All data in the edition are the last available data published as of 31 May 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 CEIC Data Manager.

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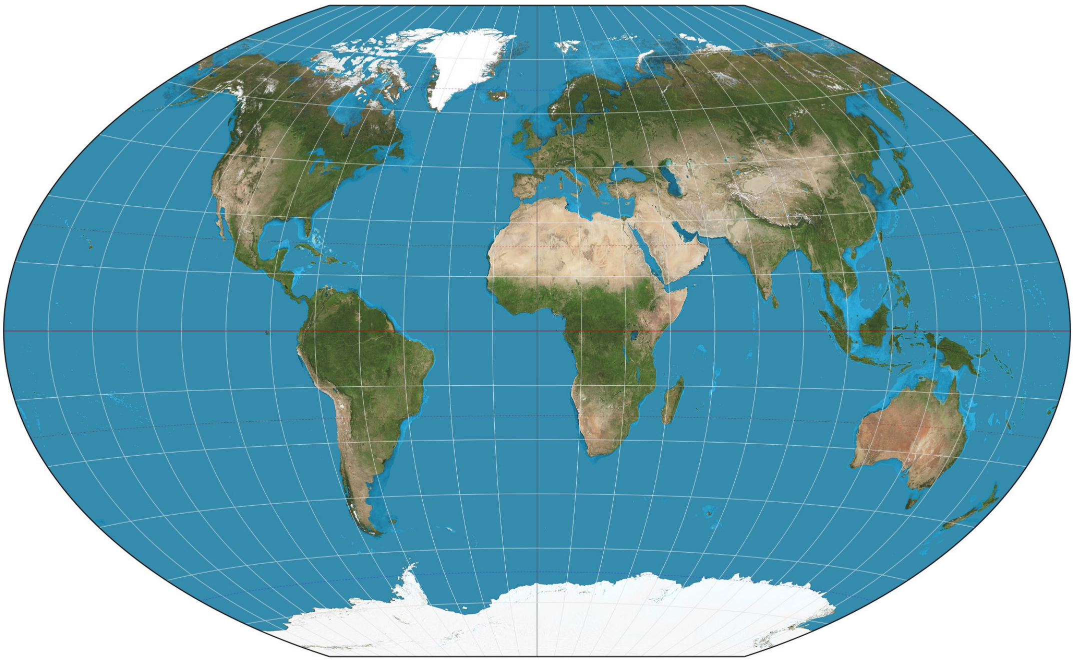
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



May, 2020

- **The euro area economy shrank by -3.8% qoq in Q1, compared to market expectations of a -3.5% contraction. In the first quarter of the year, the bloc's economy contracted by -3.3% yoy from a year earlier. The annual inflation rate in the Euro Area is expected to slow to 0.4% in April 2020 from 0.7% in the previous month but above market expectations of a 0.1% gain. The Euro Area seasonally-adjusted unemployment rate edged up to 7.4% in March of 2020 from 7.3% in the previous month. Indeed, the earlier lifting of lockdowns in Europe could mean that the trough of the recession will be slightly less deep than previously anticipated. At the same time, however, several factors suggest that the recovery thereafter could be less than robust. This means that GDP will take longer to return to its pre-crisis level. Indeed, by the end of 2021, we anticipate that euro area GDP will still be around 5% lower than where it was at end-2019. Thus, while our 2020 base case annual growth forecast remains relatively constant at -11%, we have revised down our 2021 growth figure to 6.9%. Still, we said that both the drop in output in 2020 and the strength of the rebound in 2021 are set to differ markedly between countries as they depend not only on the evolution of the pandemic in that country, but also on the structure of their economies and their capacity to respond with stabilizing policies. Among the bloc's largest economies, Italy and Spain are seen posting the steepest contraction rates, with the GDP falling by -15.3% and -14.9% respectively. France's economy is forecast to shrink -11%, while Germany's GDP will probably drop by -8.1%.**
- **Italy's GDP shrank -4.7% on quarter in the three months to March of 200, following a -0.3% contraction in the previous month and entering a recession. . It was the steepest contraction since comparable records began in 1995, as the country was severely hurt by the coronavirus pandemic during March. On the production side, contractions were seen in all main industries: agriculture, forestry and fishing, industry and services. From the demand side, both the domestic and external demand contributed negatively to the GDP. Year-on-year, the economy contracted -4.8%, the most since Q3 2009 and following a 0.1% expansion at the end of 2019. Consumer prices in Italy are expected to show no growth 0% from a year earlier in April of 2020, after a 0.1% increase in the previous month. Italy's unemployment rate decreased to 8.4% in March 2020, the lowest since August 2011, as the number of inactive people increased sharply due to the coronavirus crisis. We expects a contraction of Italian GDP of-15.3% in 2020. We expect a recovery in Italy of 6.8% in 2021.**
- **Britain's gross domestic product shrank by -2.0% qoq in the first three months of 2020, after showing no growth in the previous period. That was the steepest contraction since the fourth quarter of 2008 as a coronavirus lockdown from mid-March forced businesses to close and consumers to stay at home. Household consumption dropped by -1.7%, also the largest fall since the fourth quarter of 2008. Britain's gross domestic product decreased by -1.6% yoy in the first quarter of 2020, the biggest fall since the fourth quarter of 2009. Annual inflation rate in the United Kingdom eased to 1.5% in March of 2020 from 1.7% in February. The British economy was shut down on March 23rd due to the coronavirus pandemic so the effects of the disease on consumer inflation and unemployment will be seen in the April report only. We expect the British economy will continue to suffer from uncertainty related to the negotiations of the UK-EU trade agreement, as well as disruptions to supply capacity in the medium to longer run. The UK will suffer from the corona crisis like EU countries members. While the Covid-19 pandemic has inevitably shifted focus away from Brexit, it appears that very little progress has been made in talks between EU and UK officials that are supposed to guide a decision by end-June as to whether the UK will seek a further extension from the current effective exit date of December 31st 2020. For the UK, we expect a contraction of -9.0% in 2020. We expect a recovery in UK of 6% in 2021.**
- **The US economy shrank by an annualized 4.8% in the first quarter of 2020, ending the longest period of expansion in the country's history, an advance estimate showed. It was the steepest pace of contraction in GDP since the last quarter of 2008, much worse than market consensus of a 4.0% slump, as the Covid-19 pandemic forced several states to impose lockdown measures in mid-March, throwing millions of people out of work. The Gross Domestic Product (GDP) in the United States expanded 0.30% in the first quarter of 2020 over the same quarter of the previous year. Household consumption fell the most since the fourth quarter of 1980 and business investment contracted for a fourth consecutive period. Annual inflation rate in the US eased to 0.3% in April of 2020 from 1.5% in March. The US unemployment rate jumped to 14.7% in April 2020, the highest in the history of the series, as the Covid-19 crisis threw millions out of work. Despite the fact the virus spread has not yet peaked in many places in the US, several states have started to lift lockdown measures already. Perhaps even more so than in Europe, where there is at least some indication that case rates are declining, the US risks seeing further waves of the virus that will then force states to re-impose lockdown measures in the near future. Furthermore, we are continuing to see signs that the recovery in the US will not be a quick, V-shaped rebound. The high unemployment rate, in particular, threatens to cause longer lasting damage to the recovery as private consumption will likely continue to be weighed down. Furthermore, the fact that the curve has not yet flattened, means many consumers may still be wary about going out and resuming their consumption as usual.**

- **The Gross Domestic Product (GDP) in Japan contracted -2% yoy in the first quarter of 2020 over the same quarter of the previous year. The Japanese economy shrank- 0.9% qoq in the three months to March 2020, entering a recession for the first time since 2015, as the COVID-19 crisis took a huge toll on activity and demand. Japan's consumer price inflation remained unchanged at 0.4% yoy in March 2020. Still, it was the lowest inflation since last October, as Covid-19 pandemic continued to hamper consumption. The unemployment rate in Japan edged up to 2.5% in March 2020, the highest in a year. To mitigate the economic impact of coronacrisis, on April 7 the government adopted the Emergency Economic Package Against Covid-19, with a total volume of 21.1 % of GDP. This package also takes into account the remaining part of the previously announced packages (the December 2019 stimulus package and the two Covid-19-response packages announced on February 13 and March 10 respectively). The largest part of the funds involved will be spent on the objective of protecting employment and businesses (16% of GDP) and 'restarting and rebuilding' resilient economic activity after the end of the virus containment phase (4.3% of GDP). We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.**

- **China appears to have passed the worst of the crisis, with new Covid-19 cases remaining relatively limited and most of the Chinese economy once again open. After falling 9.8% quarter over-quarter in Q1, GDP growth is expected to recover in Q2. However, more frequent data are providing mixed signals on the robustness of the recovery. On the positive side, certain monthly indicators, like fixed asset investment and industrial production, showed a clear monthly recovery in March, while vehicle sales in April even indicated positive year-over-year growth (+4.5%). The Markit services PMI, for example, remained in contraction territory in both March (43) and April (44.4). On the manufacturing side, new export orders in particular remain weak, with a deterioration from 46.4 in March to 33.5 in April. Unemployment Rate in China increased to 6% in April from 5.90% in March of 2020. This may signal that the global negative impact of the coronavirus crisis will weigh on the Chinese recovery. Given the weakness in Q1 GDP, global spillover effects, and recent suggestions that US-China trade tensions may continue to flare up this year, we have downgraded our Chinese growth outlook to 1% in 2020. The expected recovery in 2021, however, is expected to be quite strong still at 8.8%.**

- **The manufacturing confidence index in Turkey sank to 66.8 in April of 2020 from 99.7 in the previous month. This was the lowest reading since February of 2009, crushed by coronavirus lockdown. The Istanbul Chamber of Industry Turkey Manufacturing PMI slipped to 33.4 in April of 2020 from 48.1 in March, pointing to the strongest contraction in factory activity since the global financial crisis in 2008 caused by the Covid-19 pandemic and measures introduced to prevent its spread. The consumer confidence in Turkey fell to a record low of 54.9 in April of 2020 from 58.2 in the previous month, as Turkey remains one of the worst-affected countries by the coronavirus outbreak outside Europe or the United States. Turkey's foreign trade deficit almost tripled to USD5.39 billion in March from USD 1.92 billion in the same month of 2019 given that imports increased while exports dropped. It is now a consensus in the economist and the trader community that Central Bank reserves are so low that they can't stop an attack on the Turkish lira. The Turkish lira TRY (which hit a previous record low of 7.24 during a currency crisis in August 2018) has fallen 16% this year amid the COVID-19 outbreak and reached all-time low of 7.26 in May 7th. The Turkish central bank's net foreign exchange reserves have fallen sharply to nearly USD 25billionn from USD 40billionn this year. This year external demand will collapse, which will fuel pressure on the twin deficits (budget deficit and current account deficit) and on the already fragile lira, which could lead to a new currency crisis. For Turkey, we expects a contraction of -6.5% and inflation of 10.5% in 2020. We expect a recovery in Turkey of 4.7% and inflation of 10% in 2021.**

- **At meeting in 30 April 2020 the Governing Council of the ECB took the following monetary policy decisions: (1) The conditions on the targeted longer-term refinancing operations (TLTRO III) have been further eased. Specifically, the Governing Council decided to reduce the interest rate on TLTRO III operations during the period from June 2020 to June 2021 to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period. (2) A new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) will be conducted to support liquidity conditions in the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop. (3) Since the end of March, purchases have been conducted under the Governing Council's new pandemic emergency purchase programme (PEPP), which has an overall envelope of EUR 750 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. (4) Moreover, net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR 20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of the year. (5) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full.**

6) 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. We expect the ECB to maintain policy interest rates at the current negative level (-0.5% deposit rate, 0% refi rate) at least until the end of 2022. Still, there are several reasons for concern. First, intra-euro area spreads remain under pressure, with spread-widening particularly clear in Italy and the other non-core countries. Markets remain fundamentally concerned about Italy and other countries' ability to finance their additional public debt in the future. Second, the recent German court ruling on the ECB's asset purchases caused a negative reaction in nervous markets too.

- **Bank of England's Monetary Policy Committee meeting Summary Published on 07 May 2020. 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 is to respond to the severe economic and financial disruption caused by the spread of Covid-19. At its meeting ending on 6 May 2020, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.1%. The Committee voted by a majority of 7-2 for the Bank of England to continue with the program of GBP 200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, to take the total stock of these purchases to GBP 645 billion. The illustrative scenario incorporates a very sharp fall in UK GDP in 2020 H1 and a substantial increase in unemployment in addition to those workers who are furloughed currently. Given the assumed path for the relaxation of social distancing measures, the fall in GDP should be temporary and activity should pick up relatively rapidly. Nonetheless, because a degree of precautionary behavior by households and businesses is assumed to persist, the economy takes some time to recover towards its previous path. Drawing on the Monetary Policy Committee's illustrative scenario, the Financial Policy Committee judges that the core banking system has capital buffers more than sufficient to absorb losses and, supported by government guarantees for new lending and Bank of England funding, the capacity to provide credit to support the UK economy. At this meeting, the Committee judges that the existing stance of monetary policy is appropriate.**

- **Federal Reserve issues FOMC statement April 29, 2020. The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0% to 0.2%. To support the flow of credit to households and businesses, the Federal Reserve will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor market conditions and is prepared to adjust its plans as appropriate.**

- **The Bank of Japan took supportive policy action as well. After taking measures to smooth the main functioning of financial markets (notably of U.S. dollar funding markets), the Bank of Japan decided at its April 27 monetary policy meeting to purchase any necessary amount of Japanese government bonds (in the framework of its Yield Curve Control policy) without setting an upper limit on its guidance on Japanese government bonds purchases. In doing so, the Bank of Japan is in effect facilitating the government's expenditure programme by de facto offering monetary financing for it. Bank of Japan Enhancement of Monetary Easing April 27, 2020. Japan's economy has been in an increasingly severe situation due to the impact of the spread of the novel coronavirus (COVID-19) at home and abroad. The Bank of Japan judged it appropriate to further enhance monetary easing through (1) an increase in purchases of CP and corporate bonds, (2) strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the COVID-19, and (3) further active purchases of Japanese government bonds (JGBs) and treasury discount bills (T-Bills). Yield curve control. 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. The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds without setting an upper limit so that 10-year Japanese government bond yields will remain at around zero%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.**

- The People's Bank of China (PBOC) lowered its one year loan prime rate (LPR - benchmark interest rate) by 20 bps to a record low of 3.85% on April 20th, matching market expectations. It is the second cut this year as policymakers sought to shore up the economy battling with the COVID-19 outbreak after it contracted by 6.8% year-on-year in Q1 2020, the first decline since at least 1992. The five-year loan prime rate (LPR) was also lowered by 10 bps to 4.65% and bigger than market consensus of a 5bps reduction. People's Bank of China (PBOC) cuts its targeted medium-term lending facility (MLF) rate by 20 basis points to 2.95% in April 24, injecting CNY 56.1 billion (USD 7.9 billion) into the banking system. The PBOC has already cut the required reserve ratio three times. It also provided an additional CNY 1.8 trillion (USD 254.4 billion) of funds to commercial banks to increase their capacity to lend to the small businesses that have been hit hardest by the pandemic. Central bank officials, particularly governor Yi Gang, have long made it clear they have no intention of resorting to Western-style quantitative easing, given the sharp rise in debt and wasteful projects that resulted from the CNY 4 trillion (USD 586 billion) stimulus package in 2008-09. In an article published late last month, governor Yi warned the risks that have accumulated in China's financial system remain high, so an excessively large stimulus package would risk stoking inflation and bring a rapid increase in the nation's already high debt level.
- The policy rate in Turkey has been cut from 24% in July 2019 to 8.75% in March 2020, total 15.25% 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. The Turkish lira is gradually depreciating from 5.8 TRY/USD at the end of November 2019 to 5.95 TRY/USD at the end of December, 6.00 TRY/USD at the end of January 2020, 6.23 at the end of February, 6.58 TRY/USD in March 31st, 6.98 in April 30 and 7.26 in May 7th. This increase in money supply from the Turkish Central Bank may facilitate the emergence of a new currency crisis. Central Bank of Turkey Press Release on Interest Rates 22 April 2020. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 9.75% to 8.75%. Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, continued sharp decline in international commodity prices, especially crude oil and metal prices, affects inflation outlook favorably. While the rise in unit costs resulting from declining production and sales is closely monitored, the disinflationary effects of aggregate demand conditions are estimated to have increased. In this respect, it is considered that risks on the year-end inflation projection are on the downside. Accordingly, the Committee decided to make a 100 basis point cut in the policy rate.
- All leading sorts of oil are increasing during the second trading session of the week 18-22.05.2020. The Brent price increases 0.03 USD/BBL or 0.09% to 34.840 USD/BBL on Tuesday, May 19. For the week, the increase was 16.21%. The price of crude oil increases 0.65 USD/BBL or 2.01% to 32.460 USD/BBL on Tuesday, May 19. For the week, the increase was 25.91%. As early as May 18, oil reached a two-month price peak after markets saw signs of a slight increase in demand caused by the loosening of measures against the coronavirus. While in April almost 4 billion people were affected by government policies against the disease, today 3.7 billion are in areas where they no longer apply with the same force. A positive signal is that China, which is the largest importer of the raw material, has increased its demand to values close to those before the pandemic, which is now almost 13 million barrels per day, although parts of the country were closed due to the second wave from coronavirus. Not everybody see the delay in the recovery of the prices of commodities. "And despite the whole euphoria, we believe that it is still advisable to approach it with caution - it will take at least a few years for the demand to recover at the previous level." said from Commerzbank. The same forecast coincides with that of the chairman of the Federal Reserve, Jerome Powell, who also said that it would be years before the recovery of the demand. This means that investor optimism, which has led to price increases, can therefore be preemptive.
- In the second week of May, US wheat continued to fall another USD 7.00 to 215.00 USD / ton. Wheat in France also fell by EUR 1.00 to 202.00 EUR / ton. After the countries of the Black Sea region announced restrictions on exports, prices in Ukraine and Russia for the third consecutive week remained with zero change at the same 226.00 USD / ton. Corn for the United States rose by USD 7.00 to 153.00 USD / ton in Chicago, probably due to fears about the harvest in the event of a drought. Corn is unchanged in Ukraine - 173.00 USD/ ton and moving in France with minus EUR -1.00 to 164.50 EUR/ ton. Barley in Ukraine after stagnation fell by USD -8.00 to 175.00 USD/ ton, in France a slight recovery of plus EUR 1.00 and 164.00 EUR/ ton. In the "Grain" sub-district of the Sofia Commodity Exchange AD new offers appeared for the purchase of large quantities of bread wheat from the old harvest at 250.00 BGN / ton, the sellers approached by lowering the quotations to 310.00 BGN/ ton. The corn also went down to 250.00 BGN/ ton for the supply. All prices are without VAT.

- **In January – March 2020 the current and capital account was positive amounting to EUR 887.6 million (1.4% of GDP), compared with a surplus of EUR 423.2 million (0.7% of GDP) in January – March 2019. In January – March 2020 the current account was positive and amounted to EUR 501.6 million (0.8% of GDP), compared with a surplus of EUR 229.9 million (0.4% of GDP) in January – March 2019. In January – March 2020 the balance on goods was negative amounting to EUR 338.1 million (0.5% of GDP), compared with a deficit of EUR 347.1 million (0.6% of GDP) in January – March 2019. The primary income account, which includes net dividend income and the money of temporary workers outside the country, is minus EUR 182 million in January-March, while the secondary income, which includes, for example, European funds, slightly increased by 6.4 million to 558 million euros on an annual basis.**
- **In January –March 2020 the net flows of foreign direct investment in Bulgaria presented according to the directional principle a positive value of EUR 254.4 million (0.4% of GDP) growing by EUR 105.8 million (71.2%) from January – March 2019 (positive value of EUR 148.6 million, 0.2% of GDP).**
- **According to preliminary BNB data In April 2020 the BNB's international reserves amounted to BGN 53.7 billion (EUR 27.4 billion) and increased by 3.6% on a monthly basis and by 10.7% on an annual basis. 12% compared to the end of 2019, maintaining the stability of the Currency Board in Bulgaria. Bulgaria's international liquidity position, calculated as the ratio of foreign reserves to short-term external debt, is 303.5% according to the latest BNB data as of February 2020 compared to 294.2% at the end of 2019. and 304% at the end of February 2019.**
- **In the published spring economic forecast for 2020, the European Commission (EC) notes that the euro area economy will shrink by a record 7¾% in 2020 and will grow by 6¼% in 2021. The EU economy is projected to shrink by 7.2% in 2020 and grow by around 6% in 2021.**
- **In Q1 of 2020, Bulgaria's GDP grew by 0.3% qoq and by 2.4% yoy, respectively. Bulgaria's GDP will shrink in 2020 due to the coronavirus crisis. The EBRD forecasts a - 5% decline in Bulgaria's GDP and a rapid recovery and growth of our country's gross domestic product of 4% in 2021. According to the forecast of the European Commission, Bulgaria's economy will shrink by -7.2% in 2020. The World Bank and the International Monetary Fund (IMF) forecast a decline in Bulgaria's GDP of -3.7% and -4% in 2020, respectively. The significant decline in the consumption of durable goods and services is expected to hit SMEs particularly hard. Our forecast is for a decline in the economy in 2020 by -10% and a rapid recovery in GDP growth in 2021 of 4%.**
- **In May 2020, the business conjuncture in the country marks a positive change in comparison with the last three months. The total business climate indicator increases by 11.8 percentage points compared to April as a result of the positive managers' opinions in all observed sectors - industry, construction, retail trade and services.**
- **According to the preliminary NSI data in March 2020 the Industrial Production Index, seasonally adjusted, went down by 5.1% as compared to February 2020. In March 2020 the working day adjusted Industrial Production Index fell by 6.9% in comparison with the same month of 2019.**
- **According to the preliminary seasonally adjusted data in March 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices went down by 18.1% compared to the previous month.**
- **According to NSI preliminary data, in March 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 11.2% below the level of the previous month. In March 2020 the working day adjusted index of production in construction decreased by 14.0% in comparison with the same month of 2019.**
- **Bulgaria's consumer price index for April 2020 compared to March 2020 is 99.4%, ie monthly inflation is minus 0.6%. Inflation since the beginning of the year (April 2020 compared to December 2019) is minus 0.3%, and annual inflation for April 2020 compared to April 2019 is 1.8% and falls below the standard for "healthy inflation" from 2%. Our forecast for 2020 is for -0.5%, after which we expect inflation to fall slightly to 2.5% in 2021 and 2% in 2022.**
- **The COVID-19 pandemic has caused a shock on the labor market in Bulgaria. At the end of April 2020, the registered unemployment rate in Bulgaria was 8.9%, increasing by 2.2 percentage points on a monthly basis and by 3.3 percentage points on an annual basis. The total number of unemployed in the labor offices at the end of April 2020 is 292 810, as compared to March the registered number is 72 738 more or an increase of 33.1%. According to the latest data, we know of 45 thousand workers who will pass the measure "60 to 40", which shows that it is gaining momentum as a summary mechanism to combat unemployment.**

- **The CFP budget balance on a cash basis for April 2020 is surplus, amounting to BGN 1,631.5 million. It is formed by the excess of national budget revenues over expenditures of BGN 1,188.1 million and of EU funds of BGN 443.3 million. Based on the preliminary data and estimates, for the five months of 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,278.7 million (1.1 % of the forecast GDP).**
- **As at end-April 2020, central government debt stands at BGN 24,708.5 million and presents 21.1% of GDP.**
- **As of the end of April 2020, the net profit of the banking system amounted to BGN 336 million and decreased by 21% yoy due to the negative impact of COVID-19 in Bulgaria. In April 2020 the assets of the banking system amounted to BGN 115.8 billion and increased by 0.6% mom and by 6.7% yoy, respectively. Their relative share in GDP is 91.3%. Gross loans and advances to customers decreased by 0.2% mom and increased by 5.4% yoy, respectively to BGN 66.9 billion (52.7% of GDP). Customer deposits increased by 0.6% mom and by 6.8% yoy, respectively to BGN 92.8 billion at the end of April. Their relative share in GDP is 73.2%.**

GLOBAL TRENDS

Advanced countries' economies

Eurozone

The euro area economy shrank by -3.8% qoq in Q1, compared to market expectations of a -3.5% contraction. In the first quarter of the year, the bloc's economy contracted by -3.3% yoy from a year earlier. The annual inflation rate in the Euro Area is expected to slow to 0.4% in April 2020 from 0.7% in the previous month but above market expectations of a 0.1% gain. The Euro Area seasonally-adjusted unemployment rate edged up to 7.4% in March of 2020 from 7.3% in the previous month. Indeed, the earlier lifting of lockdowns in Europe could mean that the trough of the recession will be slightly less deep than previously anticipated. At the same time, however, several factors suggest that the recovery thereafter could be less than robust. This means that GDP will take longer to return to its pre-crisis level. Indeed, by the end of 2021, we anticipate that euro area GDP will still be around 5% lower than where it was at end-2019. Thus, while our 2020 base case annual growth forecast remains relatively constant at -11%, we have revised down our 2021 growth figure to 6.9%. Still, we said that both the drop in output in 2020 and the strength of the rebound in 2021 are set to differ markedly between countries as they depend not only on the evolution of the pandemic in that country, but also on the structure of their economies and their capacity to respond with stabilizing policies. Among the bloc's largest economies, Italy and Spain are seen posting the steepest contraction rates, with the GDP falling by -15.3% and -14.9% respectively. France's economy is forecast to shrink -11%, while Germany's GDP will probably drop by -8.1%.

The euro area economy shrank by -3.8% qoq in Q1, compared to market expectations of a -3.5% contraction, a flash estimate showed. It was the steepest contraction since comparable records began in 1995 as a coronavirus lockdown from mid-March forced businesses to close and consumers to stay at home. France, Spain and Italy economies contracted the most on record, with France entering a recession. In the first quarter of the year, the bloc's economy contracted by -3.3% yoy from a year earlier. The annual inflation rate in the Euro Area is expected to slow to 0.4% in April 2020 from 0.7% in the previous month but above market expectations of a 0.1% gain, a flash estimate showed. It is the lowest inflation rate since September 2016, as prices were hit by the coronavirus pandemic and an oil price war between Russia and Saudi Arabia. Services prices (1.2% vs 1.3% in March) and non-energy industrial (0.3% vs 0.5%) are seen rising at a softer pace. Also, energy cost is set to fall further (-9.6% vs -4.3%). Meanwhile, food prices should increase at a faster pace (3.6% vs 2.4%). The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to ease to 0.9% from 1% in the prior month. On a monthly basis, consumer prices are expected to advance 0.3%, following a 0.5% rise in March. The Euro Area seasonally-adjusted unemployment rate edged up to 7.4% in March of 2020 from 7.3% in the previous month and below market expectations of 7.7%, as the number of unemployed persons increased by 197 thousand to 12.156 million. The COVID-19 confinement measures introduced in March 2020 have triggered a sharp increase in the number of claims for unemployment benefits across the EU. At the same time, a significant part of those who had registered in unemployment agencies were no longer actively looking for a job, e.g. limited by the confinement measures or no longer available for work, for instance, if they had to take care of their children during the lockdown. Indeed, the earlier lifting of lockdowns in Europe could mean that the trough of the recession will be slightly less deep than previously anticipated. At the same time, however, several factors suggest that the recovery thereafter could be less than robust. Recent surveys imply that businesses are cutting back on investment and plan to do so for a longer period of time. The sharp uptick in temporary unemployment could spill over and cause more structural problems for the labour market, meaning some of these jobs will not be immediately recovered. Furthermore, there is likely not a 1-to-1 relationship between lockdown measures and the economy. That is to say, even as lockdown measures are lifted, it is not clear if consumers will revitalize their spending, especially given the rise in temporary unemployment and ongoing health concerns. Finally, the outlook is quickly deteriorating on the external front too, as shipping problems continue to mount, and trade war risks appear to be resurfacing. In particular, the new confrontations between the US and China are a major concern as they may slow down the global economic recovery. All this suggests that while we still expect the economic recovery to start in Q3 in the base scenario, this recovery will be somewhat more gradual or U-shaped. This means that GDP will take longer to return to its pre-crisis level. Indeed, by the end of 2021, we anticipate that euro area GDP will still be around 5% lower than where it was at end-2019. Thus, while our 2020 base case annual growth forecast remains relatively constant at -11%, we have revised down our 2021 growth figure to 6.9%. Still, we said that both the drop in output in 2020 **and** the strength of the rebound in 2021 are set to differ markedly between countries as they depend not only on the evolution of the pandemic in that country, but also on the structure of their economies and their capacity to respond with stabilizing policies. Among the bloc's largest economies, Italy and Spain are seen posting the steepest contraction rates, with the GDP falling by -15.3% and -14.9% respectively. France's economy is forecast to shrink -11%, while Germany's GDP will probably drop by -8.1%.

Italy

Italy's GDP shrank -4.7% on quarter in the three months to March of 200, following a -0.3% contraction in the previous month and entering a recession. . It was the steepest contraction since comparable records began in 1995, as the country was severely hurt by the coronavirus pandemic during March. On the production side, contractions were seen in all main industries: agriculture, forestry and fishing, industry and services. From the demand side, both the domestic and external demand contributed negatively to the GDP. Year-on-year, the economy contracted -4.8%, the most since Q3 2009 and following a 0.1% expansion at the end of 2019. Consumer prices in Italy are expected to show no growth 0% from a year earlier in April of 2020, after a 0.1% increase in the previous month. Italy's unemployment rate decreased to 8.4% in March 2020, the lowest since August 2011, as the number of inactive people increased sharply due to the coronavirus crisis. We expects a contraction of Italian GDP of-15.3% in 2020. We expect a recovery in Italy of 6.8% in 2021.

Italy's GDP shrank -4.7% on quarter in the three months to March of 200, following a -0.3% contraction in the previous month and entering a recession, preliminary estimates showed. It was the steepest contraction since comparable records began in 1995 and compared to market expectations of a -5% decline, as the country was severely hurt by the coronavirus pandemic during March. On the production side, contractions were seen in all main industries: agriculture, forestry and fishing, industry and services. From the demand side, both the domestic and external demand contributed negatively to the GDP. Year-on-year, the economy contracted -4.8%, the most since Q3 2009 and following a 0.1% expansion at the end of 2019. Consumer prices in Italy are expected to show no growth 0% from a year earlier in April of 2020, after a 0.1% increase in the previous month and compared to market expectations of a -0.2% drop, a preliminary estimate showed. A faster decline in prices of regulated energy products (-13.9% vs -9.4%) and non-regulated energy products (-7.6% vs -2.7%) was offset by an advance in cost of food including alcohol (2.8% vs 1.1%) and a lower decrease in those of services related to communication (-1.3% vs -2.6%). On a monthly basis, consumer prices went up 0.1%, the same as in the prior month. Italy's unemployment rate decreased to 8.4% in March 2020, the lowest since August 2011 and below market expectations of 10.5%, as the number of inactive people increased sharply due to the coronavirus crisis. The number of unemployed people fell by 267 thousand to 2.132 million and employment decreased by 27 thousand to 23.234 million. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, decreased to 28% from 29.2% in February. The employment rate, one of the lowest in the Euro Area, went down to 58.8% from 58.9%. We expects a contraction of Italian GDP of-15.3% in 2020. We expect a recovery in Italy of 6.8% in 2021.

Great Britain

Britain's gross domestic product shrank by -2.0% qoq in the first three months of 2020, after showing no growth in the previous period. That was the steepest contraction since the fourth quarter of 2008 as a coronavirus lockdown from mid-March forced businesses to close and consumers to stay at home. Household consumption dropped by -1.7%, also the largest fall since the fourth quarter of 2008. Britain's gross domestic product decreased by -1.6% yoy in the first quarter of 2020, the biggest fall since the fourth quarter of 2009. Annual inflation rate in the United Kingdom eased to 1.5% in March of 2020 from 1.7% in February. The British economy was shut down on March 23rd due to the coronavirus pandemic so the effects of the disease on consumer inflation and unemployment will be seen in the April report only. We expect the British economy will continue to suffer from uncertainty related to the negotiations of the UK-EU trade agreement, as well as disruptions to supply capacity in the medium to longer run. The UK will suffer from the corona crisis like EU countries members. While the Covid-19 pandemic has inevitably shifted focus away from Brexit, it appears that very little progress has been made in talks between EU and UK officials that are supposed to guide a decision by end-June as to whether the UK will seek a further extension from the current effective exit date of December 31st 2020. For the UK, we expect a contraction of -9.0% in 2020. We expect a recovery in UK of 6% in 2021.

Britain's gross domestic product shrank by -2.0% qoq in the first three months of 2020, after showing no growth in the previous period and compared to market expectations of a -2.5% slump, a preliminary estimate showed. That was the steepest contraction since the fourth quarter of 2008 as a coronavirus lockdown from mid-March forced businesses to close and consumers to stay at home. Household consumption dropped by -1.7%, also the largest fall since the fourth quarter of 2008, driven by declines in spending on transport, restaurants and hotels, and clothing and footwear, due to the effects of social distancing measures. Fixed investment shrank -1%, due to falls in investment in dwellings as well as government investment, while government consumption decreased -2.6%, reflecting declines in health and education expenditure. In addition, exports tumbled -10.8% and imports were down -5.3% as the pandemic hit global trade demand. Britain's gross domestic product decreased by -1.6% yoy in the first quarter of 2020, the biggest fall since the fourth quarter of 2009 and compared with market expectations of a -2.1% slump. There was a widespread disruption to economic activity due to the coronavirus pandemic and the government's efforts to contain it in the second half of March. Household consumption dropped -1% and fixed investment slumped -2.3%. In addition, government spending edged -0.1% lower while exports and imports both fell sharply. Annual inflation rate in the United Kingdom eased to 1.5% in March of 2020 from 1.7% in February with the prices of motor fuels and clothing making the largest downward contribution. Petrol prices went down by 5.1 pence per litre between February and March, the largest monthly drop since December of 2018; and the cost of clothing and footwear declined 1.2% due to sales. Inflation also eased for recreation and culture (1.3% vs 1.4%), housing and utilities (1.7% vs 1.8% in February) and restaurants and hotels (2.1% vs 2.5%). On the other hand, rises in air fares produced the largest upward contribution to the CPI and the prices of food rose slightly faster (1.3% vs 1.2%). On a monthly basis, consumer prices were flat, after rising 0.4% in February and matching forecasts. The UK unemployment rate edged up to 4.0% in the three months to February 2020 from the previous period's 45-year low and slightly above market expectations of 3.9%. The number of people out of work rose by 58,000 to 1.36 million, while the number of employed people rose by 172,000 to a record high of 33.07 million. The activity rate hit an all-time high of 79.8%. The British economy was shut down on March 23rd due to the coronavirus pandemic so the effects of the disease on consumer inflation and unemployment will be seen in the April report only. We expect the British economy will continue to suffer from uncertainty related to the negotiations of the UK-EU trade agreement, as well as disruptions to supply capacity in the medium to longer run. The UK will suffer from the corona crisis like EU countries members. While the Covid-19 pandemic has inevitably shifted focus away from Brexit, it appears that very little progress has been made in talks between EU and UK officials that are supposed to guide a decision by end-June as to whether the UK will seek a further extension from the current effective exit date of December 31st 2020. For the UK, we expect a contraction of -9.0% in 2020. We expect a recovery in UK of 6% in 2021.

USA

The US economy shrank by an annualized 4.8% in the first quarter of 2020, ending the longest period of expansion in the country's history, an advance estimate showed. It was the steepest pace of contraction in GDP since the last quarter of 2008, much worse than market consensus of a 4.0% slump, as the Covid-19 pandemic forced several states to impose lockdown measures in mid-March, throwing millions of people out of work. The Gross Domestic Product (GDP) in the United States expanded 0.30% in the first quarter of 2020 over the same quarter of the previous year. Household consumption fell the most since the fourth quarter of 1980 and business investment contracted for a fourth consecutive period. Annual inflation rate in the US eased to 0.3% in April of 2020 from 1.5% in March. The US unemployment rate jumped to 14.7% in April 2020, the highest in the history of the series, as the Covid-19 crisis threw millions out of work. Despite the fact the virus spread has not yet peaked in many places in the US, several states have started to lift lockdown measures already. Perhaps even more so than in Europe, where there is at least some indication that case rates are declining, the US risks seeing further waves of the virus that will then force states to re-impose lockdown measures in the near future. Furthermore, we are continuing to see signs that the recovery in the US will not be a quick, V-shaped rebound. The high unemployment rate, in particular, threatens to cause longer lasting damage to the recovery as private consumption will likely continue to be weighed down. Furthermore, the fact that the curve has not yet flattened, means many consumers may still be wary about going out and resuming their consumption as usual. We therefore don't expect to see a simultaneous economic recovery with the lifting of the lockdown measures. As such, we maintain our base scenario growth outlook of -8.0% in 2020 followed by a recovery of only 6.5% in 2021.

The US economy shrank by an annualized 4.8% in the first quarter of 2020, ending the longest period of expansion in the country's history, an advance estimate showed. It was the steepest pace of contraction in GDP since the last quarter of 2008, much worse than market consensus of a 4.0% slump, as the Covid-19 pandemic forced several states to impose lockdown measures in mid-March, throwing millions of people out of work. The Gross Domestic Product (GDP) in the United States expanded 0.30% in the first quarter of 2020 over the same quarter of the previous year. Household consumption fell the most since the fourth quarter of 1980 and business investment contracted for a fourth consecutive period. In addition, exports and imports were down sharply, while residential fixed investment rose as well as government spending. Annual inflation rate in the US eased to 0.3% in April of 2020 from 1.5% in March and below market expectations of 0.4%. It is the lowest inflation rate since October of 2015, mainly due to a 32% plunge in gasoline prices. In April, oil prices turned negative for the first time in history amid storage and oversupply concerns. Also, coronavirus lockdown restrictions led to a 5.7% drop in cost of apparel and a 5.5% fall in cost of transportation services. On the other hand, cost of food increased 3.5%, the highest rate since February of 2012. On a monthly basis, consumer prices declined 0.8%, the largest drop since December of 2008, mainly due to a 20.6% fall in gasoline prices although the indexes for apparel, motor vehicle insurance, airline fares, and lodging away from home all fell sharply as well. Excluding food and energy, core inflation eased to 1.4%, the lowest rate since April of 2011. The US unemployment rate jumped to 14.7% in April 2020, the highest in the history of the series and compared to market expectations of 16%, as the Covid-19 crisis threw millions out of work. The number of unemployed persons rose by 15.9 million to 23.1 million, while the number of employed declined by 22.4 million to 133.4 million. The labor force participation rate decreased by 2.5%age points over the month to 60.2%, the lowest rate since January 1973. Despite the fact the virus spread has not yet peaked in many places in the US, several states have started to lift lockdown measures already. Perhaps even more so than in Europe, where there is at least some indication that case rates are declining, the US risks seeing further waves of the virus that will then force states to re-impose lockdown measures in the near future. Furthermore, we are continuing to see signs that the recovery in the US will not be a quick, V-shaped rebound. The high unemployment rate, in particular, threatens to cause longer lasting damage to the recovery as private consumption will likely continue to be weighed down. Furthermore, the fact that the curve has not yet flattened, means many consumers may still be wary about going out and resuming their consumption as usual. We therefore don’t expect to see a simultaneous economic recovery with the lifting of the lockdown measures. As such, we maintain our base scenario growth outlook of -8.0% in 2020 followed by a recovery of only 6.5% in 2021.

Japan

The Gross Domestic Product (GDP) in Japan contracted -2% yoy in the first quarter of 2020 over the same quarter of the previous year. The Japanese economy shrank- 0.9% qoq in the three months to March 2020, entering a recession for the first time since 2015, as the COVID-19 crisis took a huge toll on activity and demand. Japan's consumer price inflation remained unchanged at 0.4% yoy in March 2020. Still, it was the lowest inflation since last October, as Covid-19 pandemic continued to hamper consumption. The unemployment rate in Japan edged up to 2.5% in March 2020, the highest in a year. To mitigate the economic impact of coronacrisis, on April 7 the government adopted the Emergency Economic Package Against Covid-19, with a total volume of 21.1 % of GDP. This package also takes into account the remaining part of the previously announced packages (the December 2019 stimulus package and the two Covid-19-response packages announced on February 13 and March 10 respectively). The largest part of the funds involved will be spent on the objective of protecting employment and businesses (16% of GDP) and ‘restarting and rebuilding’ resilient economic activity after the end of the virus containment phase (4.3% of GDP). We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.

The Gross Domestic Product (GDP) in Japan contracted -2% yoy in the first quarter of 2020 over the same quarter of the previous year. The Japanese economy shrank- 0.9% qoq in the three months to March 2020, entering a recession for the first time since 2015 and compared with market expectations of a -1.2% decline, a preliminary estimate showed, as the COVID-19 crisis took a huge toll on activity and demand. There were declines in both private consumption (-0.7% vs -2.9% in Q4) and capital expenditure (-0.5% vs -4.8%), while government spending rose the least in a year (0.1% vs 0.2%) and public investment dropped for the first time in five quarters (-0.4% vs 0.5%). In addition, net external demand subtracted 0.2% from growth as exports fell more than imports. Japan's consumer price inflation remained unchanged at 0.4% yoy in March 2020. Still, it was the lowest inflation since last October, as Covid-19 pandemic continued to hamper consumption. Prices slowed mostly for transport & communication (0.7% vs 1.4% in February), amid slumping oil prices. Meanwhile, inflation remained unchanged for housing (0.8%), clothes & footwear (1.3%), and medical care (0.7%). In contrast, food prices continued to grow (1.4% vs 1.2%).

On a monthly basis, consumer prices remained unchanged after declining 0.1% in February. The annual core inflation rate, which excludes fresh food, remained unchanged at 0.6% and well below the Bank of Japan's 2% target. The unemployment rate in Japan edged up to 2.5% in March 2020, the highest in a year and in line with market consensus, as the number of unemployed increased by 3.6% to 1.72 million while employment declined by 0.2% to 67.32 million. The jobs-to-applications ratio declined sharply to 1.39 to the lowest level since September 2016 as the Covid-19 crisis escalated. To mitigate the economic impact of coronacrisis, on April 7 the government adopted the Emergency Economic Package Against Covid-19, with a total volume of 21.1 % of GDP. This package also takes into account the remaining part of the previously announced packages (the December 2019 stimulus package and the two Covid-19-response packages announced on February 13 and March 10 respectively). The largest part of the funds involved will be spent on the objective of protecting employment and businesses (16% of GDP) and 'restarting and rebuilding' resilient economic activity after the end of the virus containment phase (4.3% of GDP). We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.

China

China appears to have passed the worst of the crisis, with new Covid-19 cases remaining relatively limited and most of the Chinese economy once again open. After falling 9.8% quarter over-quarter in Q1, GDP growth is expected to recover in Q2. However, more frequent data are providing mixed signals on the robustness of the recovery. On the positive side, certain monthly indicators, like fixed asset investment and industrial production, showed a clear monthly recovery in March, while vehicle sales in April even indicated positive year-over-year growth (+4.5%). The Markit services PMI, for example, remained in contraction territory in both March (43) and April (44.4). On the manufacturing side, new export orders in particular remain weak, with a deterioration from 46.4 in March to 33.5 in April. Unemployment Rate in China increased to 6% in April from 5.90% in March of 2020. This may signal that the global negative impact of the coronavirus crisis will weigh on the Chinese recovery. Given the weakness in Q1 GDP, global spillover effects, and recent suggestions that US-China trade tensions may continue to flare up this year, we have downgraded our Chinese growth outlook to 1% in 2020. The expected recovery in 2021, however, is expected to be quite strong still at 8.8%.

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Turkey

The manufacturing confidence index in Turkey sank to 66.8 in April of 2020 from 99.7 in the previous month. This was the lowest reading since February of 2009, crushed by coronavirus lockdown. The Istanbul Chamber of Industry Turkey Manufac-

turing PMI slipped to 33.4 in April of 2020 from 48.1 in March, pointing to the strongest contraction in factory activity since the global financial crisis in 2008 caused by the Covid-19 pandemic and measures introduced to prevent its spread. The consumer confidence in Turkey fell to a record low of 54.9 in April of 2020 from 58.2 in the previous month, as Turkey remains one of the worst-affected countries by the coronavirus outbreak outside Europe or the United States. Turkey's foreign trade deficit almost tripled to USD5.39 billion in March from USD 1.92 billion in the same month of 2019 given that imports increased while exports dropped. It is now a consensus in the economist and the trader community that Central Bank reserves are so low that they can't stop an attack on the Turkish lira. The Turkish lira TRY (which hit a previous record low of 7.24 during a currency crisis in August 2018) has fallen 16% this year amid the COVID-19 outbreak and reached all-time low of 7.26 in May 7th. The Turkish central bank's net foreign exchange reserves have fallen sharply to nearly USD 25billionn from USD 40billionn this year. This year external demand will collapse, which will fuel pressure on the twin deficits (budget deficit and current account deficit) and on the already fragile lira, which could lead to a new currency crisis. For Turkey, we expects a contraction of -6.5% and inflation of 10.5% in 2020. We expect a recovery in Turkey of 4.7% and inflation of 10% in 2021.

The manufacturing confidence index in Turkey sank to 66.8 in April of 2020 from 99.7 in the previous month. This was the lowest reading since February of 2009, crushed by coronavirus lockdown. There was a sharp deterioration in expectations over the next three months regarding output (61.2 vs 114.6 in March), export orders (50.6 vs 110.1) and employment (86.5 vs 104.2). Also, the gauge measuring fixed investment expenditure tumbled (69.9 vs 99.7), and the index for general business situation declined (42.5 vs 87.9). The Istanbul Chamber of Industry Turkey Manufacturing PMI slipped to 33.4 in April of 2020 from 48.1 in March, pointing to the strongest contraction in factory activity since the global financial crisis in 2008 caused by the Covid-19 pandemic and measures introduced to prevent its spread. Output and new orders fell at unprecedented rates amid company shutdowns, while firms scaled back employment and purchasing activity in response. In terms of prices, the rates of inflation eased from those seen in March, despite currency weakness being cited as the main factor leading input prices to rise. The consumer confidence in Turkey fell to a record low of 54.9 in April of 2020 from 58.2 in the previous month, as Turkey remains the worst-affected country by the coronavirus outbreak outside Europe or the United States. There was a deterioration in expectations over the next 12 months regarding general economic situation (74.8 vs 75.6 in March); households' financial situation (72.5 vs 78.6); unemployment (53.8 vs 57.6) and probability of saving (18.4 vs 21.2). Turkey's foreign trade deficit almost tripled to USD5.39 billion in March from USD 1.92 billion in the same month of 2019 given that imports increased while exports dropped. The growth in imports was an annual 3.1% to USD 18.8 billion, while exports sunk by 18% to USD 13.4 billion; reducing exports/imports coverage ratio to 71% down from 90% a year earlier. Turkey's revenue from tourism dropped 11% annually in the first quarter of the year as the spread of the coronavirus began to hit the industry and wider economy. It is now a consensus in the economist and the trader community that Central Bank reserves are so low that they can't stop an attack on the Turkish lira. The Turkish lira TRY (which hit a previous record low of 7.24 during a currency crisis in August 2018) has fallen 16% this year amid the COVID-19 outbreak and reached all-time low of 7.26 in May 7th. The Turkish central bank's net foreign exchange reserves have fallen sharply to nearly USD 25billionn from USD 40billionn this year. This year external demand will collapse, which will fuel pressure on the twin deficits (budget deficit and current account deficit) and on the already fragile lira, which could lead to a new currency crisis. For Turkey, we expects a contraction of -6.5% and inflation of 10.5% in 2020. We expect a recovery in Turkey of 4.7% and inflation of 10% in 2021.

Policy of the central banks

European Central Bank (ECB)

At meeting in 30 April 2020 the Governing Council of the ECB took the following monetary policy decisions: (1) The conditions on the targeted longer-term refinancing operations (TLTRO III) have been further eased. Specifically, the Governing Council decided to reduce the interest rate on TLTRO III operations during the period from June 2020 to June 2021 to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period. (2) A new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) will be conducted to support liquidity conditions in the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop. (3) Since the end of March, purchases have been conducted under the Governing Council's new pandemic emergency purchase programme (PEPP), which has an overall envelope of EUR 750 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mecha-

nism and the outlook for the euro area posed by the coronavirus pandemic. (4) Moreover, net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR 20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of the year. (5) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full. (6) 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. We expect the ECB to maintain policy interest rates at the current negative level (-0.5% deposit rate, 0% refi rate) at least until the end of 2022. Still, there are several reasons for concern. First, intra-euro area spreads remain under pressure, with spread-widening particularly clear in Italy and the other non-core countries. Markets remain fundamentally concerned about Italy and other countries' ability to finance their additional public debt in the future. Second, the recent German court ruling on the ECB's asset purchases caused a negative reaction in nervous markets too. Given that these concerns are unlikely to disappear in the short term, we expect intra-euro area spreads may even widen further before easing moderately.

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Bank of England (BoE)

Bank of England's Monetary Policy Committee meeting Summary Published on 07 May 2020. 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 is to respond to the severe economic and financial disruption caused by the spread of Covid-19. At its meeting ending on 6 May 2020, the Monetary Policy Committee voted unanimously to maintain

Bank Rate at 0.1%. The Committee voted by a majority of 7-2 for the Bank of England to continue with the program of GBP 200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, to take the total stock of these purchases to GBP 645 billion. The illustrative scenario incorporates a very sharp fall in UK GDP in 2020 H1 and a substantial increase in unemployment in addition to those workers who are furloughed currently. Given the assumed path for the relaxation of social distancing measures, the fall in GDP should be temporary and activity should pick up relatively rapidly. Nonetheless, because a degree of precautionary behavior by households and businesses is assumed to persist, the economy takes some time to recover towards its previous path. Drawing on the Monetary Policy Committee's illustrative scenario, the Financial Policy Committee judges that the core banking system has capital buffers more than sufficient to absorb losses and, supported by government guarantees for new lending and Bank of England funding, the capacity to provide credit to support the UK economy. At this meeting, the Committee judges that the existing stance of monetary policy is appropriate.

Bank of England's Monetary Policy Committee meeting Summary Published on 07 May 2020. Authorities around the world are taking action to halt the spread of the Coronavirus (Covid-19) pandemic and to support economic activity. 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 is to respond to the severe economic and financial disruption caused by the spread of Covid-19. At its meeting ending on 6 May 2020, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.1%. The Committee voted by a majority of 7-2 for the Bank of England to continue with the program of GBP 200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, to take the total stock of these purchases to GBP 645 billion. The spread of Covid-19 and the measures to contain it are having a significant impact on the United Kingdom and many countries around the world. Activity has fallen sharply since the beginning of the year and unemployment has risen markedly. Economic data have continued to be consistent with a sudden and very marked drop in global activity. Oil prices have been volatile. There have, however, been tentative signs of recovery in domestic spending in China, and this is likely to be echoed in other countries that have started to relax Covid-related restrictions on economic activity. Financial markets have recovered somewhat over recent weeks and risky asset prices have picked up from their lows in mid-March. This in part reflects the actions taken by authorities in the United Kingdom and elsewhere. Global financial conditions have, nevertheless, remained tighter than prior to the outbreak of Covid-19. The timeliest indicators of UK demand have generally stabilized at very low levels in recent weeks, after unprecedented falls during late March and early April. Payments data point to a reduction in the level of household consumption of around 30%. Consumer confidence has declined markedly and housing market activity has practically ceased. According to the Bank's Decision Maker Panel, companies' sales are expected to be around 45% lower than normal in 2020 Q2 and business investment 50% lower. There has been widespread take-up of the Coronavirus Job Retention Scheme. Nevertheless, sharp increases in benefit claims are consistent with a pronounced rise in the unemployment rate. CPI inflation declined to 1.5% in March and is likely to fall below 1% in the next few months, in large part reflecting developments in energy prices. The unprecedented situation means that the outlook for the UK and global economies is unusually uncertain. It will depend critically on the evolution of the pandemic, and how governments, households and businesses respond to it. Recognizing these uncertainties, the Monetary Policy Committee has constructed a plausible illustrative economic scenario in the accompanying May Monetary Policy Report. This scenario is based on a set of stylized assumptions about the pandemic and the responses of governments, households and businesses, and, as usual, on the prevailing levels of asset prices and the market path for interest rates. While the scenario is highly conditional, it helps to illustrate the potential impact of Covid-19 on the economy and the channels through which the impact is felt. The Report also includes a number of estimates of the sensitivity of the economy to a selection of key variables, which, taken alongside the scenario, serve to illustrate the important drivers of the outlook. The illustrative scenario incorporates a very sharp fall in UK GDP in 2020 H1 and a substantial increase in unemployment in addition to those workers who are furloughed currently. Given the assumed path for the relaxation of social distancing measures, the fall in GDP should be temporary and activity should pick up relatively rapidly. Nonetheless, because a degree of precautionary behavior by households and businesses is assumed to persist, the economy takes some time to recover towards its previous path. CPI inflation is expected to fall further below the 2% target during the second half of this year, largely reflecting the weakness of demand. As set out in the accompanying interim Financial Stability Report, the Financial Policy Committee (FPC) has assessed the risks to UK financial stability and the resilience of the UK financial system to the economic and market shocks associated with Covid-19. Drawing on the Monetary Policy Committee's illustrative scenario, the Financial Policy Committee judges that the core banking system has capital buffers more than sufficient to absorb losses and, supported by government guarantees for new lending and Bank of England funding, the capacity to provide credit to support the UK economy. The Monetary Policy Committee has statutory objectives to maintain price stability and, subject to that, to support the economic policy of the Government including its objectives for growth and employment. In the current circumstances, and consistent with the Monetary Policy Committee's remit, monetary policy is aimed at supporting businesses and households through the crisis, and limiting any lasting damage to the economy. Since the onset of the Covid-19 shock, the Monetary Policy Committee has, complementing the responses of other parts of the Bank of England and the UK Government, taken a number of actions to fulfil its mandate. The Committee has reduced Bank Rate to 0.1%; has introduced a Term Funding scheme with additional incentives for Small and Medium-sized Enterprises

(TFSME); and announced a GBP 200 billion increase in the stock of UK government bond and sterling non-financial investment-grade corporate bond purchases, to be carried out as soon as operationally possible and consistent with improved market functioning. The Committee notes that the stock of asset purchases will reach GBP 645 billion by the beginning of July, at the current pace of purchases. The Committee continues to monitor closely a range of indicators of market functioning. In the illustrative scenario, the recovery in economic activity is relatively rapid and inflation rises to around the 2% target, conditional on the scenario assumptions that include a gradual easing in social distancing, and supported by the very significant monetary and fiscal stimulus. Relative to the scenario, the Committee assesses that the balance of risks to the economic outlook lies to the downside. At this meeting, the Committee judges that the existing stance of monetary policy is appropriate. The Monetary Policy Committee will continue to monitor the situation closely and, consistent with its remit, stands ready to take further action as necessary to support the economy and ensure a sustained return of inflation to the 2% target.

USA Federal Reserve

Federal Reserve issues FOMC statement April 29, 2020. The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0% to 0.2%. To support the flow of credit to households and businesses, the Federal Reserve will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor market conditions and is prepared to adjust its plans as appropriate.

Federal Reserve issues FOMC statement April 29, 2020. 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 coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0% to 0.2%. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. To support the flow of credit to households and businesses, the Federal Reserve will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor market conditions and is prepared to adjust its plans as appropriate.

Bank of Japan (BoJ)

The Bank of Japan took supportive policy action as well. After taking measures to smooth the main functioning of financial markets (notably of U.S. dollar funding markets), the Bank of Japan decided at its April 27 monetary policy meeting to purchase any necessary amount of Japanese government bonds (in the framework of its Yield Curve Control policy) without setting an upper limit on its guidance on Japanese government bonds purchases. In doing so, the Bank of Japan is in effect facilitating the government's expenditure programme by de facto offering monetary financing for it. Bank of Japan Enhancement of Monetary Easing April 27, 2020.

Japan's economy has been in an increasingly severe situation due to the impact of the spread of the novel coronavirus (COVID-19) at home and abroad. The Bank of Japan judged it appropriate to further enhance monetary easing through (1) an increase in purchases of CP and corporate bonds, (2) strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the COVID-19, and (3) further active purchases of Japanese government bonds (JGBs) and treasury discount bills (T-Bills). Yield curve control. 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.The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds without setting an upper limit so that 10-year Japanese government bond yields will remain at around zero%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

The Bank of Japan took supportive policy action as well. After taking measures to smooth the main functioning of financial markets (notably of U.S. dollar funding markets), the Bank of Japan decided at its April 27 monetary policy meeting to purchase any necessary amount of JGBs (in the framework of its Yield Curve Control policy) without setting an upper limit on its guidance on JGB purchases. In doing so, the Bank of Japan is in effect facilitating the government's expenditure programme by de facto offering monetary financing for it. Bank of Japan Enhancement of Monetary Easing April 27, 2020. 1. Japan's economy has been in an increasingly severe situation due to the impact of the spread of the novel coronavirus (COVID-19) at home and abroad. Although policy responses taken by the government and the Bank of Japan of Japan have been exerting some positive effects, financial conditions have been less accommodative in terms of corporate financing, as seen in deterioration in firms' financial positions. 2. Given these developments, the Bank of Japan judged it appropriate to further enhance monetary easing through (1) an increase in purchases of CP and corporate bonds, (2) strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the COVID-19, and (3) further active purchases of Japanese government bonds (JGBs) and treasury discount bills (T-Bills). The Bank of Japan will take these measures with a view to doing its utmost to ensure smooth financing, such as of financial institutions and firms, and maintaining stability in financial markets. 3. To this end, at the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided upon the following. (1) Increase in purchases of CP and corporate bonds. The Bank of Japan decided, by a unanimous vote, to significantly increase the maximum amount of additional purchases of CP and corporate bonds and conduct purchases with the upper limit of the amount outstanding of about JPY 20 trillion in total. In addition, the maximum amounts outstanding of a single issuer's CP and corporate bonds to be purchased will be raised substantially, and the maximum remaining maturity of corporate bonds to be purchased will be extended to 5 years. (2) Strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the COVID-19 With regard to the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus COVID-19, which was introduced and became effective in March, the Bank of Japan decided, by a unanimous vote, to (1) expand the range of eligible collateral to private debt in general, including household debt (from about JPY 8 trillion to about JPY 23 trillion as of end-March 2020), (2) increase the number of eligible counterparties (to mainly include member financial institutions of central organizations of financial cooperatives), and (3) apply a positive interest rate of 0.1% to the outstanding balances of current accounts held by financial institutions at the Bank of Japan that correspond to the amounts outstanding of loans provided through this operation.2 The Bank of Japan decided to strengthen this operation with a view to firmly supporting financial institutions to further fulfill the functioning of financial intermediation for a wide range of private sectors, mainly in terms of firms. This operation has been renamed to the Special Funds-Supplying Operations to Facilitate Financing in Response to the COVID-19. In addition, with the aim of further supporting financing mainly of small and medium-sized firms, the chairman instructed the staff to swiftly consider a new measure to provide funds to financial institutions, taking account, for example, of the government's programs to support financing such as those in its emergency economic measures, and report back at a later MPM. (3) Further active purchases of Japanese government bonds and treasury discount bills. In a situation where the liquidity in the bond market remains low, the increase in the amount of issuance of Japanese government bonds and treasury discount bills in response to the government's emergency economic measures will have an impact on the market. Taking this into account, the Bank of Japan will conduct further active purchases of both Japanese government bonds and treasury discount bills for the time being, with a view to maintaining stability in the bond market and stabilizing the entire yield curve at a low level. 4. The Bank of Japan decided to set the following guidelines for market operations as well as for purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). (1) Yield curve control (an 8-1 majority vote). 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. The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds without setting an upper limit so that 10-year Japanese government bond yields will remain at around zero%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. (2) Purchases of ETFs and J-REITs (a unanimous vote) The Bank of Japan will actively purchase ETFs and 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.

5. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. For the time being, the Bank of Japan will closely

PBoC

The People's Bank of China (PBOC) lowered its one year loan prime rate (LPR - benchmark interest rate) by 20 bps to a record low of 3.85% on April 20th, matching market expectations. It is the second cut this year as policymakers sought to shore up the economy battling with the COVID-19 outbreak after it contracted by 6.8% year-on-year in Q1 2020, the first decline since at least 1992. The five-year loan prime rate (LPR) was also lowered by 10 bps to 4.65% and bigger than market consensus of a 5bps reduction. People's Bank of China (PBOC) cuts its targeted medium-term lending facility (MLF) rate by 20 basis points to 2.95% in April 24, injecting CNY 56.1 billion (USD 7.9 billion) into the banking system. The PBOC has already cut the required reserve ratio three times. It also provided an additional CNY 1.8 trillion (USD 254.4 billion) of funds to commercial banks to increase their capacity to lend to the small businesses that have been hit hardest by the pandemic. Central bank officials, particularly governor Yi Gang, have long made it clear they have no intention of resorting to Western-style quantitative easing, given the sharp rise in debt and wasteful projects that resulted from the CNY 4 trillion (USD 586 billion) stimulus package in 2008-09. In an article published late last month, governor Yi warned the risks that have accumulated in China's financial system remain high, so an excessively large stimulus package would risk stoking inflation and bring a rapid increase in the nation's already high debt level.

The People's Bank of China (PBOC) on 30.03.2020 cut the interest rate it charges on loans to banks by the biggest amount since 2015 as authority ramp up their response to the worsening economic impact from the coronavirus pandemic. The People's Bank of China (PBOC) reduced the interest rate on 7-day reverse repurchase agreements to 2.2% from 2.4%, according to a statement from the bank on 30.03.2020. The PBOC said this would keep liquidity sufficient to help the real economy. China's central bank on 03.04.2020 said it would pump two rounds of funds into rural and regional lenders in the latest "targeted" measure to help the economy amid the coronavirus outbreak. The People's Bank of China (PBOC) said it would cut the required reserve ratio for the banks on April 15 and May 15, releasing CNY 400 billion (USD 57 billion) in total and freeing up more money to lend to rural households and small businesses. The central bank also said it would adjust down the interest rates on additional reserves – excess money stored at the central bank by commercial lenders – to 0.35% from 0.72%, effective on April 7, so that China's banks would be more willing to lend. Chinese banks pumped more than USD 1 trillion into the economy in the first quarter of the year, in an effort to stem the bleeding from the coronavirus pandemic. Quarterly lending reached an all-time high, even as the People's Bank of China showed no intention of following the US Federal Reserve's quantitative easing and very low interest rates, favoring targeted rate cuts and liquidity injections instead. At a press conference in Beijing on 10.04.2020, a senior central banker claimed "China's targeted approach was 10 time more efficient than the Federal Reserve. Each yuan injected into the money supply generated 3.5 yuan worth of bank loans," said Sun Guofeng, director general of monetary policy at the PBOC. The PBOC, for its part, make clear that it felt its monetary policy moves to date were the right ones. "Our internal assessment showed the amount of liquidity injection since January is overall appropriate and ample," said Zhou Xuedong, a PBOC spokesman, at briefing on 10.04.2020. "Too much liquidity may bring a series of problems, such as overcapacity and the rise of regional financial risks." Instead of all-out stimulus, the PBOC has pledged to support the most vulnerable part of the real economy, including small and private businesses, especially with China shifting its priority to preventing mass unemployment rather than pursuing economic growth targets. China's policy support is likely to remain limited given concerns about adding to the country's already high debt level and risks to financial instability. Major stimulus is distinctly unpopular in China currently.

Central Bank of Turkey

The policy rate in Turkey has been cut from 24% in July 2019 to 8.75% in March 2020, total 15.25% 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. The Turkish lira is gradually depreciating from 5.8 TRY/USD at the end of November 2019 to 5.95 TRY/USD at the end of December, 6.00 TRY/USD at the end of January 2020, 6.23 at the end of February, 6.58 TRY/USD in March 31st, 6.98 in April 30 and 7.26 in May 7th. This increase in money supply from the Turkish Central Bank may facilitate the emergence of a new currency crisis. Central Bank of Turkey Press Release on Interest Rates 22 April 2020. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 9.75% to 8.75%. Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, continued sharp decline in international commodity prices, especially crude oil and metal prices, affects inflation outlook favorably.

The policy rate in Turkey has been cut from 24% in July 2019 to 8.75% in March 2020, total 15.25% 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. The Turkish lira is gradually depreciating from 5.8 TRY/USD at the end of November 2019 to 5.95 TRY/USD at the end of December, 6.00 TRY/USD at the end of January 2020, 6.23 at the end of February, 6.58 TRY/USD in March 31st, 6.98 in April 30 and 7.26 in May 7th. This increase in money supply from the Turkish Central Bank may facilitate the emergence of a new currency crisis. Central Bank of Turkey Press Release on Interest Rates 22 April 2020. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 9.75% to 8.75%. As developments regarding the spread of the coronavirus substantially weaken global growth outlook, central banks in advanced and emerging economies continue to take expansionary measures. The pandemic disease is closely monitored for its evolving global impact on capital flows, financial conditions, international trade and commodity prices. Having displayed a strong upward trend in January and February, thanks to the improvement in financial conditions, economic activity has started to weaken in mid-March due to the effects of the coronavirus pandemic on external trade, tourism and domestic demand. In order to contain negative effects of the pandemic on the Turkish economy, it is of crucial importance to ensure the healthy functioning of financial markets, the credit channel and firms' cash flows. In this respect, recent monetary and fiscal measures will contribute to financial stability and post-pandemic recovery by supporting the potential output of the economy. Current account balance, which recently recorded significant improvement, is expected to follow a moderate course throughout the year due to the restraining effects of commodity prices and imports. Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, continued sharp decline in international commodity prices, especially crude oil and metal prices, affects inflation outlook favorably. While the rise in unit costs resulting from declining production and sales is closely monitored, the disinflationary effects of aggregate demand conditions are estimated to have increased. In this respect, it is considered that risks on the year-end inflation projection are on the downside. Accordingly, the Committee decided to make a 100 basis point cut in the policy rate. 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. It should be emphasized that any new data or information may lead the Committee to revise its stance.

International commodity prices

Oil

All leading sorts of oil are increasing during the second trading session of the week 18-22.05.2020. The Brent price increases 0.03 USD/BBL or 0.09% to 34.840 USD/BBL on Tuesday, May 19. For the week, the increase was 16.21%. The price of crude oil increases 0.65 USD/BBL or 2.01% to 32.460 USD/BBL on Tuesday, May 19. For the week, the increase was 25.91%. As early as May 18, oil reached a two-month price peak after markets saw signs of a slight increase in demand caused by the loosening of measures against the coronavirus. While in April almost 4 billion people were affected by government policies against the disease, today 3.7 billion are in areas where they no longer apply with the same force. A positive signal is that China, which is the largest importer of the raw material, has increased its demand to values close to those before the pandemic, which is now almost 13 million barrels per day, although parts of the country were closed due to the second wave from coronavirus. Not everybody see the delay in the recovery of the prices of commodities. "And despite the whole euphoria, we believe that it is still advisable to approach it with caution - it will take at least a few years for the demand to recover at the previous level" said from Commerzbank. The same forecast coincides with that of the chairman of the Federal Reserve, Jerome Powell, who also said that it would be years before the recovery of the demand. This means that investor optimism, which has led to price increases, can therefore be preemptive.

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+ amounts to -9.7 million barrels per day compared to the previous one. Low oil prices are also causing producers in the United States to lower production, which in the next month could decreases by 2 million barrels per day, and in Canada - with 1 million barrels per day. Not everybody see the delay in the recovery of the prices of commodities. According to Rystad Energy Inventories, despite the fact that almost 50% of the recovery of the prices from the bottom in April, it is still very low. "And despite the whole euphoria, we believe that it is still advisable to approach it with caution - it will take at least a few years for the demand to recover at the previous level" said from Commerzbank as well. The same forecast coincides with that of the chairman of the Federal Reserve, Jerome Powell, who also said that it would be years before the recovery of the demand. This means that investor optimism, which has led to price increases, can therefore be preemptive.

Agriculture products

In the second week of May, US wheat continued to fall another USD 7.00 to 215.00 USD / ton. Wheat in France also fell by EUR 1.00 to 202.00 EUR / ton. After the countries of the Black Sea region announced restrictions on exports, prices in Ukraine and Russia for the third consecutive week remained with zero change at the same 226.00 USD / ton. Corn for the United States rose by USD 7.00 to 153.00 USD / ton in Chicago, probably due to fears about the harvest in the event of a drought. Corn is unchanged in Ukraine - 173.00 USD/ ton and moving in France with minus EUR -1.00 to 164.50 EUR/ ton. Barley in Ukraine after stagnation fell by USD -8.00 to 175.00 USD/ ton, in France a slight recovery of plus EUR 1.00 and 164.00 EUR/ ton. In the "Grain" sub-district of the Sofia Commodity Exchange AD new offers appeared for the purchase of large quantities of bread wheat from the old harvest at 250.00 BGN / ton, the sellers approached by lowering the quotations to 310.00 BGN/ ton. The corn also went down to 250.00 BGN/ ton for the supply. All prices are without VAT.

Sofia Commodity Exchange Review 12-15.05.2020. In the second week of May, US wheat continued to fall another USD 7.00 to 215.00 USD / ton. Wheat in France also fell by EUR 1.00 to 202.00 EUR / ton. After the countries of the Black Sea region announced restrictions on exports, prices in Ukraine and Russia for the third consecutive week remained with zero change at the same 226.00 USD / ton. Corn for the United States rose by USD 7.00 to 153.00 USD / ton in Chicago, probably due to fears about the harvest in the event of a drought. Corn is unchanged in Ukraine - 173.00 USD/ ton and moving in France with minus EUR -1.00 to 164.50 EUR/ ton. Barley in Ukraine after stagnation fell by USD -8.00 to 175.00 USD/ ton, in France a slight recovery of plus EUR 1.00 and 164.00 EUR/ ton. For rapeseed in the European Union / Euronext / the quotations remained at the old levels of 374.25 EUR / ton. Unrefined sunflower oil on the Rotterdam Stock Exchange added USD 2.00 to 737.00 USD/ ton, and refined sugar after a long downward trend and a sharp increase last week, now continued upwards by plus USD 7.20 to 355.20 USD/ ton on the London Stock Exchange, delivery May 2020. In the "Grain" sub-district of the Sofia Commodity Exchange AD new offers appeared for the purchase of large quantities of bread wheat from the old harvest at 250.00 BGN / ton, the sellers approached by lowering the quotations to 310.00 BGN/ ton. The corn also went down to 250.00 BGN/ ton for the supply, and for the oil-bearing sunflower the demand went up by 650.00-660.00 BGN/ ton, the sellers quoted 700.00 BGN/ ton. All prices are without VAT.

II.BULGARIA: ACCENTS AND PROJECTIONS

EXTERNAL SECTOR

Balance of payments

In January – March 2020 the current and capital account was positive amounting to EUR 887.6 million (1.4% of GDP), compared with a surplus of EUR 423.2 million (0.7% of GDP) in January – March 2019. In January – March 2020 the current account was positive and amounted to EUR 501.6 million (0.8% of GDP), compared with a surplus of EUR 229.9 million (0.4% of GDP) in January – March 2019. In January – March 2020 the balance on goods was negative amounting to EUR 338.1 million (0.5% of GDP), compared with a deficit of EUR 347.1 million (0.6% of GDP) in January – March 2019. The primary income account, which includes net dividend income and the money of temporary workers outside the country, is minus EUR 182 million in January-March, while the secondary income, which includes, for example, European funds, slightly increased by 6.4 million to 558 million euros on an annual basis.

According BNB preliminary data the current and capital account recorded a surplus of EUR 88.8 million in March 2020, compared with a surplus of EUR 16.5 million in March 2019. In January – March 2020 the current and capital account was positive amounting to EUR 887.6 million (1.4% of GDP), compared with a surplus of EUR 423.2 million (0.7% of GDP) in January – March 2019. The current account was negative amounting to EUR 40 million in March 2020, compared with a deficit of EUR 25.2 million in March 2019. In January – March 2020 the current account was positive and amounted to EUR 501.6 million (0.8% of GDP), compared with a surplus of EUR 229.9 million (0.4% of GDP) in January – March 2019. The balance on goods recorded a deficit of EUR 170.9 million in March 2020, compared with a deficit of EUR 135.4 million in March 2019. In January – March 2020 the balance on goods was negative amounting to EUR 338.1 million (0.5% of GDP), compared with a deficit of EUR 347.1 million (0.6% of GDP) in January – March 2019. Exports of goods amounted to EUR 2,247.4 million in March 2020, dropping by EUR 140.3 million (5.9%) from EUR 2,387.6 million in March 2019. In January – March 2020 exports of goods totalled EUR 7,031.5 million (10.8% of GDP), growing by EUR 7.8 million (0.1%) yoy (from EUR 7,023.7 million, 11.6% of GDP). In January – March 2019 exports grew by 9.6% yoy. Imports of goods amounted to EUR 2,418.2 million in March 2020, dropping by EUR 104.7 million (4.2%) from March 2019 (EUR 2,523 million). In January – March 2020 imports of goods totalled EUR 7,369.6 million (11.3% of GDP), down by EUR 1.3 million (0.02%) from January – March 2019 (EUR 7,370.9 million, 12.1% of GDP). In January – March 2019 imports grew by 6.6% yoy. Services recorded a positive balance of EUR 144 million in March 2020, compared with a surplus of EUR 134.9 million in March 2019. In January – March 2020 services recorded a surplus of EUR 463.3 million (0.7% of GDP) compared with a positive balance of EUR 394 million (0.6% 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 62.1 million, compared with a deficit of EUR 112.9 million in March 20193. In January – March 2020 the balance on primary income was negative and equated to EUR 181.9 million (0.3% of GDP), compared with a deficit of EUR 369.8 million (0.6% of GDP) in January – March 2019. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 48.9million, compared with a positive balance of EUR 88.1 million in March 2019. In January – March 2020 the net secondary income was positive amounting to EUR 558.3 million (0.9% of GDP), compared with a positive balance of EUR 552.9 million (0.9% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 128.8 million, compared with a positive balance of EUR 41.7 million in March 2019. In January – March 2020 the capital account recorded a surplus of EUR 386 million (0.6% of GDP), compared with a positive balance of EUR 193.3 million (0.3% of GDP) in January – March 2019. The financial account recorded a positive balance of EUR 103.2 million, compared with a positive value of EUR 49.9 million in March 2019. In January – March 2020 the financial account recorded a net inflow of EUR 448.6 million (0.7% of GDP) compared with an inflow of EUR 441.7 million (0.7% of GDP) in January – March 2019. The balance on direct investment was positive amounting to EUR 7.3 million, compared with a negative balance of EUR 49.2 million in March 2019. In January – March 2020 direct investment recorded a negative balance of EUR 249.3 million (0.4% of GDP), compared with a negative balance of EUR 94.5 million (0.2% of GDP) in January – March 2019. Direct investment – assets dropped by EUR 14.9 million compared with an increase of EUR 202 million in March 2019. In January – March 2020 direct investment – assets grew by EUR 2.1 million compared with an increase of EUR 162.2 million (0.3% of GDP) in the same period of 2019. Direct investment – liabilities dropped by EUR 22.2 million in March 2020, compared with an increase of EUR 251.2 million in March 2019. In January – March 2020 direct investment – liabilities grew by EUR 251.4 million (0.4% of GDP), compared with an increase of EUR 256.7 million (0.4% of GDP) in the same period of 2019. The balance on portfolio investment was positive amounting to EUR 327.5 million, compared with a positive balance of EUR 221.4 million in March 2019. In January – March 2020 the balance was positive and equated to EUR 529.6 million (0.8% of GDP), compared with a positive balance of EUR 256.6 million (0.4% of GDP) in January – March 2019. Portfolio investment – assets grew by EUR 225.6 million compared to an increase of EUR 102.1 million in March 2019. In January – March 2020 they increased by EUR 484.3 million (0.7% of GDP) compared with an increase of EUR 145.7 million (0.2% of GDP) in January – March 2019. Portfolio investment – liabilities dropped by EUR 101.9 million compared with a decline of EUR 119.2 million in March 2019. In January – March 2020 portfolio investment – liabilities decreased by EUR 45.3 million (0.1% of GDP) compared with a decline of EUR 110.9 million (0.2% of GDP) in January – March 2019. The balance on other investment was negative amounting to EUR 1,978.3 million, compared with a negative balance of EUR 353.1 million in March 2019. In January – March 2020 the balance was negative and equated to EUR 1,376.5 million (2.1% of GDP), compared with a positive balance of EUR 441.3 million (0.7% of GDP) in January – March 2019. Other investment – assets dropped by EUR 2,010.8 million, compared with a decline of EUR 112.7 million in March 2019. In January – March 2020 they decreased by EUR 1,653.1 million (2.5% of GDP) compared with an increase of EUR 727.9 million (1.2% of GDP) in January – March 2019. Other investment – liabilities dropped by EUR 32.4 million compared with an increase of EUR 240.4 million in March 2019. In January – March 2020 they declined by EUR 276.6 million (0.4% of GDP) compared with an increase of EUR 286.5 million (0.5% of GDP) in January – March 2019. The BNB reserve assets5 grew by EUR 1,765.7 million, compared with an increase of EUR 231.5 million in March 2019. In January – March 2020 they increased by EUR 1,538 million (2.4% of GDP), compared with a decline of EUR 133.2 million (0.2% of GDP) in the same period of 2019. The net errors and omissions were positive amounting to EUR 14.5 million compared with a positive value of EUR 33.4 million in March 2019. According to preliminary data, the item was negative totaling EUR 439.1 million (0.7% of GDP) in January – March 2020, compared with a positive value of EUR 18.5 million (0.03% of GDP) in the same period of 2019.

Bulgaria: Balance of payments	March 2019	March 2020	Change in EUR million	January - March 2019	January - March 2020	Change in EUR million
Current and capital account	16.5	88.5	72.0	423.2	887.6	464.4
Current account	-25.2	-40.0	-14.8	229.9	501.6	271.7
Trade balance	-0.4	-26.9	-26.5	46.9	129.5	82.6
Primary income, net	-112.9	-62.1	50.8	-369.8	-181.9	187.9
Secondary income, net	88.1	48.9	-39.2	552.9	558.3	5.4
Capital account	41.7	128.8	87.1	193.3	386.0	192.7
Capital transfers, net	7.8	94.8	87.0	138.5	277.8	139.3
Financial account	49.9	102.7	52.8	441.7	448.6	6.9
Source: BNB						

Foreign direct investments

In January –March 2020 the net flows of foreign direct investment in Bulgaria presented according to the directional principle a positive value of EUR 254.4 million (0.4% of GDP) growing by EUR 105.8 million (71.2%) from January – March 2019 (positive value of EUR 148.6 million, 0.2% of GDP).

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 254.4 million (0.4% of GDP) in January – March 2020, growing by EUR 105.8 million (71.2%) from January – March 2019 (positive value of EUR 148.6 million, 0.2% of GDP). Foreign direct investment in Bulgaria recorded an outflow of EUR 2.1 million in March 2020, compared with an inflow of EUR 106.9 million in March 2019. 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 negative value of EUR 46.5 million in January – March 2020, growing by EUR 397.1 million from a negative value of EUR 443.6 million in January – March 2019. Real estate investments of non-residents recorded a negative value of EUR 0.3 million, compared with a positive one of EUR 2.2 million in January – March 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 179.8 million, compared with a positive value of EUR 156.9 million in January – March 2019. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totaled EUR 121.2 million in January – March 2020, compared with a positive value of EUR 435.3 million in January – March 20195. The largest net direct investment inflows in Bulgaria for January – March 2020 were from the Netherlands (EUR 190 million), Israel (EUR 40 million), and the UK (EUR 16.6 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 5.2 million (0.01% of GDP), compared with EUR 54.1 million (0.1% of GDP) in January – March 2019. It grew by EUR 5.2 million in March 2020, compared with EUR 57.7 million in March 2019. According to preliminary data, the stocks2 of foreign direct investment in Bulgaria stood at EUR 46,160 million at end December 2019, compared with EUR 44,002 million at end-2018. Equity and reinvestment of earnings totaled EUR 36,345.2 million, growing by EUR 1,561.4 million from EUR

34,783.8 million in December 2018. Debt instruments amounted to EUR 9,814.8 million, increasing by EUR 596.6 million from December 2018 (EUR 9,218.2 million).

Bulgaria: Direct investments	March 2019	March 2020	January - March 2019	January - March 2020	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**-49.2**	**7.3**	**-94.5**	**-249.3**	**56.5**	**-154.8**
Direct investments in abroad	**57.7**	**5.2**	**54.1**	**5.2**	**-52.5**	**-48.9**
Equity	65.6	0.6	74.2	2.2	-65.0	-72.0
Reinvestments of earnings	-11.3	-0.6	74.2	-2.0	10.7	-76.2
Debt investments	3.4	5.2	4.1	4.9	1.8	0.8
Direct investments in a country	**106.9**	**-2.1**	**148.6**	**254.4**	**-109.0**	**105.8**
Equity	108.5	-20.2	-443.6	-46.5	-128.7	397.1
Reinvestments of earnings	-8.4	59.9	156.9	179.8	68.3	22.9
Debt investments	6.7	-41.8	435.3	212.2	-48.5	-223.1
Source: BNB						

International reserves

In April 2020 the BNB's international reserves amounted to BGN 53.7 billion (EUR 27.4 billion) and increased by 3.6% on a monthly basis and by 10.7% on an annual basis, maintaining the stability of the Currency Board in Bulgaria.
According to preliminary BNB data In April 2020 the BNB's international reserves amounted to BGN 53.7 billion (EUR 27.4 billion) and increased by 3.6% on a monthly basis and by 10.7% on an annual basis. 12% compared to the end of 2019, maintaining the stability of the Currency Board in Bulgaria. Bulgaria's international liquidity position, calculated as the ratio of foreign reserves to short-term external debt, is 303.5% according to the latest BNB data as of February 2020 compared to 294.2% at the end of 2019. and 304% at the end of February 2019.

REAL SECTOR

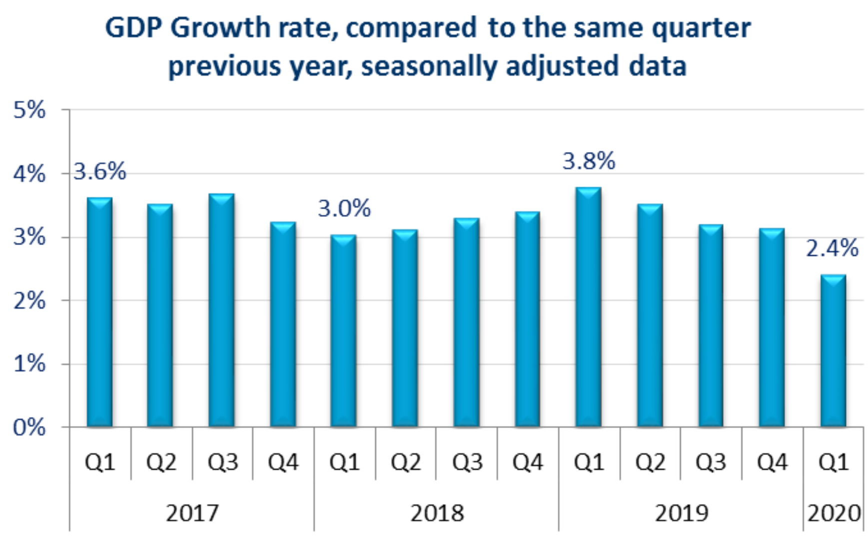
In the published spring economic forecast for 2020, the European Commission (EC) notes that the euro area economy will shrink by a record 7¾% in 2020 and will grow by 6¼% in 2021. The EU economy is projected to shrink by 7.2% in 2020 and grow by around 6% in 2021.
The EC expects Bulgaria's real GDP to shrink to 7.2% in 2020, largely influenced by the adverse impact of measures taken to curb the spread of the pandemic With the gradual lifting of the restrictive measures, the recovery of economic activity is expected in the second half of the year. Domestic demand is expected to increase in the third quarter and continue to grow in the fourth. The EC expects growth to recover in 2021 to 6%, which will partially offset the decline in 2020. The recovery will be driven by private consumption, as the labor market improves. Growth will also be favorably affected by the expected recovery in exports, but a slower recovery of investment activity is expected. The EC predicts that the unemployment rate will increase significantly due to the restrictive measures introduced for the spread of COVID-19, which will be partly due to the return of workers from abroad. The unemployment rate is expected to rise to 7% in 2020, after reaching historic levels of 4.2% in 2019. In 2021, a partial recovery of employment is forecast, with unemployment falling to 5.8%. Nominal wage growth is expected to moderate to 3.4% in 2020 and 2.3% in 2021. Also, the shock to international oil prices will curb inflation. The Commission expects inflation to fall to 1.1% in 2020 and to remain at that level in 2021. The EC notes that the fiscal policy is in support of the healthcare system and the economy of Bulgaria, and in the conditions of the pandemic it started from a strong position. In 2019, the budget surplus reached 2.1% of GDP. As part of a package to curb the pandemic and its impact, the government has announced high spending on medical equipment, allowances and salary increases for health and safety workers, as well as subsidies, tax deferrals, government guarantees and redistribution of investment funds to support the economy. Assuming unchanged policies in 2021, the EC forecasts that the budget deficit will be reduced to 1.8% of GDP. Government debt is expected to increase to 25.5% of GDP in 2020 and 25.4% in 2021, as a result of the primary deficit, the contraction in GDP and some measures to support liquidity in the economy, which do not affect the budget deficit and the debt. The EC sums up that the strong positions of the Bulgarian economy in terms of positive external balances and fiscal position before the outbreak of COVID-19 should help recover from the great economic shock caused by the pandemic.

GDP

In Q1 of 2020, Bulgaria's GDP grew by 0.3% qoq and by 2.4% yoy, respectively. Bulgaria's GDP will shrink in 2020 due to the coronavirus crisis. The EBRD forecasts a - 5% decline in Bulgaria's GDP and a rapid recovery and growth of our country's gross domestic product of 4% in 2021. According to the forecast of the European Commission, Bulgaria's economy will shrink by -7.2% in 2020. The World Bank and the International Monetary Fund (IMF) forecast a decline in Bulgaria's GDP of -3.7% and -4% in 2020, respectively. The significant decline in the consumption of durable goods and services is expected to hit SMEs particularly hard. Our forecast is for a decline in the economy in 2020 by -10% and a rapid recovery in GDP growth in 2021 of 4%.

The spread of COVID-19 and the measures taken after March 13, 2020 significantly affected the economic results and the Bulgarian economy for Q1 of 2020. Bulgaria's gross domestic product grew by 2.4% yoy in Q1 of 2020, after an increase of 3.1% in the previous quarter. This is the slowest growth rate since the third quarter of 2014. On a quarterly basis, the economy grew by 0.3%, at least since Q1 of 2014, compared to growth of 0.8% in the previous period. It is expected that these are only the initial effects of weakening final consumption, which occupies a major share in GDP, even before the coronary crisis actually affected the world economy, including Bulgaria. The unfavorable outlook was highlighted by the European Commission's May 6 forecast for an unprecedented 7.4% collapse in the European Union's economy this year, the worst recession in its history. This dire prognosis suggests that the virus will be kept under control as EC member states gradually remove the blockade. On an annual basis at the end of Q1, final consumption registered a positive economic growth of 4.1%. Gross fixed capital formation decreased by 5.3% in Q1 of 2020 compared to the corresponding quarter of the previous year. Exports of goods and services increased by 1.1%, while imports of goods and services decreased by 0.6%. In nominal terms, GDP reached BGN 25.146 billion at the end of March. The realized value added in the first quarter of the year is BGN 21.481 billion. Traditionally, the largest share of GDP is occupied by final consumption (84.9%), which in value amounts to BGN 21.346 billion. In the first quarter of 2020 gross capital formation is BGN 3.649 billion and occupies a 14.5% relative share in GDP. The foreign trade balance is positive. \

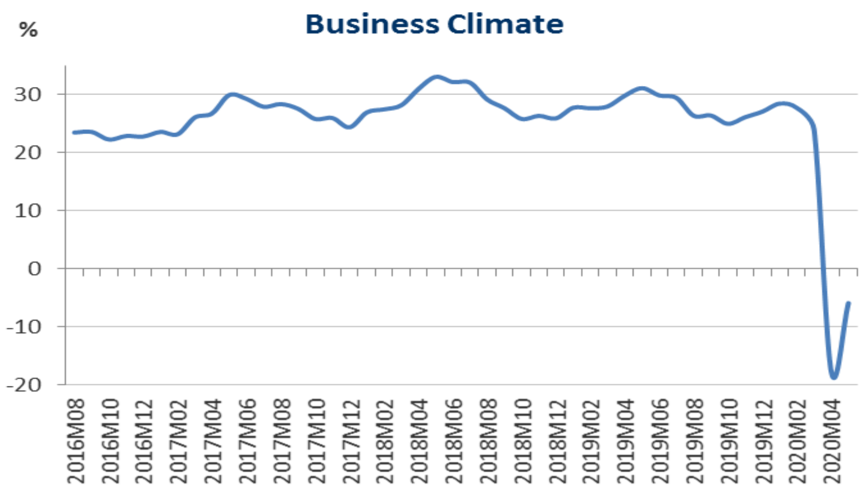
According to the express estimates of GDP by elements of end use in the first quarter of 2020, the increase in exports of goods and services by 0.1% contributed to the registered economic growth according to seasonally adjusted data compared to Q4 of 2019. It is important to specify that express GDP estimates are based on preliminary monthly and quarterly data, which are usually subject to subsequent updates and revisions. According to the EBRD, Bulgaria's GDP will shrink by -5% this year due to the coronavirus crisis. The Bank expects a rapid recovery and growth of our country's gross domestic product of 4% in 2021. The EBRD's expectations for the economic downturn this year are more optimistic than the forecast of the European Commission of -7.2% for this year. The World Bank and the International Monetary Fund (IMF) forecast declines of -3.7% and -4%, respectively, for this year. The significant decline in the consumption of durable goods and services is expected to hit SMEs particularly hard. Our forecast is for a decline in the economy in 2020 by -10% and a rapid recovery in GDP growth in 2021 of 4%.



Business climate

In May 2020, the business conjuncture in the country marks a positive change in comparison with the last three months. The total business climate indicator increases by 11.8 percentage points compared to April as a result of the positive managers' opinions in all observed sectors - industry, construction, retail trade and services.

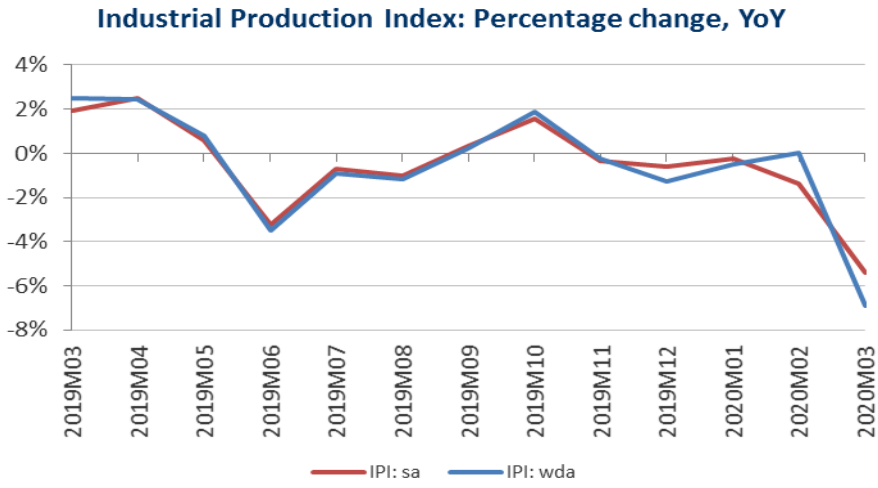
Industry. The composite indicator 'business climate in industry' increases by 11.4 percentage points which is due to the more favorable industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. At the same time, the present production activity is assessed as a decreased, while the forecasts about the activity over the next 3 months are more positive. The most serious difficulties for the business remain the uncertain economic environment, insufficient domestic demand, insufficient foreign demand and the factor 'other'. Concerning the selling prices in industry, the most of the managers foresee them to remain unchanged over the next 3 months.
Construction. In May, the composite indicator 'business climate in construction' increases by 17.3 percentage points mainly due to the optimistic construction entrepreneurs' expectations about the business situation of the enterprises over next 6 months. In their opinion, the present construction activity remains reduced, while their forecasts over the next 3 months are more favorable. The main obstacle for the development of the activity in the sector continues to be the uncertain economic environment, pointed out by 70.1% of the enterprises. In the second and third place remain the difficulties connected with the shortage of labor and factor 'others'. The construction entrepreneurs foresee certain increase of the selling prices in the sector although the majority of them expect them to preserve their level over the next 3 months.
Retail trade. The composite indicator 'business climate in retail trade' increases by 16.2 percentage points as a result of the improved retailers' forecasts about the business situation of the enterprises over the next 6 months. The inquiry also registers increased expectations as regards the volume of sales and orders placed with suppliers (from both domestic and foreign market) over the next 3 months. The uncertain economic environment continues to be the main problem for the business development. An increase of the negative influence of the factor 'insufficient demand' is registered, which shifts to the third place the difficulties, connected with the competition in the branch. Concerning the selling prices, the retailers expect them to remain unchanged over the next 3 months
Service sector. In May, the composite indicator 'business climate in service sector' increases by 2.5 percentage points which is due to the more favorable managers' expectations about the business situation of the enterprises over the next 6 months. As regards the demand of services the present tendency is assessed as reduced, while the expectations over the next 3 months are slightly improved. The factors 'uncertain economic environment', 'insufficient demand' and 'others' continue to difficult with most extent the activity of the enterprises. As regards the selling prices in the service sector, the managers foresee them to preserve their level over the next 3 months.



Industrial production

According to the preliminary data in March 2020 the Industrial Production Index, seasonally adjusted, went down by 5.1% as compared to February 2020. In March 2020 the working day adjusted Industrial Production Index fell by 6.9% in comparison with the same month of 2019.

In March 2020 as compared to February 2020, the seasonally adjusted Industrial Production Index went down in the manufacturing by 6.9%, while the production rose in the electricity, gas, steam and air conditioning supply by 5.6% and in the mining and quarrying industry by 1.0%. The most significant production decreases in the manufacturing were registered in the other manufacturing by 59.8%, in the manufacture of furniture by 25.0%, in the manufacture of motor vehicles, trailers and semi-trailers by 21.8%, in the manufacture of leather and related products by 18.5%. Important increases were seen in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 14.4%, in the repair and installation of machinery and equipment by 9.9%. On annual basis in March 2020 Industrial Production Index calculated from working day adjusted data fell in the manufacturing by 9.8% and in the electricity, gas, steam and air conditioning supply by 0.4%, while the production went up in the mining and quarrying industry by 12.3%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the other manufacturing by 46.4%, in the manufacture of leather and related products by 31.0%, in the manufacture of wearing apparel by 26.0%, in the manufacture of furniture by 24.9%. Major increases were seen in the repair and installation of machinery and equipment by 12.2%, in the manufacture of food products by 8.3%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 4.8%.



Retail sales

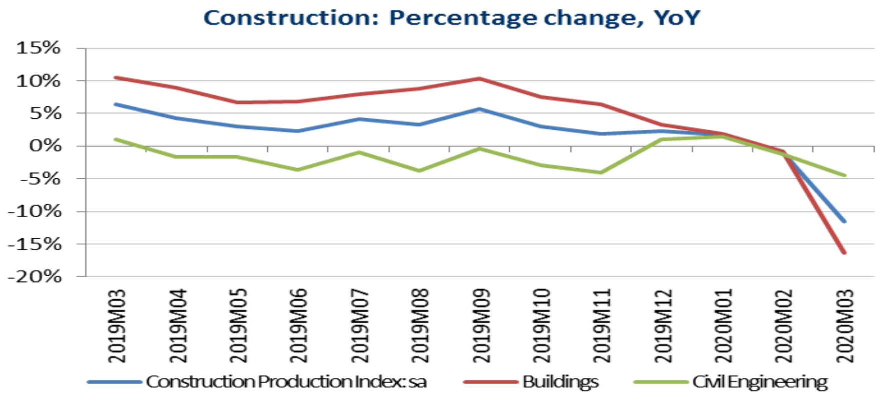
According to the preliminary seasonally adjusted data in March 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices went down by 18.1% compared to the previous month.

According to the preliminary seasonally adjusted NSI data in March 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices fell by 18.1% compared to the previous month. In March 2020, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' decreased by 14.6% in comparison with the same month of the previous year. In March 2020 compared to the previous month, decrease of turnover was observed in the 'Retail sale of automotive fuel in specialized stores' - by 36.7%, and in the 'Retail sale of non-food products (except fuel)' - by 25.6%. Increase of turnover was seen in the 'Retail sale of food, beverages and tobacco' - by 1.9%. In the 'Retail sale of non-food products except fuel' more significant decreases of turnover were registered in the 'Retail sale of textiles, clothing, footwear and leather goods in specialized stores'- by 66.5%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment, etc. in specialized stores' - by 41.3% and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances, etc. in specialized stores' - by 28.7%. A rise was reported in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles in specialized stores' - by 1.9%. In March 2020 compared to the same month of 2019, decline of turnover was observed in the 'Retail sale of automotive fuel in specialized stores' (by 37.1%) and in the 'Retail sale of non-food products except fuel' (by 18.8%). Increase of turnover was seen in the 'Retail sale of food, beverages and tobacco' (by 3.4%). 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 specialized stores' - by 63.1%, in the 'Retail sale of information and communication equipment' - by 40.4% and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances, etc. in specialized stores' - by 19.8%. A rise was reported in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles in specialized stores' - by 14.4%, and in the 'Retail sale via mail order houses or via Internet' - by 5.0%.

Construction

According to NSI preliminary data, in March 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 11.2% below the level of the previous month. In March 2020 the working day adjusted index of production in construction decreased by 14.0% in comparison with the same month of 2019.

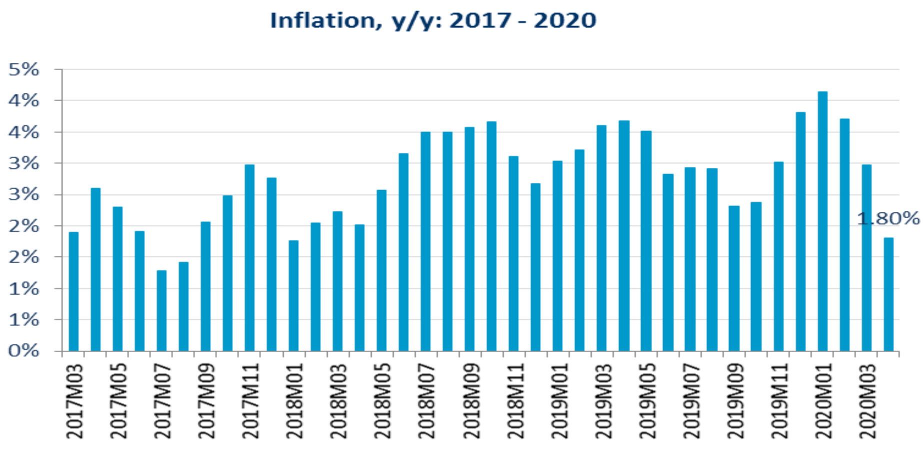
According to NSI preliminary data, in March 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 11.2% below the level of the previous month. In March 2020 working day adjusted data showed a decrease by 14.0% in the construction production, compared to the same month of 2019. In March 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 15.3% and production of civil engineering - by 5.3%. On an annual basis in March 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 drop was by 16.8% and in the civil engineering - by 9.8%.



CPI Inflation

Bulgaria's consumer price index for April 2020 compared to March 2020 is 99.4%, ie monthly inflation is minus 0.6%. Inflation since the beginning of the year (April 2020 compared to December 2019) is minus 0.3%, and annual inflation for April 2020 compared to April 2019 is 1.8% and falls below the standard for "healthy inflation" from 2%. Our forecast for 2020 is for -0.5%, after which we expect inflation to fall slightly to 2.5% in 2021 and 2% in 2022.

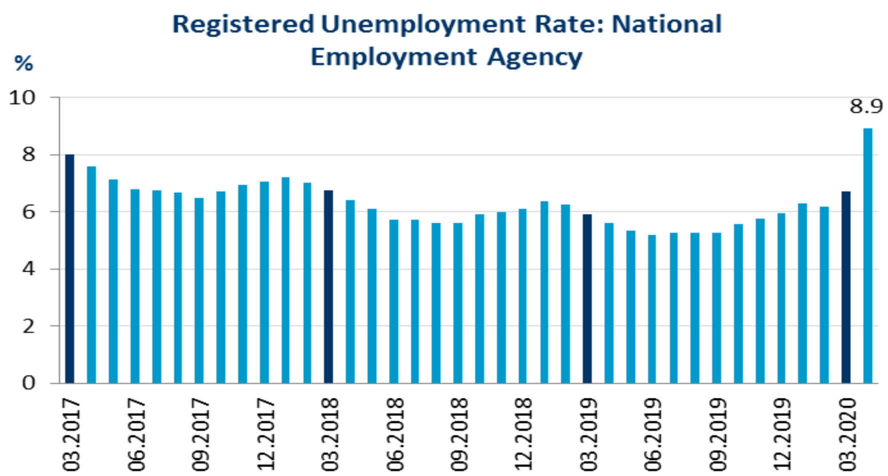
According to NSI data, the consumer price index for April 2020 compared to March 2020 is 99.4%, ie monthly inflation is minus 0.6%. Inflation since the beginning of the year (April 2020 compared to December 2019) is minus 0.3%, and annual inflation for April 2020 compared to April 2019 is 1.8% and falls below the standard for "healthy inflation" from 2%. The average annual inflation for the period May 2019 - April 2020 compared to the period May 2018 - April 2019 is 3.0%. Deflation is an indicator of shrinking demand, which forces companies to keep up price increases, resulting in declining profits and investment. This leads to a reduction in income in general. In March the NSI reported a decline in consumption of 18.1% compared to February and by 14.6% compared to the same period of 2019. Cheaper prices of goods and services are mainly due to restrictive measures against the coronavirus and lower prices for heating and hot water. NSI data show that the main contributors to the rise in retail prices compared to April 2019 have food products such as lamb and eggs, cheese, citrus fruits, potatoes and sugar. In the case of non-food items, a significant increase was observed in the prices of bank fees and services and fees for collection and disposal of household waste. Apart from heat, cheaper non-food sectors continue to be seen in automotive fuels due to weak demand and low oil prices on the market.



LABOR MARKET

The COVID-19 pandemic has caused a shock on the labor market in Bulgaria. At the end of April 2020, the registered unemployment rate in Bulgaria was 8.9%, increasing by 2.2 percentage points on a monthly basis and by 3.3 percentage points on an annual basis. The total number of unemployed in the labor offices at the end of April 2020 is 292 810, as compared to March the registered number is 72 738 more or an increase of 33.1%. According to the latest data, we know of 45 thousand workers who will pass the measure "60 to 40", which shows that it is gaining momentum as a summary mechanism to combat unemployment.

According to the Employment Agency, the registered unemployment rate in Bulgaria in April 2020 was 8.9%. The comparison on a monthly basis shows an increase of 2.2 percentage points, and on an annual basis the increase is by 3.3 percentage points. The total number of unemployed in the labor offices in April was 292,810, as compared to March there were 72,738 more registered persons or an increase of 33.1%. The number of unemployed who entered employment in April was 12,953. Despite the conditions of restrictions imposed by the state of emergency, 10,560 unemployed entered the primary market, of which 7,384 were mediated by the Employment Agency. 2,393 unemployed persons have been employed at subsidized jobs under measures, programs and schemes of the Operational Program "Human Resources Development". The new electronic services and the possibilities for remote communication, the so-called "Speed channels" for employers and jobseekers, introduced in employment offices since the beginning of the state of emergency, are emerging as a reason for the results achieved. The distribution by sectors of the economy of those who started working in the primary market shows that the processing industry (food and beverage production, textile production, chemical and pharmaceutical industry) was the main source of new employment during the month with 46.3% of the employed unemployed. They are followed by trade - by 21.6% and transport - by 9.1% of the employed unemployed. Construction has provided employment to 5.7% of the unemployed. By occupational classes, those started working on the primary market in April are distributed as follows: personnel engaged in services for the population, trade and security - 2,128 persons; professions not requiring special qualification - 1,688 persons; machine operators and installers - 1,388; skilled workers and their relatives - 1,045, etc. The number of hired specialists with higher education in April was 342, as the medical specialists were 133 persons, the teachers and lecturers - 87, the administrative specialists - 48, the ICT specialists - 22 and others.



In recent weeks, we have heard a lot about the coronavirus incidence curve and attempts to avoid a large peak in those infected through social distancing measures. The argument with the unemployed and the measure "60 out of 40" is very similar. The aim is to preserve jobs and avoid a large peak in unemployment, and the 60 to 40 mechanism should push the unemployment curve down - just as social distancing pushes the morbidity curve down. According to the latest data, we know of 45,000 workers who will go under the measure "60 to 40", which shows that it is gaining momentum.

FISCAL SECTOR

Budget balance

The CFP budget balance on a cash basis for April 2020 is surplus, amounting to BGN 1,631.5 million. It is formed by the excess of national budget revenues over expenditures of BGN 1,188.1 million and of EU funds of BGN 443.3 million. Based on the preliminary data and estimates, for the five months of 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,278.7 million (1.1 % of the forecast GDP).

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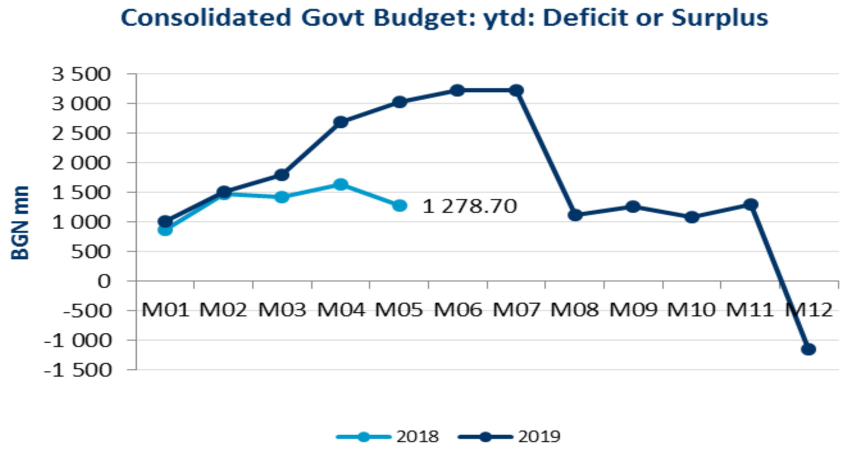

Central government debt

As at end-April 2020, central government debt stands at BGN 24,708.5 million and presents 21.1% of GDP

According MF data as at end-April 2020, central government debt stands at BGN 24,708.5 million. Domestic debt amounts to BGN 6,276.6 million and external debt – to BGN 18,431.9 million. At the end of the reporting period the central government debt-to-GDP ratio is 21.1%, with the share of domestic debt being 5.4% and of external debt – 15.7% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 25.4%, and external debt – to 74.6%. As of 30 April 2020, central government guaranteed debt amounts to BGN 125.0 million. Domestic guarantees amount to BGN 64.6 million and external guarantees – to BGN 60.4 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(1) of the Government Debt Law, at end-April 2020 government debt reaches BGN 23,247.0 million, or 19.8% of GDP. Domestic debt amounts to BGN 5,956.8 million and external debt – to BGN 17,290.3 million. Government guaranteed debt amounts to BGN 1,707.8 million in April 2020, domestic guarantees amount to BGN 64.6 million, with the government guaranteed debt-to-GDP ratio being 1.5%.

BANKING SECTOR

As of the end of April 2020, the net profit of the banking system amounted to BGN 336 million and decreased by 21% yoy due to the negative impact of COVID-19 in Bulgaria. In April 2020 the assets of the banking system amounted to BGN 115.8 billion and increased by 0.6% mom and by 6.7% yoy, respectively. Their relative share in GDP is 91.3%. Gross loans and advances to customers decreased by 0.2% mom and increased by 5.4% yoy, respectively to BGN 66.9 billion (52.7% of GDP). Customer deposits increased by 0.6% mom and by 6.8% yoy, respectively to BGN 92.8 billion at the end of April. Their relative share in GDP is 73.2%.

According to BNB data as of the end of April 2020, the net aggregate profit of the banking system as of April 30, 2020 is BGN 356 million, or BGN 98 million less than the one realized for the same period in 2019. Expenses for impairment of financial assets, which are not reported at fair value in profit or loss, as of the end of April 2020 are BGN 191 million (compared to BGN 110 million a year ago).

Indicator (BGN 000)	30.04. 2018	30.04. 2020	Y/Y (%)
Interest Income	1 007 138	1 011 283	0.4
Interest Expence	94 546	97 218	2.8
Net interest Income	**912 592**	**914 065**	**0.2**
Impairment	110 427	190 587	72.6
Fee and commission income	425 059	403 470	-5.1
Fee and commission expenses	64 223	70 123	9.2
Net fee and commission income	**360 836**	**333 347**	**-7.6**
Administration costs	544 040	558 370	2.6
Personal cost	294 237	306 523	4.2
Total operating income, net	1 239 677	1 230 569	-0.7
Net Profit	**454 096**	**355 673**	**-21.7**

Source:BNB, UBB's Calculations

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Bulgaria Intermediation Indicators	31.03.2019 BGN'000	31.12.2019 BGN'000	29.02.2020 BGN'000	31.03.2020 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**108 246 637**	**114 201 141**	**114 767 779**	**115 118 210**	**0.3**	**6.3**	**0.8**	**90.8**
Loans to central govemments	771 480	932 642	931 956	950 093	1.9	23.2	1.9	0.7
Loans to non-financial corporations	**35 376 593**	**36 572 986**	**36 968 472**	**36 879 536**	**-0.2**	**4.2**	**0.8**	**29.1**
Loans to financial corporrations	3 194 804	4 594 445	4 540 320	4 531 720	-0.2	41.8	-1.4	3.6
Retail loans, incl.:	**22 421 345**	**24 193 012**	**24 545 254**	**24 670 633**	**0.5**	**10.0**	**2.0**	**19.5**
Mortgage loans	11 263 669	12 486 585	12 651 389	12 763 657	0.9	13.3	2.2	10.1
Consumer loans	10 545 027	12 427 283	12 595 419	12 613 159	0.1	19.6	1.5	9.9
Micro credits and other loans	612 649	-720 856	-701 554	-706 183	0.7	-215.3	-2.0	-0.6
TOTAL LOANS	**61 764 222**	**66 293 085**	**66 986 002**	**67 031 982**	**0.1**	**8.5**	**1.1**	**52.9**
ATRACTED SOURCES FROM CLIENTS, incl.:	**85 922 199**	**91 853 230**	**91 752 820**	**92 244 808**	**0.5**	**7.4**	**0.4**	**72.8**
Local govemment deposits	2 773 421	2 665 018	2 833 828	2 898 388	2.3	4.5	8.8	2.3
Non-financial corporations deposits	25 292 066	**28 150 012**	27 539 522	27 560 671	**0.1**	**9.0**	**-2.1**	**21.7**
Financial corporations deposits	3 574 612	3 422 053	3 147 682	3 625 664	15.2	1.4	5.9	2.9
Households and NPISHs deposits	**54 282 100**	**57 616 147**	**58 231 788**	**58 160 085**	**-0.1**	**7.1**	**0.9**	**45.9**
Equity	14 160 988	14 396 914	14 505 787	14 605 975	0.7	3.1	1.5	11.5
Net profit (annualised)	309 041	1 674 983	154 927	296 146		**-4.2**		
BANKING INDICATORS (%)								
ROE	13.1	11.6	6.4	8.1	1.7	-5.0	-3.5	
ROA	1.7	1.5	0.8	1.0	0.2	-0.7	-5.2	
Capital adequacy	19.2	20.2	n.a.	n.a.				
Liquidity	289.1	269.9	264.6	261.0	-3.6	-28.1	-5.2	
NPL	7.4	6.5	n.a.	6.5		-0.90	0.00	
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 equity in the balance sheet of the banking system increased by BGN 131 million (0.9%) compared to the end of March and reached BGN 14.7 billion at the end of April 2020. The growth was due to the increased paid-in capital and profit during the month. The liquidity coverage ratio of the banking system increased during the month from 261.0% to 291.8%. The liquidity buffer at the end of April was BGN 28.0 billion, and the net outflows were BGN 9.6 billion.

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