EmergingMarketWatch

Morning Review | Nov 20, 2020

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FinMin Koscinski says 2nd COVID wave will be less damaging than 1st

PFR to issue around PLN 5bn in bonds through February - Borys

MPC's Kropiwnicki sees chance for hike in H2 2021

New coronavirus case total picks up to 23,975 on Thurs.

SPECIAL Poland likely open for compromise on EU budget veto, but risks plenty

Consumer sentiment sinks 9.2pts m/m to -29.2 in Nov, lowest since May

KEY STAT Wage growth slows to expected 4.7% y/y in Oct, employment falls 1.0%

PRESS Press Mood of the Day

Police use force during abortion protest, Kaczynski angrily attacks opposition

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Financial flows data remain close to normal levels during Nov 9-13

CBR still sees small room for rate cut – CBR department head Tremasov

Local ACRA rating agency improves growth forecast for 2021-2024

State-owned Promsvyazbank to acquire 100% of Roskosmosbank

PRESS Press Mood of the Day

TURKEY

CBT envisages one-week transition to single channel of funding

Germany warns Turkey of EU sanctions on Eastern Mediterranean spat

HIGH MPC hikes policy rate by 475bps to 15.0%, returns to orthodox policy

Private lender Garanti borrows syndicated loan of USD 267.5mn and EUR 312mn

Turkey in talks with Pfizer to buy up to 25mn doses of COVID-19 vaccine in 2021

PRESS Press Mood of the Day

ARGENTINA

PPI inflation quickens to 6.0% m/m and 39.2% y/y in October

FPV senators seek to ban FX bond issues to finance current spending

Govt to raise retirement pensions by 5% in December

PRESS Press Mood of the Day

BRAZIL

Economists expect primary deficit to be BRL 844.8bn in 2020, Fiscal Prism says

Industrial activity falls 0.8pt m/m to 58.3pts in October - CNI

Commerce confidence falls 14.5pts y/y in Nov - CNC

First package of China's Sinovac vaccine arrives in Brazil

PRESS Press Mood of the Day

MEXICO

INEGI estimates economic activity fell by 7.0% y/y in September

PRESS Press Mood of the Day

ISRAEL

Hapoalim’s net profit increases by 10.9% y/y in Q3

Fiscal policy should become more targeted to better use resources – IMF

CBS consumer confidence continues recovering in H1 of November

BoI governor again urges for quick approval of 2021 budget

SOUTH AFRICA

HIGH MPC keeps policy rate at 3.5% but decision is close call

Union issues ultimatum to SABC to reverse retrenchments

Treasury opposes EFF's proposal for SARB nationalization

Investment conference secures new ZAR 109.6bn commitments

CEE & CIS

ALBANIA

Cabinet opens tender for 100MW solar park construction in Durres

Albgaz launches tender for TAP maintenance

ARMENIA

HIGH IMF staff complete third review under SBA, to disburse SDR 25.7mn

AZERBAIJAN

HIGH Authorities extend coronavirus lockdown until Dec 28

BELARUS

President replaces interior ministry officials in reshuffle

HIGH EU agrees to include corporate entities in third sanctions package

BOSNIA-HERZEGOVINA

FBiH government to allocate KM 6mn to four airports affected by pandemic

PRESS Press Mood of the Day

RS power utility, businessmen fail to agree on electricity price hike

BULGARIA

MPs approve VAT cut for home food deliveries to 9%

Bulgaria to receive EUR 413mn under REACT-EU programme in 2021

Bulgaria not to be subject to in-depth analysis for economic imbalances – EC

Main risk from COVID-19 related to reversal of asset quality improvement – BNB

PRESS Press Mood of the Day

CROATIA

Croatia to reach pre-crisis economic activity after end-2022 – finance minister

Government pushes Enforcement Act changes in order to implement them on Dec 1

PRESS Press Mood of the Day

GEORGIA

Key opposition party UNM to stay away from run-offs on Nov 21

KEY STAT Unemployment down to 11.9% in Q3 2020

KAZAKHSTAN

Almost 50% of citizens are against COVID-19 vaccines - poll

Inflation expectations rise to 7.3% in October

IMF concludes visit, advises curbing state footprint in economy

MONTENEGRO

EU's Varhelyi says new cabinet should focus on rule of law, economic recovery

Ruling DPS to hold extraordinary party congress on Jan 23

China to grant EUR 7mn for reconstruction of Djurdjevica bridge on Tara river

Q&A Eurobond issuance

New home prices decline by sharper 21.9% y/y in Q3

Institute of Public Health calls for stricter COVID-19 containment measures

NORTH MACEDONIA

EBRD to support Skopje bus rapid transit project with EUR 70mn loan

HIGH Government to declare 30-day state of crisis in entire country by Nov 20

Parliamentary debate on draft state budget for 2021 to begin on Nov 24

Q&A Eurobond issuance

ROMANIA

State raises more than planned in bond placement demand slightly revives

SPECIAL Finance ministry cuts budget revenue by RON 5.2bn, gap is by RON 4.5bn higher

PNL presents 2021-2024 ruling strategy, pledges public sector reform

PNL reportedly torn by disagreement about alliance with USR

Banking sector's profit drops 9% y/y to RON 4.7bn in January-September

Govt adds EUR 750mn to SME grants scheme for working capital

PRESS Press Mood of the Day

Cost of labour support measures reaches RON 7.2bn so far – LabMin Alexandru

SERBIA

Inflation expectations of financial sector, firms remain low – NBS survey

Health workers to get one-off assistance of RSD 10,000 on Nov 20

COVID-19 crisis response team to meet on Nov 20 amid surge in infections

PRESS Press Mood of the Day

UKRAINE

President Zelensky tells G7 envoys anti-corruption chief to stay

Consumer confidence index plunges 9.2pts to 62.4 in October

Government takes first step to adopt 5G - deputy prime minister

PRESS Press Mood of the Day

Representatives of president's party win local elections - preliminary

EURO AREA

ESTONIA

Extra-parliamentary Estonia 200 becomes second most popular in Nov – poll

Parliament concludes second reading of budget bill 2021

FRANCE

Council of State gives three months to govt to prove climate change commitments

Treasury issues medium and long-term bonds worth EUR 10bn

PRESS Press Mood of the Day

FinMin calls on retailers to delay Black Friday sales

GREECE

Decline in industrial sales eases 4.2pps to 10.7% y/y in September

PRESS Press Mood of the Day

ITALY

Forza Italia loses 3 MPs to Lega

KEY STAT Current account surplus rises sharply in y/y terms to EUR 7.6bn in September

Construction output rises by 5.1% y/y in September

PRESS Press Mood of the Day

Red zone to expand further on Friday

LITHUANIA

LVZS leader Ramunas Karbauskis renounces parliamentary mandate

President Nauseda presents Ingrida Simonyte PM candidacy to parliament

2021 draft budget is in line with EU recommendations - EC

PORTUGAL

PRESS Press Mood of the Day

SLOVAKIA

KEY STAT Current account turns to EUR 429.1mn surplus in September

PRESS Press Mood of the Day

PM Matovic says 7-11mn antigen tests needed to contain coronavirus by Christmas

Finance ministry in talks with banks to defer repayment of household loans

PM Matovic to accept online poll on snap elections if 1.5mn people support it

Deputy PM Sulik preparing own plan for tackling COVID-19 pandemic

SLOVENIA

HIGH Parliament passes budgets 2021-2022, which see record spending and investment

SPAIN

Sanchez defends the need for EH Bildu’s continued support

KEY STAT Trade deficit declines by 65.0% y/y to EUR 1.49bn in September

Treasury places EUR 1.8bn medium-to-long-term debt, yields decline

PRESS Press Mood of the Day

LATIN AMERICA

CHILE

Govt presents own proposal for a restricted round of pension drawdowns

Embattled police chief resigns after new case of police brutality

CZECH REPUBLIC

Parliament extends state of emergency until Dec 12

Czech Republic | Nov 19, 19:06

- **Government requested an extension until Dec 20**
- **KSCM's position prevailed, as it is the party that provides government with majority in parliament**
- **We see most parties pursuing their political interest, disregarding government's arguments**
- **Development resembles situation from this spring, when government also didn't get the extensions it**

wanted
- **Yet, situation is visibly worse now, so odds for deterioration are much higher**

The Chamber of Deputies extended the state of emergency until Dec 12, according to a vote that took place on Thursday (Nov 19). The extension is 8 days shorter than the government's request of 30 days, which would have put the state of emergency until Dec 20. The position of the KSCM was the one that prevailed, as the party thought that a 22-day extension should be enough. We remind that without the KSCM, the ruling ANO-CSSD coalition doesn't have majority, so it needs the KSCM on its side. Earlier this week, the KSCM claimed it would back the government in extending the state of emergency, but it appears that support was not for the full 30 days. In short, we believe that the KSCM picked that extension only because they can, not because it changes anything.

The debate lasted 8.5 hours and we find the outcome as mostly a demonstration of political power. We don't believe it makes a big difference whether there is a state of emergency a week more, given that the government will probably need to maintain some level of restrictions due to epidemiological developments. While there has been an improvement after a lockdown was introduced on Oct 22, health ministry Jan Blatny warned that progress could easily be lost if restrictions start being lifted too soon. The government is hoping to pass legislation that will allow to pass these restrictions without a state of emergency, but deputy PM and interior minister Jan Hamacek, who is heading the initiative, couldn't commit to a timeline.

Our overall impression is not very encouraging, as most parties were looking after political interest rather than pay attention to the government's arguments why a state of emergency is necessary. It appears Blatny wasn't able to convince MPs of the need to maintain restrictions, as per the health ministry's anti-epidemic system (PES). In fact, what we see today is a repeat of what happened in the spring, when the government was consistently denied an extension in the state of emergency. The main difference is that the so-called spring wave of the pandemic is dwarfed by the current one, so the odds for a deterioration are much higher. Just for reference, new cases were only 14 per 100,000 over a 14-day period on Apr 24, when the spring lockdown was lifted, while they are currently 903 per 100,000 and are unlikely to reach the same level, even if they keep falling at their current rate. All this doesn't make us optimistic that the Czech Republic will be able to escape a new round of heavy restrictions before a vaccine becomes available next year.

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Labour minister Malacova to present pension reform in December

Czech Republic | Nov 19, 18:35

- **Previous proposal was from early 2020, but it was rejected by PM Babis**
- **We are not very optimistic new proposal will be better, as we rather expect a pre-election platform for the CSSD**

Labour minister Jana Malacova (CSSD) intends to present a pension reform bill in December, she told journalists after a meeting with President Milos Zeman on Thursday (Nov 19). She didn't provide more details but said she hoped on a clear and professional debate. According to a bill that the labour ministry drafted at the beginning of 2020, there are two pillars envisaged, a solidarity one that will provide a minimum guaranteed pension to everyone and a merit one, which will depend on work experience and income. However, there were few specific proposals and the general idea was that higher pensions are expected to be funded through higher contributions.

As expected, the proposal didn't go well with ANO, particularly with PM Andrej Babis (ANO), who clashed with

Malacova over the idea. The bill was brought back for elaboration but then the Covid-19 pandemic arrived in Europe, which effectively froze further work on the reform proposal for months. The timing of the new proposal suggests that Malacova doesn't really expect any legislative work to be done, but rather come up with a pre-election platform for the CSSD. We are not very optimistic about the new proposal, as we doubt it will contain specific on securing a long-term sustainability of the pension system, something that domestic and foreign bodies have been arguing that needs to be strengthened. The general consensus at the moment is that the pension system will start experiencing a growing deficit as of 2030 onward and then become very difficult to sustain after 2050, as population is growing older and the employee/retired ratio is falling.

We also doubt that the proposal will contain controversial measures like increasing the retirement age (currently at 65 years), though it may suggest higher social contributions. With 2021 being an election year, we expect strong opposition from ANO, whose current tagline is that it will reduce taxes as much as possible.

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Health minister Blatny to propose easing restrictions as of next week

Czech Republic | Nov 19, 16:03

- **Indicators suggest Level 4 restrictions are possible, cabinet to vote on easing on Friday (Nov 20)**
- **This is still going to be a lockdown, but more students will be able to return to classes in person as of Nov 30**

Health minister Jan Blatny will propose easing pandemic-related restrictions as of next week, he told journalists in a joint press conference with education minister Robert Plaga. The cabinet is about to vote on formally easing restrictions from Level 5 to Level 4 on Friday (Nov 20), Blatny confirmed, as per the health ministry's anti-epidemic system (PES). The latest data from the system indicate that the risk score fell to 62 on Thursday (Nov 19), after the number of new cases, both overall and for people aged 65 years or more, fell under 960 per 100,000 over the past 14 days, which was the closest threshold. Thus, the score has remained within the 61-75 range over the past 9 days now, which suggests that restrictions should be eased slightly.

As we have noted in earlier stories, this still means a lockdown, as the difference between Level 5 and Level 4 restrictions is small. Still, curfew will begin at 23:00 rather than 21:00, there will be higher thresholds for public assembly and some activities, and public services will resume, though at limited hours. However, non-essential retailers will remain closed, along with food & drink establishments and all other kinds of services that are provided from an office. In order all these to reopen, the risk score should fall to 40, which will take some time, given how indicators have developed. If there is no surprise deterioration, we believe that the risk score can fall to 40 or less in the last week of November, which would allow to move to Level 3 restrictions as Nov 30. However, we suppose this will depend on the cabinet, as there is no required reaction time after the risk score indicates a lower level of restrictions is possible.

A big part of the press conference was dedicated to schools, thus the presence of the education minister. More students in elementary schools will be able to resume classes in person as of Nov 30, after first- and second-graders are back to school as of Wednesday (Nov 18). Once Level 4 restrictions are introduced, students in specialised high schools will also be able to resume practical exercises. There has been strong pressure on the government to reopen schools, as a lot of parents cannot afford to stay at home and take care of children under present circumstances. This will be the first easing of anti-pandemic measures since Oct 22, when the current lockdown was introduced.

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Govt to bet on economic recovery for fiscal consolidation - PM Babis

Czech Republic | Nov 19, 08:53

- **Babis mentioned more public investment and further digitalisation as way to go forward**
- **Says abandoning super gross wage to cost CZK 79.1bn, out of which CZK 52.1bn from state budget**
- **Yet, he mentioned nothing about 2021 budget bill not including tax cuts**
- **Babis was also evasive whether tax cuts could become permanent, though he implied he would like that to happen**

The government is going to bet on economic recovery in order to achieve fiscal consolidation, PM Andrej Babis told Mlada Fronta Dnes, a newspaper. He denied accusations that his government didn't have a plan how to bring back public finances to a balance and argued that the main means to reduce government debt and budget deficits would be through kickstarting the economy. Babis mentioned higher public investment as a vehicle for achieving that, as well as further digitalisation of public services and tax collection. He believes that the budget deficits to be seen in 2020 and 2021 will not lead to structural issues and he pointed to his own record as finance ministry in 2013-2017, arguing he was the only finance ministry to achieve such fiscal consolidaiton. This is somewhat doubtful, as Babis inherited the windfall of good practices established by previous administrations, as well as some cash-flow effects related to lower absorption of EU funding, which led to lower investment spending as national co-financing also decreased.

Babis also defended his plan to reduce the super gross wage as of 2021, arguing that it would cost only CZK 79.1bn, out of which CZK 52.1bn coming from the state budget. This is contradicts what other institutions say, as the National Budget Council projects the cut would cost CZK 88bn, out of which CZK 58.1bn from the state budget. Even if Babis is right, he didn't address the issue with tax cuts not envisaged in the 2021 budget bill, where the deficit target for the state budget is currently at CZK 320bn. Furthermore, Babis claimed that the effective tax burden wold decrease from 20.1% to 15%, which we don't believe is accurate. The 20.1% tax burden includes social and health insurance, which Babis doesn't seem to account for when giving that number. Instead, the actual decline will be 1pp, as the finance ministry has calculated previously.

Babis was also evasive about how long the tax cut would last, as he said that the current proposal, which suggests cuts for only two years, could be reassessed when the period is near expiry. He pointed out that when the economy recovers, there would be more possibilities, which implies that Babis is hoping to make the cuts permanent after the next general election, due in the autumn of 2021. We see this as pre-election talk, as Babis is clearly looking forward to the next election campaign and is adjusting public comments accordingly.

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Health minister Blatny hopes lockdown can be lifted by Christmas

Czech Republic | Nov 19, 08:24

- **Government to discuss on Friday (Nov 20) moving to Level 4 restrictions as of next Monday (Nov 23)**
- **It appears health ministry will be assessing epidemiological developments on weekly basis**

- **Under such setup, latest health ministry data suggest lockdown might be lifted at end of November, though indicators are still volatile**
- **Industry minister Havlicek wants looser restrictions for retailers, Blatny is against allowing more customers**
- **PM Babis seems to lean towards Blatny, arguing that new cases were still a lot and everyone needed to be careful**

Health minister Jan Blatny said he was hopeful that lockdown could be lifted by Christmas and that only Level 3 restrictions will be required, he told the state TV channel on Wednesday evening (Nov 18). According to the anti-epidemic system (PES) designed by the health ministry, moving to Level 3 restrictions will allow all retailers, as well as food & drink establishments to reopen, though with some restrictions, while curfew will end. Blatny said that the government would discuss reducing restrictions from Level 5 to 4 on Friday (Nov 20), but as we argued in our in-depth report about the PES, it doesn't bring a material difference, as only a slight easing of restrictions will be applied, like curfew starting from 23:00 rather than 21:00 or more children going back to school. It appears that the health ministry intends to review epidemiological developments on weekly basis, with the change in regime taking place as of the following Monday (in this case, Nov 23).

The latest health ministry data show further improvement, as the risk index score fell from 70 to 62, due to the lower number of new cases over the past 14 days that passed the next threshold, exactly as we expected. However, the percentage of positive tests remains above the next threshold, which will prevent the score from falling further. In order Level 3 restrictions to be applied, the score needs to be 60 or lower, which will happen only if the percentage of positive tests falls under 26%, which will lead to a decrease by 5pts. Currently, 27.7% of tests turn positive (on 7-day average), down by 0.5pps from Wednesday, but the indicator is volatile and it deteriorated once already. This is going to be the only possibility for risk score reduction for some time, as the next thresholds are far - new cases per 100,000 people should fall under 480 (they are currently just over 900 for both observed groups), while positive tests should be lower than 23%. Theoretically, positive test percentage could contribute to a further reduction on its own, but Level 2 restrictions can be introduced only if the risk score is 40 or lower, which will require a fall in the number of new cases by two more thresholds across all indicators, so new cases will need to be under 240 per 100,000 and the percentage of positive tests - under 19%. The fourth indicator - reproductive number - is already under 0.8, which means it adds no points to the overall score, so it cannot improve further.

Meanwhile, there appears to be still some disagreement over the level of restrictions, as industry and transport minister Karel Havlicek proposed that retailers should be allowed to work on Sundays and more customers should be allowed. Havlicek pointed out that under the current regime, stores closing on Sundays led only to more cluttering and more people shopping on Saturdays, which increased infection risk, in his opinion. In addition, Havlicek took retailers' side when they insist that present restrictions are too severe. Blatny didn't really comment about having retailers closed on Sundays, so we believe he might be willing that restrictions to be removed. However, he was very clear that anti-cluttering measures should remain as they are, as the current regime allowed retail employees better to handle infection risks. PM Andrej Babis seems to lean more towards Blatny in this dispute, as he said that Havlicek's proposal was not co-ordinated with him and remained a private opinion. Babis added that he would need to consult with the health ministry before moving forward, but suggested that the government should be careful, as new Covid cases were still a lot.

Thus, the only relief we expect is that stores may be allowed to stay open on Sundays, but hardly anything else. Regarding lockdown, it will all depend on infection data, but it seems that it won't be lifted next week, as we don't see tests suddenly turning less positive. This puts lifting lockdown to the end of the month, as we originally expected under the first version of the anti-epidemic system.

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PRESS **Press Mood of the Day**

Czech Republic | Nov 19, 07:53

Ease [restrictions on] stores? Ministers argue (Lidove Noviny)

Digital winners take it all. Road out of crisis will be to bet on services that are resistant to pandemic restrictions (Hospodarske Noviny)

PM Andrej Babis: Everyone will improve the same [about removal of super gross wage] (Mlada Fronta Dnes)

[FinMin] Schillerova: I will reconcile myself with a large budget deficit. It is about the people (Pravo)

More expensive money to make mortgages become more expensive (E15)

There is a shortage of hygienists, young people are not tempted [by profession] (Lidove Noviny)

Some children probe what teachers would tolerate. Online teaching makes it easier for them (Mlada Fronta Dnes)

Christmas visits to seniors: either a test or through a glass (Pravo)

Coronavirus pulls back growth of Hungarian rich people's wealth (E15)

Germans protest against restrictions because of Covid (Hospodarske Noviny)

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HUNGARY

NBH sterilises HUF 2,881.6bn of bank liquidity on weekly auction

Hungary | Nov 19, 17:15

- **One-week deposit interest rate maintained at 0.75%**

The National Bank of Hungary (NBH) accepted HUF 2,881.6bn of bank bids for its one-week deposit instrument on the regular weekly auction, according to NBH data. The NBH as usual accepted all bids on the auction. The volume of the one-week deposit consequently increased to a new record high level, showing further increase in free short-term liquidity in the banking system. The NBH maintained the one-week deposit rate at 0.75% or 15bps higher than the policy rate, in our opinion confirming the wait-and-see stance conveyed by the MPC a couple of days ago. Markets had speculated that the recent forint strength and the positive inflation data could provide the NBH with room to ease liquidity conditions through the one-week deposit rate but we continue to think that the NBH opted to exercise caution and avoid risks for the forint exchange rate and consequently, for the inflation outlook.

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Hungary not to support EU budget in current form – PM Office head Gulyas

Hungary | Nov 19, 17:01

- **Gulyas hints agreement on rule of law is possible in case of assurance against pro-migration policies**
- **Hungary can continue without EU funds next year, Gulyas suggests**
- **Government to decide on potential further anti-epidemic restrictions next week**

There is no chance that Hungary will withdraw its EU budget veto if the budget package remains in its current form, PM Office head Gergely Gulyas announced on the regular weekly government press conference. Gulyas referred to the package of the EU budget for 2021-2027, the recovery fund and the rule of law mechanism and specifically, to Hungary's opposition to the rule of law conditionality. Gulyas hinted that Hungary could agree in part to the rule of law and free up the disbursement of the recovery fund on guarantees that Hungary will not be forced to change its anti-immigration policy. The rule of law debate started from the migration issue while Hungary is committed to the basic values of the rule of law, Gulyas stated. Hungary is better positioned on the rule of law than many European countries and supports the protection of the EU's financial interests, he added.

Hungary is sufficiently strong economically and financially and the prudent fiscal policies allow further borrowing next year, Gulyas said. We think he implied that Hungary can continue without resorting to EU funds next year, somewhat repeating PM Viktor Orban's earlier words that Hungary had resources for two years ahead. Resources from the EU's recovery fund will have a cheaper cost than market borrowing, Gulyas conceded, but stressed that the difference is not worth it if Hungary is forced to accept the rule of law mechanism.

The government has not extended the 30-day period of the containment measures, contrary to information by some pro-opposition media yesterday, Gulyas stated. The measures will be evaluated every two weeks and the government has not decided yet on the issue, he said. The government will evaluate the steps taken so far and discuss whether further tightening is necessary on its meeting next week, he said. The capacity of the healthcare system is strained but not depleted yet, Gulyas said. There were currently 580 people on intensive beds while the system has further 1,700 intensive beds available, which can be extended further, he said. There were also more than 12,000 non-intensive beds free at present as well.

The government has already contracted 6.5mn of AstraZeneca's vaccine, 4.3mn doses of Johnson&Johnson's vaccine and 4.4mn doses of Pfizer's vaccine, worth HUF 36bn in total, Gulyas noted. Vaccination will be free and voluntary, he added.

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Government doubles budget for investment support to large companies

Hungary | Nov 19, 13:06

- **It is necessary to follow costlier fiscal policy temporarily, Varga says**

The government will increase the programme for investment support to domestic large companies two-fold, finance minister Mihaly Varga announced. The programme's budget for this year will be raised from HUF 40bn to HUF 80bn. This is the second hike in the budget allocation for the programme compared to the original HUF 15bn budget. The previous envelope has been probably exhausted to necessitate the extension while Varga only said that the programme has so far supported almost HUF 300bn of investments by local companies.

It is necessary to temporarily follow a costlier fiscal policy than before in order to counter the impact of the coronavirus crisis, Varga stated, adding that the government will stick to its economic policy objectives. The goal is to keep the economy viable and to support investments that improve self-sufficiency and create additional source of growth, he added.

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Demand for long-term government bonds recovers on primary auction

Hungary | Nov 19, 12:49

- **Yields fall compared to previous tender, secondary market benchmark rates**

The State Debt Management Agency (AKK) sold HUF 105.0bn of three-, five- and ten-year government bonds on the latest primary auction, AKK data showed. The issued amount was HUF 15.0bn more than planned, contrary to the previous tender last week when the AKK had to cut back on the planned issuance due to low demand. Last week's problems concerned the longer-term bonds but demand for the long-term government securities recovered. Total bids amounted to HUF 159.8bn, which was still a relatively low bid-to-cover ratio for the primary domestic bond market. Demand was the highest in the ten-year segment.

Average yields trended down for all maturities, both compared to the previous tender and to the respective secondary market benchmark rates, with the decline being stronger for the three-year bonds. We think that the decline in yields might have been supported by the MPC explicit decision to extend its quantitative easing programme as well as its communication that it will continue with balance sheet expansion policies. Hungary's EU budget veto did not seem to have had a significant impact on the domestic bond market as yet, in our view.

Government primary bond auction, Nov 19

	Offered amount, HUF bn	Placed amount, HUF bn	Bids, HUF bn	Average yield	Secondary market benchmark rate	Average yield on previous auction
3Y bond	20.0	20.0	39.8	0.98	1.03	1.15
5Y bond	35.0	40.0	54.0	1.47	1.50	1.52
10Y bond	35.0	45.0	66.0	2.14	2.15	2.14

Source: AKK

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Opel’s engine plant in Hungary threatened by new emission standards

Hungary | Nov 19, 12:31

- **Opel's plant might need to close or to invest into restructuring of production portfolio**

The French car group PSA will not invest more resources into the development of internal combustion engines, the news portal Napi reported based on statements by PSA head Carlo Tavares. PSA will stop the investments in this technology due to the pending introduction of new emission standards as of 2025, which will make it practically impossible to sell cars with such engines on the EU market. The decision will practically affect the Opel's engine plant in Szengotthard, which is part of the PSA group and currently produces only internal combustion engines. The plant has annual capacity of 350,000 engines per year and its focus is on PSA's main petrol engine. It operates at full capacity at present, according to earlier information from the plant, but it plant will have to shut down unless the parent group invests in restructuring its production portfolio to include hybrid engines, Napi commented.

Opel's engine plants accounts for 0.1% of GDP and 0.3% of industrial value added, according to estimates by the National Bank of Hungary.

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Hungary to receive EUR 885mn from REACT-EU in 2021

Hungary | Nov 19, 10:47

- **Grants dependent on lifting veto on EU budget, NextGenEU**
- **Further funding to be available in 2022**

The EU Council and the European Parliament have reached a political agreement on the distribution of resources from the EU's REACT-EU instrument, according to which Hungary should receive EUR 885mn of funding in 2021, local media reported. The REACT-EU instrument is part of the NextGenEU and as such, Hungary could receive the funds only if the Hungarian-Polish veto on the EU budget and the NextGenEU is lifted. The REACT-EU instrument can be used for labour measures, green policies and digitisation, investment subsidies and supporting the healthcare system. The distribution of the funds between EU Member States is done on the basis of relative wealth levels as well as the severity of the epidemic impact on the economy, including youth unemployment.

The EUR 885mn amount allocated to Hungary represented the first tranche from the instrument for 2021. The total amount of the first tranche is EUR 37.5bn while the second tranche is EUR 10bn, which will be disbursed in 2022 based on data from the autumn of 2021 and Hungary can expect several hundred millions of euros as well, conditional on a breakthrough in the EU budget talks. The REACT-EU resources will not require national co-financing so they will support the budget position of EU Member States in their entire amount.

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PRESS Press Mood of the Day

Hungary | Nov 19, 08:48

Women entrepreneurs in Hungary do not suffer disadvantage (Magyar Nemzet)

Restaurants can be closed until April (Magyar Nemzet)

Turnover of mineral water and soft drinks decreases in Q3 (Vilaggazdasag)

Land market: Available building plots decline but lower demand keeps prices stable (Vilaggazdasag)

There has been a disappointing EU report on Hungarian education, but there is something we are good at (Heti Vilaggazdasag)

Foreign minister Peter Szijjarto: We will be first country to receive samples of Russian vaccine on Thursday (Heti Vilaggazdasag)

POLAND

Govt to release new coronavirus plan for coming future and next few months

Poland | Nov 19, 19:53

- **New plan to be released on Fri. or early next week**
- **Report suggests some of economy could be freed after Nov 30**

PM Mateusz Morawiecki's government will announce on Fri. or early next week a new plan for restrictions affecting businesses and consumers to provide guidance for the near future as well as the next few months and until a vaccine is hopefully being rolled out, according to comments made Thurs. at a social dialogue meeting. The guidance will also involve how companies now subject to frozen operations will function and how the retail sector should operate, among others, the PM said. The PM told business and union reps on the social dialogue council that the second wave of the coronavirus was now stabilizing, though it was not yet falling.

Deputy PM Jaroslaw Gowin, head of the junior ruling Agreement, said Thurs. that the plan to be presented could hold for increased restrictions followed by the Christmas holidays. The government does expect the number of cases to rise again around the Christmas holidays, Gowin said. One question will be when to allow in-person schooling again and when to freeze it, if needed.

Polsat News reported Thurs. that Morawiecki's will present on Fri. a plan to unfreeze the economy from Nov 30. The report suggests that Poland will see looser restrictions ahead of Christmas followed by tighter ones later.

Overall, the latest coronavirus numbers suggest the sharp rises in new cases has halted, though there are also questions about whether changes in testing strategy might be leading to fewer cases. Nonetheless, the government is using the publicly available data, as far as we know, and that suggests that the current case totals aren't far from a level at which the Nov 7 tightening could be unwound. That would open up shopping malls, for instance. It seems very likely that the government wants to ensure as much of the key X-mas shopping season as possible is open in order to limit the economic damage. It is willing apparently to allow for looser rules to enable that, though of course looser rules will likely lead to more cases -- and deaths -- and that will require tighter rules that will hurt the economy in January. The hope then is clearly that vaccines will start being rolled out and eventually the economy will return to something like normal, allowing economic activity to take off.

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Sejm backs Poland's EU budget veto

Poland | Nov 19, 18:26

- **Some 236 MPs support resolution on veto, 209 vote against**
- **Total for includes 231 PiS MPs and 5 from PSL-Kukiz '15**
- **There's no real surprise that the Sejm backed the govt's EU budget position**
- **But that support from PSL-Kukiz '15 MPs could be important going forward for govt majority**

The Law and Justice (PiS)-led ruling United Right's coalition got passed Thurs. a vote to support the government's veto of the EU budget and recovery funds. Of the 446 MPs that voted, some 236 MPs voted for the veto and 209 voted against with 1 abstaining. Of those that supported the resolution, some 231 MPs were from the PiS caucus (which represents the United Right) but 5 came from the Polish Coalition (PSL+Kukiz '15) caucus. All 5 of the MPs that backed the resolution are from the Kukiz '15 party, including that party's founder, Pawel Kukiz.

Overall, the fact that the PiS-dominated Sejm supported the government's veto is not surprising. The resolution is not binding anyway. But more interesting is the fact the 5 Kukiz '15 MPs supported the government. A group of PiS MPs continues to be reported to be angry about the party's previous animal welfare bill, and one of these even announced on Mon. that he was leaving the party. The thing is he has not left. That MP was part of a group of 15 MPs that voted against the animal welfare bill in September, helping lead to a coalition crisis eventually resolved with a new coalition deal that that held for the animal welfare bill to be re-written (something that continues). The 15 MPs were suspended from PiS. But on Mon., not long after the MP announced he was leaving and said the government's majority was in question, 13 of the 15 MPs were restored to the party. The remaining 2 MPs, including the one who said he was out of PiS on Mon., had their party rights returned on Wed.

It is not clear if that ends this particular threat to the government's majority. That probably depends on the animal welfare package to be written. But to lower the risk of such a threat, PiS has been reported to be in talks with those from Kukiz '15 to support the government. The vote of the 5 MPs might not herald consistent support, but it does show there could be a source for MPs should the United Right need them.

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FinMin Koscinski says 2nd COVID wave will be less damaging than 1st

Poland | Nov 19, 17:51

- **Koscinski says ministry keeps 4.6% GDP contraction forecast, though it's conservative**

Finance Minister Tadeusz Koscinski said that the second wave of the coronavirus would be less damaging than the first in the spring, though the economy would cool down to some degree, according to an interview published Thurs. by the state news agency PAP. The autumn restrictions won't be as harmful due to the fact China continues to be open, but was part of the global supply chain collapse in the spring. Germany also remains open to Polish goods, he noted. Another reason is that Poles have gotten used to the coronavirus. He said that more activity was done in a safer way, and added that retail sales have not slowed down.

Koscinski said the Finance Ministry was keeping its forecast for a GDP contraction of 4.6% this year, but he characterised this as a very conservative forecast considering the market view was for a 3% decline. Koscinski said the ministry's forecast for 4% growth in 2021 was also conservative, particularly in relation to Goldman Sach's recent 6% forecast. Koscinski added, though, that he believed GDP growth would be closer to the ministry's forecast.

Koscinski said he did not expect problems with debt servicing costs next year, even though the debt would rise. He said an interest rate hike in 2021 was not likely. He also doubted whether the zloty would depreciate.

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PFR to issue around PLN 5bn in bonds through February - Borys

Poland | Nov 19, 17:29

- **Issuance to come in February, he suggests**

The state-run Polish Development Fund (PFR) plans to issue some PLN 5bn of bonds by the end of February, PFR head Pawel Borys said Thurs. Borys indicated the proceeds would be used to cover payments to large companies as part of the Financial Shield, but also due to the so-called Anti-Crisis Shield 6.0, which is to help companies hit by the new restrictions imposed in October and November. Borys suggested the shield program would start in January -- European Commission consent is still needed -- and thus the issuance would come in February. He said no decision had yet been taken on maturity. The PFR has so far issued bonds worth PLN 62bn.

Borys also said state support for the economy would be visible in H1 2021, but it would recede in H2. That is when the role of the banking sector for companies would be very important, he said.

The PFR paid out PLN 60.7bn to Nov 10 from the Financial Shield with that only including the original programs for micro firms and SMEs. Large companies are expected to receive some PLN 10bn of the PLN 25bn set aside for them.

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MPC's Kropiwnicki sees chance for hike in H2 2021

Poland | Nov 19, 17:13

- **Kropiwnicki worries many factors could stoke inflation, threaten top end of band**

Monetary Policy Council member Jerzy Kropiwnicki, a new hawk, said that the council should consider hiking interest rates in H2 2021 since inflation could be under pressure even though he believes the economic recovery will be more moderate than some expect, according to an interview for the state news agency PAP. Kropiwnicki did worry that too fast and excessive interest rate hikes could slow the recovery and so he said the tightening cycle should be very cautious. The pre-crisis 1.5% key rate level could be a longer-term goal, he said.

Kropiwnicki saw inflation pressure in regulated prices, including in power prices. All of these factors could boost inflation next year to exceeding 3.5%, the top end of the +/- 1-pp range around the NBP's 2.5% target.

Overall, Kropiwnicki has joined the hawks of late as he has seen the coronavirus pandemic as a source of pressure on the supply side and thus on prices, with the council member seeing a lot of threat of pent-up demand. He seems to see less worry in demand of late, though he still sees threats to inflation from regulated prices as well as supply. But Kropiwnicki said in late September that rates might have to be hiked in mid-2021, but he now talks about H2 2021 and just a gradual rise, suggesting he has become slightly more dovish. In fact, the size of the second wave of the coronavirus and the threats to the economy seem to have made all the hawks less hawkish and brought the MPC together in that the current rate is backed by nearly everyone, if not everyone. With the threat of a full lockdown receding, it seems likely that the council can avoid further cuts, but with the recovery to be delayed, it will have little reason to hike rates for some time either. The MPC majority, anyway, appears set on keeping rates flat to early 2022, when most members' terms expire.

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New coronavirus case total picks up to 23,975 on Thurs.

Poland | Nov 19, 16:40

- **Cases rise breaks two-day string below 20,000, but still down from record levels**
- **Case rise keeps avg case total at some 57 per 100,000 over 7 days, lockdown chance recedes**
- **Test positivity rate rises to 41.3%, Qs continue to swirl about low test totals**
- **Death toll jumps by new record of 637 d/d to 12,088**
- **Hospitalisation total, however, falls 276 d/d to 22,536, bed coverage falls to 60%**
- **Recoveries rise record 19,003 d/d, active case total rises to record 422,824**

Poland's new coronavirus case total rose 23,975 d/d on Thurs., pushing back above the 20,000 level after having remained two days below, according to data from the Health Ministry. The increase is, however, still below the record case rise of nearly 28,000 seen not long ago. We calculate that the case total per 100,000 remained 57 on Thurs., holding below the 70-75 level the government has set to trigger a national quarantine. The threat of a fuller lockdown has still receded.

The test positivity rate rose to 41.3% on Thurs., up from 34.9% on Wed. The test total on Thurs. rose to 58,011 from 57,012 on Wed. The test total remains down, perhaps suggesting the new case total does not reflect the reality on the ground. The Health Ministry denies any malfeasance, saying that doctors are simply ordering fewer tests. But reports note that the ministry no longer tests everyone in quarantine and focuses only on symptomatic people. Some 434,034 Poles were in official quarantine on Thurs. One doctor told Onet.pl that to get the true scope of the spread the new case total should be multiplied by 5 since only 20% of infected people show symptoms. One further reason was that commercial labs, since Nov 5, are required to report the number of infections but not tests. Indeed, the test total peaked at 82,950 on Nov 6, which would have reflected tests done the previous day, and has fallen since. Other reports suggest that Poles are also refusing to get tests in order to avoid mandatory quarantine and thus problems with work and/or income.

The death toll rose a record 637 d/d to 12,088. The mortality rate held at 3.2%. The death toll per 1mn residents rose to 277 this week from 213 last week. The toll was at 65 on Oct 1.

The hospitalisation total provided good news. The total fell 276 d/d to 22,536 in the second day of declines. There were some 37,348 beds available for COVID-19 patients, putting the coverage rate at 60%, down from 62% on Wed.

Respirator (or ventilator) usage fell 37 to 2,080 on Thurs. Coverage of available respirators was 72%, down from 75% on Wed. There were 2,888 respirators available, up from 2,829 the day before.

Recoveries rose by a record 19,003 d/d to 361,886. That pushed active cases up by 4,335 to 422,824.

Overall, the case total per 100,000 on a rolling basis has kept below the 60 mark and that has staved off the threat of a full lockdown for at least another week. The restrictions put in place on Nov 7 and the movement of schools to full remote from Nov 8 should be feeding into the data now and that could be why the new case totals have fallen. However, the change in testing strategy and the fact there appears to be resistance to getting tests or reporting them means that the true scope of the coronavirus is even less known than usual. There is thus the risk that measures won't be restricted despite the fact that is needed or that restrictions will be loosened even though they should remain restricted. That can only mean more cases and more problems and a greater duration before the situation calms down.

Coronavirus case total

	Cases	Chng (d/d)	Chng (% d/d)	Deaths	Tests	Hospital.	Capacity	Recoveries	Active	Respirators	Capacity

Nov. 5	466,679	27,143	6.2	6,842	5,030,381	19,114	28,010	177,681	282,156	1,615	2,144
Nov. 6	493,765	27,086	5.8	7,287	5,113,336	19,479	29,407	188,675	297,803	1,703	2,238
Nov. 7	521,640	27,875	5.6	7,636	5,180,150	20,249	30,896	200,510	313,494	1,813	2,357
Nov. 8	546,425	24,785	4.8	7,872	5,241,205	20,214	31,250	209,363	329,190	1,841	2,459
Nov. 9	568,108	21,683	4.0	8,045	5,284,661	20,967	31,815	213,371	346,692	1,804	2,442
Nov. 10	593,592	25,484	4.5	8,375	5,339,362	21,640	32,586	230,661	354,556	1,898	2,460
Nov. 11	618,813	25,221	4.2	8,805	5,392,636	21,521	33,603	242,875	367,133	1,975	2,569
Nov. 12	641,496	22,683	3.7	9,080	5,449,885	21,899	33,662	254,349	378,067	2,008	2,601
Nov. 13	665,547	24,051	3.7	9,499	5,507,437	22,298	34,622	267,580	388,468	2,047	2,659
Nov. 14	691,118	25,571	3.8	10,045	5,563,521	22,320	35,182	282,215	398,858	2,126	2,805
Nov. 15	712,972	21,854	3.2	10,348	5,610,128	21,988	35,448	294,783	407,841	2,114	2,751
Nov. 16	733,788	20,816	2.9	10,491	5,645,233	22,458	35,604	306,022	417,275	2,103	2,754
Nov. 17	752,940	19,152	2.6	10,848	5,687,216	23,033	36,730	324,282	417,810	2,114	2,815
Nov. 18	772,823	19,883	2.6	11,451	5,744,228	22,812	36,802	342,883	418,489	2,117	2,829
Nov. 19	796,798	23,975	3.1	12,088	5,802,239	22,536	37,348	361,886	422,824	2,080	2,888

Source: Health Ministry

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SPECIAL Poland likely open for compromise on EU budget veto, but risks plenty

Poland | Nov 19, 15:49

- **Poland and Hungary vetoed EU budget and Reconstruction Fund on Mon.**
- **Germany is now trying to strike deal with rule-of-law conditionality ahead of Dec summit**
- **Poland's veto tied to general national interest but also crucially domestic political factors**
- **Poland, Hungary firm on one side, but EU entities like Holland and EP firm on the other side**
- **Veto could up risk Poland is removed from Reconstruction Fund and maybe even EU budget**
- **Poland will probably compromise in end, though risks of negative event seem higher than usual**

Poland's Law and Justice (PiS)-led government is playing hardball with the EU attempt to tie rule-of-law strings to EU fund absorption in a risky game that could compel all other members bar Hungary to go it alone on the new post-COVID Reconstruction Fund and maybe even EU budget, and though we believe PiS will seek a compromise in the end, there does seem to be more risks of a negative event this time round than usual. Making good on a promise and despite a deal in the summer, Poland and Hungary vetoed on Mon. the EU budget (EUR 1.1tn) and Reconstruction Fund (EUR 750bn) and blocked further work on conditionality even after the other EU members voted by qualified majority to set up just such a mechanism. The EU is now at an impasse with Germany, which holds the EU's rotating presidency till year-end, now trying to work out a compromise at a Thurs. video conference and ahead of a key EU summit on Dec 10-11. The usual rule-of-law battle between Brussels and Poland and Hungary has taken on extra importance since so many countries buffeted by the coronavirus desperately seek cash.

The PiS-led United Right coalition's main goal in wielding the veto is simply to protect what it sees as its national interest. The rule-of-law conditionality is clearly designed to hit Poland as well as Hungary and thus Poland could see its EU fund take compromised. Of course, if the PiS-led governments in place since 2015 had not implemented the judicial reforms they have, there would be no need for conditionality or perhaps Hungary would be isolated. But PiS believes it is in the right and that the judicial structure it inherited in 2015 was beholden to leftist and liberal interests it defines largely as anti-Polish, it being the sole protector of Polish national interest. In this sense, there is a deep ideological underpinning to PiS's position.

That ideological stance also views rule-of-law conditionality as just another part of a social democratic and/or leftist EU attempt to force foreign ideas on a largely conservative Poland. It is not by accident that Zbigniew Ziobro, the hard-line head of the junior ruling Solidarna Polska, rails against conditionality as being the de facto colonization of the East by a Germany-led EU. Ideological factors also mean that the PiS-led government's opposition to conditionality is of a core political interest. PiS loves to portray itself as the defender of Polish interests from foreign interference, and this dispute is just one more example of this. This is doubly good for it since the majority of Poles back its view. A recent United Surveys poll showed that some 57% of Poles supported the veto vs. only 20% opposed to it. Better for PiS is that the EU budget veto has taken some of the media attention off of much more negative news such as the abortion protests. One risk that PiS faces is that the veto position could eventually cost it financially [more on this below], but for now most Poles -- like most analysts -- likely believe a deal will eventually be struck. This won't be the first time a divisive issue goes down to a key two, three, or even five-shirt EU summit.

The ruling United Right is, however, also split about how ballistic to go. The more moderate camp is led by PM Mateusz Morawiecki and someone like Deputy PM Jaroslaw Gowin, head of the other junior ruling party, the Agreement. They view the threat of the veto as a tool to procure for Poland a better deal while at the same time helping display protection of national interests. Morawiecki did rail against the rule of law mechanism in a speech given to MPs late Wed., but this is probably designed to try to shore up Poland's position (and his own). The United Right is seeking a resolution on the EU budget in the lower house. Considering the ire of the European Parliament on the issue, and its threats to veto any deal that does not have conditionality, whatever EU budget and reconstruction deal that is reached is likely to have some sort of conditionality, though the moderates hope this can be in as diluted a form as possible.

Ziobro leads the hard-line side that appears to view any deal as a betrayal, though the United Right could simply be trying to execute what might be termed a bad cop-worse cop strategy designed to pressure the EU into a better deal. In laying out his view, Ziobro held a press conference Mon. said to have been unsanctioned by PiS leader Jaroslaw Kaczynski in which he said that any eventual deal on the EU budget will undermine his confidence in PM Morawiecki, who of course is his bitter rival (and has been for some time). The implicit threat, which has reportedly been whispered in the Sejm's corridors, is that he might take his Solidarna Polska party out of the government in what is yet another threat to the United Right's majority.

Kaczynski's ultimate position is unclear. He tends to be positioned somewhere in the middle of Morawiecki and Ziobro and that is probably true this time. But crucially, Kaczynski, despite all his hardline views, does tend to do deals in the end. He is (probably) aware that if Poland were to be overly intransigent on the issue, then that could give momentum for the rest of the EU to go it without Poland and that could put in peril billions of euros of EU aid. The latest opinion poll did show support for a veto, but Poles are also big believers in the EU in general. Any political party that could be directly blamed for a Polexit, which the opposition is warning about, or a massive cut in funding could be politically vulnerable. PiS's latest polling results are down anyway and the lack of a deal would be another risk to this. If one combines that risk with the threats to the United Right's majority, then that could mean the threat of early elections are there too.

Press reports have suggested the Morawiecki-led side of PiS does want a deal eventually, the question is when. Some have said that Poland wants to see if it can get as good a deal as possible from Germany, but if not, then it will outwait the Germany presidency of the EU and wait for Portugal, which holds the EU's reins in H1 2021. Portugal has been battered by the coronavirus and has a much bigger interest in getting recovery funds rolling. That might lead to a more favourable deal than with an EU led by Germany, which isn't as close to PiS as it was to previous Civic Platform (PO)-led governments. Some have even reported that PiS is ready to wait out Portugal until Slovenia takes over in H2, hoping Slovenia's very right-wing government will prove more amenable to Poland's interests.

The one problem with Ziobro's threats are that if a deal is reached, then that could raise questions about the United Right's majority. Any move by Ziobro to leave the coalition could at least lead to a political crisis in Poland. Ziobro would probably view this as a chance to extract more power within the coalition or at least to stick it to Morawiecki, who could be a rival to lead a post-Kaczynski right wing. It is unclear if the risk of a domestic political breakdown would be enough to ruin the prospect for an EU-wide deal. Hungary's position is of course a problem as well. On one hand, it is likely not bad for Poland to eventually allow Hungary to be blamed for everything, though if Hungary resists to the end, some would say sticking with Hungary has its own benefits as well (such as continued support in the Article 7 process).

RISKS, COSTS

If no EU budget deal is reached by end-December, then the 2021 EU budget will be a provisional one based on the previous EU budget. This means contracts could still be signed based on the 2014-20 EU budget, whose funds can be accessed for the next two years. The reported view in Warsaw is that Poland won't do badly if this happens. The emergency budget would not allow for new projects to be set up, and that would have a cost. The later the 2021-27 EU budget is agreed, the later deals can be signed and the bigger the gap will be during the transition years, which would be 2023-24. In the end, though, the thinking would be that the failure to reach a deal by end-December would not foreclose the road to a deal eventually, and Poland would probably not lose that much.

Poland is, however, at much greater risk in terms of the Reconstruction Fund and the EU budget. Liberal head in the European Parliament, Guy Verhofstadt, the ex-Belgian PM, wrote Wed. in the EU Observer that Poland's and Hungary's veto of the EU budget deal and recovery fund means a rejection of fundamental EU rights and thus they should be excluded from the recovery funds. Verhofstadt noted that EU law already provided a way for a group of at least 9 countries to go it alone, and he said the other 25 should do so in regards to the Reconstruction Fund. Poland and Hungary could join the fund when they accepted the necessary conditions, including the rule-of-law conditionality, he said.

Some EUR 23bn is expected to flow in 2021-22 from the Reconstruction Fund, according to the daily Gazeta Wyborcza. Projects are to be signed in H1, assuming there's a deal, and then the first money would come in June-July. The restructuring money would be worth some PLN 103bn, or some 4.6% of GDP. Any loss of that would cut GDP growth with local analysts talking about a 1pp cut to GDP growth in each of 2021 and 2022. The total take from the EU recovery funds is to be some EUR 60bn, including low-interest loans.

But it could get worse. Holland PM Mark Rutte said Wed. the EU should consider the nuclear option of removing Poland and Holland from the budget. Rutte was enraged by Poland's and Hungary's opposition to not only the EU budget, but also the Reconstruction Fund at a time many countries were in crisis. He said that there could be no compromise on the conditionality, which he depicted as now at the bare minimum. French President Emmanuel Macron warned Thurs. that if Poland or Hungary did not stand down, then the other 25 EU members could pass a budget without them. We are not clear what a removal from the EU budget would mean or if it is even legally possible in the EU, but clearly if Poland were not part of the EU budget it would lose tens of billions. Altogether Poland is to receive some EUR 160bn from the EU budget and the recovery funds, meaning just over PLN 700bn (31.3% of GDP).

OUTLOOK

Poland's rule-of-law strategy has always tended to be to be as unyielding as possible in order to get as good of a deal as possible on an EU level. It has, however, backed down on issues when it became clear that real money could be lost, such as a couple of years back over logging in a primeval forest. This does mean that if the EU were to seriously consider options to remove Poland from the Reconstruction Fund or the EU budget, Poland would likely compromise. The EU's resolve on the rule-of-law issue this time around does look greater than it has been before, particularly in light of the desperate situation in many countries ravaged by the coronavirus. The high stakes does make the value of Poland's and Hungary's vetoes greater, but the use of a veto during what is at core a life-and-death struggle might anger some EU countries so much that Poland or a Hungary could win a short-term victory, if they do, but see a long-term position in the EU reduced.

In the end, we believe the PM Morawiecki government will push for a compromise, though risks are plenty. The first risk is that the EU member states or entities (i.e., the Parliament) will show greater resolve than normal and that might not allow Poland to compromise while saving face. The second risk is that domestic political infighting among the ruling coalition members will raise the political cost of any compromise. PiS's Kaczynski no longer looks as sure footed as he can be and thus might not risk a majority collapse, especially if Hungary will veto anyway. Yet, if his government were to be part of a process that led to billions of euros of losses, Poles wouldn't forgive. The government is thus in a real dilemma: if no deal is reached, it could lose billions; if a deal is reached, it could lose power. When the dust settles, we believe more in a deal since though a political crisis could be touched off, the parties now in party continue to have more to gain working things out somehow than allowing a collapse that could trigger new elections and lead the opposition to take over.

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Consumer sentiment sinks 9.2pts m/m to -29.2 in Nov, lowest since May

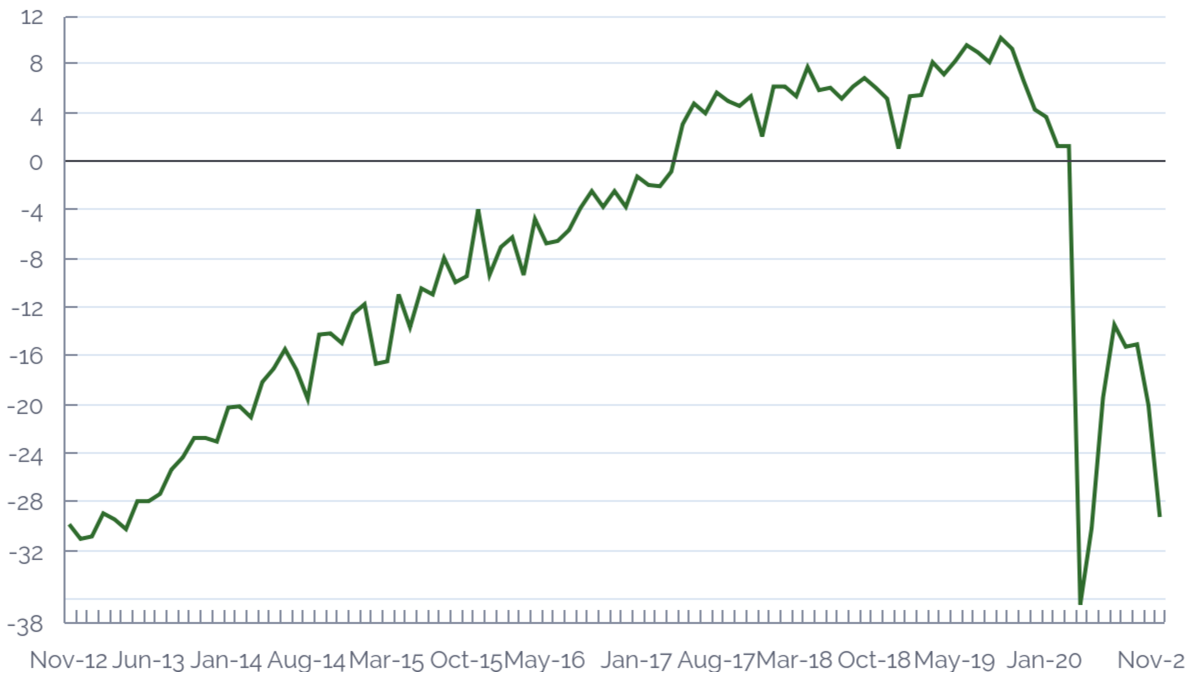
Poland | Nov 19, 14:52

- **Consumer confidence drops 35.9pts y/y due to coronavirus pandemic**
- **Some 91% cite coronavirus as major factor in their sentiment**

Poland's current consumer confidence index, or BWUK, sank a sharp 9.2pts m/m to -29.2 in November from -20.0 in October, the Central Statistical Office (GUS) said Thurs. of a survey done Nov 2-12. In annual terms, the total fell a sharp 35.9pts y/y, widening from the 29.3-pt drop seen in October. The surge in coronavirus cases and the new restrictions designed to slow its spread was clearly behind the drop of the sentiment indicator to the worst mark since May. The index is only about 7pts away from the worst of the spring readings in April.

Consumer sentiment

Source | GUS



GUS said again that all components fell compared with the previous month. The biggest drop of 14.5pts came in evaluations of the future economic situation, followed by a 12-5pt drop in views of the current economic situation. Evaluations of the ability to make durable purchases fell 8.0pts, evaluations of the future household financial situation fell by 6.6pts, and the evaluation of current household financial situations dropped by 4.2pts.

GUS said its leading consumer confidence indicator fell by a sharp 10.9pts m/m to -30.1. The indicator had risen by 3.2pts m/m to -19.2 in October.

In an extra survey on COVID, GUS said its polling showed that 91% of its respondents cited the coronavirus as major factor in their consumer sentiment, rising 6pps m/m. The risk of the coronavirus to the health of the economy was deemed major by 78%, well up from 65% in October. Another area that worsened was in evaluations of the coronavirus as a major threat to Poles' health, which saw a rise to 56% from 41% before.

Overall, the massive second wave of the coronavirus in Poland has clearly undermined consumer sentiment, and consumers are more worried about the pandemic's impact on the economy as well as their personal health. They are also more worried about it leading to job losses. The sentiment decline has been stark even though there continues to be positive press about potential vaccines, though no one really knows when they will roll out. The latest COVID data suggests that the wave could be creating slightly, and that could give hope that case numbers will fall to a level low enough for things like shopping malls to be re-opened. That could give a boost to sentiment. Of course, if any Poles were actually to receive a vaccine, then that might help as well. As for other news, the embattled government, ongoing abortion and anti-government protests, constant coronavirus news, and mentions of EU budget vetoes can't be helping moods either.

Consumer sentiment (pts)

	Nov-19	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20

Consumer sentiment	6.7	-36.4	-30.1	-19.4	-13.4	-15.2	-15.0	-20.0	-29.2
Change (m/m)	-2.6	-37.7	6.3	10.7	6.0	-1.8	0.2	-5.0	-9.2
Change (y/y)	1.5	-43.6	-38.4	-29.0	-22.4	-23.4	-25.2	-29.3	-35.9

Source: GUS

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KEY STAT **Wage growth slows to expected 4.7% y/y in Oct, employment falls 1.0%**

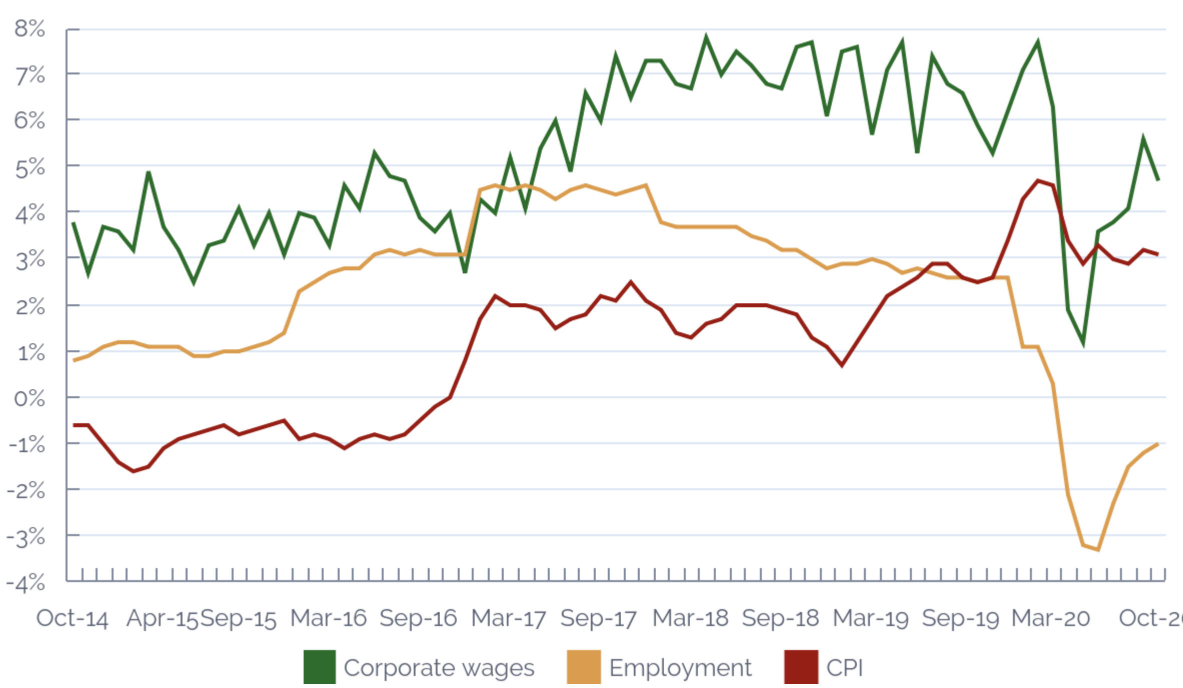
Poland | Nov 19, 14:39

- **Wage growth matches 4.7% y/y consensus, pulled down by COVID-related restrictions**
- **Employment fall narrows from 1.2% y/y in Sep, comes in below 1.1% consensus**
- **Inflation-adjusted wage rise slows to near 1.5% y/y**

Gross corporate wage growth slowed to 4.7% y/y in October from 5.6% in September, reflecting the likely economic slowdown as a massive coronavirus second wave hit Poland and more restrictions hit the economy, according to data published Thurs. by the Central Statistical Office (GUS). The print matched the consensus expectation for a 4.7% y/y rise. In inflation-adjusted terms, real wages rose by 1.6% y/y, down from 2.3% the month before. In three-month moving average terms, nominal wage growth rose to 4.8% y/y. In one-month terms, wages rose 1.6% m/m. GUS noted the wage rise included the payment of bonuses, quarterly, annual and jubilee awards and severance payments.

Wages vs employment vs CPI (y/y)

Source | GUS



Employment fell 1.0% y/y in October, narrowing further from a 1.2% decline the month before. In one-month terms, employment rose 0.1% m/m in the fifth straight increase. After being down a huge 260,000 in June, the employment loss compared with the pre-COVID period shrank to 128,000 or so.

Overall, the wage and employment data signal weaking at the start of Q4 that is likely to pick up as November saw a further tightening of restrictions in a bid by the government to flatten the curve. The latest COVID-19 new case numbers have been better, though Thursday saw a pick-up again and there are continuing questions about testing strategy. For now, it appears that no deeper lockdown will be announced and that means the economy won't be hit harder than it already is being hit. Q4 should thus see the economy skid through to year-end and start 2021 in reduced shape as all wait for the vaccine to be rolled out and some sort of recovery to begin in earnest.

Wages and employment

	Oct-19	Sep-20	Oct-20	Oct-19	Sep-20	**Oct-20**	Oct-20	Oct-20
	m/m	m/m	m/m	y/y	y/y	**y/y**	nominal	y/y
Corp. employment	0.0%	0.3%	0.1%	2.5%	-1.2%	**-1.0%**	6.32mn	-1.0%
Corp. wages	2.5%	0.6%	1.6%	5.9%	5.6%	**4.7%**	PLN 5,459	4.5%
Wage w/o bonus	2.5%	0.6%	1.6%	5.9%	5.6%	**4.7%**	PLN 5,456	4.5%
CPI inflation	0.2%	0.2%	0.1%	2.5%	3.2%	**3.1%**	na	3.5%

Source: GUS

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PRESS

Press Mood of the Day

Poland | Nov 19, 05:43

Dis-United Right [PiS said to be increasingly irritated at Solidarna Polska's Ziobro] (Gazeta Wyborcza)

Sejm finally to pass on Thurs. next coronavirus support bill (Rzeczpospolita)

Battle in Sejm over Anti-Crisis Shield 6.0 (Gazeta Wyborcza)

Nurses have had enough [want to strike cut can't, might just quit] (Rzeczpospolita)

Budget deficit could yet hit PLN 109bn (Rzeczpospolita)

Our objections in EU must be heard [EU negotiators believe deal can be reached] (Rzeczpospolita)

Morawiecki's anti-EU tirade [according to Sejm speech in which he railed against rule of law conditionality] (Gazeta Wyborcza)

Judge Tuleya loses immunity [good example of PiS abusing judicial independence] (Rzeczpospolita)

Sejm barricaded in on Wed. from abortion protests [police use gas on protesters, opposition politicians; plain clothes police attack protesters a la Belarus] (Rzeczpospolita)

Sejm suspends work on Duda's abortion bill [govt still doesn't publish Tribunal ruling tightening rules] (Rzeczpospolita)

Unhealthy chaos [Health Ministry undertakes internal organization that is said to make decisions harder to reach despite urgent need of pandemic] (Gazeta Wyborcza)

Agreement MP Sosnierz says he could leave PiS caucus due to chaotic COVID strategy (Rzeczpospolita)

Pandemic stops big and small parties from meeting (Rzeczpospolita)

Retail trade to wait for December (Gazeta Wyborcza)

PiS to take over civil service? [trying to do so under cover of coronavirus] (Rzeczpospolita)

Battle for programmers [govt to allow IT specialists from East to come w/o approvals, not seen as enough] (Rzeczpospolita)

Pandemic liquidates jobs for young (Rzeczpospolita)

Accused of spying [are a Chinese telecom specialist in Poland and a Pole] (Rzeczpospolita)

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Police use force during abortion protest, Kaczynski angrily attacks opposition

Poland | Nov 19, 05:20

- **Abortion protesters tried to encircle Sejm, but were blocked by police cordons**
- **Police used gas against protesters and opposition politicians present with some beaten, including by plain clothes officers**
- **Evening Sejm debate saw Kaczynski say opposition had blood on its hands, should be arrested**
- **But stalemate continues as PiS has stopped work on Duda's abortion bill but govt has not yet published Constitutional Tribunal's original ruling**

The abortion debate again heated up on Wed. as protesters against the tightening of already legal abortion rules clashed with police during an attempt to encircle the Sejm, though protesters and opposition politicians allege that police were unprovokedly beating protesters and plainclothes police were using tactics that would not be out of place in Belarus. Once police stopped protesters from surrounding the Sejm, protesters decided to march in various direction, including to state TV's HQ, during which they were met with police gas. Scuffles broke out widely, including with plainclothes police armed with telescopic batons. One leftist politician was said to have been beaten, and a Civic Coalition (KO) women politician was said to have been accosted by police. Journalists were also attacked. Police responded that they were only defending themselves from alleged attacks.

Meanwhile, inside the Sejm, MPs were a hot debate during which Law and Justice (PiS) leader and Deputy PM Jaroslaw Kaczynski angrily attacked protesters and the opposition. He accused the opposition of having blood on its hands for backing protests during the second wave of the coronavirus and thus leading to more deaths. He said the opposition should not be allowed into the Sejm because it had committed a crime. Public gatherings of over 5 have been banned.

The abortion protests continue, but to some degree, the protesters have scored at least a tactical victory. The government has still not published the Constitutional Tribunal's ruling from Oct 22 that would have basically stopped legal abortions by eliminating those done because of fetal damage. With it not published, it is not in effect. President Andrzej Duda submitted a bill to define when legal abortions could be done, but the Sejm did not start work on the bill on Wed. and it is not now on the agenda. The junior ruling Solidarna Polska has submitted its own hard-line bill, but it is not thought likely to pass either.

Overall, polls have shown Poles support the protests. With some of the focus of late on the EU budget battle, one that looks more favourable for the government's support, a renewed focus on the abortion protests could hurt support for the PiS-led ruling United Right coalition. And of course, the battle is not yet done. The protesters have gone beyond the abortion question and make further demands, meaning more clashes are bound to come.

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RUSSIA

Financial flows data remain close to normal levels during Nov 9-13

Russia | Nov 19, 18:04

- **Good result is due to household consumption and government spending, exports and investments remain a drag**
- **CBR says situation is much better than in spring due to well targeted restrictions**

Financial flows data suggest that the economy operates at levels close to those before the covid crisis, according to the weekly reports published by the CBR since the spring. During Nov 9-13 financial flows were only 0.6% below the average before the crisis, similar to the 0.7% decline registered in the previous week. The breakdown shows that the good result is driven by household consumption, which probably increased in the last weeks due to spending on medicines and essentials. The decline in intermediate consumption, investments and exports remains substantial. The latter is mostly a result of the oil production cut. This is seen also in the total index excluding the oil&gas sector, which has improved for second week in a row.

Financial flows to sectors (% compared to 2016-2019 average)

	Oct 19-23	Oct 26-30	Nov 2-6	Nov 9-13
GDP weighted TOTAL	-2.8	-1.9	-0.7	-0.6
TOTAL excluding oil and oil products	2.6	1.4	2.3	3.1
TOTAL excluding oil, oil products, government	1.5	-0.1	0.4	0.9
Final consumption	6.5	5.9	6	6.7
Intermediate consumption	-9.2	-7.5	-5.7	-5.7
GFCF	2	0.4	-1.3	-3.5
Government sector	10.0	8.6	10.7	13.0
Exports	-16.1	-10.6	-8.2	-10.1

Source: CBR

The CBR noted that the situation now is way better than in spring despite the worsening of the epidemiological situation, which reflects the targeted nature of current restrictions. Still, we expect to see some deterioration as measures are gradually tightened. Today, the head of the CBR monetary policy department, Tremasov, commented that the GDP contraction is expected to deepen to 5% y/y or more in Q4 after 3.6% in Q3.

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CBR still sees small room for rate cut – CBR department head Tremasov

Russia | Nov 19, 13:08

- **We are skeptical there will be rate cut in December**
- **Central bank expects GDP contraction to exceed 5% y/y in Q4, resulting in 4% annual fall**

The CBR still sees limited room for another rate cut, the head of the CBR monetary policy department, Tremasov, commented on Thursday at a meeting with industrialists. This basically reiterates the official position from the October monetary policy meeting, when the CBR said the potential for another rate cut will be reviewed at one of the nearest monetary policy meetings. Still, we are skeptical there will be such a decision in December, given the higher inflationary pressures during the last weeks. High frequency data shows that inflation is currently running around 4.2% y/y and it is likely to reach 4.3-4.4% y/y in November. This would be above CBR's latest forecast for the end of 2020 (3.9-4.2%). The CBR position is that upward pressures are short-term and disinflationary effects will prevail in the medium term. While we agree with this, the timing does not look good for a rate cut. Another consideration is that the key rate is already low at 4.25% and real interest rates are around zero, while the CBR has previously opposed the idea of reducing the key rate below current inflation.

In the real economy, Tremasov expects that the GDP decline will be around 5% y/y or more, worsening from the 3.6% y/y in Q3. The deterioration is explained with the second covid wave and also the temporary nature of the recovery in Q3. We note that a 5% decline in Q4 would bring the annual fall to 4% from 3.6% y/y in Jan-Sept, which is a tad worse than the government's official forecast (-3.9%), but still better than market expectations.

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Local ACRA rating agency improves growth forecast for 2021-2024

Russia | Nov 19, 08:49

- **Agency sees above consensus growth of 3.8% in 2021**
- **Growth to return close to potential in 2024 at 2.2%**

The local ACRA rating agency announced its new medium term forecast for Russia improving significantly expectations for the economic recovery in 2021-2024. The agency now sees 2021 growth at 3.8%, significantly higher than the 2.2% predicted earlier and also above the 3.2% assumed in the budget for 2021. Recovery will continue in 2022-2023 and growth will return toward potential in 2024 at 2.2%. In contrast, the government relies on preserving growth above 3% in the medium term as a result of planned reforms. For this year ACRA expects GDP to contract by 4.3%, slightly worse than the 4.2% previous forecast and worse than the government's 3.9% forecast.

We note that ACRA's forecasts have been very conservative, probably in an attempt to build credibility after Russia restricted the activity of the big international rating agencies on the domestic market. This seems to be changing now as the growth forecast for 2021-2023 is 0.8pps above consensus.

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State-owned Promsvyazbank to acquire 100% of Roskosmosbank

Russia | Nov 19, 07:18

- **Measure is part of efforts to rehabilitate troubled Roskosmosbank**

The state-owned Promsvyazbank will acquire 100% of the troubled Roskosmosbank as part of the rehabilitation efforts, the CBR announced in a press release on Wednesday. Roskosmosbank is 100% owned by Roskosmos, a state corporation for space projects, while Promsvyazbak is specialized in financing for the defense sector. According to the CBR, the two banks should merge by the end of April 2021. The measure is not a surprise as reports in this direction appeared already in July. The merger will allow to save projects financed by Roskosmosbank and it further concentrates sanction risks into Promsvyazbank. Roskosmosbank was Russia's 52nd largest at the end of October with assets of RUB 131bn. Promsvyazbank is Russia's 8th largest and the acquisition will increase its balance sheet by roughly 5%.

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PRESS Press Mood of the Day

Russia | Nov 19, 07:07

Sending troops to Karabakh gets official approval (Vedomosti)

Industry has adapted to the pandemic [October industrial output result is better than expected] (Vedomosti)

CBR should help FinMin in financing growth [argues that CBR should hold more government debt] (Vedomosti)

How Vladimir Putin returned to crisis medicine (Kommersant)

ACRA rating agency breaks down by sources future GDP growth [on new forecast by agency] (Kommersant)

FinMin switched to nonresidents [weekly OFZ sale is lowest since July] (Kommersant)

The Kremlin is preparing for US interventions from the age of Biden (Nezavisimaya Gazeta)

Tourism will receive the status of a new national project (Nezavisimaya Gazeta)

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TURKEY

CBT envisages one-week transition to single channel of funding

Turkey | Nov 19, 16:38

- **Regular one-week repo auctions to resume on Nov 20, replacing variable-rate repo and LLW funding**
- **Banks allowed to use ON facility for one week at cost of 15.0% policy rate**

The CBT envisaged a one-week period of transition before channelling all of its funding to the one-week repo auctions, as decided by the MPC at today's rate-sitting, the CBT said in a press release. The CBT said the one-week quantity repo auctions will resume as of Nov 20 and replace the funding currently provided via the variable-rate repo auctions and the late liquidity window facility. For the transition period between Nov 20-26, banks will be able to use the overnight (ON) lending channel, the CBT said. The ON lending rate will be set equal to the policy one-week repo rate of 15.0% during the transition period.

The CBT statement means its average funding rate will rise to 15.0% starting from Nov 20 from its Nov 18 level of 14.8%. The implementation of single channel of funding will practically begin on Nov 27.

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Germany warns Turkey of EU sanctions on Eastern Mediterranean spat

Turkey | Nov 19, 14:23

- **Germany says EU heading for difficult debate on sanctioning Turkey in December summit**
- **France, Cyprus and Greece seek heavy sanctions on Turkey**

German Foreign Minister Heiko Maas warned the Turkish government about the possibility of the EU sanctions for its energy exploration works in the Eastern Mediterranean (East Med), Reuters reported. Maas said that Turkey has to stop provocations in the East Med if it wanted to avoid new discussions about the EU sanctions at an EU summit in December. If the EU sees no positive signals from Turkey by December but further provocations, then the EU leaders will have a difficult debate at the summit, Maas added.

Before a previous EU summit in October, when the bloc was set to discuss new sanctions on Turkey, Turkey pulled backed its seismic and naval ships from mission in disputed waters in the East Med. The preliminary deal between Turkey and Greece to launch exploratory works for solution to the maritime disputes in the region failed after which Turkey sent a seismic ship back to mission near the Greek island of Kastellorizo. Turkey also resumed energy exploration in disputed waters near the divided island of Cyprus.

Maas' remark that a difficult debate may be in the pipeline at the forthcoming EU meeting is an indicator of disagreements between the EU members about potential new sanctions on Turkey, in our view. Cyprus, France and Greece have pressed the EU for imposing definitive sanctions on Turkey for its East Med drilling works, including the suspension of the Customs Union Agreement between Turkey and the bloc. Among other large members of the EU, Germany, Italy and Spain are known to oppose severe economic sanctions on Turkey. Yet, today's statement by Maas signals that the risk of EU sanctions on Turkey increased, while we think that potential sanctions may not be as severe as requested by Cyprus, France and Greece.

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HIGH MPC hikes policy rate by 475bps to 15.0%, returns to orthodox policy

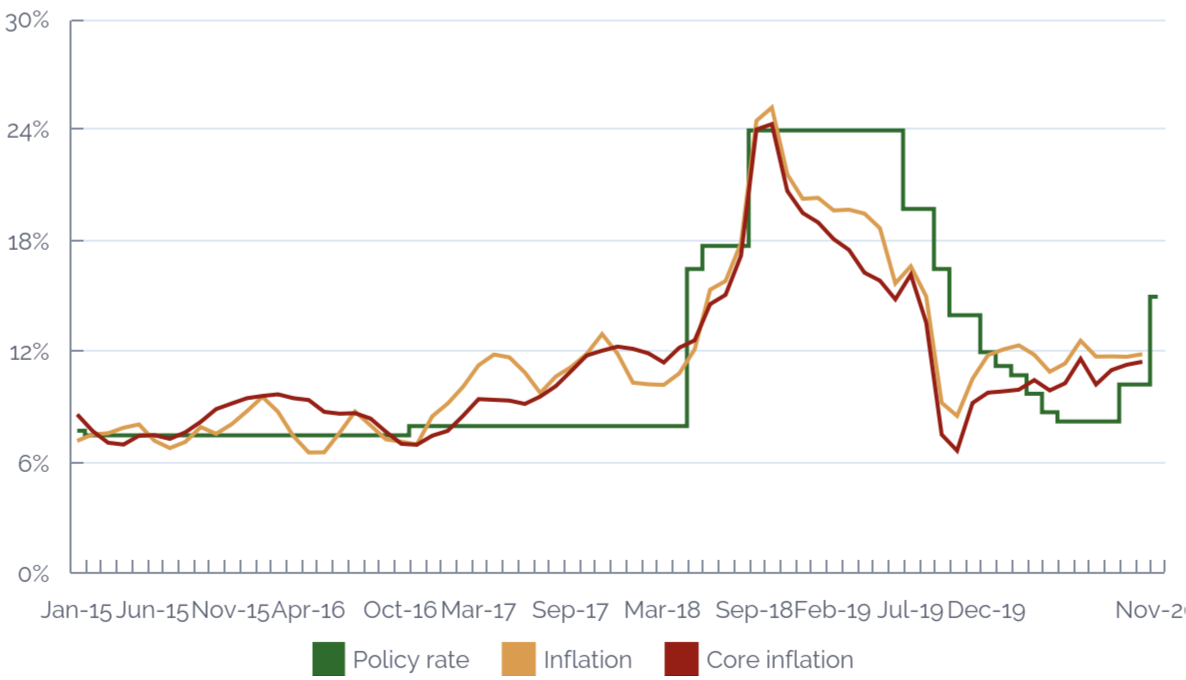
Turkey | Nov 19, 13:45

- **All of CBT funding to be provided at policy one-week repo rate**
- **Inflation seen rising in November due to lira slide**
- **MPC vows tightness of monetary policy to be sustained until permanent fall in inflation**
- **MPC passes first market test under term of new governor, in our view**

The MPC raised the policy one-week repo rate by 475bps to 15.0% on its regular meeting today, the CBT announced. The rate hike matched the median market forecast. The MPC also decided that the CBT will provide all funding through the main policy rate, which is the one-week repo auction rate. The committee explained the rate hike and its switch to orthodox rate policy with the worsening inflation outlook. The MPC decided to implement a transparent and strong monetary tightening in order to eliminate risks to the inflation outlook, contain inflation expectations and restore disinflation process, the decision text read.

Inflation versus rates (%, y/y)

Source | Turkstat, CBT



The MPC said that leading data for November pointed to an increase in inflation due to recent exchange rate volatility but this was assessed to be temporary with the decisive monetary policy stance. It vowed that the tightness of monetary policy will be decisively sustained until a permanent fall in inflation is achieved. The MPC also pledged that the CBT will adopt transparency, predictability and accountability principles of the inflation targeting regime. It once more emphasised that all CBT funding will be provided through the one-week repo rate, which will be the only indicator for the monetary stance. The MPC also indirectly touched upon the issues of deposit dollarization in the economy and low forex reserves of the CBT. It said the permanent establishment of a low inflation environment will help for a fall in the country risk premium, reversal in the dollarization trend, accumulation of forex reserves and a permanent decline in financing costs.

The MPC assessed that economic activity continued to recover from the coronavirus impact but the recently introduced partial restrictions heightened uncertainties on the short-term outlook on the economy, particularly the services sector. It evaluated that domestic demand remained strong due to the lagged effects of the strong credit impulse during the pandemic and adversely affected the current account balance.

Although the MPC's strong increase in the policy rate will not practically change its average funding rate, which was 14.8% on Nov 18, we assess that the MPC passed the first market test following the replacement of former governor Murat Uysal with Naci Agbal and the reshuffling of the finance minister. The MPC's assurance that all CBT funding will be provided via the one-week repo auctions is particularly positive for the short-term outlook on Turkish financial assets, including the lira exchange rate, in our view, because it notably improves policy predictability. This implies that any additional tightening, if needed, will be delivered through the policy rate. The MPC decision text did not include any reference to the interest rate corridor.

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Private lender Garanti borrows syndicated loan of USD 267.5mn and EUR 312mn

- **Final borrowing amount may be higher due to accordion feature**
- **Loan costs LIBOR plus 250bps and EURIBOR plus 225bps**

Private deposit bank Garanti BBVA obtained a 367-day syndicated loan worth USD 267.5mn and EUR 312mn from a consortium of 30 financial institutions in 18 countries, the bank said in the public disclosure platform. The deal included an accordion feature so the final borrowing amount may be higher, Garanti noted. The cost of the loan was LIBOR plus 250ps and EURIBOR plus 225bps for the respective tranches. The cost was on par with recent syndicated loan deals of other Turkish private lender, including Akbank, Isbank, QNB Finansbank, TEB and Yapi Kredi.

With this transaction, Garanti renewed last year's syndication worth USD 229.5mn and EUR 518mn. The cost of the new loan was 25bps higher y/y for the USD-denominated tranche and 15bps higher y/y for the EUR-based one.

Garanti is the fifth largest bank of Turkey in terms of total assets worth TRY 447.9bn at end-H1, according to data by the Banks' Association of Turkey. The bank posted a net profit of TRY 3.2bn in H1, down by 11.1% y/y.

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Turkey in talks with Pfizer to buy up to 25mn doses of COVID-19 vaccine in 2021

Turkey | Nov 19, 08:38

- **Turkey also in talks to procure 20mn doses of Chinese vaccine in Dec-Jan**
- **Number of new symptomatic COVID-19 cases rises d/d to above 4,200 on Nov 18**
- **Opposition IYI Party calls for two-week full lockdown to curb virus spread**

The government is in talks with US-based multinational company Pfizer to buy up to 25mn doses of coronavirus vaccine in 2021, Health Minister Fahrettin Koca said, the daily Dunya reported yesterday. There is a possibility for Pfizer to supply 1mn doses of vaccine to Turkey in December if its vaccine obtains a license but the latter has low likelihood, Koca added. Pfizer and its German partner BioNTech are the first pharmaceutical corporations to show successful data from a large-scale clinical trial of a coronavirus vaccine.

Koca said Turkey was also in talks to purchase the Chinese coronavirus vaccine, probably referring to the vaccine of Sinovac, in our view. He informed that Turkey will be able to buy 10mn doses of the Chinese vaccine in December and 10mn doses more in January. The purchase amount could increase, he added. Koca expected a purchase contract to be signed within a few days for the Chinese vaccine. Turkey's population is 83.2mn as of end-2019, according to data by Turkstat.

The spread of the coronavirus has surged in Turkey in recent weeks, which forced the government to impose new restrictions, including partial curfews, closure of schools, closure of restaurants except for takeaway and delivery services as well as limits on the operating hours of groceries, shopping malls and personal care services businesses. The restrictions will take effect on Nov 20. Opposition IYI Party chair Meral Aksener called the government to impose a full lockdown for two weeks to curb the coronavirus spread instead of implementing lax measures, the daily Hurriyet reported yesterday. Aksener assessed that the pandemic was out of control and the situation in Turkey's largest city Istanbul was particularly a disaster.

The Health Ministry reported 4,215 new symptomatic coronavirus cases on Nov 18 and their number rose by 396 d/d. The total number of symptomatic infections reached 425,628 as of Nov 18. The total number of recoveries and deaths hit respectively 361,655 and 11,820. The main opposition party CHP's Mersin MP Alpay Antmen claimed that the government underreported the death toll from the coronavirus and the real number of deaths was around 40,000, quoted by the daily Dunya yesterday.

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PRESS **Press Mood of the Day**

Turkey | Nov 19, 08:24

Next fifteen days to be most critical for fight against coronavirus (Hurriyet)

[President] Erdogan gives critical messages ahead of MPC meeting: We should not let investors get hampered by high interest rates (Hurriyet)

FinMin Elvan instructs regulatory and supervisory institutions: Do what law orders (Hurriyet)

Travel agencies launch sales campaigns for 2021 summer (Hurriyet)

Turkey entering period of ramping - Erdogan (Turkiye)

Period of gradual restrictions [Science board reportedly mulls new measures gradually if virus spread not curbed] (Turkiye)

Turkey may install S-400s in Aegean Region if US sells F-35s to Greece (Turkiye)

Two million workers to suffer from new restrictions [to stem coronavirus] (Sozcu)

Mafia third partner of AKP-MHP alliance [CHP reacts harshly as mafia leader Cakici threatens party chair Kilicdaroglu] (Sozcu)

Do not hide truth from people [IYI Party chair Aksener calls on government to reveal actual figures of COVID-19] (Sozcu)

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ARGENTINA

PPI inflation quickens to 6.0% m/m and 39.2% y/y in October

Argentina | Nov 19, 22:16

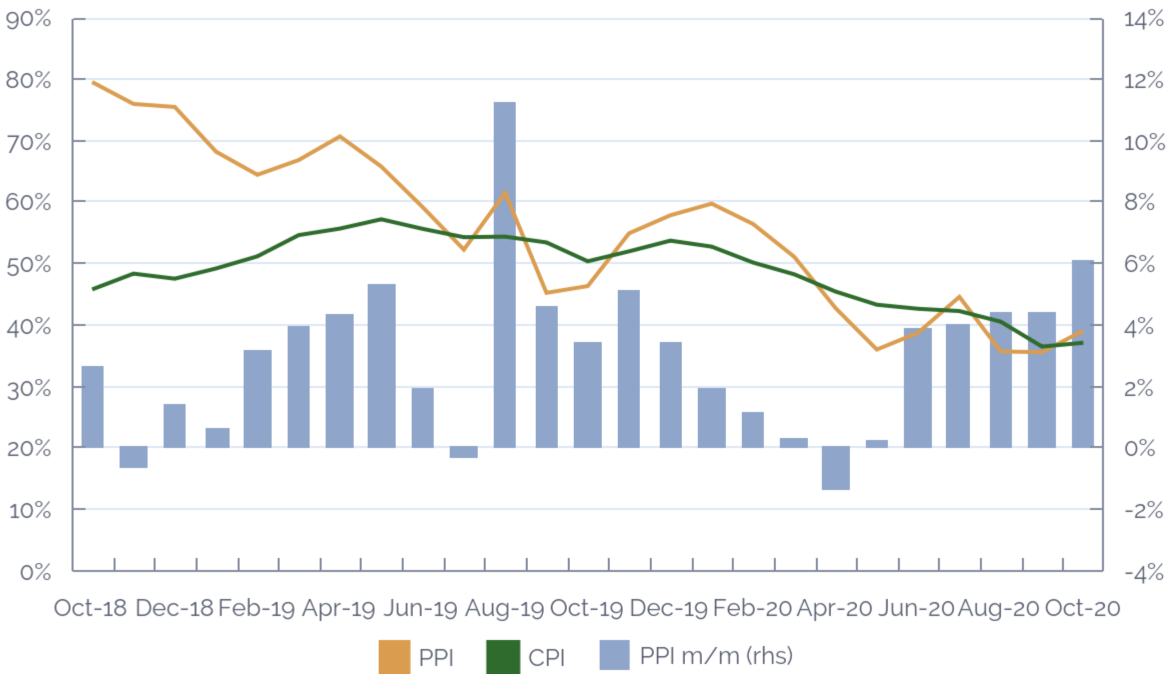
- **PPI inflation sits above 4.0% m/m for fifth month in a row**
- **Agriculture prices spike 12.5% m/m on depreciation and bad weather affecting supply**
- **Manufacturing inflation speeds to 5.1% m/m on growing FX controls and depreciation**
- **Electricity and oil and gas show low inflation due to price controls**
- **PPI and CPI inflation are getting out of control even before govt undoes misguided price controls**

PPI inflation accelerated to 6.0% m/m in October from 4.5% the previous two months, the stats office INDEC said

Thurs. The last five prints register monthly inflation at 4.0% m/m or above, contrasting with five readings below 2.0% in Jan-May. In annual terms, PPI inflation rose to 39.2% y/y in October from 35.7% in September. Annual PPI inflation was 2.0pps above CPI inflation during the month.

CPI and PPI inflation (y/y)

Source | INDEC



A good part of the acceleration in PPI inflation can be attributed to volatile fruit and vegetable prices, which caused the agriculture component of the index to rise 12.5% m/m. The agriculture component hit a massive 60.2% y/y inflation, leading all other components by margins of at least 10pps. The depreciation of the currency, increased demand, and bad weather are all factors that seem to be stoking inflation in agriculture.

Manufacturing PPI inflation was 5.1% m/m in October, which is the highest for any month since the sharp depreciation of the currency back in August 2019. Moreover, manufacturing inflation has been climbing for the last six months. Growing exchange rate controls that force companies to import production inputs at parallel exchange rates seem to be a key driver behind the acceleration in manufacturing inflation.

The electricity and oil and gas components continued to show very low inflation, reflecting the government's misguided attempts to freeze tariffs and low global oil prices. Inflation in electricity is down to 1.1% y/y, as the government accumulates more than a year since the last big price revision. Oil and gas inflation is up to 11.1% y/y after the government allowed modest revisions to gasoline prices, following the steep deflation seen in Q2.

Overall, PPI inflation continues to surge, reflecting currency depreciation, exchange rate controls, and some transitory developments affecting agriculture prices. PPI inflation should be faster than CPI inflation due to tradable goods having a bigger weight in the index, but even considering this, it is hard not to see that inflation pressure on consumer prices is rising. The fact that inflation is already accelerating this much while the government maintains price controls that will have to be undone soon is worrying. The big adjustments coming to those controlled prices will add even more pressure on inflation in a few months.

PPI inflation (% m/m)

	Oct-19	Aug-20	Sep-20	Oct-20
PPI	**3.4%**	**4.5%**	**4.5%**	**6.0%**
Primary products	2.7%	7.0%	5.8%	8.5%
Fishing	-8.0%	18.9%	-0.3%	0.3%
Oil and gas	4.1%	10.1%	0.5%	0.6%
Non-metal minerals	2.7%	2.7%	2.0%	3.1%
Agriculture	2.2%	5.4%	8.7%	12.5%
Manufacturing	3.8%	3.5%	4.0%	5.1%
Food and beverages	4.4%	3.6%	3.5%	7.2%
Textiles	3.4%	5.4%	5.3%	4.1%
Oil derivatives	4.2%	1.3%	4.8%	4.2%
Chemicals	3.1%	3.5%	3.3%	4.2%
Machinery	2.5%	5.6%	3.4%	5.4%
Transport	3.1%	3.0%	4.0%	3.4%
Electricity	0.5%	-0.1%	-0.4%	-0.1%

Source: INDEC

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FPV senators seek to ban FX bond issues to finance current spending

Argentina | Nov 19, 17:14

- **Senators amend EconMin bill on FX bond issue cap to add article banning the acquisition of FX debt to finance current spending**
- **Amendment is weak because money is fungible and Argentina has lax budget rules**
- **Unclear whether EconMin Guzman signed off on the amendment**

A Senate committee approved the Economy Ministry's bill aiming to implement a cap on annual FX bond issues that can only be exceeded with authorization from the legislature, but amended the initiative to include an article that would ban the issue of FX debt to finance current spending, the website La Politica Online reported Thurs. The new article says the issue of public debt titles in foreign currency and under foreign law and financing programs involving the IMF can't have the financing of current spending as their goals. Thus, acquiring FX debt under foreign law would only be permitted when the government intends to use the financing for investment or to roll over existing debt.

Transcripts of the committee session don't make it clear whether the amendment was debated with Economy Minister Martin Guzman, who was present for most of the discussion, but we would guess it was not. In that case, it would not be surprising if the amendment is rejected in the floor vote on Guzman's request. The amendment was introduced by senators from the ruling Front for Victory (FPV).

Overall, the amendment to ban the issue of FX bonds under foreign legislation to finance current spending doesn't make sense because money is fungible and Argentina has very lax budget rules. It is also interesting that the amendment was proposed by senators who would never agree to the government having a fiscal rule to take care of public finances. We would expect for the amendment to be rejected in the Senate on Guzman's request, but even if it is approved it is hard to believe it will have a significant impact on the government's financing options. A future government would also be in position to repeal the article with a simple majority in Congress or an Urgency Decree from the president.

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Govt to raise retirement pensions by 5% in December

Argentina | Nov 19, 16:41

- **Base pensions will rise in line with inflation in 2020, one-off bonuses push them above**

The federal government will raise what it pays for retirement pensions and many social security programs by 5.0% in December, so that by year-end most pensions will have increased 35.3% this year, the daily Clarin reported Thurs. This is supposed to be the final revision to pensions that is decided arbitrarily by the Fernandez administration before a new rule to update them by an average of wage and revenue growth kicks in. The 35.3% rise in pension hikes should be around the end-of-period CPI inflation reading for 2020, but the government also paid a few one-off bonuses through the year that would take the earnings of most pension recipients above inflation.

Overall, the Fernandez administration suspended a formula linking retirement pension payments to past inflation that would have led to a 42% increase in pensions this year. On balance, with the arbitrary revisions and one-off bonuses the government saved a small amount of money in 2020, but also left a lower base for pensions to grow from in the future. The new formula has some design problems, such as being very procyclical with spending, but it should help contain the social security system deficit by capping pension hikes by the revenues of the social security agency. Over the medium and long-term Argentina's public pension system remains highly susceptible to demographics shifts.

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PRESS Press Mood of the Day

Argentina | Nov 19, 04:56

Govt announces 5% raise to pensions and social security payments from December (Clarin)

What is the new minimum pension and the AUH? [AUH is the main childcare subsidy program in Argentina] (Clarin)

Nine provinces agree not to ask for quarantine or swabs to tourists in the summer (Clarin)

Surprises in wealth tax voting: the 19 FPV allies and some suggestive absences (Clarin)

President says vaccine produced in Argentina will arrive in March, Russian vaccine maybe in December (Clarin)

USA complains to WTO over Argentina's import (Clarin)

Car purchases, an option for dollarization (La Nación)

Parents in Cordoba demand the reopening of schools (Infobae)

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BRAZIL

Economists expect primary deficit to be BRL 844.8bn in 2020, Fiscal Prism says

Brazil | Nov 19, 22:15

- **For 2021, economists widen their deficit forecast to BRL 224.8bn from BRL 218.0bn given in October**

Economists polled by the Economy Ministry expect the primary deficit to reach BRL 844.8bn in 2020, down from the BRL 858.2bn expected in October, according to the Fiscal Prism published by the Economy Ministry's Economic Policy Secretariat (SPE). For 2021, economists, however, widened their forecast, to BRL 224.8bn from BRL 217.0bn in October. Regarding debt, economists expect gross debt to reach 94.5% of GDP for 2020 (as expected in October) and 95.5% of GDP for 2021 (down from 95.7% of GDP before).

Overall, the Economy Ministry said recently the primary deficit would reach some BRL 880.5bn in 2020, or 12.3% of GDP. The new figure is well above the initial target of BRL 124.1bn. The Treasury noted that with such high spending, it appealed for more structural reforms in order to preserve the spending ceiling rule. It added it is necessary to resume efforts to restore public finances to order after the end of the pandemic or there will be lasting damage to the economy. Economy Minister Paulo Guedes said recently measures to offset the impact of the coronavirus pandemic will cost some 8.4% of GDP. Guedes said last week the government could spend a further 4.0% of GDP if there is a second wave. But he doubted whether that would be needed since he said the economic recovery was "very strong" and coronavirus cases were "collapsing." Under this scenario, fiscal support should end by the close of 2020 and the government would then resume its fiscal reform efforts.

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Industrial activity falls 0.8pt m/m to 58.3pts in October - CNI

Brazil | Nov 19, 20:37

- **But activity indicator increases 3.1pts y/y**
- **Almost all expectation indicators decrease m/m**

Brazil's construction activity index decreased 0.8pt m/m to 58.3pts in October from 59.1pts in September, the National Confederation of Industry (CNI) said Thurs. Despite the fall, that was the fourth-highest level in the past six months. The October print also held above the 50-pt no-change level for the fifth consecutive month. Employment decreased in October for the first time since April, falling 0.4pt m/m to 54.7pts but holding above the neutral mark for the fourth month in a row.

Almost all expectations' indices decreased across the board in m/m terms in November. The demand component dropped 0.9pt m/m to 59.8pts. But it continued to hold above the benchmark for the fifth consecutive month. The basic good purchases component decreased 2.0pts m/m to 58.0pts in November, holding above the benchmark for the fifth consecutive print.

Overall, industrial activity improved on an annual basis but deteriorated slightly on a monthly basis. The sector is showing some signs of recovery, tied to low base effects but also increasing optimism about the economic recovery. Brazil has not been successful in fighting the virus, though the latest case numbers have been better. Still, there is some talk of a new wave of the virus before Christmas.

CNI industrial survey (pts)

	Oct-19	Aug-20	Sep-20	Oct-20
Number of employees	49.5	53.8	55.3	54.9
Capacity utilisation, %	70.0	71.0	72.0	74.0
Effective vs. usual CU	46.4	47.7	50.4	51.1
Output	55.2	58.7	59.1	58.3

Source: CNI

CNI industrial survey, expectations (pts)

	Nov-19	Sep-20	Oct-20	Nov-20
Number of employees	50.7	54.8	54.4	53.5
Investment	56.2	55.3	57.2	59.3
Demand	57.7	63.1	61.6	59.8
Exports	52.4	55.4	54.8	53.9
Basic good purchases	54.6	60.6	60.0	58.0

Source: CNI

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Commerce confidence falls 14.5pts y/y in Nov - CNC

Brazil | Nov 19, 19:41

- **Confidence increases 4.9pts m/m in the month**
- **Commercial companies continue to be cautious about current situation, but are optimistic about future**

Commerce confidence decreased 14.5pts y/y to 108.0 in October from 122.5 the year before, the National Confederation of Commerce (CNC) said Thurs. Still, the index increased 4.9pts m/m from 103.1 in October. The index also remained above the neutral mark of 100pts for the second consecutive month. CNC head Jose Roberto Tadros said the reduction in the amount of emergency aid and pressures on prices, mainly for essential products, influenced the situation. Tadros also recognized that the easing of social distancing measures had contributed positively to the recovery of the retail sector. Further, CNC economist Izis Ferreira said that in order to adjust to changes and meet demand in the current situation industry and commerce were reorganizing production, looking for new suppliers and reviewing their product portfolios.

The y/y fall came with decreases in all indicators, although the decline narrowed from that the previous month. The current situation indicator decreased by 18.9pts y/y to 78.6. It increased 6.7pts m/m to remain well below the neutral mark. The investment situation indicator dropped 12.9pts y/y to 94.6. Finally, the expectations indicator dropped 11.9pts y/y to 150.7pts in November to be the only indicator above the neutral mark.

In terms of the impact on retail sales, the CNC said broad retail sales will decrease by 3.6% in 2020 after it decided to narrow its contraction forecast from 4.2% before.

Overall, companies in the sector remain cautious about the current situation but continue to be optimistic about the future. The government now expects the economy to contract 4.5% in 2020. The sector is recovering as there is a greater circulation of consumers in retail stores combined with the intensification of e-commerce sales. Still, the reduction of the emergency help since September and uncertainties around the labor market are slowing the recovery pace, particularly as the aid is to end at the end of this year.

Commerce Sector Confidence Index (ICEC)

	Nov-19	Oct-20	Nov-20	m/m	y/y
ICEC	122.5	103.1	108.0	4.9	-14.5
Current situation (ICAEC)	97.5	71.9	78.6	6.7	-18.9
Expectations (IEEC)	162.6	147.7	150.7	3.0	-11.9
Investment (IIEC)	107.5	89.7	94.6	4.9	-12.9

Source: CNC

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First package of China's Sinovac vaccine arrives in Brazil

Brazil | Nov 19, 15:56

- **Delivery is part of the 6mn doses that will be imported from China and stored in Sao Paulo**
- **Pfizer Inc offers to provide Brazilian govt millions of doses of its coronavirus vaccine in H1 2021**

The first package of 120,000 doses of China's Sinovac vaccines arrived in Brazil on Thurs., according to Reuters. The delivery is the first catch of 6mn doses that will eventually be imported from China to be stored in Sao Paulo, awaiting approval from the National Sanitary Surveillance Agency (Anvisa) and the potential rollout. The medical research institute Butantan, which runs the Sinovac trial in Brazil, will also import all inputs from China for the packing. It's important to note that the Sinovac vaccine is in a Phase 3 trial.

For its part, Pfizer Inc said Wed. it offered to provide the Brazilian government millions of doses of its coronavirus vaccine in H1 2021. The Health Ministry said it would buy the vaccine if Pfizer proves it is safe and if Anvisa registers it.

The vaccine news comes as the coronavirus case rise remains relatively restrained. The new coronavirus case total rose by 34,091 d/d to 5,945,849 on Wed. from 5,911,758 the previous day. The growth rate was 0.6% d/d, holding below 1.0% d/d for the 68th consecutive day. The death toll rose by a relatively high 756 d/d to 167,455 on Wed., generating a 0.5% d/d rise (up 0.1pp d/d). In any case, experts believe this is not the second wave, though one is seen coming before Christmas. Brazilian authorities are said to be preparing for such a situation. Brazil continues to be the second hardest-hit country in the world in terms of deaths and the third-hardest hit country in terms of cases.

Coronavirus case total

	New cases	Chng (d/d)	Chng (% d/d)	Deaths	Chng (d/d)	Chng (% d/d)	Mortality
4-Nov	5,590,025	23,976	0.4%	161,106	610	0.4%	2.9%
5-Nov	5,612,319	22,294	0.4%	161,736	630	0.4%	2.9%
6-Nov	5,631,181	18,862	0.3%	162,015	279	0.2%	2.9%
7-Nov	5,653,561	22,380	0.4%	162,269	254	0.2%	2.9%
8-Nov	5,664,115	10,554	0.2%	162,397	128	0.1%	2.9%
9-Nov	5,675,032	10,917	0.2%	162,628	231	0.1%	2.9%

10-Nov	5,700,044	25,012	0.4%	162,829	201	0.1%	2.9%
11-Nov	5,748,375	48,331	0.8%	163,373	544	0.3%	2.9%
12-Nov	5,781,582	33,207	0.6%	164,281	908	0.6%	2.8%
13-Nov	5,810,652	29,070	0.5%	164,737	456	0.3%	2.8%
14-Nov	5,848,959	38,307	0.7%	165,658	921	0.6%	2.8%
15-Nov	5,863,093	14,134	0.2%	165,798	140	0.1%	2.8%
16-Nov	5,876,464	13,371	0.2%	166,014	216	0.1%	2.8%
17-Nov	5,911,758	35,294	0.6%	166,699	685	0.4%	2.8%
18-Nov	5,945,849	34,091	0.6%	167,455	756	0.5%	2.8%

Source: Health Ministry

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PRESS Press Mood of the Day

Brazil | Nov 19, 04:36

Anvisa's [sanitary agency] new procedure should speed up COVID-19 vaccine registration (Agencia Brasil)

University of Sao Paulo says Brazil is already in the midst of second wave of COVID-19 (Folha)

Economy Ministry says bonuses and holidays for those with reduced wages must be full (InfoMoney)

Low Selic rate may lose effectiveness amid high debt and fiscal dominance (InfoMoney)

Chambers will have fewer parties in small towns after first round (Folha)

Electoral court TSE says it is technically possible to hold elections in Macapa [may change to Dec 6 and 20 from Dec 13 and 27] (Valor Economico)

Macapa and 12 other municipalities in Amapa again suffer from total power outage (Globo)

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MEXICO

INEGI estimates economic activity fell by 7.0% y/y in September

Mexico | Nov 19, 17:24

- **A bit worse than the preliminary estimate made a month ago, following a negative revision to the services' sector**
- **But INEGI expects the rebound to continue in October, with economic activity down by 6.2% y/y**

The economic activity declined by 7.0% y/y in September, according to the preliminary estimate made by the stats office INEGI on Thursday. This estimate is a bit disappointing in comparison to the 6.9% y/y decline estimated a month ago. The negative revision came on the back of the services sector, where INEGI anticipates a contraction of 7.3% y/y, 0.3pps worse than anticipated a month ago. The estimate made by the industrial sector, considered as observed, improved by a full percentage point, now expecting a 7.5% y/y contraction.

On the bright side, economic activity continued to rebound in October, per this preliminary estimate, down 6.2% y/y. Both the industrial and services sectors are expected to improve m/m too, with declines of 6.9 and 6.0% y/y, respectively.

Overall, the economy has continuously improved since June, in a solid rebound despite the lack of a countercyclical response from the fiscal side. Further improvement in October and November is expected. However, the performance towards December and the turn of the year has become a matter of concern, in our view, as growing confirmed cases and deaths of COVID-19 raise the possibility of a tighter containment in many states, including Mexico City. Such new containment measures could come as soon as this weekend.

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PRESS **Press Mood of the Day**

Mexico | Nov 19, 01:29

Foreign Ministry says Salvador Cienfuegos will return to Mexico in freedom (El Financiero)

MORENA to hold new poll to assess deputies' reelection (Eje Central)

Mario Delgado orders deputies to get reelected (Reforma)

[Deputy governor] Gerardo Esquivel says law doesn't let Banxico use reserves to finance PEMEX (El Universal)

President López's sister Candelaria Beatriz López Obrador dies (El Universal)

Opinion legalizing marijuana use for adults advances (La Razón)

President López inaugurates new labor justice system, fulfills a USMCA demand, he says (El Financiero)

Coparmex says confidence to invest in Mexico remains low in November (El Economista)

Trusts' extinction hurts victims, suspends monthly economic support (Animal Político)

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ISRAEL

Hapoalim’s net profit increases by 10.9% y/y in Q3

Israel | Nov 19, 19:12

- **Non-interest income increase, cut in operating expenses result in bottom-line improvement**

The net profit of the country's largest Hapoalim Bank increased by 10.9% y/y to NIS 816mn in Q3, according to the lender's latest financial statements. The improvement comes on the back of an increase in non-interet income to NIS 1.1bn in Q3 from NIS 884mn in Q3 last year. A cut in operating expenses, down by 6% y/y to NIS 1.85bn in Q3, including a decline of 4.4% to NIS 988mn in expenditure on salaries, also contributed. On the other hand, Hapoalim's net interest income was down to NIS 2.2bn in Q3 as compared to NIS 2.28bn a year ago due to narrowing spreads on deposits because of declines in US interest rates and in consumer credit. Hapoalim recorded net credit losses of NIS 193mn in the period against recoveries of NIS 40mn a year earlier.

In Jan-Sep, the net profit collapsed by 53% y/y to NIS 1.14bn though. This was largely the result of a spike in credit loss expenses, which were up to NIS 2.13bn in Jan-Sep as compared to NIS 400mn in the same period a year ago. The lender's lending portfolio was overall stable since the end of 2019 and amounted to NIS 292.8bn at the end of September. Mortgages rose by some 8% since the year started but consumer credit was down by 10% in the same period. Credits to SMEs have declined 0.9% ytd. Tier I capital ratio stood at 11.53% at the end of September, the same as at the end of 2019, leverage ratio was 6.92% against 7.61%, respectively. Liquidity coverage improved to 132% in Jan-Sep from 121% in the entire 2019.

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Fiscal policy should become more targeted to better use resources – IMF

Israel | Nov 19, 16:32

- **IMF recommends fiscal policy to remain looser for now but to launch tax reforms when recovery starts**
- **Monetary policy should remain accommodative but asset quality should be monitored**
- **Structural policies should focus on labour market, limit long-term impacts, promote inclusive recovery**

The fiscal policy should become more targeted to better use the available resources, the IMF said in its concluding statement after Article IV consultations. The Fund advises on a prompt adoption of the 2021 budget (likewise the BoI governor) to help prioritise spending, push the economy to growth, and reduce the uncertainties related to the pandemic. It says that the policy should remain supportive in 2021 and the change to consolidation should be timed carefully because of the uncertainties. At the beginning, the fiscal policy should focus on health spending and gradually add targets like bolstering social protection through active labour market policies, aiding solvent companies, focusing on job-rich and inclusive public investment projects. With the recovery of the economy and the expiry of support measures, the budget deficit will narrow but the government will need to address the accumulated debt and this would be best done through tax reforms to improve progressivity of income taxes and eliminating inefficient incentives and exemptions.

On monetary policy, the IMF recommends it to remain accommodative and sees adequate extending the current set of measures at the backdrop of subdued inflation expectations, output beyond potential and high risks. The institution says local banks have strong capital and profitability positions and substantial capacity to face large and prolonged shocks even after the recent release of capital buffers. Yet, the level of minimum regulatory capital should not be lowered further, and structural buffers should eventually be restored unless other downside risks come into effect. The IMF recommends the authorities to monitor asset quality risks with the winding down of support measures.

The structural policies should mitigate labour market vulnerabilities, limit the potential long-term impact of the pandemic, and promote a more inclusive recovery. It recommends repairing the labour market, expanding digitalisation, reforming education, and boosting investment.

The IMF states that the Israeli economy had strong fundamentals when the crisis came. The pandemic had an unprecedented impact but the authorities responded in a timely and decisive manner to mitigate the adverse impacts. The BoI launched sizeable measures to provide liquidity, prevent a credit crunch, ease the access to credit and other services, prevent interest rates from rising, and ease the pressure on the shekel. Apart from financial measures, it eased the macroprudential and supervisory requirements. On its part, the government launched aid packages reaching as much as 15.25% of GDP, of which 10.25% planned for 2020. However, it managed to strike a balance between supporting the economy and retaining space to respond to future shocks, the IMF also states.

Thus, real output has contracted less than in the other advanced economies so far this year, also helped by the resilient ICT sector. Nevertheless, the adverse impact on the economy will lead to a sizeable GDP decline, double-digit unemployment rate when adding those furloughed and increase in the already high income inequality. The IMF expects the economy to start recovering in 2021 but social distancing to weigh on private consumption. The IMF also says that while the risks from the development of the pandemic remain high, the geopolitical risks have eased somewhat after the recent accords for normalisation with three Arab countries. Yet, those latter risks remain high too.

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CBS consumer confidence continues recovering in H1 of November

Israel | Nov 19, 15:02

- **Value is broadly same as in H2 August, H1 September when recovery after second closure was strongest**
- **Expectations for future situation of household move to positive value again**

The CBS consumer confidence index continued recovering in the first half of November, as it increased to -22 from -26 in H2 of October and the recent low of -32 in H1 of October, according to biweekly data published by the stats office (CBS). In fact, the figure was broadly equal to the readings at the end of August and early September when the recovery reached its peak before the second lockdown was imposed. Components reveal that the improvement has been across-the-board with largest gains marked by intentions for large acquisitions in the coming year and the expectations about the future situation of the household. The latter component even moved to the positive territory after being with a negative value during the crisis. This was the only component with a value above zero in H1 of November, like in the pre-crisis period. We note that the consumer confidence level has been in the negative territory ever since its inception in Mar 2011, which indicates prevailing pessimistic replies.

The improvement in the past 4 weeks should be due to the gradual reopening of the economy as of Oct 18. It appears that the epidemic spread has been relatively contained but there are businesses that are still closed. The positive announcement regarding the development of vaccines and the efforts of the local authorities to secure enough for the residents might have also added some optimism.

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BoI governor again urges for quick approval of 2021 budget

Israel | Nov 19, 08:58

- **No fiscal consolidation will increase debt to GDP ratio to 87% by 2023, Yaron warns**
- **He recommends drafting future policies no earlier than summer of 2021 when uncertainties should be reduced**

BoI governor Amir Yaron again emphasised the importance of quickly approving the budget for 2021 so that the government would be able to better plan their expenses at the backdrop of continuing crisis and avoid the risks of budget restraint. Yaron made the remarks in a speech in front of students from the College of Management

Academic Studies. He also stressed that it was important to keep corona-related expenditures separately while increasing the regular part of the budget in line with the spending limits. We note that there is no budget even for 2020 and spending is based on the 2019 budget, which was approved in early 2019 and this has stalled many important reforms, also bringing difficulties to finance the crisis-related spending. A budget for 2020 should be approved by Dec 23 this year while the budget for 2021 should be passed no later than end-March 2021 and any missing of those deadlines will automatically result in dispersing the Knesset and calling new snap elections.

The governor also said that compliance with budget spending limits and possibly rising the revenue side while maintaining control over the disease will be able to stabilise the debt/GDP ratio and even lead to a contractionary trajectory in a few years. However, maintaining the structural deficit at the level prevailing before the crisis, might have an opposite effect and increase the ratio to 87% of GDP by 2023 (from just below 60% of GDP at the end of 2019). Yaron pointed out that the high post-crisis growth years are the time to make significant structural changes in the economy and boost productivity. Thus, Yaron recommended to the government to consider investing in transport infrastructure, communications infrastructure, improving the regulation and the business environment. He also said that for all this to happen, it is important the government to advance a clear budget framework including precise targets and steps to achieve them, and the necessary accompanying legislation. He also said that in view of the still high uncertainties, it would be better the authorities to focus on the 2021 alone and then proceed with drafting the future policies that will secure debt reduction in the summer of 2021.

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SOUTH AFRICA

HIGH MPC keeps policy rate at 3.5% but decision is close call

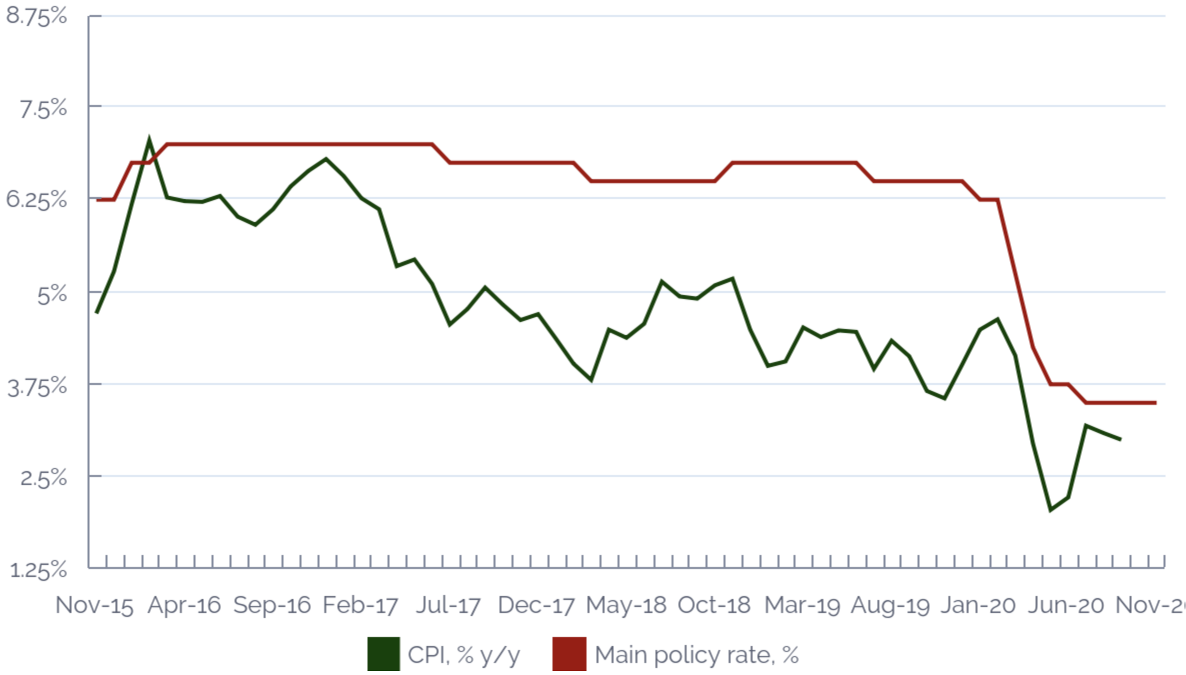
South Africa | Nov 19, 16:06

- **Decision is split again and two members favour 25bps cut**
- **GDP to contract slightly less than previously expected**
- **Weak recovery to keep inflation subdued below mid-point of target range through 2021**

The MPC decided to leave the main policy rate unchanged at 3.5% at the last meeting for 2020, central bank governor Lesetja Kganyago said after the meeting on Thursday (Nov 19). Though the decision was in line with ours and consensus market call, it hinged on only one member as three members supported a hold but the remaining two supported a 25bps cut. The balance of votes was the same when the MPC decided to keep the rate stable in its September meeting as well, despite significantly adjusting its GDP and inflation forecasts to the downside. We remind that the MPC should comprise seven members but has been operating with only five members for the past few years. The SARB acted boldly in support of the economy in the face of the COVID-19 shock and cut the base rate by 300bps so far this year, which is one of the largest adjustments implemented by central banks globally. Still, the split decisions indicate the level of uncertainty for monetary policy makers.

Inflation vs main policy rate (%)

Source | Statistics SA, SARB



The central bank adjusted its 2020 GDP forecast for the better but noted that the situation remains fluid globally. The SARB now projects quarterly growth of 50.3% saa in Q3 and the full-year contraction has eased marginally to 8.0% from 8.2% projected previously. However, the SARB made downside revisions to both 2021 and 2022, expecting even more modest growth of 3.5% and 2.4% in the respective years.

On the inflation front, the adjustments were small but also on the downside. Inflation will average 3.2% in 2020 and will accelerate to 3.9% next year. The SARB said the risks on the inflation in the short-term were to the downside, while medium-term risks were balanced. Electricity and administered prices in general remained the only upside risk, while weak demand and the low pass-through from the exchange rate continued to support the benign outlook. The inflation forecast for 2022 remained unchanged at 4.4%. The inflation the rate will rise close to the mid-point of the target range (3-6%) only in 2022.

The governor noted the appreciation of the rand by 6.9% since the last meeting in September. However, he also said that financing conditions will remain tight and risk aversion towards emerging markets will persist next year, particularly for those economies which fail to grow or run large external imbalances, fiscal deficits and high debt levels, most of which characterize South Africa. The rand is still 8.7% weaker against the dollar since January and remains below its long-run equilibrium.

The MPC said the QPM indicated no further rate cuts in the near term, and two increases of 25bps each in Q3 and Q4 of 2021. For the time being, we expect that the base rate would remain stable through most of next year as moderate economic recovery begins to unfold and the monetary easing implemented so far bears fruit. The tight fiscal position of the government seems to be a constraint for further easing as it risks to make bond rates less attractive.

SARB projections, % change

	Headline inflation	Core inflation	Real GDP	CA/GDP

Jul-20	2020	3.4	3.3	-7.3	-1.6
	2021	4.3	3.9	3.7	-2.6
	2022	4.3	4.1	2.8	-3.1
Sep-20	2020	3.3	3.4	-8.2	-1.0
	2021	4.0	3.7	3.9	-1.9
	2022	4.4	4.0	2.6	-2.2
Nov-20	**2020**	**3.2**	**3.3**	**-8.0**	**0.5**
	2021	**3.9**	**3.4**	**3.5**	**-1.7**
	2022	**4.4**	**4.0**	**2.4**	**-2.1**

Source: MPC Statements

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Union issues ultimatum to SABC to reverse retrenchments

South Africa | Nov 19, 13:37

- **Government cannot afford a bailout for SABC**

The Communication Workers Union issued an ultimatum on Thursday (Nov 19) to the board of public broadcaster SABC to immediately reverse the retrenchment letters sent out to 400 staff members, according to local media reports. The union which represents 900 workers at the public enterprise said workers will walk out on Friday and suspend broadcasts in case the board does not comply. The development follows decision of the board to proceed with a retrenchment process affecting workers as of Dec 1. The board said it faced financial collapse if it did not cut its workforce. The broadcaster reported a loss of ZAR 511mn in the year ending in March and is already projecting a loss of ZAR 1.2bn. However, the government has indicated it would not extend further bailouts. The board is due to discuss the issue at a meeting today. The SABC is one of the loss-making public enterprises which has received government funding worth ZAR 3.2bn in 2019/20 but was not allocated further amounts beyond that.

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Treasury opposes EFF’s proposal for SARB nationalization

South Africa | Nov 19, 11:30

- **Treasury objects to the constitutionality of the expropriation of private property without compensation**
- **Finance minister has sole prerogative to submit money bills**
- **Bill is unlikely to get support from ANC as it stands**

The Treasury is opposed to the South African Reserve Bank Amendment Bill proposed by opposition party EFF, finance minister Tito Mboweni said in a submission to parliament. The bill was submitted two years ago and the parliament started to process it earlier this year. It has requested stakeholders and interested parties to comment on the draft legislation which aims to make the state the bank's single shareholder and disallow private shareholders, including foreigners to participate in the SARB's capital. The draft bill proposes that the shares of 802 private shareholders, including persons living in Germany, Switzerland, Australia and other countries, be expropriated without compensation in the public interest.

The Treasury objected on several grounds, including its constitutionality with a view to the expropriation of private property, the lack of detail regarding cost implications for the state which could be considerable as well as potential litigation on the part of affected shareholders abroad, and the legal and economic uncertainty the bill would create. The Treasury also noted that the bill should be defined as a money bill which is the prerogative of the finance minister. The Treasury said the bill will send negative signals. It lacked a transparent public consultation process and an agreement on fair value and market share price.

It is unlikely that the bill would secure the support of the ANC majority in parliament. The ANC has resolved to nationalize the central bank at its 2017 national conference. However, the government has said it was not a priority for the time being considering its cost implications. In addition, the Treasury and the SARB are also strongly opposed to the nationalization arguing it would dent the perception of the SARB's independence. We remind that the ANC did not support the land expropriation bill proposed by the EFF but opted to submit its own legislation, which could also be expected in this case should the party decide to proceed with the objective to nationalize the SARB.

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Investment conference secures new ZAR 109.6bn commitments

South Africa | Nov 19, 10:41

- **Outcome exceeds expectations of the government and total investments reach 64.5% of target**

South Africa's third investment conference secured new pledges worth ZAR 109.6bn, reaching a total of ZAR 773.6bn and comprising 64.5% of the total target of ZAR 1.2tn announced by president Cyril Ramaphosa in 2018. The government previously said it would focus on consolidating the ZAR 664bn investment pledges made by investors in the preceding two conferences and the outcome exceeded expectations. More than 50 companies came forward with new pledges.

The president also said that ZAR 127bn out of the previously committed funds had already been invested, with the greatest flow of investments attracted in the mining and mineral beneficiation (ZAR 63.6bn), the ICT sector (ZAR 31bn) and automotive (ZAR 23bn). The largest single investment was announced by mining company Anglo American, which increased its commitment by ZAR 15bn to ZAR 100bn in the years to 2025. Other investments include the ZAR 5.5bn expansion of production capacity of Pioneer Foods announced by Pepsico and Google's ZAR 2.2bn investment in a fiber optics submarine cable in the Western Cape.

This year, the government expects economic contraction of 7.8% and the coronavirus pandemic has destroyed more than 2.2 million jobs. The government expects a reduction in foreign investment flows due to the pandemic. According to the latest BoP data, foreign investment inflows declined to ZAR 17.4bn in Q2 from ZAR 29bn in Q1. FDIs were already declining in 2019 to ZAR 66.8bn from ZAR 72.1bn in the preceding year.

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ALBANIA

Cabinet opens tender for 100MW solar park construction in Durres

Albania | Nov 19, 17:18

- **Bidders can apply until Feb 1**
- **Price ceiling set at EUR 44 per 1MW**

The government announced the opening of a tender for the construction, maintenance and operation of a 100MW photovoltaic plant in Spitalle, next to the port city of Durres, local media reported. Bidders can apply until Feb 1 at latest, and the government expects to sign the contract with the winner in early April, according to energy minister Belinda Balluku. The construction of the solar park is scheduled to start in the summer. The price ceiling is set at EUR 55 per 1MW, Balluku added.

We note that earlier in July, the cabinet signed a contract for the construction of a 140MW solar park in Karavasta coastal area in the region of Fier with French company Voltalia. The diversification of plants is necessary, as Albania relies mostly on electricity production from hydropower plants (HPPs) and is vulnerable to climate conditions changeability.

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Albgaz launches tender for TAP maintenance

Albania | Nov 19, 08:50

- **Bidders to provide maintenance services to TAP pipeline have to apply for tender by Dec 28**
- **Maintenance services' cost should not exceed ALL 420mn**

Albania's gas operator Albgaz opened a tender for subcontractor services for the maintenance of the Albania's section of the Trans Adriatic Pipeline (TAP), local media reported. Bidders can apply until Dec 28. The price ceiling for the maintenance services was set at ALL 420mn (EUR 3.4mn), excluding the VAT costs, Albgaz announced.

The company which wins the tender will have to provide the maintenance services for 36 months (three years) once the contract is signed. The services include engineering works for repair, rehabilitation and restoration of the TAP infrastructure.

The TAP consortium announced the start of commercial operations on Nov 15. The TAP system has maximum capacity to transfer 20bcm per year. The project is very important in strategic terms, as it enabled a new energy route, transporting natural gas from the Shah Deniz field in the Azerbaijan sector of the Caspian Sea to Europe. TAP pipeline, 878km long, is part of the Southern Gas Corridor, including also the South Caucasus Pipeline across Azerbaijan and Georgia, as well as the Trans Anatolian Pipeline (TANAP). TAP will connect with TANAP at Greece's border with Turkey and will stretch across Greece, Albania, the Adriatic Sea and reach Italy's gas network.

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ARMENIA

HIGH IMF staff complete third review under SBA, to disburse SDR 25.7mn

Armenia | Nov 19, 08:46

- **GDP to contract by 7% in 2020**

IMF commends fiscal sustainability

An IMF team reached a staff-level agreement with the authorities for the completion of the third review under the stand-by arrangement (SBA), the IMF said in a press release on Nov 18. Armenia will receive SDR 25.7mn (around USD 37mn) as budgetary support, after an IMF board meeting. Real GDP is now expected to decline by over 7% in 2020, while growth is projected to remain modest in 2021 and then pick up, as the economy gradually adapts to, and moves past, the impact of COVID-19 and the recent military confrontation shocks, the IMF said. As recovery gains momentum, it will be essential to unwind the remaining temporary support measures, the fund said.

Lower revenues and higher spending on healthcare, socioeconomic support, and security will significantly raise the fiscal deficit and public debt in 2020, according to the fund. The fiscal deficit in 2020 is expected to widen to AMD 430bn (7% of GDP) before narrowing to AMD 355bn (5.5% of GDP) next year. The budget will be financed by mobilising resources from domestic and external sources. Government debt is expected to exceed 60% of GDP in 2020 and rise to around 69% in 2021. The IMF staff welcomed the authorities' strong commitment to fiscal sustainability, guided by their fiscal rule, despite the pressures they are facing. To this end, the authorities will intensify revenue mobilisation efforts, undertaking tax policy and administration measures, while containing current spending and safeguarding priority spending. As a result, central government debt is expected to gradually decline over the medium term and fall below 60% of GDP by 2026.

The IMF added that current accommodative monetary policy stance of the CBA was appropriate and helped ensure adequate liquidity in the banking system, and support domestic credit. The CBA should monitor developments carefully and stand ready to adjust the monetary stance as necessary, while allowing the exchange rate to be a shock absorber. The financial system shows no signs of stress, but the full impact of the twin shocks is not yet evident, the fund warned. At the time of the second review last May, the board approved the authorities' request to augment access by 100% of quota (SDR 129mn or about USD 175mn), bringing overall access under the arrangement to SDR 309mn (around 240% quota). The completion of the review made immediately available SDR 206mn (about USD 280mn) to authorities.

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AZERBAIJAN

HIGH Authorities extend coronavirus lockdown until Dec 28

Azerbaijan | Nov 19, 14:34

- **Non-essential businesses to be closed on weekends**
- **Masks become mandatory in all public spaces**

Authorities have extended the special quarantine regime due to COVID-19 until Dec 28, Interfax.az reported today. Also authorities recommend companies to retain 30% of their workforce in the office while the rest of the employees work from home. Non-essential businesses nationwide will also be closed during weekends as will public transportation services. The tight restrictions, imposed in a dozen cities in October, including local lockdowns, will remain in place until Dec 7, authorities decided. Also, masks will be mandatory in all indoor and outdoor public places from Nov 21. Azerbaijan is reporting a new peak in daily infection cases over the past week, with the total number reaching 83,994 today. The total number of COVID-19 related deaths is reported at 1,053 since the start of the pandemic. The special quarantine regime was first enforced in March, together with tight containment measures, which were eased during the summer.

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BELARUS

President replaces interior ministry officials in reshuffle

Belarus | Nov 19, 17:27

- **New appointees signal readiness to toughen treatment of the protest movement**
- **Significant political developments likely once constitutional reform plans are announced**

Today President Lukashenko replaced multiple interior ministry officials in the latest political reshuffle. Interior minister Karayev's new first deputy is Yury Nazarenko, who was a deputy previously. He subsequently said the president had instructed law enforcement to restore order in the country and stated all necessary means will be employed. In addition, the organised crime unit's former chief, Nikolay Karpenkov, has been promoted to deputy interior minister. He recently claimed police officers could 'humanely' open fire on protesters in order to disperse demonstrations.

Lukashenko himself explained the reshuffle with an increased focus on public order. He has said opposition marches should be 'dealt with' over the next couple of weeks, though similar statements in the past did not result in specific actions. Overall, the regime's stance towards the protest movement remains tough despite pressure from the international community. At the same time, the opposition's initiatives have so far failed to produce notable political developments. This stalemate will likely persist at least until the government progresses with its constitutional reform plans. There is no specific timeline, but it is expected to announce amendment ideas early next year.

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HIGH EU agrees to include corporate entities in third sanctions package

Belarus | Nov 19, 17:00

- **Concrete measures yet to be worked out, companies will likely be targeted by asset freezes**
- **US also takes steps to expand sanctions, domestic opposition calls for joint Russia-EU crisis resolution strategy**
- **Moscow unlikely to turn on regime, foreign minister Lavrov to visit Minsk next week**

Today the EU agreed to introduce a third round of sanctions against Belarus in response to the persisting political deadlock and repressions. According to Josep Borrell, who is the Union's High Representative for Foreign Affairs, the next sanctions package could feature more officials as well as economic entities that finance the regime. Brussels has not indicated specific plans regarding measures targeted at companies. Asset freezes are a likely option, in line with the EU's past sanctions approach towards Belarus. A possible embargo appears radical at this point, but discussions are yet to be had over the next weeks.

At the same time, the US House of Representatives adopted a bill allowing the president to expand sanctions against Belarus. If approved by the Senate, it will set up provisions to target Russian or Belarusian citizens deemed responsible for election rigging and human rights abuse. It will also allow for support of exiled opposition members. The opposition in Belarus meanwhile urged the EU and Russia to establish a joint mission aimed at managing the ongoing political crisis. Moscow's participation is crucial to any meaningful resolution strategy, but it currently remains supportive of the regime.

In general, Russia has repeatedly stated it does not intend to engage with the Belarusian opposition. It has reacted to today's developments by announcing foreign minister Lavrov will visit Minsk next week. At this point it seems unlikely that Moscow will turn on President Lukashenko given its financial commitment to the regime and statements in favour of planned constitutional reform in Belarus. The local authorities have firmly condemned the international community's sanctions policy, complaining of political bias and lack of understanding. This week the Belarusian foreign ministry said retaliation will follow if the EU toughens its approach. Apart from suspension of joint projects, this could include rerouting trade flows away from European ports.

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BOSNIA-HERZEGOVINA

FBiH government to allocate KM 6mn to four airports affected by pandemic

Bosnia-Herzegovina | Nov 19, 16:39

- **Sarajevo International Airport to get the bulk of funds**

The FBiH government decided today to allocate KM 6mn to four airports in the entity whose operation was affected by the COVID-19 pandemic, according to a press release. The financial assistance aims at preserving jobs, securing liquidity, completing projects for modernisation of airports and preserving competitiveness. The Sarajevo International Airport will get KM 3.5mn, international airport Tuzla - KM 1mn, international airport Mostar - KM 1mn and airport Bihac - KM 500,000.

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PRESS Press Mood of the Day

Bosnia-Herzegovina | Nov 19, 08:46

Newly elected mayor of Banja Luka Drasko Stanivukovic: SNSD leader Dodik is afraid of me because he can't buy me (Dnevni Avaz)

Major protests after murder committed by migrants (Dnevni Avaz)

Dodik to become Chairman of BiH presidency on Friday (Nezavisne Novine)

Government of Sarajevo Canton collapses (Nezavisne Novine)

Sarajevo airport ends agreement with FlyBosnia (Nezavisne Novine)

New talks on electricity price hike to be held next week (Nezavisne Novine)

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RS power utility, businessmen fail to agree on electricity price hike

Bosnia-Herzegovina | Nov 19, 08:28

- **Elektroprivreda RS wants to hike electricity prices for largest consumers by 7%**

Representatives of the public power utility Elektroprivreda RS, the Union of Employers' Associations of RS and the Chamber of Commerce and Industry of RS failed to reach an agreement on Nov 18 on a possible increase of electricity prices by 7% for about 2,000 of the largest consumers in the entity. Talks will continue on Wednesday, Sasa Trivic, President of the Union of Employers' Associations, told the daily Nezavisne Novine. Electricity prices for the economy and the largest consumers were supposed to be hiked last year, but the increase was delayed upon request of businessmen by a year, the media reminded. Businessmen and employers have warned that a hike would be a serious blow to the economy amid the coronavirus pandemic. Prices for households remain unchanged.

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BULGARIA

MPs approve VAT cut for home food deliveries to 9%

Bulgaria | Nov 19, 17:16

- **Budget losses from measure estimated at BGN 15mn**
- **VAT cuts to remain in force until end of 2021**

The parliament approved the proposed new VAT cut for restaurants' food deliveries to home from the standard 20% rate to 9%, after it already introduced such reduction for the food served in the restaurants as of mid-2020, local media reported. Preliminary calculations, quoted by the media, showed that the budget losses from the new VAT cut for home deliveries of food will amount to BGN 15mn. We note that supermarkets also demanded a VAT rate cut for their cooked foods, but none of the parties submitted such a proposal.

The other goods which have benefited from lowered VAT rate since mid-2020 are hotel services, wine and beer, tour operators, baby goods, books, fitness, ski and other sports facilities. The tax relief will be in force until the end of 2021. Opposition BSP proposed the VAT cut to apply for medicines, but ruling GERB MPs voted against the proposal.

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Bulgaria to receive EUR 413mn under REACT-EU programme in 2021

Bulgaria | Nov 19, 08:36

- **Funds to be used to support jobs, online education, green projects and credits for SMEs**

Bulgaria will receive EUR 413mn under REACT-EU, the EU's new instrument to help the recovery from the COVID-19 crisis, in 2021, local media reported. The amount of the funds was clarified after the EU's Council and the European Parliament agreed on EUR 47.5bn budget in total for the programme. The larger part of the total budget, or EUR 37.5bn, will be allocated to the EU member states in 2021, and the remaining EUR 10bn in 2022.

Accordingly, we expect Bulgaria to receive a much lower amount under the scheme in 2022 compared to 2021.

The funds will be used for temporary programmes to support jobs, online education, improving teachers' digital skills, green projects and credits for small- and medium-sized enterprises (SMEs). The states, including Bulgaria, will be able to apply for 100% funding from the EU. Rules on transferring of funds between different programmes and projects will be flexible as well.

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Bulgaria not to be subject to in-depth analysis for economic imbalances – EC

Bulgaria | Nov 19, 08:34

- **Main risks from COVID-19 crisis related to expected increases in corporate debt-to-GDP ratio and in non-performing loans (NPLs)**

The EC will not subject Bulgaria to an in-depth analysis under the Macroeconomic Imbalances Procedure (MIP) after its conclusions from Feb 2020 that Bulgaria no longer experienced imbalances, the EC said in its latest Alert Mechanism report. The COVID-19 crisis will result in an increase in the corporate debt-to-GDP ratio and in the non-performing loans (NPLs), but at present the EC does not consider it necessary to deepen the analysis on Bulgaria, it said. Still, it pointed out that corporate debt is above the fundamental benchmark, although it is still below the prudential benchmark.

The main recent developments in Bulgaria were related to the strong decrease in tourism revenues, which will narrow the current account surplus in 2020. The net international investment position (NIIP), mostly consisting of FDI, will continue its improving trend, while the expected deceleration in wage growth should alleviate the cost competitiveness pressures on the companies, the EC said. The EC expected lending activity to decelerate in 2020, as well as real house price growth to ease due to the COVID-19 crisis.

Government debt will remain lower than 30% of GDP in 2020 despite the higher budget expenditure due to COVID-19, the EC noted. It considered Bulgaria's financial sector profitable, stable and well-capitalised.

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Main risk from COVID-19 related to reversal of asset quality improvement – BNB

Bulgaria | Nov 19, 08:30

- **Banks face pressure from higher loan provisioning, pressure on margins and weakening loan demand, BNB deputy governor Milenkov says**

Bulgaria's banking sector entered the COVID-19 crisis in a good financial health, but the main risk from the pandemic is that it could reverse the improving asset quality trend, Radoslav Milenkov, deputy governor of the Bulgarian National Bank (BNB) and member of the ECB's supervisory board, said in an ECB's publication. Banks will also have to withstand pressure from higher loan provisioning, pressure on margins and weak credit demand, Milenkov added. Nevertheless, he believed that the banking system is stable due to its high capital position and the ample liquidity based on the stable deposit-based funding structure of the banks. Another risk remained related to the non-performing loans (NPLs), although their share has declined significantly in the past years, Milenkov said. The NPLs will stay subject to intense supervisory focus, he noted.

Despite the pandemic, Milenkov expected the banking consolidation trend in Bulgaria to continue, noting that narrower profits, increased compliance and IT costs, were the main factors that have driven the banking consolidation so far. Economies of scale are seen as the solution, although some mergers might be delayed due to the crisis, he added. The BNB is supportive of the banking consolidation as far as it helps banks to build up sustainable business models and enhance capacity to respond to regulatory requirements, he said.

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PRESS Press Mood of the Day

Bulgaria | Nov 19, 08:27

New children's tax relief to cost budget almost BGN 300mn (Capital Daily)

Bulgargaz sells 22% less natural gas [y/y] in Jan-Sep 2021 (Capital Daily)

New black record - over 4,800 newly infected people per day (Sega)

Citizens gather to protest against chief prosecutor (Sega)

Bulgaria ranks third in mortality from COVID-19 in the world (24 Chasa)

Government expects BGN 2bn for modernisation of railway transport from EU funds over the next ten years (Trud)

Forecast: Tourists not to return to Bulgaria until summer of 2023 (Monitor)

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CROATIA

Croatia to reach pre-crisis economic activity after end-2022 – finance minister

Croatia | Nov 19, 18:31

- **Finance minister rejects opposition's accusations for overly optimistic budget**
- **Croatia to place USD 1.5bn bond in March 2021 and HRK 6bn bond in July 2021**

Croatia will not return to the pre-crisis economic activity level before the end of 2022, finance minister Zdravko Maric said, quoted by local media. Given the pandemic and the economic downturn, everyone is budgetary loser, Maric answered to a media question. At present, he assessed the upcoming period as better than what Croatia had with the previous crisis, but efforts for recovery will be necessary. Maric rejected opposition's accusations that the budget bill for 2021 will have to be revised next year, as it was too optimistic. The government has tried to forecast as many scenarios as possible, but the situation could go either better or worse, he noted.

Maric reiterated that the government projected an 8% GDP contraction in 2020 and it was not an optimistic forecast. The cabinet expects a 5% GDP increase for 2021, but its realisation will depend on multiple factors, such as vaccines, epidemiological spread and other measures and activities on domestic scale. He also noted that EU funds will be considered as a potential substitute for some public expenditures next year. In regards to borrowing, Maric said that the total new debt could reach up to HRK 33.9bn at most, according to the budget framework. He said that USD 1.5bn Eurobond was planned to take place in Mar 2021, and another HRK 6bn bond will be issued in July 2021.

Earlier on Nov 19, PM Andrej Plenkovic presented the government's 2021 state budget bill in front of the parliament, defending it as supportive for economic recovery, citizens and economy. He reiterated that revenues were planned to reach HRK 147.3bn and expenditures - HRK 157.9bn. Out of these, the government will spend HRK 2.4bn in 2021 for reconstruction activities after the earthquake in March 2020, as well as HRK 4.2bn for the same purpose in 2022. The government also planned to help the people most in need, such as carer parents, people with disabilities, seniors, as well as increase parental leave rights.

Plenkovic highlighted that budget deficit should not exceed 3% of GDP in 2021 and promised efforts to reduce public debt in the next few years.

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Government pushes Enforcement Act changes in order to implement them on Dec 1

Croatia | Nov 19, 17:08

- **Amendments aim to reduce enforcement costs and digitalise enforcement procedures**

The government sent the amendments to the Enforcement Act to the parliament for a fast-track procedure, which should allow them to enter into force as of Dec 1, justice ministry state secretary Josip Salapic said, quoted by the media. The amendments aim to reduce enforcement costs, for instance, Salapic said. He explained that at present the cost of enforcement of HRK 100 is HRK 800, but the amendments should lead to a reduction of the cost to HRK 350, as the enforcement certificate worth HRK 250 will no longer be required. The bill will protect debtors' dignity and the rule of law, Salapic added.

The amendments also aim to introduce electronic communication between parties participating in the enforcement procedure and will make public notaries act as court commissioners in the procedure. Public notaries will notify debtors that they could pay their debts within 15 days, and if they do so, they will not pay cost to the enforcement procedure.

Another change is that evictions will not be carried out between Nov 1 and Apr 1, and the amount of the principal for which the foreclosure on a property cannot be initiated will be upped from HRK 20,000 to HRK 40,000. Christmas and Easter bonuses, holiday cash grants and other financial bonuses will be excluded from the type of income which can be enforced, as well.

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PRESS Press Mood of the Day

Croatia | Nov 19, 08:18

Telemach Croatia to invest EUR 230mn in fixed and 5G networks in five years (Vecernji List)

Dr. Petra Klepac, Member of the Government Council: Only one country in Europe has milder anti-epidemic measures than Croatia (Vecernji List)

U.S. Lockheed Martin offer jobs for six Croatian companies in exchange for F-16 jet fighters order, sting French bidder (Poslovni Dnevnik)

New black record: More than 3,200 newly infected people with COVID-19, 38 people die (Poslovni Dnevnik)

Economic reforms: out of the planned 75 in total, the Croatian government implemented only seven measures (Jutarnji List)

Not everyone is hit down by COVID-19 crisis: web sales have brought real money to publishers! "Traffic was twice as high!", publishers were delighted (Slobodna Dalmacija)

In Croatia 3,251 new COVID-19 cases, another 38 people died. (Novi List)

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GEORGIA

Key opposition party UNM to stay away from run-offs on Nov 21

Georgia | Nov 19, 18:06

- **Ruling GDDG not conceding to opposition's demand for new election**
- **Opposition's plan to boycott parliament will likely result in a prolonged crisis**

The main opposition party, United National Movement (UNM), has announced it was not taking part in the run-offs in the first-past-the-post districts, scheduled for Nov 21, Civil.ge reported today. The UNM is leading the united opposition, which is protesting the Oct 31 election results, claiming the vote was rigged and demanding new elections. The ruling Georgian Dream-Democratic Georgia (GDDG), which won 48% of the proportional votes, is not conceding to the united opposition and instead is urging all elected parties to enter parliament via the mandates given to them by the electorate. International partners have called on political parties to resolve the impasse. The united opposition and the GDDG are at the same time holding talks via the mediation of the US ambassador, though for now no breakthrough has been achieved. The united opposition seems determined to boycott the next legislature and is looking to sabotage its convocation via procedural methods. This strategy paves the way for a prolonged deadlock with an uncertain outcome and a parliamentarian crisis. On Nov 21, 17 out of 30 majoritarian constituencies will have a second round of voting. According to the latest electoral code changes, the Georgian parliament will comprise 120 proportionally-elected MPs and 30 first-past-the post MPs.

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KEY STAT Unemployment down to 11.9% in Q3 2020

Georgia | Nov 19, 18:04

- **Both employed and jobless numbers decline q/q, pointing to growing informal sector**

Unemployment rate declined to 11.9% in Q3 2020 from 12.3% in Q2, the latest figures from Geostat show today. For comparison, jobless rate was lower at 11.1% in Q3 2019. The number of unemployed persons shrank q/q for the first time since Q4 2019, though this did not materialise in an increase in new hires or self-employed persons. The data point to a stagnant labour market during the COVID-19 crisis, as well as a growing grey economy, in our view.

Unemployment rate

Source | Geostat

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KAZAKHSTAN

Almost 50% of citizens are against COVID-19 vaccines - poll

Kazakhstan | Nov 19, 14:40

- **Majority opposed to vaccines, 33% would consider it after clinical trials**
- **Respondents generally support quarantine restrictions, but expect greater financial support from government**
- **Authorities want to avoid third lockdown, epidemic situation still manageable at present**

Almost 50% of Kazakhstan's citizens are opposed to getting COVID-19 vaccines, a survey conducted by local pollster Demoscope shows. Thus, 21% of respondents said they are against the vaccines due to associated health risks and 24% prefer to rely on their own immune system. Conversely, only 14% expressed readiness to get the vaccine as soon as possible, while 33% of respondents stated they are not willing to do it now, but would consider a vaccine if it has passed all trials.

In August, Kazakhstan signed an agreement with Russia to acquire its COVID-19 vaccine after clinical trials. At the time health minister Tsoy stated at-risk citizens would be vaccinated for free if they choose so. Demoscope's current survey shows 31% of respondents deem the Russian vaccine safe, followed closely by domestically produced vaccines undergoing trials (26%). Meanwhile, the majority of people (73%) are in favour of quarantine restrictions, but 50% said the government should do more to help those affected by unemployment. Such plans were being considered by the labour ministry as part of its response to the second wave, but no specific steps have been announced or taken yet.

The current epidemic situation in Kazakhstan is relatively stable. The spread of new COVID-19 infections gravitates around 700 cases daily. Pneumonias with coronavirus symptoms increase at an unstable rate, varying from 20 to 200 cases per day. In general, the Kazakh authorities aim to avoid a third lockdown regime, though some regions have opted to tighten quarantine regimes locally. The government previously announced it will respond with an anti-crisis package in case of severe economic deterioration, but no details have been made public so far.

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Inflation expectations rise to 7.3% in October

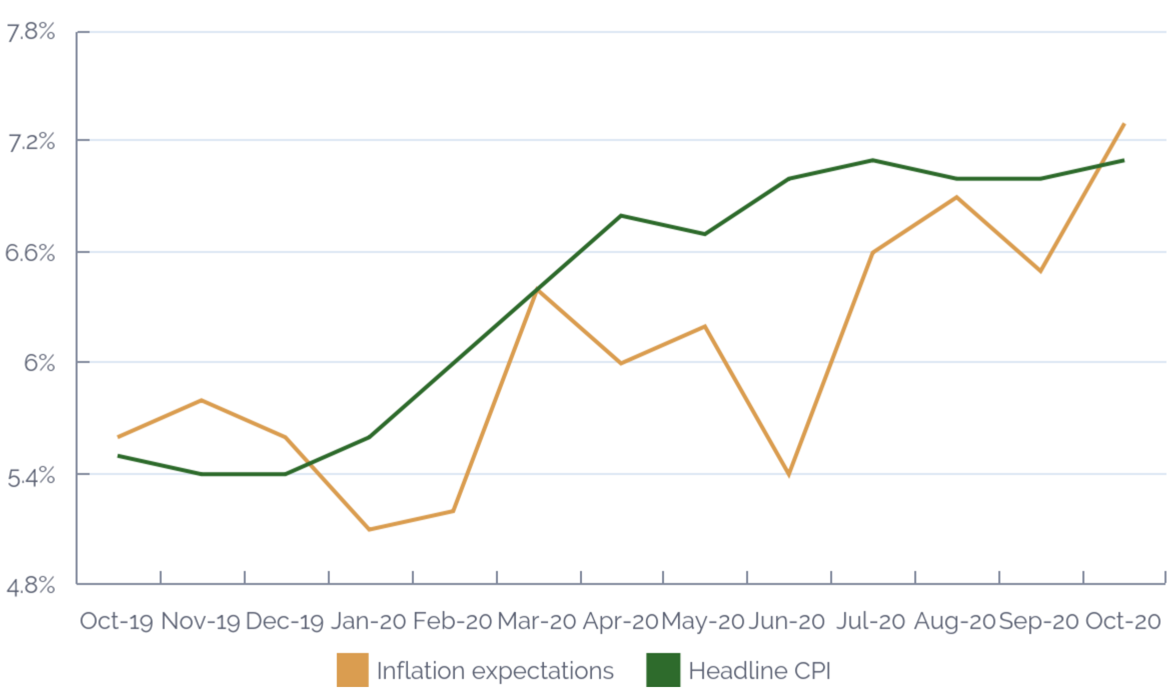
Kazakhstan | Nov 19, 08:29

- **Share of respondents predicting higher price growth increases, result expected due to high food inflation**
- **NBK says result implies risks alongside economic uncertainty, domestic pressure could still result in rate cut**

Expectations of households about inflation in the next 12 months rose to 7.3% in October after 6.5% in September, according to NBK's regular poll. This outcome is higher than the actual CPI rate over the month (7.1% y/y) and reflects a larger share of respondents expecting higher price growth (23%). The number of people who predicted unchanged or lower inflation conversely fell to 27% and 13%, respectively. Overall, the result is not surprising given inflationary pressures in the food segment, to which households are especially sensitive.

Inflation and inflation expectations (% y/y)

Source | NBK



Meanwhile, the outlook on Kazakhstan's economic development remains relatively stable. The share of respondents who expressed optimism edged down slightly (from 27% to 25%), though sentiments were otherwise comparable to the September data. The NBK commented the October result confirms risks stemming from the poorly anchored inflation expectations and general economic uncertainty. This will factor into the next rate-setting decision scheduled for Dec 14, potentially swaying the central bank towards an on-hold decision. Previous statements signalled a rate cut will be considered if CPI levels stays below the 8% target rate and external conditions do not deteriorate drastically. The NBK could still prioritise domestic pressures for monetary easing as a decisive incentive if pandemic risks remain broadly manageable in the short term.

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IMF concludes visit, advises curbing state footprint in economy

Kazakhstan | Nov 19, 08:28

- **Mission praises official anti-crisis policies, urges reduced state involvement after the pandemic**
- **Fiscal consolidation seen as medium-term priority, greater NBK independence and improved transmission to benefit monetary policy**
- **IMF recommends continuation of structural reforms to encourage private sector development**
- **GDP expected to fall by 2.7% in 2020, non-oil fiscal balance forecast at -9.9% of GDP**

An IMF staff team concluded a visit to Kazakhstan on Nov 18, issuing a statement focused on economic developments, risks, and policy options. The mission praised the authorities' anti-crisis response for maintaining corporate lending, supporting SMEs, and mitigating pressures on the banking system. The statement notes risks persist due to the pandemic's escalation, with subsequent implications for oil prices and global trade. While fiscal stimuli may need to be expanded in the short term, the IMF generally advises reducing state involvement in the economy in favour of market-led recovery. It expects GDP to decline by 2.7% this year, whereas the non-oil fiscal balance is projected at -9.9% of GDP.

With regard to monetary policy, the mission commends NBK's commitment to a floating exchange rate and inflation targeting. In order to improve policy results further, it recommends increasing central bank independence as well as working on monetary policy transmission, anchoring households' inflation expectations in the process. Second-tier banks are urged to focus on restoring capital and liquidity buffers, with an additional commitment to policy recommendations devised after the asset quality review.

Fiscal consolidation is identified as a medium-term priority for the government. The IMF sees property taxation, VAT improvements, and progressive income tax as potential means of increasing non-oil revenues. In order to encourage sustainable growth, it calls for continued progress with structural reform plans. Specifically, it outlines privatisation, digitisation, and green projects as areas that entail opportunities for job creation and economic growth. In general, the IMF retains a positive outlook on official efforts to preserve macro stability and consolidate institutional capacity in Kazakhstan. Its primary recommendation concerns encouraging private sector development by reducing the state's role in financing the economy, which would also address current structural constraints on growth.

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MONTENEGRO

EU’s Varhelyi says new cabinet should focus on rule of law, economic recovery

Montenegro | Nov 19, 22:44

- **He calls for smooth power transition that will pave the way for progress in EU accession process**

The new government should focus on accelerating reforms, especially those related to the rule of law and the socio-economic recovery from the coronavirus (COVID-19) crisis, EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations Oliver Varhelyi said on Thursday. He noted that Montenegro was the hardest hit economy by the coronavirus crisis in the region due to its heavy dependence on the tourism industry. He said that according to recent estimates, the economy is set to contract by around 20% this year due to the COVID-19 pandemic and the collapse of the summer tourist season. He added that the country is currently in a state of power transition and that a smooth power transition will pave the way for further progress in the EU accession process.

Varhelyi also noted that for the first time in Montenegro's history there is a different government formation option, referring to the non-participation of the long-time ruling DPS in the proposed future cabinet. He commented that PM-designate Zdravko Krivokapic has proposed an expert cabinet, consisting of young professionals with little political experience. Varhelyi concluded that the EU will continue to support Montenegro both on the EU accession path and on the path of recovery from the consequences of the coronavirus pandemic.

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Ruling DPS to hold extraordinary party congress on Jan 23

Montenegro | Nov 19, 13:47

- **Party to reportedly elect three deputy leaders, currently it has only one deputy leader**

The ruling DPS, which will go into opposition after the formation of PM-designate Zdravko Krivokapic's government, will hold an extraordinary party congress on Jan 23, DPS spokesman Milos Nikolic said on Twitter. The party's leadership decided to hold the congress next year due to the deteriorating epidemiological situation in the country, Nikolic said. He added that the congress will be held online in 25 locations across the country.

The local portal Cafe del Montenegro reported on Thursday that the congress will elect three deputy party leaders. We note that the party currently has only one deputy leader. The congress will also elect 168 members of the party's main committee, a chairman and four members of its statutory committee and a chairman and two members of its supervisory committee. Nikolic said that the main priorities of DPS will remain protecting Montenegro's sovereignty, encouraging civic nationalism, fostering multi-ethnic democracy and making progress towards EU integration.

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China to grant EUR 7mn for reconstruction of Djurdjevica bridge on Tara river

Montenegro | Nov 19, 13:45

- **Reconstruction of bridge, a popular tourist attraction, should be completed by end-2021**

The Chinese government will grant CNY 55mn (EUR 7mn) to Montenegro for the reconstruction of the Djurdjevica bridge on the Tara river, China Radio International reported. The Montenegrin government confirmed that it will accept the Chinese grant for the implementation of the project and has authorized Transport Minister Osman Nurkovic to sign the agreement for the grant. The cabinet said that the reconstruction of the bridge should be completed by the end of next year. The plan envisages a revamp of the bridge that will ensure its functionality and safety and protect the recognized cultural value of the bridge, as well as the surrounding environment, the government said.

The Djurdjevica bridge is located in northern Montenegro above the canyon of the Tara river and is a popular tourist and architectural attraction in the country. The bridge was built between 1938-40 and is the second highest in Montenegro. The Chinese side has also agreed to provide administrative staff, engineers, technical staff and workers to take part in the reconstruction project. We note that China is an important investor in Montenegro with the China Road and Bridge Corporation (CRBC) being responsible for the major Bar-Boljare highway project.

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Q&A Eurobond issuance

Montenegro | Nov 19, 10:44

Question:

Do you have an estimation for 2021 Eurobond issuances for Macedonia, Montenegro, Iraq, Jordan, Lebanon, Armenia, Azerbaijan, Belarus, Georgia, Tajikistan and Uzbekistan?

Answer:

We do not have information about Montenegro yet as power transition is still taking place in the country and the government has not yet drafted a state budget for 2021.

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New home prices decline by sharper 21.9% y/y in Q3

Montenegro | Nov 19, 09:59

- **Decline deepens mainly on sharper drop in new home prices in central, northern regions**
- **Average price of new homes stood at EUR 876/m2 in Q3, down from EUR 1,000/m2 in Q2**
- **Decline in Q3 may be related to higher share of solidarity housing development dwellings**

The average price of dwellings in new residential buildings fell by sharper 21.9% y/y in Q3 compared to 17.1% y/y decline in Q2, according to the latest data from Monstat. In quarterly terms, the average price declined by 12.4% in Q3 after growing by 6.4% q/q in the previous quarter. The average price of new dwellings in residential buildings stood at EUR 876/m2 in Q3, down from EUR 1,000/m2 in Q2 and below EUR 1,122/m2 in Q3 2019. We note that the average price of dwellings in new residential buildings stood above EUR 1,000/m2 from Q4 2016 until Q4 2019. The sharpest drop (22.0% y/y) was recorded in the central region, which includes the second largest town of Niksic, the old capital Cetinje and Danilovgrad, and the decline deepened from 1.2% y/y in Q2. The price of homes in new buildings in the northern region also declined by sharper 10.8% y/y in Q3 compared to 4.0% y/y decline in the previous quarter. On the other hand, the price of dwellings in new buildings increased on annual basis in Podgorica and the tourism-heavy coastal region in Q3 after declining in the double-digits in the previous quarter.

Monstat changed its methodology for presenting the data in 2018, which now includes data from four main regions in the country, including the capital Podgorica, the coastal region, the central region and the northern region. The highest average price of new homes was recorded in the coastal region (EUR 1,414/m2) and the lowest average prices of new homes (EUR 515/m2) was recorded in the central region. The price differences also depend on the share of solidarity housing development dwellings. If the share of this type of dwellings is higher, the average price of new dwellings is lower and if their share is lower, the average price is higher. We believe that the sharper decline in the average price of dwellings in new residential buildings in the central and northern regions was related to the higher share of solidarity housing dwellings. We note that the global coronavirus (COVID-19) crisis has also affected negatively the real estate sector and the virus-related uncertainties have discouraged property buying.

New home prices, EUR/m2

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	y/y
Total	**1,122**	**1,135**	**940**	**1,000**	**876**	**-21.9%**
Podgorica	1,082	1,086	865	974	1,100	1.7%
Coastal Region	1,365	1,451	1,363	1,229	1,414	3.6%
Central Region	660	694	641	669	515	-22.0%
Northern Region	676	764	793	845	603	-10.8%

Source: Monstat

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Institute of Public Health calls for stricter COVID-19 containment measures

Montenegro | Nov 19, 08:09

- **Institute's deputy director says closure of activities, except for essential ones, may be necessary**
- **He expresses concerns about citizens' non-compliance with measures currently in place**

The Montenegrin government should impose stricter coronavirus (COVID-19) containment measures to protect the health of the citizens and ensure the proper functioning of the healthcare system, the Institute of Public Health's deputy director Senad Begic said on Wednesday. Begic also explained that the epidemiological situation in Montenegro will be thoroughly analysed and discussed by the national coordination body for infectious diseases on Nov 21. The institute will certainly recommend harsher restrictions if it continues to receive information about widespread non-compliance with the current measures, Begic said. He noted that the closure of certain activities is a difficult decision but will have to be implemented if there is no other way out of the crisis. He added that the pandemic would have been under control if citizens followed the recommendations of the health authorities.

Begic said that the government has to resort to unpopular measures, such as the complete closure of all activities, except for the essential ones, if it wants to bring down the number of new daily coronavirus infections abruptly. He also said that the government should have imposed stricter measures in the fight against the pandemic earlier. Begic talked about his meeting with caterers, saying that they have agreed on the implementation of additional protective measures at their facilities and that the health of citizens should be the top priority for everybody.

The Clinical Centre of Montenegro's (KCCG) deputy head Nemanja Radojevic also said on Wednesday that the government should impose a stricter curfew for a shorter time period to contain the spread of the virus. He noted that the healthcare system is already struggling to deal with the growing number of coronavirus patients and that the situation in hospitals remains serious. The number of daily new coronavirus cases has remained above 500 since Nov 9, which prompted the government to impose nationwide restrictions to contain the spread of the disease. There were 10,207 active cases in the country as of Nov 18 and 414 citizens have lost the battle with the disease.

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NORTH MACEDONIA

EBRD to support Skopje bus rapid transit project with EUR 70mn loan

North Macedonia | Nov 19, 18:37

- **Loan to come in two tranches, Skopje mayor expects its signing to take place by end-2020**
- **Bus rapid transit project to help improve quality of public transport, reduce air pollution in Skopje**

The EBRD has approved a EUR 70mn loan to North Macedonia for the implementation of the bus rapid transit project in the capital Skopje, according to an official statement. The loan proceeds will be used for the construction of two-lane bus rapid transit corridors, the acquisition of a new fleet of tram-buses and the construction of a new depot for the vehicles. The loan will come in two tranches, of which the first EUR 40mn tranche will finance the east-west line of the project and the second EUR 30mn tranche will finance the north-south line of the project. The first tranche will be extended immediately after the signing of the loan agreement and the second tranche will be extended after a separate due diligence is completed. The loan will come under the EBRD Green Cities Framework 2, designed to address environmental challenges at municipal level.

The North Macedonian government said earlier this week that it has drafted amendments to the law on borrowing to be able to take out the EBRD loan. The bus rapid transit project is expected to reduce air pollution, reduce travel time with the public transport and improve the quality of the public transport in the capital Skopje. Skopje mayor Petre Silegov recently said that the loan agreement is expected to be signed by year-end and that the tender for the implementation of the project will be launched after the preparation of its conceptual design.

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HIGH Government to declare 30-day state of crisis in entire country by Nov 20

North Macedonia | Nov 19, 18:35

- **State of crisis to be declared due to worsening epidemiological situation in the country**
- **State of crisis to allow government to use resources of private entities, including hospitals**
- **Government does not yet consider curfews but such measure is not ruled out in future**

The North Macedonian government will declare a nationwide state of crisis for 30 days on Nov 20 evening at the latest, PM Zoran Zaev announced on Thursday. We note that the national security council headed by President Stevo Pendarovski called on the government to declare a 30-day state of crisis in the entire country earlier today. Pendarovski explained that the coronavirus (COVID-19) situation in North Macedonia is extremely serious and the autumn wave of infections has hit Europe far worse that the spring wave. He noted that the declaration of a state of crisis will provide new instruments for the government to deal with the coronavirus crisis by allowing the government to use resources of public enterprises, municipalities, private hospitals and private firms if necessary. He assured that no nationalization will take place and that resources of private entities will be used only for urgent matters related to the pandemic.

Pendarovski said that the declaration of a state of crisis does not include the imposition of curfews and other movement restrictions for citizens. Pendarovski also said that no European country has imposed a 24/7 curfew this autumn, although Zaev said that a curfew cannot be completely ruled out in the future. Zaev said that the government is not considering such option at the moment. Zaev also said that hospitals have available beds to treat coronavirus patients, although their work will have to be reorganized. Health Minister Venko Filipce commented that the government will compensate up to 30% of the expenditures of private hospitals, whose resources may be used to handle incoming patients. He added that the resources of private hospitals may be used in a situation in which public health institutions have no capacity to handle patients, except for emergency cases.

The state of crisis allows the North Macedonian army to support the police in enforcing the coronavirus containment measures and assist the health institutions in dealing with the coronavirus crisis. It also allows private health institutions to be mobilized in containing the pandemic. We note that this will be the first nationwide state of crisis in the history of the country. A state of crisis is currently in place only in North Macedonia's northern and southern border areas to curb border crossings from migrants and refugees.

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Parliamentary debate on draft state budget for 2021 to begin on Nov 24

North Macedonia | Nov 19, 12:39

- **Parliamentary budget committee to debate draft for up to 10 days, then send it to approval to MPs**
- **State budget for 2021 envisages 4.9% of GDP deficit, is based to 4.1% GDP growth forecast**

The parliamentary debate on the draft government budget for 2021 will begin in the parliamentary committee on budget and finances on Nov 24, the MIA news agency reported. The committee will discuss the draft for up to ten working days and then send it to a parliamentary session for approval. The parliamentary committee may propose and approve amendments to the draft budget for next year before sending it to parliamentary approval. We note that the government approved the draft budget on Nov 11 and sent it to Parliamentary Speaker Talat Xhaferi the next day.

The draft state budget for 2021 envisages MKD 34.8bn deficit that is set to account for 4.9% of the projected GDP. It envisages MKD 212.8bn worth of revenues (by 8.3% higher than in the second revision of the 2020 state budget) and MKD 247.6bn worth of expenditures (by 2.1% lower than in the second budget revision). PM Zoran Zaev earlier said that the major goals of the 2021 state budget are to stimulate economic recovery, accelerate medium-term economic growth, protect the health of citizens, maintain jobs, reduce non-essential expenditures and improve the implementation of capital projects. The draft budget is based on a 4.1% economic growth forecast for next year as the government expects a recovery in investments, consumption and external demand with the improvement of the epidemiological situation.

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Q&A Eurobond issuance

North Macedonia | Nov 19, 10:45

Question:

Do you have an estimation for 2021 Eurobond issuances for Macedonia, Montenegro, Iraq, Jordan, Lebanon, Armenia, Azerbaijan, Belarus, Georgia, Tajikistan and Uzbekistan?

Answer:

North Macedonia plans to issue Eurobonds in 2021. Finance Minister Fatmir Besimi has confirmed that the government will issue Eurobonds in 2021 to secure funding to cover the state budget deficit and repay maturing obligations, but has not provided any specific details. According to the 2021 state budget plan, the government plans to borrow around EUR 530mn next year from both domestic and foreign sources, of which EUR 275mn will be borrowed from the domestic market.

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ROMANIA

State raises more than planned in bond placement demand slightly revives

Romania | Nov 19, 16:52

- **Investor sentiment seems unaffected by worse forecasts in recent budget revision**
- **Yields keep falling but not over lower fiscal risks**

The Treasury borrowed RON 537mn by selling an October 2030 bond in a public auction today, according to central bank data. Borrowing was above the RON 300mn indicative amount, as demand was slightly better than in the most recent with the same bond in October. Local dealers came with RON 598mn bids, while subscription for the same bond amounted to RON 566mn in October. Even though the improvement was not spectacular, it indicates that investors didn't perceive the finance ministry's third budget revision so bad, which worsened forecasts in 2020. The average yield was down to 3.31% from 3.56%, in line with a falling rate trend rather than over lower fiscal risks.

The Treasury initially targeted to borrow RON 5.06bn by issuing papers on the local market in November, but the plan was exceeded last week. Also, after exceeding monthly borrowing targets in 8 of 10 months this year, the Treasury has already borrowed more than its entire annual target from the domestic market (RON 70bn). Foreign market borrowing target has been already reached, with four Eurobond placements raising EUR 6.3bn and two USD-denominated - USD 3.3bn. The estimated RON 138bn financing needs are about 97% covered, as FinMin Florin Citu recently declared, but by adding loans and borrowing from retail bonds, the Treasury will very probably be able to cover the entire amount by the end of the year.

Debt auctions, November

Auction Date	Type	Currency	Period	Maturity	Issuance, mn	Subscribed, RON mn	Alloted, RON mn	Yield, %
02-Nov	Bill	RON	1 year	03-Nov-21	400	949.4	400.0	2.53
02-Nov	Bond	RON	5 years	28-Jul-25	920	2,930.1	2,168.1	3.08
05-Nov	Bond	RON	3 years	25-Oct-23	920	2,654.4	1,945.4	2.77
09-Nov	Bill	RON	6 months	12-May-21	400	922.2	400.0	2.32
09-Nov	Bond	RON	8 years	26-Jan-28	690	1,156.9	928.9	3.04
12-Nov	Bond	RON	5 years	24-Jun-26	575	532.9	570.0	3.01
16-Nov	Bond	RON	15 years	11-Oct-34	460	384.0	372.5	3.65

19-Nov	Bond	RON	10 years	24-Oct-30	345	597.9	537.0	3.31
23-Nov	Bond	RON	15 years	24-Sep-31	345			
Total RON					**5,055**		**7,321.9**	

Source: Official Gazette, NBR

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SPECIAL Finance ministry cuts budget revenue by RON 5.2bn, gap is by RON 4.5bn higher

Romania | Nov 19, 16:48

- **Deficit exceeds RON 96bn in cash terms, 9.1% of GDP; GDP contraction is considerable, by 4.2%**
- **Govt has to extend support measures, allotments for social and healthcare spending are increased**
- **Revenue is most affected by stronger economic contraction, deferred taxes, cut in EU transfers**
- **Some highly uncertain amounts are still being taken into consideration in revenue projection**
- **EU-backed projects are put on hold, capital spending is cut, reflecting change of policy regarding public investment**

The general government budget revenue will be lower by more than RON 5.2bn than projected in August, according to a draft bill regulating the second budget revision in 2020. Expenditure is also seen lower by RON 683mn, which pushes up the estimated general government budget gap by above RON 4.5bn to almost RON 96bn (cash terms). It translates into a 9.1%-of-GDP deficit target in 2020, up from 8.6% of GDP seen in August. The GDP contraction forecast was worsened to 4.2% from 3.8%, a more realistic figure compared to other estimations. The budget revision should be approved at a cabinet meeting later this week and we don't expect the finance ministry's proposal to be modified.

Selected indicators - budget revision

	April forecast	August forecast	November forecast
Nominal GDP (RON, bn)	1,082.1	1,058.0	1,050.5
GDP growth (%, y/y)	-1.9	-3.8	-4.2
Number of employees ('000)	5,087	5,070	5,090
Gross average wage (RON)	5,212	5,114	5,160
Overall balance (% of GDP)	6.7	8.6	9.1

Source: Finance ministry

Reactivation of restrictions hampers economic recovery; deferred tax facility is extended

Budget revenue was revised down mainly due to a stronger-than-expected economic contraction in 2020, a slower recovery in some fields after some restrictions were reintroduced. Also, the epidemic worsened, which requires more spending in healthcare, stronger-than-expected negative effects of drought in agriculture. In addition, the government had to extend some support measures that were meant to end in the autumn and the most substantial impact on state budget revenue came from the tax deferral facility.

Budget execution in January-September indicated that measures aiming to help the economy deal with the crisis stood for more than half of the general government budget gap (3.5% of GDP), as the finance ministry said. More than RON 37bn represented tax facilities, exceptional spending with the epidemic, labour support measures and support for SMEs. Deferred taxes exceeded RON 16bn in March-September and the finance ministry had to extend that facility beyond its expiration date, Oct 25, as economic difficulties persisted with the reactivation of restrictions.

General government budget - second revision

Selected components, RON, mn	August revision	November revision
REVENUE	**573.0**	**-5,212.8**
State budget	-289.4	-4,489.4
Regional administrations (transfers)	4,995.3	1,528.2
Unemployment fund	3,058.8	100.0
Social insurances fund	-6,823.0	1,827.8
Public healthcare fund	2,415.0	1,100.0
Public insitutions budget	786.6	-649.8
National Roads Company	865.5	-10.6
EXPENDITURE	**18,139.2**	**-683.6**
State budget	24,416.8	1,157.6
Regional administrations (transfers)	4,495.3	1,247.6
Unemployment fund	1,651.0	-100.0
Social insurances fund	-6,826.0	1,819.4
Public healthcare fund	2,415.0	1,100.0
Public insitutions budget	286.6	-1,049.8

Source: Finance ministry

Revenue may still be overestimated despite major revision; spending hike cushioned by investment cut

The state budget revenue is the most affected, seeing a RON 4.5bn projection cut. However, we should note that the finance ministry still expects RON 5.3bn revenue to the state budget from deferred taxes during the state of emergency, RON 1.1bn transfers from regional administrations and RON 2.1bn from the sale of 5G licences by end-2020, all amounts being highly uncertain.

The revenue projection cut comes from lower revenue from corporate and personal income taxes, lower excises and a RON 2.5bn decrease of expected EU financing. This is reflected in a RON 2.8bn cut in spending with EU-backed projects, which means that some investment was put on hold. In addition, some projects financed from the state budget are probably also left aside, because capital spending is reduced by RON 1.6bn. That's a very important change of policy, which no longer has investment among top priorities like it happened in the first part of the year. Finance ministry data showed that investment spending rose by RON 6.8bn y/y in January-September, even if there were more than RON 10bn extraordinary expenses related to the epidemic. In fact, public investment was among the most important drivers for economic recovery in Q3 and the major factor keeping the economy on a modest quarterly growth in Q2.

Looking at other expenditure components, apart from a more significant increase in transfers to regional administrations (to cover increased social and healthcare spending), there was no major growth. Only interest expenses were revised upwards by about RON 325mn, despite falling rates. It was probably grounded on the substantial increase in borrowing this year.

Net impact of revisions

RON, mn	August revision	November revision
State budget	-24,706.2	-5,647.0
Regional administrations (transfers)	500.0	280.6
Unemployment fund	1,407.8	200.0
Public insitutions budget	500.0	400.0
Public debt	4,338.7	228.7
National Roads Company	276.0	0.0
OVERALL BALANCE	**-17,566.1**	**-4,529.2**
Deficit, % of GDP	8.6	9.1

Source: Finance ministry

New deficit target is still at risk in absence of EU recovery fund, as economy still needs support

To conclude, the labour ministry gets RON 1.6bn more compared to the budget allotted in August, to continue labour support measures that should have ended in the autumn and to finance higher social spending with pensions. The health ministry's budget increased by almost RON 1.1bn to face unfavourable epidemic developments and cover bonuses to healthcare staff. The agriculture ministry needed almost RON 1.2bn more to cover compensations to farmers affected by drought and the regional development ministry benefited from an almost RON 1bn additional allotment for regional governments. All additional amounts needed came when the budget revenue was strongly affected by a stronger economic contraction and a necessary extension of tax deferral facility. Thus, spending needed to be cut, in expectancy of EU support from the recovery fund. Since the biggest expenditure components are structural, the finance ministry was forced to reduce investment spending the most to avoid a more significant deficit widening. Even so, in absence of the EU's non-reimbursable financing, the deficit target might be exceeded as the finance ministry counts on cashing some highly uncertain amounts like proceeds for 5G licence sale.

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PNL presents 2021-2024 ruling strategy, pledges public sector reform

Romania | Nov 19, 14:41

- **Focuses on economic development through social measures and investment in infrastructure using EU funds**
- **Social measures are in fact enforcing existing legislation: hiking pensions and wages by 2024**
- **Old pledges to build highways and upgrade transport infrastructure; new ones envisage more spending in healthcare, access to utilities, environmental commitments**
- **Pledges to extend crisis-related measures by mid-2021**
- **There are many similarities with USR-PLUS strategy, although PNL's manifesto is less focused on anti-corruption and environmental topics**

The National Liberal Party (PNL) presented its ruling strategy and policy commitments for the coming general election on Dec 6. The PNL has two major priorities, economic development and public sector reform.

In the economic development part, the PNL focuses on a few social measures and investment in infrastructure by committing to use EU funds. More than 560,000 new jobs are promised, while the average wage is seen to rise by almost 50% and pension point by 46% by 2024. We note that salary hikes in the public sector and pension point hikes are already regulated by two existing laws which have to be enforced. Thus, these are not actual promises but executing existing provisions, indicating that the PNL does not plan to modify the unitary wage bill or the pension law.

Similar to previous governments, the PNL commits to build hundreds of km of highway and to finish big projects in road, railway and subway lines rehabilitation. Long-expected highways in the Moldova region (north-east Romania) and crossing the Carpathians are also in the PNL's ruling strategy. Important financing is planned to be allotted for ensuring access to utilities in rural areas, for the irrigation system, environment and upgrading healthcare infrastructure, including the construction of 3 new regional hospitals, although fewer than what the PSD had promised.

The PNL has a few crisis-related pledges as well. Measures to support the business environment deal with the pandemic implemented in 2020 are to continue by mid-2021, together with extension of loan payment moratorium and the labour support measures. There are also a few state-aid schemes in plan to encourage digitisation, innovation, agriculture and tourism.

Reform in the public sector focuses on digitalisation and reducing bureaucracy. Electoral system changes envisage introducing postal voting in all elections, returning to two-round system in electing mayors and doubling number of MPs representing Romanians living abroad. Those are precisely the USR-PLUS targets. The PNL commits to fiscal consolidation and increase transparency of public spending, to reverse the justice overhaul implemented by the PSD in 2017-2019, to revise the constitution and modernise the justice system.

Generally, we see no major policy discrepancies with the strategy presented by the USR-PLUS, so in case of an alliance between the two there should be no major disagreements. Some conflicts might occur when looking at the USR's focus on anti-corruption, a topic only indirectly mentioned by the PNL and not a top priority like in USR's strategy. Environmental policies might also raise disagreements, but those are solvable, as the PNL did not signal it had divergent interest.

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PNL reportedly torn by disagreement about alliance with USR

Romania | Nov 19, 13:54

- **PM Orban backs faction that wants to continue ruling alone, making agreements with small parties in parliament**
- **If that faction prevails, PNL may continue ruling htrough a minority government**
- **President Iohannis backs the other faction, which wants solid majority in parliament in alliance with USR-PLUS**
- **Under such scenario, a coalition government with USR-PLUS eill be formed**
- **We think alliance scenario has a bigger probability; it heavily depends on gap between PNL and USR-PLUS in general election**

There are two factions with strong opposing opinions inside the ruling PNL regarding an alliance with the USR-PLUS, according to party sources of the news daily Adevarul. Part of the leadership, sustained by President Klaus

Iohannis, wants a stable majority which could be achieved in an alliance with the USR-PLUS. At the same time, there's a group of influential party members that sustain PM Ludovic Orban's idea of a single-party cabinet which would negotiate majorities with others when needed.

Basically, Orban seems to prefer ruling with a minority-backed government by signing agreements with the UDMR, the PMP and the minorities group, sources said. He wants a small cabinet, comprising only of PNL ministers, while smaller allies will receive state secretary positions. The UDMR is a traditionally loyal partner if its demands are fulfilled, while the PMP is seen to be gradually absorbed by the PNL. The USR-PLUS is expected to win a bigger share of seats in the next parliament, according to polls. Thus, it will probably want to have cabinet setas, which is why Orban doesn't include it in his potential network of allies. Supporters of Orban count on the fact that the PSD will not be able to obtain a better result than in the local election, while the USR's internal fights will weaken it enough not to be a real opposition to the PNL. Also, if Pro Romania enters the next parliament, the PSD will be more focused to defend from its attacks rather than fight with the PNL.

The other side, backed by President Iohannis, wants a ruling alliance with the USR-PLUS, which will secure a comfortable majority in next parliament. This means that the PNL will have to share the rule with the USR-PLUS and it looks like Orban is not very pleased with such situation, as relationship with the USR hasn't always been peaceful. President Iohannis needs a strong support in parliament because he wants to start a constitutional reform and plans major changes in education and healthcare, most of them needing organic laws that pass only with a two-thirds majority. Iohannis still has a strong influence over the PNL and has enough powerful members on his side, so we believe he might succeed in imposing his idea, even to Orban.

Nevertheless, the results obtained by the PNL and the USR-PLUS in the general election, especially the gap between them, will be crucial for the final outcome. We believe that the probability of a joint rule is higher than the PNL continuing to rule alone. That's because we see President Iohannis having a stronger influence in the PNL than PM Orban. Going on the minority-rule path is possible though, but only if the gap between the PNL and the USR-PLUS is big enough to make an alliance not worth the effort for the PNL, in our view.

Electoral preferences, IMAS

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
PNL	32.6%	33.0%	33.4%	33.6%	34.7%	32.6%
PSD	23.0%	21.9%	23.4%	20.8%	19.6%	21.7%
USR-PLUS (as of Jul 20)	11.6%	12.3%	17.2%	18.3%	17.0%	20.4%
Pro Romania	11.2%	11.2%	9.7%	10.6%	9.5%	8.9%
UDMR	5.1%	3.4%	5.6%	5.7%	5.3%	5.1%
PMP	3.7%	4.7%	3.9%	4.1%	4.5%	4.8%
ALDE	4.2%	3.7%	3.4%	2.4%	3.0%	2.5%
PLUS (with USR as of Jul 20)	5.1%	5.8%	-	-	-	-

Source: IMAS

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Banking sector’s profit drops 9% y/y to RON 4.7bn in January-September

Romania | Nov 19, 11:24

- **Rises from RON 2.8bn in H1, driven by modest lending growth**
- **Annual profit drop is caused by falling rates, higher risk provisions**
- **Assets keep increasing, reach RON 533.1, highest level on record**
- **ROE, NPL ratios recover from deterioration suffered in Q2, CAR remains at comfortable level**

The cumulative profit of domestic banks in Romania decreased by about 9% y/y to almost RON 4.7bn (EUR 974mn) in January-September but rose from RON 2.8bn in H1, according to preliminary figures published by the NBR in its monthly bulletin. Annual profit drop was caused by a substantial increase of spending with risk provisions which came on top of falling rates. Nevertheless, lending continued to moderately rise, so total bank assets reached a new record high level RON 533.1bn at end-September 2020, up from RON 495.3bn at end-2019 and RON 473bn a year before.

The average ROE in the banking sector was 10.5% at the end of September, coming back above the 10% threshold, after falling below it at end-H1, for the first time in the past 5 years. Another positive aspect is that the capital adequacy ratio remained at comfortable level, 22.8% at end-September, after exceeding 20% at end-March. The indicator was at 19.6% at end-June 2019.

Generally, local banks remain well-capitalised and overdue loans are not yet piling up in the next quarter after the pandemic shock. Indeed, profits suffer due to higher risk provisions, while monetary easing is affecting their interest rate income. Also, it remains uncertain for how long the crisis will last and to what extend it damaged bank debtors' incomes. The government's loan payments moratorium is active by end-2020, but it might be extended in H1 2021, protecting banks from bad loan accumulation.

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Govt adds EUR 750mn to SME grants scheme for working capital

Romania | Nov 19, 08:26

- **Allotment reaches EUR 1bn, offers EUR 150,000 grants for more than 22,200 applicants**
- **Micro grants scheme is modified to include more beneficiaries**
- **Grants for investment scheme to be launched next week, offering EUR 50,000 - EUR 200,000 non-reimbursable co-financing**

The government increased allotment in the support scheme for SMEs that grants non-reimbursable financing for working capital to EUR 1bn from EUR 350mn, announced Economy Minister Virgil Popescu in a press conference. The scheme offering up to EUR 150,000 grants for working capital was significantly more appealing for firms than the first stage in a wider programme meant to help SMEs deal with crisis effects. Thus, there were more than 22,200 SMEs found eligible in the scheme and the economy ministry wants to cover as many requests as possible, so it proposed to increase the allotment. The offered grants are capped at maximum 15% of sales for each firm and applicant evaluation will start as of next week, Popescu promised.

The first stage in the SME's non-reimbursable support programme offered micro grants (up to EUR 2,000) to all applicants affected by the pandemic. That had EUR 100mn allotment, but only less than 30,000 applied. About 5,100 applicants are validated and the economy ministry will start payments as of this week. The economy ministry also modified eligibility criteria in the scheme, for including more among beneficiaries.

The last stage offers EUR 50,000-200,000 grants for investment, which Popescu pledged to launch next week.

Beneficiaries must ensure 15-30% co-financing for their investment project, have to prove were affected by the crisis, had positive operational result in the previous year and have to keep staff unchanged. Since eligibility is more difficult to assess, that part of the programme will remain active for longer, probably for 3 months, Popescu said.

He also pledged to launch the Electric UP scheme this month. That one offers up to EUR 100,000 grants to SMEs and companies in accommodation for installing solar panels in order to reduce electricity costs and carbon emissions. It has a EUR 200mn allotment, also covered by EU funds.

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PRESS Press Mood of the Day

Romania | Nov 19, 07:30

Budget projections in 2021: 4.5% economic growth, 7%-of-GDP budget deficit. Govt still has most optimistic forecast for economic growth next year (Ziarul Financiar)

OMV Petrom wants to reduce carbon emissions by 27% by 2025. Company invests EUR 21mn in past two years in upgrading Petrobrazi refinery (Ziarul Financiar)

First private hospitals enter Covid-19 fight and become support units for infected patients. They have 600 ICU beds in total (Ziarul Financiar)

Covid-19 epidemic can no longer be controlled. Any day without quarantine will burden health system even more (Ziarul Financiar)

Sources. PNL is torn: to make or not to make ruling alliance with USR-PLUS (Adevarul)

Progressive tax on wage: Employees with more than RON 15,000 monthly wage to pay 50% tax - draft project (Adevarul)

Budget revision: Ministries that lose biggest amounts are defence, interior and intelligence services (Adevarul)

EC warns Romania about major deterioration of public finances in 2020 (Adevarul)

Number of ICU beds to increase by 280 in next 7-21 days (Gandul)

Pandemic boosts global debt to 365% of world's GDP (Bursa)

SMEs financing enters straight line (Bursa)

Medical schools are looking for students to help treating Covid-19 patients (Bursa)

Almost 20,000 vacant jobs nationwide (Curierul National)

Survey: 66% of teachers sustain schools reopening (Romania Libera)

PM Orban: " I have no reason to resign due to hospital fire tragedy in Piatra Neamt" (Romania Libera)

Budget revision: Defence ministry loses RON 2bn (Romania Libera)

FinMin Florin Citu estimates 4.2% economic contraction and 9.1%-of-GDP budget gap in 2020 (Romania Libera)

Cost of labour support measures reaches RON 7.2bn so far – LabMin Alexandru

Romania | Nov 19, 07:25

- **Most expensive one is 41.5% coverage of gross wage for 3 months for employees coming back from furlough**
- **Talks on minimum wage increase in 2021 have started; Alexandru wants objective formula to set rises in next years**

Total cost of the labour support measures implemented thus far reached RON 7.2bn for abut 1.4mn beneficiaries, said Labour Minister Violeta Alexandru in a press conference. The package is valid by end-2020, but the government considers extending some of the measures in 2021. The most expensive one seems to be a 41.5% coverage of gross wage for 3 months for employees that are asked to return to work from furlough, for seasonal workers and for Romanians returning from abroad to work at home. Alexandru said that about 600,000 persons benefited from that measure, while its total cost is around RON 2bn.

Apart from those, we remind that the labour ministry continues to pay furloughed employees with 75% of their gross wage but no more than 75% of average wage in the economy. A support scheme regulating flexible working time, similar to Germany's Kurzarbeit, is also in place since August. It provides subsidising 37.5% of the gross wage on the condition that employers cover 50%.

The labour ministry has also started talks on the minimum wage rise in 2021 with employers and unions but no conclusion has been reached thus far, as opinions are rather divergent. Alexandru sees a rise as necessary, but she thinks that more important are efforts to increase competencies of employees. Thus, she asked experts to work on another objective formula for minimum wage growths in the following years. The minimum wage increased by 7.2% to RON 2,230 as of January 2020. The rise resulted from applying a formula that took into consideration CPI growth in October 2019 (3.4% y/y), productivity per employee in 2018 (3.7%) and correction factors depending on estimated economic growth.

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SERBIA

Inflation expectations of financial sector, firms remain low – NBS survey

Serbia | Nov 19, 17:52

- **The bulk of businessmen does not expect changes in prices of products/services in next three months**
- **More households expect increase in food prices**

Short-term and long-term inflation expectations of all sectors, except households, remained within the NBS' inflation tolerance band of 3%±1.5pps in October, according to a survey by Ipsos, published by the central bank.

One-year inflation expectations of the financial sector inched up to 2.1% in October from 2.0% the previous month, while those of businesses stagnated at 1.9%, the same as in September. The survey shows that about 80% of the polled businessmen does not expect changes when it comes to their products/services in the next three months, whereas those sharing the same view about input prices was 70%.

One-year inflation expectations of households that are usually higher than other sectors held at 7.0% in October, the same as in September. The net percentage of the respondents that expect an increase in monthly bills and fuel has fallen, but there was an increase in the net percentage of those anticipating food price hike. Most of those polled (about 70%) continue to expect that prices in the next year will increase moderately or slightly.

All in all, inflation expectations are in line with what the NBS has been projecting itself, as it expects inflation to remain within the lower half of tolerance band until end-2021.

Inflation expectations (%)

	Oct-19	Jul-20	Aug-20	Sep-20	Oct-20
Financial market (2-year)	**2.5%**	**2.2%**	**2.4%**	**2.6%**	**2.5%**
Business sector	1.9%	1.5%	1.5%	1.8%	2.0%
Trade unions	3.0%	3.0%	3.3%	3.0%	3.1%
Households	5.0%	5.0%	4.0%	5.0%	5.0%
Financial market (1-year)	**2.0%**	**1.9%**	**2.1%**	**2.0%**	**2.1%**
Business sector	1.6%	1.5%	1.5%	1.9%	1.9%
Trade unions	3.0%	2.8%	2.8%	2.5%	3.0%
Households	5.0%	7.0%	5.0%	7.0%	7.0%

Source: Ipsos

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Health workers to get one-off assistance of RSD 10,000 on Nov 20

Serbia | Nov 19, 15:07

- **Bonuses to cost RSD 1.55bn to budget**
- **Wages in heath sector to be hiked by 5% from January**

Health workers will receive tomorrow (Nov 20) a one-off assistance of RSD 10,000, which will cost the budget RSD 1.55bn (around EUR 13mn), FinMin Sinisa Mali said today. He noted that non-medical staff working in the health system will also get bonuses. Mali reminded that wages of nurses and doctors were hiked by 15% and 10%, respectively in November 2019, while in April their wages went up by another 10%. The finance minister promised one more hike of 5% from January. Mali reassured that the budget is stable and can handle the health crisis.

We remind that the government proceeded to a second revision of the 2020 budget to reflect higher COVID-19 related costs. The amended budget targets a deficit of RSD 483.1bn (8.8% of GDP), up from RSD 381bn deficit envisaged in the first revision. The second budget revision sets revenues at RSD 1,291.4bn - up by RSD 46.6bn or 3.7% compared to the first revision. Expenditures are planned at RSD 1,774.4bn - up by RSD 148.6bn or 9.1%.

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COVID-19 crisis response team to meet on Nov 20 amid surge in infections

Serbia | Nov 19, 08:24

- **Hospital capacities in most of the cities are almost full**

The government's COVID-19 crisis response team will meet on Friday (Nov 20) to discuss the epidemiological situation, local media reported. Serbia registered a record high new coronavirus cases of 5,613 on Nov 18, up to a total of 97,988. The death toll related to the novel coronavirus rose to 1,081 after 27 people died in the previous 24 hours. There are 5,317 COVID-19 patients in hospitals, while 182 are on ventilators. Local media reported that hospital capacities in most of the cities are almost full. The most dramatic is the situation in Belgrade.

The government enforced on Nov 17 a new measure in an effort to slow down the spread of the coronavirus. Thus, catering facilities, cafes, nightclubs, restaurants as well as shopping centres and shops will be closed from 21:00 to 5:00. The measure will be in force for 15 days, until Dec 1, when it will be reviewed by the government. Prime Minister Ana Brnabic said that a ban on movement is not under consideration for the moment, but added this is the next measure.

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PRESS Press Mood of the Day

Serbia | Nov 19, 07:31

Epidemiologist Predrag Kon: Health system on the brink of survival (Danas)

Air Serbia to lay off 20% of employees (Danas)

Wages to increase in 2021 because of elections in 2022 (Danas)

White Book 2020: Investment suffers more than exports and employment (Politika)

Epidemiological situation to calm down in 10 days (Blic)

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UKRAINE

President Zelensky tells G7 envoys anti-corruption chief to stay

Ukraine | Nov 19, 16:34

- **Zelensky pledges to restore criminal liability for errors in e-declarations**
- **Zelensky believes time has come for justice reform**

President Volodymyr Zelensky has assured G7 ambassadors that the chief of the National Anti-Corruption Agency, Artem Sytnyk, would not be dismissed. Speaking in a video conference with the ambassadors, in which Sytnyk also participated, Zelensky said the recent ruling of the Constitutional Court (CC) on Sytnyk would have no consequences for him or the agency, and would not affect Sytnyk's independence. Zelensky also reiterated that he rejected the CC's recent ruling that criminal liability for mistakes in e-declarations was unconstitutional. Zelensky pledged that criminal liability for that would restored by end-2020. He also said it was high time for justice reform. Zelensky spoke from a hospital where he is quarantined over Covid-19.

The CC ruled last August that Zelensky's predecessor Petro Poroshenko was not authorised to appoint Sytnyk in 2015. The CC delivered the controversial decision on e-declarations last month, effectively paralysing the anti-corruption system, which angered Ukraine's creditors, the IMF in particular. Zelensky in response asked parliament to circumvent the CC's ruling on e-declarations and to dissolve the CC. In spite of the fact that Zelensky's party controls a majority in parliament, MPs have been dragging their feet over the matter, while CC judges refused to resign. In the meantime, the anti-corruption court, which was launched a year ago, has had to cancel several of its verdicts because of the CC ruling.

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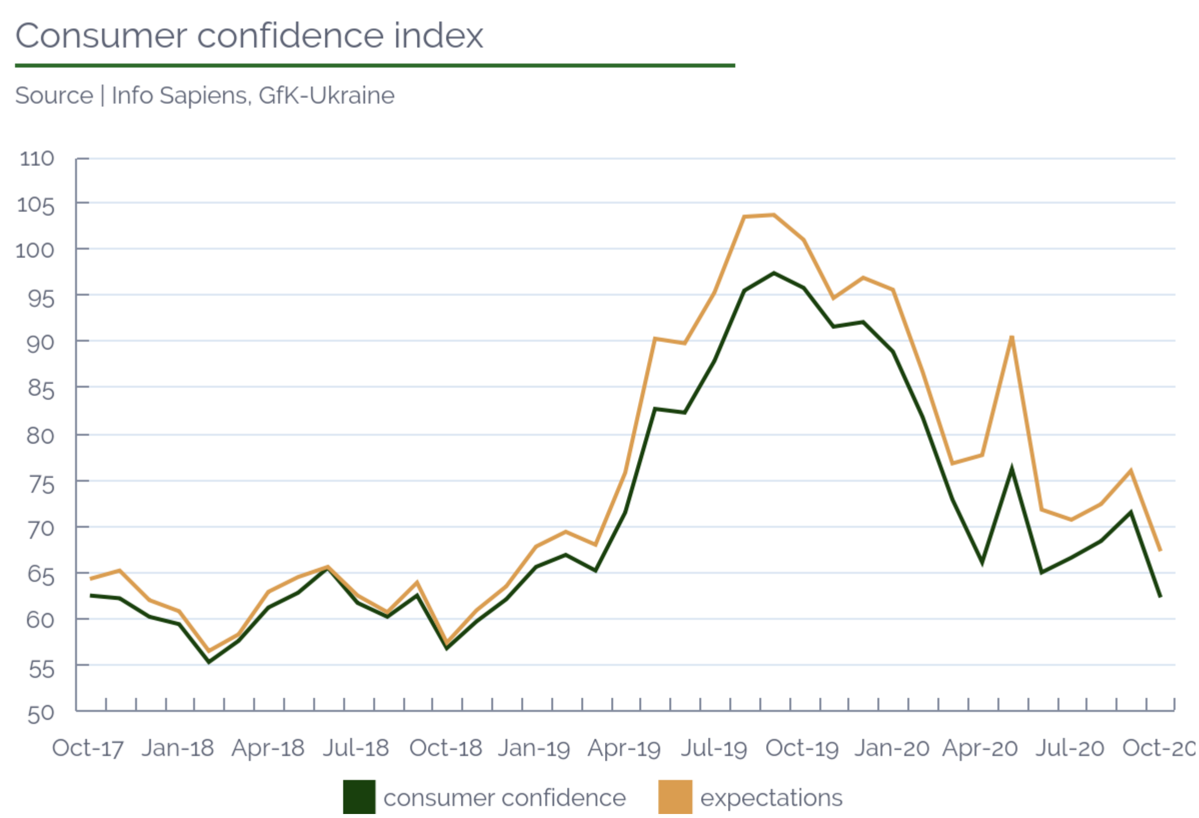
Consumer confidence index plunges 9.2pts to 62.4 in October

Ukraine | Nov 19, 15:22

- **This level was seen two years ago**
- **All index components worsen, except local currency stability**

Info Sapiens's consumer confidence index plunged 9.2pts to 62.4 in October. This is roughly a level seen two years ago, and the lowest so far this year. In spite of the minimum wage hike from September, all the components of the index worsened in October, except the expectations regarding the national currency stability. Given the weekend lockdown imposed from last weekend and the prospect of a full lockdown over coronavirus, consumer confidence index will most probably worsen further in November.



Info Sapiens's breakdown shows that the index of economic expectations was down 8.7pts to 67.4 in October. As in September, respondents were especially downbeat on Ukraine's economic development over the next year, down 10.5 pts to 52.9. Current situation index plunged by 9.8pts to 54.9. The sub-index of propensity to make big purchases in particular was down 11.7pts to 63.0. Pessimism about unemployment grew more significantly than about inflation, as inflation has been exceptionally low this year.

Consumer Confidence Index

	Oct-18	Oct-19	Jul-20	Aug-20	Sep-20	Oct-20
Consumer confidence index	56.9	95.9	66.7	68.5	71.6	62.4
Index of economic expectations	57.5	101.1	70.8	72.5	76.1	67.4
Index of current situation	56.0	88.1	60.7	62.5	64.8	54.9
Index of inflationary expectations	190.3	179.1	185.2	186.1	186.8	187.3
Expected changes of employment	136.2	111.6	150.0	140.0	143.5	147.0
Index of devaluationary expectations	162.2	129.3	161.8	156.9	160.8	160.6

Source: Info Sapiens, GfK

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Government takes first step to adopt 5G - deputy prime minister

Ukraine | Nov 19, 12:05

- **First 5G networks should be launched in 2022**

The Ukrainian cabinet has approved a plan to assign frequencies for 5G communication standard, Deputy PM Mykhaylo Fedorov told a briefing last night. He said this was the first practical step towards adopting 5G by Ukraine. Last week, he said, the cabinet approved a plan for 5G development. The plan provides for freeing TV frequencies for 5G, and in line with the plan, a tender for 5G frequencies should take place in October 2021, and the first 5G networks should be launched in major Ukrainian cities in 2022.

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PRESS Press Mood of the Day

Ukraine | Nov 19, 08:13

Filatov vs Krasnov. How Dnepr prepares for [mayoral] runoff election (Ukrainska Pravda)

Strategic industry ministry or Orwell's anti-utopia: Who Ukraine's defence ministry belongs to (Ukrainska Pravda)

Yes to future membership, no to arms supplies: How EU sees Ukraine (Ukrainska Pravda)

Not far from Poland: On real wages in Ukraine (Novoye Vremya)

How much Ukraine and other countries spend in order to help businesses in pandemic (RBC-Ukraine)

Why lockdown is no good time for de-shadowisation (Den)

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Representatives of president's party win local elections - preliminary

Ukraine | Nov 19, 07:16

- **Pro-Moscow party, nationalists lose**
- **Party linked to oligarch Kolomoysky surprisingly strong**

President Volodymyr Zelensky's party Servant of the People (SoP) won a plurality of votes in the Oct 25 local elections, the Central Electoral Commission has reported, based on the votes counted for 96.2% of local councils. SoP won 17.6%, according to the report. Second was Fatherland, a populist party headed by Yulia Tymoshenko, with 12.4%, followed by pro-Moscow Opposition Platform - For Life with 11.8%, For the Future - a new party linked to oligarch Ihor Kolomoysky - with 11.4%, nationalist European Solidarity with 10.7%, conservative Our Land with 5.1%, far-right Freedom with 2.6%, Hroysman's Ukrainian Strategy with 1.7%, Proposition with 1.7%, and the Radical Party with 1.6%.

Regarding the mayors elected on Oct 25, votes have been counted for 98% of the population centres, and SoP won with 30.7% or 225 elected mayors - although no SoP representative was elected mayor in any of the provincial capitals. For the Future won 12.4% or 92 mayors, followed by Fatherland with 7.2% (53), Opposition Platform with 7.1% (52), Our Land with 6.2% (45) and European Solidarity with 5.6% (41). Thus, in spite of performing worse than in the parliamentary election in 2019, SoP remains the most popular party nationwide. The success of Kolomoysky's party is quite surprising. Nationalist parties and pro-Moscow Opposition Platform, with strongholds respectively in the west and the east of Ukraine, performed worse than generally expected. There were no local elections in the areas controlled by Moscow.

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ESTONIA

Extra-parliamentary Estonia 200 becomes second most popular in Nov – poll

Estonia | Nov 19, 13:18

- **Estonia 200 overtakes senior ruling coalition partner KESK and junior EKRE**
- **Estonia 200 sees its support grow at expense of opposition ER, which still remain in lead**

Extra-parliamentary Estonia 200 became the second most popular party in November, securing 18% of the vote, according to the latest Kantar Emor poll, reported by the ERR on Thursday. The party overtook both senior ruling coalition partner KESK and junior coalition member EKRE, which received 17% and 16% of the vote, respectively.

Estonia 200 has increased its support at the expense of opposition ER, which still remained the most popular party, but support for it came at 28% which is lower compared to ratings of above 30% earlier this year, Kantar Emor representative Aivar Voog said. He noted the second choice of ER supporters in the past year has increasingly been Estonia 200.

Support for opposition SDE came at 10%, while Isamaa (known as Fatherland) gained 6% of the vote in November, remaining the least popular party represented in parliament.

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Parliament concludes second reading of budget bill 2021

Estonia | Nov 19, 11:29

- **Investments by government sector are planned at EUR 1.9bn next year**
- **Funds are allocated to potential marriage referendum in spring 2021**

Deadline for amendments to budget bill is Nov 30, bill is expected to pass into law before year-end

Parliament concluded the second reading of budget bill 2021 after midnight, sending it to third reading, local media reported on Thursday morning. As previously reported, the state budget bill for 2021 set budget revenue at EUR 11bn and spending at EUR 13bn. The volume of expenditure exceeds revenue due to investments necessary to restore the economy from the coronavirus crisis. As a result, the general government budget is projected to post a nominal deficit at 6.7% of GDP next year. The budget bill is based on a forecast of the finance ministry that GDP will drop by 5.5% in 2020 and rebound by 4.5% in 2021. Tax income is estimated to grow from around EUR 9bn in 2020 to EUR 9.3bn in 2021.

Investments by the government sector next year are planned at EUR 1.9bn, while more than EUR 1.4bn of EU subsidies are planned in the budget bill. It is also worth noting that in order to support international maritime transport through the country and to motivate shippers to direct trade flows via Estonian ports, the government has decided to give ships entering local ports an exemption of 50% on waterway taxes until end-2021 with the state budget to be compensated for lost revenue. Meanwhile, funds have also been allocated to the planned referendum on the definition of marriage, which may take place in spring 2021.

The deadline for amendments to the budget bill is set at November 30, while the bill is expected to pass its third reading and pass into law before year-end.

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FRANCE

Council of State gives three months to govt to prove climate change commitments

France | Nov 19, 17:36

- **Decision marks before and after in climate litigation according to experts**
- **Macron under pressure to demonstrate ecological ambition with view to presidential elections**

The Council of State announced the govt has three months to prove that it is meeting its climate change commitments. The authorities will have to justify that the objective to reduce CO2 emissions by 40% until 2030 and achieve carbon neutrality by 2050 can be respected. The decision was defined as historic and unprecedented by the environmental NGOs, as the govt will have to be accountable for its policies to combat climate change. According to climate experts, this case marks a before and after in climate litigation. If the Council of State is not satisfied with the green effectiveness of public policies, it may ask the govt to take measures to rectify the trajectory, falling within the regulatory field, according to some lawyers at the institution.

In January 2019, the city of Grande-Synthe and its former mayor Damien Careme (EELV MEP) had appealed to the Council of State for govt's climate inaction. Exposed in particular to the risk of submersion, the North municipality seized the institution after the govt's refusal to its request that additional measures have to be taken to respect the objectives resulting from the Paris agreement.

We recall that the results from the municipal elections opened a new political chapter with regards to the green policies, when the EELV established themselves as a leading political force. Macron will have to demonstrate his ecological ambition for the last two years of his mandate with a view to the regional and presidential elections. However, such measures should be extremely careful in the context of the coronavirus crisis, which deepens the social inequalities, as they risk provoking another Yellow vest scenario. The president is already facing pressure from the members of the Citizen's Climate Conventions, who recently criticized in an open letter the lack of clear support from the government on the integration of their proposals in the draft budget. We recall that the Convention, including 150 members drawn by lot, was mandated in 2019 to propose measures to reduce CO2 emissions by 40% until 2030, as a response to the yellow vests crisis. Macron is expected to meet them once again in December.

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Treasury issues medium and long-term bonds worth EUR 10bn

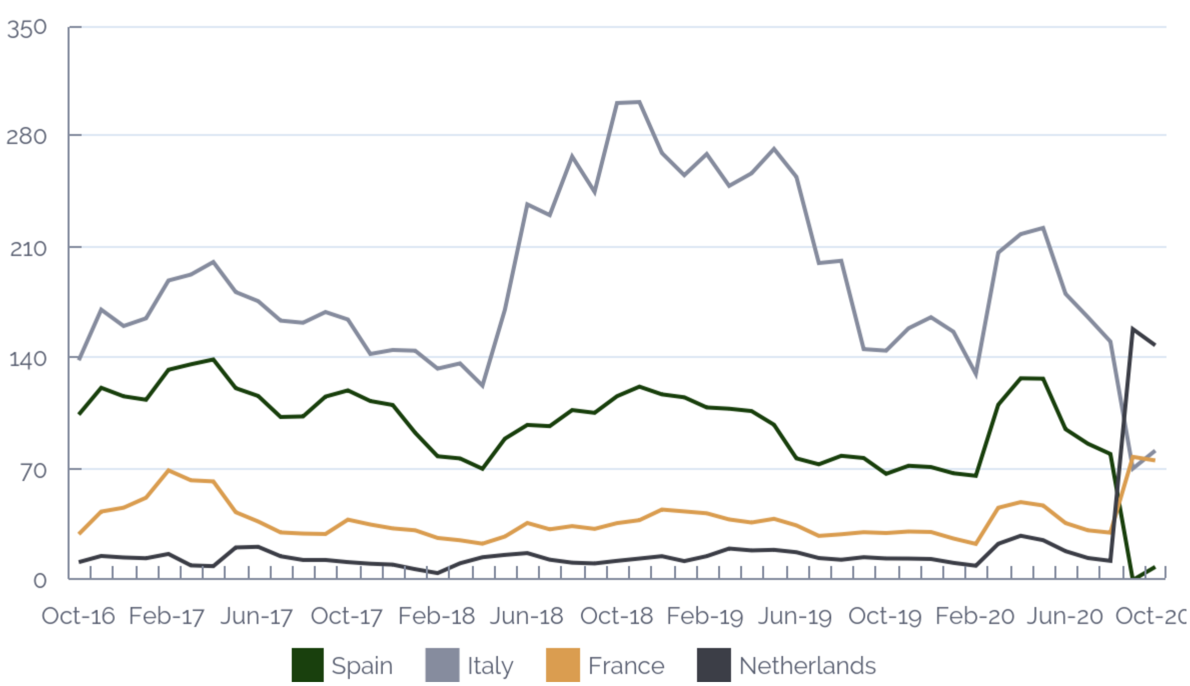
France | Nov 19, 13:54

- **Non-indexed bonds are worth EUR 8.5bn**
- **EUR 856mn of long-term debt placed, remaining of medium-term**
- **Yields remain negative, underpinned by solid demand**

The Treasury issued medium and long-term bonds for EUR 10bn in total on an auction on Thursday, according to information published on the website of the institution. It placed three types of medium term non-indexed bonds for EUR 8.5bn, maturing between 2023 and 2027. Moreover, it sold three types of inflation-indexed bonds, of which EUR 856mn of long-term type, maturing in 2036. Demand for government debt remained solid with the bid-to-cover ratios for the non-indexed bonds standing between 1.89 and 2.02, while those for inflation-indexed papers were above 3.The average yields were negative.

Risk premium on benchmark bonds, bps

Source | Bank of France



The benchmark yield on French bonds on Thursday reported fall in daily (1bps) and yearly terms (31bps), while remaining stable in monthly terms.

Government securities auction, Nov 19

Type	OAT	OAT	OAT	Total
Maturity	25/05/2023	25/02/2026	25/10/2027	-
Coupon rate, %	1.75	0.00	2.75	-
Demand, EUR mn	5,928	7,787	3,266	16,981
Amount, EUR mn	2,890	4,120	1,485	8,495
Cover ratio	2.05	1.89	2.20	2.00
Average yield, %	-0.71	-0.62	-0.57	-0.54

	OATi	OAT€i	OAT€i	Total
Maturity	01/03/2036	01/03/2026	25/07/2036	-
Coupon rate, %	0.10	0.10	0.10	-
Demand, EUR mn	1,788	2,450	1,350	5,588
Amount, EUR mn	432	644	424	1,500
Cover ratio	4.14	3.80	3.18	3.73
Average yield, %	-0.94	-1.29	-1.14	-1.15

Source: Treasury

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PRESS Press Mood of the Day

France | Nov 19, 08:53

Coronavirus: the number of hospitalisations falls for the second consecutive day (Challenges)

Global security law: police images at the heart of the controversy (Challenges)

Teleworking: negotiations less tense but still uncertain (Le Monde)

The Republicans, working on immigration, are looking for a place between LREM and the NR (Europe 1)

The governmnet does not want to miss the next deconfinement (Le Figaro)

Shops reopening: LREM deputies urge the government (Le Figaro)

Teleworking will remain the norm until Christmas and probably beyond (Le Figaro)

The governance of public finances must be improved - Court of Auditors report (Le Figaro)

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FinMin calls on retailers to delay Black Friday sales

France | Nov 19, 08:50

- **Decision on shops reopening remains unclear, calls for easing continue**
- **Adapted lockdown instead of deconfinement likely scenario after Dec 1**

FinMin Bruno Le Maire called on Wednesday on supermarkets and online retailers to explore all options to delay the Black Friday sales of Nov 27 as shops selling non-essential goods are likely to remain closed next week. We recall that local shops have raised concerns regarding e-commerce giants like Amazon that are allowed to operate and deliver goods. The company' CEO in France announced that the group has seen a boost in activity in the range of 40-50% during the lockdown. Meanwhile, the government and professional organisations are working on the development of a reinforced sanitary protocol common to all businesses that would allow a reopening before Christmas.

The government continues to be under pressure from businesses and elected officials to ease restrictions in time for the Christmas shopping period. The Association of Mayors (AMF) called in an open letter to PM Castex for gradual reopening of local shops. According to the association, this would prevent a massive return of customers as the Christmas holidays approach. Moreover, LREM deputies becomes more numerous to urge the government for a favourable decision by Nov 20.

Meanwhile, Health Minister Olivier Veran said earlier this week that it was too early to claim victory even if recent data showed some encouraging signs. At the same time, the government's spokesperson Gabriel Attal announced on Wednesday that the country was far from a deconfinement, referring to an adapted lockdown from Dec 1, instead of easing, if the health situation allows it. President Emmanuel Macron is due to address the nation next week regarding the pandemic situation and restrictions in the country.

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GREECE

Decline in industrial sales eases 4.2pps to 10.7% y/y in September

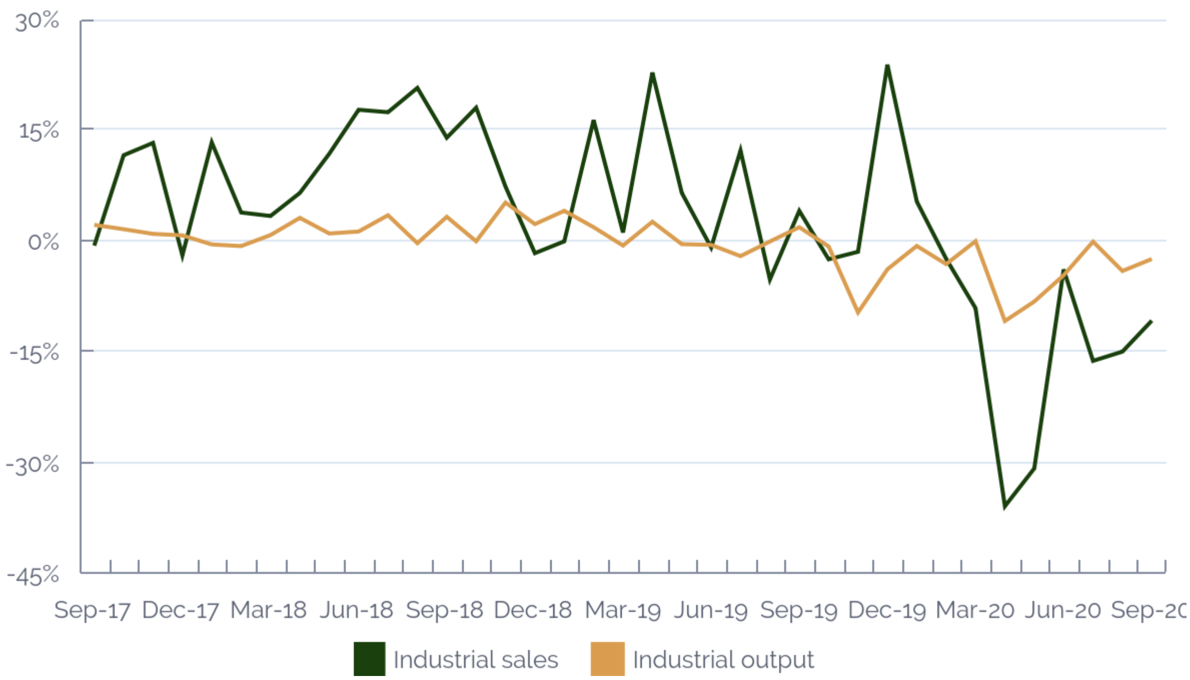
Greece | Nov 19, 13:35

- **Turnover improved on the domestic market, worsened on the external**
- **All goods categories except energy and capital goods reported improved sales in September**
- **We do not expect this improvement to be sustained in Q4 given pandemic developments**

The decline in industrial sales eased 4.2pps to 10.7% y/y in September, according to new data from the stat office. The easing was concentrated on the domestic market, where turnover fell by 9.1% y/y in September, compared to 18.7% y/y in August. However, sales on the external market worsened significantly, falling by 13.6% y/y in September, compared to 18.7% y/y in August. The worsening in sales on the external market was broad-based, across both Eurozone and non-Eurozone states.

Industrial sales (% y/y)

Source | ELSTAT



The breakdown by goods categories showed that industrial sales of energy and capital goods worsened, but improved in intermediate goods and both durable and non-durable consumer goods. Sales of intermediate goods rose for the first time since February, increasing by 1.9% y/y in September. Durable consumer goods rose by 13.1% y/y in September, compared to 7.4% y/y in August, the first month since February in which this category has reported double-digit growth.

Overall, the latest data has shown a significant improvement in industrial sales throughout the summer months, but we doubt that it will be sustained in Q4. As the pandemic has escalated in October and November, forcing new lockdown measures and an unavoidable slowdown in economic activity, this will most likely cause another worsening of industrial sales.

Industrial sales (% y/y)

	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Industrial Sales (% y/y)	**-30.7%**	**-3.8%**	**-16.2%**	**-14.9%**	**-10.7%**
Domestic	-28.7%	-2.1%	-17.8%	-18.7%	-9.1%
External	-34.3%	-6.8%	-13.1%	-6.8%	-13.6%
Eurozone	-29.7%	-3.1%	-5.8%	-1.2%	-7.4%
Non-eurozone	-37.1%	-9.2%	-16.8%	-9.6%	-16.7%
Energy	-62.1%	-10.8%	-46.5%	-33.9%	-39.7%
Intermediate Goods	-22.8%	-0.6%	-1.6%	-5.7%	1.9%
Capital Goods	-17.3%	-7.9%	3.8%	2.7%	1.6%
Durable Consumer Goods	-36.7%	-5.0%	9.4%	7.4%	13.1%
Non-durable Consumer Goods	-12.0%	-0.2%	-5.0%	-8.5%	2.1%

Source: ELSTAT

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PRESS **Press Mood of the Day**

Greece | Nov 19, 08:38

PM reiterates call for dialogues with Turkey, says its actions have "undermined" NATO (Kathimerini)

ATHEX: Benchmark soars above 700-pt mark (Kathimerini)

Commission in favor of bad bank (Kathimerini)

Boost for the private sector (Kathimerini)

Return to primary surpluses in 2023 (Naftemporiki)

Commission: 767 million euros to be disbursed in December in Greece (Naftemporiki)

The Greek Recovery Plan has four pillars (Euro2Day)

On the table closing borders in Northern Greece and new measures (Euro2Day)

Fiscal Council: Pandemic and recession will judge the course of the country in 2021 (Capital)

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ITALY

Forza Italia loses 3 MPs to Lega

Italy | Nov 19, 15:12

- **MPs Ravetto, Zanella and Carrara cite Berlusconi's political flirt with the PD as the reason for their decision**
- **Forza Italia VP Tajani says the party will remain in opposition but will continue negotiations with the government**
- **We remain sceptical that FI will find a place in the majority**

Forza Italia's political opening to negotiations with the government is the main reason behind the defection of three of its MPs to Lega's group in the Chamber of deputies, local media reports. Laura Ravetto, Federica Zanella and Maurizio Carrara announced their decision on Thursday, citing discomfort with Berlusconi's "political winks towards the PD". The MPs said that they remain committed to the idea of a united centre-right front and that Lega's group is the best place to realise the mandate given to them by Italian voters. Matteo Salvini was once again cautious to directly attack Berlusconi's recent actions but said that the appeal of the President Matarella towards political collaboration refers to something different than what is currently taking place between the ruling majority and Forza Italia. Salvini thus maintained that Berlusconi seems interested in joining the ruling majority - a proposition which was immediately denied by the vice president of Forza Italia Antonio Tajani, following up on similar statements by the PM Giuseppe Conte and former M5S leader Luigi Di Maio.

Notably, Tajani's comments referred specifically to the need for an ESM loan application as one of the reasons for

Forza Italia's political initiative. This is just one of many EU-related issues that clearly separate Berlusconi's party from the rest of the centre-right with both Lega and FdI remaining firmly against the use of the mechanism. Indeed, the government's inability to make use of available ESM funds (due to M5S's opposition) has been the starting point of all of Berlusconi's recent criticism towards Conte. While we remain highly sceptical that Forza Italia's flirt with the majority will result in a government reshuffle, it may have some longer-term consequences for the unity of the centre-right. In our view, the Italian political environment could prove receptive to a new and potentially key centrist political project, even if a common Forza Italia - Italia Viva front is likely to amount to less than the sum of its parts. It would, however, help both parties guarantee their parliamentary presence after the anticipated switch to a proportional voting system with a 5% threshold.

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KEY STAT **Current account surplus rises sharply in y/y terms to EUR 7.6bn in September**

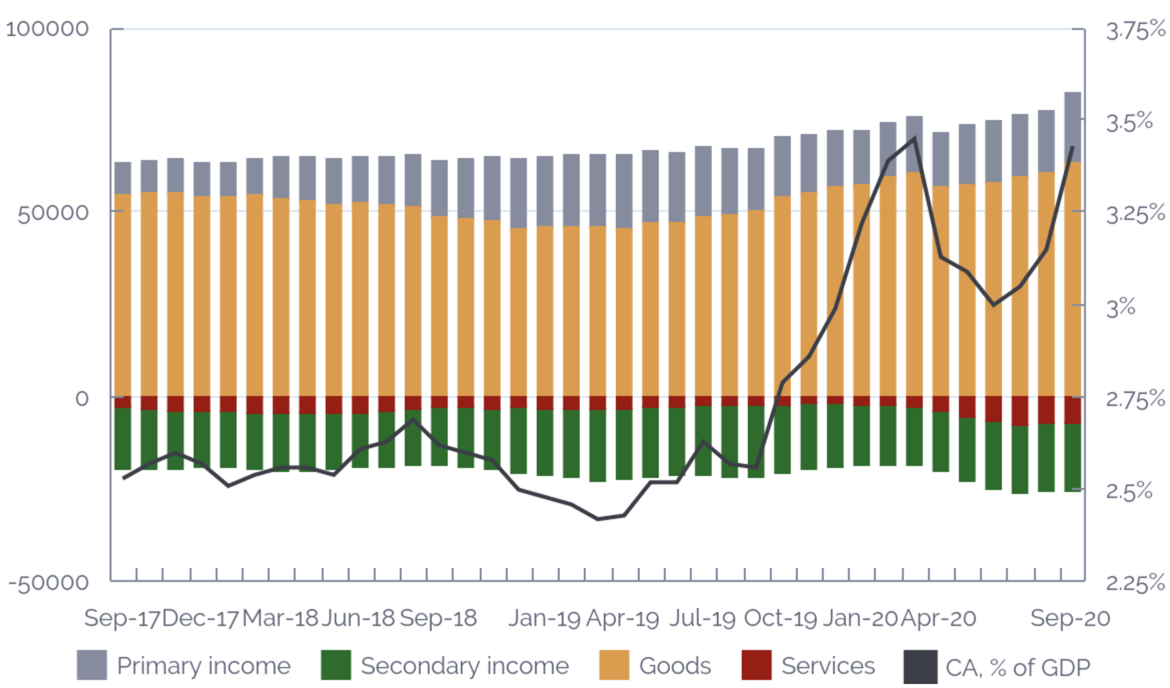
Italy | Nov 19, 13:14

- **Exports return to y/y growth, providing support to the current account surplus**
- **Foreign investors increase Italian public sector security holdings by EUR 11.9bn**
- **The 12-m rolling current account surplus rises by 24.7% y/y to EUR 57.0bn (3.4% of projected GDP)**

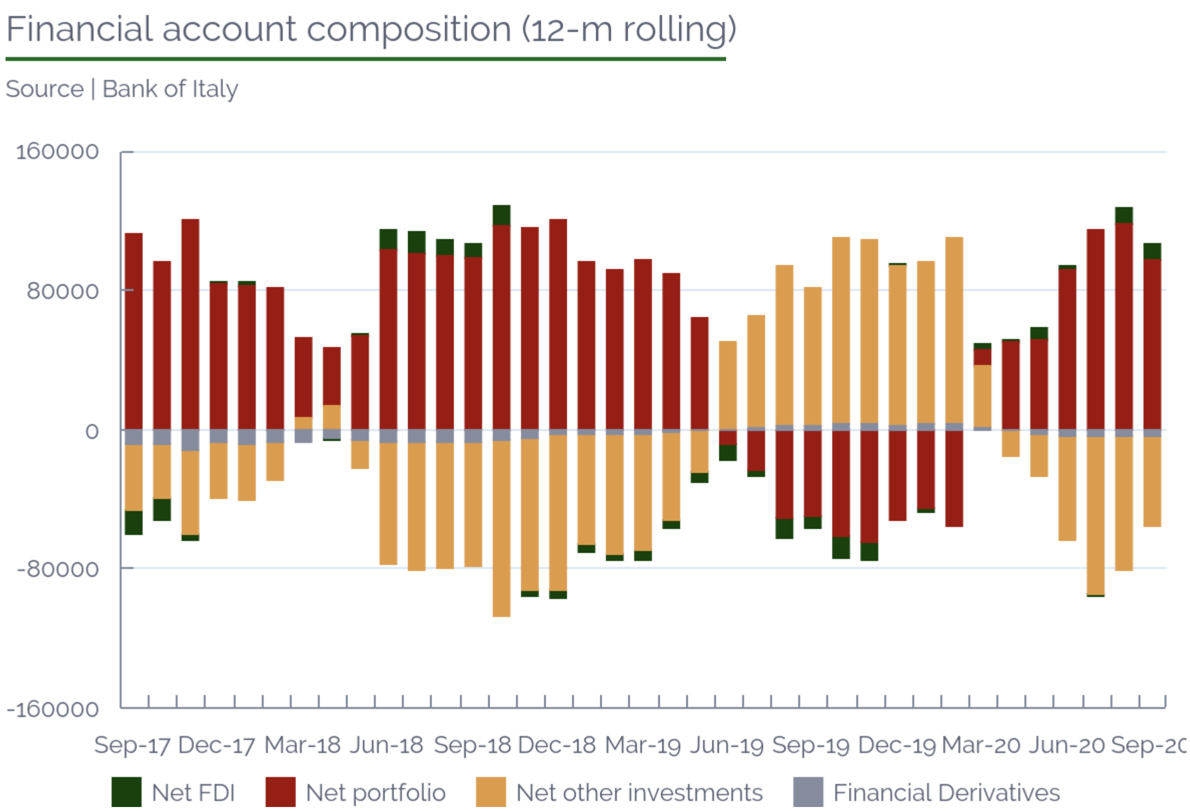
Italy's monthly current account surplus more than doubled in y/y terms to EUR 7.6bn in September, according to the latest Bank of Italy data. The third consecutive y/y increase was still supported by a marked increase in the merchandise trade surplus, which rose by 90.3% y/y to EUR 6.4bn. Exports returned to y/y growth for the first time since February and rose by 2.2% y/y, while imports fell by 6.4% y/y, but their rate of decline halved in comparison to August.

CA composition (12-m rolling), EUR bn

Source | Bank of Italy



The service sector balance remained positive for the third consecutive month and was flat in y/y terms as the reduced trips of Italians abroad almost completely offset the decline in revenue from foreign tourist arrivals. The tourism surplus amounted to EUR 2.2bn and was just marginally lower than the EUR 2.4bn recorded in Sep 2019. Meanwhile, the primary income surplus quadrupled in y/y terms to EUR 2.2bn, more than compensating for the slight increase in the secondary income deficit. The 12-m rolling current account surplus rose by 24.7% y/y to EUR 57.0bn (3.4% of GDP), marking yet another long-term high in the ratio.



Looking at the financial account, net acquisitions of foreign financial assets reached EUR 16.7bn, mainly due to the EUR 9.1bn increase in portfolio holdings (of which EUR 6.0bn in debt securities and EUR 3.4bn in investment fund shares, while equity holdings fell by EUR 383mn). FDI holdings abroad rose by EUR 7.1bn, while "other" investment assets fell by EUR 1.2bn. At the same time, net external liabilities rose by EUR 12.3bn, as foreign investments in Italian portfolio securities increased by EUR 14.4bn (of which EUR 11.9bn concerned public sector securities). FDI liabilities fell slightly by EUR 280mn as the flattish trend in direct investment continued for the fourth consecutive month. Finally, other investment liabilities decreased slightly by EUR 1.8bn.

Balance of payments, EUR mn

	Jul-19	Aug-19	Sep-19	Jul-20	Aug-20	Sep-20
Current account balance	**9,471**	**4,339**	**2,951**	**10,168**	**6,079**	**7,642**
Goods balance	7,957	3,424	3,384	9,765	4,227	6,440
Exports, FOB	43,567	28,994	37,880	39,088	26,645	38,716
Imports, FOB	35,610	25,570	34,496	29,323	22,419	32,276
Services balance	1,558	1,061	835	866	1,451	838
Services: travel	3,001	2,315	2,404	1,928	2,513	2,156
Primary income	1,531	1,547	409	1,341	2,209	2,228
Secondary income	-1,576	-1,692	-1,677	-1,805	-1,807	-1,864

Capital account	**-127**	**-83**	**-180**	**-58**	**-68**	**-157**
Financial account	**13,316**	**-3,491**	**-1,630**	**2,377**	**25,323**	**4,393**
Net FDI	2,012	-10,019	7,148	-963	1,028	7,418
Net portfolio	-25,162	3,496	15,461	-2,266	6,195	-5,342
Net other investments	35,228	3,663	-24,578	5,291	16,593	640
Financial Derivatives	318	196	-141	-129	89	391
Change in reserve assets	921	-827	481	443	1,417	1,285
Errors and omissions	**3,972**	**-7,748**	**-4,401**	**-7,733**	**19,312**	**-3,092**

Source: Bank of Italy

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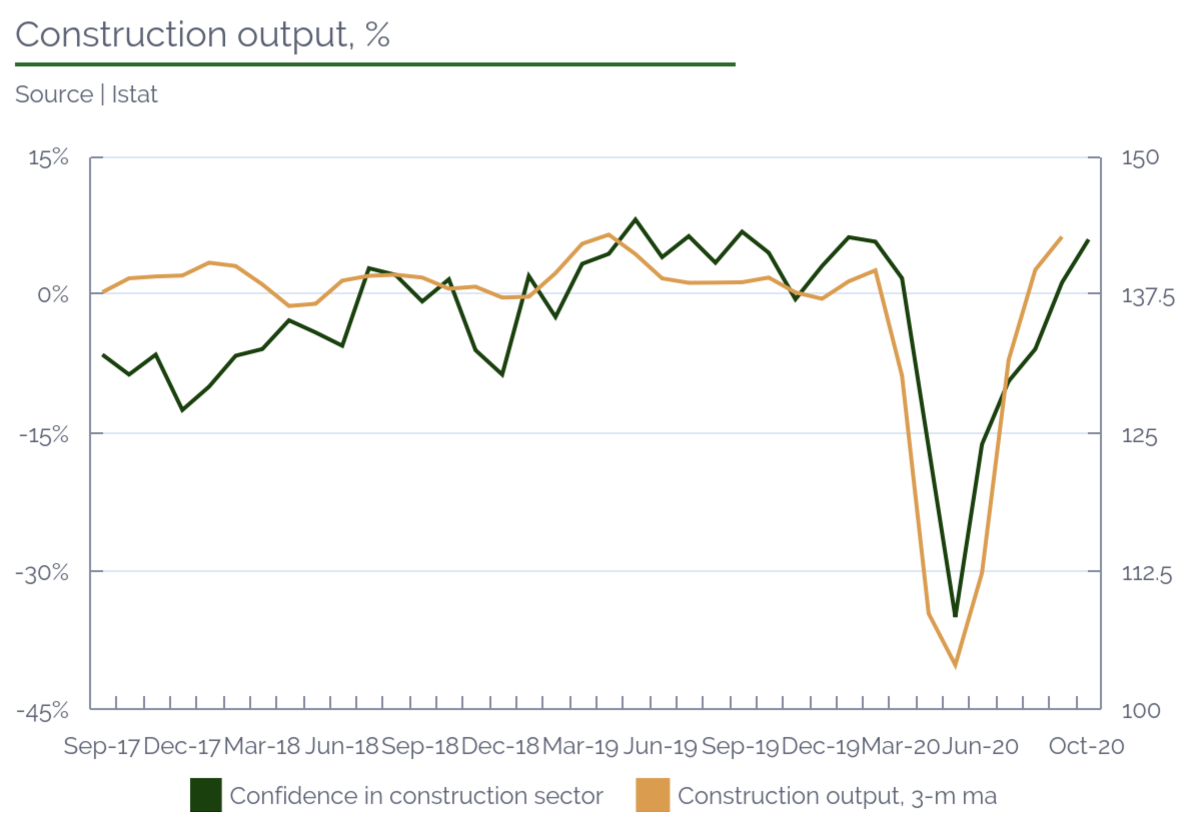
Construction output rises by 5.1% y/y in September

Italy | Nov 19, 11:18

- **Output declines by 8.1% m/m sa, at the back of its marked 12.6% m/m surge in August**
- **Output rebounds by 50.7% q/q in Q3 and business confidence continues increasing in early-Oct**

Construction output rose by 5.1% y/y ca in September, moderating from its 13.4% y/y increase in August (revised from 12.8%), Istat reported. At the same time, output fell by 8.1% m/m sa after four consecutive months of growth ending with a 12.6% m/m surge in August. Construction output also rose by 6.3% y/y in 3-m rolling terms and by 50.7% in q/q terms in Q3, indicative of the strength of the rebound in activity in the sector.



The deceleration of y/y output growth and the m/m decline in September was expected at the back of the strong August data. As discussed earlier, we attribute the latter to the softer than the usual seasonal reduction of activities in August due to the preceding pandemic. Istat's business sentiment data showed that confidence in the sector rose further in October, even though the survey period excluded the implementation of the vast majority of the second wave's containment measures. Even so, construction activity has not been subject to direct intervention and should be relatively moderately affected by the latest round of restrictions.

Construction output

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Construction, m/m % (sa)	171.9%	14.4%	4.6%	12.6%	-8.1%	-
Construction, y/y % (ca)	-15.9%	-5.6%	0.3%	13.4%	5.1%	-
Construction, y/y % (raw data)	-21.4%	-2.4%	0.3%	13.4%	8.8%	-
Construction output index (sa), 2015=100	87.0	99.5	104.1	117.2	107.7	-
Construction confidence indicator	108.4	124.0	129.7	132.6	138.6	142.5

Source: Istat

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PRESS Press Mood of the Day

Italy | Nov 19, 08:27

Coronavirus: 34k cases and 753 deaths, but incidence rate decines to 14.6% (Ansa)

Apulia, Liguria and Basilicata are moving towards the red zone. Veneto risks entering the orange zone (Il Messaggero)

The PD-Berlusconi dialogue continues. Conte says yes, but only on the budget [no govt reshuffle in sight] (HuffPost)

Conte: "New measures for the economy [will be announced] soon, there is widespread psychological and social unease in the country" (Corriere Della Sera)

Gualtieri: "Debt is reduced through growth. The ESM would be useful, but we are in a coalition" (La Repubblica)

Governors Fontana [Lombardy] and Cirio [Piedmont] insist: "With today's data, our regions would not be in the red area, but in the orange one" (Il Fatto Quotidiano)

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Red zone to expand further on Friday

Italy | Nov 19, 08:27

- **Half of all Italian regions may be in the red zone by Friday**
- **Regions want the risk assessment to include fewer criteria, but meaningful changes are unlikely**

The highest risk-zone is going to be expanded further on Friday following the weekly meeting of the scientific and technical committee, local media reports. The region of Abruzzo, which entered the orange zone on Nov 15, is most certainly going to move to the highest-risk area. Apulia, Liguria and Basilicata are also at risk, which means that by Nov 22, when the decision should come into effect, half of all Italian regions could be subjected to the harshest containment regime. On the other hand, Veneto may move into the orange zone, thus leaving only 4 Italian regions in the least affected group.

While the data is troubling, the continued expansion of the red zone was expected due to the classification approach adopted by the Italian government. Any region that enters the highest risk zone has to remain within it for at least 2 weeks, which means that a potential loosening of measures is delayed until the downward trend is confirmed. In fact, recent epidemiological developments in Lombardy (one of the most affected regions in both the first and the second wave) mean that it is arguably ready to be the first to make a step down the ladder and move from the red to the orange zone. The situation is also similar in Piedmont. However, such a decision cannot take place sooner than the Nov 27 meeting of the committee.

While the data required for the new update of the epidemiological map is flooding in, some Italian regions have made it clear that the current system is too cumbersome and "confusing for citizens". This is why they have asked that the 21 indicators included in the assessment are reduced to just 5. The proposal was quickly rejected by the Minister of Health Roberto Speranza, but follow-up statements by the Ministry show that the risk assessment system may be adjusted, provided a better weighing structure is proposed. However, any changes are likely to be modest and will most certainly not have an immediate impact on the distribution of Italian regions across the three risk zones.

Risk zones and main measures

RED ZONE

Movement and travelling both within and between municipalities are forbidden without a justifiable reason (incl. work, health and basic necessities such as shopping). Walks are only allowed in the vicinity of the home, outdoor physical activities are only allowed if they are individual. Restaurants only allow takeaways and home delivery between 5 AM and 10 PM. Non-essential shops are closed

Region	Since
Campania	15/11/2020
Tuscany	15/11/2020
Calabria	06/11/2020
Lombardy	06/11/2020
Aosta Valley	06/11/2020
Piedmont	06/11/2020

ORANGE ZONE

Free movement within the municipality without the need for justification between 5 AM and 10 PM. Travelling to other municipalities is forbidden, except for work-, education- and health-related activities, other exceptions also apply. Curfew between 10 PM and 5 AM (justifiable reasons include work- and health-related travel). Restaurants only allow takeaways and home delivery between 5 AM and 10 PM.

Region	Since
Emilia-Romagna	15/11/2020
Friuli	15/11/2020
Marche	15/11/2020
Liguria	11/11/2020
Umbria	11/11/2020
Abruzzo	11/11/2020
Basilicata	11/11/2020

Apulia	06/11/2020
Sicily	06/11/2020

YELLOW ZONE

Free movement without the need for justification between 5 AM and 10 PM. Free movement between municipalities, as long as both are in the yellow zone. Curfew between 10 PM and 5 AM (justifiable reasons include work- and health-related travel). Restaurants open between 5 AM and 6 PM.

Region	Since
South Tyrol	06/11/2020
Veneto	06/11/2020
Lazio	06/11/2020
Molise	06/11/2020
Sardinia	06/11/2020

NATIONAL MEASURES

The activity of all museums, cinemas and theatres is suspended. Secondary education via distance learning in all regions, while students aged 6+ have to wear masks at all times. Public transportation capacity is reduced to 50% with the exception of school busses

Source: CEEMarketWatch

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LITHUANIA

LVZS leader Ramunas Karbauskis renounces parliamentary mandate

Lithuania | Nov 19, 17:35

- **Leader claims restriction of opposition rights with regards to recent distribution of parliamentary positions**
- **LVZS to turn to Constitutional Court to defend its rights**

LVZS leader Ramunas Karbauskis renounced his parliamentary mandate, but noted he would consider changing his decision if asked by ruling parties. His decision is in protest of the new government's actions during the distribution of positions in the parliament. Ramunas claimed that the new ruling majority did not tolerate opposing opinions and restricted the rights of the opposition, after the LVZS, being the largest opposition political group, was left without a representative in the Seimas leadership. Karbauskis added that he would remain in politics, noting that he would be able to devote more time to prepare for municipal elections and to strengthen the party in rural areas. The PM Saulius Skvernelis defined the decision as brave and principled. Meanwhile, the Lithuanian Social Democratic Party leader (LSDP) Gintautas Paluckas noted that this was not the first time that Karbauskis threated to resign but he has never done it.

The LVZS will not have representatives in the Board of the Seimas, which will consist of three TS-LKD vice-speakers, one from the Freedom Party, and two opposition's representatives (the Labour Party and the LSDP). The parliament earlier this week rejected LVZS candidate Ausrine Norkiene for vice-speaker, while all other candidates, proposed both by the parliamentary majority and by the other two opposition parties, were approved. On Monday, parliamentary speaker Viktorija Cmilyte-Nielsen suggested that the LVZS should look for another candidate who would secure more votes in parliament, but the party eventually decided not to change its candidate. Karbauskis believes talks on positions in the Semas should be restored and the party's previously rejected candidate should be nominated once again.

Meanwhile, the LVZS MPs announced they were leaving the Conference of Chairs after their representative had been barred from the post of the head of the Audit Committee, too. The Conference of Chairs is a body made up of members of the Board of the Seimas and representatives of parliamentary groups. The party criticized the decision as the Audit Committee is traditionally chaired by an opposition MP. Moreover, the LVZS political group will refuse any leading position in the Seimas committees, commissions and other structural organs of parliament.

The party, who has 32 seats in the new parliament, is planning to turn to the Constitutional Court to defend its rights, as they define being in a worse position than smaller opposition groups. We recall that the Social Democrats have 12 seats, while the Labour Party has ten. According to Karbauskis, the LVZS group has lost its confidence in the new parliamentary speaker Viktorija Cmilyte-Nielsen and the incumbent ruling politicians.

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President Nauseda presents Ingrida Simonyte PM candidacy to parliament

Lithuania | Nov 19, 17:33

- **President to announce decision on list of new govt's members, while rejecting some proposals**
- **Coronavirus crisis management defined as main priority for new cabinet**

President Nauseda presented to the parliament the candidacy of the TS-LKD PM-designate Ingrida Simonyte. Born in Vilnius, Simonyte started her career as an economist at the FinMin and worked her way up to the position of finance minister in the cabinet of conservative PM Andrius Kubilius (2009-2012). She served as deputy chairperson of the central bank board before being elected as an independent member to the parliament in 2016. Simonyte ran for president in 2019, nominated by the TS-LKD, but lost the run-off against Gitanas Nauseda, who got 65.9%. We recall she was proposed to the PM post by the centre-right coalition, formed between the electoral winner TS-LKD, the Liberal Movement and the Freedom Party, who signed an agreement on Nov 9. The three parties hold 74 seats in the 141-member parliament.

If appointed, she will have up to 15 days to form the cabinet, have it approved by the president and present its program for approval to the parliament. We recall that she unveiled her list of new government members on Wednesday, The president is expected to assess the list of ministerial candidates and announce his decision on Thursday, while he could object some of the proposed appointments. The president's adviser Simonas Krepsta told LRT radio that some names being discussed with Simonyte will not be included in the president's final list.

Many of the potential ministers are new to politics, which provoked some criticism regarding their experience. More precisely, the nomination of Arunas Dulkys, the country's former auditor general, provoked some debates regarding his relevant experience for the position in the context of the coronavirus crisis. President Nauseda has already expressed his doubts, as the position is one of the key within the new government amid the ongoing pandemic. According to the PM Skvernelis, some ministerial candidates who are not politicians might lack support in parliament because they are not acquainted with the political stage.

Meanwhile, President Nauseda identified the coronavirus pandemic management as the most urgent task facing the new cabinet. According to him, the new government's priorities should also include consistently growing defence funding, active foreign policy, strengthening of energy independence and respect for the rule of law. The president also noted the importance of green policies and innovations, as well a national agreement on education.

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2021 draft budget is in line with EU recommendations - EC

Lithuania | Nov 19, 08:10

- **Fiscal stability must be preserved, new govt to submit updated draft budget**
- **Finance minister's candidate to review spending on COVID-19 response, defined as unsufficient**

The 2021 draft budget is broadly in line with the Council's recommendation in the context of the uncertain environment amidst the coronavirus crisis, according to the EC's assessment of the budget law, published on Wednesday. While most of the measures are designed to support the economic activity in the context of uncertainty, some do not appear to be temporary, noted the institution. According to the Commission forecast, these measures are estimated to total 1.5% of GDP and include increases in tax-free allowance, salaries in the public sector and various benefits. The EC reminded that fiscal stability must be preserved and effectiveness and adequacy of the support measures must be closely monitored and adapted according to the changing circumstances. The country will be asked to submit an updated draft budget to the Commission as soon as the new government takes office. We recall that the TS-LKD PM-designate Ingrida Simonyte unveiled her list of new government members on Wednesday, while her candidacy will be officially presented by the president to parliament on Thursday.

Meanwhile, the Conservative MP Gintare Skaiste, the finance minister's candidate, already announced that there are certain risks in terms of budget revenue and expenditure, whereas unforeseen spending on COVID-19 response is particularly worrying. She noted that the new government will have to review the 2021 draft budget and bring more clarity on the budget deficit. Skaiste added that some expenditure has not been included in the budget, like funding for the pensions indexation, while additional funding was needed in the education sector. We recall that according to the latest government's projections, the public deficit is expected to reach 8.8% of GDP in 2020, before narrowing to 5.0% next year, which is in line with the EC's autumn forecast. The finance minister's candidate said, however, that no tax changes are planned.

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PORTUGAL

PRESS Press Mood of the Day

Portugal | Nov 19, 08:46

IRS exemption can reach more than 20 thousand citizens with low salaries (Publico)

Government resumes negotiations with Left Bloc on Budget (Publico)

Rui Rio says he is closer to being prime minister and justifies agreement with Chega (Correio da Manha)

PS proposes an end to the tax penalty for those who remove houses from local accommodation (Correio da Manha)

Economic recovery slowed in October (Expresso)

PSD supports renewal of state of emergency and opposes the PCP congress (Jornal de Negocios)

Portugal with 79 more deaths by Covid-19 and 5,891 new infected (Jornal de Negocios)

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SLOVAKIA

KEY STAT Current account turns to EUR 429.1mn surplus in September

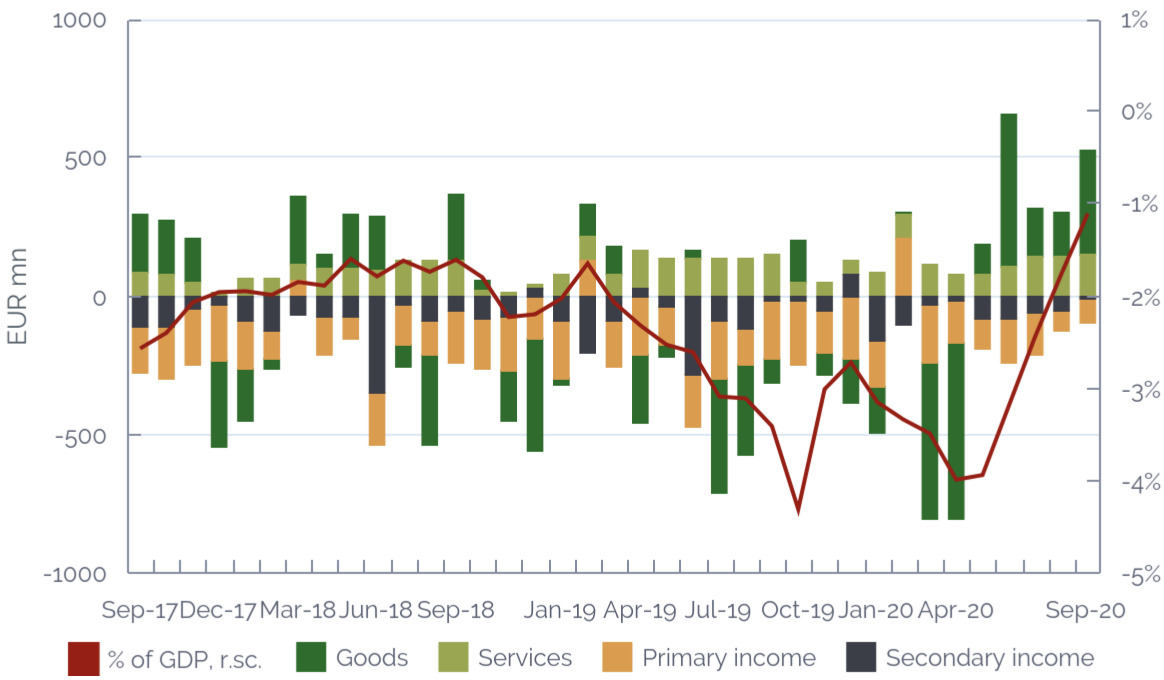
Slovakia | Nov 19, 17:29

- **Merchandise trade account swings into EUR 372.4mn surplus in September on import drop**
- **Surplus in services account expands y/y, deficits in primary, secondary accounts shrink y/y**
- **Jan-Sep gap down by 76.4% y/y on much lower merchandise trade deficit**
- **Financial account posts EUR 2.56bn outflow due to large EUR 1.43bn net FDI outflow**

The current account swung into EUR 429.1mn surplus in September from EUR 164.3mn deficit in the same month of 2019, the latest figures by the NBS published today showed. The surplus surprised the market, which expected the current account to post EUR 100mn deficit in September. We note that the NBS revised the August data and the new data showed that the current account recorded a EUR 183.8mn surplus in the month after initial data showed EUR 93.2mn deficit. The September surplus came mainly on the back of the improving trade balance as the merchandise trade account recorded EUR 372.4mn surplus compared to EUR 90.7mn deficit in the same month of 2019. Merchandise exports declined by slower 0.4% y/y compared to the 7.3% y/y import decline. The 2.3% y/y higher surplus in the services account and the lower deficits in the primary and secondary accounts also helped swing the CA balance into a surplus in the month. Because of the strong worsening during the height of the pandemic in the spring, the cumulative CA balance was still on deficit of EUR 475.8mn in Jan-Sep but the deficit was lower by 76.4% y/y, mainly due to the much lower EUR 14.2mn deficit in the merchandise trade account in the first nine months of this year. The 12-month rolling CA deficit at the end of September reached EUR 1.01bn or 1.1% of the 4-quarter rolling GDP, down from EUR 1.60bn or 1.8% of 4-quarter rolling GDP as of end-August.

Current Account Balance

Source | NBS



The improvement of the CA balance in September reflects the resumption of the economic activity in Slovakia and its main trading partners after the lockdown measures were overall lifted during May and June. Still, we expect exports to both EU and non-EU countries to remain hampered in the next months due to the negative impact of the coronavirus pandemic. The imports fall may be suggesting quite subdued domestic demand in view of the big uncertainties ahead but we may expect imports to recover due to the government efforts to accelerate EU funds drawing, the potential recovery of production in the automotive sector and the government's major infrastructure projects.

The capital account posted EUR 3.0mn surplus in September, which compared to EUR 75.1mn deficit in the same month of 2019. Its balance has been volatile for years, so it is hard to conclude from these data alone whether there is some slowdown of EU funds drawing. Yet, the finance ministry's data rather speak of quite slow EU funds absorption, in our view.

The financial account reported EUR 2.56bn outflow in September after recording EUR 436.4mn inflow in the previous month. The outflow was also by nearly three times larger compared to the EUR 533.5mn outflow recorded in Sep 2019. The outflow reflected a large EUR 1.43bn net FDI outflows in the month, as well as the outflows in the portfolio investment and other investment accounts.

Balance of Payments, EUR mn

	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20
Current account	**-164**	**418**	**115**	**184**	**429**
Goods	-91	547	174	158	372
Exports	6,562	5,968	5,526	5,654	6,538
Imports	6,653	5,420	5,352	5,496	6,165
Services	149	111	147	147	152

Primary income	-205	-165	-148	-70	-90
Secondary income	-18	-76	-59	-51	-5
Capital account	**-75**	**2**	**17**	**159**	**3**
Financial account	**807**	**1,359**	**-926**	**-436**	**2,564**
Direct investment	533	1,622	-146	248	1,425
Assets	965	1,068	-92	450	450
Liabilities	432	-554	54	202	-975
Portfolio investment	237	84	1,072	269	207
Financial derivatives	35	-3	-34	-2	-5
Other investment	-188	-466	-1,839	-1,181	726
Reserve assets	190	122	21	230	211
Net errors and ommissions	1,046	940	-1,058	-779	2,132

Source: NBS

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PRESS Press Mood of the Day

Slovakia | Nov 19, 08:59

Restaurants operate on outdoor terraces and hygienists warn this is dangerous (SME)

PM Matovic humiliates economy minister Sulik (SME)

PM Matovic: We need 7-11 million tests for testing by the end of the year (Pravda)

Leading experts have agreed: Coronavirus situation will deteriorate (Hospodarske Noviny)

Measures are taken chaotically. We need to know the brake system and when the government will pull it, expert says (Hospodarske Noviny)

Big comparison after the first wave: Slovak economy is among the best in the EU (Hospodarske Noviny)

Coronavirus destroys winemakers, they go into anti-crisis mode (Hospodarske Noviny)

Ask the editor Back to contents

PM Matovic says 7-11mn antigen tests needed to contain coronavirus by Christmas

Slovakia | Nov 19, 08:53

- **Government seeks to reduce number of new daily coronavirus cases to 500 by Christmas**
- **Health Minister Krajci says minimum of 560mn antigen tests to be procured in several months**

Some 7-11mn antigen tests will have to be conducted in two or three mass testings to ensure that the number of new daily coronavirus (COVID-19) infections falls below the 500 target before Christmas and below 400 after the holidays at the end of the year, PM Igor Matovic said on Wednesday. Matovic said that the government has agreed with the Central Crisis Management Team that mass testing should be the main instrument in dealing with the COVID-19 pandemic. Health Minister Marek Krajci also said that antigen tests have become a gold standard in containing the virus and explained that a minimum of 560mn antigen test kits will be procured, although the process is expected to take several months. He added that the government has to ensure a sufficient short-term supply of those test kits because any easing of restrictions has to come along with mass testing.

Krajci also said that he will present a plan to deal with the coronavirus crisis on a regional level, similar to the plan earlier proposed by Deputy PM and Economy Minister Richard Sulik, by Nov 20. He also said that the stricter containment measures imposed by the government were a result of citizens' non-compliance with its earlier recommendations. The minister criticised the Nov 17 protests, saying that various politicians are deliberately encouraging non-compliance with the measures. Those campaigning against wearing of protective face masks are responsible for the higher number of patients in hospitals and the setbacks in the fight against the virus on the front line, the minister added.

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Finance ministry in talks with banks to defer repayment of household loans

Slovakia | Nov 19, 08:32

- **FinMin Heger says only few citizens consider to postpone repayment of their obligations**

The finance ministry continues to negotiate with banks the further deferral of the repayment of household loans, Finance Minister Eduard Heger said on Wednesday. He explained that according to a central bank (NBS) survey released on Nov 5, only 0.1% of citizens considered to postpone the repayment of their obligations and only 1.6% expected significant difficulties in repaying their loans next year. The minister said that the data from the survey is very positive, indicating that problems related to the repayment of loans are only individual and not on a systemic level. Still, he said that additional data from the NBS will provide a clearer picture on the current situation.

Heger also said that the possibility for a nine-month deferral of the repayment of loans was introduced during the first spring wave of coronavirus (COVID-19) infections We note that the government earlier established the institute of deferral of repayments through the law on certain extraordinary measures in the financial area in connection with the spread of the new coronavirus. Citizens, entrepreneurs and SMEs were allowed to request a deferral of their bank loan for a maximum of nine months during a pandemic. The debtor may request such a step only once. Other consumer credit companies - leasing companies, hire purchase companies and other creditors authorised to provide consumer loans, may defer loan repayments based on the borrower for a period of three months, but the client may request an extension for another three months.

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PM Matovic to accept online poll on snap elections if 1.5mn people support it

Slovakia | Nov 19, 08:26

- **Non-parliamentary opposition Voice-SD launches online poll, seeking to shorten cabinet's term**
- **Poll asks citizens whether they agree that snap general election should be announced in Q1/2021**

PM Igor Matovic will accept the non-parliamentary opposition Voice-SD's online poll on the holding of a snap parliamentary election if 1.5mn or more citizens support the poll, the TASR news agency reported, Matovic said that the number of citizens supporting the poll should exceed the number of citizens, who voted for the ruling coalition in the Feb 29 parliamentary election. Matovic said that if over 1.5mn people are seeking a snap parliamentary election, then the government must be doing something wrong. Still, Matovic said that his government has performed better compared to those in the neighbouring countries in dealing with the autumn wave of the coronavirus (COVID-19) pandemic. He also claimed that the nationwide antigen testing has been a very effective strategy and that the country's economic downturn is one of the slowest in the region.

The online poll was launched on Nov 17, asking citizens whether they agree that the electoral term of current government should be shortened and a snap parliamentary election should be announced in Q1/2021. Voice-SD leader Peter Pellegrini earlier said that if the poll revealed that the public supported the idea of holding a snap election, his party would submit a motion to the parliament to vote on it. If the coalition rejected the motion, Pellegrini admitted that Voice-SD could attempt to initiate a referendum on the matter, arguing that as the opposition did not have enough MPs to dismiss the government in a no-confidence vote, the power to do so lied in the hands of the public. Some 350,000 public signatures are required for holding a referendum, according to the local constitution.

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Deputy PM Sulik preparing own plan for tackling COVID-19 pandemic

Slovakia | Nov 19, 08:23

- **Plan envisages containment measures according to epidemiological situation in local units**
- **PM Matovic earlier tasked Sulik to draft plan by Nov 15, currently seems sceptical about it**
- **Relations between Matovic, Sulik have deteriorated over dispute on handling the pandemic**

Deputy PM and Economy Minister Richard Sulik (junior ruling SaS) is preparing his own plan for dealing with the new wave of coronavirus (COVID-19) infections, which will be presented in the next few days, local media reported. Sulik noted that his plan is being drafted with the help of independent experts and that it will most likely be ready by Sunday (Nov 22). The plan envisages the adoption of measures confined to local units, depending on the epidemiological situation in those units, Sulik said. The plan included lockdowns and closure of all commercial establishments in heavily-affected areas but no restrictions in areas, where the outbreak is under control. He also said that his party will develop an evaluation model for the epidemiological situation in localities and the score calculated according to the model will determine the measures to be applied in each locality. He added that a decision on whether to divide the country by districts or other territorial division criteria has not been made yet.

PM Igor Matovic (senior ruling OLaNO) earlier called on Sulik to prepare an alternative plan by Nov 15 for reducing the number of daily new coronavirus cases below 500. We note that local epidemiologists have called on the government to reopen restaurants and schools only if the number of daily new coronavirus infections declines below 500 from their current level of over 2,000. Matovic reacted sceptically to Sulik's announcement, saying that his plan should be offered to a country that does not have a plan to deal with the pandemic.

We note that relations between Matovic and Sulik have deteriorated recently and Matovic has even accused Sulik of promoting what he called deadly ideas related to easing of the coronavirus containment measures. The dispute between Matovic and Sulik escalated further on Nov 18 after Matovic ordered the deputy PM to purchase antigen test kits through the Economy Ministry. Sulik said that purchasing test kits is not a responsibility of his ministry and that the State Material Reserves should complete the task. Matovic claimed that the previous procurement conducted through the State Material Reserves, including the choice of supplier, was marred by corruption. He added that the defense and interior ministries are already busy with different tasks related to the containment of the pandemic.

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SLOVENIA

HIGH Parliament passes budgets 2021-2022, which see record spending and investment

Slovenia | Nov 19, 09:18

- **Govt plan budget deficit at 5.6% of GDP in 2021, at 3.1% of GDP in 2022**
- **FinMin says major state investments should offset drop in consumer spending amid pandemic**
- **Public debt to decrease from 82.4% of GDP this year to 79.3% of GDP in 2022**

Parliament passed budget 2021-2022, which see record spending and investments amid the coronavirus pandemic, the local press agency reported on Thursday morning. As previously noted revenue for 2021 is planned at EUR 10.72bn, while expenditure at EUR 13.47bn, which is higher by 28.8% compared with the original budget documents passed back in 2019. We remind that in Slovenia the budget bill is normally prepared for the next two years. The general government budget deficit is expected at 5.6% of GDP in 2021. Meanwhile, in 2022, revenue is planned to grow to EUR 11.01bn, while spending should drop to EUR 12.6bn, with a deficit at 3.1% of GDP.

Finance Minister Sircelj noted it is expected that major state investments should offset the drop in consumer spending as a result of the coronavirus crisis. Sirceljs particularly stressed on transport infrastructure, healthcare and care homes. Some EUR 2bn will be spent on investment in each 2021 and 2022, with Finance Minister Sircelj stressing the country has never before invested that much.

Slovenia's public debt is expected to decrease from 82.4% of GDP this year to 80.9% of GDP next year and decrease further to 79.3% of GDP in 2022. Both PM Jansa and Finance Minister Sircelj stressed that despite debt has increase in order to finance expenditure, it still remains below the EU average. While Sircelj explained future developments heavily depend on the course of the pandemic, he expects economic indicators to improve in 2021, while the 2019 level is to be achieved in 2022.

Sircelj explained the budgets have been prepared in uncertain times, which translate into greater risks for public finances and the economy. PM Jansa argued the government will continue with its robust approach towards managing the impact of the pandemic, while EU funds will play a key role in terms of investments. Meanwhile, the government has earmarked adequate budget reserves which allow it to at least partially mitigate the impact of the crisis and the GDP contraction, Sireclj argued. Ruling coalition parties unanimously agreed there is no other approach to the crisis, while, the opposition expressed concern with how rising expenditure will be financed and how debt will be repaid.

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SPAIN

Sanchez defends the need for EH Bildu’s continued support

Spain | Nov 19, 15:56

- **Sanchez says the opposition is creating "fake news" to promote social division**
- **Insists on the need for achieving maximum parliamentary support for the 2021 Budget**

The POSE will strive to achieve the maximum possible support for the 2021 Budget and will not back down under the criticism surrounding the inclusion of Baque nationalist party EH Bildu in these negotiations, the PM Pedro Sanchez said in a letter to the PSOE's members on Thursday. The PM described the opposition's criticism towards the inclusion of EH Bildu as "reactionary populism" that creates "fake news" used to promote polarization and social division. He called the 2021 Budget "indispensable" and said that the country must move forward with everyone's support in order to measure up to "the greatest challenge in a century".

While it was clear that Sanches had no intention of simply rejecting EH Bildu's offer for support, it is evident that Podemos' ongoing political flirts with the regional parties are a growing issue in moderate POSE circles. Earlier on Thursday the Minister of Justice Juan Carlos Campo described the Podemos-ERC-Bildu amendment against evictions as "absolutely abnormal", seeing as Podemos basically introduced an amendment to the accounts they had already agreed with the PSOE. We recall that Podemos went behind the PSOE's back on the matter, leaving the Minister of Finance Maria Jesus Montero and the Economic Minister Nadia Calvino unprepared to answer questions raised by journalists. At the same time, Podemos has been aggressively trying to force Citizens out of the negotiations - thus once again stepping on the toes of the PSOE moderates, who have been working hard to come to terms with Ines Arrimadas' party.

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KEY STAT Trade deficit declines by 65.0% y/y to EUR 1.49bn in September

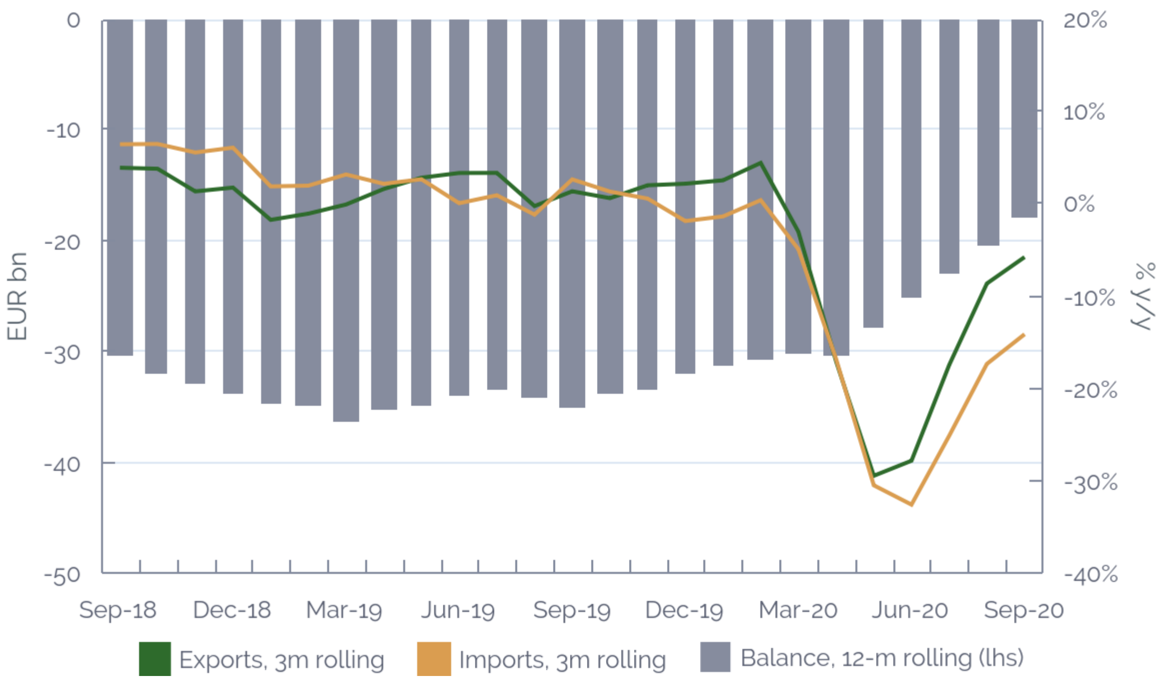
Spain | Nov 19, 15:24

- **Monthly exports almost recover their 2019 levels, while the recovery of imports lags behind**
- **Spain's 12-m rolling trade deficit declines by 49.7% y/y to EUR 17.6bn in August (1.6% of projected GDP)**
- **Automotive exports rise for the third consecutive month while remaining 19.3% lower in y/y terms in Jan-Sep**

Spain's monthly merchandise trade deficit fell by 65.0% y/y to EUR 1.49bn in September, the latest data from the Ministry of Industry, Trade and Tourism showed. Exports almost fully recovered in y/y terms and were down by just 0.9%, while the rate of decline in imports almost halved to 10.8% y/y. Exports were still down by 5.7% y/y in 3-m rolling terms, while imports fell by 14.1% y/y.

External trade

Source | Ministry of Economy



The monthly exports of almost all product groups rose with capital goods registering a 6.4% y/y increase and exports of the automotive sector rising by 5.3% y/y. intermediate goods exports were flat in y/y terms after still declining at a double-digit rate in August, while food exports remained upbeat and rose by 8.4% y/y. On the imports side, most of the ongoing improvement was driven by the recovery of consumer goods imports, while capital goods imports and intermediate goods imports once again fell markedly by 7.6% y/y and 15.5% y/y, respectively.

Looking at the cumulative data, food exports remained the only category to increase in Jan-Sep (by 5.8% y/y), while automotive exports remained the most affected of the leading sectors and registered a 19.3% y/y contraction. Exports thus fell by 12.6% y/y to EUR 188.4bn in Jan-Sep, but imports fell faster by 17.2% y/y to EUR 199.5bn. As a result of the ongoing relative overperformance of exports, Spain's 12-m rolling trade deficit declined by 49.7% y/y to EUR 17.6bn in September, which equals a 4-year low of about 1.6% of projected GDP. Finally, Spain's merchandise trade deficit fell by 56.4% y/y to EUR 11.1bn in ytd terms - a rate of decline which is still insufficient to offset the significant deterioration of the tourism surplus.

External trade (EUR mn)

	Sep-20	% y/y	YTD-20	% y/y
Exports	**23,250.3**	**-0.9**	188,401	**-12.6**
Foods	3,835.3	8.4	37,723	5.8
Energy	986.3	-49.2	9,495	-40.7
Basic goods	539.8	3.5	4,411	-19.4
Semi-manufactured goods	2,299.0	0.4	19,268	-13.2
Chemical goods	3,374.5	-2.3	30,196	-4.5
Capital goods	4,776.3	6.4	36,762	-16.3
Automotive sector	4,071.3	5.3	26,455	-19.3

Durable consumer goods	425.9	13.6	3,050	-9.1
Consumer goods	2,493.6	-3.0	17,603	-18.2
Other	448.3	6.3	3,437	11.1
Imports	**24,740.0**	**-10.8**	**199,507**	**-17.2**
Foods	2,829.2	-9.2	25,138	-4.2
Energy	1,900.0	-47.8	20,716	-38.3
Basic goods	852.2	4.2	6,074	-22.0
Semi-manufactured goods	1,630.5	-15.5	14,040	-20.3
Chemical goods	4,290.0	-0.3	36,800	-4.7
Capital goods	5,615.3	-7.6	44,145	-13.5
Automotive sector	2,938.5	-11.1	20,898	-31.1
Durable consumer goods	832.3	16.0	5,514	-10.9
Consumer goods	3,684.3	0.4	25,270	-11.8
Other	167.6	9.4	910	-13.8
Balance	**-1,490**	**65.0**	**-11,106**	**56.4**

Source: Ministry of Economy

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Treasury places EUR 1.8bn medium-to-long-term debt, yields decline

Spain | Nov 19, 12:41

- **The gross average yield on the 5-y Bonos declines to -0.414% from -0.345% previously**
- **The Jul 2027 bonds yield -0.273%, down from -0.040% at the Sep 17 auction**

The Treasury placed EUR 1.84bn during the medium-to-long-term auction on Thursday (Nov 19). The placement included EUR 1.36bn of 5-y bonds maturing in Jan 2026 and EUR 487m of 7-y bonds maturing in Jul 2027. The gross average yield on the 5-y bonds fell to -0.414%, compared to -0.345% at the Oct 15 auction (first tranche). Demand declined slightly but remained robust at 2 times supply. The Jul 2027 bonds yielded -0.273%, registering a marked improvement from the -0.040% achieved at the Sep 17 auction. The bid-to-cover ratio more than doubled to 7.22.

Government securities auction, Nov 19

	5-y	7-y
Maturity	31-Jan-26	30-Jul-27
Allotted, EUR mn	1,357	487
Bid-to-cover ratio	2.00	7.22
Average yield	-0.414%	-0.273%
Previous acution	Oct-15	Sep-17
Previous bid-to-cover ratio	2.23	3.43
Previous yield	-0.345%	-0.040%

Source: Treasury

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PRESS **Press Mood of the Day**

Spain | Nov 19, 08:22

Iglesias pressures the PSOE with evictions and Calvino accuses him of creating a conflict (El Pais)

Mergers must aim for more than just cutting costs - Bank of Spain (Expansion)

[BBVA CEO] Genc warns that the merger with Sabadell will only be completed if it really creates value (Cinco Dias)

Sanchez assures that he "will not accept crossed vetoes" during the budget negotiations and "will reach out to all political forces" (Publico)

Casado avoids criticizing the blackmail of Hungary and Poland, while questioning the rule of law in Spain (eldiario)

Since March, 70k more people have died in Spain than in a "normal year" (Publico)

Health Ministry leaves the door open for pharmacies to perform tests as requested by Madrid and Catalonia (ABC)

Brussels supports the Budget, but warns of the risk of high debt (El Pais)

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CHILE

Govt presents own proposal for a restricted round of pension drawdowns

Chile | Nov 19, 19:35

- **Govt proposes narrower scope for drawdowns, with fewer beneficiaries and less money**
- **Govt's bill would also force people withdrawing from pension savings to return the money gradually**
- **Opposition slammed the counterproposal, but key Chile Vamos senators have not given their opinion yet**

The government presented its own initiative to authorize Chileans to withdraw money from their compulsory pension savings for a second time this year, which aims to neuter a bill from the opposition on the topic, the website El Mercurio reported Thurs. The government's proposal would only allow drawdowns from Chileans who earn less than CLP 2.9mn per month (USD 3,800) to withdraw up to USD 3,800. The withdrawal would count towards income tax rules, and the money taken out would have to be returned gradually through extra social security contributions to be charged every month. This contrasts with the opposition's initiative, which allows anyone with pension savings to withdraw up to USD 5,700 exempted from income tax and without having to return the money in the future.

The government's argument is that their proposal ensures that only those who really need the money will withdraw from their pension savings, and that the pension system will not weaken over the long-term because the savings will be restored. The opposition mostly criticized the counterproposal for being restrictive to the point that it won't help many people.

The key will be to see whether enough senators of the ruling Chile Vamos are still willing to support the opposition's initiative. We remind that authorizing the pension drawdowns requires a three-fifths majority in Congress, so a united opposition is not enough for approval. If enough Chile Vamos senators like the counterproposal it could lead to a standstill, which would be a victory for the government.

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Embattled police chief resigns after new case of police brutality

Chile | Nov 19, 18:46

- **Numerous cases of police brutality force govt to replace police chief**
- **Police force needs a deep reform that goes beyond replacing the chief**
- **But that is unlikely to happen under Pinera**

Embattled police chief Mario Rozas resigned Thurs. after a new case of police brutality brought to the forefront the numerous instances of excessive use of force by the police over the last year. On Wed. it was found that police officers shot and wounded two kids during a raid at the offices of a government child welfare organization, which renewed calls among opposition politicians and people in social media for the government to replace Rozas. During the entire Pinera administration there have been several cases where police either killed or wounded innocent people, including attacks on thousands of people during the social uprising in October last year that triggered accusations of human rights violations from international organizations.

President Sebastian Pinera named General Ricardo Yanez as Rozas' replacement and urged him to work on modernizing the police force. The opposition wanted a civil authority to be named as a temporary comptroller while Congress works on a reform. A reform of the police force has been hard to achieve because the ruling Chile Vamos simply doesn't want one.

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