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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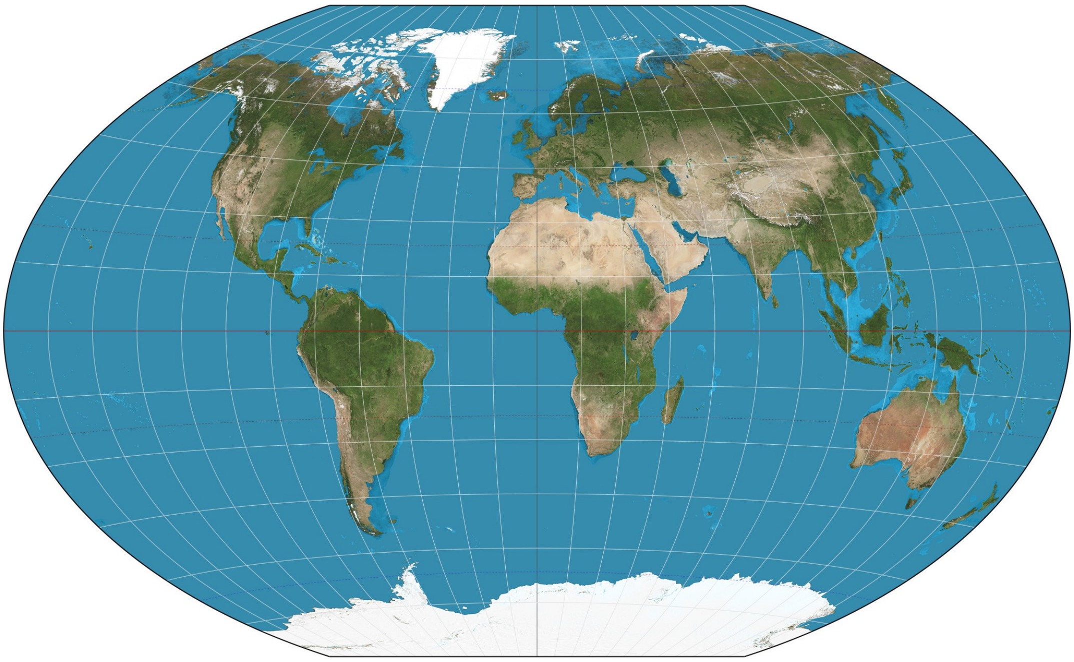
# HIGHLIGHTS AND FORECASTS

# MONTHLY ECONOMIC REPORT



July, 2020

- **The IHS Markit's PMI in the euro area manufacturing was revised higher to a four-month high of 47.4 from a preliminary estimate of 46.9 compared to a final report of 39.4 in May. The IHS Markit's PMI index for services in the euro area was revised to 48.3 in June 2020 from a preliminary estimate of 47.3 and compared to 30.5 in May. The latest report shows a smaller contraction in the services sector amid easing of coronavirus blocking restrictions across the region. The seasonally adjusted unemployment rate in the Eurozone rose to 7.4% in May 2020, with government measures to protect jobs during the coronavirus crisis supporting the labor market. Among the largest economies of the bloc, the highest unemployment rates are registered in Spain (14.5%), France (8.1%) and Italy (7.8%), while the lowest is observed in Germany (3). The annual core inflation, which excludes volatile energy, food, alcohol and tobacco prices and which the ECB considers in its policy decisions, is likely to fall to 0.8% from 0.9% in the previous month. Our annual growth forecast for the baseline scenario for the euro area is -9.1%. We expect a recovery of 6.0% in 2021.**

- **The PMI index of IHS Markit in Italy for production increased to 47.5 in June 2020 from 45.4 in the previous month. The reporting value indicates the 21st consecutive month of declining factory activity, although the deterioration continued to weaken compared to the April low of 31.1, as restrictions related to the global pandemic were weakened. The IHS Markit PMI in Italy for services rose to 46.4 in June 2020 from 28.9 in May. However, the bookmark indicates a sharp contraction in service activity after the country ended the blockade due to the coronavirus pandemic. Italy's unemployment rate rose to 7.8% in May 2020 from an upward revision of 6.6% the previous month and above market expectations of 7.7% as Italians returned to the labor market to seek work. The youth unemployment rate, which measures jobseekers between the ages of 15 and 24, rose to 23.5% from 21.5% in April. Consumer prices in Italy fell by -0.2% on an annual basis in June 2020. Our forecast is a decline in Italian GDP of -11.7% in 2020. We expect a recovery in Italy of 6.1% in 2021.**

- **The French economy contracted by -5.3%  in Q1  of 2020, which is lower than the initial estimate of a decline of 5.8%. France entered a recession for the first time since 2009 as coronavirus restrictive measures imposed on 17 March reduced consumer spending (-5.6%), public spending (-2%) and investment (-10.5%), exports (-6.1%) and imports (-5.7%). The government has launched a stimulus package worth 110 billion euros, or 4% of GDP, to support companies and employees. The unemployment rate in France fell to 7.8% in the first quarter of 2020, below market expectations of 8.4% due to a sharp decline in the number of unemployed who find themselves available or actively looking for work during the blockade period. . Annual inflation in France slowed to 0.1% in June 2020 from 0.4% in May, reaching its lowest level since deflation in 2016. The country began lifting its restrictive measures on the coronavirus epidemic on 11 May. We expect a decline in GDP in France of -10.3% in 2020 and a recovery of 6.5% in 2021.**

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- **The Spanish economy reported a decline of -5.2% on a quarterly basis in the fourth quarter of 2020, the largest since the beginning of the time series in 1995 and compared to 0.4% growth from the previous period since the Covid pandemic -19 forced the government to impose blocking measures from mid-March. The unemployment rate in Spain rose to 14.41% in the first quarter of 2020 from an 11-year low of 13.78% in the previous quarter. This is the highest percentage since the first quarter of 2019, when the Covid -19 crisis escalated. Consumer prices in Spain decreased by -0.3% compared to the previous year in June 2020, after a decrease of -0.9% in the previous month. The harmonized index of consumer prices decreased by -0.3% compared to a year earlier, after falling by -0.9% in May. We expect a decline in GDP in Spain of -12.8% in 2020 and a recovery of 7.7% in 2021.**

- **The Lithuanian economy contracted by -0.3% in the first quarter of 2020, which is worse than the earlier estimate of a decline of -0.2% and compared to a growth of 1.1% in the previous period. This is the first contraction in GDP since the third quarter of 2010. On an annual basis, GDP grew by 2.4%, slower than the 3.8% increase in the fourth quarter of 2019. The unemployment rate in Lithuania increased to 12.10% in June from 11.80% in May 2020. Lithuania's annual inflation increased to 1.0% in June 2020 from 0.3% in the previous month.**

- **Slovenia's economy contracted by -2.3% on an annual basis in Q1 of 2020, after increasing by 1.7% in the previous period. This was the first contraction since the third quarter of 2013, when the coronavirus pandemic began to hit the economy. The unemployment rate in Slovenia increased to 9.10% in April from 8% in March 2020. Consumer prices in Slovenia fell by -0.3% on an annual basis in June 2020, after decreasing by -1.2% in the previous month. We expect a decline in GDP in Slovenia of -10.0% in 2020 and a recovery of 7.0% in 2021.**

- **Poland's GDP contracted by -0.4% in the first quarter of 2020 compared to the previous quarter. On an annual basis, GDP in Poland increased by 2% in the first quarter of 2020 compared to the same quarter of the previous year. The unemployment rate in Poland rose to 6% in May 2020 from 5.8% in the previous month. This was the highest unemployment since February last year amid the coronavirus crisis. The annual inflation rate in Poland increased to 3.3% in June 2020 from 2.9% in the previous month, above market expectations of 2.8%. Poland reports government debt equal to 46% of the country's GDP in 2019. Poland registered a budget deficit equal to 0.7% of GDP in 2019. Poland registered a current account surplus of 0.5% of GDP in 2019 We expect a decline in GDP in Poland of -5% in 2020 and a recovery of 6.2% in 2021.**

- **Romania's GDP grew by 2.4% on an annual basis in the first quarter of 2020 after an 4.3% increase in the previous period. This was the weakest GDP growth since the second quarter of 2014. On a seasonally adjusted quarterly basis, the economy grew by 0.3%, the weakest since the third quarter of 2016, after 1.2% growth in the fourth quarter. Seasonally adjusted unemployment in Romania rose to 5.2% in May 2020 from 4.8% in the previous month. This was the highest unemployment since May 2017. The annual inflation rate in Romania increased to 2.6% in June 2020 compared to 2.3% in the previous month. Romania reports government debt equal to 35.20% of GDP in 2019. Romania registers a budget deficit equal to 4.30% of GDP in 2019. Romania recorded a current account deficit of 4.60% of GDP in 2019. We expect a decline in GDP in Romania of -7% in 2020 and a recovery of 6% in 2021.**

- **The UK's IHS Markit manufacturing index was confirmed at 50.1 in June 2020, up from 40.7 in the previous month, suggesting a stabilization in operating conditions due to the recent sharp decline caused by the coronavirus pandemic. . The unemployment rate in the United Kingdom was 3.9% in the three months to May 2020, the same as in the previous period and below market expectations of 4.2%, as the unemployment rate rose by 0.2% to 20.4 % because more people who are out of work are not looking for work. Annual inflation in the United Kingdom rose to 0.6% in June 2020 from a 4-year low of 0.5% in May. For the United Kingdom, we expect the economy to decline by -9.0% in 2020. We expect a recovery in the UK of 6% in 2021.**

- **The IHS Markit's manufacturing PMI in the US was revised higher to 49.8 in June 2020 than the previous 49.6 and 39.8 in the previous month. The IHS Markit's PMI in the United States for services was revised higher to 47.9 in June 2020 from a preliminary estimate of 46.7 and well above the final 37.5 of May. The US unemployment rate fell to 11.1% in June 2020, weakening since the highest period of 14.7%, reached in April and remaining below market expectations of 12.3% as many people returned to the labor market after weeks of coronavirus restrictions. The annual rate of inflation in the United States rose to 0.6% in June 2020. This is the highest reading in three months, when business reopened after the blockage due to the epidemic. In the US, we expect GDP to shrink by -6.5% in 2020. We expect a recovery in the US of 4.4% in 2021.**

- **The Bank of Japan's Jibun PMI index was revised to 40.1 in June 2020 from an express estimate of 37.8, amid the continued impact of the COVID-19 pandemic on activity. The Bank of Japan's Jibun PMI index was revised to 45.0 in June 2020. This is the highest reading since February, as a state of emergency was lifted due to the coronavirus crisis. The unemployment rate in Japan jumped to 2.9% in May 2020 from 2.6% in the previous month and market expectations of 2.8%. This is the highest unemployment since May 2017 and is higher than 2.4% for the same month last year. Inflation in Japan remained above a 3-year low of 0.1% on an annual basis in May 2020, according to market forecasts, as the Covid-19 pandemic continued to hamper consumption. We expect Japan's GDP to shrink by -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.**

- **The Chinese economy grew with seasonally adjusted growth of 11.5% on a quarterly basis in the second quarter of 2020, after a revised decline of -10.0% in the previous quarter. This is the strongest rate of quarterly growth, driven by improved demand following the easing of restrictions on blocking COVID-19. The Chinese economy grew by 3.2% on an annual basis in the second quarter of 2020, recovering from a record -6.8% decline in the previous quarter. China's unemployment rate fell to 5.70% in June from 5.90% in May 2020. China's annual inflation rate rose to 2.5% in June 2020 from a 14-month low of 2.4% in the previous month. We maintain our forecast for the Chinese economy growing by only 1.0% in 2020, before recovering to 8.8% growth in 2021.**

- **The PMI index of the Istanbul Chamber of Industry for Production in Turkey rose to 53.9 in June 2020 from 40.9 in the previous month. Business confidence in Turkey rose to 92.60 points in June from 76.90 points in May 2020. The unemployment rate in Turkey fell to 12.8% in April 2020 from 13% a year earlier. This is the lowest unemployment rate since May last year, despite the coronavirus crisis and after the government imposed a three-month ban on layoffs in April to mitigate the impact of the pandemic. Inflation in Turkey rose to 12.62% from the previous year in June 2020, the highest since August 2019 and above market expectations of 12.09% after the economy reopened due to the easing of measures to curb the coronavirus epidemic. The consumer price index in Turkey increased by 1.13% in June 2020 compared to the previous month. We expect a decline in Turkey's GDP 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.**
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- **The Governing Council of the ECB has decided to maintain the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility remain unchanged at 0.00%, 0.25% and -0.50% respectively and to continue purchases under the program for the purchase of assets in the context of a pandemic emergency (PEPP) totaling EUR 1350 billion. Net purchases under the asset purchase program will continue at a monthly rate of EUR 20 billion, along with purchases under the additional temporary package of EUR 120 billion until the end of the year. The ECB will also continue to provide significant liquidity through its refinancing operations.**
- **The Monetary Policy Committee (MPC) of the Bank of England sets monetary policy to meet the 2% inflation target and in a way that helps maintain growth and employment. The Monetary Policy Committee has voted to keep the banking rate at 0.1% and to continue with the existing £ 200bn UK government bond program for the purchase of sterling-denominated investment-grade non-financial corporate bonds funded by central bank reserves. The Bank of England has increased the target composition of purchased UK government bonds funded by central bank reserves by an additional £ 100 billion to reach a total of asset purchases of up to £ 745 billion.**
- **The Bank of Japan will apply a negative interest rate of minus -0.1% to the balance of interest on current accounts held by financial institutions in the Bank. The Bank of Japan will purchase the required amount of Japanese government bonds (JGB) without setting an upper limit, so that the yield on 10-year Japanese government bonds will remain around zero 0%. While doing so, profitability can move up and down to some extent, mainly depending on the development of economic activity and prices. For the time being, the Bank of Japan will actively buy exchange-traded funds (ETFs) and real estate investment trusts in Japan (J-REITs), so their outstanding amounts will grow at an annual rate of about 12 trillion yen and about 180 billion yen, respectively. In terms of short-term and long-term corporate bonds, the Bank of Japan will maintain its outstanding amounts of about 2 trillion yen and about 3 trillion yen, respectively. In addition, by the end of March 2021, it will make additional purchases with the upper limit of the outstanding amount of 7.5 trillion yen for each asset.**
- **China's central bank (PBoC) has kept its key interest rates stable for a second straight month in June, after the central bank maintained its interest rate on medium-term loans last week as monetary policymakers adopted a wait-and-see approach signs of economic recovery.**
- **The Central Bank of Turkey has decided to increase the reserve requirement ratio by 300 basis points in all types of foreign currency liabilities and maturity for all banks. As a result of this decision, approximately USD 9.2 billion in foreign exchange liquidity is expected to be withdrawn from the market.**
- **Oil prices fell on July 17, 2020 amid fears of fuel demand and oversupply after OPEC countries and their allies decided to restore some oil supplies in August. The price of Brent decreased by 0.31 dollars per barrel or by 0.71% to 43.060 dollars per barrel. The price of crude oil decreased by -0.21 dollars per barrel or -0.52% to 40,540 dollars per barrel.**
- **As of 20 July 2020, grain prices had risen again due to increased consumption by China and remained at levels until the end of July 2020.**

- **Leading News: July 2020 - a time of constructive change and full support of the Government of Bulgaria by all institutions and countries of the European Union**
    - ⇒ ***At the request of the Bulgarian authorities, the finance ministers of the euro area member states, the president of the European Central Bank and the finance ministers and central bank governors of Denmark and Bulgaria decided unanimously to include the Bulgarian lev in Monetary Mechanism II. The European Commission was involved in the decision-making process and the Economic and Financial Committee was consulted.The central rate of the Bulgarian lev is fixed at 1 euro = 1.95583 levs. Around this central exchange rate of the lev, the standard range of plus or minus 15% will be maintained. At the same time, after a careful assessment of the adequacy and sustainability of the currency board in Bulgaria, it was agreed that Bulgaria joins the currency mechanism with its existing currency board regime, as a unilateral commitment and without additional requirements to the ECB.***
    - ⇒ ***The Council of the EU approved the recommendations for the Community countries in the field of economy for 2020 and 2021.Take all necessary measures, in accordance with the general derogation clause of the Stability and Growth Pact, to deal effectively with the COVID-19 pandemic, sustain the economy and support subsequent recovery. Where economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while boosting investment. To mobilize sufficient financial resources to strengthen the sustainability, accessibility and capacity of the health system and to ensure a balanced regional distribution of health workers to meet the needs of the population.***
    - ⇒ ***European leaders have reached an agreement on the EU budget for the period 2021-2027 and the pandemic recovery plan. The total amount of funds provided for Bulgaria under the new Multiannual Financial Framework and the Next Generation EU Package is nearly EUR 29 billion. Bulgaria is one of the few countries that will receive more money under the new framework. Given that the total size of the new multiannual financial framework is EUR 62 billion less than the current one.***
    - ⇒ ***Political tensions increased after mass anti-government protests in major cities that continue 15th consecutive day. The government survived the no-confidence vote, but the pressure for change remains.***

- **The epidemic situation in Bulgaria is extended until July 31, 2020 by decision of the Government of Bulgaria. In this way, the authorities are reacting to the growth of new cases of coronavirus in recent weeks in the country.**

- **In January – May 2020 the current and capital account was positive amounting to EUR 1,090 million (1.9% of GDP), compared with a surplus of EUR 409.7 million (0.7% of GDP) in January – May 2019. In January – May 2020 the current account was positive and amounted to EUR 695.4 million (1.2% of GDP), compared with a surplus of EUR 37.9 million (0.1% of GDP) in January – May 2019. In January – May 2020 the balance on goods was negative amounting to EUR 130.8 million (0.2% of GDP), compared with a deficit of EUR 843.4 million (1.4% of GDP) in January – May 2019.**

- **In January-May 2020, the net flows of foreign direct investments in Bulgaria recorded a positive value of EUR 169.5 million (0.3% of GDP), dropping by EUR 136.7 million (44.7%) compared to from January – May 2019 (positive value of EUR 306.2 million, 0.5% of GDP).**

- **As of the end of June 2020, the BNB's international reserves amounted to BGN 54.8 billion and increased by 2.8% on a monthly basis and by 11.3% on an annual basis, maintaining the stability of the Currency Board in Bulgaria. Bulgaria's international liquidity position, calculated as the ratio of international reserves to short-term external debt, is stable and at the end of April 2020 was 340.4% compared to 294.2% at the end of 2019. and 288.8% at the end of April 2019.**

- **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 the preliminary data in May 2020 the Industrial Production Index, seasonally adjusted, decreased by 0.1% as compared to April 2020. In May 2020 the working day adjusted Industrial Production Index fell by 16.1% in comparison with the same month of 2019.**

- **According to the preliminary seasonally adjusted NSI data in May 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month and declined by 20.4% yoy based on working day adjusted data.**

- **According to the preliminary NSI data, in May 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.3% above the level of the previous month. In May 2020 the working day adjusted index of production in construction decreased by 14.1% in comparison with the same month of 2019.**

- **The total number of overnight stays in all accommodation establishments registered in May 2020 was 116.1 thousand, or 92.0% less than in the same month of the previous year. Revenues from overnight stays in May 2020 reached BGN 5.4 million, or 92.9% less than in May 2019.**

- **The consumer price index for June 2020 compared to May 2020 is 99.6%, ie monthly inflation is minus 0.4%. Inflation since the beginning of the year (June 2020 compared to December 2019) is minus 1.0%, and annual inflation for June 2020 compared to June 2019 is 1.6%. The average annual inflation for the period July 2019 - June 2020 compared to the period July 2018 - June 2019 is 2.7%.**

- **According to the Employment Agency, in June 2020 the unemployment rate in Bulgaria was 8.3% and reported a decrease of 0.7 percentage points compared to the previous month, while on an annual basis the increase was 3.1 percentage points.**

- **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.**

- **Bulgaria's government debt stands at BGN 24,612.8 million and presents 21.1% of GDP.**

- **The Bulgarian National Bank approved a request by the Association of Banks in Bulgaria for an extension of the deadlines of the moratorium on payments. The changes are related to: extension of the deadline for submitting a request by bank customers for deferral of liabilities and their approval by banks – until 30 September 2020 and extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021.The extension of the term of the liability deferral procedure applies to exposures for which no request for deferral of payments was submitted before 22 June 2020.**

## GLOBAL TRENDS

### Advanced countries’ economies

#### Eurozone

The IHS Markit Euro area Manufacturing PMI was revised higher to a four-month high of 47.4 from a preliminary estimate of 46.9 and compared to May's final reading of 39.4. Still, the latest survey suggested the Euro area manufacturing sector remained in contraction territory for the past 17 months. The IHS Markit Euro area Services PMI was revised higher to 48.3 in June 2020 from a preliminary estimate of 47.3 and compared to May's 30.5. The latest reading pointed to a weaker contraction in the services sector, amid the easing of coronavirus lockdown restrictions across the region. The Euro Area seasonally-adjusted unemployment rate edged up to 7.4% in May 2020, remaining close to March's record low of 7.1% and below market expectations of 7.7%, as the governments' measures to protect jobs during the coronavirus crises along with an increase in the number of inactive people due to the coronavirus crisis have been supporting the labor market. Among the bloc's largest economies, the highest jobless rates were recorded in Spain (14.5%), France (8.1%) and Italy (7.8%), while the lowest was observed in Germany (3.9%). The youth unemployment rate, measuring job seekers aged 15 to 24, went up to 16.0% from 15.7% in April. Considering the European Union as a whole, the jobless rate was 6.7% in May, up from 6.6% in April. The annual inflation rate in the Euro Area is expected to pick up to 0.3% in June 2020 from a four-year low of 0.1% in the previous month and above market expectations of a 0.1% gain, a flash estimate showed. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to ease to 0.8% from 0.9% in the prior month. On a monthly basis, consumer prices are expected to increase 0.3%, reversing a -0.1% decline in May. Our 2020 base case annual growth forecast for euro area is -9.1%. We expect recovery of 6.0% in 2021.

#### Spain

Spain's economy shrank -5.2% on quarter in the first three months of 2020, the most since the series began in 1995 and compared to the previous period's 0.4% growth, as the Covid-19 pandemic forced the government to impose lockdown measures from mid-March. Household consumption slumped 6.6% (vs 0.1% in Q4) and fixed investment tumbled 5.7% (vs -1.2% in Q4). On an annual basis the GDP contracted -4.1%, the largest decline in output since the second quarter of 2009. Spain's unemployment rate increased to 14.41% in the first quarter of 2020 from an 11-year low of 13.78% in the previous three-month period, below market expectations of 15.60%. That was the highest rate since the first quarter of 2019 as the Covid-19 crisis escalated. The number of unemployed rose by 121 thousand or 3.79% to 3.31 million, while the number of employed declined by 285.6 thousand or 1.43% to 19.68 million, the biggest decrease in employment since 2013. Consumer prices in Spain are expected to fall -0.3% year-on-year in June 2020, following a 0.9% decrease in the previous month, a preliminary estimate showed. The harmonised index of consumer prices is seeing dropping -0.3% over a year earlier, after declining 0.9% in May.We expect a decline of GDP in Spain of -12.8% in 2020 and recovery of 7.7% in 2021.

#### Italy

The IHS Markit Italy Manufacturing PMI increased to 47.5 in June of 2020 from 45.4 in the previous month, below market expectations of 47.7. The reading pointed to the 21st straight month of contraction in factory activity although the deterioration continued the ease from the April’s nadir of 31.1 as restrictions related to the global pandemic were loosened. The IHS Markit Italy Services PMI rose to 46.4 in June of 2020 from 28.9 in May, but below market forecasts of 47. The reading still pointed to a sharp contraction in services activity after the country ended its coronavirus lockdown. Incoming new business declined further, with the reduction remaining sharp despite easing. Italy's unemployment rate increased to 7.8% in May of 2020 from an upwardly revised 6.6% in the previous month and above market expectations of 7.7%, as Italians returned to the labor market to look for a job. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, went up to 23.5% from 21.5% in April. Consumer prices in Italy decreased -0.2% year-on-year in June of 2020, the same as in the previous month and in line with preliminary estimates. On a monthly basis, consumer prices showed no growth 0%, after a -0.2% decline in April. We expects a contraction of Italian GDP of -11.7% in 2020. We expect a recovery in Italy of 6.1% in 2021.

### France

The government launched a stimulus package worth EUR 110 billion or 4% of the GDP to help firms and employees. The unemployment rate in France declined to 7.8% in the first quarter of 2020, the lowest level since the three months to December 2008 and below market expectations of 8.4%, due to a sharp fall in the number of unemployed declaring themselves available or actively looking for work during the period of lockdown. In metropolitan France only, the unemployment rate stood at 7.6%. The rate diminished significantly among persons aged 15 to 24 (-0.7 points) and those aged 50 and over (-0.4 points). The long term unemployment rate dropped to 3.0% from 3.2%. Annual inflation rate in France is expected to slow to 0.1% in June of 2020 from 0.4% in May, reaching the lowest reading since deflation in 2016, preliminary estimates showed. The country started lifting its coronavirus restrictive measures on May 11th. Cost of services and food slowed and prices of manufactured products fell sharply. In contrast, energy prices should drop less than in May and tobacco prices are seen increasing at the same pace as in the previous month. On a month-over-month basis, consumer prices went down -0.1% after a 0.1% rise in May. The harmonized inflation is expected to slow to 0.1% from 0.4% and the monthly rate to fall to -0.1% from 0.2%. We expect a decline of GDP growth in France of -10.3% in 2020 and recovery of 6.5% in 2021.

### Lithuania

Lithuanian economy shrank -0.3% on quarter in the three months to March 2020, worse than an earlier estimate of a -0.2% contraction and compared to a 1.1% growth in the previous period. This was the first contraction in GDP since the third quarter 2010. Decreases were reported in manufacturing (-1.3% vs 1.5% in Q4); wholesale and retail trade transport, accommodation and food service activities (-0.5% vs 1.0%); information and communication (-0.8% vs 1.7%), and real-estate activities (-2.4% vs 1.4%). On a yearly basis, GDP rose by 2.4%, slower than a 3.8% expansion in the fourth quarter 2019. Unemployment Rate in Lithuania increased to 12.10% in June from 11.80% in May of 2020. Lithuania's annual inflation rate increased to 1.0% in June 2020 from 0.3% in the previous month. On a monthly basis, consumer prices went up 0.5% in June, after a -0.5% fall in May.

### Slovenia

Slovenia’s economy shrank -2.3% yoy in the first quarter of 2020, after expanding 1.7% in the previous period. It was the first contraction since the third quarter of 2013, as the coronavirus pandemic began to hit the economy. Consumer spending shrank -6.4%, after increasing 1.2% in Q4 2019; and gross fixed capital formation dropped -6.3%, faster than a -4.5% fall. In contrast, government expenditure grew 5.8%, recovering from a 2% decline. Regarding net trade, exports went down -1.6% (vs -0.9% in Q4 2019) and imports decreased at a faster -2.5% (vs -0.8% in Q4 2019). On a seasonally adjusted quarterly basis, the economy shrank -4.5%, following a 0.4% growth in the prior period. That was the first contraction since the last quarter of 2012. Unemployment Rate in Slovenia increased to 9.10% in April from 8% in March of 2020. Consumer prices in Slovenia were down -0.3% yoy in June of 2020, after decreasing -1.2% in the previous month. On a monthly basis, consumer prices increased 1.3%, after a 0.9% rise in the preceding month. We expect a decline of GDP in Slovenia of -10.0% in 2020 and recovery of 7.0% in 2021.

### Poland

The Gross Domestic Product (GDP) in Poland contracted -0.4% in the first quarter of 2020 over the previous quarter. On the annual basis, the Gross Domestic Product (GDP) in Poland expanded 2% in the first quarter of 2020 over the same quarter of the previous year. Poland's unemployment rate rose to 6% in May 2020 from 5.8% in the previous month but slightly below market expectations of 6.1%. It was the highest jobless rate since February last year, amid the coronavirus crisis. A year ago, the jobless rate was lower at 5.4%. The annual inflation rate in Poland is seen rising to 3.3% in June of 2020 from 2.9% in the previous month, above market expectations of 2.8%, preliminary estimates showed. Upward pressure came from food & non-alcoholic beverages (5.8%) and electricity and gas & other fuels (5.1%). On the other hand, cost of fuels for personal transport equipment is expected to fall (-19.3%). On a monthly basis, consumer prices went up 0.7%, rebounding from a -0.2% decrease in May. Poland recorded a government debt equivalent to 46% of the country's Gross Domestic Product in 2019. Poland recorded a government budget deficit equal to 0.7% of the country's Gross Domestic Product in 2019. Poland recorded a current account surplus of 0.5% of the country's Gross Domestic Product in 2019. We expect a decline of GDP in Poland of -5% in 2020 and recovery of 6.2% in 2021.

## Romania

The Romanian gross domestic product expanded 2.4% yoy in the first quarter of 2020, as initially estimated, after a 4.3% expansion in the previous period. This was the weakest GDP growth since the second quarter 2014, as both household consumption (3.8% vs 7.3% in Q4) and fixed investment (13.1% vs 15.7%) eased. Also, government expenditure shrank (-4.1% vs 10.5%). In addition, net foreign demand contributed negatively to growth, as exports went down 1.3% while imports rose 2.9%. On a seasonally adjusted quarterly basis, the economy advanced 0.3%, the least since the third quarter of 2016, following a 1.2% growth in the fourth quarter. Romania's seasonally adjusted unemployment rose to 5.2% in May 2020 from 4.8% in the prior month. This was the highest jobless rate since May 2017. Romania's annual inflation rate increased to 2.6% in June 2020 from 2.3% in the previous month, beating market estimates of 2.5%. Inflation accelerated for non-food products (0.7% vs 0.2% in May); services (2.8% vs 2.6%) and food (5.4% vs 5.3%). On a monthly basis, consumer prices edged up 0.1% in June, the same pace as in May. Romania recorded a government debt equivalent to 35.20% of the country's Gross Domestic Product in 2019. Romania recorded a government budget deficit equal to 4.30% of the country's Gross Domestic Product in 2019. Romania recorded a current account deficit of 4.60% of the country's Gross Domestic Product in 2019. We expect a decline of GDP in Romania of-7% in 2020 and recovery of 6% in 2021.

## Great Britain

The IHS Markit/CIPS UK Manufacturing PMI was confirmed at 50.1 in June 2020, up from 40.7 in the previous month, suggesting there was a stabilisation in operating conditions following the recent steep downturn caused by the coronavirus pandemic. Manufacturing production rose slightly for the first time in four months, while new order intakes and employment fell at softer rates. The IHS Markit/CIPS UK Services PMI stood at 47.1 in June 2020, little-changed from a preliminary estimate of 47.0 and compared to May's final reading of 29.0, still pointing to a deterioration in business conditions across the UK service sector. The UK unemployment rate was at 3.9% in the three months to May of 2020, the same as in the previous period and below market expectations of 4.2% as the inactivity rate grew by 0.2% to 20.4% as more people who are out of work are not looking for a job. Annual inflation rate in the United Kingdom edged up to 0.6% in June of 2020 from a 4-year low of 0.5% in May and beating market forecasts of 0.4%. On a monthly basis, prices were up 0.1% after a flat reading in May. Annual core inflation which excludes cost of energy, food, alcoholic beverages increased to 1.4% from 1.2%.. For the UK, we expect a contraction of -9.0% in 2020. We expect a recovery in UK of 6% in 2021.

## USA

The IHS Markit US Manufacturing PMI was revised higher to 49.8 in June of 2020 from a preliminary of 49.6 and 39.8 in the previous month. The reading pointed to only a fractional deterioration in US manufacturing conditions as goods producers and their customers began to reopen amid looser restrictions following the coronavirus outbreak. The IHS Markit US Services PMI was revised higher to 47.9 in June 2020 from a preliminary estimate of 46.7 and well above May's final 37.5. The latest reading signaled a notably softer rate of contraction in the US service sector as non-essential businesses began to reopen following the easing of coronavirus-induced restrictions. The US unemployment rate dropped to 11.1% in June 2020, easing further from an all-time high of 14.7% reached in April and remaining below market expectations of 12.3%, as many people returned to the labor market following weeks of coronavirus-induced restrictions. The number of unemployed persons fell by 3.2 million to 17.8 million, while employment rose by 4.9 million to 142.2 million. Although unemployment fell in May and June, the jobless rate and the number of unemployed are up by 7.6%age points and 12.0 million, respectively, since February. Annual inflation rate in the US increased to 0.6% in June of 2020 from May's four-and-a-half-year low of 0.1% and matching market forecasts. It is the highest reading in three months as businesses reopened after the coronavirus lockdown. We expect a recovery in US of 4.4% in 2021.

### Japan

The Jibun Bank Japan Manufacturing PMI was revised higher to 40.1 in June 2020 from a flash reading of 37.8, amid the prolonged impact of the COVID-19 pandemic on activity. The latest reading signaled a 14th consecutive month of contraction as new orders, output, employment and purchasing activity continued to fall at sharp rates. The Jibun Bank Japan Services PMI was revised higher to 45.0 in June 2020 from a preliminary estimate of 42.3 and compared to May's 26.5. This was the highest reading since February as a state of emergency due to the coronavirus crisis was lifted, allowing companies in transport, information, communication, finance, real estate, and business services sectors to restart operations. The unemployment rate in Japan jumped to 2.9% in May 2020 compared to 2.6% in the prior month and market expectations of 2.8%. It is the highest jobless rate since May of 2017 and is higher than the 2.4% in the same month of the previous month. The number of unemployed increased by 10.7% to 1.97 million while employment edged up 0.1% to 66.29 million. The jobs-to-applications ratio declined sharply to 1.2 from 1.32, as the Covid-19 crisis escalated. 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. 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. We expect growth in Japan to contract -5.2% in 2020. We expect a recovery in Japan of 3.0% in 2021.

### China

The Chinese economy grew by a seasonally adjusted 11.5% on quarter in the three months to June 2020, following a revised -10.0% contraction in the previous quarter and compared with market expectations of a 9.6% increase. This was the strongest pace of quarterly expansion on record, boosted by improving demand at home and abroad following the easing of COVID-19 lockdown restrictions. The Chinese economy grew by 3.2% year-on-year in the second quarter of 2020, rebounding from a record -6.8% contraction in the previous three-month period and beating market consensus of a 2.5% expansion. The country became the first major economy to report growth following the coronavirus pandemic, as factories and stores reopened following months of coronavirus-induced restrictions. However, a continuing fall in retail trade underlined weakness in consumer spending and the need for more support from Beijing to accelerate the economic recovery. Considering the first half of the year, the economy contracted by 1.6% over the same period of 2019. Unemployment Rate in China decreased to 5.70% in June from 5.90% in May of 2020. China's annual inflation rate rose to 2.5% in June 2020 from a 14-month low of 2.4% in the prior month and in line with market expectations. On a monthly basis, consumer prices dropped -0.1%, after a -0.8% decline in May and compared with forecasts of a flat reading 0%. We maintain our outlook of the Chinese economy growing only 1.0% in 2020 before recovering to 8.8% growth in 2021.

### Turkey

The Istanbul Chamber of Industry Turkey Manufacturing PMI rose to 53.9 in June of 2020 from 40.9 in the previous month. The latest reading pointed to the first expansion in the manufacturing sector since February amid an easing of restrictions related to the coronavirus disease. Output, new orders and employment were all higher in June. Meanwhile, further marked increases in both input costs and output prices were registered. Business Confidence in Turkey increased to 92.60 points in June from 76.90 points in May of 2020. The unemployment rate in Turkey edged down to 12.8% in April of 2020 from 13% a year earlier. This was the lowest jobless rate since May of last year, despite the coronavirus crisis and after the government imposed a three-month ban on layoffs in April to mitigate the impact of the pandemic. Employment fell by 2.59 million to 25.614 million, the lowest since February of 2015, with job losses registered mainly in services, agriculture and construction. The labour force participation rate also declined to 47.2% from 52.9% in the same month a year ago, the lowest since August of 2012. On the other hand, the youth jobless rate between aged 15-24 years edged up to 24.4% from 23.2% in April of 2019. Turkey's consumer price inflation rate rose to 12.62% year-on-year in June 2020, the highest since August 2019 and above market expectations of 12.09%, as the economy re-opened from the coronavirus-induced restriction measures The Consumer Price Index in Turkey increased 1.13% in June of 2020 over the previous month. We expects a contraction in Turkey’s GDP 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)

*Monetary policy decisions 16 July 2020. At 16 July 2020 meeting the Governing Council of the ECB took the following monetary policy decisions:* (1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. (2) The Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of EUR 1,350 billion. The Governing Council will conduct net asset purchases under the PEPP until at least the end of June 2021 and, in any case, until it judges that the coronavirus crisis phase is over. The Governing Council will reinvest the principal payments from maturing securities purchased under the PEPP 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 policy stance.(3) Net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional EUR 20 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. (4) The Governing Council will also continue to provide ample liquidity through its refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III) has registered a very high take-up of funds, supporting bank lending to firms and households.The Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

## Bank of England (BoE)

Bank of England Monetary Policy Summary and minutes of the Monetary Policy Committee meeting Published on 18 June 2020. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge 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 program of GBP 200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves. 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

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 (BoJ)

July 15, 2020 Bank of Japan Statement on Monetary Policy

1. At the Monetary Policy Meeting held July 15, 2020, the Policy Board of the Bank of Japan decided upon the following.

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

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

The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero 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

## PBoC

The People's Bank of China (PBoC) held its benchmark interest rates steady for the second straight month at its June fixing after the central bank maintained borrowing costs on medium-term loans last week, as policymakers adopted a wait-and-see approach amid tentative signs of economic recovery. The one-year loan prime rate (LPR) was left unchanged at 3.85% from the previous monthly fixing while the five-year remained at 4.65%. Chinese banks extended a record CNY 12.09 trillion yuan (USD 1.73 trillion) of new loans in the first half of 2020, beating a previous peak of CNY 9.67 trillion yuan in the first half of 2019. Chinese banks extended CNY 1.81 trillion yuan (USD 258 billion) in new yuan loans in June, up from CNY 1.48 trillion yuan in May. Central bank Governor Yi Gang said that policymakers will keep financial system liquidity ample in the second half of the year as the economy improves, but will need to consider withdrawing support at some point. The People's Bank of China has rolled out a raft of easing steps since early February, including cuts in lending rates and banks' reserve requirements and extending targeted lending support for virus-hit firms, but it has not slashed interest rates to near zero or embarked on huge bond buying sprees as many other major central banks have done.

## Central Bank of Turkey

Decision of Central Bank of Turkey on FX Reserve Requirement Ratios 17.07.2020
FX reserve requirement ratios have been increased by 300 basis points in all liability types and maturity brackets for all banks.Within the context of the measures announced on 17 March 2020 to contain the adverse effects of the coronavirus (Covid-19) pandemic, FX reserve requirement ratios were reduced by 500 basis points for banks that met real credit growth conditions, and USD 5.1 billion of liquidity was released. Additionally, banks that met real credit growth conditions for the first time were provided with approximately USD 9.2 billion of liquidity, and thus, a total amount of USD 14.3 billion of liquidity was provided to the banking system. This time, as part of the normalization process, in order to support financial stability, the CBRT has decided to increase FX reserve requirement ratios by 300 basis points in all liability types and maturity brackets for all banks. As a result of this decision, approximately USD 9.2 billion of FX and gold liquidity is expected to be withdrawn from the market. The aforementioned change will take effect from the calculation date of 10 July 2020 with the maintenance period starting on 24 July 2020.

## International commodity prices

### Oil

The Brent price decreases -0.31 USD/BBL or -0.71% to 43.060 USD/BBL on Friday, July 17. For the week, the decrease was -0.42%. The price of crude oil decreases -0.21 USD/BBL or -0.52% to 40.540 USD/BBL on Friday, July 17. For the week, the decrease was minimal -0.02%. Oil prices fell on July 17, 2020 amid fears of fuel demand and oversupply after OPEC countries and their allies decided to restore some oil supplies in August. On 16.07.2020, the US reported at least 75,000 new COVID-19 cases, a new daily record, while cases continued to soar in India and Brazil. Also, Spain and Australia reported their steepest daily jumps in more than two months. At the same time, OPEC+ agreed to trim record supply cuts of 9.7 million barrels per day (bpd) imposed earlier this year but from August the decline will be 7.7 million barrels per day and will last until September. At the same time, it became clear that according to the US Energy Information Administration, stocks in the country fell by 7.5 million barrels last week - significantly more than the expected 2.1 million barrels. Oil prices are expected to be close, as more OPEC + stocks will be absorbed by recovering demand, said Tsutomu Kosuge, president of research firm Marketedge Co. "I expect the Brent variety to stay in the narrow range of USD 40.5-46.5 next month," he said.

### Agriculture products

Sofia Commodity Exchange Review 16-19.05.2020
As of July 20, 2020 the grain prices have risen again due to increased consumption by China. The price of wheat in the United States rose by 12.00 USD to 237.00 USD/ton, in France fell by EUR 2.00 to 191.00 EUR / ton. The price in Ukraine and Russia increased by 8.00 USD/ ton, respectively to 203.00 USD/ ton and to 205.00 USD/ ton. Corn in Chicago fell by USD 6.00 to 168.00USD / ton The price in Ukraine rose by 2.00 USD/ ton to 183.00 USD/ ton and plus EUR 5.00 in France to 181.00 EUR / ton . Barley in Ukraine is at 178.00 USD/ ton, an increase of 3.00 dollars, in France a decrease of EUR 2.00 to 168.00 EUR / ton. Barley in Ukraine is at 178.00 USD/ ton, an increase of 3.00 USD, in France a decrease of EUR 2.00 to 168.00 EUR / ton. For rapeseed in the European Union / Euronext / the quotations increased by 5.00 EUR / ton and reached 385.00 EUR / ton.Unrefined sunflower oil on the Rotterdam Stock Exchange maintained last week's levels - 800.00 USD/ ton, and the price of refined sugar rose by 8.40 USD/ ton to 348.50 USD/ ton on the London Stock Exchange. In the "Grain" sub-district of the Sofia Commodity Exchange AD the quotations for bread wheat increased and it was sought at 320.00 BGN / ton, the supply is at 350.00 BGN / ton. The fodder ranges between BGN 300.00 and 330.00 BGN / ton for buying and selling, respectively. All prices are without VAT.

## II.BULGARIA: ACCENTS AND PROJECTIONS

**LEADING NEWS - July 2020 - a time of constructive change and full support of the Government of Bulgaria by all institutions and countries of the European Union.**

**Bulgaria has joined the monetary mechanism preceding the euro area ERM-II**

At the request of the Bulgarian authorities, the finance ministers of the euro area member states, the president of the European Central Bank and the finance ministers and central bank governors of Denmark and Bulgaria decided unanimously to include the Bulgarian lev in Monetary Mechanism II. The European Commission was involved in the decision-making process and the Economic and Financial Committee was consulted.The central rate of the Bulgarian lev is fixed at 1 euro = 1.95583 levs. Around this central exchange rate of the lev, the standard range of plus or minus 15% will be maintained. At the same time, after a careful assessment of the adequacy and sustainability of the currency board in Bulgaria, it was agreed that Bulgaria joins the currency mechanism with its existing currency board regime, as a unilateral commitment and without additional requirements to the ECB. The agreement on the participation of the lev in VM II is based, inter alia, on Bulgaria's commitment to join both the Banking Union and VM II and on the implementation by the Bulgarian authorities of the measures described in the letter of intent of 29 June 2018, which are important for the smooth accession and participation in VM II. These measures are in the following six policy areas: banking supervision, the macro-prudential framework, the supervision of the non-banking financial sector, the anti-money laundering framework, the insolvency framework and the governance of state-owned enterprises. The parties involved in the BM II process welcome the positive assessment of the implementation of these commitments by the European Central Bank and the European Commission. The European Central Bank also announced today the establishment of close cooperation with the Bulgarian National Bank. The agreement on the participation of the Bulgarian lev in VM II is accompanied by a firm commitment of the Bulgarian authorities to pursue prudent economic policies in order to preserve economic and financial stability and achieve a high degree of sustainable economic convergence. The Bulgarian authorities are committed to taking concrete measures related to policies in the non-banking financial sector, state-owned enterprises, the insolvency framework and the anti-money laundering framework. Bulgaria will also continue to pursue comprehensive reforms in the judiciary and anti-corruption and organized crime policy in Bulgaria, given their importance for stability and confidence in the financial system. The authorities, together with the relevant bodies of the European Union, will closely monitor the development of macroeconomic policy and the implementation of these measures through appropriate instruments.

**Bulgaria will join the Single Resolution Mechanism, following the decision by the European Central Bank to establish close cooperation with the Bulgarian National Bank.**

From 1 October 2020 the ECB will directly supervise Bulgaria’s significant institutions, and the Single Resolution Board (SRB) will become the resolution authority for these and all cross-border groups. The SRB will also oversee resolution planning for smaller banks, known as less significant institutions. The Single Resolution Mechanism, comprising the SRB and the national resolution authorities in Banking Union countries, protects financial stability and the taxpayer by preparing resolution plans for managing failing banks. The SRB and the national resolution authorities in Bulgaria are well prepared for a smooth transition to the new resolution regime.Banks in Bulgaria will also contribute to the Single Resolution Fund, which supports bank resolutions.As national resolution authority of Bulgaria, the Bulgarian National Bank will have representatives in the SRB’s Plenary Session and Extended Executive Sessions with the same rights and obligations as all other members, including voting rights.

**The Council of the EU approved the recommendations for the Community countries in the field of economy for 2020-2021.**

The following 4 recommendations are addressed to Bulgaria:

1. Take all necessary measures, in accordance with the general derogation clause of the Stability and Growth Pact, to deal effectively with the COVID-19 pandemic, sustain the economy and support subsequent recovery. Where economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while boosting investment. To mobilize sufficient financial resources to strengthen the sustainability, accessibility and capacity of the health system and to ensure a balanced regional distribution of health workers to meet the needs of the population.
2. To provide adequate social protection and basic services for all and to strengthen active labor market policies. Improve access to teleworking and promote digital skills and equal access to education. To eliminate the shortcomings regarding the adequacy of the minimum income scheme
3. Streamline and speed up procedures for providing effective support to SMEs and the self-employed, while also ensuring that they have continuous access to finance and flexible payment terms. Give priority to ready-to-implement public investment projects and stimulate private investment to accelerate economic recovery. To focus investment on environmental and digital transition, in particular on clean and efficient production and use of energy and resources, environmental infrastructure and sustainable transport, contributing to the gradual decarburization of the economy.

4. Minimize the administrative burden on businesses by improving the efficiency of public administration and strengthening e-government. To ensure the effective functioning of the insolvency framework. Increase efforts to ensure adequate risk assessment and mitigation, effective supervision and implementation of the anti-money laundering framework.

**European leaders have reached an agreement on the EU budget for the period 2021-2027 and the pandemic recovery plan.**
The total amount of the Multiannual Financial Framework for the next 7 years will be EUR 1 trillion and 74 billion, and the total amount of the Next Generation EU Package will be EUR 750 billion. Thus, in the next 7 years, the EU will be able to mobilize a total of 1 trillion 824 billion euros. In the Next Generation EU Package, EUR 390 billion will be provided to Member States free of charge, which are the so-called grants. Member States will also be able to use EUR 360 billion in loans, under the most favorable conditions possible, stemming from the EU's high credit rating. The budget will be EUR 1.8 trillion euros and will contain a 750 billion-euro fund for economic recovery. It is envisaged that the rebates from the budget contributions to Austria, Denmark, the Netherlands, Germany and Sweden will be maintained. It provides for the allocation of budget funds to be suspended in the event of threats to the rule of law, and decisions will be taken by a qualified majority. An additional EUR 200 million is envisaged for Bulgaria for the least developed regions - for strengthening competitiveness, growth and job creation. To protect the EU's external border, Bulgaria will receive a total of more than 200m euros for migration and security under the MFF.

In the period 2021-2027, Bulgaria is expected to receive nearly EUR 29 billion euros, which is almost twice (by about 13.3 billion euros) more than the package for the current period (2014-2020). Below are the results achieved for the country on the three main elements of the negotiations. According to preliminary calculations and forecast data, our country will receive 12.3 billion euros from the EU's Next Generation Reconstruction Instrument, and according to the final agreement, most of them (7.7 billion euros) will be in the form of grants. funds. Most grants are expected from the Reconstruction and Sustainability Mechanism (EUR 6.23 billion) and the Fair Transition Fund (EUR1.2 billion in total). Our country will receive an additional grant under Cohesion Policy - 656 million euros, and for rural development - 188 million euros. The recovery and sustainability mechanism is expected to amount to 4.55 billion euros. Bulgaria is expected to receive 16.7 billion euros from the programs and funds in the MFF 2021-2027, which have pre-allocated packages by member state. Bulgaria managed to defend its key interests and withdraw from the negotiations with an increased national package on the priority for the country Cohesion Policy, as a national package was agreed, exceeding by 597 million euros that of the current programming period. Thus, Bulgaria is among the few that will receive an increase of a maximum of 7%. The biggest achievement in the MFF negotiations should be the additional target funds of EUR 200 million agreed at the highest political level, unprecedented for Bulgaria so far, for the less developed regions of the country under the Cohesion Policy designed to strengthen competitiveness, growth and job creation in these areas. Thus, the funds for Bulgaria from the CP increase by a total of 797 million euros compared to our national package for CP in the current MFF 2014-2020. Our long-term joint and systematic efforts have also yielded results in negotiating the desired more favorable conditions for the implementation of traditional policies. They are reflected in maintaining significantly higher current levels of EU co-financing for Cohesion Policy and the Common Agricultural Policy. Also, for 2021-2026 in the CP there is a preservation of the so-called. "Rule N + 3", which gives a longer deadline for the implementation of projects before the automatic decommitment of appropriations. Direct payments and CAP market measures also increased by around EUR 305.5 million. The increase in funds related to migration and security is also significant. They are expected to receive 143 million euros more than the current packages. For Bulgaria, a higher amount of compensation has been agreed for the national costs of collecting duties, which the member states should keep - a priority that was systematically upheld by Bulgaria. An agreement was reached on the revised current and new own resources, which is a balanced and fair compromise. Specifically, a positive development for our country should be noted the inclusion of a correction mechanism that takes into account the welfare of Member States and ensures a reduction in Bulgaria's contributions to the new own resource of contributions based on non-recycled plastic packaging. The positive net balance is maintained during the next programming period.

**Political tensions increased after mass anti-government protests in major cities that continue 15th consecutive day. The government survived the no-confidence vote, but the pressure for change remains.**
The government is expected to serve its full term to pay the full cost of its rule. There are two possible solutions - a radical change in the cabinet or the so-called „expert government”. For example, the Czech Republic and Slovakia went to an expert cabinet, they had serious government crises, which they overcame with an expert cabinet. At this stage, the prime minister chooses the other option - a radical change of government. If there is a strong escalation of the protests, the so-called expert government. Currently, GERB has a 10 percent advantage over the BSP if they go to early elections

## HEALTH

**The term of the emergency epidemic situation in Bulgaria is extended until July 31, 2020.**

The epidemic situation in Bulgaria is extended until July 31, 2020 by decision of the Government of Bulgaria. In this way, the authorities are reacting to the growth of new cases of coronavirus in recent weeks in the country. As of July 20, 2020, a total of 8733 cases of the new coronavirus have been confirmed in Bulgaria. 4327 of them are active cases. The number of cured persons is already 4106. 25 of them have been registered during the past 24 hours. There are 610 patients with proven coronavirus infection in hospitals, 34 of whom are placed in intensive care units or clinics. The National Information System shows that the medical staff with whom the new coronavirus has been confirmed in our country are 567. 300 are the deceased with COVID-19.

## EXTERNAL SECTOR

### Balance of Payments

The current and capital account recorded a surplus of EUR 158.6 million in May 2020, compared with a surplus of EUR 149.9 million in May 2019. In January – May 2020 the current and capital account was positive amounting to EUR 1,090 million (1.9% of GDP), compared with a surplus of EUR 409.7 million (0.7% of GDP) in January – May 2019. The current account was positive amounting to EUR 75.1 million in May 2020, compared with a surplus of EUR 57.7 million in May 2019. In January – May 2020 the current account was positive and amounted to EUR 695.4 million (1.2% of GDP), compared with a surplus of EUR 37.9 million (0.1% of GDP) in January – May 2019. The balance on goods recorded a deficit of EUR 16.2 million in May 2020, compared with a deficit of EUR 274.1 million in May 2019. In January – May 2020 the balance on goods was negative amounting to EUR 130.8 million (0.2% of GDP), compared with a deficit of EUR 843.4 million (1.4% of GDP) in January – May 2019. Exports of goods amounted to EUR 1,915 million in May 2020, dropping by EUR 478.4 million (20%) from EUR 2,393.4 million in May 2019. In January – May 2020 exports of goods totalled EUR 10,894 million (19.2% of GDP), dropping by EUR 870.7 million (7.4%) yoy (from EUR 11,764.8 million, 19.4% of GDP). In January – May 2019 exports grew by 9.4% yoy. Imports of goods amounted to EUR 1,931.2 million in May 2020, dropping by EUR 736.3 million (27.6%) from May 2019 (EUR 2,667.5 million). In January – May 2020 imports of goods totalled EUR 11,024.8 million (19.4% of GDP), down by EUR 1,583.4 million (12.6%) from January – May 2019 (EUR 12,608.2 million, 20.8% of GDP). In January – May 2019 imports grew by 8% year-on-year. Services recorded a positive balance of EUR 57.8 million in May 2020, compared with a surplus of EUR 214.6 million in May 2019. In January – May 2020 services recorded a surplus of EUR 538.8 million (0.9% of GDP) compared with a positive balance of EUR 727.4 million (1.2% of GDP) in the same period of 2019. The net primary income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 19.5 million, compared with a deficit of EUR 96.9 million in May 2019. In January – May 2020 the balance on primary income was negative and equated to EUR 332.9 million (0.6% of GDP), compared with a deficit of EUR 735.5 million (1.2% of GDP) in January – May 2019. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 52.9 million, compared with a positive balance of EUR 214.1 million in May 2019. In January – May 2020 the net secondary income was positive amounting to EUR 620.4 million (1.1% of GDP), compared with a positive balance of EUR 889.4 million (1.5% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 83.6 million, compared with a positive balance of EUR 92.2 million in May 2019. In January – May 2020 the capital account recorded a surplus of EUR 394.6 million (0.7% of GDP), compared with a positive balance of EUR 371.8 million (0.6% of GDP) in January – May 2019. The financial account recorded a positive balance of EUR 559.8 million, compared with a positive value of EUR 476.7 million in May 2019. In January – May 2020 the financial account recorded a net inflow of EUR 1,364 million (2.4% of GDP) compared with an inflow of EUR 638.3 million (1.1% of GDP) in January – May 2019. The balance on direct investment was negative amounting to EUR 17.5 million, compared with a positive balance of EUR 40.1 million in May 2019. In January – May 2020 direct investment recorded a negative balance of EUR 134.8 million (0.2% of GDP), compared with a negative balance of EUR 155.6 million (0.3% of GDP) in January – May 2019. Direct investment – assets grew by EUR 4.1 million compared with an increase of EUR 46.1 million in May 2019. In January – May 2020 direct investment – assets grew by EUR 65.7 million (0.1% of GDP) compared with an increase of EUR 181.1 million (0.3% of GDP) in the same period of 2019. Direct investment – liabilities grew by EUR 21.6 million in May 2020, compared with an increase of EUR 6 million in May 2019. In January – May 2020 direct investment – liabilities grew by EUR 200.5 million (0.4% of GDP), compared with an increase of EUR 336.7 million (0.6% of GDP) in the same period of 2019. The balance on other investment was positive amounting to EUR 468.2 million, compared with a positive balance of EUR 464 million in May 2019. In January – May 2020 the balance was negative and equated to EUR 1,560.1 million (2.7% of GDP), compared with a positive balance of EUR 837.8 million (1.4% of GDP)

In January – May 2020 the balance was negative and equated to EUR 1,560.1 million (2.7% of GDP), compared with a positive balance of EUR 837.8 million (1.4% of GDP) in January – May 2019. Other investment – assets grew by EUR 132.5 million, compared with an increase of EUR 0.7 million in May 2019. In January – May 2020 they decreased by EUR 1,702.1 million (3% of GDP) compared with an increase of EUR 921.4 million (1.5% of GDP) in January – May 2019. Other investment – liabilities dropped by EUR 335.8 million compared with a decrease of EUR 463.3 million in May 2019. In January – May 2020 they were down by EUR 142 million (0.3% of GDP) compared with an increase of EUR 83.6 million (0.1% of GDP) in January – May 2019. The BNB reserve assets5 dropped by EUR 156.8 million, compared with a decline of EUR 13.5 million in May 2019. In January – May 2020 they increased by EUR 2,197.3 million (3.9% of GDP), compared with a decline of EUR 339 million (0.6% of GDP) in the same period of 2019. The net errors and omissions were positive amounting to EUR 401.1 million compared with a positive value of EUR 326.9 million in May 2019. According to preliminary data, the item was positive totaling EUR 274 million (0.5% of GDP) in January – May 2020, compared with a positive value of EUR 228.6 million (0.4% of GDP) in the same period of 2019.

| Bulgaria: Balance of payments | May 2019 | May 2020 | Change in EUR million | January - May 2019 | January - May 2020 | Change in EUR million |
|---|---|---|---|---|---|---|
| Current and capital account | 149.9 | 158.6 | 8.7 | 409.7 | 1090.0 | 680.3 |
| Current account | 57.7 | 75.1 | 17.4 | 37.9 | 695.4 | 657.5 |
| Trade balance | -274.1 | -16.2 | 257.9 | -843.4 | -130.8 | 712.6 |
| Primary income, net | -96.9 | -19.5 | 77.4 | -735.5 | -332.5 | 403.0 |
| Secondary income, net | 214.1 | 52.9 | -161.2 | 889.4 | 620.4 | -269.0 |
| Capital account | 92.2 | 83.6 | -8.6 | 371.8 | 394.6 | 22.8 |
| Capital transfers, net | 55.1 | 65.1 | 10.0 | 257.1 | 433.1 | 176.0 |
| Financial account | 476.7 | 559.8 | 83.1 | 638.3 | 1364.0 | 725.7 |
| Source: BNB | | | | | | |

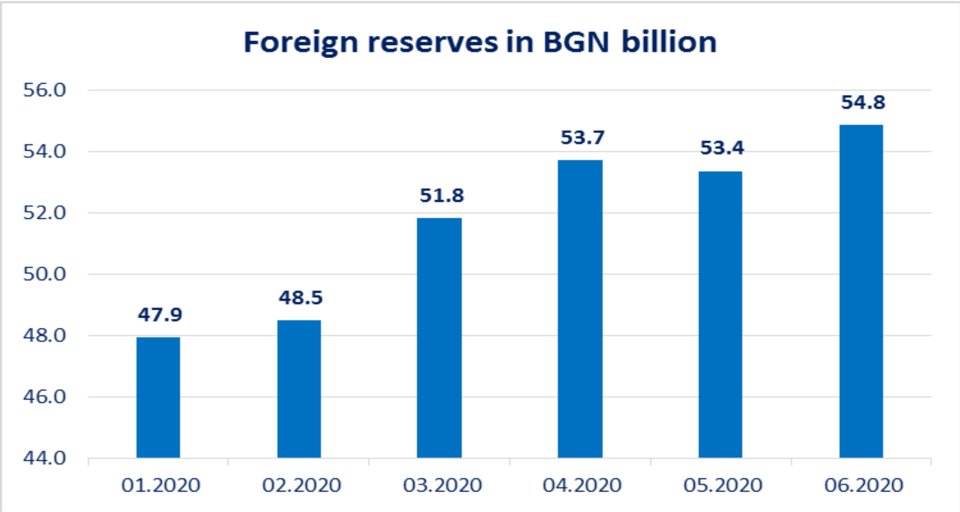
### Foreign direct investments

According to BNB preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 169.5 million (0.3% of GDP) in January – May 2020, dropping by EUR 136.7 million (44.7%) from January – May 2019 (positive value of EUR 306.2 million, 0.5% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 24 million in May 2020, compared with an outflow of EUR 5.7 million in May 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 24.8 million in January – May 2020, growing by EUR 640.6 million from a negative value of EUR 665.4 million in January – May 2019. Real estate investments of non-residents recorded a negative value of EUR 0.1 million, compared with a positive one of EUR 2.6 million in January – May 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 265.6 million in January – May 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 20.5 million in January – May 2020, compared with a positive value of EUR 706 million in January – May 20195. The largest net direct investment inflows in Bulgaria for January – May 2020 were from Germany (EUR 65.8 million) and Russia (EUR 55.9 million).

| Bulgaria: Direct investments | May 2019 | May 2020 | January - May 2019 | January - May 2020 | Change in EUR million, mom | Channge in EUR million, yoy |
|---|---|---|---|---|---|---|
| **Direct investments, net** | **40.1** | **-17.5** | **-155.6** | **-134.8** | **-57.6** | **20.8** |
| **Direct investments in abroad** | **34.4** | **6.5** | **150.5** | **34.7** | **-27.9** | **-115.8** |
| Equity | 5.2 | 5.2 | 107.5 | 11.1 | 0.0 | -96.4 |
| Reinvestments of earnings | 10.5 | 0.0 | -0.8 | -5.4 | -10.5 | -4.6 |
| Debt investments | 18.6 | 1.3 | 43.8 | 29.0 | -17.3 | -14.8 |
| **Direct investments in a country** | **-5.0** | **24.0** | **306.2** | **169.5** | **29.0** | **-136.7** |
| Equity | -130.0 | -0.1 | -665.4 | -24.9 | 129.9 | 640.5 |
| Reinvestments of earnings | 52.1 | 0.0 | 265.6 | 214.7 | -52.1 | -50.9 |
| Debt investments | 72.3 | 24.1 | 706.0 | -20.3 | -48.2 | -726.3 |
| Source: BNB | | | | | | |

### International reserves

According to BNB data, at the end of June 2020 the BNB's international reserves amounted to BGN 54.8 billion and increased by 2.8% on a monthly basis and by 11.3% on an annual basis, maintaining the stability of the Currency Board in Bulgaria. . Bulgaria's international liquidity position, calculated as the ratio of international reserves to short-term external debt, is stable and at the end of April 2020 was 340.4% compared to 294.2% at the end of 2019. and 288.8% at the end of April 2019.




## REAL SECTOR

### Business climate

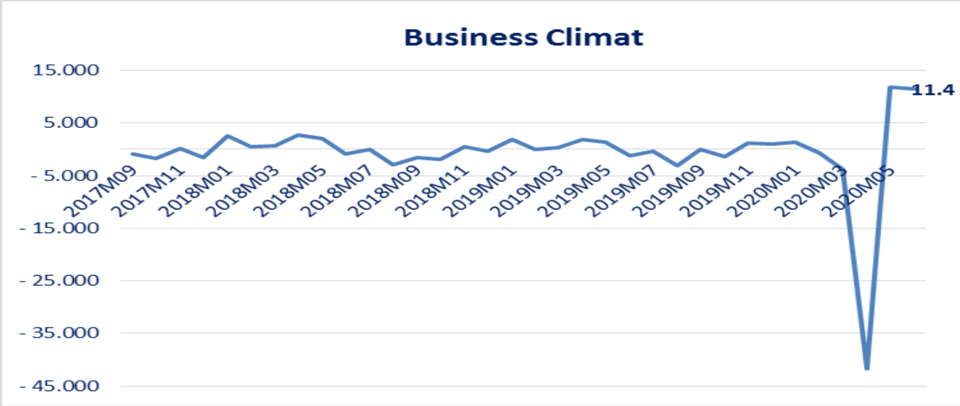
In June 2020, the total business climate indicator increases by 11.4 percentage points in comparison with the previous month which is due to more favourable business climate in all observed sectors - industry, construction, retail trade and services.

**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.

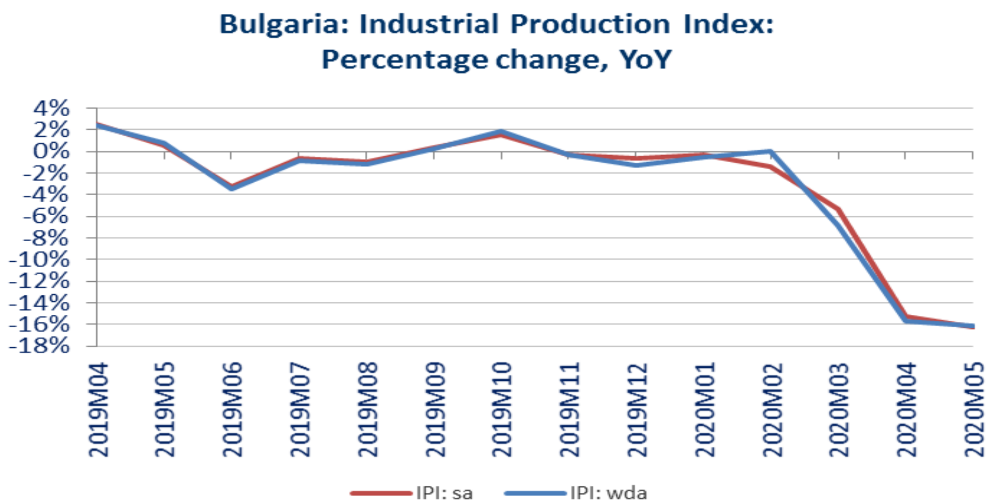
**Retail trade.** The composite indicator ‘business climate in retail trade’ increases by 15.8 percentage points as a result of the more favourable retailers’ assessments and expectations about the business situation of the enterprises. Their opinions about the volume of sales over the last 3 months, 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.



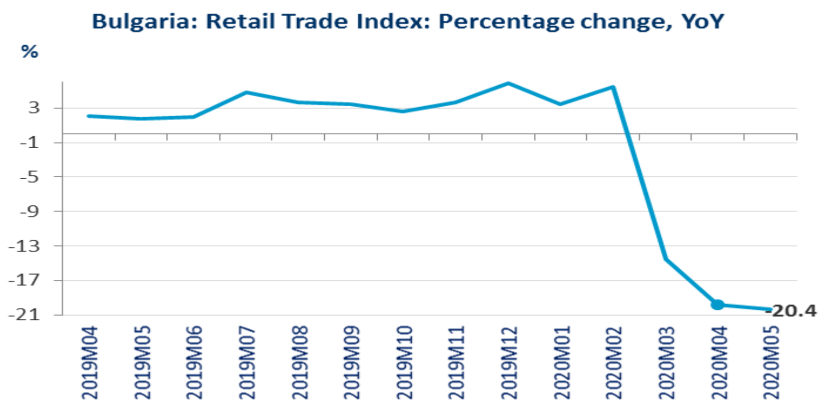

### Industrial Production

According to the preliminary data in May 2020 the Industrial Production Index, seasonally adjusted, decreased by 0.1% as compared to April 2020. In May 2020 the working day adjusted Industrial Production Index fell by 16.1% in comparison with the same month of 2019. In May 2020 as compared to April 2020, the seasonally adjusted Industrial Production Index went down in the mining and quarrying industry by 5.8% and in the electricity, gas, steam and air conditioning supply by 3.7%, while the production rose in the manufacturing by 1.1%. The most significant production increases in the manufacturing were registered in the manufacture of motor vehicles, trailers and semi-trailers by 52.2%, in the manufacture of wearing apparel by 18.9%, in the manufacture of textiles by 18.7%, in the manufacture of furniture by 14.1%. Important decreases were seen in the manufacture of tobacco products by 18.6%, in the repair and installation of machinery and equipment by 16.1%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 6.4%. On annual basis in May 2020 Industrial Production Index calculated from working day adjusted data fell in the manufacturing by 16.9%, in the electricity, gas, steam and air conditioning supply by 15.5% and in the mining and quarrying industry by 8.2%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of motor vehicles, trailers and semi-trailers by 60.6%, in the manufacture of tobacco products by 46.2%, in the other manufacturing by 44.4%, in the manufacture of machinery and equipment n.e.c by 39.3%. Major increases were seen in the manufacture of basic metals by 16.2%, in the manufacture of textiles by 8.1%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 5.1%.



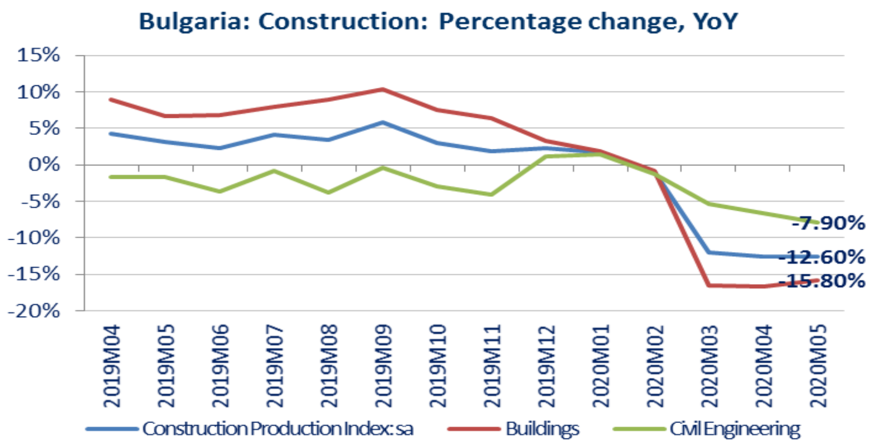
## Retail sales

According to the preliminary seasonally adjusted data in May 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. In May 2020, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' fell by 20.4% in comparison with the same month of the previous year. In May 2020 compared to the previous month, decrease of turnover was observed in the 'Retail sale of food, beverages and tobacco'- by 11.4%. A rise was reported in the 'Retail sale of automotive fuel in specialised stores' - by 6.5% and in the 'Retail sale of non-food products (including fuel)' - by 2.7%. In the 'Retail sale of non-food products except fuel' more significant increases of turnover were registered in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores'- by 75.5%, and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances, etc. in specialised stores' - by 12.7%. A decline was reported in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles in specialised stores' - by 5.9%. In May 2020 compared to the same month of 2019, decline of turnover was observed in the 'Retail sale of automotive fuel in specialised stores' (by 33.9%), in the'Retail sale of non-food products except fuel' (by 18.0%) and in the 'Retail sale of food, beverages and tobacco' (by 17.4%). More significant drop of turnover in the'Retail sale of non-food products except fuel' was registered in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores' - by 53.2%, in the 'Retail sale of information and communication equipment' - by 24.9% and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles in specialised stores' - by 16.5%. A rise was reported in the 'Retail sale via mail order houses or via Internet' - by 15.0%.



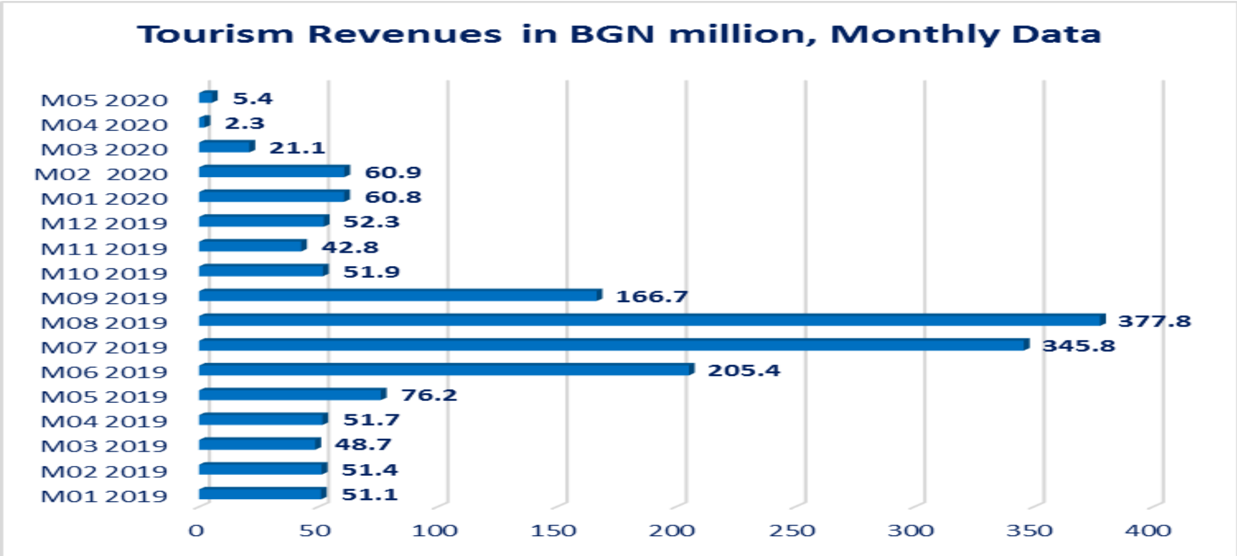

## Construction

According to the preliminary NSI data, in May 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.3% above the level of the previous month. In May 2020 working day adjusted data showed a decrease by 14.1% in the construction production, compared to the same month of 2019. In May 2020 the construction production index, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 0.4% and production of building construction - by 0.2%. On an annual basis in May 2020, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the building construction, where the drop was by 16.6% and in the civil engineering - by 10.5%.



## Tourism

In May 2020, during the state of emergency and the ensuing extraordinary epidemic situation in the country, revenues from overnight stays in the Tourism sector amounted to BGN 5.4 million, or 92.9% less than in May 2019. year. There was a collapse in revenues from both foreign citizens - by 96.6% and Bulgarian citizens - by 85.8%.



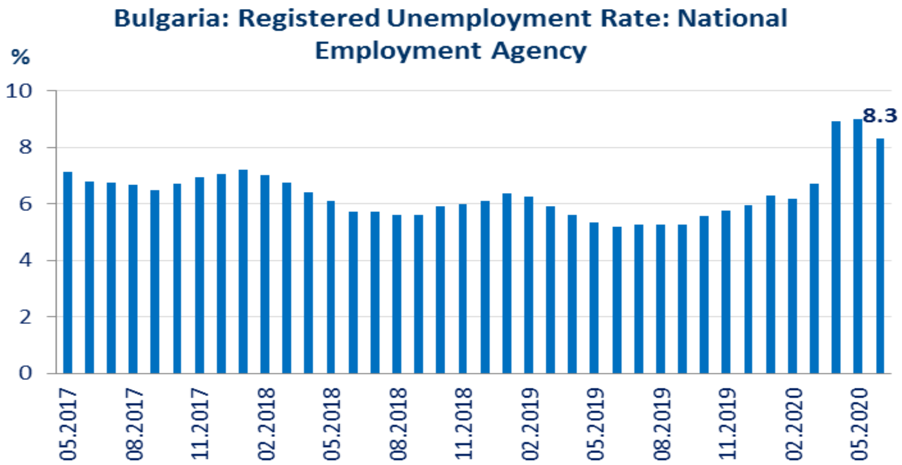

## CPI Inflation

The consumer price index for June 2020 compared to May 2020 is 99.6%, ie monthly inflation is minus 0.4%. Inflation since the beginning of the year (June 2020 compared to December 2019) is minus 1.0%, and annual inflation for June 2020 compared to June 2019 is 1.6%. The average annual inflation for the period July 2019 - June 2020 compared to the period July 2018 - June 2019 is 2.7%. The rise in prices of goods and services in the country continues to slow for the fifth consecutive month. In June, 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. The growth rate is slowing down due to the continuing decline in the prices of fuels, natural gas and heat. The harmonized index of consumer prices for June 2020 compared to May 2020 is 99.9%, ie monthly inflation is minus 0.1%. Inflation since the beginning of the year (June 2020 compared to December 2019) is minus 0.7%, and annual inflation for June 2020 compared to June 2019 is 0.9%. The average annual inflation for the period July 2019 - June 2020 compared to the period July 2018 - June 2019 is 2.1%.

## LABOR MARKET

### Unemployment

At the end of June 2020 the Employment Agency reports 273,367 registered unemployed persons, as compared to May they are 22,086 less or a decrease of 7.5%. At the same time, the increase compared to June 2019 is 61.1% or 103,708 people. In June, the number of unemployed people started working reached 36,621, 95.7% of whom were employed in the real economy. Compared to June 2019, there is a significant increase in the number of unemployed who started work - by 84.0%. According to an expert assessment of the Employment Agency, in June 35.2% of the unemployed returned to their old jobs - before the COVID crisis. In June, the highest number of started jobs was reported in the hotel and restaurant sector - 25.3% of all started jobs, followed by manufacturing - 14.8%, trade, car repair - 13.8%, culture, sports and entertainment - 5.9%, construction - 5%. As a result of the measures for recovery of the labor market and mitigation of the consequences of the coronavirus crisis, by the end of June through the labor offices nearly 9 thousand employers from the affected sectors have benefited from the measure 60/40. Thus, the business has saved more than 160,000 jobs. In June, 1,581 unemployed people from the risk groups started working in subsidized jobs - 1,057 under training and employment programs and measures and 524 - under schemes of the Operational Program "Human Resources Development". The requested jobs on the primary labor market in June were 20,021, 86.1% of which were in the private sector.

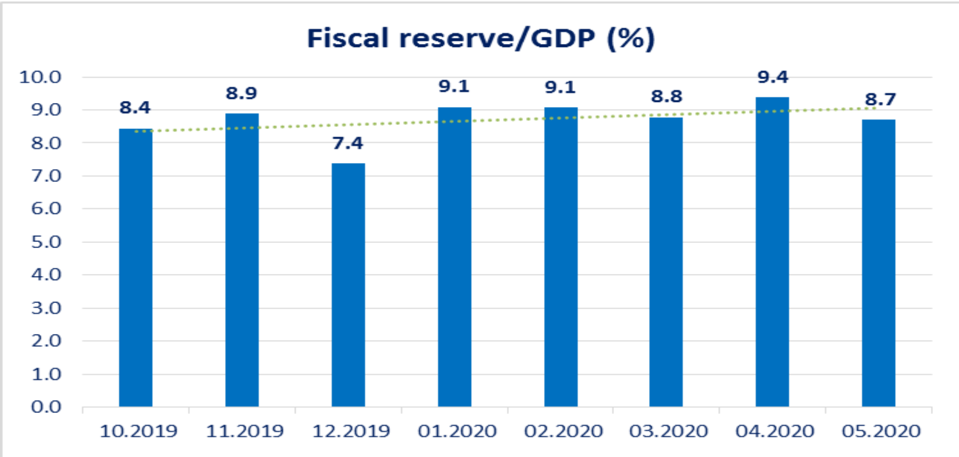



## FISCAL SECTOR

### Budget balance

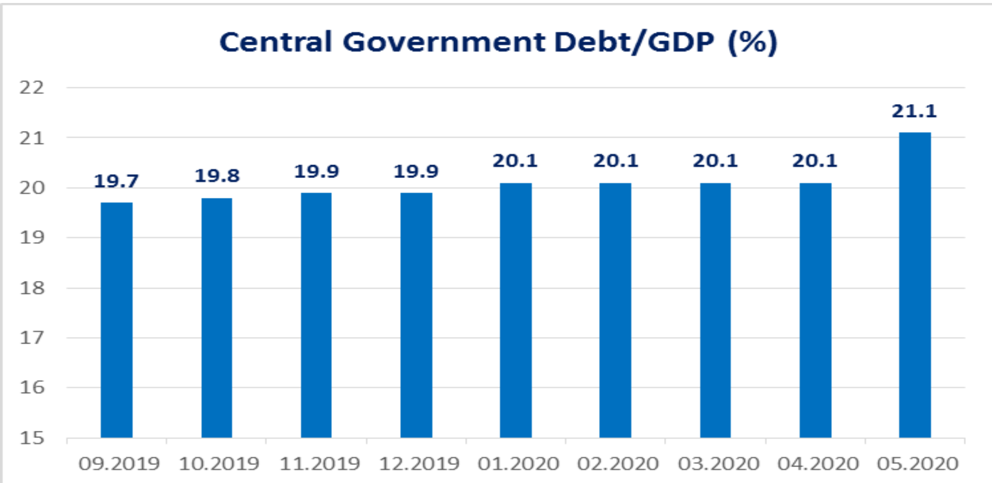
As of June 2020, CFP revenues, grants and donations are expected to be 48.2 percent of the updated annual estimates. Compared to the same period of the previous year, revenues are slowing down which is due to the negative implications on proceeds from most key taxes as a result of the limitations in 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

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 %.



## BANKING SECTOR

The Bulgarian National Bank approved a request by the Association of Banks in Bulgaria for an extension of the deadlines of the moratorium on payments. The changes are related to: extension of the deadline for submitting a request by bank customers for deferral of liabilities and their approval by banks – until 30 September 2020 and extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021.The extension of the term of the liability deferral procedure applies to exposures for which no request for deferral of payments was submitted before 22 June 2020. On 9 July 2020 the Governing Council of the Bulgarian National Bank made a decision that it will comply with the Guidelines EBA/GL/2020/08, voted by the European Banking Authority (EBA), amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis. The Guidelines are published on the EBA website. They extend by three months, from 30 June 2020 to 30 September 2020, the deadline for application of the moratorium on payments laid down in Guidelines EBA/GL/2020/02. The extension refers to an amendment in Section 4, point 10, letter "f" of the EBA Guidelines - EBA/GL/2020/02. In relation to the above and pursuant to Art. 16, item 20 of the Law on the Bulgarian National Bank and Art. 79a, paragraph 3 of the Law on Credit Institutions, the BNB approved an extension of the deadlines, proposed by the Association of Banks in Bulgaria, in the already adopted Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020, as a result of the COVID-19 pandemics. In addition, the BNB will start publishing monthly aggregated information in connection with the received and approved requests to banks for deferral of liabilities under this procedure. Information for April, May and June 2020 will be published on 31 July 2020. For the subsequent months of the term of the approved procedure, monthly information will be published at the end of the last business day of the month following the reporting period.