All data in the edition are the last available data published as of 31 October 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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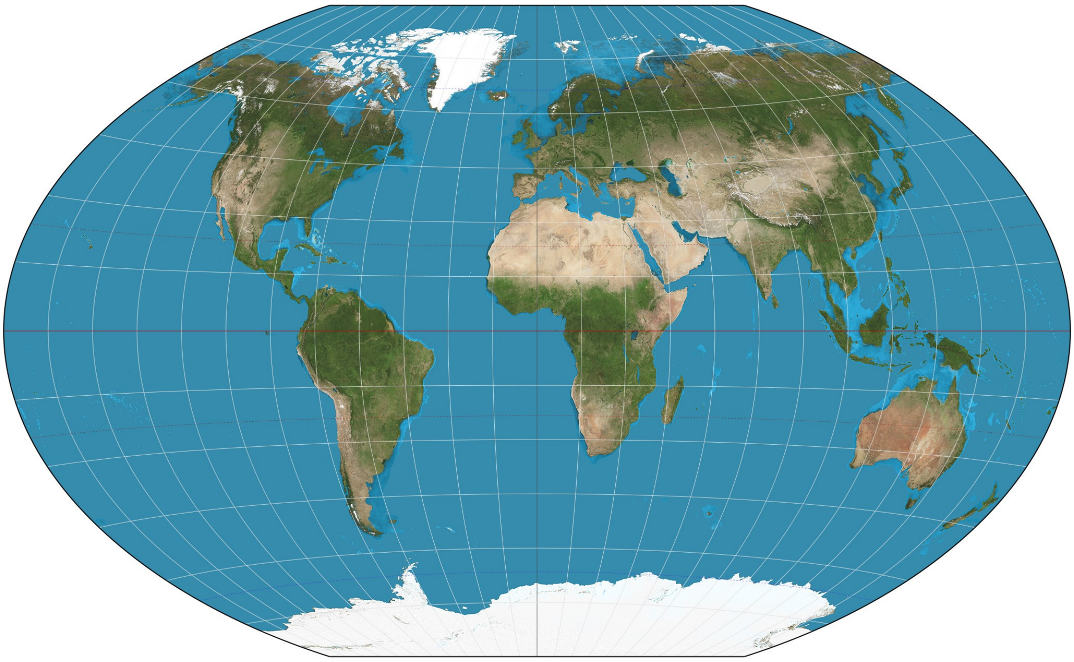
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



November, 2020

- **The euro area economy grew by 12.7% in the three months to September 2020, recovering from a record slump of 11.8% seen during the Q2. Year-on-year, the GDP shrank by -4.3%, easing from a record contraction of -14.8% in the second quarter. The Euro area consumer prices are expected to drop -0.3% from a year earlier in October 2020, the same as in the previous month. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to remain unchanged at a record low of 0.2%. The unemployment rate in the euro area was unchanged at 8.3% in September of 2020. Overall, our growth outlook for 2020 has seen a marginal improvement to -7.5% due to the better-than-expected Q3 figures. At the same time, we have downgraded 2021 growth from 4.9% to 1.9%, assuming slower lifting of containment measures and a gradual boost from the expected broad vaccination coming after mid 2021.**
- **Italy's gross domestic product grew by a record 16.1% in Q3 2020, rebounding from an unprecedented contraction of -13% in the previous period. Consumer prices in Italy are expected to decrease 0.3% year-on-year in October of 2020, following a 0.6% fall in the previous month. The annual core inflation rate, which excludes energy and unprocessed food is set to edge up to 0.3% from 0.1% in the prior month. Italy's unemployment rate dropped marginally to 9.6% in September 2020, from 9.7% in the previous month. We expect a contraction of Italian GDP of -9.4% in 2020. We expect a recovery in Italy of 1.8% in 2021.**
- **The French economy grew at a record pace of 18.2% on quarter in Q3 of 2020, a reversal from a 13.7% contraction in the previous period when the country was in strict COVID-19 lockdown, and beating market consensus of a 15.4% rise. Year-on-year, the GDP shrank -4.3%, remaining below its pre-pandemic level. Consumer prices in France stalled again 0% on a yearly basis in October, the same as in September. The unemployment rate in France increased to 9% in Q3 of 2020, the highest level since Q3 of 2018, from 7.1% in the second quarter and above market expectations of 7.9%. We expect a decline of GDP growth in France of -9.5% in 2020 and recovery of 2.2% in 2021.**
- **Spain's economy grew by 16.7% qoq in Q3 2020, the most since comparable records began in 1995 and compared with a record contraction of 17.8% in the previous period.Still, year-on-year, the economy shrank by -8.7%, compared to a record -21.5% contraction in the previous period and leaving the Spanish economy below pre-pandemic levels. Consumer prices in Spain are expected to decrease -0.9% year-on-year in October of 2020, following a -0.4% fall in the previous month. It was the steepest fall in consumer prices since May. The harmonized index of consumer prices is seen falling -1% over a year ago, after a -0.6% decline in September. Spain's unemployment rate rose to 16.26% in Q3 of 2020 as the coronavirus pandemic hit the labor market. We expect a decline of GDP in Spain of -12.0% in 2020 and recovery of 1.3% in 2021.**
- **Slovenia's economy shrank -13% year-on-year in Q2 of 2020, after an upwardly revised -2.5% contraction in the previous period. On a seasonally adjusted quarterly basis, the economy shrank at a record -9.6%, following an upwardly revised -4.8% contraction in the prior period. Inflation Rate in Slovenia increased to -0.10% in October from -0.34% in September of 2020. Slovenia's unemployment rate rose to 9.1% in August of 2020 from 7.4% in the same month of the previous year, mainly due to the Covid-19 pandemic. In July, the jobless rate was slightly higher at 9.2%. We expect a decline of GDP in Slovenia of -7% in 2020 and recovery of 5% in 2021.**
- **Lithuanian economy grew 3.7% qoq in Q3 2020, after an upwardly revised -5.9% contraction in the previous period. On a yearly basis, the GDP shrank by -0.1%, the second straight quarter of contraction, after an upwardly revised -4.6% contraction in the second quarter 2020. Lithuania's annual inflation rate stood at 0.7% in October of 2020, unchanged from the previous month, still the least since May. Unemployment Rate in Lithuania increased to 14.90% in October from 14.10% in September of 2020. We expect a decline of GDP in Lithuania of -2.2% in 2020 and recovery of 3.0% in 2021.**
- **Poland's gross domestic product shrank by -1.6% yoy in Q3 of 2020, following a record -8.2% contraction in the previous period and compared to market expectations of a -1.7% drop. On a seasonally adjusted quarterly basis, the economy advanced 7.7%, the most on record and rebounding from -8.9% slump in Q2. The annual inflation rate in Poland edged down to 3.1% in October 2020 from 3.2% in the previous month. Poland's unemployment rate came in at 6.1% in September of 2020, unchanged from the previous three months and matching market expectations. We expect a decline of GDP in Poland of -3.0% in 2020 and recovery of 4.8% in 2021.**
- **The Romanian GDP contracted -6% yoy in Q3 of 2020, after a -10.3% contraction in the previous period, and worse than market consensus of a -4% contraction. On a seasonally adjusted quarterly basis, the economy grew 5.6%, the most since the data began in the second quarter 1995, after an upwardly revised -12.2% fall in Q2. Romania's annual inflation rate decreased to 2.2% in October 2020, the least since September 2017, from 2.5% in the previous month. Romania's seasonally adjusted unemployment ticked down to 5.2% in September 2020 from 5.3% in the previous month. This was the lowest jobless rate since May. We expect a decline of GDP in Romania of -5.1% in 2020 and recovery of 4.0% in 2021.**

- **Britain's gross domestic product shrank by --9.6% yoy in Q3 of 2020, following a record contraction of 21.5% in the previous three-month period. The economy started to recover as restrictions on movement eased across June, July, August and September. UK GDP expanded 15.5% qoq in Q3 2020, partially recovering from a record contraction of 19.8% seen in the previous period. Annual inflation rate in the United Kingdom increased to 0.5% in September of 2020 from a near 5-year low of 0.2% in August. The unemployment rate in the UK increased to 4.8% in the three months to September of 2020, higher than 4.5% in the previous period and 3.9% a year earlier. It is the highest jobless rate since the last quarter of 2016, amid the coronavirus-hit. For the UK, we expect a contraction of -11.0% in 2020. We expect a recovery in UK of 5% in 2021.**
- **On the annualized base, GDP in the United States contracted -2.90% in t Q3 of 2020 over the same quarter of the previous year. Although growth rebounded from a very low base in Q3, and as such could be described as mechanical, solid economic momentum appears to be maintained heading into Q4. Annual inflation rate in the US fell to 1.2% in October of 2020 from 1.4% in the previous month. The US unemployment rate dropped to 6.9% in October 2020, from the previous month's 7.9%, as the number of unemployed persons fell by 1.5 million to 11.1 million and the employment rose by 2.2 million to 149.8 million. As a consequence, we see somewhat softer end-year growth dynamics in the US than previously envisaged. Still, despite a slight downgrade to our Q4 outlook, a sharper-than-expected outturn in Q3 leads, on balance, to improved annual growth in 2020 from -4.5% to -3.7%. For next year, we continue to pencil in a major payback from the contraction, projecting annual growth of 4.0% amid a more constructive macro backdrop, in particular, buoyed by a gradual mass roll-out of a Covid-19 vaccine**
- **The Japanese economy advanced 5% qoq in Q3 2020, partially recovering from a record slump of -8.2% in the previous period. On an annualized basis, the economy contracted at -5.8%% in Q3, after a plunge of -10.2% in Q2. Japan's consumer prices remained unchanged 0% in September yoy after increasing 0.2% in the previous month, as the pandemic continued to hamper consumption. Unemployment Rate in Japan remained unchanged at 3% in September from 3% in August of 2020. We expect growth in Japan to contract -5.6% in 2020. We expect a recovery in Japan of 2.6% in 2021.**
- **The Chinese economy advanced 4.9% yoy in Q3 2020, faster than a 3.2% expansion in Q2 but below forecasts of a 5.2% growth. The Chinese economy grew by a seasonally adjusted 2.7% qoq in Q3 2020, following an upwardly revised 11.7% advance in the previous quarter. China's annual inflation rate eased to 0.5% in October 2020, the lowest since October 2009. Unemployment Rate in China decreased to 5.4% in September from 5.6% in August of 2020. Given the relative strength of growth in Q3 and the fact that the pandemic in China remains mostly under control, we have confirmed Chinese GDP growth to 2.0% in 2020 and 8.2% in 2021.**
- **Turkey’s September industrial production (IP) posted 8.1% growth. This will be fueling the amount that reflects the magnitude of Turkey’s recovery from the -9.9% COVID-19 related economic contraction recorded in Q3 2020; roughly at around 5.6%. The inflation rate in Turkey edged up to 11.89% in October of 2020 from 11.75% in September. The unemployment rate in Turkey decreased to 13.2% in August of 2020 from 14% in the corresponding month of the previous year. We expect a decline of GDP in Turkey of -1.5% in 2020 and recovery of 3.5% in 2021.**
- **Governing Council of the ECB took the following monetary policy decisions: (1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. (2) The Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of EUR 1,350 billion. (3) Net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR 20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of the year. (4) The Governing Council will also continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households.**
- **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 pandemic. At its meeting ending on 4 November 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 20 billion. The Committee voted unanimously for the Bank of England to continue with the existing programme of GBP 100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and also for the Bank of England to increase the target stock of purchased UK government bonds by an additional GBP 150 billion, financed by the issuance of central bank reserves, to take the total stock of government bond purchases to GBP 875 billion.**

- **Federal Reserve decided to keep the target range for the federal funds rate at 0% to 0.25% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.**

- **At the Monetary Policy Meeting held in October 28 2020 the Policy Board of the Bank of Japan decided upon the following:(1) Yield curve control The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1 percent 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%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. (2) Guidelines for asset purchases. 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.**

- **People's Bank of China governor Yi Gang said that promoting broader use of the CNY will continue alongside the opening of markets. "The regulator's main job is to reduce restrictions on the cross-border use of the currency, and let it take its own course". Success would give Chinese policymakers some things they've long dreamed about: the use of the CNY as a global reserve currency and a challenge to the US dollar's dominance in trade and finance. The CNY's share in global payments and in central bank reserves remains at around 2% but China's efforts continue. The PBOC said last Thursday that it and Bank of Korea agreed to extend a currency swap agreement another five years and boost the amount involved to CNY 400 billion (USD 59.9 billion).**

- **The Monetary Policy Committee (MPC) of the central bank of Turkey has decided to: increase the policy rate (one-week repo auction rate) from 10.25% to 15%, and provide all funding through the main policy rate, which is the one-week repo auction rate. The lagged effects of depreciation in Turkish lira, increasing international food prices and deterioration in inflation expectations affect the inflation outlook adversely. While tracked data for November point to an increase in inflation due to the recent exchange rate volatility, this is assessed to be temporary with the decisive monetary policy stance. Accordingly, the Committee has decided to implement a transparent and strong monetary tightening in order to eliminate risks to the inflation outlook, contain inflation expectations and restore the disinflation process. In the periods ahead, all factors affecting inflation will be taken into account, and the tightness of monetary policy will be decisively sustained until a permanent fall in inflation is achieved.**

- **The Brent price increases 0.01 USD/BBL or 0.02% to 44.350 USD/BBL on November 19. The price of crude oil decreases 0.16 USD/BBL or -0.38% to 41.660 USD/BBL on November 19. Oil prices declined on Thursday November 19 2020, amid fears about weak global demand as COVID-19 numbers across the globe continued upward. Meantime, figures from the Energy Information Administration showed the US crude oil inventories rose by 0.768 million barrels last week. Limiting the decline, the OPEC+ will extend its current supply cuts for a minimum of three months, according to Reuters.**

- **In November the fluctuations in the prices of the main grain contracts on the world stock markets remained relatively weak. Exceptions are oilseeds, where the trend continues to be bright upwards. Rapeseed in the European Union / Euronext / flew away with a plus of EUR 8.25 to 414.50 EUR / ton. Wheat in the US fell by USD 1.00 to 268.00 USD / ton, in France fell by 6.00 EUR to 210.50 EUR / ton. Prices in both Ukraine and Russia remained unchanged at USD 254.00 and 256.50 USD / ton. In the case of corn, prices in the United States after a certain lull rose by USD 7.00 to 227.00 USD / ton and also added USD 2.00 in Ukraine to 238.00 USD / ton. Barley in Ukraine rose by USD 3.00 to 218.00 USD / ton, and in France there was a rise of EUR 2.00 to 206.00 EUR / ton.**

- **The second wave of COVID 19 is much worse, with a larger number of sick people. This time, the authorities reacted more cautiously and imposed partial blockades. The new blockades mainly affect the services sector, while external demand supports the manufacturing sectors. Since the beginning of October 2020, there has been a sharp exponential increase in the incidence of coronavirus pandemics in Bulgaria. As of November 26, 2020, the total number of laboratory-confirmed infections since the beginning of the pandemic is 133,060. The active cases are 87,073. 42,620 have been cured and 3,367 have died. So, the second wave of a pandemic in Bulgaria is a fact. The government has issued a statement saying it is preparing to extend the epidemic until March 31, 2021 and introduce new restrictive measures in schools, universities, kindergartens, sports and culture, entertainment and malls up to December 21, 2020.**
- **In January – September 2020 the current account was positive and amounted to EUR 651.9 million (1.1% of GDP), compared with a surplus of EUR 2,095.8 million (3.4% of GDP) in January – September 2019. In January – September 2020 the balance on goods was negative amounting to EUR 920.4 million (1.6% of GDP), compared with a deficit of EUR 1,948.3 million (3.2% of GDP) in January – September 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.**
- **According to BNB preliminary data, the net flows of foreign direct investment in Bulgaria recorded a positive value of EUR 729.5 million (1.3% of GDP) in January – September 2020, dropping by EUR 326.8 million (30.9%) from January – September 2019 (positive value of EUR 1,056.3 million, 1.7% of GDP).**
- **In its Autumn Forecast, the European Commission has adjusted to 5.1% its expectations for Bulgaria's GDP drop in 2020, from 7.2% in the spring.**
- **Bulgaria's GDP fall down by 5.2% in Q3 of 2020 compared to the same quarter of the previous year while raises with 4.3% compared to Q2 of 2020 according to the seasonally adjusted data.**
- **In October 2020, the total business climate indicator increases by 0.5 percentage points to 9.8 Index points in comparison with the previous month. An improvement of the business conjuncture is registered in construction, retail trade and service sector, while in industry the indicator is decreased. 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 September 2020 the Industrial Production Index, seasonally adjusted, increased by 2.3% as compared to August 2020. In September 2020 the working day adjusted Industrial Production Index fell by 2.6% 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 September 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 2.8% compared to the previous month. Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.**
- **According to the preliminary data, in September 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% above the level of the previous month. In September 2020 the working day adjusted index of production in construction decreased by 1.7% in comparison with the same month of 2019.**
- **The total revenues from nights spent in September 2020 reached BGN 88.1 million or by 47.1% less compared to September 2019.**
- **The harmonized index of consumer prices for October 2020 compared to September 2020 is 100.2%, ie monthly inflation is 0.2%. Inflation since the beginning of the year (October 2020 compared to December 2019) is minus 0.5%, and annual inflation for October 2020 compared to October 2019 is 0.6%. The average annual inflation for the period November 2019 - October 2020 compared to the period November 2018 - October 2019 is 1.6%. Our forecast for inflation 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.**
- **According to data from the Employment Agency, the level of registered unemployment in Bulgaria in October 2020 was 6.9%. The Employment Agency reported a decrease of 0.3 percentage points compared to the previous month of September and an increase of 1.3 percentage points compared to a year earlier. The level of registered unemployment in Bulgaria is expected to be 7.0% in 2020. We expect the unemployment rate in Bulgaria to be 6.5% in 2021 and 6% in 2022. According to NSI data, in the third quarter of 2020 the unemployment rate was 4.8%.**

- **The CFP budget balance on a cash basis as of 30 September 2020 is positive, amounting to BGN 871.4 million (0.7 % of the forecast GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 484.9 million as well as under EU funds of BGN 386.5 million. Fiscal reserve as of 30.09.2020 is BGN 13.53 billion, including BGN 13.49 billion. Government Budget in Bulgaria is expected to reach -4.4% of GDP by the end of 2020. In the long-term, the Bulgaria Government Budget is projected to trend around -3.9% of GDP in 2021 and -2% in 2022.**
- **As at end-September 2020, central government debt stands at BGN 29,168.2 million. Government Debt to GDP in Bulgaria is expected to be 25% by the end of 2020. Looking forward, we estimate Government Debt to GDP in Bulgaria to stand at 26.9% in 2021 and 28% in 2022.**
- **In October 2020 broad money (monetary aggregate M3) increased by 9% yoy to BGN 109.289 billion and presented 98.5% of full year GDP. At the end of the month Bulgaria's domestic credit reported BGN 65.163 billion and increased by 4.8% yoy. In October 2020 claims on the non-government sector increased by 6.2% yoy reaching BGN 66.885 billion. Claims on loans to the non-government sector amounted to BGN 64.863 billion (58.4% of GDP). They increased yoy by 5.8% in October 2020 (5.9% yoy growth in September 2020).**

GLOBAL TRENDS

Advanced countries' economies

Eurozone

Although the third-quarter GDP readings in the euro area were widely expected to show a strong expansion, preliminary data point to an even more robust recovery from the first wave of the pandemic. The euro area economy grew by 12.7% in the three months to September 2020, recovering from a record slump of 11.8% seen during the Q2 and easily beating market expectations of 9.4%, a preliminary estimate showed. That was the steepest pace of expansion since comparable data started to being collected in 1995, boosted by a rebound in activity and global demand after European countries lifted lockdowns imposed to contain the spread of the coronavirus pandemic. Among the major economies, the strongest rebound was recorded in those that contracted most sharply during H1 2020. All major economies in the region posted record increases in GDP: France (18.2% vs -13.7% in Q2); Spain (16.7% vs -17.8%); Italy (16.1% vs -13.0%); and Germany (8.2% vs -9.8%). Year-on-year, the GDP shrank by -4.3%, easing from a record contraction of -14.8% in the second quarter. At the time of the release of the Q3 data, the euro area recovery was already under pressure from new containment measures, mainly affecting non-essential activity in the services sectors, such as restaurants and bars, as well as culture and leisure activity. Meanwhile, the fiscal backdrop remains supportive and substantial with many programs extended or new fiscal resources being introduced to support sectors most heavily affected by restrictions. In addition, this stimulus will be followed by new fiscal initiatives at the EU-level, namely the EUR 750 billion Next Generation EU in the second part of 2021. The European Commission lowered its GDP forecasts for 2021, saying that the resurgence of the pandemic in recent weeks is resulting in disruptions as national authorities introduce new public health measures to limit its spread. The Commission said its forecast assumed COVID-related restrictions would remain, to some degree, until 2022; while making a technical assumption that there will be no trade deal between the EU and the UK in place on January 1st, 2021, and that trade will be based on WTO terms. The euro area consumer prices are expected to drop -0.3% from a year earlier in October 2020, the same as in the previous month and matching market expectations, a preliminary estimate showed. Prices should decline further for both energy products (-8.4% vs -8.2% in September) while cost of non-energy industrial goods is set to fall at a softer pace (-0.1% vs -0.3%). At the same time, inflation is set to slow for services (0.4% vs 0.5%). Meanwhile, prices of food, alcohol & tobacco is expected to rise at a faster pace (2% vs 1.8%). The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to remain unchanged at a record low of 0.2%. The unemployment rate in the euro area was unchanged at 8.3% in September of 2020, the same as an upwardly revised 8.3% in August and the highest since April of 2018. Figures came in line with market expectations and compare with 7.5% a year earlier. 13.612 million people were unemployed in the Euro Area in September, an increase of 75,000 from August and a rise of 1.376 million from a year earlier. Despite a relatively upbeat outlook for manufacturing, the downturn in services, accounting for a much larger part of the economy, is set to interrupt the recovery. We now expect a dark winter in the euro area, with another contraction in Q4 and weak momentum carrying over into Q1 2021. **Overall, our growth outlook for 2020 has seen a marginal improvement to -7.5% due to the better-than-expected Q3 figures. At the same time, we have downgraded 2021 growth from 4.9% to 1.9%, assuming slower lifting of containment measures and a gradual boost from the expected broad vaccination coming after mid 2021.**

Italy

Italy's gross domestic product grew by a record 16.1% in the three months to September 2020, rebounding from an unprecedented contraction of -13% in the previous period and beating market consensus of 11.2%, a preliminary estimate showed. Growth was broad-based, with industry, services and agriculture all showing a rise in output. Year-on-year, the GDP shrank -4.7%, following a downwardly revised -17.9% contraction in the second quarter. Rome had expected growth to continue in the fourth quarter but this is now threatened by a resurgence of the coronavirus which has forced the government to impose new restrictions on business. ISTAT said that if GDP were to be flat quarter-on-quarter in the final three months of the year, full-year GDP would be down -8.2% compared with 2019. Consumer prices in Italy are expected to decrease 0.3% year-on-year in October of 2020, following a 0.6% fall in the previous month and compared to market expectations of a 0.4% drop, a preliminary estimate showed. It was the sixth consecutive month of falls in consumer prices but the softest since June. The annual core inflation rate, which excludes energy and unprocessed food is set to edge up to 0.3% from 0.1% in the prior month. Excluding only energy, inflation is seen rising to 0.5% from 0.2% in September.

On a monthly basis, consumer prices are likely to increase 0.2%, after a -0.7% slump in the prior month. Italy's unemployment rate dropped marginally to 9.6% in September 2020, from 9.7% in the previous month and below market consensus of 10.1%. The number of unemployed people fell by 22 thousand to 2.439 million, while employment levels were little-changed at 22.953 million, as the labor market stabilized after a coronavirus lockdown. **We expect a contraction of Italian GDP of -9.4% in 2020. We expect a recovery in Italy of 1.8% in 2021.**

France

The French economy grew at a record pace of 18.2% on quarter in the third quarter of 2020, a reversal from a 13.7% contraction in the previous period when the country was in strict COVID-19 lockdown, and beating market consensus of a 15.4% rise, a preliminary estimate showed. Household spending (17.3% vs -11.6%), government consumption (15.4% vs -10.4%), and investment (23.3% vs -14.3%) all rebounded sharply. Also, net foreign trade contributed positively (1.2%), amid a sharp turnaround in exports (23.2%) while imports rose 16%. Year-on-year, the GDP shrank -4.3%, remaining below its pre-pandemic level. Consumer prices in France stalled again 0% on a yearly basis in October, the same as in September, according to preliminary estimates. On a monthly basis, consumer prices edged down -0.1% after falling -0.5% in September. The harmonized index likely stalled 0% on a yearly basis and declined -0.1% on a monthly one. The unemployment rate in France increased to 9% in Q3 of 2020, the highest level since Q3 of 2018, from 7.1% in the second quarter and above market expectations of 7.9%. Unemployment data for the first two quarters of 2020 was skewed because of the mid-March to mid-May lockdown, which reduced the number of those technically classified as unemployed since it had been impossible for them to look for jobs. Labor search behaviors resumed in Q3, consequently unemployment rose sharply in Q3 2020. However, the increase in unemployment compared to either Q3 2019 (+0.6%), highlights a clear deterioration in the labor market. **We expect a decline of GDP growth in France of -9.5% in 2020 and recovery of 2.5% in 2021.**

Spain

Spain's economy grew by 16.7% on quarter in the three months to September 2020, the most since comparable records began in 1995 and compared with a record contraction of -17.8% in the previous period, a preliminary estimate showed. The GDP reading also beat market expectations of a 13.5% expansion, as demand and activity recovered following the relaxation of restrictive measures during the summer. Household consumption surged 20.7% (vs -20.4% in Q2) and fixed investment jumped 19.9% (vs -22.1% in Q2). In addition, public spending rose 1.1% (vs 0.3% in Q2) and net external demand contributed positively to the GDP as exports increased more than imports. Still, year-on-year, the economy shrank by -8.7%, compared to a record -21.5% contraction in the previous period and leaving the Spanish economy below pre-pandemic levels. Consumer prices in Spain are expected to decrease -0.9% year-on-year in October of 2020, following a -0.4% fall in the previous month and compared to market expectations of a -0.6% drop, a preliminary estimate showed. It was the steepest fall in consumer prices since May. The harmonized index of consumer prices is seen falling -1% over a year ago, after a -0.6% decline in September. On a monthly basis, consumer prices are likely to advance 0.5%, accelerating from a 0.2% gain; and the harmonized index should increase 0.3%, following a 0.4% rise. The country slipped into deflation in April when the coronavirus crisis started to hit more the economy. Spain's unemployment rate rose to 16.26% in the third quarter of 2020, the highest since the first quarter of 2018 and above market expectations of 15.90%, as the coronavirus pandemic hit the labor market. The rate does not include furloughed workers, meaning the true figure could be significantly higher. Young people were the most affected as the unemployment rate among the under 25s was up to 40.45% in the third quarter. Q3 is usually the time of the year when more people are working in Spain as tourism boosts seasonal employment, but hospitality, accommodation and transport are among those activities that have suffered the most from Covid-19. **We expect a decline of GDP in Spain of -12.0% in 2020 and recovery of 1.3% 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. Inflation Rate in Slovenia increased to -0.10% in October from -0.34% in September of 2020. Slovenia's unemployment rate rose to 9.1% in August of 2020 from 7.4% in the same month of the previous year, mainly due to the Covid-19 pandemic. The number of unemployed people rose by 16.628 from a year ago to 88,172, while employment went down by 11,055 to 882,125. In July, the jobless rate was slightly higher at 9.2%. We expect a decline of GDP in Slovenia of -7% in 2020 and recovery of 5% in 2021.

Lithuania

Lithuanian economy grew 3.7% on quarter in the three months to September 2020, after an upwardly revised -5.9% contraction in the previous period, the preliminary estimate showed. Positive contributions came from wholesale and retail trade, industry and construction. On a yearly basis, the GDP shrank by -0.1%, the second straight quarter of contraction, after an upwardly revised -4.6% contraction in the second quarter 2020. Lithuania's annual inflation rate stood at 0.7% in October of 2020, unchanged from the previous month, still the least since May. On a monthly basis, consumer prices edged up 0.1% in October, after a 0.4% rise in September. Unemployment Rate in Lithuania increased to 14.90% in October from 14.10% in September of 2020. **We expect a decline of GDP in Lithuania of -2.2% in 2020 and recovery of 3.0% in 2021.**

Poland

Poland's gross domestic product shrank by -1.6% from a year earlier in the third quarter of 2020, following a record -8.2% contraction in the previous period and compared to market expectations of a -1.7% drop, preliminary estimates showed. Poland's economy has been battered by the Covid-19 and the introduction of government measures to prevent the consequences of the pandemic. On a seasonally adjusted quarterly basis, the economy advanced 7.7%, the most on record and rebounding from -8.9% slump in Q2. The annual inflation rate in Poland edged down to 3.1% in October 2020 from 3.2% in the previous month, above preliminary estimates of 3%. On a monthly basis, consumer prices went up 0.1%, following a 0.2% rise in September and in line with earlier estimates. Poland's unemployment rate came in at 6.1% in September of 2020, unchanged from the previous three months and matching market expectations. It remains the highest jobless rate since February of 2019, as the number of unemployed persons dropped just 3.3 thousand from a month earlier to 1,024.7 thousand. A year ago, the jobless rate was lower at 5.1%. **We expect a decline of GDP in Poland of -3.0% in 2020 and recovery of 4.8% in 2021.**

Romania

The Romanian GDP contracted -6% year-on-year in the third quarter of 2020, after a -10.3% contraction in the previous period, and worse than market consensus of a -4% contraction, a preliminary estimate showed. This was the second straight quarter of contraction in the GDP, as the COVID-19 crisis took a huge toll on the economy. On a seasonally adjusted quarterly basis, the economy grew 5.6%, the most since the data began in the second quarter 1995, after an upwardly revised -12.2% fall in the second quarter. Romania's annual inflation rate decreased to 2.2% in October 2020, the least since September 2017, from 2.5% in the previous month, and below market estimates of a 2.3% rise. On a monthly basis, consumer prices were up 0.2% in October, after a -0.1% fall in September. Romania's seasonally adjusted unemployment ticked down to 5.2% in September 2020 from 5.3% in the previous month. This was the lowest jobless rate since May. **We expect a decline of GDP in Romania of -5.1% in 2020 and recovery of 4.0% in 2021.**

Great Britain

Britain's gross domestic product shrank by -9.6% year-on-year in the third quarter of 2020, following a record contraction of -21.5% in the previous three-month period and compared with market expectations of a -9.4% fall, a preliminary estimate showed. The economy started to recover as restrictions on movement eased across June, July, August and September. UK GDP expanded 15.5% in the three months to September 2020, partially recovering from a record contraction of -19.8% seen in the previous period and compared with market expectations of a 15.8% growth, a preliminary estimate showed. This was the strongest pace of expansion in the economy since the series began in 1955, reflecting the continued easing of lockdown restrictions as well as some recovery of activity from the steep contraction in April. Household consumption increased 18.3% (vs -26.3% in Q2) driven by higher spending on restaurants and hotels and transport, and gross fixed capital formation rose 15.1% (vs -21.6% in Q2) boosted by dwellings investment and business investment. Still, household consumption and business investment remained well below pre-pandemic levels.

On the Brexit front, negotiations have resumed and the political willingness to reach a deal seems to have grown too. We maintain our assumption of a mini, but rather messy Brexit-deal by the end of the year. Though Brexit remains an operational challenge to the financial sector, its economic impact is expected to be mild, regardless of the negotiation outcome. Annual inflation rate in the United Kingdom increased to 0.5% in September of 2020 from a near 5-year low of 0.2% in August, matching market expectations. On a monthly basis, consumer prices went up 0.4%, reversing from a -0.4% fall in August. Still, the inflation rate remains well below the Bank of England's 2% target. The unemployment rate in the UK increased to 4.8% in the three months to September of 2020, higher than 4.5% in the previous period and 3.9% a year earlier. It is the highest jobless rate since the last quarter of 2016, amid the coronavirus-hit. Figures were in line with forecasts. **For the UK, we expect a contraction of -11.0% in 2020. We expect a recovery in UK of 5% in 2021.**

USA

The US economy expanded by 33.1% qoq in Q3 2020, beating forecasts of a 31% surge. It is the biggest expansion ever, following a record 31.4% plunge in Q2, as the economy rebounds from the coronavirus pandemic. Personal spending surged and was the main driver of growth, helped by checks and weekly unemployment benefits from the federal CARES Act. Growth also reflects increases in private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans). However, GDP is still -3.5% below its pre-pandemic level and the outlook for Q4 and 2021 remains uncertain as the pandemic is far from controlled and a vaccine is not ready yet. Also, out of more than 22 million jobs lost in March and April only around 11.3 million were recovered so far while a new stimulus bill hasn't been approved yet. On the annualized base, GDP in the United States contracted -2.90% in the third quarter of 2020 over the same quarter of the previous year. Although growth rebounded from a very low base in Q3, and as such could be described as mechanical, solid economic momentum appears to be maintained heading into Q4. Business sentiment, for example, continued to improve in October, and high-frequency indicators for consumer spending and personal income came out in a solid shape. Furthermore, the labour market shows signs of resilience. Annual inflation rate in the US fell to 1.2% in October of 2020 from 1.4% in the previous month and below market expectations of 1.3%. The rate remains well below 2.3% in February before the coronavirus pandemic hit. On a monthly basis, consumer prices were unchanged 0%, after increasing 0.2% in the prior month and compared with forecasts of a 0.1% gain. Annual core inflation unexpectedly slowed to 1.6% while the monthly index was down unchanged 0%. The US unemployment rate dropped to 6.9% in October 2020, from the previous month's 7.9% and compared with market expectations of 7.7%, as the number of unemployed persons fell by 1.5 million to 11.1 million and the employment rose by 2.2 million to 149.8 million. Still, the jobless rate remained well above pre-pandemic levels of about 3.5%, as the labor market recovery from COVID-19 shock showed signs of slowing amid a lack of fiscal stimulus and spiraling new coronavirus infections. As a consequence, we see somewhat softer end-year growth dynamics in the US than previously envisaged. Still, despite a slight downgrade to our Q4 outlook, a sharper-than-expected outturn in Q3 leads, on balance, to improved annual growth in 2020 from -4.5% to -3.7%. For next year, we continue to pencil in a major payback from the contraction, projecting annual growth of 4.0% amid a more constructive macro backdrop, in particular, buoyed by a gradual mass roll-out of a Covid-19 vaccine.

Japan

The Japanese economy advanced 5% qoq in Q3 2020, partially recovering from a record slump of -8.2% in the previous period and beating market consensus of 4.4%, a preliminary estimate showed. This was the first quarterly growth rate in a year, as activity and demand rebounded from the severe damage caused by the COVID-19 crisis. Private consumption rose for the first time in four quarters (4.7% vs -8.1% in Q2), while capital expenditure contracted at a softer pace (-3.4% vs -4.5%). In addition, net external demand added 2.9%age points to the GDP as exports grew for the first time in three quarters (7% vs -17.4%) while imports tumbled (-9.8% vs 2.2%). On an annualized basis, the economy contracted at -5.8%% in Q3, after a plunge of -10.2% in Q2. Japan's consumer prices remained unchanged 0% in September year-on-year after increasing 0.2% in the previous month, as the pandemic continued to hamper consumption. On a monthly basis, consumer prices edged down -0.1% for the second month. Core consumer prices, which exclude fresh food, dropped -0.3% after falling -0.4% in the previous month Unemployment Rate in Japan remained unchanged at 3% in September from 3% in August of 2020. **We expect growth in Japan to contract -5.6% in 2020. We expect a recovery in Japan of 2.6% in 2021.**

China

The Chinese economy advanced 4.9% yoy in Q3 2020, faster than a 3.2% expansion in Q2 but below forecasts of a 5.2% growth. Despite the lower-than-expected reading, there are signs the expansion is finally extending to consumption after a state-backed industrial recovery. Retail sales rose 3.3% yoy in September, above forecasts and the highest reading so far this year. Industrial production went up 6.9%, also higher than expected and the biggest gain in 2020. For the first nine months of the year, the economy expanded 0.7%, recovering all the ground it lost in the first half, with the primary industry increasing 2.3%, the secondary 0.9% and the services sector 0.4%. Rising global demand for medical equipment and work-from-home technology has been boosting exports while government support including more fiscal spending, tax relief and cuts in lending rates and banks' reserve requirements has also helped to boost the recovery. The Chinese economy grew by a seasonally adjusted 2.7% on quarter in the three months to September 2020, following an upwardly revised 11.7% advance in the previous quarter and below market expectations of a 3.2% expansion. China remains on track to grow 2.0% in 2020, with the latest GDP figure confirming that the economy continued to recover in the third quarter. Though the pace of the recovery did slow from 11.7% qoq in Q2 to 2.7% qoq in Q3, this partially reflects a normalization of growth dynamics following the large swings seen in the first half of the year. Investment continued to lead the economic recovery, but consumption is also picking up. Higher frequency sentiment indicators suggest that the fourth quarter got off to a strong start as well. Meanwhile, the Chinese renminbi has appreciated 8% against the USD between 27 May 2020 and 6 November 2020. This relative strength reflects the stronger, V-shaped recovery experienced by the Chinese economy as well as interest rate differentials (as the PBoC has been more moderate in its policy stimulus through this year), which together with more financial openness, has attracted investment inflows into China. China's annual inflation rate eased to 0.5% in October 2020, the lowest since October 2009 and below market expectations of 0.8%. There was a sharp slowdown in prices of food (2.2% vs 7.9% in September), with pork prices falling for the first time in over 1-1/2 years.. On a monthly basis, consumer prices unexpectedly fell by -0.3%, the first drop in four months, missing consensus of a 0.2% rise. Unemployment Rate in China decreased to 5.40 percent in September from 5.60 percent in August of 2020. **Given the relative strength of growth in Q3 and the fact that the pandemic in China remains mostly under control, we have confirmed Chinese GDP growth to 2.0% in 2020 and 8.2% in 2021.**

Turkey

The Turkish lira had lost around 30% of its value since the start of the year, hitting a record low of 8.58 against the dollar on 06.11.2020, while annual inflation has hit 11.89%. Turkish President Recep Tayyip Erdogan removed the country's central bank governor Murat Uysal from his post on 07.11.2020 after the Turkish lira reached a record low. The decision was made by presidential decree and announced in the country's Official Gazette, with no immediate reason given for the sacking. Uysal's replacement after just 16 months in the job was named as former finance minister Naci Agbal. Uysal took on the role after a dispute between Erdogan and the previous governor, Murat Cetinkaya, over cutting interest rates. In a statement released in 09.11.2020, the new central bank chief vowed to “decisively use all policy tools in pursuit of (the central bank’s) price stability objective.” The Turkish lira hovered around 7.7 against the US dollar, after rallying as much as 12% last week to its strongest level since October 1st. President Recep Tayyip Erdogan has accepted the resignation of his son-in-law from the position of finance minister, the Turkish leader’s office announced 09.11.2020. A statement from his office said Erdogan has accepted Berat Albayrak’s request “to be excused from his duties”. The President replaced Albayrak with former Deputy Prime Minister Lutfi Elvan as its treasury and finance minister. President Recep Tayyip Erdogan, who in the past has repeatedly called for lower interest rates, pledged a new economic recovery plan based on price stability, lower inflation and international investment. Erdogan also highlighted the importance of rebuilding both depleted FX reserves and faith in the currency. Turkey’s September industrial production (IP) posted 8.1% growth beating 7.5% market expectation. Hence, on a calendar adjusted basis 3Q20 industrial production growth adds to 7.7%. This will be fueling the amount that reflects the magnitude of Turkey’s recovery from the -9.9% CIVID-19 related economic contraction recorded in Q3 2020; roughly at around 5.6%. The inflation rate in Turkey edged up to 11.89% in October of 2020 from 11.75% in September, in line with market forecasts. On a monthly basis, consumer prices increased 2.1%, above 1% in September and matching expectations. The unemployment rate in Turkey decreased to 13.2% in August of 2020 from 14% in the corresponding month of the previous year. The youth jobless rate aged between 15-24 years went down to 26.1% from 24.8% in August of 2019. **We expect a decline of GDP in Turkey of -1.5% in 2020 and recovery of 3.5% in 2021.**

Policy of the central banks

European Central Bank (ECB)

In the current environment of risks clearly tilted to the downside, the Governing Council will carefully assess the incoming information, including the dynamics of the pandemic, prospects for a rollout of vaccines and developments in the exchange rate. The new round of Eurosystem staff macroeconomic projections in December will allow a thorough reassessment of the economic outlook and the balance of risks. On the basis of this updated assessment, the Governing Council will recalibrate its instruments, as appropriate, to respond to the unfolding situation and to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path. This will foster the convergence of inflation towards its aim in a sustained manner, in line with its commitment to symmetry.
In the meantime, the Governing Council of the ECB took the following monetary policy decisions:
(1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.
(2) The Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of EUR 1,350 billion. These purchases contribute to easing the overall monetary policy stance, thereby helping to offset the downward impact of the pandemic on the projected path of inflation. The purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. This allows the Governing Council to effectively stave off risks to the smooth transmission of monetary policy. The Governing Council will conduct net asset purchases under the PEPP until at least the end of June 2021 and, in any case, until it judges that the coronavirus crisis phase is over. The Governing Council will reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2022. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.
(3) Net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR 20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of the year. The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.
(4) The Governing Council will also continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households.

Bank of England (BoE)

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present is to respond to the economic and financial impact of the Covid pandemic. At its meeting ending on 4 November 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 20 billion. The Committee voted unanimously for the Bank of England to continue with the existing programme of GBP 100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and also for the Bank of England to increase the target stock of purchased UK government bonds by an additional GBP 150 billion, financed by the issuance of central bank reserves, to take the total stock of government bond purchases to GBP 875 billion. Since the Committee's previous meeting, there has been a rapid rise in rates of Covid infection. The UK Government and devolved administrations have responded by increasing the severity of Covid restrictions. All restrictions announced up to and including 31 October have been reflected in the Committee's judgements. There are signs that consumer spending has softened across a range of high-frequency indicators, while investment intentions have remained weak. These assume that developments related to Covid will weigh on near-term spending to a greater extent than projected in the August Report, leading to a decline in GDP in 2020 Q4. Twelve-month CPI inflation increased to 0.5% in September, but remained well below the MPC's 2% target, largely reflecting the direct and indirect effects of Covid on the economy.

These include the temporary impact of lower energy prices and the reduction in VAT, as well as some downward pressure from spare capacity. CPI inflation is expected to remain at, or just above, 0.5% during most of the winter, before rising quite sharply towards the target as the effects of lower energy prices and VAT dissipate. In the central projection, conditioned on prevailing asset prices, inflation is projected to be 2% in two years' time. The outlook for the economy remains unusually uncertain. It depends on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It also depends on the responses of households, businesses and financial markets to these developments. The MPC will continue to monitor the situation closely. If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

USA Federal Reserve

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. 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)

October 29, 2020 Bank of Japan Statement on Monetary Policy

1. At the Monetary Policy Meeting held in October 28 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 percent 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%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by 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.

2. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. The Bank of Japan will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of JPY and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs. For the time being, the Bank of Japan will closely monitor the impact of the novel coronavirus (COVID- 19) and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels.

PBoC

People's Bank of China governor Yi Gang said that promoting broader use of the CNY will continue alongside the opening of markets. "The regulator's main job is to reduce restrictions on the cross-border use of the currency, and let it take its own course," he said. Those comments were echoed by Zhu Jun, director general of the central bank's international division. Policymakers will remove obstacles that stand in the way of broader use of the currency with steady liberalization of the capital account, increasing CNY exchange-rate flexibility and improving liquidity in the bond market. The comments by the two officials are a reminder that even though promoting the CNY hasn't taken off as rapidly as expected since the idea was kicked off a decade ago, monetary officials are pressing ahead anyway. Success would give Chinese policymakers some things they've long dreamed about: the use of the CNY as a global reserve currency and a challenge to the US dollar's dominance in trade and finance. China will stick to its goal of CNY internationalization and there is no going back from its financial opening up. More and better policies are likely to be seen to accelerate the internationalization. Chinese policymakers set their plan to raise the influence of their currency in the wake of the global credit crisis but it has made halting progress at best, mostly because the government has little appetite for giving up control on issues such as capital outflows. Calls for expanding CNY usage picked up in the Asian nation over the past summer as tensions with the US spilled over into the financial sphere. The CNY's share in global payments and in central bank reserves remains at around 2% but China's efforts continue. The PBOC said last Thursday that it and Bank of Korea agreed to extend a currency swap agreement another five years and boost the amount involved to CNY 400 billion (USD 59.9 billion). The CNY has rallied 7% from a low in May to its highest in two years. Investor sentiment has got a boost from China's economic rebound from the damage the virus did earlier in the year and the US dollar's weakness. The surge is also being propelled by a wide interest-rate premium over the rest of the world, and by the US elections results.

Central Bank of Turkey

19 November 2020 Central Bank of Turkey Press Release on Interest Rates.
The Monetary Policy Committee (MPC) has decided to:

- increase the policy rate (one-week repo auction rate) from 10.25% to 15%, and
- provide all funding through the main policy rate, which is the one-week repo auction rate.

Global economic activity has recovered partially in the third quarter. However, uncertainties regarding global economic activity heightened due to the recent increase in Covid-19 cases.
The recovery in economic activity continues. Partial restrictions introduced due to the increasing number of cases heighten uncertainties on the short-run outlook of economic activity, particularly the services sector. Besides, strengthening domestic demand, due to the lagged effects of strong credit impulse during the pandemic, affects the current account balance adversely through the imports channel.
The lagged effects of depreciation in Turkish lira, increasing international food prices and deterioration in inflation expectations affect the inflation outlook adversely. While tracked data for November point to an increase in inflation due to the recent exchange rate volatility, this is assessed to be temporary with the decisive monetary policy stance. Accordingly, the Committee has decided to implement a transparent and strong monetary tightening in order to eliminate risks to the inflation outlook, contain inflation expectations and restore the disinflation process.
In the periods ahead, all factors affecting inflation will be taken into account, and the tightness of monetary policy will be decisively sustained until a permanent fall in inflation is achieved.
The permanent establishment of a low inflation environment will affect macroeconomic and financial stability positively through the fall in country risk premium, reversal in the dollarization trend, accumulation of foreign exchange reserves and the perpetual decline in financing costs. The Central Bank will attain its main objective of achieving and maintaining price stability by adopting transparency, predictability and accountability principles of the inflation targeting regime. In light of these principles, the Central Bank funding will be provided through the one-week repo rate, which will be the main policy tool and the only indicator for the monetary stance. It should be emphasized that any new data or information may lead the Committee to revise its stance.

International commodity prices

Oil prices

The Brent price increases 0.01 USD/BBL or 0.02% to 44.350 USD/BBL on November 19. The price of crude oil decreases 0.16 USD/BBL or -0.38% to 41.660 USD/BBL on November 19. 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. Oil prices declined on November 19 2020, amid fears about weak global demand as COVID-19 numbers across the globe continued upward. New virus cases per day in the US have exploded more than 80% over the past two weeks to the highest on record, while Japan is reportedly on "maximum alert," a day after the country reported a record of over 2,000 daily new virus cases. In Australia, South Australia state launched Wednesday November 18, 2020 six-day restrictions and closed most business except food outlets. Meantime, figures from the Energy Information Administration showed the US crude oil inventories rose by 0.768 million barrels last week. Limiting the decline, the OPEC+ will extend its current supply cuts for a minimum of three months, according to Reuters.

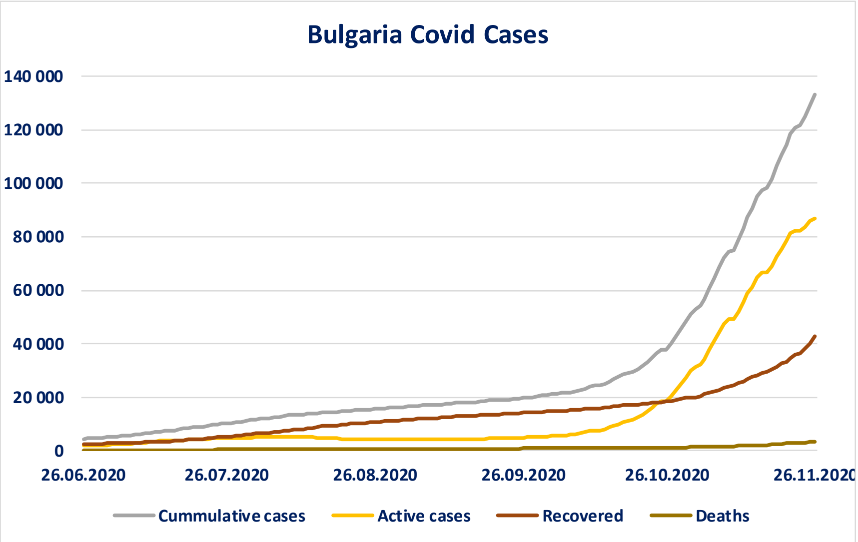
Agriculture prices

In November 2020 the fluctuations in the prices of the main grain contracts on the world stock markets remained relatively weak. Exceptions are oilseeds, where the trend continues to be bright upwards. Rapeseed in the European Union / Euronext / flew away with a plus of EUR 8.25 to 414.50 EUR / ton. Wheat in the US fell by USD 1.00 to 268.00 USD / ton, in France fell by 6.00 EUR to 210.50 EUR / ton. Prices in both Ukraine and Russia remained unchanged at USD 254.00 and 256.50 USD / ton. In the case of corn, prices in the United States after a certain lull rose by USD 7.00 to 227.00 USD / ton and also added USD 2.00 in Ukraine to 238.00 USD / ton. Barley in Ukraine rose by USD 3.00 to 218.00 USD / ton, and in France there was a rise of EUR 2.00 to 206.00 EUR / ton. After the unrefined sunflower oil on the Rotterdam Stock Exchange rebounded in early November, this trend continued to rise and led to a sharp reaction of the oil complex due to the rise in oil prices - plus another USD 80.00 to USD 1195.00 USD /ton and refined sugar regained its position with a plus of USD 7.80 to 414.70 USD/ ton on the London Stock Exchange. In the "Grain" sub-district of the Sofia Commodity Exchange AD for bread wheat there were only quotations for sale at 400.00 BGN / ton, the fodder is in high demand from BGN 380.00 to 400.00 BGN / ton, the sellers quote from 430.00 BGN / ton. For oilseed sunflower for the demand from the place the prices are up - from 750.00 to 780.00 BGN / ton, the sellers announce 800.00-830.00 BGN / ton All prices are without VAT.

II.BULGARIA: ACCENTS AND PROJECTIONS

HEALTH

The second wave of COVID 19 is much worse, with a larger number of sick people. This time, the authorities reacted more cautiously and imposed partial blockades. The new blockades mainly affect the services sector, while external demand supports the manufacturing sectors. Since the beginning of October 2020, there has been a sharp exponential increase in the incidence of coronavirus pandemics in Bulgaria. As of November 26, 2020, the total number of laboratory-confirmed infections since the beginning of the pandemic is 133,060. The active cases are 87,073. 42,620 have been cured and 3,367 have died. So, the second wave of a pandemic in Bulgaria is a fact. The government has issued a statement saying it is preparing to extend the epidemic until March 31, 2021 and introduce new restrictive measures in schools, universities, kindergartens, sports and culture, entertainment and malls up to December 21, 2020**.**



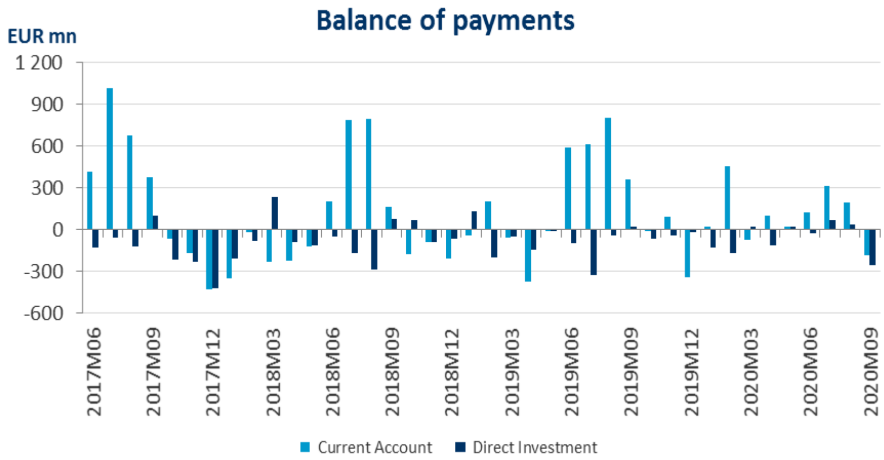
The new restrictive measures include:
• suspension of all attendance classes in all educational institutions on the territory of the country, including all higher education institutions, all students from 1st to 12th grade, nurseries and kindergartens, extracurricular activities, study centers, language centers, educational centers, etc .;
• suspension of attending congresses, seminars, competitions, trainings, team building, etc.
• suspension of cultural events with the exception of theaters, which can operate with an occupancy of up to 30% and compliance with a distance of 1.5 m and all other anti-epidemic measures;
• it is not allowed to hold celebrations of a private nature with more than 15 people;
• all sports events for persons under 18 years of age are suspended, except for the already started international competitions;
• all sports events for persons over 18 years of age will be held without an audience;
• visits to fitness centers are suspended;
• catering and entertainment establishments cease to operate, except for preparing food for the home or taking space for the home or office;
• the activity of gambling halls and casinos is suspended;
• the activity of shopping centers and large mall-type shopping centers is suspended, with the exception of the sites in them, which are grocery stores, pharmacies, drugstores, pet stores, payment service providers and telecommunication service providers;
• Organized excursions and tourist trips with organized transport are suspended.

EXTERNAL SECTOR

Balance of payments

The current and capital account recorded a deficit of EUR 116.3 million in September 2020, compared with a surplus of EUR 432 million in September 2019. In January – September 2020 the current and capital account was positive amounting to EUR 1,390.8 million (2.5% of GDP), compared with a surplus of EUR 2,780.6 million (4.5% of GDP) in January – September 2019. The current account was negative amounting to EUR 183.5 million in September 2020, compared with a surplus of EUR 364.1 million in September 2019. In January – September 2020 the current account was positive and amounted to EUR 651.9 million (1.1% of GDP), compared with a surplus of EUR 2,095.8 million (3.4% of GDP) in January – September 2019. The balance on goods recorded a deficit of EUR 136 million in September 2020, compared with a deficit of EUR 150.5 million in September 2019.

In January – September 2020 the balance on goods was negative amounting to EUR 920.4 million (1.6% of GDP), compared with a deficit of EUR 1,948.3 million (3.2% of GDP) in January – September 2019. Exports of goods amounted to EUR 2,478.8 million in September 2020, growing by EUR 11.2 million (0.5%) from EUR 2,467.6 million in September 2019. In January – September 2020 exports of goods totaled EUR 19,954 million (35.2% of GDP), dropping by EUR 1,660.4 million (7.7%) year-on -year (from EUR 21,614.4 million, 35.3% of GDP). In January – September 2019 exports grew by 5.8% year-on-year. Imports of goods amounted to EUR 2,614.7 million in September 2020, dropping by EUR 3.3 million (0.1%) from September 2019 (EUR 2,618 million). In January – September 2020 imports of goods totalled EUR 20,874.3 million (36.8% of GDP), down by EUR 2,688.4 million (11.4%) from January – September 2019 (EUR 23,562.7 million, 38.5% of GDP). In January – September 2019 imports grew by 5.5% year-on-year. Services recorded a positive balance of EUR 141.5 million in September 2020, compared with a surplus of EUR 541.2 million in September 2019. In January – September 2020 services recorded a surplus of EUR 2,110 million (3.7% of GDP) compared with a positive balance of EUR 4,084 million (6.7% 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 138.5 million, compared with a deficit of EUR 188.2 million in September 20193. In January – September 2020 the balance on primary income was negative and equated to EUR 1,197.6 million (2.1% of GDP), compared with a deficit of EUR 1,518.7 million (2.5% of GDP) in January – September 2019. The net secondary income (which reflects the redistribution of income) recorded a deficit of EUR 50.5 million, compared with a positive balance of EUR 161.5 million in September 2019. In January – September 2020 the net secondary income was positive amounting to EUR 659.9 million (1.2% of GDP), compared with a positive balance of EUR 1,478.9 million (2.4% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 67.2 million, compared with a positive balance of EUR 67.9 million in September 2019. In January – September 2020 the capital account recorded a surplus of EUR 738.8 million (1.3% of GDP), compared with a positive balance of EUR 684.7 million (1.1% of GDP) in January – September 2019. The financial account recorded a surplus of EUR 108.7 million, compared with a surplus of EUR 438.3 million in September 2019. In January – September 2020 the financial account recorded a net inflow of EUR 3,761.6 million (6.6% of GDP) compared with an inflow of EUR 2,400.9 million (3.9% of GDP) in January – September 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 BNB preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 729.5 million (1.3% of GDP) in January – September 2020, dropping by EUR 326.8 million (30.9%) from January – September 2019 (positive value of EUR 1,056.3 million, 1.7% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 268.9 million in September 2020, compared with an inflow of EUR 53.3 million in September 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 935.7 million in January – September 2020, dropping by EUR 456.2 million from a negative value of EUR 479.5 million in January – September 2019. Real estate investments of non-residents totalled EUR 1.6 million, compared with EUR 3.8 million in January – September 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 439.7 million, compared with a positive value of EUR 535.9 million in January – September 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 1,225.4 million in January – September 2020, compared with a positive value of EUR 999.9 million in January – September 20195. The largest net direct investment inflows in Bulgaria for January – September 2020 were from the Netherlands (EUR 418.7 million), Austria (EUR 235.4 million), Germany (EUR 122.3 million), and Russia (EUR 103.5 million). According to preliminary data, direct investment abroad totalled EUR 105.1 million (0.2% of GDP), compared with EUR 352.6 million (0.6% of GDP) in January – September 2019. It grew by EUR 18.6 million in September 2020, compared with EUR 74.1 million in September 2019. 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

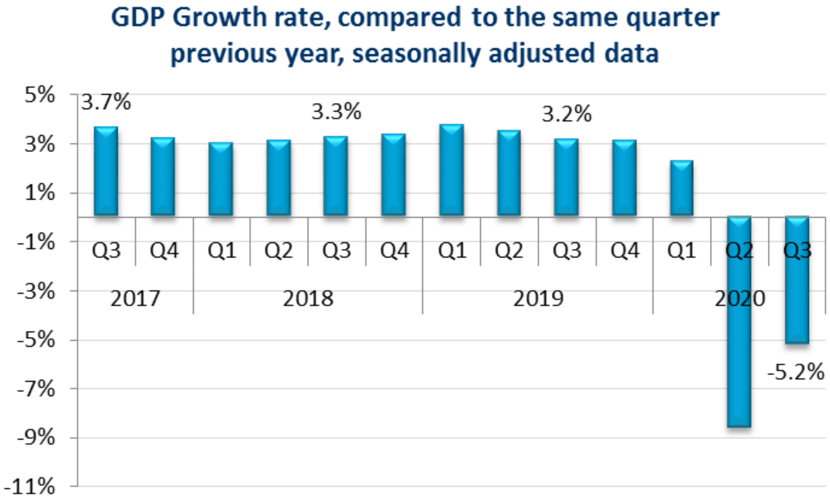
GDP Projections

In its Autumn Forecast, the European Commission has adjusted to 5.1% its expectations for Bulgaria's GDP drop in 2020, from 7.2% in the spring. According to the Commission, the country's economy started to recover after a steep downturn in the second quarter. Subdued consumer confidence and increased uncertainty will continue to influence consumption and investment by the end of the year. The GDP growth is expected to reach 2.6% in 2021 and 3.7% in 2022. Both exports and consumption are set to contribute positively to growth in the next two years, in line with positive external demand and labour market developments. According to the Commission's estimates, in 2020, as compared to the data for the 27 Member States, our country has the lowest budget deficit, ranks third in terms of lowest debt and has a GDP drop lower than the EU average. The European Commission notes for Bulgaria that after the registered fall in goods exports in March and April, they showed signs of recovery, mainly in terms of trade with EU countries. During the second quarter, there were almost no revenues from travel services to foreigners in the country and the flows have improved only slightly since then. The European Commission forecasts that the second wave of the pandemic will have a negative impact on exports in 2020-Q4 and 2021-Q1. The risks to the forecast are balanced. It does not take into account the funds that the country will receive under the EU Recovery and Resilience Facility, which poses an upside risk. On the downside, more depressed business sentiments could lead to lower investment in the next two years. The European Commission expects the unemployment rate to increase to 5.8% in 2020. The forecast takes into account the considerable increase in unemployment during the first half of the year, as well as the positive effect on limiting job losses as a result of the employment support scheme implemented by the government. A partial recovery in employment is projected to take place in 2021 and the unemployment rate is set to reach 5.6%, dropping to 5% in 2022. Wages' dynamics is expected to remain on an upwards trajectory, in part driven by public sector wage increases, as well as increases in minimum wage. However, the growth rate of the indicator is expected to slow down to 4.7 % in 2020 and 2021 and 4.0 % in 2022. Inflation has been on a downward path since the beginning of the year due to lower fuel prices. Annual average inflation is expected to fall to 1.2% in 2020 and then gradually increase to 1.4% in 2021 and 1.8% in 2022. In the next two years inflation will be driven mainly by services inflation, continuing the upward trend in recent years. The European Commission points out that Bulgaria is facing the COVID-19 pandemic from a strong fiscal position. The government has put in place measures such as higher remuneration for medical and security staff, subsidies and social support schemes, with an aggregate budgetary impact of around 2% of GDP. The accrual general government balance is set to turn negative at the end of 2020, reaching around 3% of GDP. In 2021, the budget deficit is forecast at around 3% of GDP, too. The economic recovery will have a positive impact on budget revenues, but a number of expenditure measures to preserve jobs and support incomes through wage increases and social benefits will have a negative impact on budget deficit. Under a nopolicy-change assumption, the European Commission forecasts that budget deficit is set to drop to 1.4% of GDP in 2022. General government debt is expected to increase by more than 5 pps and reach 25.7% of GDP in 2020 and 26.5% of GDP in 2021, before returning to a downward trend in 2022. Except for the primary budget deficit and the contraction in GDP, debt increase also reflects the establishment of a cushion in view of the emergency situation.

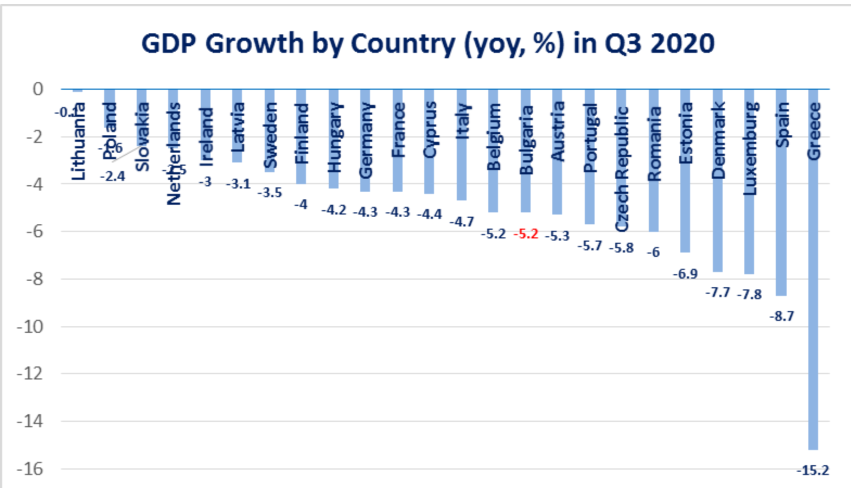
Bulgaria: EC Autumn Projections	2019	2020	2021	2022
GDP growth (%, yoy)	3.7	-5,1	2.6	3.7
Inflation (%, yoy)	2.5	1.2	1.4	1.8
Unemployment (%)	4.2	5.8	5.6	5
Public budget balance (% of GDP)	1.9	-3,0	-3	-1.4
Gross public debt (% of GDP)	20.2	25.7	26.4	26.3
Current account balance (% of GDP)	5.2	3.5	4	4.4
Source: EC				

GDP Growth

According to the flash GDP estimates for Q3 of 2020, the GDP at current prices is BGN 31 216.7 million. Gross Value Added in Q3 of 2020 amounted to BGN 27 020.8 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (77.6%), which in nominal terms is BGN 24 218.4 million. In Q3 of 2020 gross capital formation is BGN 6 220.0 million and has a share of 19.9% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data1, GDP has a growth of 4.3% in Q3 of 2020 compared to the previous quarter. GVA increase in the third quarter of 2020 is 4.1%. According to the flash estimates by final expenditure, the increase of the Final consumption with 9.8% and Gross fixed capital formation with 4.3% are amongst reasons for the positive GDP growth at seasonally adjusted data in Q3 of 2020 compared to the Q2 of 2020. The Q3 2020 GDP at seasonally adjusted data decreased by 5.2% compared to the same quarter of the previous year. Gross value added decreased by 4.4%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth of 9.3%. Gross fixed capital formation decreased by 5.7% in Q3 2020 compared to the same quarter of the previous year at seasonally adjusted data. Exports of goods and services decreased by 22.3% and imports of goods and services by 3.4%. **We expect GDP growth for Bulgaria to contract to –5% in 2020 and to reverse to 4% growth in 2021 and 3% for 2022.**



Gross Domestic Product (GDP) in Q3 2020 increased by 11.6% in EU-27 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 4.3%. Compared to the previous quarter, in the third quarter of 2020 highest economic increase was recorded in France - 18.2%, Spain - 16.7%, Italy - 16.1% and Portugal - 13.3%. According to the seasonally adjusted figures, lowest growth is observed in Finland - 2.6% and in Lithuania - 3.7%.Compared to the same quarter of the previous year, seasonally adjusted data show decrease of GDP in the EU-27 by 4.3%. For the same period, GDP in Bulgaria decreased by 5.2%. In the third quarter of 2020, compared to the same quarter of the previous year lowest economic decline was recorded in Lithuania - 1.7%, Poland - 2.0%, Slovakia - 2.2%, and Netherlands - 2.5%. According to the seasonally adjusted figures, highest negative growth is observed in Spain - 8.7%, Romania - 6.0%, Czechia - 5.8% and Portugal - 5.7%.



Business climate

In October 2020, the total business climate indicator increases by 0.5 percentage points to 9.8 index oints in comparison with the previous month. An improvement of the business conjuncture is registered in construction, retail trade and service sector, while in industry the indicator is decreased.

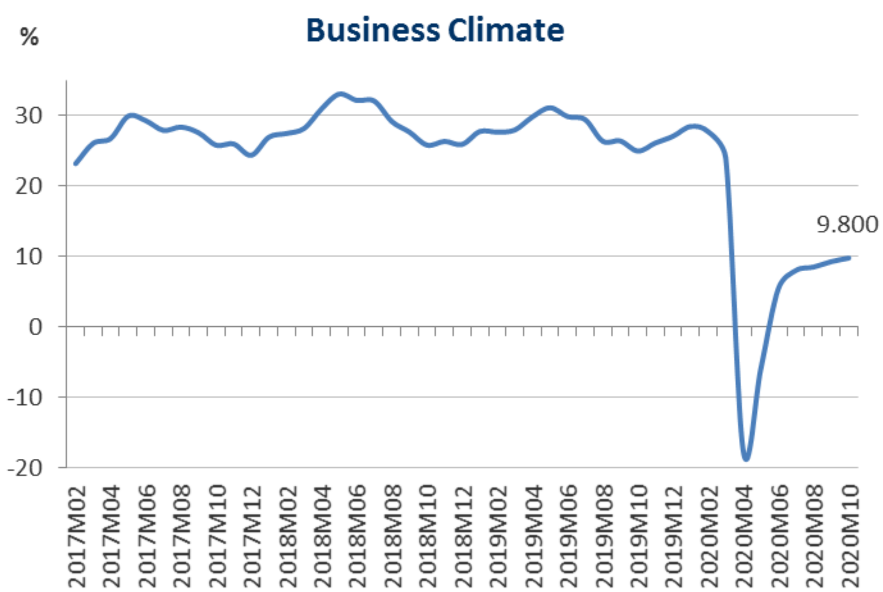
Industry. The composite indicator 'business climate in industry' decreases by 1.3 percentage points compared to September as a result of more moderate industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. The inquiry registers an improvement in their opinions for the production assurance with orders over the last 3 months, which is not accompanied by increased expectations about the production activity over the next 3 months. The average capacity utilization from July to October increases by 2.4 percentage points and it reaches 72.8%, as regards the expected demand over the next months a surplus of capacity is foreseen. The main factors limiting the enterprises continue to be connected with the uncertain economic environment, insufficient foreign demand and insufficient domestic demand. As regards the selling prices in industry, the managers' expectations are them to preserve their level over the next 3 months.

Construction. In October the composite indicator 'business climate in construction' increases by 0.6 percentage points which is due to the improved construction entrepreneurs' assessments about the present business situation of the enterprises. The present construction activity is assessed as slight improved and their expectations about the activity over the next 3 months are favourable. In the last month the inquiry also reports a decrease in the number of clients with delay in payments. The uncertain economic environment remains the main obstacle for the business development, followed by the shortage of labour and competition in the branch. Concerning the selling prices, the construction entrepreneurs' foresee them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' increases by 1.3 percentage points as a result of the optimistic retailers' expectations about the business situation of the enterprises over the next 6 months. Their forecasts about both the volume of sales and the orders placed with suppliers over the next 3 months are also improved. The uncertain economic environment continues to be the main factor, limiting the activity. An increase of the negative influence of the factor 'insufficient demand' is also registered, which shifts to the third place the difficulties, connected with the competition in the branch. The retailers expect the selling prices to preserve their level over the next 3 months.

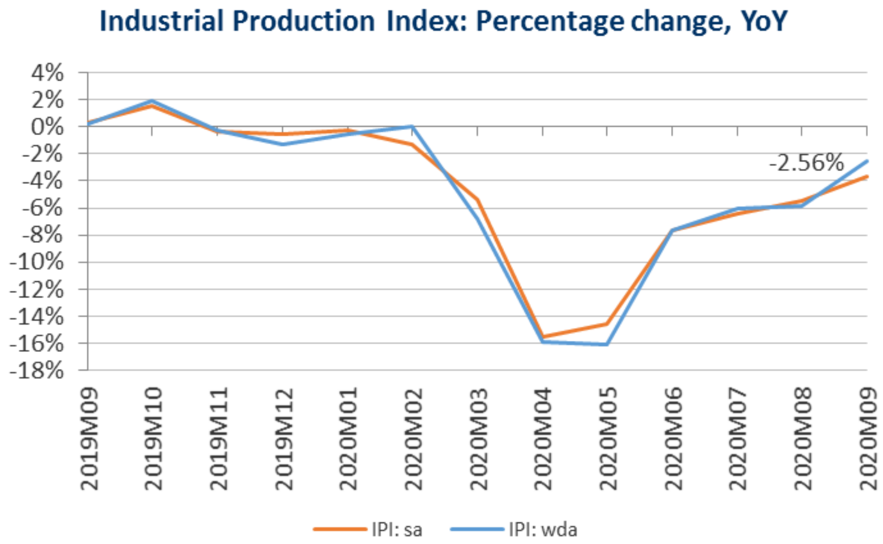
Service sector. In October, the composite indicator 'business climate in service sector' increases by 3.4 percentage points which is due to the favourable managers' assessments and expectations about the business situation of the enterprises. At the same time, certain improvement of their expectations as regards the demand for services over the next 3 months is observed, but it is not accompanied by additional hiring of personnel. The most serious difficulties for the business remain the uncertain economic environment, insufficient demand, factor 'others'2 and competition in the branch. Concerning the selling prices in the service sector, the managers foresee them to remain unchanged over the next 3 months.

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



Industrial Production

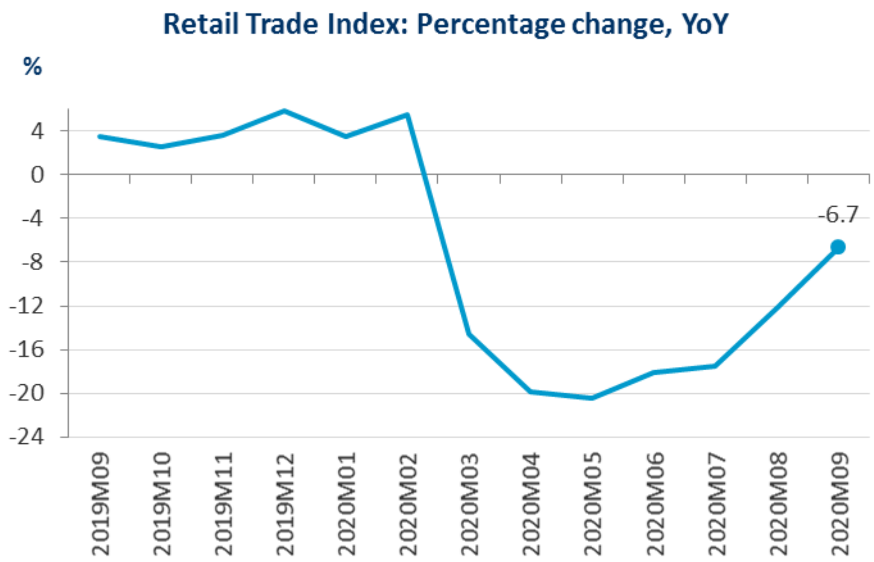
According to the preliminary data in September 2020 the Industrial Production Index, seasonally adjusted, increased by 2.3% as compared to August 2020. In September 2020 the working day adjusted Industrial Production Index fell by 2.6% in comparison with the same month of 2019. In September 2020 as compared to August 2020, the seasonally adjusted Industrial Production Index rose in the manufacturing by 3.5% and in the electricity, gas, steam and air conditioning supply by 0.2%, while the production went down in the mining and quarrying industry by 4.3%. The most significant production increases in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 21.9%, in the other manufacturing by 10.0%, in the manufacture of motor vehicles, trailers and semi-trailers by 9.0%, in the manufacture of machinery and equipment n.e.c by 7.5%. Important decreases were seen in the manufacture of tobacco products by 8.6%, in the manufacture of other transport equipment by 5.5%, in the manufacture of chemicals and chemical products by 4.3%. On annual basis in September 2020 Industrial Production Index calculated from working day adjusted data fell in the electricity, gas, steam and air conditioning supply by 7.1%, in the mining and quarrying industry by 2.4%, and in the manufacturing by 1.9%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of tobacco products by 33.0%, in the manufacture of leather and related products by 26.9%, in the repair and installation of machinery and equipment by 26.2%, in the manufacture of wearing apparel by 14.9%. Major increases were seen in the manufacture of other transport equipment by 19.3%, in the manufacture of basic metals by 15.0%, in the manufacture of rubber and plastic products by 11.6%, in the manufacture of furniture by 8.6%. **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.**



Retail Sales

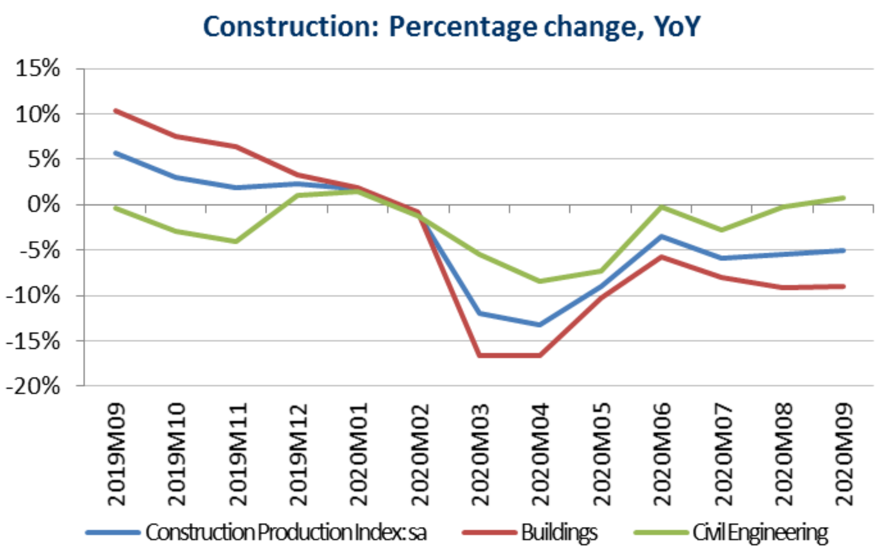
According to the preliminary seasonally adjusted data in September 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 2.8% compared to the previous month. In September 2020, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' fell by 6.7% in comparison with the same month of the previous year. In September 2020 compared to the previous month, increase of turnover was observed in the 'Retail sale of non-food products (including fuel) - by 4.0%, in the 'Retail sale of food, beverages and tobacco' and in the 'Retail sale of automotive fuel in specialised stores' - both by 2.9%. In the 'Retail sale of non-food products except fuel' more significant increases of turnover were registered in the 'Other retail sale in non-specialised stores'- by 14.6%, in the 'Retail sale via mail order houses or via Internet' - by 6.7%, and in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores' - by 6.6%. In September 2020 compared to the same month of 2019, decline of turnover was observed in the 'Retail sale of automotive fuel in specialised stores' (15.2%), in the 'Retail sale of food, beverages and tobacco' (10.5%), and in the 'Retail sale of non-food products, except fuel' (0.3%). Decrease of turnover in the'Retail sale of non-food products, except fuel' was registered in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores' - by 15.1%, in the 'Retail sale of information and communication equipment' - by 5.6%, and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles in specialised stores'- by 1.2%. A rise was reported in the 'Retail sale via mail order houses or via Internet' - by 53.9%, in the 'Other retail sale in non-specialised stores' - by 6.3%, and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances, etc. in specialised stores' - by 4.2%.

Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.



Construction

According to the preliminary data, in September 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% above the level of the previous month. In September 2020 working day adjusted data4 showed a decrease by 1.7% in the construction production, compared to the same month of 2019. In September 2020 the construction production index, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 2.0% and production of building construction - by 1.1%. On an annual basis in September 2020, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the building construction, where the drop was by 5.8%, while in the civil engineering was registered an increase by 4.1%. **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 September 2020, during the continuing epidemic situation, 2 589 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 102.9 thousand and the bed-places were 227.2 thousand. In comparison with September 2019, the total number of accommodation establishments (functioned during the period) decreased by 11.5%, and the bed-places in them - by 22.9%. The total number of the nights spent in all accommodation establishments registered in September 2020 was 1 787.2 thousand, or by 42.3% less in comparison with the same month of the previous year. The total revenues from nights spent in September 2020 reached 88.1 million BGN or by 47.1% less compared to September 2019.

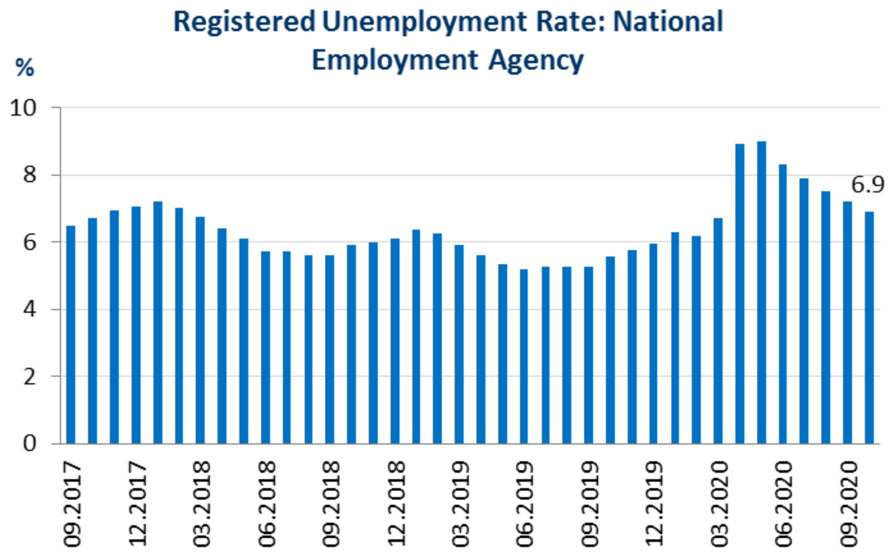
CPI Inflation

The consumer price index for October 2020 compared to September 2020 is 100.6%, ie monthly inflation is 0.6%. Inflation since the beginning of the year (October 2020 compared to December 2019) is minus 0.5%, and annual inflation for October 2020 compared to October 2019 is 0.8%. The average annual inflation for the period November 2019 - October 2020 compared to the period November 2018 - October 2019 is 2.2%. The weak growth rate is due to low prices of raw materials such as oil on international markets. As in previous months, the strongest decline in prices on an annual basis comes from the transport sector. The lower international oil price prompted the Energy and Water Regulatory Commission to lower natural gas and heat prices in the second quarter of this year. The effect of this reduction is still felt - in October the prices of natural gas are 19% lower than last year, and of heat (hot water, heating) are 16% lower. Car fuels, on the other hand, report deflation of just over 17%. Contribution to the growth of consumer prices comes from food, which represents about a third of the basket and, accordingly, have a significant weight in determining the level of inflation. They rose by 3.7% in October on an annual basis due to more expensive fruits. However, higher inflation is visible in relatively smaller groups. Education, which accounts for only 0.4% of the consumer basket, rose 5% year-on-year in October, while prices in restaurants and hotels (about 6% of the basket) rose 4.2%. The harmonized index of consumer prices for October 2020 compared to September 2020 is 100.2%, ie monthly inflation is 0.2%. Inflation since the beginning of the year (October 2020 compared to December 2019) is minus 0.5%, and annual inflation for October 2020 compared to October 2019 is 0.6%. The average annual inflation for the period November 2019 - October 2020 compared to the period November 2018 - October 2019 is 1.6%. According to the BNB, inflation will continue to decline until the end of the year due to the fall in energy prices as a result of the dynamics of oil. The central bank also expects lower private consumption at the end of 2020, which will bring down the prices of services and non-food products. In 2021, inflation is expected to rise according to the latest BNB forecast - from 0.3% at the end of this year to 1.9% by the end of 2021, measured by the European methodology. The reason - recovery of private consumption, prices of energy raw materials and food. **Our forecast for inflation 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**

LABOR MARKET

Unemployment

According to data from the Employment Agency, the level of registered unemployment in Bulgaria in October 2020 was 6.9%. The Employment Agency reported a decrease of 0.3 percentage points compared to the previous month of September and an increase of 1.3 percentage points compared to a year earlier. At the end of October, the registered unemployed in the labor offices, according to the administrative statistics of the Employment Agency, were 227,909, which is 8,149 fewer than in September. On an annual basis, the increase is 45,380 people. During the month, new 33,410 unemployed persons registered to use the mediation and services of the labor offices. In addition to them, another 808 people from the groups of jobseekers, students and retirees have also registered with the Employment Agency. In October the number of unemployed persons started working reached 23,045, compared to the same month last year an increase of 31.2%. During the month, 4,067 unemployed persons from the risk groups started working in subsidized jobs - 2,340 under employment programs and measures and 1,727 - 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 5,436 people, and only in October employment contracts were concluded with 1,097 unemployed. Anti-crisis measures for short-term employment support, popular as a second design of 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" ensured the preservation of employment of 143,000 employees. CMD 278 extended the effect of measure 60/40 until the end of the year. **The level of registered unemployment in Bulgaria is expected to be 7.0% in 2020. We expect the unemployment rate in Bulgaria to be 6.5% in 2021 and 6% in 2022.**



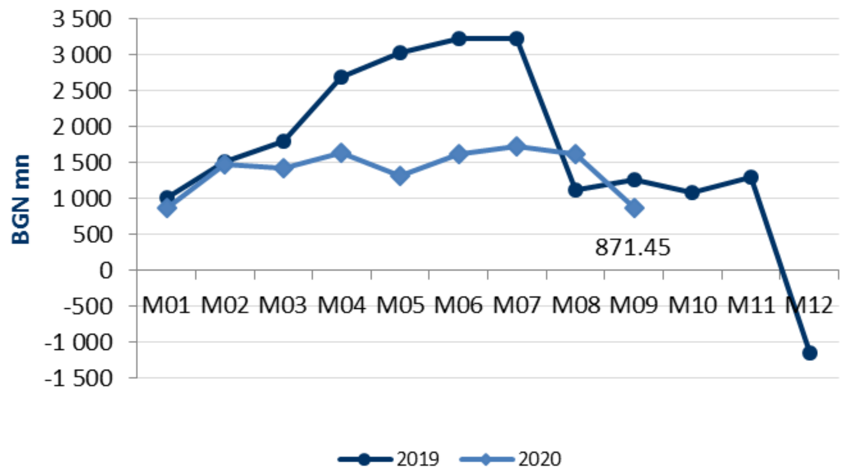
According NSI data in Q3 2020 there were 160.4 thousand unemployed persons, of whom 95.4 thousand (59.5%) men and 65.0 thousand (40.5%) women. The unemployment rate was 4.8%, 5.3% and 4.2% for men and women respectively. In comparison with the third quarter of 2019, the unemployment rate rose by 1.1 percentage points, registering an increase by 1.5 percentage points for men and by 0.8 percentage points for women. Among all unemployed persons 18.5% had attained tertiary education, 46.9% had completed upper secondary education and 34.6% had at most lower secondary education. The share of unemployed persons with tertiary and with upper secondary education was higher than in the third quarter of 2019 by 3.7 percentage points and 2.2 percentage points respectively, on the expense of the share of unemployed persons with at most lower secondary education. The unemployment rate by level of educational attainment was as follows: 2.8% for tertiary education, 4.1% for upper secondary and 13.0% for education lower than upper secondary. The growth of unemployment between the third quarters of 2019 and 2020 is due to the increase of number of persons unemployed for less than a year. In the period concerned, it went up by 41.6 thousand to 88.6 thousand persons (more than a half of the total number of unemployed). In the third quarter of 2020 there were 71.7 thousand long-term unemployed persons (unemployed for one or more years), representing 44.7% of all unemployed persons. The long-term unemployment rate declined by 0.1 percentage points to 2.2% (2.4% for men and 1.9% for women). Of all unemployed people 31.1 thousand (19.4%) were looking for first job. In the third quarter of 2020, the unemployment rate for the age group 15 - 29 years was 8.3%, by 2.2 percentage points higher than in a year earlier.

FISCAL SECTOR

Budget balance

The CFP budget balance on a cash basis as of 30 September 2020 is positive, amounting to BGN 871.4 million (0.7 % of the forecast GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 484.9 million as well as under EU funds of BGN 386.5 million. Fiscal reserve as of 30.09.2020 is BGN 13.53 billion, including BGN 13.49 billion fiscal reserve deposits in BNB and banks and BGN 0.04 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 October 2020 is expected to be positive, amounting to BGN 618 million (0.5% of the projected GDP). On a monthly basis, the CFP balance for October is expected to generate a deficit of BGN 253.4 million. Higher expenditures were generated this month in relation to some socio-economic measures aimed at minimising the crisis implications including payments under the 60/40 measure, a monthly pension allowance of BGN 50, payments for farmers, as well as other expenditures under the measures approved, which, along with the traditionally higher expenditures in autumn and winter, translates in a current excess of expenditures over revenues in October. **Government Budget in Bulgaria is expected to reach -4.4% of GDP by the end of 2020. In the long-term, the Bulgaria Government Budget is projected to trend around -3.9% of GDP in 2021 and -2% in 2022.**

Consolidated Govt Budget: ytd: Deficit or Surplus



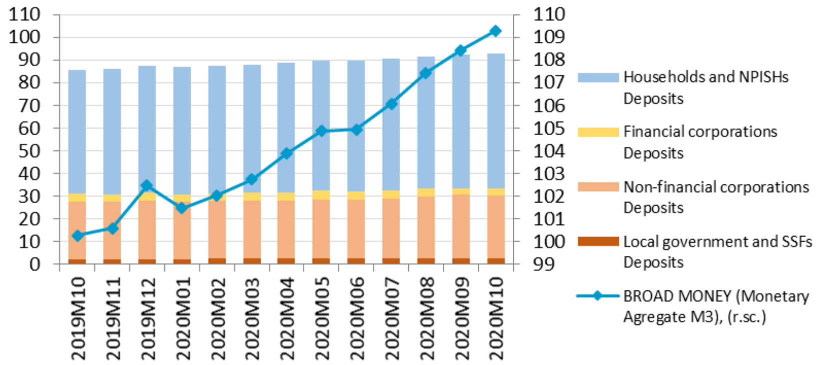
Central government debt

As at end-September 2020, central government debt stands at BGN 29,168.2 million. Domestic debt amounts to BGN 5,983.2 million and external debt – to BGN 23,185.0 million. At the end of the reporting period the central government debt-GDP ratiois 24.5%, with the share of domestic debt being 5.0% and of external debt – 19.5% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 20.5%, and external debt – to 79.5%. Central government guaranteed debt amounts to BGN 175.6 million as of 30 September 2020. Domestic guarantees amount to BGN 73.4 million and external guarantees – to BGN 102.2 million. The central government guaranteed debt/GDP ratio is 0.1%. According to the official register of government and government guaranteed debt kept by the Ministry of Finance on the grounds of Article 38(1) of the Government Debt Law, at end-September 2020 government debt reaches BGN 27,688.4 million, or 23.3% of GDP. Domestic debt amounts to BGN 5,643.6 million and external debt – to BGN 22,044.8 million. Government guaranteed debt amounts to BGN 1,686.6 million in September 2020, domestic guarantees amount to BGN 73.4 million, with the government guaranteed debt-to-GDP ratio being 1.4%.**Government Debt to GDP in Bulgaria is expected to be 25% by the end of 2020. Looking forward, we estimate Government Debt to GDP in Bulgaria to stand at 26.9% in 2021 and 28% in 2022.**

MONETRAY SECTOR

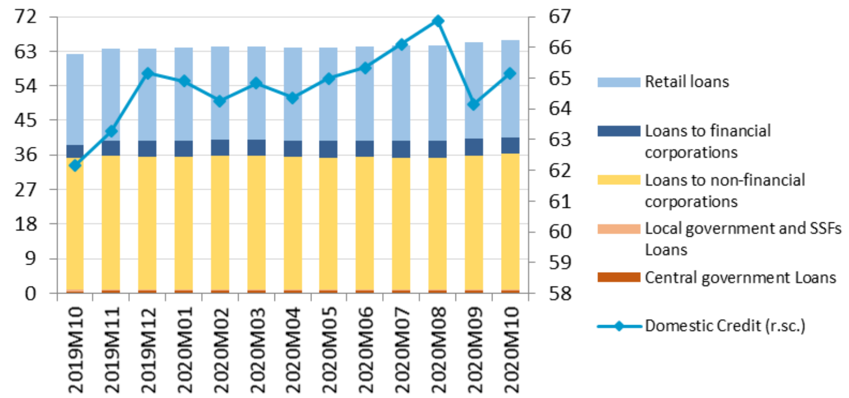
In October 2020 broad money (monetary aggregate M3) increased annually by 9% compared to 9.3% annual growth as in September 2020. At the end of October 2020 M3 was BGN 109.289 billion (98.5% of GDP) compared to BGN 108.423 billion (97.7% of GDP) in September 2020. Its most liquid component – monetary aggregate M1 – increased by 34.1% yoy in October 2020 (35% yoyngrowth in September 2020). At the end of October 2020, deposits of the non-government sector were BGN 90.455 billion (81.5% of GDP), increasing annually by 8.7% (9% yoyl growth in September 2020). Deposits of Non-financial corporations were BGN 28.239 billion (25.4% of GDP) at the end of October 2020. Compared to the same month of 2019 they increased by 9.4% (12.4% yoy growth in September 2020). Deposits of Financial corporations increased by 4.8% yoy in October 2020 (0.6% yoy decrease in September 2020) and at the end of the month they were BGN 3.347 billion (3% of GDP). Deposits of Households and NPISHs were BGN 58.869 billion (53% of GDP) at the end of October 2020. They increased by 8.6% compared to the same month of 2019 (7.9% yoy growth in September 2020).

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



Net domestic assets were BGN 64.463 billion at the end of October 2020. They increased by 3.2% compared to the same month of 2019 (2.2% yoy growth in September 2020). At the end of the month their basic component – domestic credit – was BGN 65.163 billion and increased by 4.8% compared to October 2019 (4.9% yoy growth in September 2020). In October 2020 claims on the non-government sector increased by 6.2% yoy (6.3% yoy growth in September 2020) reaching BGN 66.885 billion. At the end of October 2020, claims on loans to the non-government sector amounted to BGN 64.863 billion (58.4% of GDP) compared to BGN 64.303 billion (57.9% of GDP) at the end of September 2020. They increased yoy by 5.8% in October 2020 (5.9% yoy growth in September 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 526.5 million. On an annual basis, loans sold by Other MFIs were BGN 526.5 million (of which BGN 3.9 million in October 2020), while there are no loans repurchases for the last tweve months. In October 2020, loans to Non-financial corporations increased by 2.2% yoy (2% yoy growth in September 2020) and at the end of the month amounted to BGN 35.201 billion (31.7% of GDP).

Loans and Domestic Credit (BGN bn)



In October 2020, loans to Non-financial corporations increased by 2.2% yoy (2% yoy growth in September 2020) and at the end of the month amounted to BGN 35.201 billion (31.7% of GDP). Loans to Households and NPISHs were BGN 25.322 billion (22.8% of GDP) at the end of October 2020. They increased by 7.1% compared to the same month of 2019 (7.5% yoy growth in September 2020). At the end of October 2020 loans for house purchases were BGN 11.768 billion and increased by 11.9% yoy (12.3% yoy growth in September 2020). Consumer loans amounted to BGN 11.888 billion and compared to October 2019 they rose by 5.9% (6.2% yoy growth in September 2020). On an annual basis other loans decreased by 24.5% (19.9% annual decline in September 2020) and reached BGN 425.5 million. Loans granted to financial corporations were BGN 4.340 billion at the end of October 2020 (3.9% of GDP). Compared to October 2019, they increased by 34.3% (34.9% yoyl growth in September 2020).

In October 2020 the relative share for Bad and restructured loans for overall banking system reported 8.2% compared to 8.3% in September 2020 and 8.1% in October 2019.

Banking sector: Bad and restructured loans (%)