investment was positive amounting to EUR 353.1 million, compared with a negative balance of EUR 61.3 million in July 2019. In January – July 2020 the balance was positive and equated to EUR 1,597.3 million (2.8% of GDP), compared with a positive balance of EUR 577.3 million (1% of GDP) in January – July 2019. Portfolio investment – assets grew by EUR 371.8 million compared to a decline of EUR 25.8 million in July 2019. In January – July 2020 they increased by EUR 1,583.6 million (2.8% of GDP) compared with an increase of EUR 539.7 million (0.9% of GDP) in January – July 2019. Portfolio investment – liabilities grew by EUR 18.7 million compared with an increase of EUR 35.5 million in July 2019. In January – July 2020 portfolio investment – liabilities decreased by EUR 13.7 million (0.02% of GDP) compared with a decline of EUR 37.6 million (0.1% of GDP) in January – July 2019. The balance on other investment was positive amounting to EUR 629.8 million, compared with a positive balance of EUR 567.6 million in July 2019. In January – July 2020 the balance was negative and equated to EUR 1,316.9 million (2.3% of GDP), compared with a positive balance of EUR 1,247.3 million (2.1% of GDP) in January – July 2019. Other investment – assets grew by EUR 821.6 million, compared with an increase of EUR 625.4 million in July 2019. In January – July 2020 they decreased by EUR 1,362.7 million (2.4% of GDP) compared with an increase of EUR 1,551.3 million (2.6% of GDP) in January – July 2019. Other investment – liabilities grew by EUR 191.9 million compared with an increase of EUR 57.8 million in July 2019. In January – July 2020 they dropped by EUR 45.8 million (0.1% of GDP) compared with an increase of EUR 304 million (0.5% of GDP) in January – July 2019. The BNB reserve assets5 dropped by EUR 205 million, compared with an increase of EUR 255.1 million in July 2019. In January – July 2020 they increased by EUR 2,678.4 million (4.7% of GDP), compared with an increase of EUR 154.8 million (0.3% of GDP) in the same period of 2019. The net errors and omissions were negative amounting to EUR 609.3 million compared with a negative value of EUR 301.8 million in July 2019. According to preliminary data, the item was negative totalling EUR 4.1 million in January – July 2020, compared with a negative value of EUR

249.8 million (0.4% of GDP) in the same period of 2019. **Current Account to GDP in Bulgaria is expected to reach 1% in 2020. In the long-term, the Bulgaria Current Account to GDP is projected to trend around 3% in 2021 and 0.6% in 2022.**

Bulgaria: Balance of payments	July 2019	July 2020	Change in EUR million	January - July 2019	January - July 2020	Change in EUR million
Current and capital account	743.1	427.7	-315.4	1493.4	1560.6	67.2
Current account	609.2	309.6	-299.6	928.1	968.3	40.3
Trade balance	-231.3	-10.8	220.5	-1716.8	-548.1	1168.7
Primary income, net	-173.3	-16.7	156.6	-1142.3	-743.2	399.1
Secondary income, net	141.1	16.1	-125.0	1221.3	637.1	-584.2
Capital account	133.9	118.1	-15.8	565.4	592.3	26.9
Capital transfers, net	104.4	67.0	-37.5	389.9	579.6	189.6
Financial account	441.3	-181.6	-622.9	1243.7	1556.5	312.9
Source: BNB						

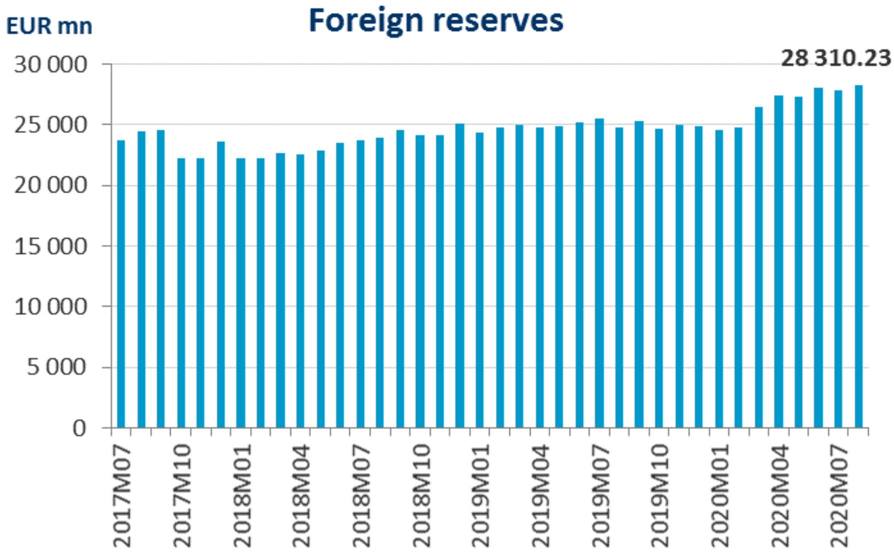
Foreign direct investments

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 1,407.4 million (2.5% of GDP3) in January – July 2020, growing by EUR 494.8 million (54.2%) from January – July 2019 (positive value of EUR 912.6 million, 1.5% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 958.8 million in July 2020, compared with an inflow of EUR 400 million in July 2019. Data presented following the directional principle and compiled in accordance with the methodological requirements of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF, 2008). Source: direct investment companies, banks, notaries, National Statistical Institute, Central Depository, Privatisation Agency. A positive sign denotes an increase in assets and liabilities; a negative sign denotes a decrease in assets and liabilities. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/ payments from/for real estate deals in the country) recorded a positive value of EUR 118.3 million in January – July 2020, growing by EUR 602.2 million from a negative value of EUR 483.9 million in January – July 2019. Real estate investments of non-residents recorded a negative value of EUR 0.2 million, compared with a positive one of EUR 2.9 million in January – July 2019. Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at a positive value of EUR 331.7 million, compared with a positive value of EUR 243.7 million in January – July 2019. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) recorded a positive value of EUR 957.5 million in January – July 2020, compared with a positive value of EUR 1,152.9 million in January – July 2019. The largest net direct investment inflows in Bulgaria for January – July 2020 were from the Netherlands (EUR 192.8 million), Russia (EUR 121.1 million), and Hungary (EUR 107.2 million). According to preliminary data, direct investment abroad totalled EUR 74.6 million (0.1% of GDP), compared with EUR 229.2 million (0.4% of GDP) in January – July 2019. It grew by EUR 17.1 million in July 2020, compared with EUR 75.9 million in July 2019. According to preliminary data, the stocks of foreign direct investment in Bulgaria stood at EUR 45,981.6 million at endMarch 2020, compared with EUR 46,160 million at end-2019. Equity and reinvestment of earnings totalled EUR 36,484.8 million, growing by EUR 139.6 million from EUR 36,345.2 million in December 2019. Debt instruments amounted to EUR 9,496.8 million, decreasing by EUR 318 million from December 2019 (EUR 9,814.8 million).

Bulgaria: Direct investments	July 2019	July 2020	January - July 2019	January - July 2020	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**-324.1**	**-683.5**	**-941.7**	**-1332.8**	**-359.4**	**-391.1**
Direct investments in abroad	**75.9**	**229.2**	**17.1**	**74.6**	**153.3**	**57.5**
Equity	4.2	125.4	1.5	20.4	121.2	18.9
Reinvestments of earnings	3.4	-10.0	0.0	-12.1	-13.4	-12.1
Debt investments	68.3	113.9	15.6	66.2	45.6	50.6
Direct investments in a country	**400.0**	**912.6**	**958.8**	**1407.4**	**512.6**	**448.6**
Equity	-16.5	-483.9	-2.3	118.3	-467.4	120.6
Reinvestments of earnings	175.6	243.7	0.0	331.7	68.1	331.7
Debt investments	240.9	1152.9	961.1	957.5	912.0	-3.6
Source: BNB						

Foreign reserves

According to BNB data, at the end of August 2020 Bulgaria's international reserves amounted to BGN 55.3 billion (EUR 28.8 billion) and increased by 14.4 % on an annual basis, with a monthly инцреасе оф 1.5%. Their increase compared to the end of 2019 is 3.4%. The level of international reserves is optimal and ensures the stability of the Currency Board in Bulgaria. Bulgaria's international liquidity position, calculated as the ratio of international reserves to Bulgaria's short-term external debt, is very high, at 353.9% at the end of June 2020 compared to 344.4% for the previous month, 294% at the end of 2019 and 302 % at the end of June 2019. **Foreign reserves to GDP in Bulgaria is expected to reach 47% 2020. In the long-term, the Bulgaria Foreign reserves to GDP is projected to trend around 48% 2021 and 49% in 2022.**



REAL SECTOR

GDP

In Q2 of 2020 GDP at current prices amounted to BGN 27 395 million. In Euro terms GDP reaches EUR 14 007 million in total and EUR 2 016 per person. According to the seasonally adjusted figures, GDP down by 8.5% in Q2 of 2020 compared to the same quarter of the previous year and 10.0% compared to Q1 of 2020. According to the preliminary data Gross Domestic Product at current prices for Q2 of 2020 is BGN 27 395 million. GDP per person is BGN 3 944. GDP is USD 15 430 million and USD 2 221 per person using the average for the quarter exchange rate of 1.775410 BGN for 1 USD. The GVA generated by the national economy during the second quarter of 2020 amounted to BGN 23 848 million at current prices. The share of agricultural sector in GVA of the national economy in Q2 of 2020 increases its level in comparison to the same quarter of 2019 with 0.1 p.p. The Industry increases its relative share in GVA of the national economy with 2.1 p.p to 28.4%. The share of the biggest sector in the economy - service sector decreases from 70.2% to 68.0% as compared with the second quarter of 2019. For the final consumption expenditure, 78.7% of the GDP is used during Q2 of 2020. Investments (gross fixed capital formation) form 18.9% of the GDP. The external balance (exports minus imports of goods and services) is positive. In Q2 of 2020 GDP declines by 10.0% compared to the previous quarter. For the same period GVA decrease is 8.9%. According to the preliminary data for Q2 of 2020, the final consumption decreases by 2.1% compared to the previous quarter. Gross capital formation decline is 7.9% for the same period. In Q2 of 2020 the export of goods and services decreases by 22.1% and the import of goods and services decreases by 20.4% compared to the previous quarter. According seasonally adjusted data, GDP declines by 8.5% for Q2 of 2020 compared to the same quarter of the previous year. During the second quarter of 2020 GVA decreases by 7.6% compared to the second quarter of 2019. The decline of gross value added is determined by the registered decrease in: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 17.7%, Arts, entertainment and recreation, repair of household goods and other services - 4.7%, Real estate activities - 3.0%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities - 2.8%, and Agriculture, forestry and fishing - 0.8%. Referring to the expenditure components of GDP, contributors to the registered negative economic growth are individual consumption - with 0.2% decrease and Gross capital formation - with drop of 14.1%. Export and import of goods and services decrease by 19.0% and 19.1% respectively compared to the same quarter of the previous year. **GDP Annual Growth Rate in Bulgaria is expected to be -8% in 2020. Looking forward, we estimate GDP Annual Growth Rate in Bulgaria to stand at 5% in 2021 and 3% in 2022.**

GDP in Q2 of 2020 declined by 11.4% in EU compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria decreased by 10.0%. Compared to the previous quarter, in the second quarter of 2020 lowest economic decline was recorded in Finland - 4.5%, Lithuania - 5.5%, Estonia - 5.6% and Ireland - 6.1%. According to the seasonally adjusted figures, highest negative growth is observed in Spain - 18.5%, Croatia - 14.9%, Hungary - 14.5% and Greece - 14.0%. Compared to the same quarter of the previous year, seasonally adjusted data show decrease of GDP in the EU by 13.9%. For the same period, GDP in Bulgaria decreased by 8.5%. In Q2 of 2020, compared to the same quarter of the previous year lowest economic decline was recorded in Ireland - 3.7%, Lithuania - 4.0%, Finland - 6.3% and Estonia - 6.5%. According to the seasonally adjusted figures, highest negative growth is observed in Spain - 22.1%, France - 18.9%, Italy - 17.7% and Portugal - 16.3%.

Business climate

In August 2020, the total business climate indicator increases by 0.5 percentage points in comparison with the previous month, which is due to the more favourable business climate in service sector.

Industry. The composite indicator 'business climate in industry' remains to its July level. The inquiry registers certain improvement of the production assurance with orders, which is not accompanied by increased expectations about the production activity over the next 3 months. The main factors limiting the activity of the enterprises continue to be the uncertain economic environment, insufficient foreign demand and insufficient domestic demand, as in the last month a decrease of their negative influence is observed. As regards the selling prices in industry, the managers do not foresee an increase over the next 3 months.

Construction. In August, the composite indicator 'business climate in construction' preserves approximately its level from the previous month. According to construction entrepreneurs, the present construction activity is improved, as their forecasts about the activity over the next 3 months are also optimistic. The main obstacles for the business development remain connected with the uncertain economic environment, shortage of labour and the factor 'others'. Concerning the selling prices in construction, the managers' expectations are them to remain unchanged over the next 3 months.

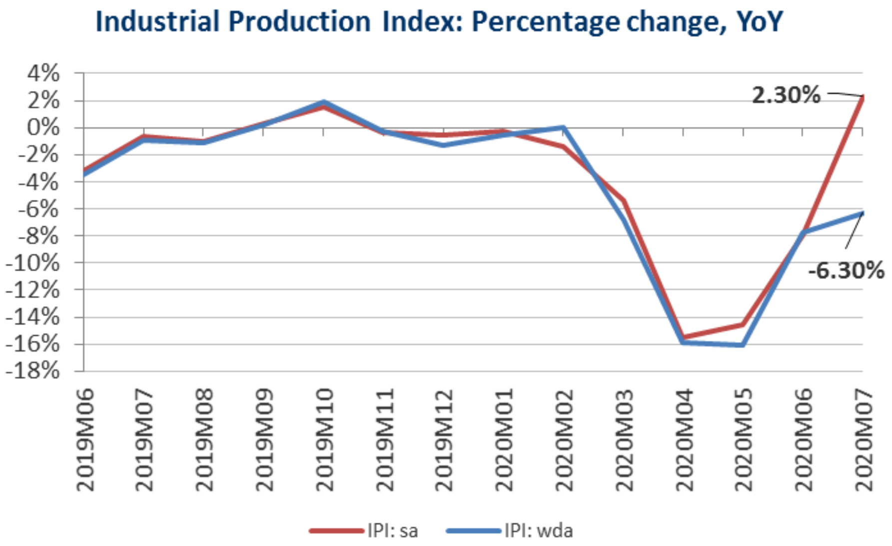
Retail trade. The composite indicator 'business climate in retail trade' decreases by 2.9 percentage points as a result of the more unfavorable retailers' expectations about the business situation of the enterprises over the next 6 months. At the same time their opinions about the volume of sales and orders placed with suppliers over the next 3 months are slightly worsened. The most serious problem limiting the activity of the enterprises continue to be the uncertain economic environment, followed by competition in the branch and insufficient demand. The retailers do not expect an increase of the selling prices over the next 3 months.

Service sector. In August, the composite indicator 'business climate in service sector' increases by 4.6 percentage points, which is due to the more favourable managers' assessments about the present business situation of the enterprises. Their opinions about the present demand of services are also positive, while the expectations over the next 3 months are worsened. The main difficulties for the business development remain connected with the uncertain economic environment, insufficient demand and competition in the branch. The majority of the managers expect the selling prices in the service sector to remain unchanged over the next 3 months.

Business Confidence in Bulgaria is expected to be 15.00 index points by the end of 2020. Looking forward, we estimate Business Confidence in Bulgaria to stand at 21.00 in 2021 and 23.00 index points in 2022.

Industrial production

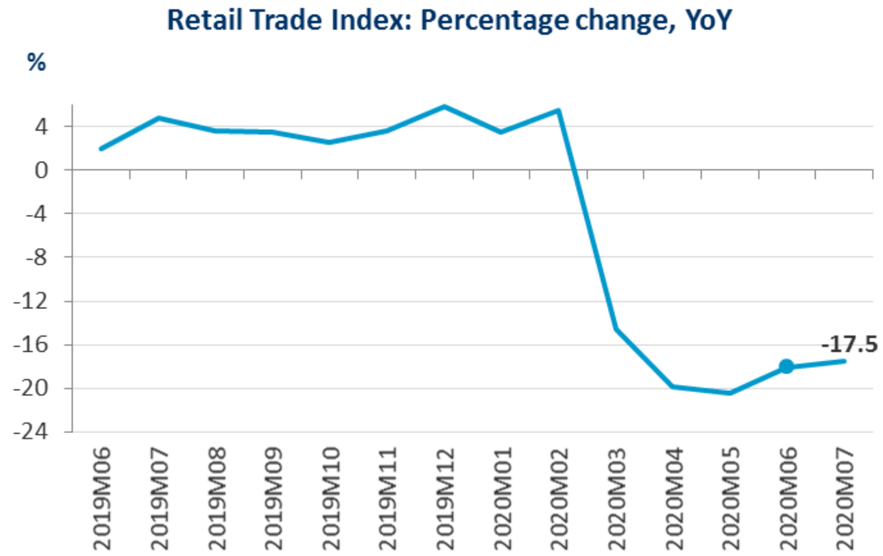
According to the preliminary data in July 2020 the Industrial Production Index, seasonally adjusted3, increased by 2.3% as compared to June 2020. In July 2020 the working day adjusted Industrial Production Index fell by 6.0% in comparison with the same month of 2019. **In July 2020 as compared to June 2020, the seasonally adjusted Industrial Production Index rose** in the manufacturing by 3.6%, while the production went down in the mining and quarrying industry by 9.3% and in the electricity, gas, steam and air conditioning supply by 0.1%. The most significant production increases in the manufacturing were registered in the other manufacturing by 32.0%, in the repair and installation of machinery and equipment by 18.1%, manufacture of motor vehicles, trailers and semi-trailers by 17.5%, in the manufacture of other non-metallic mineral products by 15.2%. Important decreases were seen in the manufacture of paper and paper products by 5.0%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 4.4%. **On annual basis in July 2020 Industrial Production Index calculated from working day adjusted data fell** in the electricity, gas, steam and air conditioning supply by 9.9%, in the manufacturing by 5.7% and in the mining and quarrying industry by 3.1%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the other manufacturing by 32.2%, in the manufacture of tobacco products by 28.0%, in the manufacture of machinery and equipment n.e.c by 19.2%, in the manufacture of motor vehicles, trailers and semi-trailers by 16.3%. Major increases were seen in the manufacture of other non-metallic mineral products by 7.6%, in the manufacture of electrical equipment by 7.2%, in the manufacture of rubber and plastic products by 6.4%, in the manufacture of other transport equipment by 4.7%. **Industrial Production in Bulgaria is expected to decline by – 9% yoy. Looking forward, we estimate Industrial Production in Bulgaria to stand at 5.4% in 2021 and 3.2% in 2022.**



Retail sales

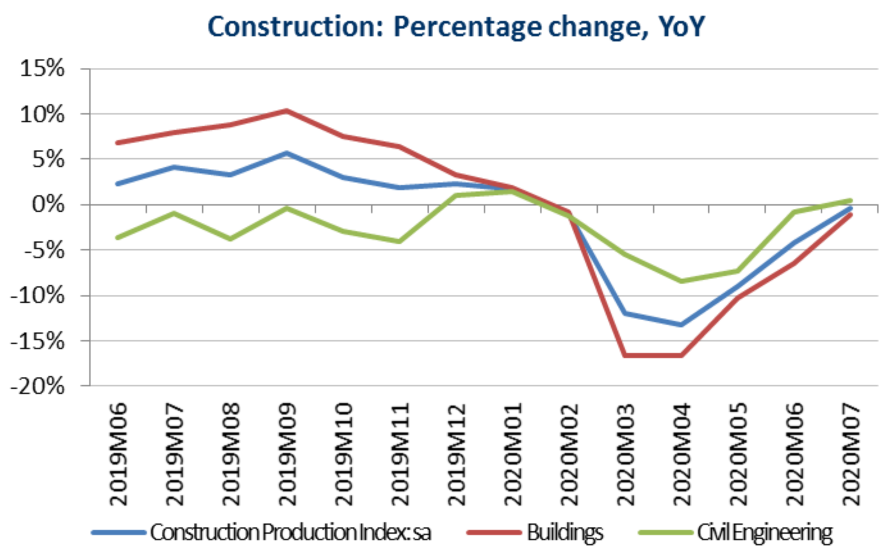
According to the preliminary seasonally adjusted data3 in July 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.1% compared to the previous month. **In July 2020, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' fell** by 17.5% in comparison with the same month of the previous year. In July 2020 compared to the previous month, increased of turnover was observed in the 'Retail sale of automotive fuel in specialised stores'- by 3.2% and in the 'Retail sale of non-food products (except fuel)'- by 1.7%. Decrease of turnover was seen in the 'Retail sale of food, beverages and tobacco' - by 1.5%. In the 'Retail sale of non -food products except fuel' more significant increases of turnover were registered in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores'- by 4.6%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances, etc. in specialised stores' and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment, etc. in specialised stores' - both by 4.2%. A decline was reported in the 'Other retail sale in nonspecialised stores' - by 3.4%. **In July 2020 compared to the same month of 2019,** decline of turnover was observed in the 'Retail sale of food, beverages and tobacco' (22.8%), in the 'Retail sale of automotive fuel in specialised stores' (21.1%) and in the 'Retail sale of non-food products, except fuel' (11.8%). More significant drop of turnover in the'Retail sale of non-food products, except fuel' was registered in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores' - by 23.1%, in the 'Other retail sale in non-specialised stores' - by 22.6%, and in the 'Retail sale of information and communication equipment' - by 21.0%.

A rise was reported in the 'Retail sale via mail order houses or via Internet' - by 22.2%. **Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.**



Construction

According to the preliminary data, in July 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% below the level of the previous month. In July 2020 working day adjusted data showed a decrease by 3.9% in the construction production, compared to the same month of 2019. In July 2020 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of building construction fell by 1.1%, while production of civil engineering rose by 0.5%. On an annual basis in July 2020, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the building construction, where the decline was by 6.2% and in the civil engineering - by 0.7%. **Construction Output in Bulgaria is expected to be -2.0% yoy in 2020. Looking forward, we estimate Construction Output in Bulgaria to stand at 5.5% in 2021 and 5% in 2022.**



Tourism

In July 2020, during the continuing epidemic situation, 2 768 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 112.9 thousand and the bed-places were 251.4 thousand. In comparison with July 2019, the total number of accommodation establishments (functioned during the period) decreased by 18.4%, and the bed-places in them - by 22.5%. The total number of the nights spent in all accommodation establishments registered in July 2020 was 2 265.9 thousand, or by 61.9% less in comparison with the same month of the previous year. The total revenues from nights spent in July 2020 reached 122.4 million BGN or by 64.6% less compared to July 2019.

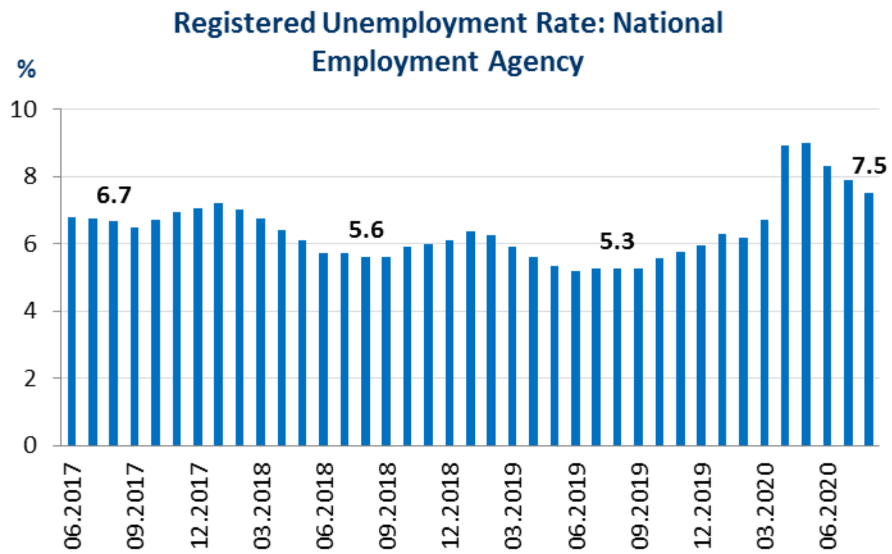
CPI Inflation

According NSI data the consumer price index in August 2020 compared to July 2020 was 100.0%, i.e. the monthly inflation was 0.0%. The inflation rate since the beginning of the year has been -0.5% and the annual inflation in August 2020 compared to August 2019 was 1.2% .The annual average inflation, measured by CPI, in the last 12 months (September 2019 - August 2020) compared to the previous 12 months (September 2018 - August 2019) was 2.5%. In August 2020, the engine of inflation and in August remain food, where prices increased by 4.4% compared to the same period in 2019. The rise comes from fruits, which on an annual basis are 14.4% higher prices, but on a monthly basis they decreased (by 0.7%). The increase is most likely due to the low share of Bulgarian fruits on the market and higher import prices. Probably a factor is the imported apples, whose prices began to rise even before COVID-19, after Poland - the largest European apple producer, reported a poor harvest. On the other side of the scale remain deflation in natural gas (by 25.8% below last year's values), hot water (by 16.2% down) and fuels for passenger cars (by 17% down). Together, these groups form about 7% of the consumer basket, but food products have a larger share - about a third, respectively, have a greater weight in determining headline inflation. Regarding the dynamics of hotels and restaurants in the tourist season, national statistics show that prices in hotels in the country are 5% below the level in August 2019, and restaurants, bars and similar establishments have risen by just over 5% on an annual basis. Thus, for the second month in a row, since the VAT rate for this service was reduced, this is not felt by the end customer. Inflation is expected to continue to decline in the second half of 2020, but weakly as a result of declining demand for goods and services and an uncertain economic environment. The low price of oil will continue to negatively affect the pace, but the effect is expected to gradually weaken with the slow increase in prices on international markets. The harmonized index of consumer prices in August 2020 compared to July 2020 was 100.4%, i.e. the monthly inflation was 0.4%. The inflation rate since the beginning of the year has been 0.6% and the annual inflation in August 2020 compared to August 2019 was 0.6%. The annual average inflation, measured by HICP, in the last 12 months (September 2019 - August 2020) compared to the previous 12 months (September 2018 - August 2019) was 1.8%. **Inflation Rate in Bulgaria is expected to be 0.5% in 2020. Looking forward, we estimate Inflation Rate in Bulgaria to stand at 2.2% in 2021 and 2% in 2022.**

LABOR MARKET

Unemployment

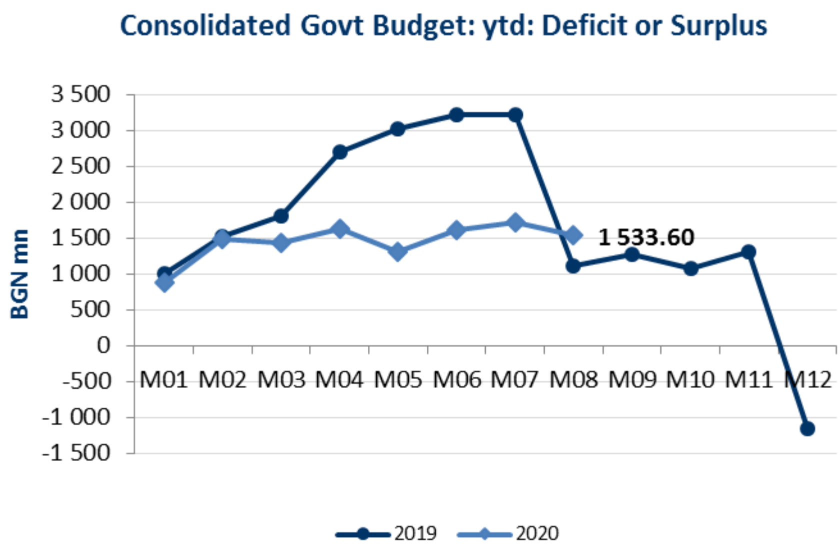
According to the Employment Agency, the unemployment rate in Bulgaria in August 2020 was 2.2 percentage points above the level a year ago. At the end of August, the registered unemployed in the labor offices were 245,774, compared to 12,779 compared to July. At the same time, the increase compared to August 2019 is 73,131 people. The registered unemployment rate in the country in August was 7.5%. It is 0.4 percentage points lower than in July, but 2.2 percentage points higher than in August 2019. In August 2020, the number of unemployed persons started working reached 23,548, as 76.7% of them are employed in the real economy. The number of people leaving the unemployment register due to starting work is only 515 less than the number of newly registered unemployed. For comparison, in the same month of August of the previous 4 years the statistics of the Employment Agency show that the incoming flow of newly registered exceeded ten times the number of jobseekers, and in 2019 they were 7 133 more than those who left the employment offices due to starting work. Over the past month, 364 jobseekers from the group of retirees, students and employees have also found their new jobs through employment offices. Compared to August 2019, there is a significant increase in the number of unemployed who started work - by 62.3%. In August, the largest number of started jobs was reported in the manufacturing sector - 20.2% of all started jobs, followed by hotels and restaurants - 14.1%, trade, car repair - 13.9%, general government - 11 , 9%, construction - 5.5%, etc. During the month, 5,488 unemployed persons from the risk groups started working in subsidized jobs - 2,730 under employment programs and measures and 2,758 - under the schemes of the Operational Program “Human Resources Development”. Most jobs are provided in the beginning of the month of 28 regional employment programs and under the scheme "Employment for you" of the Operational Program "Human Resources Development". In compliance with the restrictions and measures related to the emergency epidemiological situation, a little over 4,100 jobseekers during the month have joined the renewed outsourced group forms for providing services such as mobile labor offices, job fairs, employer days and others. More than 6,521 unemployed people took part in group events for professional and career counseling, Job Search Workshop, motivation for active behavior on the labor market. During the month, 1,602 unemployed people were included in the present forms of training for adults, financed by the state budget and the European Social Fund. The declared jobs on the primary labor market in August are 18,048, which is 4.7% more than those announced in August 2019. The largest share of vacancies is declared in the manufacturing industry (23.7%), followed by education. 16.4%), hotels and restaurants (14.6%), administrative and support service activities (13.2%), trade, repair of motor vehicles and motorcycles (8.8%) and construction (5.7%). The most sought-after professions during the month are: teachers; personnel employed in the field of personal services (bartenders, waiters, cooks, maids, etc.); installers; workers in the mining and processing industry, construction and transport; machine operators of stationary machines and equipment; sellers; waste collection and related workers; skilled workers in the production of food, clothing, wood products; metallurgists, machine builders and related craftsmen; staff caring for people; food preparation assistants, etc. **Registered Unemployment Rate in Bulgaria is expected to be 9.0% in 2020. Looking forward, we estimate Unemployment Rate in Bulgaria to stand at 8% in 2021 and 7% in 2022.**



FISCAL SECTOR

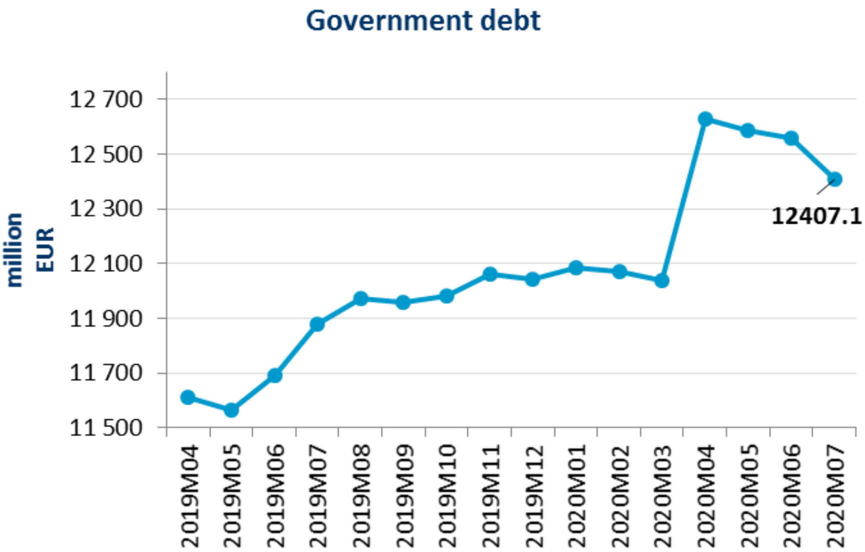
Budget balance

According MF data data from the monthly reports on the cash performance of the budgets of the first-level spending units, the revenues, grants and donations under CFP as of July 2020 are to the amount of BGN 25,266.5 million, or 56,9 % of the annual estimates. Compared to the same period of the previous year, they have decreased by BGN 713.4 million in nominal terms. Tax and non-tax revenues register a drop by BGN 1,099.8 million (4.5 %), and grant and donation proceeds (mostly EU programme and fund grants) are by BGN 386.3 million, or 26.7 %, more compared to end-July 2019. The CFP budget balance on a cash basis as of 31 July 2020 is positive, amounting to BGN 1,723.8 million (1.5% of GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 1,182.7 million as well as under EU funds of BGN 541.1 million. As of August 2020, the surplus of revenues over expenditures under the CFP is expected to be BGN 1,533.4 million (1.3 % of the forecast GDP). Fiscal reserve as of 31.07.2020 is BGN 10.14 billion, including BGN 9.78 billion fiscal reserve deposits in BNB and banks and BGN 0.36 billion receivables under the EU Funds for certified expenditure, advance payments, etc. **Government Budget in Bulgaria is expected to reach -3.0% of GDP by the end of 2020. In the long-term, the Bulgaria Government Budget is projected to trend around -1.0% of GDP in 2021 and 0% in 2022.**



Central government debt

The central government debt as at end-July 2020 stood at BGN 24,266.1 million. Domestic debt amounted to BGN 5,945.2 million and external debt – to BGN 18,320.9 million. At the end of the reporting period the central government debt/GDP ratio was 20.7 %, with the share of domestic debt being 5.1 % and of external debt – 15.6 %. In the central government debt structure, domestic debt at the end of the period amounted to 24.5 %, and external debt – to 75.5 %. As of 31 July 2020, the central government guaranteed debt was BGN 109.0 million. Domestic guarantees amounted to BGN 62.6 million and external guarantees – to BGN 46.4 million. The central government guaranteed debt/GDP ratio is 0.1 %. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-July 2020 the government debt reached BGN 22,824.1 million, being 19.5 % of GDP. Domestic debt amounted to BGN 5,643.6 million and external debt – to BGN 17,180.4 million. Government guaranteed debt in July 2020 amounted to EUR 1,642.2 million; domestic guarantees amounted to BGN 62.6 million, with the government guaranteed debt/ GDP ratio being 1.4 %. **Government Debt to GDP in Bulgaria is expected to be 23% by the end of 2020. Looking forward, we estimate Government Debt to GDP in Bulgaria to stand at 24% in 2021 and in 2022.**



On 5th September, the Republic of Bulgaria, rated Baa2/BBB/BBB (Moody's/Standard & Poor's/Fitch), has successfully issued a dual-tranche EUR 1.25bn 10 year and EUR 1.25bn 30 year Senior Unsecured transaction in Regulation S format. The 10 year tranche was priced at 99.863 with a 0.375% coupon at a spread of 60 basis points over mid-swaps (0.389% yield), while the 30 year tranche was priced at 97.566 with a 1.375% coupon at 145 basis points over mid-swaps (1.476% yield). BNP Paribas, Citi, JP Morgan and UniCredit acted as Bookrunners for the transaction. Capitalizing on the prevailing favourable market backdrop and scarcity value pertaining to Bulgarian risk, the Republic of Bulgaria returned to the international debt capital market after 4+ years of absence since its last dual-tranche issuance in March 2016. The mandate was announced on Monday, 14th September, with Global Investor Call and 1x1 calls with select investor taking place the same day. Having obtained valuable investor feedback and supported by a positive momentum generated on the first day, the Ministry of Finance of Bulgaria decided to proceed with Initial Pricing Thoughts (IPTs) announcement on Tuesday, 15th September. IPTs stood at MS+95bps area for the 10yr note and MS+175-180bps for the 30yr one. Bulgaria's dual-tranche offering drew investor attention straightaway – the orderbook grew in size gradually, reaching EUR 7.2bn at the stage of the first guidance at 11:58 UKT / 13:58 EEST. High-quality orders allowed for a tightening of 20bps from the IPTs at this stage for the 10yr note and 15-20bps for the 30yr. Following a constructive price revision as well as observing solid demand for the offering, investors continued to pile up bids for both bonds at the US open. A subsequent bookbuild added circa 3bn worth of orders, propelling the Ministry to announce further tightening of 15bps to MS+60bps on the shorter tranche and MS+145bps on the longer one. Expected total size of EUR 2.0-2.5bn was indicated at this stage. The deal was launched at 15:15 UKT / 17:15 EEST with equal size split between the two tranches – each tranche capped at 1.25bn. It was priced afterwards at 19:25 UKT / 21:25 EEST. The observed revision of 30/35bps from the IPTs level demonstrates how strong the demand for Bulgaria's sovereign credit was. Final orderbook reached EUR 3.7bn from 254 accounts on the 10 year, and EUR 3.6bn from 236 investors on the 30 year tranche. Demand came from across the entirety of Europe, with fund managers and banks dominating in both tranches. The transaction marks several milestones as it is the second largest deal for the Government with the 10yr achieving the lowest ever coupon / yield / re-offer spread for Bulgaria. It is also worth mentioning that the 30yr tranche is the longest tenor Bulgaria issued in. This offering has further populated Bulgaria's curve and increased its overall liquidity.

BANKING SECTOR

According to BNB data for January-July 2020, the profit of the banking system was BGN 596 million, 43.0% (BGN 449 million) less compared to the same period of the previous year. Expenses for impairment of financial assets, which are not reported at fair value in profit or loss, as of the end of July 2020 are BGN 443 million (compared to BGN 220 million a year earlier).

Indicator (BGN"000)	31.07. 2019	31.07. 2020	Y/Y (%)
Interest Income	1 783 350	1 728 346	-3.1
Interest Expence	167 885	198 083	18.0
Net interest Income	**1 615 465**	**1 530 263**	**-5.3**
Impairment	220 483	442996	100.9
Divident income	138 812	182 300	**31.3**
Fee and commission income	761 918	691 951	-9.2
Fee and commission expenses	121 090	113 350	-6.4
Net fee and commission income	**640 828**	**578 601**	**-9.7**
Administration costs	963 182	951514	-1.2
Personal costs	516 023	522969	1.3
Total operating income, net		240272	
Cash contributions to resolution funds and deposit guarantee schemes	2 477 854	2 446 644	-1.3
Net Profit	**1 045 539**	**596345**	**-43.0**

Source:BNB, UBB's Calculations

For January-July 2020, the assets of the banking system increased by 2% mom and by 1.4% yoy, respectively to BGN 117.7 billion with the main contribution to the growth of deposits and balance sheet capital. At the end of the reporting month the share in the total assets of the position money, cash balances with central banks and other demand deposits decreased to 18.7% (19.5% at the end of June) due to the decline in other demand deposits and cash balances with central banks. The share of the balance (net) amount of loans and advances reached 62.3% (61.3% a month earlier). Gross loans and advances to customers amounted to BGN 67.2 billion and increased by 0.3% mom and by 7.3% yoy to BGN 25.7 billion. Loans to households increased (by 0.8% mom and by 12.9% yoy, respectively) to BGN 25.7 billion. Consumer loans amounted to BGN 12.6 billion and increased by 0.7% momand by 12.9% yoy, respectively. Mortgage loans grew by 0.8% mom and by 20.9% yoy, respectively with a total amount of BGN 13.1 billion. Loans to non-financial institutions and enterprises amounted to BGN 36.4 billion, reporting a decrease of 0.2% mom with an increase of 0.9% yoy, respectively.Loans to financial corporations amounted to BGN 4.1 billion and increased by 1.7% mom and by 34.1% yoy, respectively. Budget loans amount to BGN 0.9 billion and increase by 2.3% mom and by 23.9% yoy, respectively. The attracted funds from clients amount to BGN 94.8 billion and increase by 1.5% mom and by 8.1% yoy, respectively. Deposits of the general government sector decreased by 3.0% mom to BGN 2.8 billion. Deposits of non-financial corporations amounted to BGN 28.6 billion and increased by 2.3% mom and by 10% yoy, respectively. Deposits of other financial institutions amounted to BGN 4 billion and increased by 19.8% mom and by 6% yoy, respectively. Household deposits amounted to BGN 59.3 billion and increased by 0.4% mom and by 7.4% yoy, respectively.

Bulgaria Intermediation Indicators	30.06.2018 BGN'000	31.12.2019 BGN'000	30.06.2020 BGN'000	30.07.2020 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**110 345 857**	**114 201 141**	**115 276 097**	**117 741 035**	**2.1**	**6.7**	**3.1**	**92.9**
Loans to central governments	796 513	932 642	964 744	987 240	2.3	23.9	5.9	0.8
Loans to non-financial corporations	**36 070 525**	**36 572 986**	**36 468 674**	**36 401 663**	**-0.2**	**0.9**	**-0.5**	**28.7**
Loans to financial corporrations	3 533 777	4 594 445	4 682 136	4 737 838	1.2	34.1	3.1	3.7
Retail loans, incl.:	**22 205 849**	**24 193 012**	**24 868 926**	**25 064 955**	**0.8**	**12.9**	**3.6**	**19.8**
Mortgage loans	10 842 051	12 486 585	13 008 376	13 109 390	0.8	20.9	5.0	10.3
Consumer loans	11 363 798	12 427 283	12 560 963	12 646 220	0.7	11.3	1.8	10.0
Micro credits and other loans	620 182	-720 856	-700 413	-690 655	-1.4	-211.4	-4.2	-0.5
TOTAL LOANS	**62 606 664**	**66 293 085**	**66 984 480**	**67 191 696**	**0.3**	**7.3**	**1.4**	**53.0**
ATRACTED SOURCES FROM CLIENTS, incl.:	**87 675 541**	**91 853 230**	**93 392 593**	**94 820 478**	**1.5**	**8.1**	**3.2**	**74.8**
Local government deposits	2 590 304	2 665 018	2 934 072	2 845 350	-3.0	9.8	6.8	2.2
Non-financial corporations deposits	**26 050 073**	**28 150 012**	**28 000 736**	**28 643 932**	**2.3**	**10.0**	**1.8**	**22.6**
Financial corporations deposits	3 797 044	3 422 053	3 360 858	4 024 720	19.8	6.0	17.6	3.2
Households and NPISHs deposits	**55 238 120**	**57 616 147**	**59 096 927**	**59 306 476**	**0.4**	**7.4**	**2.9**	**46.8**
Equity	14 091 001	14 396 914	14 746 519	15 048 284	2.0	6.8	4.5	11.9
Net profit (annualised)	1 045 539	1 674 983	515 205	596 345		**-43.0**		
BANKING INDICATORS (%)								
ROE	12.7	11.6	7.0	6.8	-0.2	-5.9	-4.8	
ROA	1.6	1.5	0.9	0.9	0.0	-0.8	-5.2	
Capital adequacy	n.a.	20.2	n.a.	n.a.				
Liquidity	262.7	269.9	258.0	255.1	-2.9	-7.6	-5.2	
NPL	n.a	6.5	8.1	n.a.				
GDP, BGN '000	115 437 000	115 437 000	126 769 000	126 769 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations

The liquidity coverage ratio at the end of July was 255.1% (compared to 258.0% at the end of June). At the end of the reporting month the liquidity buffer decreased to BGN 30.2 billion (BGN 30.5 billion as of June 30), and the net outgoing liquidity flows increased to BGN 11.9 billion as of June 30).

The equity in the balance sheet of the banking system at the end of July 2020 amounted to BGN 15.0 billion, increasing by BGN 302 million (2.0%) during the month. In July the paid-in capital, the premium reserves, the accumulated other comprehensive income and the profit of the banking sector increased.

<u>Disclaimer:</u> This document is for information only. The analyzed digital information is provided by reliable institutional sources such as KBC, NSI, MF, BNB, OECD, ECB, EC, IMF, WB, EBRD, EMIS Internet Securities-Bulgaria, CEIC Internet Securities-Bulgaria, EMD Holdings LLC. United Bulgarian Bank (UBB) officially accepts the accuracy and completeness of the data produced by them. Nor is the extent to which the hypotheses, risks and projections in this material reflect market expectations or their real chances can be guaranteed. Estimates are indicative. The data in this publication are of a general nature and is for information purposes only. This publication should not be used as a recommendation or offer for the purchase or sale of any financial instruments and securities and does not constitute an offer or prospectus within the meaning of the Public Offering of Securities Act, the Markets in Financial Instruments Act or other similar regulatory acts, Including foreign ones. UBB and KBC are not responsible for the accuracy and completeness of this information. More information on topics could be obtained upon request.