All data in the edition are the last available data published as of 30 June 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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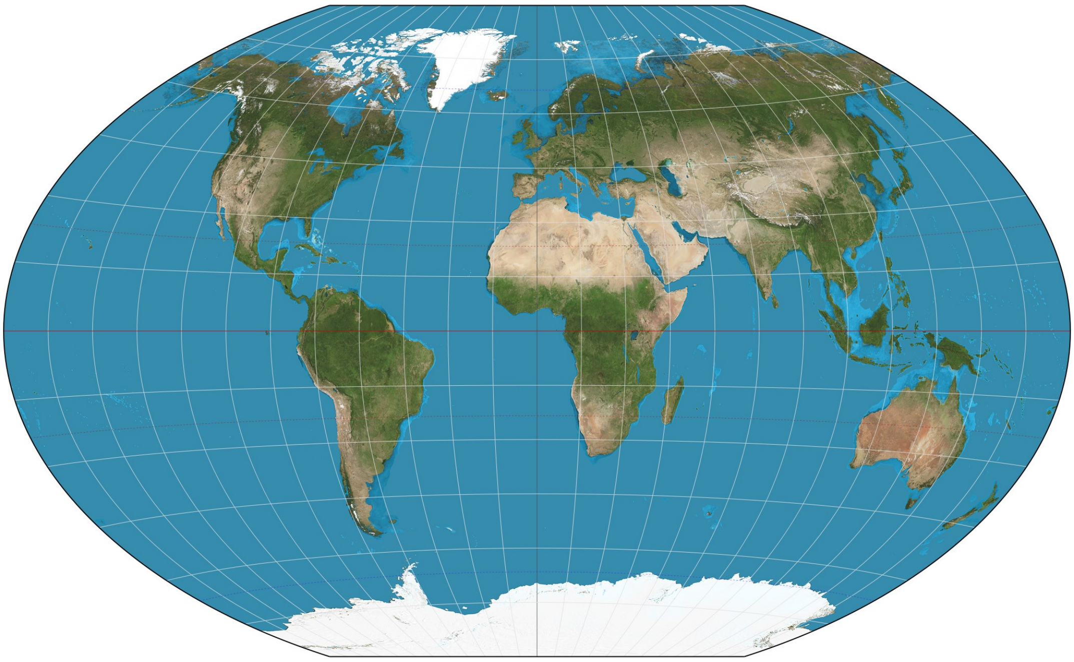
# HIGHLIGHTS AND FORECASTS

# MONTHLY ECONOMIC REPORT



June, 2020

- **GDP in the euro area contracted 3.10% in Q1 of 2020 over the same quarter of the previous year. The Euro area economy shrank by 3.6% in Q1 of 2020, compared with preliminary estimates of a 3.8% contraction and the previous period's 0.1% growth. It was still the steepest contraction on record as a coronavirus lockdown from mid-March forced non-essential businesses to close and consumers to stay at home. Our 2020 base case annual growth forecast for euro area is -9.6%, we have revised down our 2021 growth figure to 6.2%. Among the bloc's largest economies, Italy and Spain are seen posting the steepest contraction rates, with the GDP falling by -11.7% and -12.8% respectively. France's economy is forecast to shrink -10.3%, while Germany's GDP will probably drop by -7.1%.The consumer price inflation in the euro area was confirmed at 0.1% year-on-year in May 2020, the lowest since a flat reading in June 2016 and compared with April's 0.3%. The euro area seasonally-adjusted unemployment rate rose to 7.3% in April 2020 from a downwardly revised 7.1% in the previous month, but well below market expectations of 8.2%, as the number of unemployed persons increased by 211 thousand to 11.919 million. April was the second month after COVID-19 containment measures were implemented by most member states. Among the bloc's largest economies, the highest unemployment rates were recorded in Spain (14.8%) and France (8.7%) while the lowest rates were observed in Germany (3.5%) and Italy (6.3%). Considering the European Union as a whole, the jobless rate was at 6.6%, up from 6.4% in March.**
- **Italy's GDP shrank -5.3% in Q1 of 2020, down from earlier estimates of a -4.7% drop as the country was the epicenter of the coronavirus pandemic during March. It follows a downwardly revised -0.2% contraction in the previous period, entering recession. It was the steepest contraction since comparable records began in 1995. Year-on-year, the economy contracted -5.4%, more than preliminary estimates of -4.8% decline and following a 0.1% expansion at the end of 2019. . We expects a contraction of Italian GDP of -11.7% in 2020. We expect a recovery in Italy of 6.1% in 2021. Consumer prices in Italy decreased 0.2% year-on-year in May of 2020. Italy's unemployment rate decreased to 6.3% in April of 2020, the lowest since November of 2007 and below market expectations of 9.5%, as the number of inactive people increased by 746 thousand to 14.578 million, its highest since November of 2011 due to the coronavirus crisis.**
- **The CBI's quarterly gauge of manufacturing optimism in the UK tumbled to -87 in the second quarter of 2020 from +23 in the previous three-month period. That was its lowest level since records began in the 1950s, as manufacturers took a sharp hit during the shutdown in response to COVID-19. Firms in the industry sector expect output and orders to fall at a much faster pace, while employment is seen contracting the most since 1980. Britain's consumer price inflation dropped to 0.5% year-on-year in May, from 0.8% in the previous month. That was the lowest rate since June 2016, as the coronavirus pandemic hit demand and oil prices. The UK unemployment rate was at 3.9% in the three months to April 2020, the same as in the previous period, as the government Coronavirus Job Retention Scheme helped funding employees wages during lockdown. 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 5% in Q1 of 2020, more than an advance estimate of a 4.8% contraction and ending the longest period of expansion in the country's history, the second estimate showed. It is the biggest drop in GDP since the last quarter of 2008 as the Covid-19 pandemic forced several states to impose lockdown measures in mid-March, throwing millions of people out of work. In the second quarter of the year, the economy is seen contracting as much as 40%, which would be the biggest plunge ever as the "stay-at-home" orders issued in March extended through the quarter, with businesses and schools switching to remote work or canceling operations, and consumers canceling, restricting, or redirecting their spending. The annual inflation rate in the US eased to 0.1% in May of 2020 from 0.3% in April. The US unemployment rate dropped to 13.3% in May 2020 from 14.7% in April which was the largest in records back to 1939 and below market expectations of 19.8%, as the economy gradually reopened. In the US, we expect growth to contract -6.5% in 2020. We expect a recovery in US of 4.4% in 2021.**
- **The Japanese economy shrank -0.6% qoq in Q1 2020, compared with the preliminary estimate of a -0.9% contraction. This was the first recession since 2015, as the COVID-19 crisis took a huge toll on activity and demand. On an annualized basis, the economy contracted -2.2 % in Q1, less than the initial reading of a -3.4% contraction and compared with consensus of a -2.1% fall. Japan's consumer price inflation stood at an over 3-year low of 0.1% yoy in May 2020. The unemployment rate in Japan edged up to 2.6% in April 2020 compared to 2.5% in the prior month. It is the highest jobless rate since December of 2017. The jobs-to-applications ratio declined sharply to 1.32, the lowest since March 2016, as the Covid-19 crisis escalated. We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.**

- One bright spot in the global economic outlook remains the economic recovery in China, which one might even call 'V-shaped.' Industrial production grew a positive 3.9% yoy and 4.4% yoy in April and May, respectively. Vehicle sales and vehicle registrations have also returned to positive year-over year growth and sentiment data has recovered to expansionary territory. However, data like retail sales and electricity consumption suggest that the services sector might be lagging in the recovery. What's more, the aforementioned uptick in Covid-19 cases in some regions highlights that the risk presented by a second wave of the virus is applicable to China as well. Also there is a risk of global spillover effects for China's export and recent suggestions that US-China trade tensions may continue to flare up this year. We therefore maintain our outlook of the Chinese economy growing only 1.0% in 2020 before recovering to 8.8% growth in 2021.

- Turkey's economy advanced 4.5% yoy in Q1 of 2020, easing from a 6% growth in the previous period and missing market expectations of a 5.4% expansion, amid the coronavirus pandemic. Net external demand contributed negatively to the GDP as imports jumped 22.1% (vs 29.3% in Q4 2019) while exports dropped 1% (vs 4.4% in Q4). On a seasonally adjusted quarterly basis, the economy expanded 0.6%, slowing from a 1.9% growth in the previous period. The annual inflation rate in Turkey increased to 11.39% in May of 2020 from 10.94% in the previous month, mainly due to a weaker lira. The unemployment rate in Turkey dropped to 13.2% in March of 2020 from 14.1% a year earlier. 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 4 June 2020 the Governing Council of the ECB took the following monetary policy decisions: (1) The envelope for the pandemic emergency purchase programme (PEPP) will be increased by EUR 600 billion to a total of EUR 1,350 billion. In response to the pandemic-related downward revision to inflation over the projection horizon, the PEPP expansion will further ease the general monetary policy stance, supporting funding conditions in the real economy, especially for businesses and households. (2) The horizon for net purchases under the PEPP will be extended to at least the end of June 2021. (3) The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. (4) 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, for an extended period of time. (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.

- The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present is to respond to the severe economic and financial disruption caused by the spread of Covid-19. At its meeting ending on 17 June 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to continue with the existing programme 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. The Committee voted by a majority of 8-1 for the Bank of England to increase the target stock of purchased UK government bonds, financed by the issuance of central bank reserves, by an additional GBP 100 billion, to take the total stock of asset purchases to GBP 745 billion.

- Federal Reserve issues FOMC statement June 10, 2020. 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 0.25% percent. 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. To support the flow of credit to households and businesses, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain 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.

- Bank of Japan Statement on Monetary Policy June 16, 2020. The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year Japanese government bonds yields will remain at around zero 0%. The Bank of Japan will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2 trillion and about JPY 3 trillion , respectively. The Bank of Japan will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) and conducting the U.S. dollar funds-supplying operations.

- China's government is reaching beyond its monetary policy tool box to free up capital and direct funds towards the nation's cash-starved businesses to help the economy claw its way out of its worst slump in four decades. The government has called on banks to sacrifice as much as CNY 1.5 trillion (USD 212 billion) in profits this year to finance cheap loans, cut fees, defer loan repayments and grant more unsecured loans to help small businesses survive the downturn caused by the coronavirus lockdown. The governor Yi Gang added that the People's Bank of China would achieve the goal by directing financial institutions to offer lower lending rates, adding fresh funds at low rates that can be accessed by borrowers directly, and slashing service fees. Separately, the State Council, China's cabinet, signalled late on June 17 that it would cut the amount of reserves banks are required to hold at the central bank, freeing up more money to spur lending. Analysts expected that RRR cut could happen within two weeks based on previous experience and this next cut to be 0.5%.

- The policy rate in Turkey has been cut from 24% in July 2019 to 8.25% in May 2020, total 15.75% cut. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 8.75% to 8.25% on 21 May 2020. 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. Developments in inflation expectations and domestic demand conditions have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, international commodity prices, especially crude oil and metal prices, affect inflation outlook favorably. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. Under the current monetary policy stance, inflation outlook is considered to be in line with the year-end inflation projection.

- The Brent price increases 0.92 USD/BBL or 2.17% to 42.380 USD/BBL on June 19, 2020. For the week, the increase was 8.95%. The price of crude oil increases 1.01 USD/BBL or 2.53% to 39.850 USD/BBL on June 19, 2020. For the week, the increase was 9.90%. Prices have been rising as output was cut by around 10% of the global supply at the OPEC meetings since May 1 while demand from European countries shows signs of recovery as economies lift lockdowns restrictions. On June 18, oil for immediate delivery costs more than supply later for the first time since March, indicating tightening supply and encouraging storage to be drawn down. Oil prices are on track to post a near 10% gain for the week amid optimism that global oil demand is recovering despite a rise in new coronavirus infections. Also, OPEC+ committed to curb production once again, with both Iraq and Kazakhstan willing to compensate for overproduction in May.

- According CSE as of June 19, 2020 the wheat price in the US continued to fall by USD 1.00 dollars to 209.00 USD/ton, in France it fell by EUR 6.00 to 187.00 EUR/ ton. For another week, the price in Ukraine and Russia did not change - 223.00 USD/ ton due to the suspension of exports. There was no correction in the US report for corn compared to April and expectations for record production remain in force: for the US an increase of USD 4.00 to 163.00 USD/ ton in Chicago, zero change in Ukraine - 181.00 USD/ ton and slightly down in France by minus EUR -3.00 to 169.00 EUR/ton. Barley in Ukraine remained at 176.00 USD / ton, in France a slight decline of EUR 4.00 and 163.00 EUR/ ton. In the "Grain" sub-district of the Sofia Commodity Exchange AD, the offers moved. There were deals for large quantities of bread wheat from the old harvest, the price is BGN 310.00 / ton. Feed barley is offered at BGN 300.00 / ton, corn ranges from BGN 280.00 to BGN 300.00 / ton, respectively for supply and demand.

- **The term of the emergency epidemic situation in Bulgaria is extended until June 30, 2020. As of June 22, 2020, there are 3872 registered cases of coronavirus in Bulgaria since the beginning of the epidemic, according to the World Health Organization (WHO). Bulgaria has 1941 Coronavirus Recovered from the beginning of the epidemic. In addition, Bulgaria reported 190 coronavirus deaths.**
- **In January – April 2020 the current and capital account was positive amounting to EUR 936.7 million (1.4% of GDP), compared with a surplus of EUR 259.8 million (0.4% of GDP) in January – April 2019. In January – April 2020 the current account was positive and amounted to EUR 625.7 million (1% of GDP), compared with a deficit of EUR 19.8 million (0.03% of GDP) in January – April 2019. In January – April 2020 the balance on goods was negative amounting to EUR 95.1 million (0.1% of GDP), compared with a deficit of EUR 569.3 million (0.9% of GDP) in January – April 2019.**
- **In January – April 2020 the net flows of foreign direct investment in Bulgaria presented according to the directional principle a positive value of EUR 154.7 million (0.2% of GDP) in January – April 2020, dropping by EUR 157.2 million (50.4%) from January – April 2019 (positive value of EUR 311.9 million, 0.5% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 23.9 million in April 2020, compared with an inflow of EUR 163.2 million in April 2019.**
- **As of end-May 2020, the BNB's international reserves amounted to BGN 53.3 billion (EUR 27.2 billion) and increased by 9.8% on an annual basis, 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 high, at 339.5% according to the latest BNB data at the end of March 2020, two weeks after the announcement of the COVID-19 pandemic in Bulgaria.**
- **In June 2020, the total business climate indicator increases by 11.4 percentage points in comparison with the previous month which is due to more favourable business climate in all observed sectors - industry, construction, retail trade and services.**
- **According to preliminary NSI data, in April 2020 the seasonally adjusted index of industrial production decreased by 11.4% compared to March 2020. In April 2020, the calendar adjusted index of industrial production registered a decrease of 15.7% compared to the corresponding month of 2019.**
- **According to preliminary NSI data, in April 2020 the index of production in the Construction sector, calculated on the basis of seasonally adjusted data, was 0.7% below the level of the previous month. The calendar adjusted data show a decrease of 15.0% in construction output in April 2020 compared to the same month in 2019.**
- **According to preliminary seasonally adjusted data in April 2020, the turnover in the section "Retail trade, excluding trade in cars and motorcycles" at comparable prices decreased by 1.4% compared to the previous month. In April 2020 the retail trade turnover, calculated on the basis of calendar adjusted data, decreased by 19.9% compared to the same month of the previous year.**
- **The consumer price index for May 2020 compared to April 2020 is 99.7%, ie monthly inflation is minus 0.3%. Inflation since the beginning of the year (May 2020 compared to December 2019) is minus 0.6%, and annual inflation for May 2020 compared to May 2019 is 1.3% The average annual inflation for the period June 2019 - May 2020 compared to the period June 2018 - May 2019 is 2.8%. The harmonized index of consumer prices for May 2020 compared to April 2020 is 99.8%, ie monthly inflation is minus 0.2%. Inflation since the beginning of the year (May 2020 compared to December 2019) is minus 0.6%, and annual inflation for May 2020 compared to May 2019 is 1.0%. The average annual inflation for the period June 2019 - May 2020 compared to the period June 2018 - May 2019 is 2.3%.**
- **According to the Employment Agency, unemployment in Bulgaria rose sharply in May to 9%. The comparison on a monthly basis shows an increase of 0.1 percentage points, and on an annual basis the growth is 3.7 percentage points. Despite measures to boost employment and preserve jobs, including the 60/40 business-oriented scheme, official statistics justify expectations of rising unemployment following the March 13 state of emergency. Restrictive measures have closed a number of sectors, many of which have failed to benefit from government incentives.**
- **Based on the preliminary data and estimates, as of June 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,564.6 million (1.3 % of the forecast GDP). For comparison, the reported excess of revenues over expenditures for the first half of 2019 amounted to BGN 3,223.3 million (2.7 % of GDP), which means that, as compared to the same period of 2019, the budget balance has deteriorated by BGN 1.7 billion in nominal terms.government debt stands at BGN 24,612.8 million and presents 21.1% of GDP.**
- **Standard&Poor's affirmed Bulgaria's 'BBB' ratings; outlook revised to stable.**

- **In the conditions of the COVID-19 pandemic, the banking system of Bulgaria reported a contraction of the profit by 37.5% on an annual basis, as well as a decrease of the assets by 0.8% on a monthly basis. The gross amount of loans and advances from customers in the banking system at the end of May 2020 was BGN 66.7 billion, decreasing by 0.2% on a monthly basis and growing by 4.6% on an annual basis. Their relative share in GDP is 52.6%. As of the end of May 2020, customer deposits in the banking system on a monthly basis increased by 0.4% and by 8% on an annual basis to BGN 93.2 billion at the end of May. Their relative share in GDP is 73.5%.**

## GLOBAL TRENDS

### Advanced countries' economies

**Eurozone**

**GDP in the euro area contracted 3.10% in Q1 of 2020 over the same quarter of the previous year. The Euro area economy shrank by 3.6% in Q1 2020 compared with preliminary estimates of a 3.8% contraction and the previous period's 0.1% growth. It was still the steepest contraction on record as a coronavirus lockdown from mid-March forced non-essential businesses to close and consumers to stay at home. Our 2020 base case annual growth forecast for euro area is -9.6%, we have revised down our 2021 growth figure to 6.2%. Among the bloc's largest economies, Italy and Spain are seen posting the steepest contraction rates, with the GDP falling by -11.7% and -12.8% respectively. France's economy is forecast to shrink -10.3%, while Germany's GDP will probably drop by -7.1%.The consumer price inflation in the euro area was confirmed at 0.1% year-on-year in May 2020, the lowest since a flat reading in June 2016 and compared with April's 0.3%. The euro area seasonally-adjusted unemployment rate rose to 7.3% in April 2020 from a downwardly revised 7.1% in the previous month, but well below market expectations of 8.2%, as the number of unemployed persons increased by 211 thousand to 11.919 million. April was the second month after COVID-19 containment measures were implemented by most member states. Among the bloc's largest economies, the highest unemployment rates were recorded in Spain (14.8%) and France (8.7%) while the lowest rates were observed in Germany (3.5%) and Italy (6.3%). Considering the European Union as a whole, the jobless rate was at 6.6%, up from 6.4% in March.**

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**Italy**

**.Italy's GDP shrank -5.3% in Q1 2020, down from earlier estimates of a -4.7% drop as the country was the epicenter of the coronavirus pandemic during March. It follows a downwardly revised -0.2% contraction in the previous period, entering recession. It was the steepest contraction since comparable records began in 1995. Year-on-year, the economy contracted -5.4%, more than preliminary estimates of -4.8% decline and following a 0.1% expansion at the end of 2019. . We expects a contraction of Italian GDP of -11.7% in 2020. We expect a recovery in Italy of 6.1% in 2021. Consumer prices in Italy decreased 0.2% year-on-year in May of 2020. Italy's unemployment rate decreased to 6.3% in April of 2020, the lowest since November of 2007 and below market expectations of 9.5%, as the number of inactive people increased by 746 thousand to 14.578 million, its highest since November of 2011 due to the coronavirus crisis.**

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## Great Britain

**The CBI's quarterly gauge of manufacturing optimism in the UK tumbled to -87 in the second quarter of 2020 from +23 in the previous three-month period. That was its lowest level since records began in the 1950s, as manufacturers took a sharp hit during the shutdown in response to COVID-19. Firms in the industry sector expect output and orders to fall at a much faster pace, while employment is seen contracting the most since 1980. Britain's consumer price inflation dropped to 0.5% year-on-year in May, from 0.8% in the previous month. That was the lowest rate since June 2016, as the coronavirus pandemic hit demand and oil prices. The UK unemployment rate was at 3.9% in the three months to April 2020, the same as in the previous period, as the government Coronavirus Job Retention Scheme helped funding employees wages during lockdown. For the UK, we expect a contraction of -9.0% in 2020. We expect a recovery in UK of 6% in 2021.**

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## USA

**The US economy shrank by an annualized 5% in Q1 of 2020, more than an advance estimate of a 4.8% contraction and ending the longest period of expansion in the country's history, the second estimate showed. It is the biggest drop in GDP since the last quarter of 2008 as the Covid-19 pandemic forced several states to impose lockdown measures in mid-March, throwing millions of people out of work. In the second quarter of the year, the economy is seen contracting as much as 40%, which would be the biggest plunge ever as the "stay-at-home" orders issued in March extended through the quarter, with businesses and schools switching to remote work or canceling operations, and consumers canceling, restricting, or redirecting their spending. The annual inflation rate in the US eased to 0.1% in May of 2020 from 0.3% in April. The US unemployment rate dropped to 13.3% in May 2020 from 14.7% in April which was the largest in records back to 1939 and below market expectations of 19.8%, as the economy gradually reopened. In the US, we expect growth to contract -6.5% in 2020. We expect a recovery in US of 4.4% in 2021.**

The US economy shrank by an annualized 5% in Q1 of 2020, more than an advance estimate of a 4.8% contraction and ending the longest period of expansion in the country's history, the second estimate showed. It is the biggest drop in GDP since the last quarter of 2008 as the Covid-19 pandemic forced several states to impose lockdown measures in mid-March, throwing millions of people out of work. Private inventory investment was revised downwards while personal consumption and business investment shrank less than anticipated. In the second quarter of the year, the economy is seen contracting as much as 40%, which would be the biggest plunge ever as the "stay-at-home" orders issued in March extended through the quarter, with businesses and schools switching to remote work or canceling operations, and consumers canceling, restricting, or redirecting their spending. The Gross Domestic Product (GDP) in the United States expanded 0.23% in the first quarter of 2020 over the same quarter of the previous year. The annual inflation rate in the US eased to 0.1% in May of 2020 from 0.3% in April and below forecasts of 0.2%. It is the lowest inflation rate since September of 2015, mainly due to a 33.8% plunge in gasoline cost. Also, prices of apparel went down 7.9% and transportation services declined 8.7% as many stores remained closed and Americans were forced to stay at home due to coronavirus lockdown restrictions. The US unemployment rate dropped to 13.3% in May 2020 from 14.7% in April which was the largest in records back to 1939 and below market expectations of 19.8%, as the economy gradually reopened. The number of unemployed persons fell by 2.1 million to 21.0 million as those who were on temporary layoff decreased by 2.7 million to 15.3 million. Among those not on temporary layoff, the number of permanent job losers increased by 295,000 to 2.3 million. The number of employed rose by 3.8 million to 137.2 million and the labor force participation rate increased to 60.8%, after hitting the lowest since January 1973 the month before. Since February, the unemployment rate was up by 9.8% and the number of unemployed persons increased by 15.2 million. In the US, we expect growth to contract -6.5% in 2020. We expect a recovery in US of 4.4% in 2021.

## Japan

**The Japanese economy shrank -0.6% qoq in Q1 2020, compared with the preliminary estimate of a -0.9% contraction. This was the first recession since 2015, as the COVID-19 crisis took a huge toll on activity and demand. On an annualized basis, the economy contracted -2.2 % in Q1, less than the initial reading of a -3.4% contraction and compared with consensus of a -2.1% fall. Japan's consumer price inflation stood at an over 3-year low of 0.1% yoy in May 2020. The unemployment rate in Japan edged up to 2.6% in April 2020 compared to 2.5% in the prior month. It is the highest jobless rate since December of 2017. The jobs-to-applications ratio declined sharply to 1.32, the lowest since March 2016, as the Covid-19 crisis escalated. We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.**

The Japanese economy shrank -0.6% qoqin Q1 2020, compared with the preliminary estimate of a -0.9% contraction and market consensus of a- 0.5% decline. This was the first recession since 2015, as the COVID-19 crisis took a huge toll on activity and demand. Private consumption fell slightly more than anticipated (-0.8% vs -0.7% in the preliminary estimate), while there was a significant upward revision of capital expenditure (1.9% vs -0.5%). At the same time, net external demand subtracted -0.2% from growth as exports (-6%) fell more than imports (-4.9%). On an annualized basis, the economy contracted -2.2 % in Q1, less than the initial reading of a -3.4% contraction and compared with consensus of a -2.1% fall. Japan's consumer price inflation stood at an over 3-year low of 0.1% yoy in May 2020, in line with market estimates, as Covid-19 pandemic continued to hamper consumption. Prices fell further for transport & communication (-1.7% vs -1.2% in April), amid slumping oil prices. On a monthly basis, consumer prices were flat after declining 0.2%. Core consumer prices, which exclude fresh food, dropped -0.2% (the same pace as in April) and compared with market consensus of a -0.1% drop. The unemployment rate in Japan edged up to 2.6% in April 2020 compared to 2.5% in the prior month and market expectations of 2.7%. It is the highest jobless rate since December of 2017 but as the number of unemployed increased by 3.5% to 1.78 million while employment declined by 1.6% to 66.25 million. The jobs-to-applications ratio declined sharply to 1.32, the lowest since March 2016, as the Covid-19 crisis escalated. We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.

## China

**One bright spot in the global economic outlook remains the economic recovery in China, which one might even call 'V-shaped.' Industrial production grew a positive 3.9% yoy and 4.4% yoy in April and May, respectively. Vehicle sales and vehicle registrations have also returned to positive year-over year growth and sentiment data has recovered to expansionary territory. However, data like retail sales and electricity consumption suggest that the services sector might be lagging in the recovery. What's more, the aforementioned uptick in Covid-19 cases in some regions highlights that the risk presented by a second wave of the virus is applicable to China as well. Also there is a risk of global spillover effects for China's export and recent suggestions that US-China trade tensions may continue to flare up this year. We therefore maintain our outlook of the Chinese economy growing only 1.0% in 2020 before recovering to 8.8% growth in 2021.**

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## Turkey

**Turkey's economy advanced 4.5% yoy in Q1 of 2020, easing from a 6% growth in the previous period and missing market expectations of a 5.4% expansion, amid the coronavirus pandemic. Net external demand contributed negatively to the GDP as imports jumped 22.1% (vs 29.3% in Q4 2019) while exports dropped 1% (vs 4.4% in Q4). On a seasonally adjusted quarterly basis, the economy expanded 0.6%, slowing from a 1.9% growth in the previous period. The annual inflation rate in Turkey increased to 11.39% in May of 2020 from 10.94% in the previous month, mainly due to a weaker lira. The unemployment rate in Turkey dropped to 13.2% in March of 2020 from 14.1% a year earlier. 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.**

Turkey's economy advanced 4.5% yoy in Q1 of 2020, easing from a 6% growth in the previous period and missing market expectations of a 5.4% expansion, amid the coronavirus pandemic. Household consumption grew 5.1%, slowing from a 6.8% rise in the last quarter of 2019; and fixed investment shrank -1.4%, faster than a -0.6% contraction. On the other hand, government spending expanded 6.2%, after growing 2.7% in the prior quarter. Net external demand contributed negatively to the GDP as imports jumped 22.1% (vs 29.3% in Q4 2019) while exports dropped 1% (vs 4.4% in Q4). On a seasonally adjusted quarterly basis, the economy expanded 0.6%, slowing from a 1.9% growth in the previous period. The annual inflation rate in Turkey increased to 11.39% in May of 2020 from 10.94% in the previous month and slightly above market expectations of 11%, mainly due to a weaker lira. Cost advanced faster for food, beverages & tobacco (12.87% vs 11.28% in April) and transportation (6.69% vs 5.54%) while prices of housing & utilities eased (14.45% vs 14.52%). The annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to 10.3% from 9.93% in April. On a monthly basis, consumer prices went up 1.36%, after increasing 0.85% in the prior month. The unemployment rate in Turkey dropped to 13.2% in March of 2020 from 14.1% a year earlier, as the number of unemployed went down by 573 thousand to 3.971 million, the lowest since October of 2018. The non-agricultural unemployment rate fell to 15% from 16.1%. 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 4 June 2020 the Governing Council of the ECB took the following monetary policy decisions: (1) The envelope for the pandemic emergency purchase programme (PEPP) will be increased by EUR 600 billion to a total of EUR 1,350 billion. In response to the pandemic-related downward revision to inflation over the projection horizon, the PEPP expansion will further ease the general monetary policy stance, supporting funding conditions in the real economy, especially for businesses and households. (2) The horizon for net purchases under the PEPP will be extended to at least the end of June 2021. (3) The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. (4) 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, for an extended period of time. (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..**

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(2) The horizon for net purchases under the PEPP will be extended to at least the end of June 2021. In any case, the Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over.

(3) The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.

(4) 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. The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

(5) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

(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. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

The Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

**Bank of England (BoE)**

**The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present is to respond to the severe economic and financial disruption caused by the spread of Covid-19. At its meeting ending on 17 June 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to continue with the existing programme 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. The Committee voted by a majority of 8-1 for the Bank of England to increase the target stock of purchased UK government bonds, financed by the issuance of central bank reserves, by an additional GBP 100 billion, to take the total stock of asset purchases to GBP 745 billion.**

Bank of England Monetary Policy Summary and minutes of the Monetary Policy Committee meeting Published on 18 June 2020

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**USA Federal Reserve**

**Federal Reserve issues FOMC statement June 10, 2020. 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 0.25% percent. 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. To support the flow of credit to households and businesses, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain 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.**

Federal Reserve issues FOMC statement June 10, 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 have induced sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Financial conditions have improved, in part reflecting policy measures to support the economy and 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 0.25% percent. 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. To support the flow of credit to households and businesses, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain 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 developments and is prepared to adjust its plans as appropriate.

## Bank of Japan (BoJ)

**Bank of Japan Statement on Monetary Policy June 16, 2020. The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year Japanese government bonds yields will remain at around zero 0%. The Bank of Japan will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2 trillion and about JPY 3 trillion , respectively. The Bank of Japan will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) and conducting the U.S. dollar funds-supplying operations.**

Bank of Japan Statement on Monetary Policy June 16, 2020

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

(1) Yield curve control

The Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period.

The short-term policy interest rate:

The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan.

The long-term interest rate:

The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year Japanese government bonds yields will remain at around zero 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

(2) Guidelines for asset purchases

With regard to asset purchases other than Japanese government bonds purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines.

a) The Bank of Japan will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively

b) As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2 trillion and about JPY 3 trillion , respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of JPY 7.5 trillion for each asset.

The 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 CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner.

The Bank of Japan will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of Japanese government bonds and foreign currency funds without setting upper limits mainly by purchasing Japanese government bonds and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of exchange-traded funds ETFs and Japan real estate investment trusts J-REITs.

For the time being, the Bank of Japan will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels.

## PBoC

**China's government is reaching beyond its monetary policy tool box to free up capital and direct funds towards the nation's cash-starved businesses to help the economy claw its way out of its worst slump in four decades. The government has called on banks to sacrifice as much as CNY 1.5 trillion (USD 212 billion) in profits this year to finance cheap loans, cut fees, defer loan repayments and grant more unsecured loans to help small businesses survive the downturn caused by the coronavirus lockdown. The governor Yi Gang added that the People's Bank of China would achieve the goal by directing financial institutions to offer lower lending rates, adding fresh funds at low rates that can be accessed by borrowers directly, and slashing service fees. Separately, the State Council, China's cabinet, signalled late on June 17 that it would cut the amount of reserves banks are required to hold at the central bank, freeing up more money to spur lending. Analysts expected that RRR cut could happen within two weeks based on previous experience and this next cut to be 0.5%.**

China's government is reaching beyond its monetary policy tool box to free up capital and direct funds towards the nation's cash-starved businesses to help the economy claw its way out of its worst slump in four decades. The measure to provide additional credit at lower cost is largely aimed at helping small private businesses, particularly in the services sector, that are struggling to recover from lockdowns to contain the virus earlier this year. Tens of thousands of small businesses in China are now facing the threat of a second wave of infections after a cluster of new infections was discovered. The government has called on banks to sacrifice as much as CNY 1.5 trillion (USD 212 billion) in profits this year to finance cheap loans, cut fees, defer loan repayments and grant more unsecured loans to help small businesses survive the downturn caused by the coronavirus lockdown. Separately, the State Council, China's cabinet, signalled late on June 17 that it would cut the amount of reserves banks are required to hold at the central bank, freeing up more money to spur lending. "We are guiding the market to lower lending rates through interest-rate reform," Yi Gang, the governor of the People's Bank of China (PBOC), told on June 18, confirming the move was a de facto cut in interest rates. "Financial institutions are urged to sacrifice profits to benefit corporate borrowers, helping reduce their borrowing costs." The governor Yi Gang added that the People's Bank of China would achieve the goal by directing financial institutions to offer lower lending rates, adding fresh funds at low rates that can be accessed by borrowers directly, and slashing service fees. The profits to be sacrificed would be equivalent to roughly 75% of the entire net profit of the commercial banking industry in 2019, based on the data from China Banking and Insurance Regulatory Commission (CBIRC). In its statement on June 17, the State Council, which premier Li chairs, said the country will continue to take advantage of reserve requirement ratio (RRR) cuts to maintain ample market liquidity and so "intensify the efforts to solve financing difficulties and ease fund pressure on companies". The Chinese central bank has cut the RRR three times this year, pumping a total of CNY 1.75 trillion into the banking system. Analysts expected that RRR cut could happen within two weeks based on previous experience and this next cut to be 0.5%.

## Central Bank of Turkey

**The policy rate in Turkey has been cut from 24% in July 2019 to 8.25% in May 2020, total 15.75% cut. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 8.75% to 8.25% on 21 May 2020. 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. Developments in inflation expectations and domestic demand conditions have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, international commodity prices, especially crude oil and metal prices, affect inflation outlook favorably. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. Under the current monetary policy stance, inflation outlook is considered to be in line with the year-end inflation projection.**

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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. Although consumer inflation might follow a slightly higher course in the short-term due to seasonal and pandemic-related effects on food prices, demand-driven disinflationary effects will be more prevalent in the second half of the year. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. Under the current monetary policy stance, inflation outlook is considered to be in line with the year-end inflation projection. It should be emphasized that any new data or information may lead the Committee to revise its stance.

## International commodity prices

### Oil

**The Brent price increases 0.92 USD/BBL or 2.17% to 42.380 USD/BBL on June 19, 2020. For the week, the increase was 8.95%. The price of crude oil increases 1.01 USD/BBL or 2.53% to 39.850 USD/BBL on June 19. For the week, the increase was 9.90%. Prices have been rising as output was cut by around 10% of the global supply at the OPEC meetings since May 1 while demand from European countries shows signs of recovery as economies lift lockdowns restrictions. On June 18, oil for immediate delivery costs more than supply later for the first time since March, indicating tightening supply and encouraging storage to be drawn down. Oil prices are on track to post a near 10% gain for the week amid optimism that global oil demand is recovering despite a rise in new coronavirus infections. Also, OPEC+ committed to curb production once again, with both Iraq and Kazakhstan willing to compensate for overproduction in May.**

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### Agriculture products

**According CSE the wheet prices in the US continued to fall by USD 1.00 dollars to 209.00 USD/ton, in France it fell by EUR 6.00 to 187.00 EUR/ ton. For another week, the price in Ukraine and Russia did not change - 223.00 USD/ ton due to the suspension of exports. There was no correction in the US report for corn compared to April and expectations for record production remain in force: for the US an increase of USD 4.00 to 163.00 USD/ ton in Chicago, zero change in Ukraine - 181.00 USD/ ton and slightly down in France by minus EUR -3.00 to 169.00 EUR/ton. Barley in Ukraine remained at 176.00 USD / ton, in France a slight decline of EUR 4.00 and 163.00 EUR/ ton. In the "Grain" sub-district of the Sofia Commodity Exchange AD, the offers moved. There were deals for large quantities of bread wheat from the old harvest, the price is BGN 310.00 / ton. Feed barley is offered at BGN 300.00 / ton, corn ranges from BGN 280.00 to BGN 300.00 / ton, respectively for supply and demand.**

Sofia Commodity Exchange Review 16-19.05.2020

There were no surprises in the US Department of Agriculture's report on the state of the global grain balance, but most analysts saw it as a negative sign in the short-term price outlook for wheat due to the increased forecast for world production. This is mainly due to Australian and Indian producers, which definitely compensates for the deteriorating production prospects in the EU and Ukraine. Another depressing factor is the record number of transitional inventories, and an element of uncertainty is introduced by the climate factor, and this is directly reflected in the prices of contracts on world commodities markets. Wheat in the US continued to fall by USD 1.00 dollars to 209.00 USD/ton, in France it fell by EUR 6.00 to 187.00 EUR/ ton. The price in Ukraine and Russia did not change - 223.00 USD/ ton due to the suspension of exports. There was no correction in the US report for corn compared to April and expectations for record production remain in force: for the US an increase of USD 4.00 to 163.00 USD/ ton in Chicago, zero change in Ukraine - 181.00 USD/ ton and slightly down in France by minus EUR -3.00 to 169.00 EUR/ton. Barley in Ukraine remained at 176.00 USD / ton, in France a slight decline of EUR 4.00 and 163.00 EUR/ ton. In the "Grain" sub-district of the Sofia Commodity Exchange AD, the offers moved. There were deals for large quantities of bread wheat from the old harvest, the price is BGN 310.00 / ton. Feed barley is offered at BGN 300.00 / ton, corn ranges from BGN 280.00 to BGN 300.00 / ton, respectively for supply and demand. All prices are without VAT.

## II.BULGARIA: ACCENTS AND PROJECTIONS

### HEALTH

**The term of the emergency epidemic situation in Bulgaria is extended until June 30, 2020.**

As of June 22, 2020, there are 3872 registered cases of coronavirus in Bulgaria since the beginning of the epidemic, according to the World Health Organization (WHO). Bulgaria has 1941 Coronavirus Recovered from the beginning of the epidemic. In addition, Bulgaria reported 190 coronavirus deaths.

The Council of Ministers adopted a Decision extending the epidemic emergency situation declared by Decision № 325 of 14 May 2020 until 30 June 2020. The COVID-19 pandemic continues to be a serious public health emergency nationally and globally. The data accumulated so far in the country show that the introduced measures regarding early detection, isolation and treatment of patients, as well as timely detection and quarantine of contact persons helped to locate and limit the spread of the disease to local epidemics. The implementation of anti-epidemic measures has contributed to slowing down the development of the COVID-19 epidemic in the country and reducing pressure on the healthcare system. The prolongation of the emergency epidemic situation will help through the application of temporary anti-epidemic measures, incl. and quarantine of persons entering the country, to slow down and limit the spread of the COVID-19 epidemic, to create sustainability in the implementation of basic measures, to improve the preparedness of the health and social system for response to a subsequent wave and to create an opportunity for a change in the scope and content of the measures with the emergence of new scientific data on the causative agent, routes of transmission, methods of prevention and treatment.

### EXTERNAL SECTOR

#### Balance of payments

**In January – April 2020 the current and capital account was positive amounting to EUR 936.7 million (1.4% of GDP), compared with a surplus of EUR 259.8 million (0.4% of GDP) in January – April 2019. In January – April 2020 the current account was positive and amounted to EUR 625.7 million (1% of GDP), compared with a deficit of EUR 19.8 million (0.03% of GDP) in January – April 2019. In January – April 2020 the balance on goods was negative amounting to EUR 95.1 million (0.1% of GDP), compared with a deficit of EUR 569.3 million (0.9% of GDP) in January – April 2019.**

The current and capital account recorded a surplus of EUR 308.5 million in April 2020, compared with a deficit of EUR 163.4 million in April 2019. In January – April 2020 the current and capital account was positive amounting to EUR 936.7 million (1.4% of GDP), compared with a surplus of EUR 259.8 million (0.4% of GDP) in January – April 2019. The current account was positive amounting to EUR 186.5 million in April 2020, compared with a deficit of EUR 249.7 million in April 2019. In January – April 2020 the current account was positive and amounted to EUR 625.7 million (1% of GDP), compared with a deficit of EUR 19.8 million (0.03% of GDP) in January – April 2019. The balance on goods recorded a surplus of EUR 120.2 million in April 2020, compared with a deficit of EUR 222.1 million in April 2019. In January – April 2020 the balance on goods was negative amounting to EUR 95.1 million (0.1% of GDP), compared with a deficit of EUR 569.3 million (0.9% of GDP) in January – April 2019. Exports of goods amounted to EUR 1,924.7 million in April 2020, dropping by EUR 422.9 million (18%) from EUR 2,347.6 million in April 2019. In January – April 2020 exports of goods totalled EUR 9,043.9 million (13.9% of GDP), dropping by EUR 327.5 million (3.5%) year-on-year (from EUR 9,371.4 million, 15.4% of GDP). In January – April 2019 exports grew by 9.5% yoy. Imports of goods amounted to EUR 1,804.5 million in April 2020, dropping by EUR 765.3 million (29.8%) from April 2019 (EUR 2,569.8 million). In January – April 2020 imports of goods totalled EUR 9,139 million (14.1% of GDP), down by EUR 801.7 million (8.1%) from January – April 2019 (EUR 9,940.6 million, 16.4% of GDP). In January – April 2019 imports grew by 7.5% yoy. Services recorded a positive balance of EUR 61.3 million in April 2020, compared with a surplus of EUR 118.7 million in April 2019. In January – April 2020 services recorded a surplus of EUR 467 million (0.7% of GDP) compared with a positive balance of EUR 512.7 million (0.8% 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 5.7 million, compared with a deficit of EUR 268.8 million in April 20193. In January – April 2020 the balance on primary income was negative and equated to EUR 313.5 million (0.5% of GDP), compared with a deficit of EUR 638.6 million (1.1% of GDP) in January – April 2019. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 10.6 million, compared with a positive balance of EUR 122.5 million in April 2019. In January – April 2020 the net secondary income was positive amounting to EUR 567.3 million (0.9% of GDP), compared with a positive balance of EUR 675.3 million

(1.1% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 122 million, compared with a positive balance of EUR 86.3 million in April 2019. In January – April 2020 the capital account recorded a surplus of EUR 311 million (0.5% of GDP), 2019. In January – April 2020 the capital account recorded a surplus of EUR 311 million (0.5% of GDP), compared with a positive balance of EUR 279.6 million (0.5% of GDP) in January – April 2019. The financial account recorded a positive balance of EUR 196.6 million, compared with a negative value of EUR 280.1 million in April 2019. In January – April 2020 the financial account recorded a net inflow of EUR 791.1 million (1.2% of GDP) compared with an inflow of EUR 161.6 million (0.3% of GDP) in January – April 2019. The balance on direct investment was negative amounting to EUR 7.5 million, compared with a negative balance of EUR 101.3 million in April 2019. In January – April 2020 direct investment recorded a negative balance of EUR 126.7 million (0.2% of GDP), compared with a negative balance of EUR 195.7 million (0.3% of GDP) in January – April 2019. Direct investment – assets grew by EUR 13.2 million compared with a decline of EUR 27.2 million in April 2019. In January – April 2020 direct investment – assets grew by EUR 51.4 million (0.1% of GDP) compared with an increase of EUR 135 million (0.2% of GDP) in the same period of 2019. Direct investment – liabilities grew by EUR 20.7 million in April 2020, compared with an increase of EUR 74 million in April 2019. In January – April 2020 direct investment – liabilities grew by EUR 178.1 million (0.3% of GDP), compared with an increase of EUR 330.7 million (0.5% of GDP) in the same period of 2019. The balance on portfolio investment was positive amounting to EUR 94.5 million, compared with a positive balance of EUR 75.8 million in April 2019. In January – April 2020 the balance was positive and equated to EUR 597.7 million (0.9% of GDP), compared with a positive balance of EUR 332.4 million (0.5% of GDP) in January – April 2019. Portfolio investment – assets grew by EUR 118.2 million compared to an increase of EUR 103.6 million in April 2019. In January – April 2020 they increased by EUR 589.3 million (0.9% of GDP) compared with an increase of EUR 249.3 million (0.4% of GDP) in January – April 2019. Portfolio investment – liabilities grew by EUR 23.7 million compared with an increase of EUR 27.8 million in April 2019. In January – April 2020 portfolio investment – liabilities decreased by EUR 8.4 million (0.01% of GDP) compared with a decline of EUR 83.1 million (0.1% of GDP) in January – April 2019. The balance on other investment was negative amounting to EUR 694.3 million, compared with a negative balance of EUR 67.5 million in April 2019. In January – April 2020 the balance was negative and equated to EUR 2,028.3 million (3.1% of GDP), compared with a positive balance of EUR 373.8 million (0.6% of GDP) in January – April 2019. Other investment – assets dropped by EUR 256.7 million, compared with an increase of EUR 192.9 million in April 2019. In January – April 2020 they decreased by EUR 1,834.6 million (2.8% of GDP) compared with an increase of EUR 920.7 million (1.5% of GDP) in January – April 2019. Other investment – liabilities grew by EUR 437.6 million compared with an increase of EUR 260.4 million in April 2019. In January – April 2020 they rose by EUR 193.8 million (0.3% of GDP) compared with an increase of EUR 546.9 million (0.9% of GDP) in January – April 2019. The BNB reserve assets5 grew by EUR 816.1 million, compared with a decline of EUR 192.2 million in April 2019. In January – April 2020 they increased by EUR 2,354.1 million (3.6% of GDP), compared with a decline of EUR 325.5 million (0.5% of GDP) in the same period of 2019. The net errors and omissions were negative amounting to EUR 111.9 million compared with a negative value of EUR 116.8 million in April 2019. According to preliminary data, the item was negative totalling EUR 145.6 million (0.2% of GDP) in January – April 2020, compared with a negative value of EUR 98.3 million (0.2% of GDP) in the same period of 2019.

| Bulgaria: Balance of payments | April 2019 | April 2020 | Change in EUR million | January - April 2019 | January - April 2020 | Change in EUR million |
|---|---|---|---|---|---|---|
| Current and capital account | -163.4 | 308.5 | 471.9 | 259.8 | 936.7 | 676.9 |
| Current account | -249.7 | 186.5 | 436.2 | -19.8 | 625.7 | 645.5 |
| Trade balance | -222.1 | 120.2 | 342.3 | -569.3 | -95.1 | 474.2 |
| Primary income, net | -268.8 | -5.7 | 263.1 | -638.6 | -313.5 | 325.1 |
| Secondary income, net | 122.5 | 10.6 | -111.9 | 675.3 | 567.3 | -108.0 |
| Capital account | 86.3 | 122.2 | 35.9 | 279.6 | 311.0 | 31.4 |
| Capital transfers, net | 63.6 | 90.1 | 26.5 | 202.0 | 368.0 | 166.0 |
| Financial account | -208.1 | 196.6 | 404.7 | 161.6 | 791.1 | 629.5 |
| Source: BNB | | | | | | |

## Foreign direct investments

**In January – April 2020 the net flows of foreign direct investment in Bulgaria presented according to the directional principle a positive value of EUR 154.7 million (0.2% of GDP) in January – April 2020, dropping by EUR 157.2 million (50.4%) from January – April 2019 (positive value of EUR 311.9 million, 0.5% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 23.9 million in April 2020, compared with an inflow of EUR 163.2 million in April 2019.**

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 154.7 million (0.2% of GDP) in January – April 2020, dropping by EUR 157.2 million (50.4%) from January – April 2019 (positive value of EUR 311.9 million, 0.5% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 23.9 million in April 2020, compared with an inflow of EUR 163.2 million in April 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 24.6 million in January – April 2020, growing by EUR 510.7 million from a negative value of EUR 535.4 million in January – April 2019. Real estate investments of non-residents recorded a negative value of EUR 0.2 million, compared with a positive one of EUR 2.3 million in January – April 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 214.7 million, compared with a positive value of EUR 213.5 million in January – April 2019. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) recorded a negative value of EUR 35.4 million in January – April 2020, compared with a positive value of EUR 633.7 million in January – April 20195. The largest net direct investment inflows in Bulgaria for January – April 2020 were from Germany (EUR 63.6 million) According to preliminary data, direct investment abroad totalled EUR 28 million (0.04% of GDP), compared with EUR 116.1 million (0.2% of GDP) in January – April 2019. It grew by EUR 16.4 million in April 2020, compared with EUR 62 million in April 2019. According to preliminary data, the stocks 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 totalled 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 | April 2019 | April 2020 | January - April 2019 | January - April 2020 | Change in EUR million, mom | Channge in EUR million, yoy |
|---|---|---|---|---|---|---|
| **Direct investments, net** | **-101.3** | **-7.5** | **-195.7** | **-126.7** | **93.8** | **69.0** |
| **Direct investments in abroad** | **62.0** | **16.4** | **116.1** | **28.0** | **93.8** | **-88.1** |
| Equity | 28.1 | 3.1 | 102.3 | 5.9 | 93.8 | -96.4 |
| Reinvestments of earnings | 12.8 | 0.0 | -11.3 | -5.4 | 93.8 | 5.9 |
| Debt investments | 21.1 | 13.3 | 25.1 | 27.5 | 93.8 | 2.4 |
| **Direct investments in a country** | **163.2** | **23.9** | **311.9** | **154.7** | **93.8** | **-157.2** |
| Equity | -91.8 | 1.3 | -535.4 | -24.6 | 93.8 | 510.8 |
| Reinvestments of earnings | 56.6 | 0.0 | 213.5 | 214.7 | 93.8 | 1.2 |
| Debt investments | 198.5 | 22.6 | 633.7 | -35.4 | 93.8 | -669.1 |
| Source: BNB | | | | | | |

## International reserves

**As of end-May 2020, the BNB's international reserves amounted to BGN 53.3 billion (EUR 27.2 billion) and increased by 9.8% on an annual basis, 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 high, at 339.5% according to the latest BNB data at the end of March 2020, two weeks after the announcement of the COVID-19 pandemic in Bulgaria.**

According to preliminary BNB data, in May 2020 the BNB's international reserves amounted to BGN 53.3 billion (EUR 27.2 billion) and shrank by 0.7% on a monthly basis with a growth of 9.8%, 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 high, at 339.5% according to the latest BNB data at the end of March 2020 (two weeks after the announcement of the COVID-19 pandemic in Bulgaria) and compared to 294.2% at the end of 2019. and 297.5% at the end of March 2019. The indicator reflects the immediate actions of the BNB and commercial banks to mobilize all free resources in the country to ensure the stability of the Currency Board and additional financial buffer in the context of the COVID-19 pandemic.

## REAL SECTOR

### Business climate

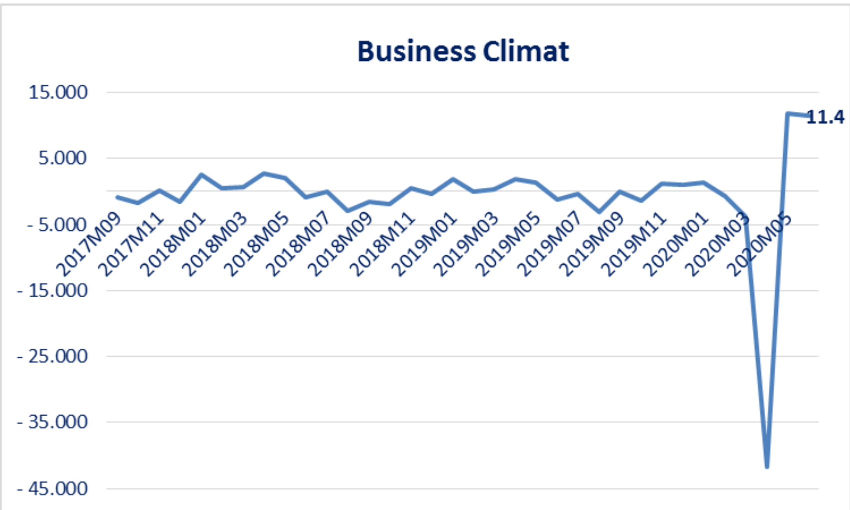
**In June 2020, the total business climate indicator increases by 11.4 percentage points in comparison with the previous month which is due to more favourable business climate in all observed sectors - industry, construction, retail trade and services.**

**Industry.** The composite indicator 'business climate in industry' increases by 9.7 percentage points as a result of the optimistic industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. At the same time, the production assurance with orders is assessed as sufficient, which is accompanied by increased expectations about the activity over the next 3 months. The uncertain economic environment continues to be the main factor, limiting the activity followed by factor 'other' pointed out respectively by 55.9% and 34.2% of the enterprises. As regards the selling prices in industry, the prevailing managers' expectations are for preservation of their level over the next 3 months.

**Construction.** In June, the composite indicator 'business climate in construction' increases by 14.4 percentage points which is due to the improved construction entrepreneurs' assessments and expectations about the business situation of the enterprises. According to them, the new orders inflow at the last month are increased, and the forecasts about the activity over the next 3 months are optimistic. The most serious problems for the business development remain the uncertain economic environment, shortage of labour and factor 'others'. Concerning the selling prices in construction, the managers foresee them to remain unchanged over the next 3 months.

**Retail trade.** The composite indicator 'business climate in retail trade' increases by 15.8 percentage points as a result of the more favourable retailers' assessments and expectations about the business situation of the enterprises. Their opinions about the volume of sales over the last 3 months, as well their expectations over the next 3 months are also more positive. The main obstacle for the activity in the sector remains the uncertain economic environment followed by the insufficient demand and competition in the branch. As regards the selling prices, certain expectations for an increase are registered, although the majority of the managers foresee preservation of their level over the next 3 months.

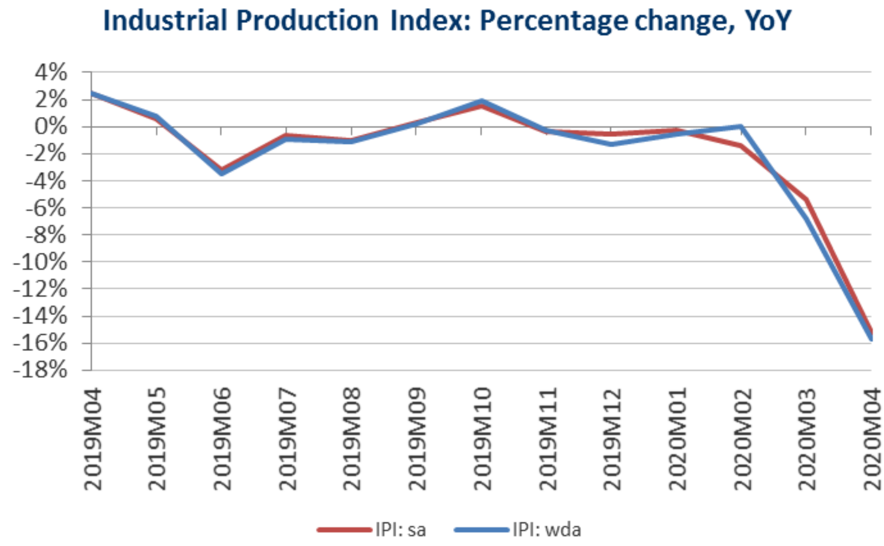
**Service sector.** In June, the composite indicator 'business climate in service sector' increases by 7.0 percentage points which is due to the more positive managers' expectations about the business situation of the enterprises over the next 6 months. At the same time, certain improvement in their expectation about the demand of services over the next 3 months is observed. The most serious problems for the business of the enterprises remain connected with the uncertain economic environment, insufficient demand and the factor 'others'. Concerning the selling prices in the sector, the managers' expectation are them to remain unchanged over the next 3 months.



## Industrial production

**According to preliminary NSI data, in April 2020 the seasonally adjusted index of industrial production decreased by 11.4% compared to March 2020. In April 2020, the calendar adjusted index of industrial production registered a decrease of 15.7% compared to the corresponding month of 2019.**

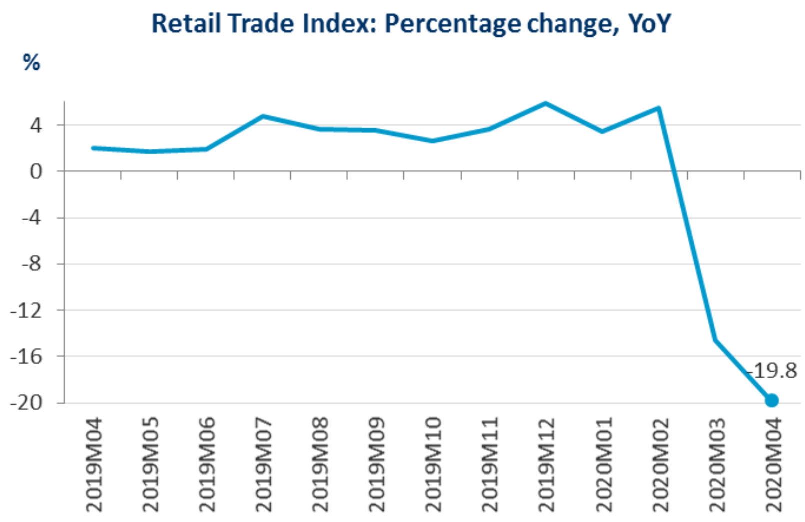
In April 2020 a decrease compared to the previous month was registered in the manufacturing - by 13.2%, in the production and distribution of electricity and heat and gas - by 9.6%, and in the mining and quarrying - by 5.8%. A more significant decrease in the manufacturing is observed in: manufacture of motor vehicles, trailers and semi-trailers - by 68.2%, manufacture of machinery and equipment for general and special purpose - by 22.7%, repair and installation of machinery and equipment - by 21.3%, the production of wood and wood products, without furniture - by 19.5%. A significant increase was registered in: manufacture of tobacco products - by 6.8%, manufacture of medicines and products - by 3.8%. On an annual basis, a decrease in industrial production, calculated from the calendar adjusted data, was reported in the manufacturing - by 18.5%, and in the production and distribution of electricity and heat and gas - by 10.9%, and an increase - in the mining and quarrying industry. - by 9.3%. more significant decrease in the manufacturing industry compared to the corresponding month of the previous year was observed in: manufacture of motor vehicles, trailers and semi-trailers - by 74.0%, manufacture not elsewhere classified - by 45.4%, manufacture of machinery and equipment with total and special purpose - by 37.6%, printing and reproduction of recorded media - by 33.5%. The largest increase was reported in the production of drugs and products - by 19.3%.




## Retail sales

**According to preliminary seasonally adjusted data in April 2020, the turnover in the section "Retail trade, excluding trade in cars and motorcycles" at comparable prices decreased by 1.4% compared to the previous month. In April 2020 the retail trade turnover, calculated on the basis of calendar adjusted data, decreased by 19.9% compared to the same month of the previous year.**

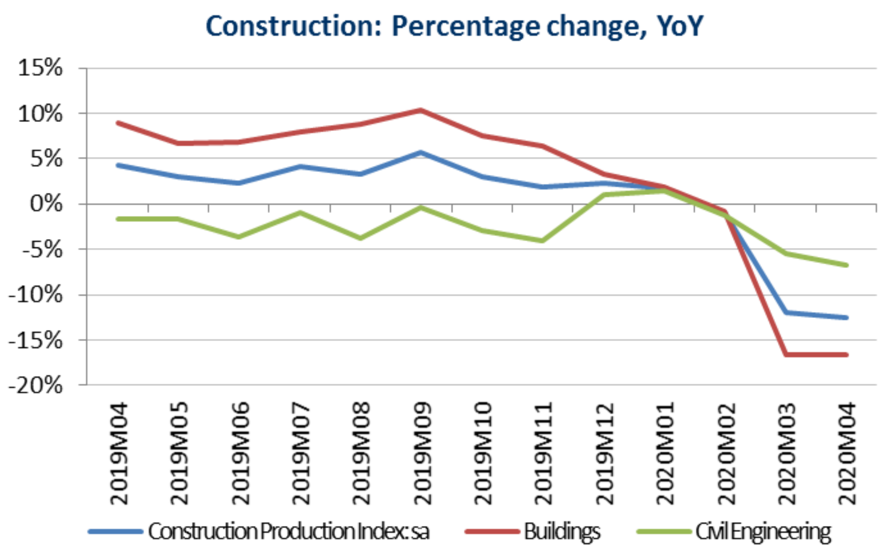
In April 2020 a decrease in turnover was registered compared to the previous month in: retail trade in automotive fuels and lubricants - by 4.1%, retail trade in food, beverages and tobacco - by 1.8%, and retail trade in non-food goods, excluding trade in motor fuels and lubricants - by 1.4%. In retail trade of non-food goods, excluding trade in automotive fuels and lubricants, the largest decrease was reported in: retail trade of textiles, clothing, footwear and leather goods - by 28.4%, and retail trade of pharmaceutical and medical goods, cosmetics and toiletries - by 17.6%. An increase in turnover was registered in the retail trade of computer and communication equipment - by 17.8%, and in the retail trade by mail order, telephone or internet - by 2.4%. In April 2020, compared to the same month of 2019, there was a decline in turnover in retail trade in automotive fuels and lubricants (by 40.3%), in retail trade in non-food products, excluding trade in automotive fuels and lubricants (by 22%) and in retail trade of food, beverages and tobacco (by 7.9%). A more significant decrease in retail trade of non-food goods, excluding trade in automotive fuels and lubricants was registered in: retail trade of textiles, clothing, footwear and leather goods - by 72.0%, retail trade of computer and communication equipment - by 27.7%, and retail trade in household appliances, furniture and other household goods - by 20.7%. An increase was reported in retail trade by mail order, telephone or internet - by 11.7%.




**Construction**

**According to preliminary NSI data, in April 2020 the index of production in the Construction sector, calculated on the basis of seasonally adjusted data, was 0.7% below the level of the previous month. The calendar adjusted data show a decrease of 15.0% in construction output in April 2020 compared to the same month in 2019.**

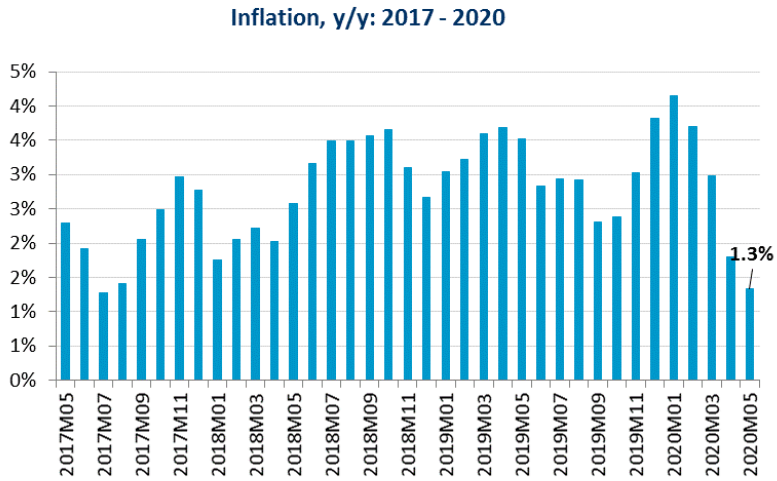
In April 2020, the index of construction output, calculated from seasonally adjusted data, was below the level of the previous month, as the output of civil engineering decreased by 1.4% and of building construction - by 0.2%. On an annual basis, a decrease in the calendar adjusted index was registered in April 2020 both in building construction - by 17.3% and in civil / engineering construction - by 11.7%.



## CPI Inflation

**The consumer price index for May 2020 compared to April 2020 is 99.7%, ie monthly inflation is minus 0.3%. Inflation since the beginning of the year (May 2020 compared to December 2019) is minus 0.6%, and annual inflation for May 2020 compared to May 2019 is 1.3% The average annual inflation for the period June 2019 - May 2020 compared to the period June 2018 - May 2019 is 2.8%.**

The rise in prices for goods and services in the country continues to slow for the fourth consecutive month. In May, the annual inflation fell to 1.3%, which is the lowest level of the indicator since July 2017. Inflation remains in positive territory due to the still high prices of some food products, but the growth rate is slowing down due to the continuing decline in fuel prices, natural gas and heat. The harmonized index of consumer prices for May 2020 compared to April 2020 is 99.8%, ie monthly inflation is minus 0.2%. Inflation since the beginning of the year (May 2020 compared to December 2019) is minus 0.6%, and annual inflation for May 2020 compared to May 2019 is 1.0%. The average annual inflation for the period June 2019 - May 2020 compared to the period June 2018 - May 2019 is 2.3%.

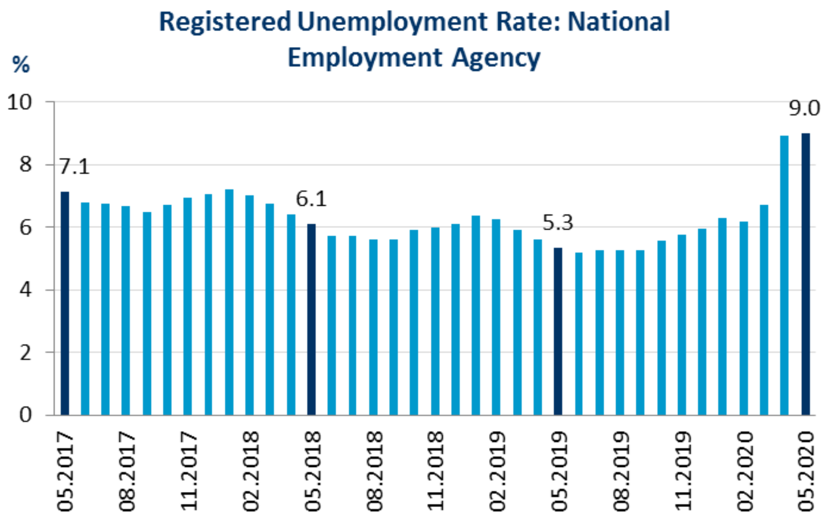



## LABOR MARKET

**According to the Employment Agency, unemployment in Bulgaria rose sharply in May to 9%. The comparison on a monthly basis shows an increase of 0.1 percentage points, and on an annual basis the growth is 3.7 percentage points. Despite measures to boost employment and preserve jobs, including the 60/40 business-oriented scheme, official statistics justify expectations of rising unemployment following the March 13 state of emergency. Restrictive measures have closed a number of sectors, many of which have failed to benefit from government incentives.**

The increase in unemployment in Bulgaria is significant compared to the trend since the beginning of the year. Unemployment in Bulgaria in January was 6.3%, in February - 6.2%, and in March it went up, reaching a level of 6.7%, 8.9% in April and reaching its peak of 9% in May. There are some positive trends in the labor market - after the abolition of the state of emergency, the number of unemployed who started work increases sharply. From 1,124 people on average per day for the week before May 13, the number increased to 1,634 people on average during the last week of the month, or an increase of 45.4%. Thus, the total number of unemployed people reached work reached 25,709 at the end of May, and 93.9% of them were employed in the real economy. Another 252 jobseekers in the group of pensioners, students and employees also found new jobs through employment offices in May. On an annual basis in May there is also an increase in the number of unemployed who started work - by 25.2%, according to data from the Employment Agency. The increase is primarily due to those in the primary labor market. According to statistics, most started working on the primary market during the month in the sectors of hotels and restaurants - 25.8%, manufacturing - 17%, trade, car repair - 13.5%, agriculture, forestry and fisheries - 8, 4%, construction - 6.8%. The number of registered unemployed in the labor offices increased by 0.9% - up to 295,453, compared to 2,643 more than in April. An increase is observed compared to the same month of 2019, which is 68.4% or 120,054 people. In May, 31,672 new unemployed persons registered to use the mediation and services of the labor offices. In addition, another 362 new people from the groups of jobseekers, students and retirees have also registered with the Employment Agency. More than 1,600 people have been activated to look for work in employment offices through the Agency's remote services in May alone. These are unemployed, non-learning and non-job seekers or people with a focus on young people. 1,573 persons from

These are unemployed, non-learning and non-job seekers or people with a focus on young people. 1,573 persons from the risk groups have started working in subsidized jobs - 1,186 under programs and measures for training and employment and 387 - under schemes of the Operational Program "Human Resources Development". The requested jobs on the primary labor market in May were 15,034, 83.3% of which were in the private sector. The largest share of vacancies is in manufacturing (26.3%), hotels and restaurants (19.5%), trade, repair of motor vehicles and motorcycles (11.6%) general government (7.5%), agriculture, forestry and fishing 7.1%), and construction (5.4%).




## FISCAL SECTOR

### Budget balance

**Based on the preliminary data and estimates, as of June 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,564.6 million (1.3 % of the forecast GDP). For comparison, the reported excess of revenues over expenditures for the first half of 2019 amounted to BGN 3,223.3 million (2.7 % of GDP), which means that, as compared to the same period of 2019, the budget balance has deteriorated by BGN 1.7 billion in nominal terms.**

As of June 2020, CFP revenues, grants and donations are expected to be 48.2 percent of the updated annual estimates. Compared to the same period of the previous year, revenues are slowing down which is due to the negative implications on proceeds from most key taxes as a result of the limitations in response to COVID-19 in Bulgaria and worldwide. The performance of the updated annual estimates in the part of CFP expenditures for the first half of year is expected to be 41.4 percent. The lower utilisation of expenditures compared to the performance of revenues is the reason for the current excess of revenues over expenditures for the first half of the year. Despite extraordinary expenditures, including ones financed by EU programmes, routine expenditures have registered lower utilisation which results from the fact that budgetary organisations have carefully fine-tuned, prioritised and sparingly utilised the resources. On the other hand, it is important to note that the works on and the implementation of large infrastructure and investment projects are continuing. The employment support measure (known as 60/40) is expected to be redefined and extended in scope, and at this stage the plans are the measure to continue to apply until end-September. In the second half of the year, the indexation of pensions, laid down in the annual estimates, will also be applied. This will be reflected in an increase in expenditures in the second half of the year. The expenditures related to the measures to overcome the impact of the pandemic also continue.

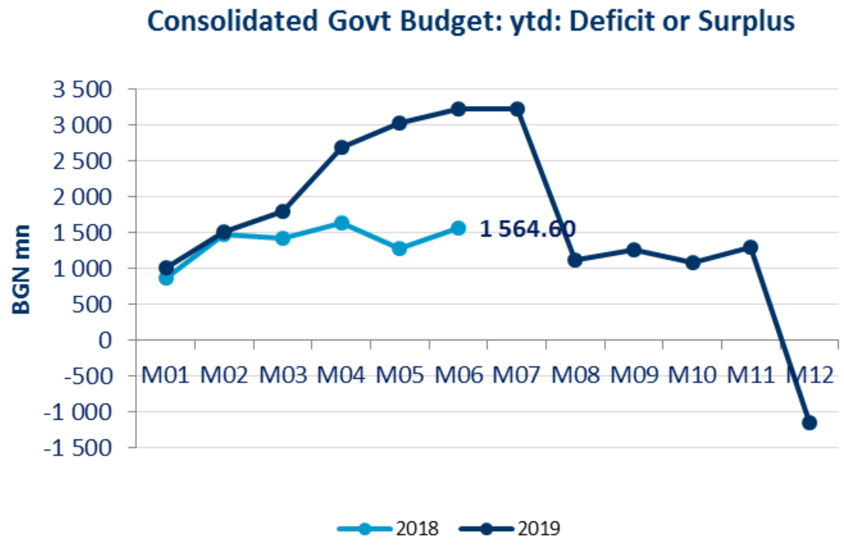
**Key CFP parameters on the basis of preliminary data and estimates:**

**As of June 2020, CFP revenues, grants and donations** are expected to be BGN 21,386.5 million (48.2 % of the updated annual estimates). Compared to the same period of 2019, as of June 2020, tax and non-tax revenues under the Consolidated Fiscal Programme contract by BGN 1,316.6 million, while proceeds from grants increase by BGN 417.3 million.

**The Consolidated Fiscal Programme expenditures**, including the contribution of the Republic of Bulgaria to the EU budget, as of June 2020 amount to BGN 19,821.9 million, which is 41.4 % of the updated annual estimates. For comparison, the expenditures under the CFP as of end-June 2019 amounted to BGN 19,062.5 million. As compared to the same period of the previous year, there is a nominal increase mainly in terms of social security and health insurance payments, staff costs, etc..

**The part of Bulgaria's contribution to the EU budget,** paid from the central budget as of 30.06.2020, amounts to BGN 688.6 million, which complies with the current legislation in the area of EU own resources.

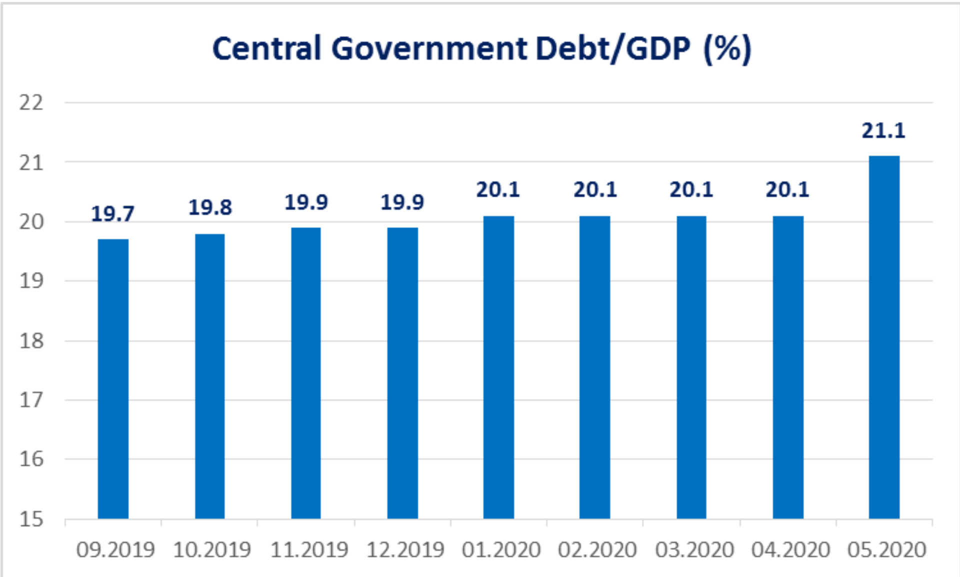
**Fiscal reserve as of 31.05.2020** is BGN 10.2 billion, including BGN 9.7 billion fiscal reserve deposits in BNB and banks and BGN 0.5 billion receivables under the EU Funds for certified expenditure, advance payments, etc.




## Central government debt

**As at end-May 2020, central government debt stands at BGN 24,612.8 million and presents 21.1% of GDP**

The central government debt as at end-May 2020 stood at BGN 24,612.8 million. Domestic debt amounted to BGN 6,242.4 million and external debt – to BGN 18,370.4 million. At the end of the reporting period the central government debt/ GDP ratio was 21.0 %, with the share of domestic debt being 5.3 % and of external debt – 15.7 %. In the central government debt structure, domestic debt at the end of the period amounted to 25.4 %, and external debt – to 74.6 %. As of 31 May 2020, the central government guaranteed debt was BGN 113.1 million. Domestic guarantees amounted to BGN 63.7 million and external guarantees – to BGN 49.4 million. The central government guaranteed debt/GDP ratio is 0.1 %. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-May 2020 the government debt reached BGN 23,185.7 million, being 19.8 % of GDP. Domestic debt amounted to BGN 5,956.8 million and external debt – to BGN 17,229.0 million. Government guaranteed debt in May 2020 amounted to EUR 1,692.3 million; domestic guarantees amounted to BGN 63.7 million, with the government guaranteed debt/ GDP ratio being
1.4 %.



### Standard&Poor's affirmed Bulgaria's 'BBB' ratings; outlook revised to stable

The international credit rating agency S&P Global Ratings affirmed its long-term and short-term foreign and local currency sovereign credit ratings on Bulgaria "BBB/A-2" and revised the outlook to stable from positive. The revision reflects the expectations for a significant deterioration of growth prospects for Bulgaria and other economies in 2020, related to measures to contain the COVID-19 pandemic. According to the credit rating agency, risks to the macroeconomic and fiscal path have increased; however, having in mind that the country's macroeconomic imbalances have reduced markedly over the past years, the analysts expect the Bulgarian economy to recover in 2021. The opinion of S&P Global Ratings is that Bulgaria is entering the current recession with a strong external balance sheet after years of current account surpluses. Government debt is low and the country has posted general government surpluses over the past four years. The credit rating agency thinks that the policy response to the pandemic will not jeopardise the stability of public finance and points out that the currency board regime in the country fosters prudent fiscal policies. The analysts from S&P Global Ratings also point out that Bulgaria is making steadfast progress toward joining ERM II and the Banking Union. The ratings are constrained by the institutional environment and the country's low GDP per capita in a European comparison. Some of the main factors that could lead to raising the rating are as follows: if the country returns to its previous growth trajectory without a buildup of major macroeconomic imbalances, or if its external performance is significantly better than the current projections of the agency. Respectively, the factors that could lead to negative rating action include any emerging external, macroeconomic or fiscal imbalances.

## BANKING SECTOR

**In the conditions of the COVID-19 pandemic, the banking system of Bulgaria reported a contraction of the profit by 37.5% on an annual basis, as well as a decrease of the assets by 0.8% on a monthly basis. The gross amount of loans and advances from customers in the banking system at the end of May 2020 was BGN 66.7 billion, decreasing by 0.2% on a monthly basis and growing by 4.6% on an annual basis. Their relative share in GDP is 52.6%. As of the end of May 2020, customer deposits in the banking system on a monthly basis increased by 0.4% and by 8% on an annual basis to BGN 93.2 billion at the end of May. Their relative share in GDP is 73.5%.**

The profit of the banking system at the end of May 2020 was BGN 476 million, or 37.5% less than in the same period last year. Expenses for impairment of financial assets, which are not reported at fair value in profit or loss, as of the end of May 2020 are BGN 260 million, increasing by 100% compared to the reported BGN 130 million at the end of May 2019.

| Financial Indicators (BGN 000) | 30.05. 2019 | 30.05. 2020 | Y/Y (%) |
|---|---|---|---|
| Interest Income | 1 266 521 | 1 214 303 | -4.1 |
| Interest Expence | 119 281 | 134 955 | 13.1 |
| **Net interest Income** | **1 147 240** | **1 147 240** | **0.0** |
| Impairment | 129 711 | 260 406 | 100.8 |
| Divident income | 130 810 | 176 374 | 34.8 |
| Fee and commission income | 536 479 | 475 768 | -11.3 |
| Fee and commission expenses | 82 727 | 80 957 | -2.1 |
| **Net fee and commission income** | **453 752** | **453 752** | **0.0** |
| Administration costs | 682 246 | 675 240 | -1.0 |
| Personal cost | 367 132 | 373 725 | 1.8 |
| Total operating income, net | 1 750 937 | 1 550 509 | -11.4 |
| **Net Profit** | **762 297** | **476 446** | **-37.5** |

Source:BNB, UBB's Calculations

As of May 31, 2020, the assets of the banking system amounted to BGN 114.9 billion and decreased by 0.8% on a monthly basis. Their relative share in GDP is 90.8%. In May the balance sheet number decreased by BGN 932 million (0.8%), influenced by the merger of Expressbank AD into DSK Bank AD, which was reflected in the balance sheet assets, liabilities and capital.
The gross amount of loans and advances from customers in the banking system at the end of May 2020 was BGN 66.7 billion, decreasing by 0.2% on a monthly basis and growing by 4.6% on an annual basis. Their relative share in GDP is 52.6%. Including a decrease in receivables from non-financial corporations by 0.5% on a monthly basis with an increase of 2% on an annual basis. Loans to households decreased by -0.1% on a monthly basis), with an increase of 3.1% on an annual basis. Loans to general government reported a 1% decline on a monthly basis compared to a 22% increase on an annual basis. Loans to other financial corporations increased by 1.6% on a monthly basis and by 37% on an annual basis). In the currency structure of loans and advances at the end of May the positions in BGN were 60.7%, those in EUR - 35.8%, and in other currencies - 3.4%.
As of the end of May 2020, customer deposits in the banking system on a monthly basis increased by 0.4% and by 8% on an annual basis to BGN 93.2 billion at the end of May. Their relative share in GDP is 73.5%. The funds of other financial enterprises also decreased - by 0.4% on a monthly basis and by 7.2% on an annual basis to BGN 3.6 billion. Household deposits increased by 0.2% on a monthly basis and by 7.7% on an annual basis to BGN 58.9 billion. Deposits of non-financial corporations increased by 0.9% on a monthly basis and by 11.2% on an annual basis to BGN 27.9 billion. In the currency structure of total deposits at the end of May the positions in BGN were 57.7%, those in EUR - 34.4%, and in other currencies - 7.9%.

| Bulgaria Intermediation Indicators | 31.05.2019 BGN'000 | 31.12.2019 BGN'000 | 30.04.2020 BGN'000 | 30.05.2020 BGN'000 | Change m/m (%) | Change y/y (%) | Change yend (%) | Share in GDP (%) |
|---|---|---|---|---|---|---|---|---|
| **BANKING SYSTEM TOTAL ASSETS** | **108 200 141** | **114 201 141** | **115 800 809** | **114 869 303** | **-0.8** | **6.2** | **0.6** | **90.6** |
| Loans to central governments | 774 218 | 932 642 | 954 394 | 944 423 | -1.0 | 22.0 | 1.3 | 0.7 |
| Loans to non-financial corporations | **35 678 653** | **36 572 986** | **36 589 831** | **36 392 438** | **-0.5** | **2.0** | **-0.5** | **28.7** |
| Loans to financial corprorations | 3 439 274 | 4 594 445 | 4 635 552 | 4 710 644 | 1.6 | 37.0 | 2.5 | 3.7 |
| Retail loans, incl.: | **23 899 947** | **24 193 012** | **24 686 076** | **24 652 704** | **-0.1** | **3.1** | **1.9** | **19.4** |
| Mortgage loans | 11 472 311 | 12 486 585 | 12 860 138 | 12 906 913 | 0.4 | 12.5 | 3.4 | 10.2 |
| Consumer loans | 11 850 918 | 12 427 283 | 12 514 525 | 12 444 010 | -0.6 | 5.0 | 0.1 | 9.8 |
| Micro credits and other loans | 576 718 | -720 856 | -688 587 | -698 219 | 1.4 | -221.1 | -3.1 | -0.6 |
| **TOTAL LOANS** | **63 792 092** | **66 293 085** | **66 865 853** | **66 700 209** | **-0.2** | **4.6** | **0.6** | **52.6** |
| **ATRACTED SOURCES FROM CLIENTS, incl.:** | **86 298 474** | **91 853 230** | **92 805 754** | **93 203 665** | **0.4** | **8.0** | **1.5** | **73.5** |
| Local government deposits | 2 737 408 | 2 665 018 | 2 894 316 | 2 918 914 | 0.8 | 6.6 | 9.5 | 2.3 |
| Non-financial corporations deposits | **25 054 794** | **28 150 012** | **27 622 699** | **27 867 371** | **0.9** | **11.2** | **-1.0** | **22.0** |
| Financial corporations deposits | 3 831 262 | 3 422 053 | 3 568 047 | 3 554 719 | -0.4 | -7.2 | 3.9 | 2.8 |
| Households and NPISHs deposits | **54 675 010** | **57 616 147** | **58 720 692** | **58 862 661** | **0.2** | **7.7** | **2.2** | **46.4** |
| Equity | 14 010 675 | 14 396 914 | 14 736 499 | 14 595 027 | -1.0 | 4.2 | 1.4 | 11.5 |
| Net profit (annualised) | 762 297 | 1 674 983 | 355 673 | 476 446 | | **-37.5** | | |
| BANKING INDICATORS (%) | | | | | | | | |
| ROE | 13.1 | 11.6 | 7.2 | 7.8 | 0.6 | -5.2 | -3.8 | |
| ROA | 1.7 | 1.5 | 0.9 | 1.0 | 0.1 | -0.7 | -5.2 | |
| Capital adequacy | n.a. | 20.2 | n.a. | n.a. | | | | |
| Liquidity | 262.9 | 269.9 | 291.8 | 252.3 | -39.5 | -10.6 | -5.2 | |
| NPL | n.a. | 6.5 | n.a. | n.a. | | | | |
| GDP, BGN '000 | 115 437 000 | 115 437 000 | 126 769 000 | 126 769 000 | | | | |
| EUR/BGN | 1.95583 | 1.95583 | 1.95583 | 1.95583 | | | | |

Source: BNB, MF, UBB Calculations

The equity in the balance sheet of the banking system decreased during the month by BGN 141 million (1.0%) and amounted to BGN 14.6 billion at the end of May.

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