All data in the edition are the last available data published as of 30 September 2020

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

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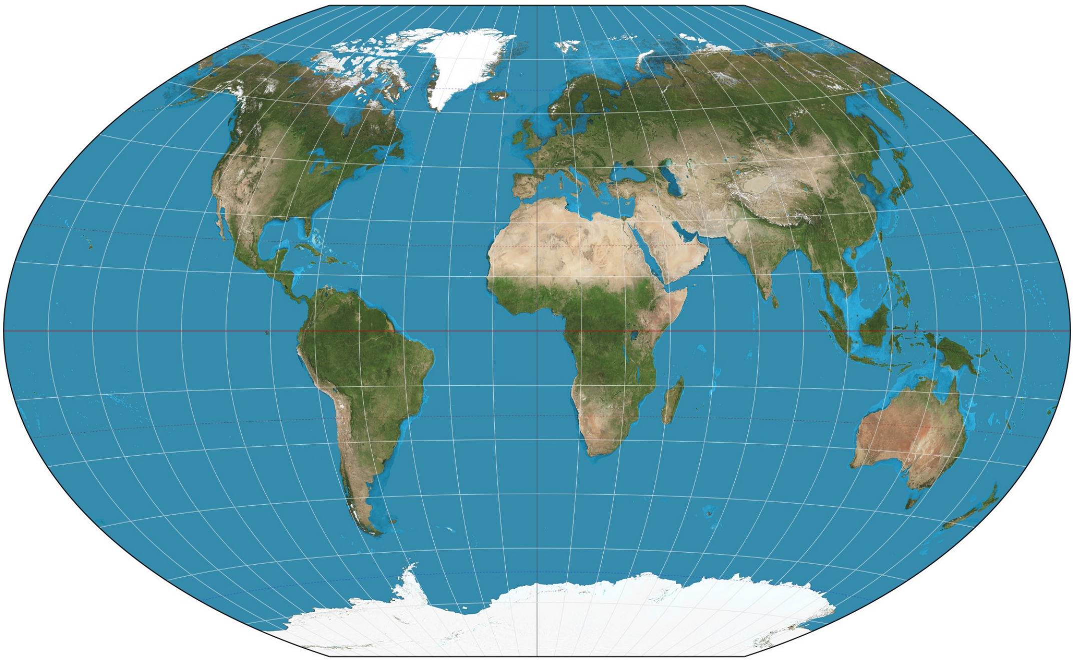
Част от KBC Груп

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



October, 2020

- **All in all the fundamental picture in the euro area remains unchanged, an improved Q3 growth outlook, and a downgraded Q4 growth lead, on balance, to slightly less negative real GDP growth of -8.0% in 2020. The negative overhang from this year mechanically translates into somewhat lower but still solid annual growth of 4.9% in 2021, marked by ongoing fiscal support both from national as well as EU-level policy initiatives.**
- **Italy's economy shrank by a record 18.0% year-on-year in the second quarter of 2020, revised data showed, as coronavirus-induced lockdowns hit activity and consumption. Italy's consumer prices went down -0.6% from a year earlier in September 2020, compared to an initial estimate of a -0.5% drop, suggesting that domestic demand remained subdued amid the coronavirus crisis. Italy's unemployment rate decreased to 9.7% in August of 2020 from an upwardly revised 9.8% in the previous month. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, rose to 32.1% from 31.8% in July, the highest since November of 2018. We expect a contraction of Italian GDP of -10.9% in 2020. We expect a recovery in Italy of 4.6% in 2021.**
- **France's economy shrank by a record -18.9% year-on-year in the second quarter of 2020, entering a steep recession, as coronavirus-induced lockdowns hit activity and consumption. Consumer prices in France stalled 0% on a yearly basis in September of 2020, the lowest rate since May of 2016. On a monthly basis, consumer prices went down -0.5%. The harmonized index was unchanged 0% on a yearly basis and the monthly one fell -0.6%. The unemployment rate in France declined to 7.1% in the second quarter. We expect a decline of GDP growth in France of -9.7% in 2020 and recovery of 6.6% in 2021.**
- **Spain’s GDP shrank by -17.8% in Q2 2020, lower than an -18.5% plunge in the advance estimate and compared to the previous period's -5.2% drop. Still, it is the biggest contraction ever, pushing the economy into a recession, triggered by one of Europe's strictest coronavirus lockdowns. On an annual basis the GDP contracted by a record -21.5% and compared to earlier estimates of a -22.1% fall. Consumer prices in Spain dropped -0.4% year-on-year in September 2020, following a -0.5% fall in August and matching a preliminary estimate. Spain's unemployment rate rose to 15.33% in the second quarter of 2020, the highest since the first quarter of 2018, but below market expectations of 16.70% with the extent of the coronavirus crisis being masked by leaving out people on furlough and those not meeting technical jobless criteria. We expect a decline of GDP in Spain of -13.1% in 2020 and recovery of 4.6% in 2021.**
- **Slovenia's economy shrank -13% year-on-year in the second quarter of 2020, after an upwardly revised -2.5% contraction in the previous period. Consumer prices in Slovenia edged down -0.3% year-on-year in September of 2020, following a- 0.1% drop in the previous month. Slovenia's unemployment rate stood at 9.2% in July of 2020, little-changed from a two-and-a-half-year high of 9.3% reached in May and compared to 7.4% a year ago. We expect a decline of GDP in Slovenia of -10% in 2020 and recovery of 7% in 2021.**
- **Lithuanian economy shrank -5.5% on quarter in the three months to June 2020, worse than an earlier estimate of a -5.1% contraction and compared to a 0.3% growth in the previous period. On a yearly basis, the GDP contracted by -4.2%, the first contraction since the first quarter 2010, reversing a 2.4% expansion in the previous period. Lithuania's annual inflation rate dropped to 0.7% in September of 2020, the least since May, from 1.3% in the previous month. Unemployment Rate in Lithuania increased to 14.10% in September from 13.70% in August of 2020.**
- **Poland's gross domestic product shrank by -8.2% from a year earlier in the second quarter of 2020, the biggest pace of contraction on record, as restriction measures imposed to curb the spread of the coronavirus hit activity and demand. Annual inflation rate in Poland increased to 3.2% in September of 2020 from 2.9% in August. Poland’s unemployment rate came in at 6.1% in August of 2020, unchanged from the previous two months and matching market expectations. It remains the highest jobless rate since February of 2019, as the number of unemployed dropped just 1.5 thousand from a month earlier to 1,028 thousand. A year ago, the jobless rate was lower at 5.2%. We expect a decline of GDP in Poland of -2.8% in 2020 and recovery of 4.8% in 2021.**
- **The Romanian gross domestic product contracted -10.3% year-on-year in the second quarter of 2020, better than the second estimates of a -10.5% contraction, after a 2.4% expansion in the previous period. Romania's annual inflation rate decreased to 2.5% in September 2020, the least since May, from 2.7% in the previous month, and below market estimates of a 2.8% rise. Romania's seasonally adjusted unemployment ticked down to 5.3% in August 2020 from 5.4% in the previous month. We expect a decline of GDP in Romania of -10% in 2020 and recovery of 6% in 2021.**
- **The British economy contracted -21.5% year-on-year in the second quarter of 2020, slightly less than initial estimates of a -21.7% drop. Annual inflation rate in the United Kingdom slowed sharply to 0.2% in August of 2020 from 1% in July. The UK unemployment rate increased to 4.5% in the three months to August 2020 from 4.1% in the previous period. The Brexit negotiations are now heading to a critical point, however, the outcome remains unclear with different scenarios on the table. We maintain our longstanding view that a Brexit trade deal can be concluded. For the UK, we expect a contraction of -9.5% in 2020. We expect a recovery in UK of 6% in 2021.**

- **The Gross Domestic Product in the United States contracted 9% in the second quarter of 2020 over the same quarter of the previous year. Annual inflation rate in the US edged up to 1.4% in September of 2020 from 1.3% in August, in line with expectations and reaching the highest since March. The US unemployment rate declined to 7.9% in September 2020 from 8.4% in the previous month. Similarly to the developments in the euro area, the economic recovery in the United States was also somewhat more robust over the summer months than expected. The more upbeat tone of the data is mainly visible in consumer spending, well-supported by improved labour market conditions and government transfers in the form of expanded unemployment insurance benefits. Retail sales have thus already returned to the level prior to the pandemic and seen solid year-on-year gains since June. Nonetheless, the slowing pace of the month-on-month rise in retail sales recorded in August signals that the overall picture may become less rosy heading into year-end. In other words, while the economy has been resilient in the past months to both a consistently elevated level of coronavirus cases as well as the withdrawal of key income and business support, we assume that the economy will begin to feel these negative effects. As a result, our upward revision to Q3 is followed by a downward revision to Q4 growth, leading, in net terms, to improved annual real GDP growth in 2020 of -4.5%, up from -5.5%. In addition, we have downgraded our growth outlook for 2021 from 4.5% to 4.0%.**
- **The Bank of Japan's Tankan index for big manufacturers' sentiment rose to -27 in the third quarter of 2020 from an eleven-year low of -34 in the previous period, but still came below consensus of -23, as the coronavirus pandemic continued to hit activity and global demand. Japan's consumer price inflation dropped to 0.2% yoy in August from 0.3% in July 2020, as the pandemic continued to hamper consumption excluding food. The unemployment rate in Japan edged up to 3.0% in August 2020 compared to 2.9% in the prior month. It was still the highest jobless rate since May 2017 and is higher than the 2.2% in the same month of the previous month. We expect growth in Japan to contract -5.6% in 2020. We expect a recovery in Japan of 2.6% in 2021.**
- **China, remains on a remarkable post-Covid-19 recovery path. Sentiment indicators on both the manufacturing and services sides of the economy remain well above the 50-level that signals expansion. Industrial production has fully rebounded from February lows and, having grown 5.6% yoy in August, shows few signs of slowing. Retail trade has been slower to recover but still returned to positive year-over-year growth of 0.5% in August. More recent trade data confirm the positive picture. China's annual inflation rate eased to 1.7% in September 2020 from 2.4% in the previous month. Unemployment Rate in China decreased to 5.60% in August from 5.70% in July of 2020. Given the relative strength of high frequency data of late and the fact that the pandemic there remains mostly under control, we have revised up Chinese GDP growth to 2.0% in 2020 and 8.2% in 2021.**
- **Turkey's economy shrank -9.9% year-on-year in the second quarter of 2020, after a downwardly revised 4.4% growth in the previous period. It was the sharpest contraction since the first quarter of 2019, as the coronavirus pandemic hit the economy. On a seasonally adjusted quarterly basis, the economy shrank -11%, the most on record, following a downwardly revised -0.1% fall in the previous quarter. Turkey's consumer price inflation rate stood at 11.75% year-on-year in September 2020, little-changed from the previous two months. The unemployment rate in Turkey fell to 13.4% in July of 2020 from 13.9% in the corresponding month of the previous year. We expect a decline of GDP in Turkey of -4% in 2020 and recovery of 5% in 2021.**
- **The coronavirus (COVID-19) pandemic has dramatically affected global and euro area economic activity since early 2020. Following a significant drop in the first quarter, euro area real GDP fell by 11.8% in the second quarter, although this was less than expected in the June 2020 Eurosystem staff projections. Thereafter, the baseline rests on the key assumption of a partial success in containing the virus, with some resurgence in infections over the coming quarters necessitating continued containment measures, albeit less so than in the initial wave, until a medical solution becomes available by mid-2021. These containment measures, together with elevated uncertainty and worsened labour market conditions, are expected to continue to weigh on supply and demand. Nevertheless, substantial support from monetary, fiscal and labour market policies, should maintain incomes and limit the economic scars which may follow the resolution of the health crisis. Overall, HICP inflation is expected to increase from 0.3% in 2020 to 1.0% and 1.3% in 2021 and 2022, respectively.**

- **The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present is to respond to the economic and financial impact of the Covid-19 pandemic. Monetary Policy Committee voted to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at GBP 745 billion. The outlook for the economy remains unusually uncertain. Recent domestic economic data have been a little stronger than the Committee expected at the time of the August Report, although, given the risks, it is unclear how informative they are about how the economy will perform further out. The Monetary Policy Committee will keep under review the range of actions that could be taken to deliver its objectives. The Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.**

- **The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee decided to keep the target range for the federal funds rate at 0 to 0.25% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.**

- **The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent 0%. The Bank Of Japan will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2 trillion and about JPY 3 trillion, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of JPY 7.5 trillion for each asset.**

- **China's central bank is reluctant to release unlimited liquidity into the financial system. China will not follow Western economies by undertaking a large-scale monetary loosening, but will instead look to consumer price stability and exchange rates to help the economy recover. The central bank is now hoping to keep consumer prices, the CNY and exchange rates stable with China widely expected to report positive growth for the year. An appreciating yuan, despite the lack of full convertibility, could lure capital inflows into yuan assets, and Beijing has been taking measures to encourage such portfolio inflows. Its solid performance has already increased market enthusiasm for the yuan, prompting capital to flow into the domestic markets and the value of the CNY to rise by about 4% compared with the US dollar in the first nine months of the year.**

- **The Monetary Policy Committee (the Committee) has decided to increase the policy rate (one-week repo auction rate) from 8.25% to 10.25%. Pandemic-related supply-side inflationary factors were expected to gradually phase out during the normalization process and demand-driven disinflationary effects were expected to become more prevalent. Yet, as a result of fast economic recovery with strong credit momentum, and financial market developments, inflation followed a higher-than-envisaged path. The Committee assessed that the tightening steps taken since August should be reinforced in order to contain inflation expectations and risks to the inflation outlook. Accordingly, the Committee decided to increase the policy rate by 200 basis points to restore the disinflation process and support price stability. The Committee assesses that maintaining a sustained disinflation process is a key factor for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, monetary stance will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process.**

- **The Brent price decreases 0.01 USD/BBL or 0.02% to 42.920 USD/BBL on Monday, October 19. The price of crude oil increases 0.07 USD/BBL or 0.17% to 40.940 USD/BBL. Brent crude futures fell over 0.02% to trade around 42.9 USD/BBL on 19.10.2020, amid persistent concerns about fuel demand recovery as the number of coronavirus infections continue to rise worldwide and led some countries to impose new restrictions including Italy, the UK and Germany. Traders await the outcome of today's OPEC+ Joint Ministerial Monitoring Committee meeting. WTI crude rose over 0.17% to trade around 40.9 USD/BBL on 19.10.2020.**

- **At the beginning of October, the development of prices on the international stock markets was dynamic and quite contradictory. Following the sharp rise at the end of September due to the continuing moisture deficit in the EU and the Black Sea region, grain prices have adjusted downwards, depressed by declining demand and the slowdown in the global economy. Despite the unchanged forecast of the International Grains Council for wheat production, we are again witnessing a dynamic reversal of cereal prices, with the prevailing attitudes towards continuing the upward trend. Wheat in the US for another week rose by USD 12.00 to 277.00 USD / ton, this in France added EUR 4.00 to 207.00 EUR / ton. Prices in both Ukraine and Russia continue to move up from plus USD 4.00 and USD 5.00 to 247.00 and 248.00 USD / ton. For corn, low US inventory data raised prices by another USD 5.00 in Chicago to 215.00 USD / ton, and USD 4.00 in Ukraine to 212.00 USD / ton. Barley in Ukraine remained at the old price of 205.00 USD / ton, and in France the change is also upward with a plus of EUR 8.00 to 192.00 EUR / ton.**

- **As of October 20, 2020 The PCR tests performed in Bulgaria are 613396. The number of confirmed cases is 30527 (including 12366 active cases). The number of hospitalized citizens is 1562 (including 88 people in intensive care units. The total number of cured citizens is 17153. The total number of dead is 1008 people.**
- **In January – August 2020 the current and capital account was positive amounting to EUR 1,840.7 million (3.2% of GDP), compared with a surplus of EUR 2,348.5 million (3.9% of GDP) in January – August 2019. In January – August 2020 the current account was positive and amounted to EUR 1,164.1 million (2.1% of GDP), compared with a surplus of EUR 1,731.7 million (2.9% of GDP) in January – August 2019. . In January – August 2020 the balance on goods was negative amounting to EUR 735.1 million (1.3% of GDP), compared with a deficit of EUR 1,797.9 million (3% of GDP) in January – August 2019. Current Account to GDP in Bulgaria is expected to reach 1% in 2020. In the long-term, the Bulgaria Current Account to GDP is projected to trend around 3% in 2021 and 0.6% in 2022.**
- **In January-August 2020, the net flows of foreign direct investments in Bulgaria recorded a positive value of EUR 365.9 million (0.6% of GDP) in January – July 2020, dropping by EUR 637.1 million from January – August 2019 (positive value of EUR 1,003 million, 1.7% of GDP.**
- **BNB significantly revised the forecast decline in gross domestic product for 2020 from 8.5% to 5.5% in real terms. The forecast of the International Monetary Fund is a contraction of 4%, and of the credit rating agency Moody's - by 3.5%, the Ministry of Finance expects a decline of 3% in 2020.**
- **In September 2020, the total business climate indicator increases by 0.8 percentage pointsto 9.3 index points compared to August as a result of the improved managers' opinions in the retail trade. Business climate indicator in Bulgaria is expected to be 15.00 index points by the end of 2020. Looking forward, we estimate Business Confidence in Bulgaria to stand at 21.00 in 2021 and 23.00 index points in 2022.**
- **According to the preliminary data in August 2020 the Industrial Production Index, seasonally adjusted, increased by 0.7% as compared to July 2020. In August 2020 the working day adjusted Industrial Production Index fell by 5.7% in comparison with the same month of 2019.Industrial Production in Bulgaria is expected to decline by – 6% yoy. Looking forward, we estimate Industrial Production in Bulgaria to stand at 5.4% in 2021 and 3.2% in 2022.**
- **According to the preliminary seasonally adjusted data in August 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 2.6% compared to the previous month. In August 2020, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' fell by 12.2% in comparison with the same month of the previous year. Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.**
- **According to the preliminary data, in August 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.0% below the level of the previous month. In August 2020 the working day adjusted index of production in construction decreased by 4.9% in comparison with the same month of 2019.Construction Output in Bulgaria is expected to be -2.0% yoy in 2020. Looking forward, we estimate Construction Output in Bulgaria to stand at 5.5% in 2021 and 5% in 2022.**
- **In August 2020, during the continuing epidemic situation the total revenues from nights spent in August 2020 reached 198.7 million BGN or by 47.4% less compared to August 2019.**
- **The consumer price index for September 2020 compared to August 2020 is 99.4%, ie monthly inflation is minus 0.6%. Inflation since the beginning of the year (September 2020 compared to December 2019) is minus 1.1%, and annual inflation for September 2020 compared to September 2019 is 0.9%. The average annual inflation for the period October 2019 - September 2020 compared to the period October 2018 - September 2019 is 2.3%. Inflation Rate in Bulgaria is expected to be 0.5% in 2020. Looking forward, we estimate Inflation Rate in Bulgaria to stand at 2.2% in 2021 and 2% in 2022.**
- **According to the Employment Agency, the unemployment rate in September 2020 was 7.2% or 0.3 percentage points less than the previous month and 1.9 percentage points more than in September 2019.Registered Unemployment Rate in Bulgaria is expected to be 9.0% in 2020. Looking forward, we estimate Unemployment Rate in Bulgaria to stand at 8% in 2021 and 7% in 2022.**
- **The CFP budget balance on a cash basis as of 31 August 2020 is positive, amounting to BGN 1,616.0 million and is formed by an excess of revenues over expenditures under the national budget of BGN 1,076.1 million as well as under EU funds of BGN 539.9 million. Fiscal reserve as of 31.08.2020 is BGN 9.47 billion, including BGN 9.39 billion fiscal reserve deposits in BNB and banks and BGN 0.08 billion receivables under the EU Funds for certified expenditure, advance payments, etc.Government Budget in Bulgaria is expected to reach -3.0% of GDP by the end of 2020. In the long-term, the Bulgaria Government Budget is projected to trend around -1.0% of GDP in 2021 and 0% in 2022.**

- **Moody's has upgraded Bulgaria's long-term ratings in foreign and local currency to Baa1, with a stable outlook.**
- **In August 2020 the assets of the banking system increased by 0.9% mom and by 7.2% yoy, respectively to BGN 118.8 billion as a result of the increase in deposits and equity. The gross loan portfolio of clients of the banking system increased by 0.3% on a monthly basis and by 9.1% yoy to BGN 67.4 billion. As of the end of August 2020, funds attracted from customers amounted to BGN 95.7 billion and increased by 0.9% mom and by 8.6% yoy, respectively.**

GLOBAL TRENDS

Advanced countries' economies

Eurozone

In the euro area, the economic recovery progressed further in the third quarter, following a record fall in the previous three months. Available hard data suggest a stronger rebound than initially envisaged with a more upbeat picture in the retail sector. Meanwhile, euro area industrial output recovery kept a solid pace in August, though climbing back from a very low base and still lagging behind the retail sector. After all, the industrial sector was struggling hard from an adverse mix of a deteriorating external environment (like the US-China trade war and the Brexit chaos) and the structural difficulties in the automotive industry, even before the outbreak of the pandemic. In terms of the level, the euro area industrial output has only reached slightly above 90% of the pre-pandemic level. Despite the clear recovery trend in the third quarter of 2020, the September forward-looking sentiment indicators suggest that the final months of this year will be more challenging. The euro area composite PMI dropped to 50.1 in September compared to 51.9 a month earlier, signalling only marginal growth in activity. There is an important divergence to be noted, though. While the manufacturing sector picked up to a 31-month high, the services sector plunged sharply below the 50-threshold marking contraction territory.The Eurozone consumer prices dropped 0.3% from a year earlier in September 2020, the steepest decline since April 2016. Prices fell for both energy products (-8.2% vs -7.8% in August) and non-energy industrial goods (-0.3% vs -0.1%). At the same time, services inflation slowed to 0.5% from 0.7%. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, eased further to 0.2%, the lowest on record. The Euro Area seasonally-adjusted unemployment rate increased to 8.1% in August 2020 from an upwardly revised 8% in the previous month and matching market expectations. It was the highest jobless rate since July 2018, as the coronavirus pandemic hit the labour market. Among the bloc's largest economies, the highest jobless rates were recorded in Spain (16.2%), Italy (9.7%), and France (7.5%) while the lowest was observed in Germany (4.4%). The youth unemployment rate, measuring job seekers aged 15 to 24, went up to 18.1% from 17.8% in July. Considering the European Union as a whole, the jobless rate was at 7.4% in July, up from 7.3% in the prior month. **All in all, while the fundamental picture in the euro area remains unchanged, an improved Q3 growth outlook, and a downgraded Q4 growth lead, on balance, to slightly less negative real GDP growth of -8.0% in 2020, upwardly revised from -8.3% last month. The negative overhang from this year mechanically translates into somewhat lower but still solid annual growth of 4.9% in 2021, marked by ongoing fiscal support both from national as well as EU-level policy initiatives.**

Italy

Italy's economy shrank by a record 18.0% year-on-year in the second quarter of 2020, revised data showed, as coronavirus-induced lockdowns hit activity and consumption. Italy's GDP shrank by 13.0% on quarter in the three months to June 2020, revised figures showed. That was the steepest pace of contraction since comparable series began in the 1960s as the country was one of the hardest hit by the coronavirus pandemic. The government was forced to introduce rigid restriction measures from March 9th, which were only gradually eased from May 4th. Italy's consumer prices went down -0.6% from a year earlier in September 2020, compared to an initial estimate of a 0.5% drop, suggesting that domestic demand remained subdued amid the coronavirus crisis. The latest price decline matched a record fall seen back in January 2015, with main downward pressure coming from energy products (-9.9% vs -10.1% in August), transport services (-1.6% vs -2.3%), recreational, cultural and personal care services (-0.4% vs 0.1%) and durable goods (-0.1% vs 0.3%). n a monthly basis, consumer prices decreased -0.7%, more than initially thought. Italy's unemployment rate decreased to 9.7% in August of 2020 from an upwardly revised 9.8% in the previous month and well below market expectations of 10.1%. The number of unemployed people fell by 23 thousand to 2.467 million and employment rose by 83 thousand to 22.929 million. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, rose to 32.1% from 31.8% in July, the highest since November of 2018. **We expect a contraction of Italian GDP of -10.9% in 2020. We expect a recovery in Italy of 4.6% in 2021.**

Spain

France

France's economy shrank by a record -18.9% year-on-year in the second quarter of 2020, entering a steep recession, as coronavirus-induced lockdowns hit activity and consumption. The French economy shrank at a record -13.8% on quarter in the second quarter of 2020, in line with preliminary estimates, and following a -5.9% fall in the previous period. The economic recession deepened as the COVID-19 outbreak took a huge toll on the economy, with non-essential activities being closed between mid-March and the beginning of May. Household spending (-11.5% vs -11%) and government consumption (-10.3% vs -8%) fell more than anticipated while investment shrank less (-10.3% vs -17.8%). Also, the drag from foreign trade was higher (-2.5% vs -2.3%) as exports fell at an unrevised 25% and imports shrank less (-16.4% vs -17.3%). Consumer prices in France stalled 0% on a yearly basis in September of 2020, revised lower from a preliminary estimate of a 0.1% rise and the lowest rate since May of 2016. On a monthly basis, consumer prices went down -0.5%, in line with the preliminary estimate, and the biggest monthly drop since January of 2016. The harmonized index was unchanged 0% on a yearly basis and the monthly one fell -0.6%. The unemployment rate in France declined to 7.1% in the second quarter, the lowest level since the three months to June 1983 and below market expectations of 8.3%, due to a sharp fall in the number of jobless persons declaring themselves actively looking for work during the period of lockdown. The unemployment rate fell sharply for people aged 25 to 49 years (-0.8 points) and those aged 50 and over (-1.0 points), but increased strongly for people aged 15-24 years (+1.8 points). **We expect a decline of GDP growth in France of -9.7% in 2020 and recovery of 6.6% in 2021.**

Spain

Spain's GDP shrank by -17.8% on quarter in the three months to June of 2020, lower than an -18.5% plunge in the advance estimate and compared to the previous period's -5.2% drop. Still, it is the biggest contraction ever, pushing the economy into a recession, triggered by one of Europe's strictest coronavirus lockdowns. Household consumption slumped -20.4% (vs -6.8% in Q1) and fixed investment tumbled -22.1% (vs -4.8%). On an annual basis the GDP contracted by a record -21.5% and compared to earlier estimates of a -22.1% fall. Consumer prices in Spain dropped -0.4% year-on-year in September 2020, following a -0.5% fall in August and matching a preliminary estimate. The harmonized index of consumer prices went down -0.6% over a year earlier, the same as in the prior month, in line with a preliminary estimate. On a monthly basis, consumer prices increased 0.2% and the harmonized index advanced 0.4%, both matching a preliminary estimate. Spain's unemployment rate rose to 15.33% in the second quarter of 2020, the highest since the first quarter of 2018, but below market expectations of 16.70% with the extent of the coronavirus crisis being masked by leaving out people on furlough and those not meeting technical jobless criteria. **We expect a decline of GDP in Spain of -13.1% in 2020 and recovery of 4.6% in 2021.**

Slovenia

Slovenia's economy shrank -13% year-on-year in the second quarter of 2020, after an upwardly revised -2.5% contraction in the previous period. The GDP fell for the second consecutive quarter and at the sharpest pace on record, mainly due to the negative impact of the country's coronavirus-induced lockdown. Consumer spending declined -16.6%, much faster than a -5.8% contraction in Q1 2020; and gross fixed capital formation slipped -16.7%, after decreasing -5.5%. Meanwhile, government expenditure rose 1.5%, slowing from a 4.9% increase in the previous period. Regarding net trade, exports plunged -24.5% (vs -1.9% in Q1) and imports slumped -25% (vs -1.9% in Q1). On a seasonally adjusted quarterly basis, the economy shrank at a record -9.6%, following an upwardly revised -4.8% contraction in the prior period. Consumer prices in Slovenia edged down -0.3% year-on-year in September of 2020, following a- 0.1% drop in the previous month. The largest downward impact came from lower prices of petroleum products. On a monthly basis, consumer prices were down -0.4%, after being flat 0% in the previous month. Slovenia's unemployment rate stood at 9.2% in July of 2020, little-changed from a two-and-a-half-year high of 9.3% reached in May and compared to 7.4% a year ago. **We expect a decline of GDP in Slovenia of -10% in 2020 and recovery of 7% in 2021.**

Lithuania

Lithuanian economy shrank -5.5% on quarter in the three months to June 2020, worse than an earlier estimate of a -5.1% contraction and compared to a 0.3% growth in the previous period. This was the second straight quarter of contraction in GDP and the steepest fall since the first quarter 2009. On a yearly basis, the GDP contracted by -4.2%, the first contraction since the first quarter 2010, reversing a 2.4% expansion in the previous period. Lithuania's annual inflation rate dropped to 0.7% in September of 2020, the least since May, from 1.3% in the previous month. On a monthly basis, consumer prices rose 0.4% in September, after a -0.2% fall in August. Unemployment Rate in Lithuania increased to 14.10% in September from 13.70% in August of 2020.

Poland

Poland's gross domestic product shrank by -8.2% from a year earlier in the second quarter of 2020, the biggest pace of contraction on record, as restriction measures imposed to curb the spread of the coronavirus hit activity and demand. Household consumption tumbled 6.3% and fixed investment dropped 1.8%, while government spending grew by 0.8% for the second consecutive period. Net external demand contributed positively to the GDP as imports fell more than exports. On a quarterly basis, the economy shrank by a record -8.9%, entering a recession. Annual inflation rate in Poland increased to 3.2% in September of 2020 from 2.9% in August, and in line with the preliminary estimate. On a monthly basis, consumer prices increased 0.2% after a -0.1% drop in August. Poland's unemployment rate came in at 6.1% in August of 2020, unchanged from the previous two months and matching market expectations. It remains the highest jobless rate since February of 2019, as the number of unemployed dropped just 1.5 thousand from a month earlier to 1,028 thousand. A year ago, the jobless rate was lower at 5.2%. **We expect a decline of GDP in Poland of -2.8% in 2020 and recovery of 4.8% in 2021.**

Romania

The Romanian gross domestic product contracted -10.3% year-on-year in the second quarter of 2020, better than the second estimates of a -10.5% contraction, after a 2.4% expansion in the previous period. This was the first contraction in the GDP since the fourth quarter 2010 and the steepest contraction since the series began in the first quarter 1996, as household consumption tumbled (-13.7% vs 3.8% in Q1) while both exports (-28.5% vs -5.5%) and imports (-22% vs 0.8%) slumped. Also, government expenditure shrank (-1.7% vs 0.7%). On a seasonally adjusted quarterly basis, the economy shrank -11.9%, the most since the data began in the second quarter 1995, after a flat reading 0% in the first quarter. Romania's annual inflation rate decreased to 2.5% in September 2020, the least since May, from 2.7% in the previous month, and below market estimates of a 2.8% rise. On a monthly basis, consumer prices edged down -0.1% in September, the first monthly decline since July last year, after a 1.5% rise in August. Romania's seasonally adjusted unemployment ticked down to 5.3% in August 2020 from 5.4% in the previous month. **We expect a decline of GDP in Romania of -10% in 2020 and recovery of 6% in 2021.**

Great Britain

The British economy contracted -21.5% year-on-year in the second quarter of 2020, slightly less than initial estimates of a -21.7% drop. Still, it is the biggest contraction since comparable records began in 1956 and the second consecutive quarterly decline in GDP, officially entering a recession, amid a widespread disruption to economic activity due to the coronavirus pandemic and the government's efforts to contain it. Fixed investment fell -26.1%, below a -27% drop in the preliminary estimates while household spending sank at a faster -26.2% (vs -25.2%). The British economy shrank 19.8% on quarter in the three months to June of 2020, slightly less than a preliminary estimate of a 20.4% drop. Still, it remains the biggest contraction ever and the second consecutive quarterly decline in GDP, officially entering a recession. Annual inflation rate in the United Kingdom slowed sharply to 0.2% in August of 2020 from 1% in July, compared to forecasts of a flat reading 0%. It is the lowest reading since December of 2015. On a monthly basis, consumer prices fell -0.4%, the biggest drop since January of 2019. The UK unemployment rate increased to 4.5% in the three months to August 2020 from 4.1% in the previous period and above market expectations of 4.3%. It was the highest jobless rate since the three months to May 2017, as the coronavirus pandemic hit the labour market. The Brexit negotiations are now heading to a critical point, however, the outcome remains unclear with different scenarios on the table. Much work still needs to be done to overcome remaining political obstacles to a deal. Certainly, some flexibility and even creative measures to manage a complicated balancing of political and economic goals is instrumental to avoid an outcome neither wants. At the same time, significant concessions will be needed by both sides. We maintain our longstanding view that a Brexit trade deal can be concluded. **For the UK, we expect a contraction of -9.5% in 2020. We expect a recovery in UK of 6% in 2021.**

USA

The Gross Domestic Product (GDP) in the United States contracted 9% in the second quarter of 2020 over the same quarter of the previous year. It reflects mainly an upward revision to personal consumption expenditures (PCE) that was partly offset by downward revisions to exports and to nonresidential fixed investment. Still, it remains the biggest contraction ever, pushing the economy into a recession as the coronavirus pandemic forced many businesses including restaurants, cafes, stores and factories to close and people to stay at home, hurting consumer and business spending. Annual inflation rate in the US edged up to 1.4% in September of 2020 from 1.3% in August, in line with expectations and reaching the highest since March. Inflation has been rising consistently since hitting 0.1% in May, the lowest since September of 2015, due to the coronavirus crisis. The US unemployment rate declined to 7.9% in September 2020 from 8.4% in the previous month and below market expectations of 8.2%. Similarly to the developments in the euro area, the economic recovery in the United States was also somewhat more robust over the summer months than expected. The more upbeat tone of the data is mainly visible in consumer spending, well-supported by improved labour market conditions and government transfers in the form of expanded unemployment insurance benefits. Retail sales have thus already returned to the level prior to the pandemic and seen solid year-on-year gains since June. These have mostly reflected strong demand for goods at the expense of a more muted recovery in services as households have shifted away from 'social consumption' categories such as restaurants or entertainment, where social distancing measures are difficult to maintain. Nonetheless, the slowing pace of the month-on-month rise in retail sales recorded in August signals that the overall picture may become less rosy heading into year-end. In other words, while the economy has been resilient in the past months to both a consistently elevated level of coronavirus cases as well as the withdrawal of key income and business support, we assume that the economy will begin to feel these negative effects. **We project improved annual real GDP growth in 2020 of -4.5%, up from -5.5%. In addition, we have downgraded our growth outlook for 2021 from 4.5% to 4.0%.**

Japan

The Bank of Japan's Tankan index for big manufacturers' sentiment rose to -27 in the third quarter of 2020 from an eleven-year low of -34 in the previous period, but still came below consensus of -23, as the coronavirus pandemic continued to hit activity and global demand. The au Jibun Bank Japan Manufacturing PMI was revised higher to 47.7 in September 2020, from a flash reading of 47.3 and compared to a final 47.2 in the prior month. The latest reading was the highest since February, as output fell at the weakest pace in seven months. The au Jibun Bank Japan Services PMI was revised higher to 46.9 in September 2020, from a preliminary estimate of 45.6 and compared to August's final 45.0. The latest figure signaled a reduction in activity, although one that was the slowest in the current eight-month sequence of contraction. Finally, sentiment strengthened to a nine-month high, as firms hope for a recovery in demand in both domestic and foreign markets and the complete easing of lockdown restrictions over the coming year. Japan's consumer price inflation dropped to 0.2% yoy in August from 0.3% in July 2020, as the pandemic continued to hamper consumption excluding food. On a monthly basis, consumer prices edged down -0.1% after edging up 0.2%. Core consumer prices, which exclude fresh food, fell a sharp -0.4% after remaining unchanged in the two previous months. The unemployment rate in Japan edged up to 3.0% in August 2020 compared to 2.9% in the prior month, matching market expectations. It was still the highest jobless rate since May 2017 and is higher than the 2.2% in the same month of the previous month. **We expect growth in Japan to contract -5.6% in 2020. We expect a recovery in Japan of 2.6% in 2021.**

China

China, remains on a remarkable post-Covid-19 recovery path. More recent trade data confirm the positive picture. Exports grew at a still strong 8.7% yoy in September following growth of 10.4% yoy and 11.6% yoy in July and August. The strong export picture for China through the third quarter likely reflects the reopening of global economies and strong demand for both medical equipment (PPE) and tech products. Imports also picked up pace in September, growing 11.6% yoy, but it is likely too soon to say that this reflects a broader rebound in domestic demand in China. Indeed, the major risk to the Chinese recovery remains the fact that domestic demand and consumption has lagged. This partly reflects long standing structural issues in the Chinese economy (such as a weak social safety net and demographics), but also reflects the Chinese authorities' focus on infrastructure and investment to boost growth during slowdowns. China's annual inflation rate eased to 1.7% in September 2020 from 2.4% in the previous month and slightly below market expectations of 1.8%. On a monthly basis, consumer prices edged up 0.2% in September, the lowest in three months, following a 0.4% gain in August. Unemployment Rate in China decreased to 5.60% in August from 5.70% in July of 2020. **Given the relative strength of high frequency data of late and the fact that the pandemic there remains mostly under control, we have revised up Chinese GDP growth to 2.0% in 2020 and 8.2% in 2021.**

Turkey

Turkey's lira traded around 7.9 per USD on 20.10.2020, easing from the previous week's all-time low of 7.96 against the greenback, amid expectations that the central bank will be hiking interest rates for the second straight time this week as policymakers try to support price stability amid a gradual recovery in economic activity. The lira hit a series of record lows against the dollar recently, amid geopolitical concerns, depleting foreign exchange reserves, inflationary pressures and a sizable current account deficit. Investors fear that the Azerbaijan-Armenia conflict over the disputed mountain territory called Nagorno-Karabakh could drag Turkey into another regional conflict, while Greece issued a new demand for EU sanctions on Ankara after Turkey said that its ship would carry out a seismic survey in the eastern Mediterranean. Turkey's economy shrank -9.9% year-on-year in the second quarter of 2020, after a downwardly revised 4.4% growth in the previous period and compared with market expectations of -11.8% plunge. It was the sharpest contraction since the first quarter of 2019, as the coronavirus pandemic hit the economy. Household consumption shrank -8.6%, following a 4.5% expansion in the first quarter of the year; and government spending contracted -0.8%, after growing 3.2%. Additionally, fixed investment slumped -6.1%, following a -0.3% drop in the prior period. Exports plunged -35.3% (vs- 0.3% in Q1) and imports declined at a softer -6.3% (vs -21.9% in Q1). On a seasonally adjusted quarterly basis, the economy shrank -11%, the most on record, following a downwardly revised -0.1% fall in the previous quarter. Turkey's consumer price inflation rate stood at 11.75% year-on-year in September 2020, little-changed from the previous two months and compared to market expectations 12.13%, as the lira hit multiple record lows. The unemployment rate in Turkey fell to 13.4% in July of 2020 from 13.9% in the corresponding month of the previous year. **We expect a decline of GDP in Turkey of -4% in 2020 and recovery of 5% in 2021.**

Policy of the central banks

European Central Bank (ECB)

ECB staff macroeconomic projections for the euro area, September 2020

The coronavirus (COVID-19) pandemic has dramatically affected global and euro area economic activity since early 2020. Following a significant drop in the first quarter, euro area real GDP fell by 11.8% in the second quarter, although this was less than expected in the June 2020 Eurosystem staff projections. This unprecedented collapse in activity reflects the adverse impact of strict lockdown measures implemented in most euro area countries around mid-March. The impact was subsequently tempered by the gradual relaxation of these measures from May onwards as well as by behavioral changes in response to the pandemic. Real-time high frequency indicators started to rebound in May. This suggests a strong yet incomplete rebound of real GDP, which is projected to grow by 8.4% in the third quarter. Thereafter, the baseline rests on the key assumption of a partial success in containing the virus, with some resurgence in infections over the coming quarters necessitating continued containment measures, albeit less so than in the initial wave, until a medical solution becomes available by mid-2021. These containment measures, together with elevated uncertainty and worsened labour market conditions, are expected to continue to weigh on supply and demand. Nevertheless, substantial support from monetary, fiscal and labour market policies, all of which have been strengthened since the June 2020 Eurosystem staff projections, should maintain incomes and limit the economic scars which may follow the resolution of the health crisis. Such policies are also assumed to be successful in averting large financial amplification channels. Under these assumptions, real GDP in the euro area is projected to fall by 8.0% in 2020 and to rebound by 5.0% in 2021 and by 3.2% in 2022. By the end of the projection horizon, the level of real GDP would stand 3½% below its expected level in the pre-COVID-19 December 2019 Eurosystem staff projections. Turning to inflation, in the short term the previous collapse in oil prices, the appreciation of the euro and a temporary reduction in the VAT rate in Germany imply euro area headline HICP inflation around zero for the coming months. In 2021 base effects in the energy component and, to a lesser extent, the expected reversal of the VAT rate cut in Germany subsequently cause a mechanical rebound. HICP inflation excluding energy and food is projected to decline until the end of this year. Disinflationary effects are expected to be broad-based across the services and goods sectors, as demand remains weak. However, continued upward cost pressures related to supply side limitations are expected to partly offset these effects. Over the medium term, inflation is projected to increase: oil prices are assumed to pick up and demand should recover, despite diminishing upward pressures from adverse supply effects linked to the pandemic and despite the appreciation of the euro. Overall, HICP inflation is expected to increase from 0.3% in 2020 to 1.0% and 1.3% in 2021 and 2022, respectively.

Bank of England (BoE)

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting on 17 September 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 economic and financial impact of the Covid-19 pandemic. At its meeting ending on 16 September 2020, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at GBP 745 billion. The outlook for the economy remains unusually uncertain. The Monetary Policy Committee's central projections in the August Monetary Policy Report assumed that the direct impact of Covid-19 on the economy would dissipate gradually. They were also conditioned on the assumption of an immediate, orderly move to a comprehensive free trade agreement with the European Union on 1 January 2021. Conditional on those assumptions, UK GDP was projected to continue to recover. Activity was also supported by substantial fiscal and monetary policy actions. Nonetheless, the recovery in demand took time as health concerns were expected to drag on activity. The unemployment rate was projected to rise markedly, consistent with a material degree of spare capacity, before declining gradually. Conditioned on prevailing market yields, CPI inflation was expected to be around 2% in two years' time. Recent domestic economic data have been a little stronger than the Committee expected at the time of the August Report, although, given the risks, it is unclear how informative they are about how the economy will perform further out. The recent increases in Covid-19 cases in some parts of the world, including the United Kingdom, have the potential to weigh further on economic activity, albeit probably on a lesser scale than seen earlier in the year. As in the August Report, there remains a risk of a more persistent period of elevated unemployment than in the central projection. The Committee will continue to monitor the situation closely and stands ready to adjust monetary policy accordingly to meet its remit. The Monetary Policy Committee will keep under review the range of actions that could be taken to deliver its objectives. The Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.
At this meeting, the Committee judged that the existing stance of monetary policy remains appropriate.

USA Federal Reserve

Federal Reserve issues FOMC statement September 16, 2020.
The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals. The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 0.25% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses. In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Bank of Japan (BoJ)

September 17, 2020 Bank of Japan Statement on Monetary Policy

At the Monetary Policy Meeting held September 17, 2020, the Policy Board of the Bank of Japan decided upon the following.

(1) Yield curve control The Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent 0%.

(2) Guidelines for asset purchases. With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines.

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

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

PBoC

China's central bank is reluctant to release unlimited liquidity into the financial system. China will not follow Western economies by undertaking a large-scale monetary loosening, but will instead look to consumer price stability and exchange rates to help the economy recover, the central bank governor has said. "Implementing a normal monetary policy, i.e. a positive interest rate and a rising yield curve, is good to provide incentives for market entities and promote sustainable development of the economy and society. It will also be good to improve the competitiveness of yuan assets, and thus help us utilize both domestic and external markets" governor Yi Gang wrote in an article published by China Finance magazine on 10.10.2020. "We need to maintain reasonable liquidity, money supply and aggregated financing, but must say no to a flood of money at the same time. Instead, we should target growth near potential productivity and avoid economic fluctuations," Yi wrote. China's benchmark one-year deposit rate was kept unchanged at 1.5%, while the benchmark one-year loan prime rate (LPR) has only fallen by 0.3% so far this year and stood steady for the fifth straight month at level 3.85%. Yi warned that the stimulus adopted by major developed economies will see diminishing effects and will be hard to quit. "In the long run, it will inflate debt and asset bubbles, distort economic structures, influence income distribution and increase systematic financial risk," he wrote. The central bank is now hoping to keep consumer prices, the CNY and exchange rates stable with China widely expected to report positive growth for the year. An appreciating yuan, despite the lack of full convertibility, could lure capital inflows into yuan assets, and Beijing has been taking measures to encourage such portfolio inflows. Its solid performance has already increased market enthusiasm for the yuan, prompting capital to flow into the domestic markets and the value of the CNY to rise by about 4% compared with the US dollar in the first nine months of the year. "A successful economy must keep its currency stable. This not only includes stable domestic consumer prices, but also basic stability in exchange rates," Yi said. The governor said the central bank has largely abandoned forex market intervention and will insist on a market-oriented exchange rate mechanism. "The market-orientation and flexibility of CNY exchange rates has improved significantly. Market expectations are stable, while forex market functions orderly," he added.

Central Bank of Turkey

24 September 2020 Central Bank of Turkey Press Release on Interest Rates

The Monetary Policy Committee (the Committee) has decided to increase the policy rate (one-week repo auction rate) from 8.25% to 10.25%.Economic activity is recovering markedly in the third quarter owing to gradual steps towards normalization and the strong credit impulse. Recent monetary and fiscal measures that aim to contain negative effects of the pandemic on the Turkish economy contributed to financial stability and economic recovery by supporting the potential output of the economy. The normalization trend recently observed in commercial loans has started in consumer loans as well. The recent upturn in imports, which has resulted from deferred demand as well as pandemic-related liquidity and credit policies, is expected to moderate with the phasing out of these policy measures. Although tourism revenues declined due to the pandemic, easing of travel restrictions has started to contribute to a partial improvement. The recovery in exports of goods, relatively low levels of commodity prices and the level of the real exchange rate will support the current account balance in the upcoming periods.

Pandemic-related supply-side inflationary factors were expected to gradually phase out during the normalization process and demand-driven disinflationary effects were expected to become more prevalent. Yet, as a result of fast economic recovery with strong credit momentum, and financial market developments, inflation followed a higher-than-envisaged path. The Committee assessed that the tightening steps taken since August should be reinforced in order to contain inflation expectations and risks to the inflation outlook. Accordingly, the Committee decided to increase the policy rate by 200 basis points to restore the disinflation process and support price stability.

International commodity prices

Oil prices

The Brent price decreases 0.01 USD/BBL or 0.02% to 42.920 USD/BBL on Monday, October 19. For the week, the increase was 2.88%. The price of crude oil increases 0.07 USD/BBL or 0.17% to 40.940 USD/BBL on Monday, October 19. For the week, the increase was 3.83%.

Brent crude futures fell over 0.02% to trade around 42.9 USD/BBL on 19.10.2020, amid persistent concerns about fuel demand recovery as the number of coronavirus infections continue to rise worldwide and led some countries to impose new restrictions including Italy, the UK and Germany. Traders await the outcome of today's OPEC+ Joint Ministerial Monitoring Committee meeting. WTI crude rose over 0.17% to trade around 40.9 USD/BBL on 19.10.2020. Putting a floor under prices were hopes of further stimulus in the US as House Speaker Nancy Pelosi set a Tuesday deadline for the White House to agree on a fiscal package. Investors now closely monitor the Joint Ministerial Monitoring Committee meeting of the OPEC+ group later in the day. The JMMC may decide whether it will delay plans reduce its current supply cuts of 7.7 million barrels per day by 2 million barrels per day starting in January 2021.

Agriculture prices

Sofia Commodity Exchange Review 13 – 16.10.2020

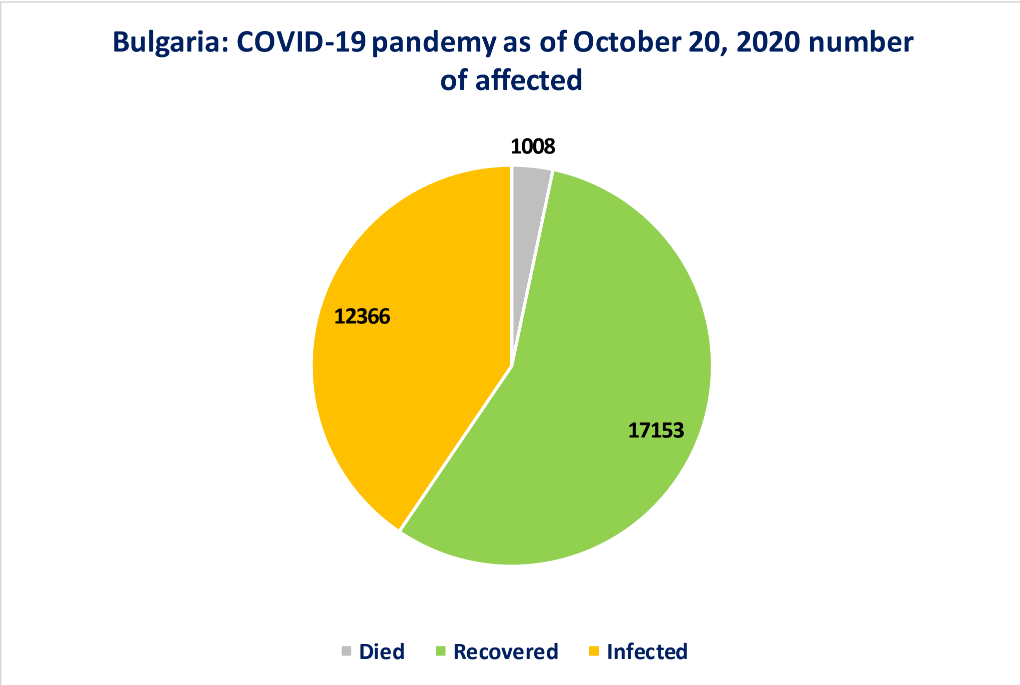
At the beginning of October, the development of prices on the international stock markets was dynamic and quite contradictory. Following the sharp rise at the end of September due to the continuing moisture deficit in the EU and the Black Sea region, grain prices have adjusted downwards, depressed by declining demand and the slowdown in the global economy. Despite the unchanged forecast of the International Grains Council for wheat production, we are again witnessing a dynamic reversal of cereal prices, with the prevailing attitudes towards continuing the upward trend. Wheat in the US for another week rose by USD 12.00 to 277.00 USD / ton, this in France added EUR 4.00 to 207.00 EUR / ton. Prices in both Ukraine and Russia continue to move up from plus USD 4.00 and USD 5.00 to 247.00 and 248.00 USD / ton. For corn, low US inventory data raised prices by another USD 5.00 in Chicago to 215.00 USD / ton, and USD 4.00 in Ukraine to 212.00 USD / ton. Barley in Ukraine remained at the old price of 205.00 USD / ton, and in France the change is also upward with a plus of EUR 8.00 to 192.00 EUR / ton. For rapeseed in the European Union / Euronext / after a stagnation and a steep increase, now the price is adjusted downwards by minus -1.50 EUR to 389.00 EUR / ton. Despite strong speculation in September about the sunflower complex, which led to record prices for Ukrainian sunflower oil, the price collapsed in late September. Since the beginning of October, unrefined sunflower oil on the Rotterdam Stock Exchange has again made attempts to recover the high price and has now added USD 5.00 to 990.00 USD / ton, while refined sugar has a more modest plus of USD 2.40 to USD 388.20 USD / ton on the London commodity exchange.

In the "Grain" sub-district of the Sofia Commodity Exchange AD, a slight increase was observed in some of the offers. Bread wheat is in demand at 320.00 BGN / ton, the supply is at 350.00 BGN / ton. The fodder is sought at 310.00 BGN / ton, the sellers quote 330.00 BGN / ton. The corn remained 290.00-300.00 BGN / ton and BGN 310.00 BGN / ton for buying and selling, respectively. For oilseed sunflower and local demand the prices are 740.00-760.00 BGN / ton, the sellers are quoted at 800.00 BGN / ton All prices are without VAT.

II.BULGARIA: ACCENTS AND PROJECTIONS

HEALTH

As of October 20, 2020 The PCR tests performed in Bulgaria are 613396. The number of confirmed cases is 30527 (including 12366 active cases). The number of hospitalized citizens is 1562 (including 88 people in intensive care units. The total number of cured citizens is 17153. The total number of dead is 1008 people. In these conditions, the duration of quarantine, the introduction of additional anti-epidemic measures that do not have restrictive nature, the strengthening of the state health control through frequent inspections, criteria for hospitalization of patients with proven COVID-19, provision of beds and medical specialists were introduced until the second order. Specialists from all structures have expressed concern about the increase in morbidity, and have called for tighter control of the situation and the introduction of outdoor masks. A report by the Chief State Health Inspector also suggested introducing masks or other means covering the nose and mouth in the open. The expectations are due to the intensified control and provided that we all comply with the measures, the incidence of COVID-19 will be reduced by up to 30%. The members of the expert councils and the Minister of Health have supported a decision to reduce the quarantine of contact persons from 14 to 10 days.

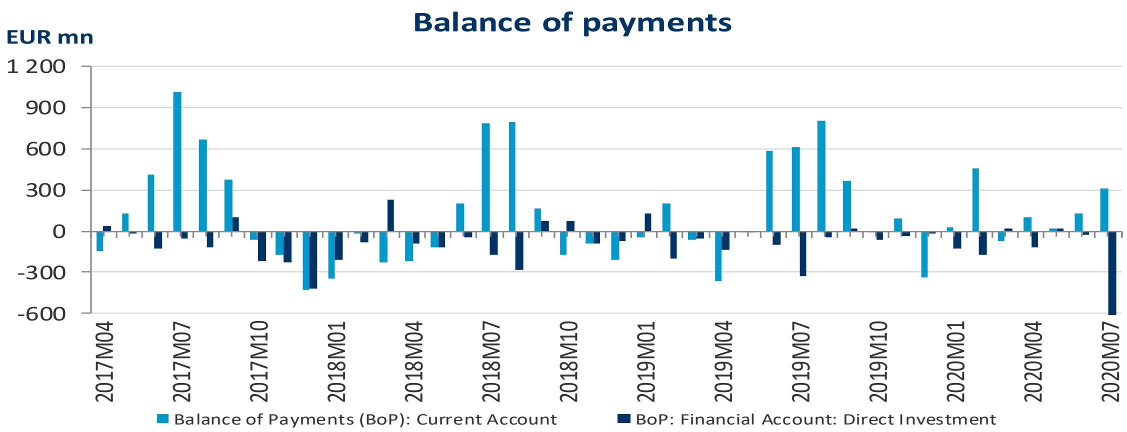


EXTERNAL SECTOR

Balance of payments

According BNB data the current and capital account recorded a surplus of EUR 277.9 million in August 2020, compared with a surplus of EUR 855.1 million in August 2019. In January – August 2020 the current and capital account was positive amounting to EUR 1,840.7 million (3.2% of GDP), compared with a surplus of EUR 2,348.5 million (3.9% of GDP) in January – August 2019. The current account was positive amounting to EUR 193.5 million in August 2020, compared with a surplus of EUR 803.7 million in August 2019. In January – August 2020 the current account was positive and amounted to EUR 1,164.1 million (2.1% of GDP), compared with a surplus of EUR 1,731.7 million (2.9% of GDP) in January – August 2019. The balance on goods recorded a deficit of EUR 139.9 million in August 2020, compared with a deficit of EUR 81 million in August 2019. In January – August 2020 the balance on goods was negative amounting to EUR 735.1 million (1.3% of GDP), compared with a deficit of EUR 1,797.9 million (3% of GDP) in January – August 2019. Exports of goods amounted to EUR 2,107.3 million in August 2020, dropping by EUR 302 million (12.5%) from EUR 2,409.2 million in August 2019. In January – August 2020 exports of goods totalled EUR 17,540.5 million (30.9% of GDP), dropping by EUR 1,606.3 million (8.4%) year-on-year (from EUR 19,146.8 million, 31.6% of GDP). In January – August 2019 exports grew by 6% year-on-year. Imports of goods amounted to EUR 2,247.1 million in August 2020, dropping by EUR 243.1 million (9.8%) from August 2019 (EUR 2,490.2 million). In January – August 2020 imports of goods totalled EUR 18,275.6 million (32.2% of GDP), down by EUR 2,669.1 million (12.7%) from January – August 2019 (EUR 20,944.7 million, 34.5% of GDP). In January – August 2019 imports grew by 5.7% year-on-year

Services recorded a positive balance of EUR 261.4 million in August 2020, compared with a surplus of EUR 976.9 million in August 2019. In January – August 2020 services recorded a surplus of EUR 1,933.6 million (3.4% of GDP) compared with a positive balance of EUR 3,542.8 million (5.8% of GDP) in the same period of 2019. The net primary income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 1.8 million, compared with a deficit of EUR 188.2 million in August 20193. In January – August 2020 the balance on primary income was negative and equated to EUR 745.5 million (1.3% of GDP), compared with a deficit of EUR 1,330.6 million (2.2% of GDP) in January – August 2019. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 73.7 million, compared with a positive balance of EUR 96 million in August 2019. In January – August 2020 the net secondary income was positive amounting to EUR 711 million (1.3% of GDP), compared with a positive balance of EUR 1,317.3 million (2.2% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 84.4 million, compared with a positive balance of EUR 51.5 million in August 2019. In January – August 2020 the capital account recorded a surplus of EUR 676.6 million (1.2% of GDP), compared with a positive balance of EUR 616.8 million (1% of GDP) in January – August 2019. The financial account recorded a surplus of EUR 633.6 million, compared with a surplus of EUR 719 million in August 2019. In January – August 2020 the financial account recorded a net inflow of EUR 3,205.6 million (5.6% of GDP) compared with an inflow of EUR 1,962.6 million (3.2% of GDP) in January – August 2019. **Current Account to GDP in Bulgaria is expected to reach 1% in 2020. In the long-term, the Bulgaria Current Account to GDP is projected to trend around 3% in 2021 and 0.6% in 2022**.



Foreign investments

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 365.9 million (0.6% of GDP) in January – August 2020, dropping by EUR 637.1 million (63.5%) from January – August 2019 (positive value of EUR 1,003 million, 1.7% of GDP). Foreign direct investment in Bulgaria recorded an outflow of EUR 29.7 million in August 2020, compared with an inflow of EUR 90.4 million in August 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 894.7 million in January – August 2020, dropping by EUR 461.4 million from a negative value of EUR 433.2 million. Real estate investments of non-residents recorded a positive value of EUR 0.01 million, compared with EUR 2.6 million in January – August 2019. Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at a positive value of EUR 331.7 million, compared with a positive value of EUR 346.1 million in January – August 2019. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) recorded a positive value of EUR 928.9 million in January – August 2020, compared with a positive value of EUR 1,090.2 million in January – August 20195. The largest net direct investment inflows in Bulgaria for January – August 2020 were from the Netherlands (EUR 407.2 million), Russia (EUR 119.6 million), and Hungary (EUR 107.2 million). According to preliminary data, the stocks2 of foreign direct investment in Bulgaria stood at EUR 46,732 million at endJune 2020, compared with EUR 46,345.7 million at end-2019. Equity and reinvestment of earnings totalled EUR 36,803.6 million, growing by EUR 366.8 million from EUR 36,436.8 million in December 2019. Debt instruments amounted to EUR 9,928.4 million, increasing by EUR 19.5 million from December 2019 (EUR 9,908.9 million).

REAL SECTOR

GDP Projections

The current economic crisis has many negative effects on the Bulgarian economy. They are caused not only by the COVID-19 virus itself, but also by the reaction to it. The barriers to domestic and foreign trade, transport, tourism and investment associated with these measures seriously hamper overall economic activity and lead to job losses, incomes, business closures and the restructuring of activities and industries. In addition, there is an increase in uncertainty, which has a negative impact on the ability to predict developments even in the short term. Recovery depends not only on economic factors but also on the ability to manage risks to human health and life. In such an environment, the downturns of individual economies are logical, with the largest among them only in China (according to official data) growth. The Bulgarian economy is integrating more and more closely with the European Union, which is one of the most affected regions. As part of international supply chains, industry, transport, and outsourcing have taken the initial blow of the crisis, but it is gradually spreading to other industries. Expectations that the strongest manifestation has already passed in the second quarter of the year seem optimistic. The so-called second wave of infection is already observed in the EU (and in Bulgaria), which will provoke a response with a negative impact. However, many institutions analyzing these processes have recently begun to forecast a smaller decline this year and a partial or full recovery next year. BNB significantly revised the forecast decline in gross domestic product for 2020 from 8.5% to 5.5% in real terms. The forecast of the International Monetary Fund is a contraction of 4%, and the credit rating agency Moody's - by 3.5%. They are already approaching the official forecast of the Ministry of Finance, set in the budget update, for a decline of 3%. Given the expected regular revision of GDP data for 2019 by the National Statistical Institute, it is possible that other institutions will adjust their forecasts. However, this optimism for the economy seems hasty given the data available so far.

Bulgaria: Autumn forecast of the Ministry of Finance 2020	2018	2019	2020	2021	2022	2023
Internationsl environment						
Global economy (real growth of GDP, %)	3.6	2.9	-4.7	5.1	3.4	3.4
European economy - EU (%)	2.1	1.5	-8.3	5.8	2.6	2.5
Exchange rate (USD/EUR)	1.18	1.12	1.14	1.18	1.18	1.18
Brent price (USD/barel)	71.1	64	36.5	43.8	46.4	49.1
Price of non-energy materials (USD, %)	1.7	-4.2	-5.1	2.5	2.1	2.1
3 m EURIBOR	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5
GDP						
GDP (in million BGN)	109 743	119 772	119 089	124 540	130 876	137 701
GDP real growth rate (%)	3.1	3.7	-3	2.5	3	3.2
Final consumption	4.6	4.7	1	2.5	2.3	2.9
Gross capital formation	5.4	4.5	-10.5	-5.4	3	8.8
Exports of goods and services	1.7	3.9	-10.2	7.2	7.1	5.3
Imports of goods and services	5.7	5.2	-10.4	5	6.4	6.7
Prices of Labor market						
Employment (SNS,%)	-0.1	0.3	-2.6	0.9	1.5	0.4
Unemployment (RNS, %)	5.2	4.2	5.6	5.2	4.6	4.6
Compensation per employee (%)	9.7	6.9	5	5.9	6.5	6.9
GDP deflator (%)	4	5.3	2.5	2	2	2
Average HCPI (%)	2.6	2.5	1.4	2.1	2.6	2.5
Balance of payments						
Current account (% of GDP)	1	3	3.1	3.9	4.2	3.4
Trade balaance (% of GDP)	-4.8	-4.7	-1.7	-1.2	-1.3	-2.1
FDI (% of GDP)	2.7	2.4	2.9	2.9	2.9	2.9
Monetary sector						
M3 (%)	8.8	9.9	8	8.1	7.9	8.1
Corporate loans (%)	7.7	9.9	0.6	1.9	3.8	4.6
Households loans (%)	11.2	9.5	5	5.6	6.7	6.9
Източник: МФ						

Business climate

In September 2020, the total business climate indicator increases by 0.8 percentage pointsto 9.3 index points compared to August as a result of the improved managers' opinions in the retail trade.

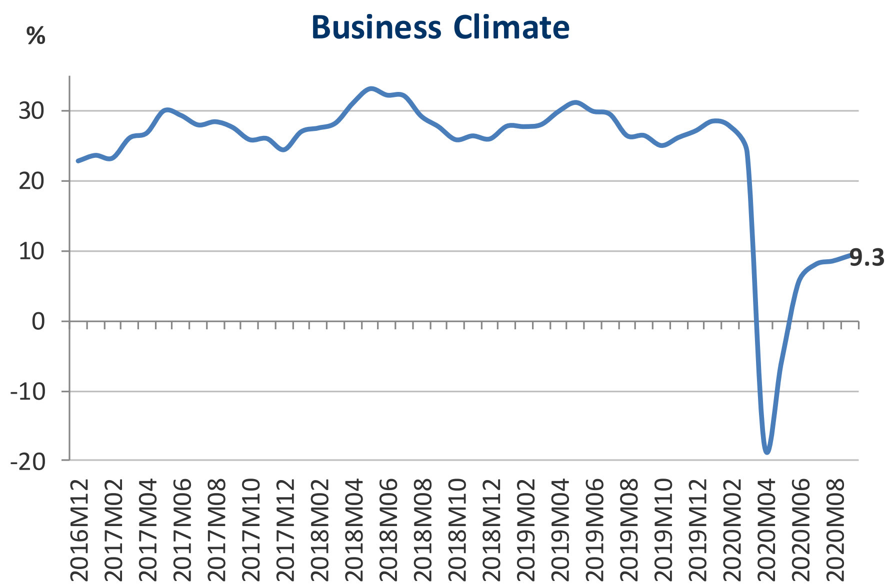
Industry. The composite indicator 'business climate in industry' preserves approximately its level from the previous month. The industrial entrepreneurs assess the present production activity as favourable, as their forecasts about the activity over the next 3 months are also improved. The uncertain economic environment remains the main obstacle for the business development. In the second and third place are the insufficient domestic demand and insufficient foreign demand. Concerning the selling prices in industry, the managers' expectations are them to remain unchanged over the next 3 months.

Construction. In September, the composite indicator 'business climate in construction' decreases by 1.0 percentage points as a result of the more unfavourable construction entrepreneurs' assessments and expectation about the business situation of the enterprises. In their opinion, there is a decrease in the new orders inflow at the last month, which is accompanied by worsened expectations about the construction activity over the next 3 months. The most serious difficulties for the activity continue to be the uncertain economic environment, shortage of labour and competition of the branch, although in the last month a decrease of their negative influence is reported. As regards the selling prices in construction, the majority of the managers expect them to preserve their level over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' increases by 4.2 percentage points which is due to the improved retailers' assessments and expectations about the business situation of the enterprises. Their expectations about the volume of sales and orders placed whit suppliers over the next 3 months are also more favourable. The uncertain economic environment, competition in the branch and insufficient demand remain the main problems for the business development, as the inquiry registers an increase of the negative impact of the first two factors. Concerning the selling prices, the retailers foresee them to remain unchanged over the next 3 months.

Service sector. In September, the composite indicator 'business climate in service sector' remains to its August level. The managers' assessments and expectations about the present and expected demand for services are shifting to the more moderate opinions. The main factor limiting the activity of the enterprises continues to be the uncertain economic environment, followed by the insufficient demand and competition in the branch. As regards the selling prices in the service sector, the managers' expectations are them to preserve their level over the next 3 months.

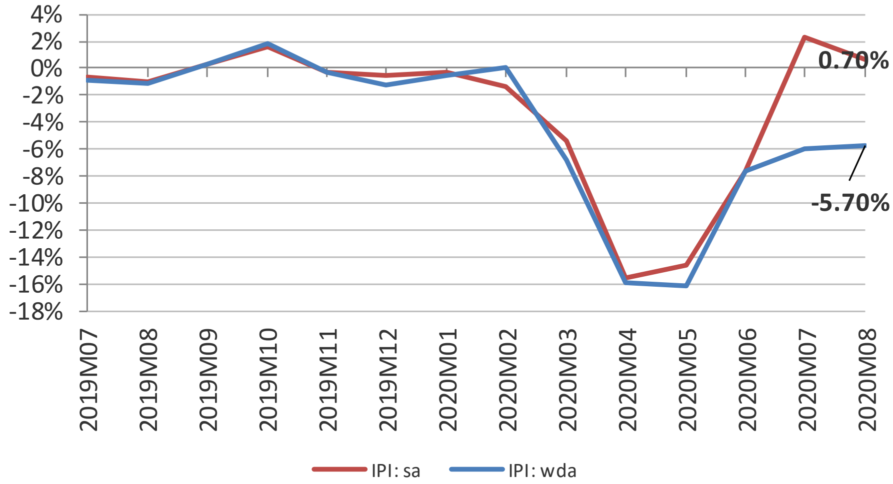
Business Confidence in Bulgaria is expected to be 15.00 index points by the end of 2020. Looking forward, we estimate Business Confidence in Bulgaria to stand at 21.00 in 2021 and 23.00 index points in 2022.



Industrial production

According to the preliminary data in August 2020 the Industrial Production Index, seasonally adjusted, increased by 0.7% as compared to July 2020. In August 2020 the working day adjusted Industrial Production Index fell by 5.7% in comparison with the same month of 2019. This is due to the manufacturing industry and the production and distribution of electricity and heat and gas, where the declines are by 8.1% and 8.3% respectively on an annual basis. In these industries, an increase in production was registered in the activities of textiles and textile products, medicines, basic metals and spare parts for automobiles. There is positive news from the mining industry, where production during the period increased by 2.7%, driven by the extraction of metal ores (growth of 14.9%). In all other industrial activities there is a decline. Mechanical engineering, automotive, tobacco, footwear, printing and coal mining are severely affected, with declines exceeding 15% on an annual basis.
Industrial Production in Bulgaria is expected to decline by – 6% yoy. Looking forward, we estimate Industrial Production in Bulgaria to stand at 5.4% in 2021 and 3.2% in 2022.

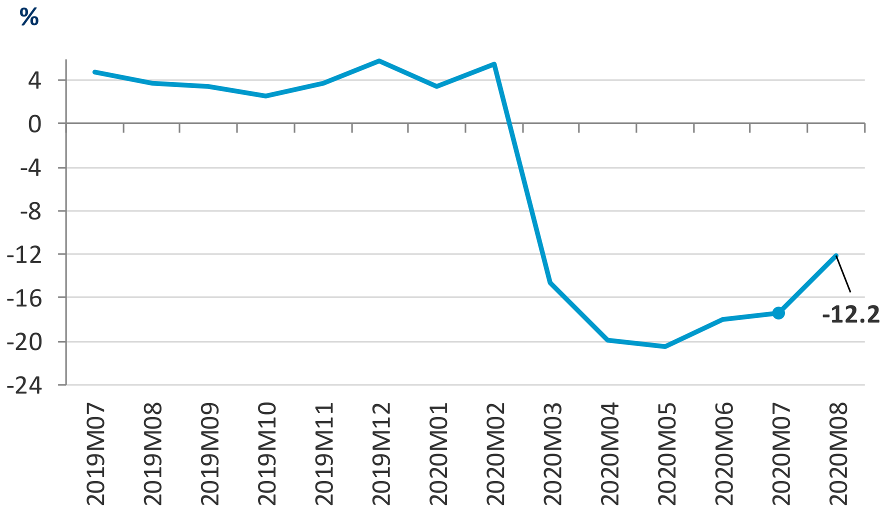
Industrial Production Index: Percentage change, YoY



Retail sales

According to the preliminary seasonally adjusted data in August 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 2.6% compared to the previous month. In August 2020, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' fell by 12.2% in comparison with the same month of the previous year. Retail trade in fuels and oils (-30.8%), clothing and textiles (-30.5%), computer and communication equipment (-17.5%), non-food products was most affected 15.3%). A decrease was realized in all categories except trade through orders by mail, telephone or via the Internet, where the turnover increased by 18.8%. This is a result of the temporary closure of some stores, as well as consumer preferences for basic necessities, as well as the observance of social distance in order to protect against the virus. The presence of declining inflation, however, means that these declines are even greater in real terms. **Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.**

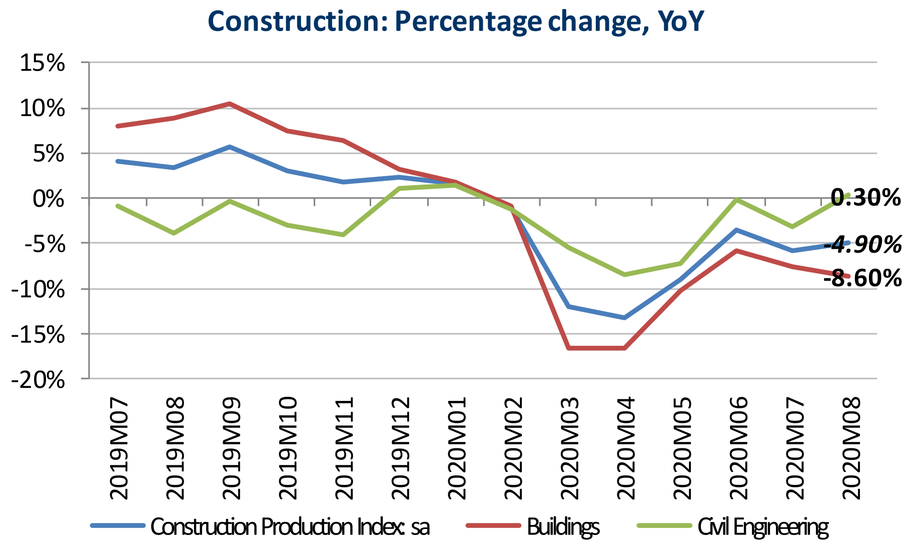
Retail Trade Index: Percentage change, YoY



Construction

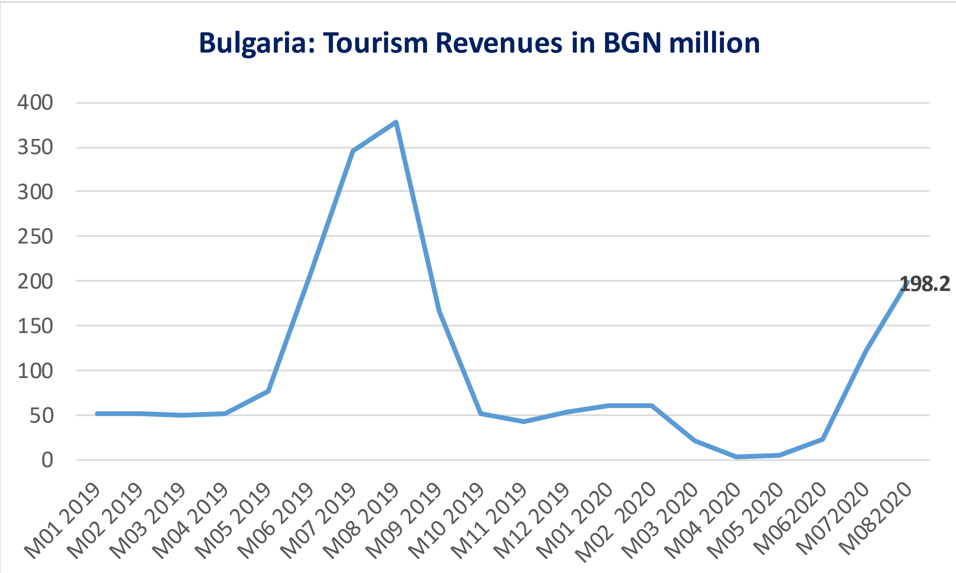
According to the preliminary data, in August 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.0% below the level of the previous month. In August 2020 the working day adjusted index of production in construction decreased by 4.9% in comparison with the same month of 2019. In the first 8 months of 2020 there was a decline in construction output by 6.7% on an annual basis. Building construction has a more serious contribution to this (-8.9%), while engineering is shrinking by 3.5%. The months of the strongest relative decline - April and May, are not particularly strong seasonally for the sector, the next ones are generally more significant. While in June a larger volume of production was realized compared to a year earlier, in July and August there were again declines.

Construction Output in Bulgaria is expected to be -2.0% yoy in 2020. Looking forward, we estimate Construction Output in Bulgaria to stand at 5.5% in 2021 and 5% in 2022.



Tourism

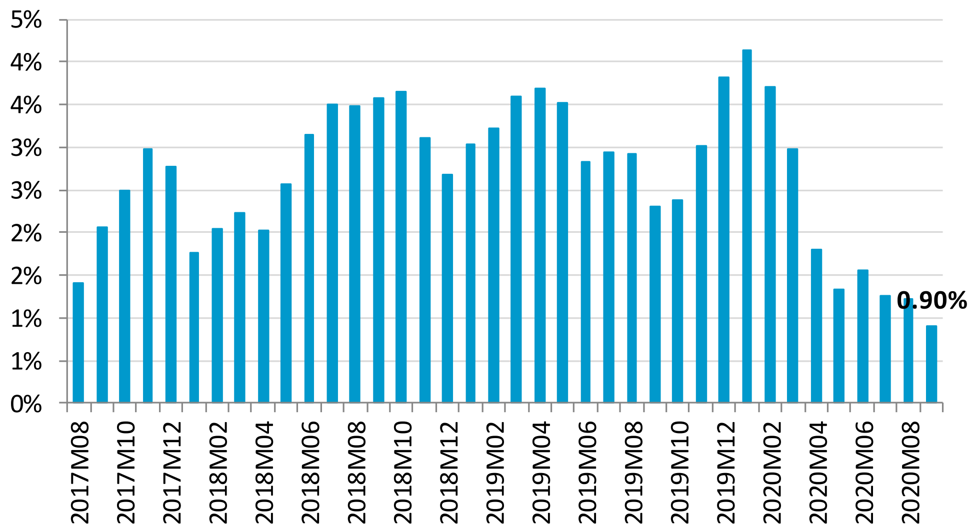
In August 2020, during the continuing epidemic situation the total revenues from nights spent in August 2020 reached 198.7 million BGN or by 47.4% less compared to August 2019. The data on tourism also do not cause grounds for optimism. According to the NSI, in the first 8 months of the year the revenues from overnight stays reached BGN 490.8 million compared to BGN 1208.2 million in the same period of 2019 (a decrease of 59.4%). Although during the traditionally strongest months of the season - July and August, the relative decline on an annual basis narrowed, it is 64.6% and 47.4%, respectively. Thus, the results are significantly lower than expected before the crisis. Many hotels did not open at all or ended the season prematurely to save costs. Large markets such as Britain, Germany and Russia have shrunk sharply. Greater interest from Bulgarian tourists is not enough to compensate for the decline in foreign tourists. Revenues from overnight stays of foreigners for the period under review decreased by 71.9%, while those of Bulgarians - by 22.2%. Thus, the share in the total income from overnight stays by Bulgarians almost doubles - from 25.2% in 2019 to 48.2% in 2020, while for foreigners from 74.8% in 2019 it decreases to 51.8 % in 2020



CPI Inflation

The consumer price index for September 2020 compared to August 2020 is 99.4%, ie monthly inflation is minus 0.6%. Inflation since the beginning of the year (September 2020 compared to December 2019) is minus 1.1%, and annual inflation for September 2020 compared to September 2019 is 0.9%. The average annual inflation for the period October 2019 - September 2020 compared to the period October 2018 - September 2019 is 2.3%. In September, annual inflation fell to its lowest level since December 2016. The reason for the weak growth compared to last year is known in previous months - the drastic decline in oil prices on international markets dragged down and the prices of energy products in Bulgaria. Now natural gas is nearly 22% below its price in September 2019, heating is 16.2% below last year's value, and car fuels - by 17.1%. On a monthly basis, however, the decline is already significantly slowing down. For example, fuels decreased by only 0.2% compared to August, heating remained unchanged, and natural gas rose by an average of 5.2%. On the other hand, a positive stimulus for the general level of consumer prices comes from the prices of some foods such as fruit, which are still 10% above the levels in 2019. On a monthly basis, however, the direction is down from three months - in September the decrease compared to August is with 1.7%. According to the BNB autumn macroeconomic forecast, inflation will continue to decline until the end of the year. The central bank uses the European Harmonized Index of Consumer Prices (HICP), which in September reported growth of 0.6% on an annual basis. The forecast is based on a further decline to 0.3% by the end of 2020 due to falling prices in services due to a slowdown in private consumption. **Our inflation forecast in Bulgaria is 0.5% at the end of 2020. We expect inflation in Bulgaria to rise to 2.2% in 2021 and 2% in 2022.**

Inflation, y/y: 2017 - 2020



LABOR MARKET

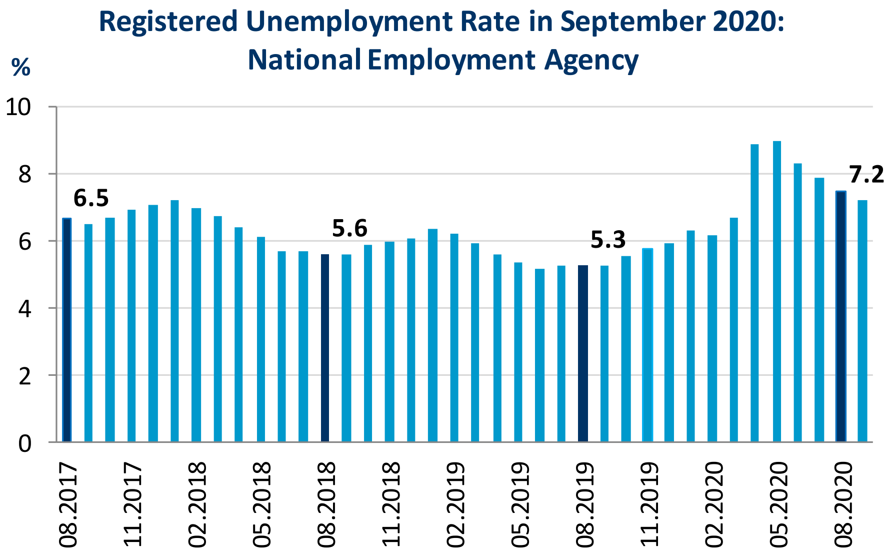
Unemployment

At the end of September the registered unemployed in the labor offices according to the administrative statistics of the Employment Agency are 236 058, as compared to August the decrease is by 9 716 persons. At the same time, the increase compared to September 2019 is 63,277 people. The registered unemployment rate in the country in September was 7.2%. The Employment Agency reported a decrease of 0.3 percentage points compared to the previous month of August and an increase of 1.9 percentage points compared to a year earlier.

During the month, 28,832 new unemployed persons registered to use the mediation and services of the labor offices. In addition, another 1,049 people from the groups of jobseekers, students and pensioners have also registered with the Employment Agency. During the month, 3,310 unemployed persons from the risk groups started working in subsidized jobs - 1,008 under employment programs and measures and 2,302 - under schemes of the Operational Program “Human Resources Development”. The "Employment for you" scheme under the Operational Program "Human Resources Development", which started in July as an anti-crisis measure, has provided employment to 1,736 people, and only in September employment contracts were concluded with 662 unemployed. The anti-crisis measures for short-term employment support, popular as 60/40 or CMD 151/2020 and 80/20 or "Short-term employment support in response to the COVID-19 pandemic" under the Operational Program "Human Resources Development", provided maintaining 54,018 jobs in 2,286 companies in September. For the third quarter of 2020, as a result of the implementation of the two anti-crisis measures, the employment of a total of 182,581 employees in 7,432 companies was maintained.

The most sought-after professions during the month are: teachers; machine operators of stationary machines and equipment; workers in the mining and processing industry, construction and transport; customer service staff; skilled workers in the production of food, clothing, wood products; personnel employed in the field of personal services (bartenders, waiters, cooks, maids, etc.); installers; economic and administrative specialists; sellers; waste collection and related workers, etc.

The level of registered unemployment in Bulgaria is expected to be 9.0% in 2020. We expect the unemployment rate in Bulgaria to be 8% in 2021 and 7% in 2022.

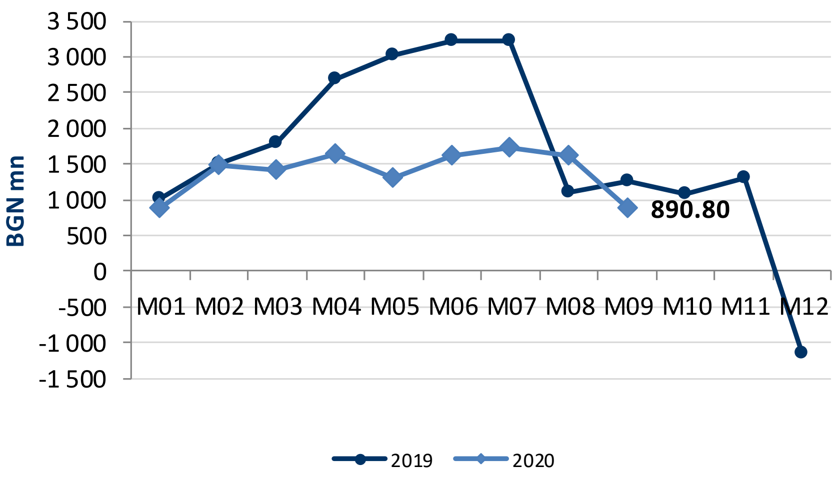


FISCAL SECTOR

Budget balance

The CFP budget balance on a cash basis as of 31 August 2020 is positive, amounting to BGN 1,616.0 million and is formed by an excess of revenues over expenditures under the national budget of BGN 1,076.1 million as well as under EU funds of BGN 539.9 million. Fiscal reserve as of 31.08.2020 is BGN 9.47 billion, including BGN 9.39 billion fiscal reserve deposits in BNB and banks and BGN 0.08 billion receivables under the EU Funds for certified expenditure, advance payments, etc. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of September 2020 is expected to be positive, amounting to BGN 890.8 million (0.8% of the projected GDP). Higher investment expenditures were paid this month in relation to infrastructure projects, payments under the 60/40 measure, etc. As of September 2020, CFP revenues, grants and donations are expected to be BGN 32,398.8 million, or 73.0% of the revised annual estimates. Compared to the same period of 2019, tax and non-tax revenues under the Consolidated Fiscal Programme as of September 2020 have shrunk by BGN 763.1 million, while grant proceeds have risen by BGN 362.9 million. There has been a light improvement in the major taxes in the recent months, which gradually sets off the delay in the first months after the outbreak. As of September 2020, the Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 31,508.0 million, which accounts for 65.8% of the revised annual estimates. For comparison, the CFP expenditures as of February 2019 amount to BGN 31,534.8 million. Comparing the expenditures with those in the same period of the previous year, one should take into account the impact in 2019 of the one-off expenditures incurred for the project for the acquisition of a new type of military aircraft for the Bulgarian Air Forces. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 30.09.2020, amounts to BGN 890.9 million, which complies with the existing legislation in the area of EU own resources. **Government Budget in Bulgaria is expected to reach -3.0% of GDP by the end of 2020. In the long-term, the Bulgaria Government Budget is projected to trend around -1.0% of GDP in 2021 and 0% in 2022.**

Consolidated Govt Budget: ytd: Deficit or Surplus



Central government debt

As at end-August 2020, central government debt stands at BGN 24,295.9 million. Domestic debt amounts to BGN 5,986.5 million and external debt – to BGN 18,309.4 million. At the end of the reporting period the central government debt-to-GDP ratio is 20.7%, with the share of domestic debt being 5.1% and of external debt – 15.6% of GDP. In the central government debt structure, at the end of the period domestic debt account for 24.6%, and external debt – to 75.4%. As of 31 August 2020, central government guaranteed debt amounts to BGN 177.5 million. Domestic guarantees amount to BGN 72.9 million and external guarantees – to BGN 104.6 million. The central government guaranteed debt/GDP ratio is 0.2%. According to the official register of government and government guaranteed debt kept by the Ministry of Finance on the grounds of Article 38(1) of the Government Debt Law, at end-August 2020 government debt reaches BGN 22,812.7 million, or 19.4% of GDP. Domestic debt amounts to BGN 5,643.6 million and external debt – to BGN 17,169.1 million. **Government guaranteed debt amounts to BGN 1,703.8 million in August 2020, domestic guarantees amount to BGN 72.9 million, with the government guaranteed debt-to-GDP ratio being 1.5%.**

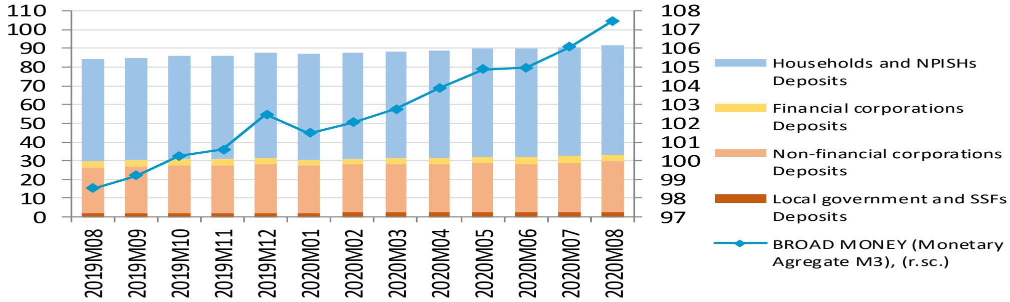
Moody's has upgraded Bulgaria's long-term ratings in foreign and local currency to Baa1, with a stable outlook.

Moody's decision to upgrade the ratings reflects the enhanced institutional capacity and policymaking as the country enters the last phase before becoming a member of the euro area. The upgraded ratings also reflect the reduced exposure to foreign currency debt risk, large fiscal reserves and expectations that positive fiscal and debt dynamics post pandemic shock will support the government's strong balance sheet.The stable outlook reflects the expectations of the rating agency that fiscal strength indicators will remain resilient even under an adverse scenario, and above the median for Baa1-rated peers. The stable outlook also balances intrinsic strengths in Bulgaria's improving economic and institutional framework with key credit challenges that predominantly relate to the negative impact of adverse demographics in the country on medium-term potential growth, as well as continued reform needs in the fight against corruption, judicial independence and the rule of law. The first driver of the ratings upgrade is based on Bulgaria's progress towards euro area accession and the associated strengthening of institutional capacity and policymaking. The view of the analysers is that Bulgaria's entry in the ERM II is one of the final critical steps prior to becoming a member of the euro area. They also point out that the approval for the country's entry in the ERM II amid the coronavirus disruption results from a comprehensive reform programme. In parallel, Moody's also points out to the established close cooperation between the ECB and the BNB over bank supervision; the view of the agency is that it will further enhance the regulatory environment and promote the adoption of best practices. The second driver of the ratings upgrade relates to Bulgaria's strengthened fiscal and credit profile despite the negative impact of the coronavirus pandemic. Moody's analysers point out that, in the case of Bulgaria, the highly credible currency board that has been in place for more than two decades already mitigates this risk arising from the high share of foreign-currency denominated debt of the country (in 2019, 80% of Bulgaria's general government debt was denominated in euros).Bulgaria's credit profile also benefits from a strengthening of the government's strong balance sheet. Four years of growing structural fiscal surpluses have brought the debt/GDP ratio to 20.4% in 2019, the second lowest level in the European Union after Estonia. The agency also reports improvement in terms of the more favourable financing possibilities – the interest payments/general government revenues ratio has dropped to 1.5% in 2019 against 2.5% in 2016. Moody's also expects the fiscal reserves to remain stable at around 10% of GDP. According to the agency, the pandemic will negatively affect Bulgaria's public finances. Moody's anticipates a 3.5% drop in GDP in 2020 before a 2.7% recovery in 2021. The expected recession and the need to support economic activity in order to address the pandemic will weigh on government revenues and public expenditure, pushing the deficit to 3.0% of GDP in 2020 and 1.6% in 2021. Moody's forecasts the government debt to reach 23.9% in 2020 and 24.2% in 2021, before gradually declining to 23.5% in 2022. The agency points out that the main factors that could exert upward pressure on the country's outlook and ratings are related to significant improvements in the quality of work of institutions and a sustained convergence path towards higher living and institutional standards that would facilitate the entrance of the country into the euro area. Factors that could lead to a negative outlook and downgrade of the ratings are a marked and permanent deterioration in the government's very strong balance sheet and long-term economic growth prospects as well as the weakening in the institutional framework.

MONETARY SECTOR

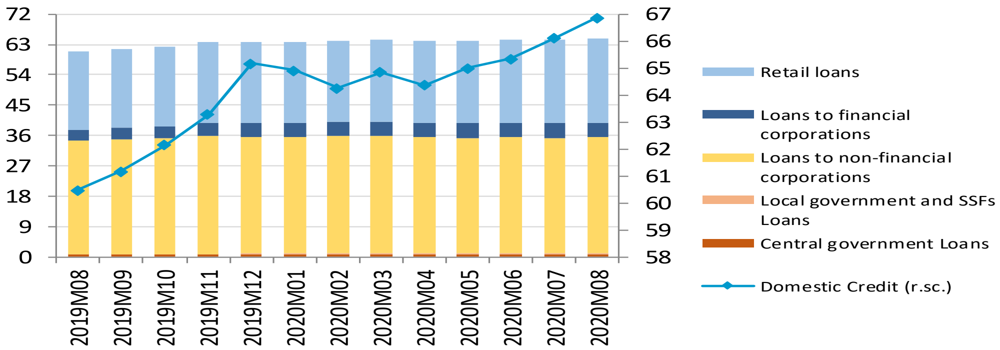
According the data of BNB "Statistics" Directorate in September 2020 broad money (monetary aggregate M3) increased by 9.3% yoy compared to 9.1% yoy as in August 2020. At the end of September 2020 M3 was BGN 108.4 billion (97.7% of full year GDP forecast) compared to BGN 107.4 billion (96.8% of GDP) in August 2020. Its most liquid component – monetary aggregate M1 increased by 35% yoy in September 2020 (33.7% yoy growth in August 2020) . At the end of September 2020, deposits of the non-government sector were BGN 89.8 billion (80.9% of GDP), increasing annually by 9% (8.9% yoy growth in August 2020). Deposits of Non-financial corporations were BGN 28.5 billion (25.7% of GDP) at the end of September 2020. Compared to the same month of 2019 they increased by 12.4% (12.2% yoy growth in August 2020). Deposits of Financial corporations decreased by 0.6% yoy in September 2020 (5.2% yoy growth in August 2020) and at the end of the month they were BGN 3.1 billion (2.8% of GDP). Deposits of Households and NPISHs were BGN 58.2 billion (52.4% of GDP) at the end of September 2020. They increased by 7.9% compared to the same month of 2019 (7.6% yoy growth in August 2020).

Deposits and Broad Money (M3), (BGN bn)



At the end of September 2020 the domestic credit amounted at BGN 64.2 billion and increased by 4.9% yoy (10.6% yoy growth in August 2020). In September 2020 claims on the non-government sector increased by 6.3% yoy (6.5% yoy growth in August 2020) reaching BGN 66.3 billion. At the end of September 2020, claims on loans to the non-government sector amounted to BGN 64.3 billion (57.9% of GDP) compared to BGN 63.580 billion (57.3% of GDP) at the end of August 2020. They increased annually by 5.9% in September 2020 (6.1% yoy growth in August 2020). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 543.1 million. On an annual basis, loans sold by Other MFIs were BGN 543.1 million (of which BGN 15.5 million in September 2020), while there are no loans repurchases for the last twelve months. In September 2020, loans to Non-financial corporations increased by 2% yoy (2.2% yoy growth in August 2020) and at the end of the month amounted to BGN 34.8 billion (31.4% of GDP). Loans to Households and NPISHs were BGN 25.1billion (22.6% of GDP) at the end of September 2020. They increased by 7.5% compared to the same month of 2019 (7.4% yoy growth in August 2020). At the end of September 2020 loans for house purchases were BGN 11.6 billion and increased by 12.3% yoy (12.3% yoy growth in August 2020). Consumer loans amounted to BGN 11.8 billion and compared to September 2019 they rose by 6.2% (6.2% yoy growth in August 2020). On an annual basis other loans decreased by 19.9% (24.4% yoy decline in August 2020) and reached BGN 442.3 million. Loans granted to financial corporations were BGN 4.4 billion at the end of September 2020 (3.9% of GDP). Compared to September 2019, they increased by 34.9% (38.2% yoy growth in August 2020).

Loans and Domestic Credit (BGN bn)



At the end of September 2020 the relative share of restructured and bad loans declined to 8.3%, compared to 8.4% in August and compared to the maximum value of 9%, reported in May 2020.