HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT

All data in the edition are the last available data published as of 31 December 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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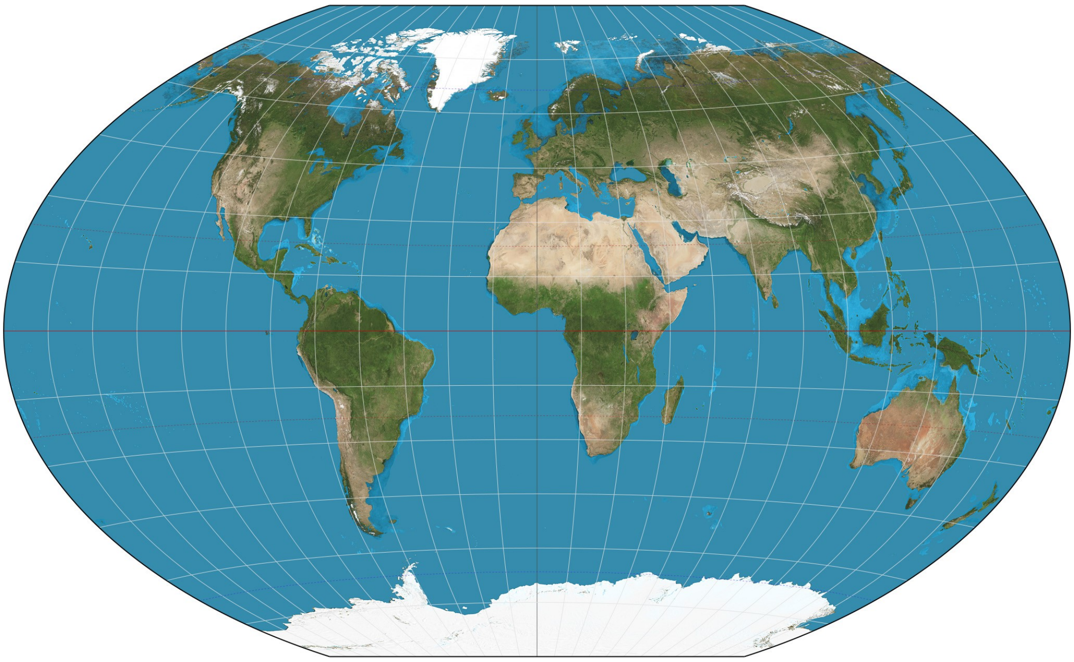


December, 2020

- **In Q3 2020 the GDP in Euro Area shrank by -4.3% yoy, easing from a record contraction of -14.7% in Q2 and compared with a second estimate of a -4.4% contraction. Consumer prices in the Euro Area went down -0.3% yoy in November of 2020, the same as in each of the previous two months. The Euro Area seasonally-adjusted unemployment rate edged down to 8.4% in October 2020, from an upwardly revised 8.5% in the previous month and moving further away from an over two-year high of 8.7% hit back in July. All in all, we have improved the growth outlook for the euro area to 2.4% in 2021, up from 1.9% previously. Our annual growth outlook for 2020 remains unchanged at -7.5%.**
- **In Q3 2020 the GDP in Italy shrank -5% yoy, easing from an -18% slump in the second quarter and compared to earlier estimates of a -4.7% fall. Consumer prices in Italy are expected to decrease -0.2% yoy in November of 2020, following a -0.3% fall in the previous month. Italy's unemployment rate increased to 9.8% in October 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 2.2% in 2021.**
- **The French GDP remained well below its pre-pandemic level and was down -3.9% yoy compared to initial estimates of a -4.3% drop. France's consumer prices are expected to increase by 0.2% from a year earlier in November 2020, after being unchanged in the previous two months. 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. We expect a decline of GDP growth in France of -9.5% in 2020 and recovery of 2.9% in 2021.**
- **Spain's economy year-on-year shrank by -8.7% in Q3 2020, compared to a record -21.5% contraction in the previous period and leaving the Spanish economy below pre-pandemic levels. Spain's consumer prices decreased -0.8% from a year earlier in November of 2020, the same as in the previous month. It was the steepest fall in consumer prices since May. The harmonized index of consumer prices went down -0.8% over a year earlier, after a -0.9% decrease in the prior month. We expect a decline of GDP in Spain of -12.0% in 2020 and recovery of 1.9% in 2021.**
- **The Slovenian economy shrank -2.6% yoy in Q3 2020, following a record -13% drop in the previous period due to the coronavirus crisis. On a quarterly basis, the economy grew at a record 12.4%, following a record -9.8% contraction in the previous period. Consumer prices in Slovenia were down -0.9% yoy in November of 2020, the biggest fall since May and marking the 4th straight month of deflation. Slovenia's unemployment rate rose to 8.6% in September of 2020 from 7.2% in the same month of the previous year, amid the lingering effects of the Covid-19 crisis. In August, the jobless rate was higher at 9.1%. We expect a decline of GDP in Slovenia of -7% in 2020 and recovery of 5% in 2021.**
- **Lithuanian GDP grew up by 0.1% yoy in in Q3 2020, after a -4.6% contraction in the second quarter 2020. Lithuania's annual inflation rate edged down to 0.6% in November of 2020 from 0.7% in the previous month. It was the lowest inflation since May. On a monthly basis, consumer prices inched down -0.1% in November, the first monthly decline in three months, after a 0.1% gain in October. 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 -1.5% yoy in Q3 2020, compared with an initial estimate of a -1.6% contraction and following a historic slump of -8.4% in the previous three-month period. On a quarterly basis, Poland's GDP grew by 7.9%, partially recovering from a -9.0% contraction in the previous period. The annual inflation rate in Poland dropped to 3% in November of 2020 from 3.1% in the previous month. Poland's unemployment rate came in at 6.1% in October of 2020, unchanged from the previous four months. It remains the highest jobless rate since February of 2019. A year ago, the jobless rate was lower at 5%. We expect a decline of GDP in Poland of -2.8% in 2020 and recovery of 4.8% in 2021.**
- **The Romanian gross domestic product shrank 6% yoy in Q3 2020, matching the preliminary estimates, after a 10.3% contraction in the previous period. Romania's annual inflation rate inched down to 2.1% in November 2020, the least since September 2017, from 2.2% in the previous month. Romania's seasonally adjusted unemployment rose to 5.3% in October 2020 from a downwardly revised 5.1% in the previous month. We expect a decline of GDP in Romania of -5.1% in 2020 and recovery of 4.0% in 2021.**
- **UK GDP shrank by 9.6% yoy in Q3 2020, following a record contraction of 21.5% in the previous three-month period and compared with market expectations of a 9.4% fall. Annual inflation rate in the United Kingdom increased to 0.7% in October of 2020 from 0.5% in September. 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. However, a Brexit related drag on activity will be a central feature of the UK economy in the coming year. For the UK, we expect a contraction of -11.0% in 2020. We expect a recovery in UK of 5% in 2021.**

- **The Gross Domestic Product (GDP) in the United States contracted -2.9% yoy in Q3 2020. Annual inflation rate in the US was unchanged at 1.2% in November of 2020, the same as in October. The US unemployment rate edged down to 6.7% in November 2020, from the previous month's 6.9%. Overall, we have marginally upgraded real GDP outlook to -3.6% from -3.7% in 2020, which has a knock-on effect for annual growth in 2021, that was revised upward from 4.0% to 4.2%.**
- **The Gross Domestic Product (GDP) in Japan contracted -5.80% in Q3 2020 over the same quarter of the previous year. Japan's consumer prices declined -0.4% in October yoy after remaining unchanged 0% in the previous month, as the pandemic continued to drag consumption. The decline was the sharpest in more than 4 years. Japan's unemployment rate inched up to 3.1% in October from 3.0% in the previous month, up from 2.4% in the same month of the previous year. We expect growth in Japan to contract -5.5% in 2020. We expect a recovery in Japan of 2.5% 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% on quarter in the three months to September 2020, following an upwardly revised 11.7% advance in the previous quarter. The consumer price index in China unexpectedly declined by -0.5% yoy in November of 2020, after a 0.5% rise a month earlier and compared with market consensus of a flat reading 0%. Unemployment Rate in China decreased to 5.20% in November from 5.30% in October of 2020. China, a global frontrunner in terms of a post-lockdown recovery, has seen minor growth upgrades too. Given the relative strength of growth in Q3 and the fact that the pandemic in China remains mostly under control, we have increased Chinese GDP growth to 2.1% in 2020 and 8.5% in 2021.**
- **The Turkish economy expanded 6.7% yoy in Q3 2020, following a -9.9% fall in the previous period and well above forecasts of 4.8%, as the economy rebounds from the pandemic hit and coronavirus lockdown. On a quarterly basis, the economy grew 15.6%, following a record 10.8% fall in the previous period, as the economy rebounds from the coronavirus pandemic hit. The inflation rate in Turkey rose to 14.03% in November of 2020 from 11.89% in October, beating market forecasts of 12.6%. It is the highest reading since August last year amid a falling lira. The unemployment rate in Turkey declined to 12.7% in September of 2020 from 13.8% in the corresponding month of the previous year, the lowest since November 2018. The unemployment rate in Turkey declined to 12.7% in September of 2020 from 13.8% in the corresponding month of the previous year, the lowest since November 2018. We expect a decline of GDP in Turkey of -1.5% in 2020 and recovery of 3.5% in 2021.**
- **ECB Governing Council recalibrated its monetary policy instruments as follows: 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. Governing Council decided to increase the envelope of the pandemic emergency purchase programme (PEPP) by EUR 500 billion to a total of EUR 1,850 billion. It also extended the horizon for net purchases under the PEPP to at least the end of March 2022. Governing Council decided to further recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO III). Specifically, it decided to extend the period over which considerably more favorable terms will apply by twelve months, to June 2022. Three additional operations will also be conducted between June and December 2021. Moreover, the Governing Council decided to raise the total amount that counterparties will be entitled to borrow in TLTRO III operations from 50% to 55% of their stock of eligible loans. Governing Council decided to extend to June 2022 the duration of the set of collateral easing measures adopted by the Governing Council on 7 and 22 April 2020. Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021. Net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR 20 billion. Eurosystem repo facility for central banks (EUREP) and all temporary swap and repo lines with non-euro area central banks will be extended until March 2022. Governing Council decided to continue conducting its regular lending operations as fixed rate tender procedures with full allotment at the prevailing conditions for as long as necessary. The monetary policy measures taken today will contribute to preserving favorable financing conditions over the pandemic period, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability.**

- **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. At its meeting ending on 16 December 2020, the Committee judged that the existing stance of monetary policy remains appropriate. The Monetary Policy Committee voted to maintain Bank Rate at 0.1%. The Committee voted 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 for the Bank of England to continue with the programme of GBP 100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and also to commence the previously announced programme of GBP 150 billion of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at GBP 875 billion and so the total target stock of asset purchases at GBP 895 billion. The main news since the November Report has been the successful trialing of some Covid vaccines and initial plans to roll them out widely over the first half of next year. Financial markets worldwide, and some surveys of businesses and consumers, have reacted positively to these developments which are likely to support future UK and global activity.**

- **With inflation running persistently below this longer-run goal, the Federal reserve 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, the Federal Reserve will continue to increase its holdings of Treasury securities by at least USD 80 billion per month and of agency mortgage-backed securities by at least USD 40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals.**

- **Depending on the future impact of COVID-19, the Bank of Japan will consider further extension of the program if necessary. (1) Additional purchases of CP and corporate bonds (a unanimous vote) The Bank of Japan will extend the duration of additional purchases of CP and corporate bonds by 6 months until the end of September 2021. It will continue conducting purchases of these assets with an upper limit on the amount outstanding of about JPY 20 trillion in total. Out of JPY 20 trillion, JPY 15 trillion will be for the additional purchases of CP and corporate bonds and it will be distributed between each asset depending on market conditions. (2) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (a unanimous vote) The Bank of Japan will extend the duration of the Special Funds-Supplying Operations to Facilitate financing in Response to the Novel Coronavirus (COVID-19) by 6 months until the end of September 2021. 2. The Bank of Japan decided to set the following guidelines for market operations as well as for purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). (1) Yield curve control (an 8-1 majority vote). The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank 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 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. (2) Purchases of ETFs and J-REITs (a unanimous vote) The Bank of Japan will actively purchase ETFs and J-REITs for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively.**

- **The People's Bank one-year loan prime rate (LPR) was left unchanged at 3.85% after two cuts this year, while the five-year remained at 4.65%. The People's Bank of China will continue to properly use the CNY 1 trillion quota of central bank lending and central bank discounts for inclusive finance, well implement the two monetary policy tools which enable direct support for the real economy, ensure deferred repayments of inclusive loans are applicable to all eligible micro and small businesses (MSBs) and substantively raise the portion of unsecured inclusive MSB loans. Adhering to the underlying principle of pursuing progress while ensuring stability and the strategic orientation of structural adjustments, the People's Bank of China will keep firmly in mind the strategic basis of expanding domestic demand, take solid steps to ensure stability on the six fronts (employment, financial sector, foreign trade, foreign investment, domestic investment and expectations) and fully implement the task of maintaining security in the six areas (the employment of residents, the basic livelihood of the people, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments).**

- **The Central Bank of Republic of Turkey (CBRT) will decisively implement all the elements of the inflation-targeting framework in 2021. The medium-term inflation target of 5% set jointly with the government has been maintained. Aware of its responsibility in reaching this target, the Central Bank of Republic of Turkey will remain determined and resolute over the target horizon. Monetary policy decisions will be taken by giving priority to price stability. The Central Bank of Republic of Turkey's main policy instrument is the one -week repo auction rate. The implementation of the floating exchange rate regime will continue, and exchange rates will be determined by supply and demand balance under free market conditions. The Central Bank of Republic of Turkey will not conduct foreign exchange (FX) buying or selling transactions to determine the level or direction of exchange rates.**
- **The Brent price decreases 0.18 USD/BBL or -0.35% to 51.320 USD/BBL on December 18. The price of crude oil decreases 0.13 USD/BBL or -0.27% to 48.230 USD/BBL on December 18. Oil hovered near a nine-month high on 18.12.2020, heading for its seventh straight week of rise, amid progress in new fiscal aid in the US**
- **In the middle of December 2020 the prices of the main grain contracts on the world stock markets have moved, mainly due to the optimistic attitude of traders regarding the realization of exports overseas. Wheat in the US returned the upward trend of quotations by plus USD 17.00 dollars to 272.00 USD / ton, that in France slightly decreased by minus EUR 1.75 euros to 207.25 EUR / ton. The price in both Ukraine and Russia after some stagnation also added USD 6.00 and USD 8.00 to the same 258.00 USD / ton. For corn, the price in the US dropped by USD 4.00 to 216.00 USD / ton, in Ukraine by USD 2.00 and 229.00 USD / ton. Barley in Ukraine did not change the price and remained at 223.00 USD / ton, and in France plus EUR 2.00 to 202.00 EUR / ton.**

- **The COVID-19 pandemic could have more lasting than expected consequences. It expects employment to shrink further, and household consumption is likely to remain weak. Business investment is also expected to be negatively affected by increased uncertainty. Inflation is below expectations before and is currently expected to remain low until early 2021. Clear risks to GDP growth are expected in the fourth quarter of 2020. There are concerns about the so-called "Double recession" (W-shaped development of the economy), which can cause permanent damage to the economy. As of December 20, 2020, the total number of laboratory-confirmed infections since the beginning of the pandemic is 191,029. 98,026 were cured and 6,551 died. The measures against COVID-19 should remain in force until January 31, 2021.**

- **In January – October 2020 the current account was positive and amounted to EUR 699 million (1.2% of GDP), compared with a surplus of EUR 2,092.2 million (3.4% of GDP) in January – October 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 preliminary BNB data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 665.8 million (1.2% of GDP) in January – October 2020, dropping by EUR 455.5 million (40.6%) from January – October 2019 (positive value of EUR 1,121.3 million, 1.8% of GDP).**

- **In November 2020, the business conjuncture in the country is assessed as unfavorable. The total business climate indicator decreases by 4.1 percentage points compared to its October level, as a reduce of the indicator is registered in construction and retail trade. Business climate indicator in Bulgaria is expected to be 6 index points by the end of 2020. Looking forward, we estimate Business Confidence in Bulgaria to stand 11 index points in 2021 and 15 index points in 2022.**

- **According to the preliminary data in October 2020 the Industrial Production Index, seasonally adjusted, increased by 0.2% as compared to September 2020.**

- **In October 2020 the working day adjusted Industrial Production Index fell by 3.9% 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 4.4% in 2021 and 3.2% in 2022.**

- **According to the preliminary seasonally adjusted data in October 2020 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 1.5% compared to the previous month. The working day adjusted turnover fell by 5.3% as compared to the same month of the previous year. Retail Sales YoY in Bulgaria is expected to be -5.5% at the end of 2020. Looking forward, we estimate Retail Sales YoY in Bulgaria to stand at 4.5% in 2021 and 6% in 2022.**

- **According to the preliminary data, in October 2020 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 1.5% below the level of the previous month. In October 2020 the working day adjusted index of production in construction decreased by 4.7% in comparison with the same month of 2019. Construction Output in Bulgaria is expected to be -5.2% yoy in 2020. Looking forward, we estimate Construction Output in Bulgaria to stand at 5.5% in 2021 and 5% in 2022.**

- **In October 2020, during the continuing epidemic situation, 1 777 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 revenues from nights spent in October 2020 reached 31.7 million BGN or by 39.0% less compared to October 2019. Tourism is one of the most impacted sectors from COVID-19 pandemic.**

- **The harmonized index of consumer prices in November 2020 compared to October 2020 was 100.0%, i.e. the monthly inflation was 0.0%. The inflation rate since the beginning of the year has been -0.5% and the annual inflation in November 2020 compared to November 2019 was 0.3%.The annual average inflation, measured by HICP, in the last 12 months compared to the previous 12 months (December 2018 - November 2019) was 1.5%. Inflation is expected to rise according to the latest BNB forecast - from 0.3% at the end of 2020 to 1.9% by the end of 2021 because of the 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.**

- **According to data from the Employment Agency, the level of registered unemployment in Bulgaria in November 2021 was 6.7%. This is the lowest registered value since the end of the state of emergency on 13 May 2020. The Employment Agency reported a decrease in unemployment of 0.2 percentage points compared to the previous month of October and an increase of 0.9 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.**

- **The CFP budget balance on a cash basis as of 31 October 2020 is negative, amounting to BGN 654.3 million, or 0.5% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 466.4 million under the national budget and of BGN 187.9 million under EU funds. As of 31.10.2020, the fiscal reserve amounts to BGN 13.2 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-October 2020, central government debt stands at BGN 29,132.1 million and presented 24.55 of GDP. 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 November 2020 broad money (monetary aggregate M3) increased by 9.8% yoy compared to 9% yoy growth as in October 2020. At the end of November 2020 M3 was BGN 110.426 billion (99.5% of GDP). The domestic credit was BGN 66.526 billion and increased by 5.1% compared to November 2019 (4.8% yoy growth in October 2020).**

GLOBAL TRENDS

Advanced countries' economies

Eurozone

The euro area economy grew by 12.5% in Q3 2020 recovering from a record slump of -11.7% in the previous period and compared with a second estimate of a 12.6% advance. It was the steepest pace of expansion since 1995, boosted by a rebound in activity and demand as lockdowns imposed to contain the spread of the coronavirus pandemic were gradually lifted. Year-on-year, the GDP shrank by -4.3%, easing from a record contraction of -14.7% in the second quarter and compared with a second estimate of a -4.4% contraction. Consumer prices in the Euro Area went down -0.3% year-on-year in November of 2020, the same as in each of the previous two months and worse than market forecasts of a -0.2% decline, a flash estimate showed. It is the fourth straight month of deflation as energy cost declined -8.4% and non-energy industrial goods were down -0.3%. In contrast, the main upward pressure came from prices of food, alcohol and tobacco (1.9%) and services (0.6%). Core inflation which excludes energy, food, alcohol and tobacco was steady at 0.2%. On a monthly basis, consumer prices also declined by -0.3%. The Euro Area seasonally-adjusted unemployment rate edged down to 8.4% in October 2020, from an upwardly revised 8.5% in the previous month and moving further away from an over two-year high of 8.7% hit back in July. The number of unemployed decreased by 86,000 from the previous month to 13.825 million. Still, the Eurostat warns that the numbers do not capture in full the unprecedented labor market situation triggered by the COVID-19 outbreak, as people only count as unemployed if they were actively seeking work in the last four weeks and were available to start work within the next two weeks. There was a sharp increase in the number of claims for unemployment benefits across the bloc; while a significant part of those who had registered in unemployment agencies were no longer actively looking for a job or no longer available for work, for instance, if they had to take care of their children. The outlook beyond horizon of this year is now more positive, reflecting a gradual onset of normalization that will come with the rollout of vaccinations. In the latter part of 2021, the recovery will be further underpinned by the disbursements of the EUR 750 billion Next Generation EU recovery plan. **All in all, we have improved the growth outlook for the euro area to 2.4% in 2021, up from 1.9% previously. Our annual growth outlook for 2020 remains unchanged at -7.5%.**

Italy

Italy's gross domestic product grew by a record 15.9% in Q3 2020, rebounding from an unprecedented contraction of -13% in the previous period but below preliminary estimates of a 16.1% expansion. Household consumption (12.4% vs -11.5% in Q2) and gross fixed capital formation (31.3% vs -17%) rebounded and government expenditure advanced faster (0.7% vs 0.3%). Also, foreign demand contributed positively to growth, as exports climbed 30.7% (vs -23.9% in Q2) while imports went up at a softer 15.9% (vs -17.8% in Q2). Year-on-year, the GDP shrank -5%, easing from an -18% slump in the second quarter and compared to earlier estimates of a -4.7% fall. Consumer prices in Italy are expected to decrease -0.2% year-on-year in November of 2020, following a -0.3% fall in the previous month, a preliminary estimate showed. It was the seventh consecutive month of falls in consumer prices but the softest since June, as cost decline less for energy (-8.6% vs -8.7% in October). Meantime, prices of processed food including alcohol (0.7% vs flat reading) and services related to recreation, including repair and personal care (0.5% vs 0.1%) rose further. The annual core inflation rate, which excludes energy and unprocessed food is set to edge up to 0.5% from 0.2% in the prior month. Excluding only energy, inflation is seen rising to 0.6% from 0.5%. On a monthly basis, consumer prices are likely to decrease -0.1%, after a 0.2% rise in October. Italy's unemployment rate increased to 9.8% in October 2020 from 9.7% in the previous month and compared to market expectations of 9.9%. The number of unemployed people rose by 11 thousand to 2.479 million, while employment fell by 13 thousand to 22.843 million, amid renewed coronavirus restrictions. Meantime, the number of inactive people was little changed at 25.322 million. When compared with the same month last year, jobless people went up by 43 thousand and employment was down by 473 thousand, while inactive people declined by 431 thousand. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, rose to 30.3% from 29.7% in September. **We expect a contraction of Italian GDP of -9.4% in 2020. We expect a recovery in Italy of 2.2% in 2021.**

France

The French economy expanded 18.7% on quarter in the third quarter of 2020, higher than initial estimates of 18.2%, and following a record 13.8% drop in the previous period. It is the biggest expansion ever, as the economy rebounds from the coronavirus pandemic and national lockdown. Revisions are mostly due to the integration of new data for September, especially for household consumption and investment in services. Household spending (17.9% vs 17.3%), government consumption (15.5% vs 15.4%), and investment (23.9% vs 23.3%) were all revised higher. In contrast, the contribution from net foreign trade was lower than initially anticipated (0.7% vs 1.2%). Still, GDP remained well below its pre-pandemic level and was down -3.9% over a year earlier, compared to initial estimates of a -4.3% drop. France's consumer prices are expected to increase by 0.2% from a year earlier in November 2020, after being unchanged in the previous two months and slightly beating market expectations of 0.1%, a preliminary estimate showed. Prices should rise at a faster pace for services and food, and energy cost is set to fall again. Also, tobacco inflation is expected to slow, while manufactured goods price deflation should deepen. On a monthly basis, consumer prices are seen rising by 0.2%. 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 behaviours 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. The unemployment rate rose sharply for people aged 25 to 49 years (2.1%) and those aged 50 and over (1.7%), than among people aged 15-24 years (0.9%).

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. Spain's consumer prices decreased -0.8% from a year earlier in November of 2020, the same as in the previous month and the most since May, matching a preliminary estimate. The harmonized index of consumer prices went down -0.8% over a year earlier, after a -0.9% decrease in the prior month, and slightly below a preliminary reading of a -0.9% fall. On a monthly basis, consumer prices increased 0.2% and the harmonized index advanced 0.1%, both matching a preliminary estimate. 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 1.9% in 2021.**

Slovenia

The Slovenian economy shrank -2.6% yoy in Q3 of 2020, following a record -13% drop in the previous period due to the coronavirus crisis. Household consumption fell -6%, mainly due to fuels and services and gross capital formation shrank -19.6%, mainly inventories and machinery and equipment. Exports sank -9.5% and imports -13.1%. In contrast, government spending rose 1.4%. On a quarterly basis, the economy grew at a record 12.4%, following a record -9.8% contraction in the previous period. Consumer prices in Slovenia were down -0.9% year-on-year in November of 2020, the biggest fall since May and marking the 4th straight month of deflation. On a monthly basis, consumer prices increased -0.3%. Slovenia's unemployment rate rose to 8.6% in September of 2020 from 7.2% in the same month of the previous year, amid the lingering effects of the Covid-19 crisis. In August, the jobless rate was higher at 9.1%. **We expect a decline of GDP in Slovenia of -7% in 2020 and recovery of 5% in 2021.**

Lithuania

Lithuanian economy advanced 3.8% in Q3 2020, faster than an earlier estimate of 3 7% expansion and after a -5.9% contraction in the previous period. Increases were reported in manufacturing (4.6% vs -2.0% in Q2); wholesale and retail trade transport, accommodation and food service activities (7.2% vs -9.5%); information and professional, scientific and technical activities, administrative and service activities (4.0% vs -14.5%)),communication (4.1% vs -5.4%), construction (2.2% vs -11.3%), agriculture, forestry and fishing (1.0% vs 3.9%). On a yearly basis, the GDP grew by 0.1%, after a -4.6% contraction in the second quarter 2020. Lithuania's annual inflation rate edged down to 0.6% in November of 2020 from 0.7% in the previous month. It was the lowest inflation since May. On a monthly basis, consumer prices inched down -0.1% in November, the first monthly decline in three months, after a 0.1% gain in October. 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 -1.5% yoy in Q3 2020, compared with an initial estimate of a -1.6% contraction and following a historic slump of -8.4% in the previous three-month period. Household consumption rose 0.4%, rebounding from a -10.8% drop in Q2, while fixed investment tumbled -9.0%, compared to a -10.7% slump. Changes in inventories had also a negative contribution (-2.3% vs -2.0% in Q2), while a positive impact of the net exports to the economic growth was noted (1.7% vs 1.1% in Q2). On a quarterly basis, Poland's GDP grew by 7.9%, partially recovering from a -9.0% contraction in the previous period. The annual inflation rate in Poland dropped to 3% in November of 2020 from 3.1% in the previous month, a preliminary estimate showed. Prices are set to increase for electricity, gas and other fuels (4.7%) and food & non-alcoholic beverages (2%). On the other hand, cost of fuels for personal transport equipment is expected to plunge (-9.2%). On a monthly basis, consumer prices should remain flat 0%, after increasing 0.1% in the previous month Poland’s unemployment rate came in at 6.1% in October of 2020, unchanged from the previous four months and matching market expectations. It remains the highest jobless rate since February of 2019, as the number of unemployed persons dropped just 6.6 thousand from a month earlier to 1,018.4 thousand. A year ago, the jobless rate was lower at 5%. **We expect a decline of GDP in Poland of -2.8% in 2020 and recovery of 4.8% in 2021.**

Romania

The Romanian gross domestic product shrank 6% yoy in Q3 2020, matching the preliminary estimates, after a 10.3% contraction in the previous period. This was the second straight quarter of contraction in the GDP as the COVID-19 crisis took a huge toll on the economy. Household consumption declined much less (-4% vs -13.7% in Q2) while both exports (-8.3% vs -28.5%) and imports (-3.4% vs -22%) dropped at a softer pace. Also, government expenditure shrank less (-0.5% vs -1.7%). On the positive note, fixed investment expanded faster (2.3% vs 2.2%). On a seasonally adjusted quarterly basis, the economy grew 5.6%, the most since the data began in the second quarter of 1995, after a 12.2% fall in the second quarter. Romania's annual inflation rate inched down to 2.1% in November 2020, the least since September 2017, from 2.2% in the previous month, and below market estimates of a 2.2% growth. Inflation food slowed to a 22-month low of 3.8% in November from 4.3% in October, while services inflation eased to 2.8% in November from 2.9% in the prior month. Meantime, prices of non-food products continued to increase (0.8% vs 0.6%).On a monthly basis, consumer prices edged up 0.1% in November, after a 0.2% rise in October. Romania's seasonally adjusted unemployment rose to 5.3% in October 2020 from a downwardly revised 5.1% in the previous month. **We expect a decline of GDP in Romania of -5.1% in 2020 and recovery of 4.0% in 2021.**

Great Britain

UK GDP expanded 15.5% in Q3 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. 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. Household consumption dropped -12.7% (vs -26.2% in Q2) and fixed investment fell by -12.2% (vs -22.6% in Q2). At the same time, public investment declined by -10.9% (vs -17.8% in Q2), while net external demand contributed positively to the GDP as exports decreased less than imports.

Annual inflation rate in the United Kingdom increased to 0.7% in October of 2020 from 0.5% in September, above forecasts of 0.6%. It is the highest reading in three months, amid a rebound in prices of clothing (0% vs -1.5% in September); food (0.6% vs -0.1%); and furniture, furnishings and carpets (0.1% vs -0.5%). Prices increased faster for transport (1.2% vs 0.9%; and miscellaneous goods and services (0.8% vs 0.7%) while cost of recreation and culture eased (2% vs 2.4%) and housing and utilities declined (-1.3% vs -0.9%). On a monthly basis, consumer prices stalled, following a 0.4% rise in September and compared to market expectations of a -0.1% drop. 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. July to September 2020 also showed a record number of redundancies (up by 181,000 to 314,000), while the employment rate continued to fall to 75.3%. The total number of weekly hours worked was 925 million, down 127.6 million hours on the previous year but up a record 83.1 million hours compared with the previous quarter. The trade with the EU is much more important to the British economy than trade with the UK is for the EU, prospective difficulties will fall far more heavily on UK-based businesses and households. With trade volumes depleted by the fallout from the pandemic, logistical problems and transport-related disruptions may be less marked in early 2021 than might earlier have been feared. However, a Brexit related drag on activity will be a central feature of the UK economy in the coming year. 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% in Q3 2020, in line with the advance estimate. It is the biggest expansion ever, following a record -31.4% plunge in Q2, as the economy rebounds from the coronavirus pandemic. Upward revisions to business and housing investment, and exports were offset by downward revisions to personal and public consumption and private inventory investment. Still, personal spending was the main driver of growth, helped by checks and weekly unemployment benefits from the federal CARES Act. However, GDP is still 3.5% below its pre-pandemic level and although a coronavirus vaccine is expected to be ready soon, the pandemic is far from controlled. Also, only around half of the 22 million jobs lost were recovered so far and a new stimulus bill hasn't been approved yet. The Gross Domestic Product (GDP) in the United States contracted -2.9% in the third quarter of 2020 over the same quarter of the previous year. Annual inflation rate in the US was unchanged at 1.2% in November of 2020, the same as in October and slightly higher than market forecasts of 1.1%. Prices increased faster for new vehicles (1.6% vs 1.5%) but slowed for food (3.7% vs 3.9%), shelter (1.9% vs 2%) and used cars and trucks (10.9% vs 11.5%). Also, cost of medical care commodities (-1.1% vs -0.8% in September) and energy (-9.4% vs -9.2%) declined further (-9.4% vs -9.2%) while deflation softened for transportation services (-3.4% vs -5.1%) and apparel (-5.2% vs -5.5%). On a monthly basis, consumer prices increased 0.2%, higher than a flat reading in October and expectations of 0.1%. The core index which excludes food and energy rose 0.2% on the month and 1.6% on the year. The US unemployment rate edged down to 6.7% in November 2020, from the previous month's 6.9% and compared with market expectations of 6.8%, as fewer people looked for work. The number of unemployed persons fell by 326 thousand to 10.7 million and the employment level declined by 74 thousand to 149.7 million. The labor force participation rate edged down to 61.5% in November, -1.9% below its February level. The employment-population ratio was little-changed at 57.3%, -3.8% lower than in February. Besides the near-term evolution of coronavirus cases, the fiscal stimulus gridlock remains a major concern. Congress has so far been unable to reach an agreement on further fiscal support, and this is against the backdrop of an imminent deadline to avoid a government shutdown. However, we do expect a new fiscal package to be approved, which together with the imminent vaccine roll-out will put the US on track towards a gradual normalization of economic activity. **Overall, we have marginally upgraded real GDP outlook to -3.6% from -3.7% in 2020, which has a knock-on effect for annual growth in 2021, that was revised upward from 4.0% to 4.2%.**

Japan

The Japanese economy advanced a record 5.3% on quarter in the three months to September of 2020, better than the initial estimate of a 5% expansion, and recovering from a revised -8.3% slump in the previous period. Private consumption rebounded firmly (5.1% vs -8.3% in Q2) while public spending rose at a faster pace (2.8% vs 0.3%). At the same time, gross fixed capital formation contracted at a much softer rate (-2.3% vs -3.2%). Net trade contributed positively to growth, as exports increased 7.0% (from -17.1% in Q2) while imports dropped -8.8% (from 1.4% in Q2). The Gross Domestic Product (GDP) in Japan contracted -5.80% in the third quarter of 2020 over the same quarter of the previous year. Japan's consumer prices declined -0.4% in October year-on-year after remaining unchanged 0% in the previous month, as the pandemic continued to drag consumption.

The decline was sharper than the -0.3% expected by consensus and was the sharpest in more than 4 years. Food inflation declined to 1.1% from 1.9%. Prices fell for education (-2.1%), culture & recreation (-4%), medical care (-0.5%), and utilities (-2.9%). Also, prices for transport & communication declined 0.9% after increasing 0.4% in September. On a monthly basis, consumer prices edged down -0.1% for the third month. Core consumer prices, which exclude fresh food, dropped -0.7% after falling -0.3% in the previous month. Japan's unemployment rate inched up to 3.1% in October from 3.0% in the previous month, up from 2.4% in the same month of the previous year. The print matched expectations and was the highest since May 2017. **We expect growth in Japan to contract -5.5% in 2020. We expect a recovery in Japan of 2.5% 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. The consumer price index in China unexpectedly declined by -0.5% year-on-year in November of 2020, after a 0.5% rise a month earlier and compared with market consensus of a flat reading 0%. This was the first deflation rate since October of 2009 as food prices dropped for the first time in nearly three years (-2%), with prices of pork tumbling after soaring last year due to the African Swine outbreak. Also, there were falls in cost of transport (-3.9% vs -3.9% in October); rent, fuel, and utilities (-0.6% vs -0.7%); and clothing (-0.3% vs -0.3%). On a monthly basis, consumer prices fell by -0.6%, the steepest drop since May, and following a- 0.3% decline in October. Unemployment Rate in China decreased to 5.20% in November from 5.30% in October of 2020. China, a global frontrunner in terms of a post-lockdown recovery, has seen minor growth upgrades too. **Given the relative strength of growth in Q3 and the fact that the pandemic in China remains mostly under control, we have increased Chinese GDP growth to 2.1% in 2020 and 8.5% in 2021.**

Turkey

The Turkish economy expanded 6.7% yoy in Q3 of 2020, following a -9.9% fall in the previous period and well above forecasts of 4.8%, as the economy rebounds from the pandemic hit and coronavirus lockdown. Biggest increases were seen in financial and insurance activities (41.1%); information and communication (15%); industry (8%); construction (6.4%); agriculture (6.2%); real estate activities (2.8%); public administration, education, human health and social work activities (0.8%); and services (0.8%). In contrast, professional, administrative and support service activities contracted -4.5%. On a quarterly basis, the economy grew 15.6%, following a record 10.8% fall in the previous period, as the economy rebounds from the coronavirus pandemic hit. The Turkish lira held steady at 7.8 against the USD, as the Trump administration on Monday imposed sanctions on its NATO ally Turkey over its purchase of Russian S-400 defences. The measures targeted the country's top defense development body, while investors were expecting them to be worse. Meanwhile, the EU is also preparing to announce new sanctions on Turkey over a Mediterranean gas dispute. On the monetary policy front, Turkey's central bank is seen hiking interest rates by another 100-150 basis points when it meets next week, after the country's consumer price inflation surged to 14% in November, its highest since August 2019 and well above the 3%-7% target. The Turkish lira has been the worst performer in emerging markets this year, having touched a record low of 8.6 against the USD last month. The inflation rate in Turkey rose to 14.03% in November of 2020 from 11.89% in October, beating market forecasts of 12.6%. It is the highest reading since August last year amid a falling lira. Food and non-alcoholic beverages inflation accelerated to an 18-month high of 21.08% from 16.5%. On a monthly basis, consumer prices increased 2.3%, following a 2.1% gain in October and above market expectations of a 1% rise. The unemployment rate in Turkey declined to 12.7% in September of 2020 from 13.8% in the corresponding month of the previous year, the lowest since November 2018. The youth jobless rate aged between 15-24 years went down to 24.3% from 26.1% in September 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)

ECB Monetary policy decisions 10 December 2020

In view of the economic fallout from the resurgence of the pandemic, on 10.12.2020 the Governing Council recalibrated its monetary policy instruments as follows:

First, 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.

Second, the Governing Council decided to increase the envelope of the pandemic emergency purchase programme (PEPP) by EUR 500 billion to a total of EUR 1,850 billion. It also extended the horizon for net purchases under the PEPP to at least the end of March 2022. In any case, the Governing Council will conduct net purchases until it judges that the coronavirus crisis phase is over.

The Governing Council also decided to extend the reinvestment of principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Third, the Governing Council decided to further recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO III). Specifically, it decided to extend the period over which considerably more favourable terms will apply by twelve months, to June 2022. Three additional operations will also be conducted between June and December 2021. Moreover, the Governing Council decided to raise the total amount that counterparties will be entitled to borrow in TLTRO III operations from 50% to 55% of their stock of eligible loans. In order to provide an incentive for banks to sustain the current level of bank lending, the recalibrated TLTRO III borrowing conditions will be made available only to banks that achieve a new lending performance target.

Fourth, the Governing Council decided to extend to June 2022 the duration of the set of collateral easing measures adopted by the Governing Council on 7 and 22 April 2020. The extension of these measures will continue to ensure that banks can make full use of the Eurosystem's liquidity operations, most notably the recalibrated TLTROs. The Governing Council will reassess the collateral easing measures before June 2022, ensuring that Eurosystem counterparties' participation in TLTRO III operations is not adversely affected.

Fifth, the Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which will continue to provide an effective liquidity backstop.

Sixth, net purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR 20 billion. 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 also 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.

Seventh, the Eurosystem repo facility for central banks (EUREP) and all temporary swap and repo lines with non-euro area central banks will be extended until March 2022.

Finally, the Governing Council decided to continue conducting its regular lending operations as fixed rate tender procedures with full allotment at the prevailing conditions for as long as necessary.

The monetary policy measures taken will contribute to preserving favourable financing conditions over the pandemic period, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability. At the same time, uncertainty remains high, including with regard to the dynamics of the pandemic and the timing of vaccine roll-outs. We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. The Governing Council therefore continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Bank of England (BoE)

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 16 December 2020, the Committee judged that the existing stance of monetary policy remains appropriate. The Monetary Policy Committee 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 programme of GBP 100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and also to commence the previously announced programme of GBP 150 billion of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at GBP 875 billion and so the total target stock of asset purchases at GBP 895 billion. The Monetary Policy Committee's central projections in the November Monetary Policy Report assumed that the pandemic would weigh on near-term spending to a greater extent than projected in the August Report, given new restrictions announced in October in response to rising virus cases. They were also conditioned on the assumption that the United Kingdom, after leaving the Single Market and Customs Union on 1 January 2021, moved immediately to a free trade agreement with the European Union. Conditional on those assumptions, UK GDP was projected to decline in 2020 Q4, and then pick up as restrictions were assumed to loosen. Nonetheless, the unemployment rate was projected to rise markedly, consistent with a material degree of spare capacity, before declining gradually. Conditioned on prevailing market yields, CPI inflation was expected to be around 2% in two years' time. The main news since the November Report has been the successful trialing of some Covid vaccines and initial plans to roll them out widely over the first half of next year. This is likely to reduce the downside risks to the economic outlook from Covid previously identified by the Committee. Financial markets worldwide, and some surveys of businesses and consumers, have reacted positively to these developments which are likely to support future UK and global activity. Nevertheless, recent global activity has been affected by the increase in Covid cases and associated re-imposition of restrictions. UK-weighted global GDP growth in 2020 Q4 is likely to be a little weaker than expected at the time of the November Report. CPI inflation is expected to rise quite sharply towards the target in the spring, as the VAT cut comes to an end and the large fall in energy prices earlier this year drops out of the annual comparison. 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 will also depend on the responses of households, businesses and financial markets to these developments. The Monetary Policy Committee 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, the Federal Reserve will continue to increase its holdings of Treasury securities by at least USD 80 billion per month and of agency mortgage-backed securities by at least USD 40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and 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)

Japan's economy has picked up, but the pace of improvement is expected to be only moderate while vigilance against the novel coronavirus (COVID-19) continues (see Attachment). In this situation, financing, mainly of firms, is likely to remain under stress for the time being. Given these circumstances, the Bank of Japan judged it appropriate to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) by 6 months and make adjustments to the program, with a view to continuing to support financing, mainly of firms. To this end, at the Monetary Policy Meeting (MPM) held on 18.12.2020, the Policy Board of the Bank of Japan decided upon the following. Depending on the future impact of COVID-19, the Bank of Japan will consider further extension of the program if necessary. (1) Additional purchases of CP and corporate bonds (a unanimous vote) The Bank of Japan will extend the duration of additional purchases of CP and corporate bonds by 6 months until the end of September 2021. It will continue conducting purchases of these assets with an upper limit on the amount outstanding of about JPY 20 trillion in total. Out of JPY 20 trillion, JPY 15 trillion will be for the additional purchases of CP and corporate bonds and it will be distributed between each asset depending on market conditions. (2) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (a unanimous vote) The Bank of Japan will extend the duration of the Special Funds-Supplying Operations to Facilitate financing in Response to the Novel Coronavirus (COVID-19) by 6 months until the end of September 2021. In addition, in order to further actively encourage private financial institutions to make loans on their own in response to COVID-19 mainly to small and medium-sized firms, the Bank of Japan will remove the upper limit of funds it provides to each eligible counterparty (i.e., JPY 100 billion) against loans that private financial institutions make on their own, which are part of eligible loans under this operation. 2. The Bank of Japan decided to set the following guidelines for market operations as well as for purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). (1) Yield curve control (an 8-1 majority vote). The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank 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 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. (2) Purchases of ETFs and J-REITs (a unanimous vote) The Bank of Japan will actively purchase ETFs and J-REITs for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about JPY 12 trillion and about JPY 180 billion, respectively. 3. 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 USD 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 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. 4. Given that economic activity and prices are projected to remain under downward pressure for a prolonged period due to the impact of COVID-19, the Bank of Japan will conduct an assessment for further effective and sustainable monetary easing, with a view to supporting the economy and thereby achieving the price stability target of 2%. In doing so, since the framework of "QQE with Yield Curve Control" has been working well to date, the Bank of Japan judges that there is no need to change it. The Bank of Japan will assess various measures conducted under this framework and make public its findings, likely at the March 2021 MPM.

PBoC

The People's Bank of China (PBoC) left its benchmark interest rates steady for the seventh straight month at its November fixing on 20.11.2020, after holding borrowing costs on medium-term loans earlier, amid efforts to keep conditions accommodative to support the recovery from the COVID-19 disruption. The one-year loan prime rate (LPR) was left unchanged at 3.85% after two cuts this year, while the five-year remained at 4.65%. The Monetary Policy Committee of the People's Bank of China (PBC) held the third quarterly meeting in 2020 (its 90th meeting) on September 25, 2020 in Beijing. The attendees agreed that since the beginning of this year, great achievements have been made in coordinating pandemic containment and economic and social development, and the economy has been recovering steadily. The sound monetary policy has been forward-looking, targeted and timely, enabling vigorous support for pandemic containment, work and production resumption and the development of the real economy. With financial risks effectively managed, the quality and efficiency of the financial sector serving the real economy have been gradually improved. The transition of the pricing benchmark of outstanding floating-rate loans has been completed successfully. The loan prime rate (LPR) reform has been continuously paying dividends, with transmission efficiency of monetary policy enhanced and lending rates falling significantly.

Remaining generally stable, the CNY exchange rate has moved in both directions with greater flexibility and played a role as stabilizer for the macro economy. It was pointed out at the meeting that as the overseas pandemic situations and the world economy remain severe and complex, efforts should be made to enhance the research and analysis of the international economic situations, strengthen the coordination of international macroeconomic policies, concentrate on doing our own affairs well, improve cross-cyclical policy designs and adjustments, and support high-quality economic development. The People's Bank of China will pursue a sound monetary policy in a more flexible, appropriate and well-targeted manner, and use a mix of monetary policy tools and innovate new ones to keep liquidity adequate at a reasonable level. The structural monetary policy tools will be effectively leveraged for accurate liquidity provision to strengthen "direct reach" of policies. The People's Bank of China will continue to properly use the CNY 1 trillion quota of central bank lending and central bank discounts for inclusive finance, well implement the two monetary policy tools which enable direct support for the real economy, ensure deferred repayments of inclusive loans are applicable to all eligible micro and small businesses (MSBs) and substantively raise the portion of unsecured inclusive MSB loans. The supply-side structural reform of the financial sector will be deepened to guide large banks to focus more attention on financial inclusiveness and encourage small and medium-sized banks to focus on their main businesses and responsibilities, thus advancing a modern financial system featuring great adaptability, competitiveness and inclusiveness. The People's Bank of China will also strive to remove obstructions in monetary policy transmission, continue to release the potential of the reform for lowering lending rates, adopt a mix of policies to significantly drive down overall financing costs, encourage financial institutions to enhance support for the real economy, shore up weak links and foster strengths, and ensure that new financing primarily flows to the manufacturing sector and micro, small and medium-sized enterprises (MSMEs). With these efforts in place, we expect to make financial support for private enterprises commensurate with their contribution to socio-economic development, build up a triangular framework in which the supply system, the demand system and the financial system support each other, and facilitate the formation of a new development pattern of dual circulations with the domestic circulation as the mainstay and international and domestic circulations facilitating each other. Measures will also be taken to further expand the two-way opening-up of the financial sector at a high level, and improve economic and financial oversight and risk management capability in an open economy. Adhering to the underlying principle of pursuing progress while ensuring stability and the strategic orientation of structural adjustments, the People's Bank of China will keep firmly in mind the strategic basis of expanding domestic demand, take solid steps to ensure stability on the six fronts (employment, financial sector, foreign trade, foreign investment, domestic investment and expectations) and fully implement the task of maintaining security in the six areas (the employment of residents, the basic livelihood of the people, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments). The market-based reform of interest rates will be deepened, lending rates will be further guided downwards, and the CNY exchange rate will be kept basically stable at an adaptive and equilibrium level. Effective measures will be taken to prevent and defuse major financial risks, hold the bottom line that no systemic financial risks should occur, and strike a long-term balance between stabilizing growth and preventing risks.

Central Bank of Turkey

Central Bank of Turkey monetary policy stance will be set taking into account these risks and with a focus on bringing inflation down and achieving price stability in the medium term. In 2021, all factors affecting inflation will be taken into account, and the tightness of monetary policy will be decisively sustained until there are strong indicators that point to price stability and a permanent fall in inflation. The Central Bank of Republic of Turkey (CBRT) will decisively implement all the elements of the inflation-targeting framework in 2021. The medium-term inflation target of 5% set jointly with the government has been maintained. Aware of its responsibility in reaching this target, the Central Bank of Republic of Turkey will remain determined and resolute over the target horizon. Monetary policy decisions will be taken by giving priority to price stability. The Central Bank of Republic of Turkey's main policy instrument is the one-week repo auction rate. The interest rate corridor which is used to limit intraday volatility in overnight interest rates and the Late Liquidity Window (LLW) that performs the Central Bank of Republic of Turkey's role as a lender of last resort will not be utilized as monetary policy instruments except for their above-mentioned functions. Reserve requirements and other Turkish lira and foreign currency liquidity instruments will be used effectively in order to ensure the smooth functioning of the monetary transmission mechanism and to limit the risks to macrofinancial stability. The implementation of the floating exchange rate regime will continue, and exchange rates will be determined by supply and demand balance under free market conditions. The Central Bank of Republic of Turkey does not have a nominal or real exchange rate target. The Central Bank of Republic of Turkey will not conduct foreign exchange (FX) buying or selling transactions to determine the level or direction of exchange rates. For effective monetary policy and financial stability, the Central Bank of The Republic of Turkey's foreign exchange reserves will be strengthened and relevant tools will be used to this end under appropriate conditions in a transparent way and within a specific framework. The Central Bank of Republic of Turkey considers price stability as a prerequisite for financial stability, and financial stability as one of the most crucial factors for price stability. In 2021, monetary policy focusing on price stability is evaluated as critical for also containing macrofinancial risks. Committed to the principles of transparency, predictability and accountability, the Central Bank of Republic of Turkey will strengthen its policy communication and data dissemination in 2021.

International commodity prices

Oil prices

The Brent price decreases 0.18 USD/BBL or -0.35% to 51.320 USD/BBL on December 18. The price of crude oil decreases 0.13 USD/BBL or -0.27% to 48.230 USD/BBL on December 18. Oil hovered near a nine-month high on 18.12.2020, heading for its seventh straight week of rise, amid progress in new fiscal aid in the US. President Donald Trump in a tweet on 17.12.2020 said that stimulus talks were "looking very good", while a US House Democratic aide noted that there was confidence that the House could meet the midnight 18.12.2020 deadline for passing spending and COVID-19 relief measures. Also, the US FDA is expected to grant the Moderna vaccine the emergency use authorization on December, 18th, according to media reports. In addition, traders welcome news that refining demand in China and India hit record high as their economies recovered. Meantime, EIA data showed a larger-than-expected draw in US crude inventories.

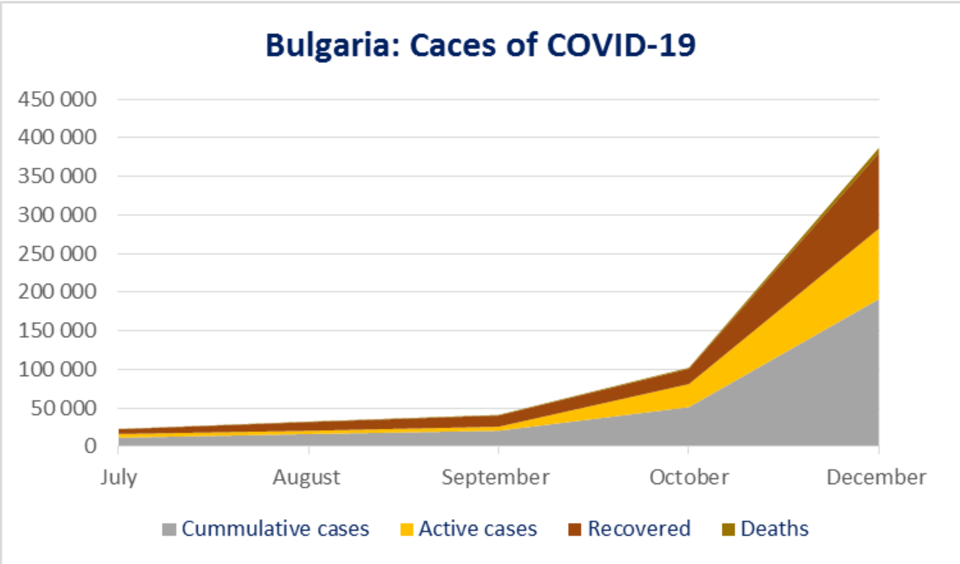
Agriculture prices

In the middle of December 2020 the prices of the main grain contracts on the world stock markets have moved, mainly due to the optimistic attitude of traders regarding the realization of exports overseas. Wheat in the US returned the upward trend of quotations by plus USD 17.00 dollars to 272.00 USD / ton, that in France slightly decreased by minus EUR 1.75 euros to 207.25 EUR / ton. The price in both Ukraine and Russia after some stagnation also added USD 6.00 and USD 8.00 to the same 258.00 USD / ton. For corn, the price in the US dropped by USD 4.00 to 216.00 USD / ton, in Ukraine by USD 2.00 and 229.00 USD / ton. Barley in Ukraine did not change the price and remained at 223.00 USD / ton, and in France plus EUR 2.00 to 202.00 EUR / ton. Rapeseed in the European Union / Euronext / after the reduction also went up by EUR 7.00 to 413.00 EUR/ ton. After the unrefined sunflower oil on the Rotterdam Stock Exchange went up and down in November and early December, as the end of the year approached, prices rose again by USD 55.00 to 1205.00 USD / ton. Refined sugar also almost returned to its price from 2 weeks ago - 403.40 USD/ ton on the London Stock Exchange. In the "Grain" sub-district of the Sofia Commodity Exchange AD this week for bread wheat the purchase quotations were at 380.00 BGN / ton, the sellers announced 400.00-410.00 BGN / ton. Maize ranges from 330.00-340.00 BGN / ton buy to 350.00 BGN / ton sell. For oilseed sunflower for the demand from the place the prices are unchanged - from 800.00 to 830.00 BGN / ton, the sellers announce 860.00-880.00 BGN / ton. All prices are without VAT.

II.BULGARIA: ACCENTS AND PROJECTIONS

HEALTH

As of December 20, 2020, the total number of laboratory-confirmed infections since the beginning of the pandemic is 191,029. 98,026 were cured and 6,551 died. The measures against COVID-19 should remain in force until January 31, 2021. The reason to spend the holidays with restrictions is that the incidence in Bulgaria is falling, but not enough. There are grounds for timid optimism, but in order to keep as many Bulgarians healthy as possible until the start of vaccination, restrictions must remain. Closed until the end of January next year remain: gambling halls, night bars and restaurants, casinos. Shopping centers except for offices of banks, mobile operators, pharmacies, pet stores. All collective events, conferences and congresses are still prohibited. Four exceptions are introduced: 1) Students from 1st to 4th grade will return to the present form of education from January 4; 2) Kindergartens and nurseries will open on January 1; 3) Museums, galleries, cinemas and theaters, which have been operating so far, will be open, with a capacity of 30% and occupancy in 1 seat. The support of the workers and the business continues, as so far under the measures 60/40 and 80/20 over BGN 600 million have been paid. The measure "Save me", under which the affected workers receive BGN 24 per day, will be changed from January. The Ministry of Labor and Social Policy proposes to transform this measure into 75/0. That is 75% of the insurance income of the employees. More than BGN 1.1 billion have been invested in business support and 250,000 jobs have been saved. From January 2021 launches a new measure for companies with an annual turnover of BGN 500,000. More than 1,000 companies are supported with BGN 150 million, and 24,000 individuals with loans for BGN 100 million through the two schemes of the Bulgarian Development Bank.



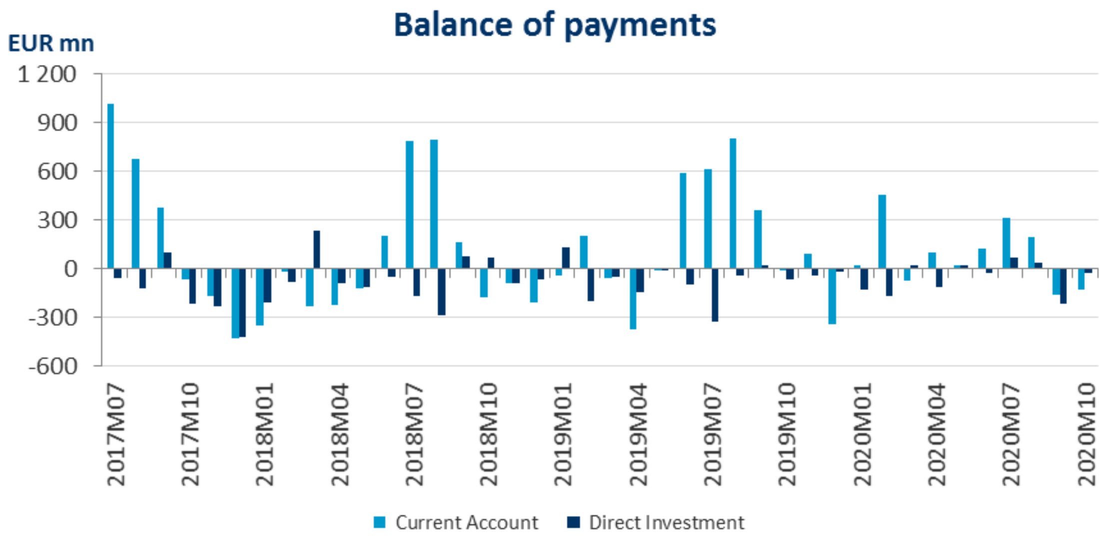
The COVID-19 pandemic could have more lasting than expected consequences. It expects employment to shrink further, and household consumption is likely to remain weak. Business investment is also expected to be negatively affected by increased uncertainty. Inflation is below expectations before and is currently expected to remain low until early 2021. Clear risks to GDP growth are expected in Q4 of 2020. There are concerns about the so-called "double recession" (W-shaped development of the economy), which can cause permanent damage to the economy.

EXTERNAL SECTOR

Balance of payments

The current and capital account recorded a deficit of EUR 51 million in October 2020, compared with a surplus of EUR 32.6 million in October 2019. In January – October 2020 the current and capital account was positive amounting to EUR 1,493 million (2.6% of GDP), compared with a surplus of EUR 2,813.2 million (4.6% of GDP) in January – October 2019. The current account was negative amounting to EUR 124.3 million in October 2020, compared with a deficit of EUR 3.7 million in October 2019. In January – October 2020 the current account was positive and amounted to EUR 699 million (1.2% of GDP), compared with a surplus of EUR 2,092.2 million (3.4% of GDP) in January – October 2019. The balance on goods recorded a deficit of EUR 237.1 million in October 2020, compared with a deficit of EUR 244.1 million in October 2019. In January – October 2020 the balance on goods was negative amounting to EUR 1,125.4 million (2% of GDP), compared with a deficit of EUR 2,192.4 million (3.6% of GDP) in January – October 2019. Exports of goods amounted to EUR 2,513.1 million in October 2020, dropping by EUR 242.5 million (8.8%) from EUR 2,755.6 million in October 2019. In January – October 2020 exports of goods totaled EUR 22,530.9 million (39.7% of GDP), dropping by EUR 1,839.1 million (7.5%) year-on-year (from EUR 24,370 million, 39.8% of GDP).

In January – October 2019 exports grew by 5.3% year-on-year. Imports of goods amounted to EUR 2,750.2 million in October 2020, dropping by EUR 249.5 million (8.3%) from October 2019 (EUR 2,999.7 million). In January – October 2020 imports of goods totaled EUR 23,656.3 million (41.7% of GDP), down by EUR 2,906.1 million (10.9%) from January – October 2019 (EUR 26,562.4 million, 43.4% of GDP). In January – October 2019 imports grew by 4.8% year-on-year. Services recorded a positive balance of EUR 141.8 million in October 2020, compared with a surplus of EUR 317 million in October 2019. In January – October 2020 services recorded a surplus of EUR 2,431 million (4.3% of GDP) compared with a positive balance of EUR 4,401 million (7.2% of GDP) in the same period of 2019. The net primary income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 24.4 million, compared with a deficit of EUR 119.7 million in October 20193. In January – October 2020 the balance on primary income was negative and equated to EUR 1,217.5 million (2.1% of GDP), compared with a deficit of EUR 1,638.5 million (2.7% of GDP) in January – October 2019. The net secondary income (which reflects the redistribution of income) recorded a deficit of EUR 53.4 million, compared with a positive balance of EUR 43.1 million in October 2019. In January – October 2020 the net secondary income was positive amounting to EUR 610.9 million (1.1% of GDP), compared with a positive balance of EUR 1,522 million (2.5% of GDP) in the same period of 2019. The capital account recorded a surplus of EUR 73.3 million, compared with a positive balance of EUR 36.3 million in October 2019. In January – October 2020 the capital account recorded a surplus of EUR 793.9 million (1.4% of GDP), compared with a positive balance of EUR 721 million (1.2% of GDP) in January – October 2019. The financial account recorded a deficit of EUR 637.8 million, compared with a surplus of EUR 110.2 million in October 2019. In January – October 2020 the financial account recorded a net inflow of EUR 3,123.7 million (5.5% of GDP) compared with an inflow of EUR 2,511.1 million (4.1% of GDP) in January – October 2019. **The Current Account to GDP in Bulgaria is expected to reach 1% in 2020. In the long-term, the Bulgaria Current Account to GDP is projected to trend around 3% in 2021 and 0.6% in 2022.**



Foreign investments

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 665.8 million (1.2% of GDP) in January – October 2020, dropping by EUR 455.5 million (40.6%) from January – October 2019 (positive value of EUR 1,121.3 million, 1.8% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 26.1 million in October 2020, compared with an inflow of EUR 65 million in October 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 1,023.3 million in January – October 2020, dropping by EUR 530.7 million from a negative value of EUR 492.6 million in January – October 2019. Real estate investments of non-residents totalled EUR 0.7 million, compared with EUR 3.9 million in January – October 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 458.3 million, compared with a positive value of EUR 636.7 million in January – October 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 1,230.9 million in January – October 2020, compared with a positive value of EUR 977.2 million in January – October 20195. The largest net direct investment inflows in Bulgaria for January – October 2020 were from the Netherlands (EUR 473.5 million), Austria (EUR 211.8 million), Germany (EUR 131.3 million), and Russia (EUR 102.5 million).

REAL SECTOR

Business conjuncture

In November 2020, the business conjuncture in the country is assessed as unfavourable. The total business climate indicator decreases by 4.1 percentage points compared to its October level to 5.7 Index points, as a reduce of the indicator is registered in construction and retail trade.

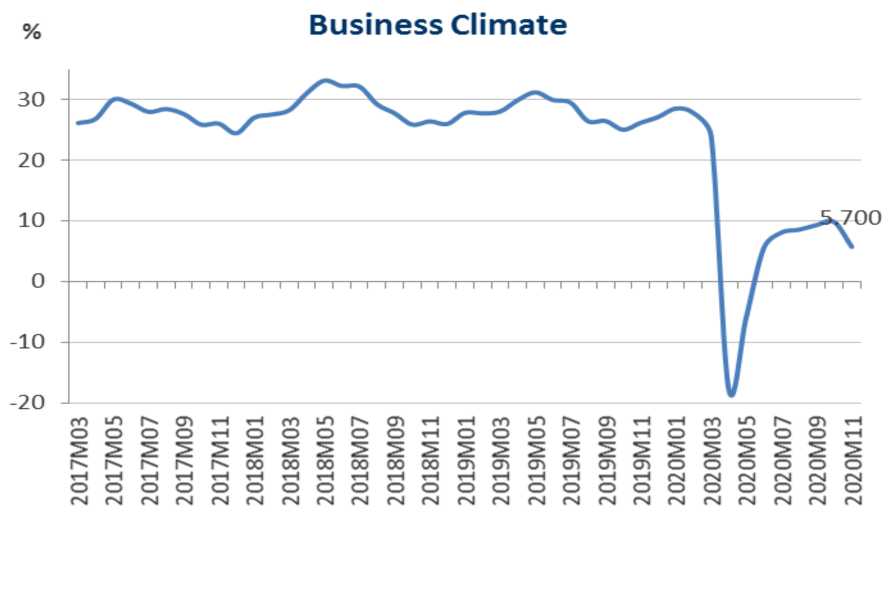
Industry. The composite indicator 'business climate in industry' preserves approximately its level from the previous month. The inquiry reports slightly decrease of the present production activity, as the industry entrepreneurs' expectations about the activity over the next 3 months are also more moderate. The most serious difficulty for the business remains the uncertain economic environment, followed by insufficient domestic demand, factor 'others' and insufficient foreign demand. Concerning the selling prices, the managers foresee them to remain unchanged over the next 3 months.

Construction. In November, the composite indicator 'business climate in construction' drops by 9.9 percentage points as a result of the worsened construction entrepreneurs' assessments and expectations about the business situation of the enterprises. According to them, the new orders inflow over the last month decrease, as their forecasts about the activity over the next 3 months are also more unfavourable. The uncertain economic environment continues to be the main problem for the activity in the sector, followed by the shortage of labour. An increase of the negative impact of the factor 'others'5 is also registered, which shifts to the fourth place the difficulties connected with the competition in the branch. As regards the selling prices in the sector construction entrepreneurs expect them to preserve their level over the next 3 month.

Retail trade. The composite indicator 'business climate in retail trade' decreases by 9.9 percentage points which is due to the more reserved retailers' assessments and expectations about the business situation of the enterprises. Their forecasts about both the volume of sales and the orders placed with suppliers over the next 3 months are also pessimistic. The main obstacle for business development remains the uncertain economic environment. In the second and third place are the insufficient demand and competition in the branch. Concerning the selling prices, the majority of the retailers foresee them to remain unchanged over the next 3 months.

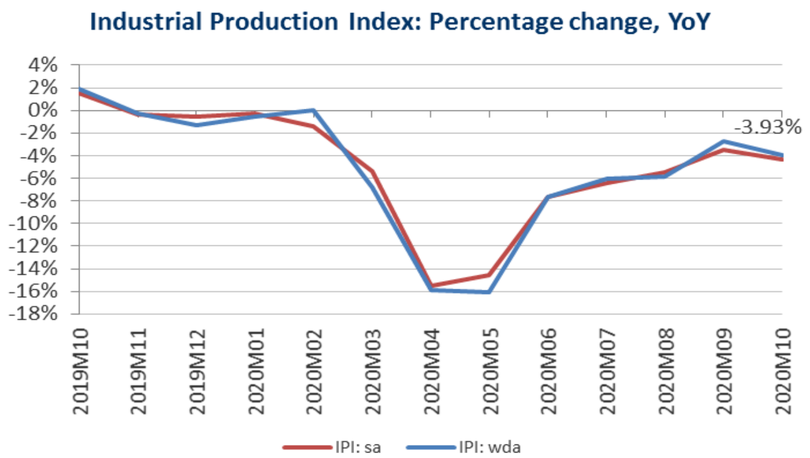
Service sector. In November, the composite indicator 'business climate in service sector' preserves its October level. The managers' forecasts about the business development in the sector over next 6 months are worsened, as their expectations about the demand for services over the next 3 months are also pessimistic. The uncertain economic environment, competition in the branch, insufficient demand and a factor 'others' continue to be the main factors limiting the activity, as in the last month an increase of the negative influence of the first two factors is observed. As regards the selling prices in the service sector, the prevailing managers' expectations are them to preserve their level over the next 3 months.

Business Confidence in Bulgaria is expected to be 6 index points by the end of 2020. Looking forward, we estimate Business Confidence in Bulgaria to stand at 11 index points in 2021 and 15 index points in 2022.



Industrial production

According to the preliminary data in October 2020 the Industrial Production Index, seasonally adjusted, increased by 0.2% as compared to September 2020.In October 2020 the working day adjusted Industrial Production Index fell by 3.9% in comparison with the same month of 2019. In October 2020 as compared to September 2020, the seasonally adjusted Industrial Production Index rose in the manufacturing by 1.0%, while the production went down in the mining and quarrying industry by 9.0% and in the electricity, gas, steam and air conditioning supply by 1.7%. The most significant production increases in the manufacturing were registered in the manufacture of motor vehicles, trailers and semi-trailers by 15.1%, in the manufacture of leather and related products by 14.2%, in the manufacture of textiles by 9.3% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 7.1%. Important decreases were seen in the other manufacturing by 6.7%, in the manufacture of basic metals by 2.9%, and in the manufacture of tobacco products by 2.4%. On annual basis in October 2020 Industrial Production Index calculated from working day adjusted data fell in the mining and quarrying industry by 12.7%, in the electricity, gas, steam and air conditioning supply by 5.4% and in the manufacturing by 2.9%. 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 36.1%, in other manufacturing by 31.2%, in the repair and installation of machinery and equipment by 21.5%, and in the manufacture of basic metals by 12.8%. Major increases were seen in the manufacture of motor vehicles, trailers and semi-trailers and in the manufacture of other transport equipment - by 21.3%, in the manufacture of electrical equipment by 15.8%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 11.7%, in the manufacture of fabricated metal products, except machinery and equipment by 11.5%. **Industrial Production in Bulgaria is expected to decline by – 6% yoy. Looking forward, we estimate Industrial Production in Bulgaria to stand at 4.4% in 2021 and 3.2% in 2022.**

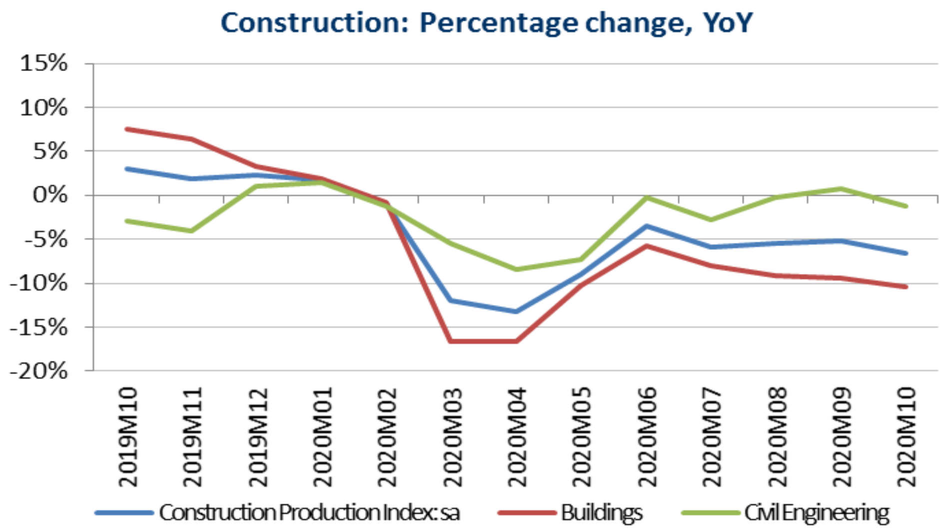


Retail sales

According to the preliminary seasonally adjusted data in October 2020 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 1.5% compared to the previous month. The working day adjusted turnover fell by 5.3% as compared to the same month of the previous year. In October 2020 compared to the previous month, increase of turnover was observed in the 'Retail sale of non-food products (including fuel) - by 2.8%, while in the 'Retail sale of food, beverages and tobacco' kept the level of the previous month and in the 'Retail sale of automotive fuel in specialized stores' was registered decrease - by 0.7%. In the 'Retail sale of non-food products except fuel' more significant increases of turnover were registered in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles in specialised stores' and in the 'Retail sale via mail order houses or via Internet' - by 4.9% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - by 4.3%. In October 2020 compared to the same month of 2019, decline of turnover was observed in the 'Retail sale of automotive fuel in specialised stores' (16.3%), in the 'Retail sale of food, beverages and tobacco' (10.4%) while in the 'Retail sale of non-food products, except fuel' was seen an increase (2.4%). More significant rise of turnover in the'Retail sale of non-food products, except fuel' was registered in the 'Retail sale via mail order houses or via Internet' - by 57.0%, in the 'Other retail sale in non-specialised stores' - by 8.0%, and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles in specialised stores'- by 6.5%. The drop was reported in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores' - by 13.5% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - by 2.3%. 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 October 2020 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% below the level of the previous month. In October 2020 the working day adjusted index of production in construction decreased by 4.7% in comparison with the same month of 2019. In October 2020 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of building construction fell by 1.6% and production of civil engineering - by 1.5%. On an annual basis in October 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 8.4%, while in the civil engineering was registered an increase by 0.5%. Construction Output in Bulgaria is expected to be -5.2% yoy in 2020. **Looking forward, we estimate Construction Output in Bulgaria to stand at 5.5% in 2021 and 5% in 2022.**

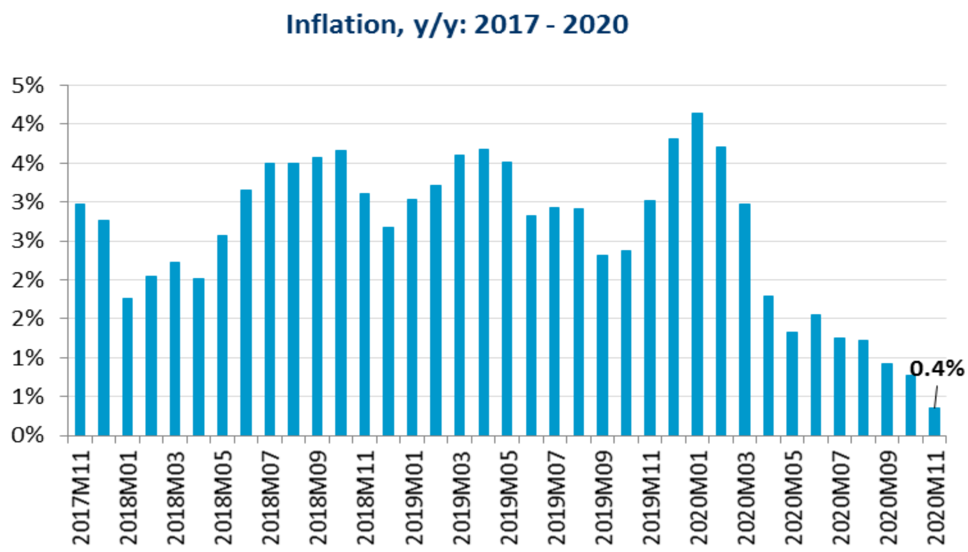


Tourism

In October 2020, during the continuing epidemic situation, 1 777 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 54.2 thousand and the bed-places were 110.4 thousand. In comparison with October 2019, the total number of accommodation establishments (functioned during the period) decreased by 9.3%, and the bed-places in them - by 22.6%.The total number of the nights spent in all accommodation establishments registered in October 2020 was 625.5 thousand, or by 31.3% less in comparison with the same month of the previous year. **The total revenues from nights spent in October 2020 reached 31.7 million BGN or by 39.0% less compared to October 2019.**

CPI Inflation

The consumer price index in November 2020 compared to October 2020 was 100.1%, i.e. the monthly inflation was 0.1%. The inflation rate since the beginning of the year has been -0.4% and the annual inflation in November 2020 compared to November 2019 was 0.4%. The annual average inflation, measured by CPI, in the last 12 months (December 2019 - November 2020) compared to the previous 12 months (December 2018 - November 2019) was 2.0%. Inflation fell from 0.8% in October to 0.4% in November due to lower food prices. Lower prices of some energy products and deepening deflation in other product categories also continue to have an effect. On a monthly basis, inflation in the country is minimal - only 0.1%. The harmonized index of consumer prices in November 2020 compared to October 2020 was 100.0%, i.e. the monthly inflation was 0.0%. The inflation rate since the beginning of the year has been -0.5% and the annual inflation in November 2020 compared to November 2019 was 0.3%.The annual average inflation, measured by HICP, in the last 12 months compared to the previous 12 months (December 2018 - November 2019) was 1.5%. Inflation is expected to rise according to the latest BNB forecast - from 0.3% at the end of 2020 to 1.9% by the end of 2021 because of the 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

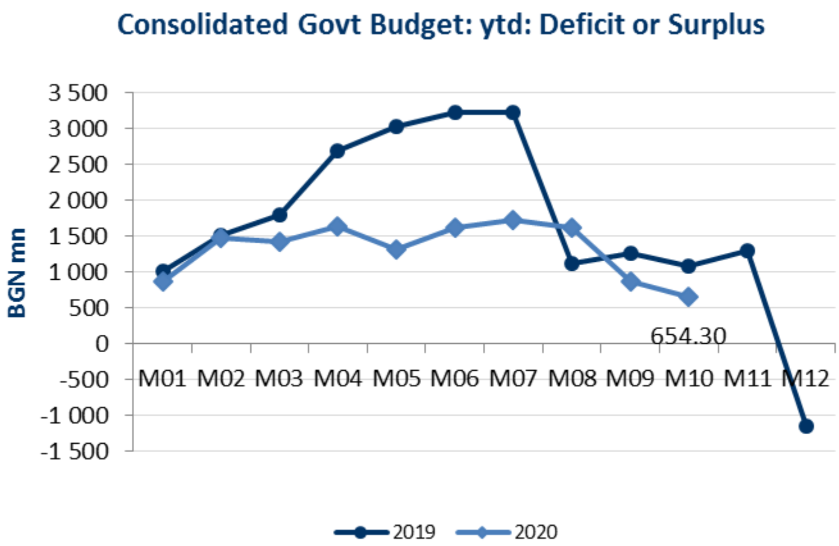
Unemployment

According to data from the Employment Agency, the level of registered unemployment in Bulgaria in November 2021 was 6.7%. This is the lowest registered value since the end of the state of emergency on 13 May 2020. The Employment Agency reported a decrease in unemployment of 0.2 percentage points compared to the previous month of October and an increase of 0.9 percentage points compared to a year earlier. At the end of November, the registered unemployed in the labor offices, according to the administrative statistics of the Employment Agency, were 218,840, which is 9,069 fewer than in October. On an annual basis, the increase is 29,366 people. In November, the number of unemployed who started work reached 17,343, an increase of 13% compared to the same month last year. In November, 370 jobseekers from the group of pensioners, students and employees also found their new jobs through employment offices. Of those who started work, 87.5% are employed in the real economy, most of them are employed in the manufacturing sector - 25.5% of all those who started work, followed by trade - by 16.3%, hotels and restaurants – 8.0%, public administration - 6.3%, construction - 5.3%, etc. During the month, 2,165 unemployed persons from the risk groups started working in subsidized jobs - 412 under employment programs and measures and 1,753 - 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 6,804 people, and in November alone employment contracts were concluded with 683 new unemployed. Anti-crisis measures for short-term employment support, popular as a third design of 60/40 or CMD 278/2020 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 more than 300 thousand employees from May to the end of November. **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**

FISCAL SECTOR

Budget balance

The CFP budget balance on a cash basis as of 31 October 2020 is negative, amounting to BGN 654.3 million, or 0.5% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 466.4 million under the national budget and of BGN 187.9 million under EU funds. As of 31.10.2020, the fiscal reserve amounts to BGN 13.2 billion, including BGN 13.1 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.1 billion of 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 November 2020 is expected to be negative, amounting to BGN 183.2 million (0.2% of the forecast GDP). As of November 2020, CFP revenues, grants and donations are expected to be BGN 39,707.3 million, or 89.4% of the annual estimates. Compared to the same period of the previous year, CFP revenues have shrunk by BGN 146.5 million, with tax and non-tax revenues being lower by BGN 587.4 million, while grant proceeds have risen by BGN 440.9 million. There has been a gradual improvement in the major taxes in the recent months, which gradually sets off the delay in the first months after the pandemic outbreak. As of November 2020, the Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 39,890.5 million, which accounts for 83.3% of the annual estimates. For comparison, the CFP expenditures as of November 2019 amount to BGN 38,553.0 million. Expenditures were generated this month in relation to some socio-economic measures aimed at minimizing 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. **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.**



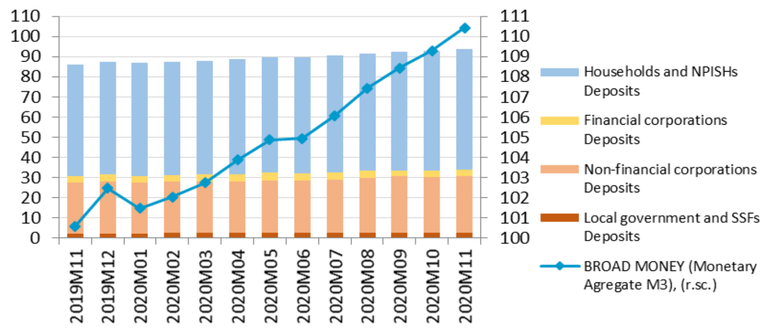
Central government debt

As at end-October 2020, central government debt stands at BGN 29,132.1 million. Domestic debt amounts to BGN 5,994.3 million and external debt – to BGN 23,137.8 million. At the end of the reporting period the central government debt-to-GDP ratio is 24.5%, with the share of domestic debt being 5.0% and of external debt – 19.4% of GDP. In the central government debt structure, at the end of the period domestic debt accounts for 20.6%, and external debt – to 79.4%. As of 31 October 2020, central government guaranteed debt amounts to BGN 172.8 million. Domestic guarantees amount to BGN 73.3 million and external guarantees – to BGN 99.5 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-October 2020 government debt reaches BGN 27,664.8 million, or 23.2% of GDP. Domestic debt amounts to BGN 5,643.6 million and external debt – to BGN 22,021.1 million. Government guaranteed debt amounts to BGN 1,685.0 million in October 2020, domestic guarantees amount to BGN 73.3 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

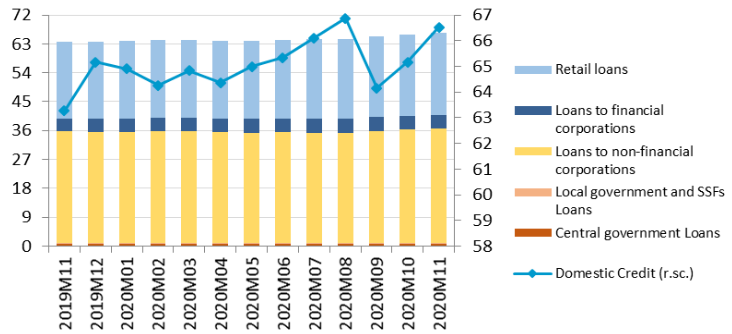
In November 2020 broad money (monetary aggregate M3) increased by 9.8% yoy compared to 9% annual growth as in October 2020. At the end of November 2020 M3 was BGN 110.426 billion (99.5% of GDP) compared to BGN 109.289 billion (98.5% of GDP) in October 2020. Its most liquid component – monetary aggregate M1 – increased by 35.3% yoy in November 2020 (34.1% yoy growth in October 2020). At the end of November 2020, deposits of the non-government sector were BGN 91.390 billion (82.3% of GDP), increasing annually by 9.7% (8.7% yoy growth in October 2020). Deposits of Non-financial corporations were BGN 28.552 billion (25.7% of GDP) at the end of November 2020. Compared to the same month of 2019 they increased by 11% (9.4% yoy growth in October 2020). Deposits of Financial corporations increased by 18.4% yoy in November 2020 (4.8% yoy growth in October 2020) and at the end of the month they were BGN 3.501 billion (3.2% of GDP). Deposits of Households and NPISHs were BGN 59.337 billion (53.5% of GDP) at the end of November 2020. They increased by 8.5% compared to the same month of 2019 (8.6% yoy growth in October 2020). Net domestic assets were BGN 65.535 billion at the end of November 2020. They increased by 2.8% compared to the same month of 2019 (3.1% yoy growth in October 2020).

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



At the end of the month their basic component – domestic credit – was BGN 66.526 billion and increased by 5.1% compared to November 2019 (4.8% yoy growth in October 2020). In November 2020 claims on the non-government sector increased by 4.5% yoy (6.2% yoy growth in October 2020) reaching BGN 67.343 billion. At the end of November 2020, claims on loans to the non-government sector amounted to BGN 65.332 billion (58.9% of GDP) compared to BGN 64.863 billion (58.4% of GDP) at the end of October 2020. They increased annually by 4.1% in November 2020 (5.8% yoy growth in October 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 535.2 million. On an annual basis, loans sold by Other MFIs were BGN 535.2 million (of which BGN 13.5 million in November 2020), while there are no loans repurchases for the last tweve months. In November 2020, loans to Non-financial corporations increased by 2.2% yoy (2.2% yoy growth in October 2020) and at the end of the month amounted to BGN 35.589 billion (32.1% of GDP). Loans to Households and NPISHs were BGN 25.474 billion (22.9% of GDP) at the end of November 2020. They increased by 6.9% compared to the same month of 2019 (7.1% yoy growth in October 2020). At the end of November 2020 loans for house purchases were BGN 11.897 billion and increased by 11.8% yoy (11.9% yoy growth in October 2020). Consumer loans amounted to BGN 11.926 billion and compared to November 2019 they rose by 5.4% (5.9% yoy growth in October 2020). On an annual basis other loans10 decreased by 24.9% (24.5% yoy decline in October 2020) and reached BGN 412.4 million. Loans granted to financial corporations were BGN 4.269 billion at the end of November 2020 (3.8% of GDP). Compared to November 2019, they increased by 3.7% (34.3% yoy growth in October 2020).

Loans and Domestic Credit (BGN bn)



In November 2020 the relative share of bad and restructured loans reported 8.1% compared t 8.2% in October 2020 and 8.9% in June 2020.