ECONOMIC
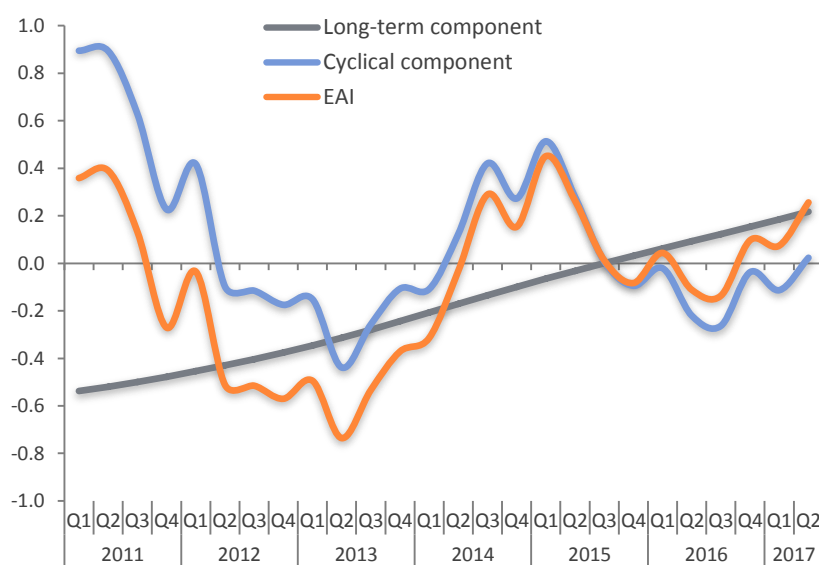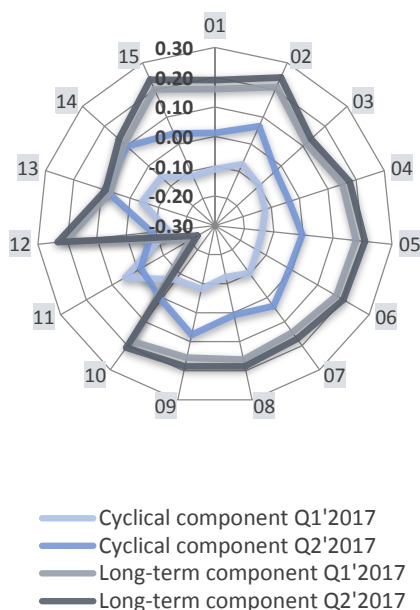# ACTIVITY
INDICATOR IN BULGARIA

1 EAI BY COMPONENTS

Source: MF

2 DECOMPOSITION OF THE VARIABLES, INCLUDED IN EAI

1	GDP
2	Industrial production index
3	Construction index
4	Retail trade turnover
5	Business climate
6	Industrial orders
7	Industrial price expectations
8	Industrial employment expectations
9	Industrial capacity utilisation
10	M1
11	Long-term loan interest rates in BGN
12	VAT revenues
13	Petrol price index
14	Non-energy commodity price index
15	EU28 GDP

Source: MF

### EAI was positive for the third quarter running

In Q2 2017 EAI[1] made a substaintail increase to 0.26 from 0.07 in Q1.

The long-term component determined the positive value of EAI but the increase in the economy's overall position followed the improvement of the cyclical component. The latter went on the postive territory for the first time since mid-2015.

All variables included in the EAI contributed positively but the main influence came from those reflecting the external environment. The stronger real GDP growth in EU 28 and the continuous uprise of the international prices of petroleum and non-energy commodities made a favourable impact on the variables related to the Bulgarian export – industrial production index and capacity utilization. The more optimistic assessment of entrepreneurs for the overall business climate in the country also supported the improvement in the cyclical position.

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[1] See "Rationale and Methodology of the EAI"

3 ESTIMATED CYCLICAL FLUCTUATIONS IN THE EURO AREA AND BULGARIA
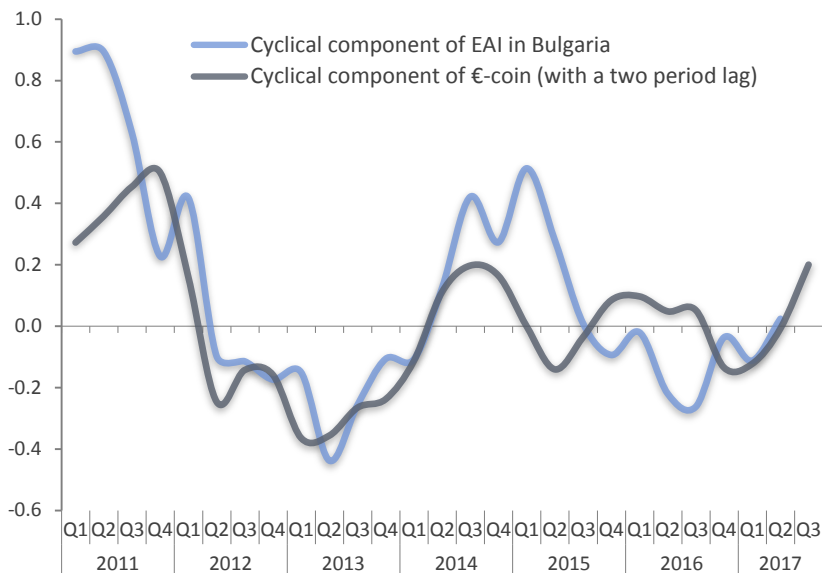
Source: MF, CERP

4 EAI AND GDP *

* To achieve better compatibility, real GDP growth data has been standardized by substracting the mean and dividing by the standard deviation of the series.

Source: MF

The current EAI cyclical component followed the positive dynamics of the euro area cyclical position, the latter materializing the improved business and households' confidence in the end of the previous year.

In Q1 the cyclical component of €-coin[2] reached the highest-hit level since 2014 further supported by the rise of industrial production in the advanced countries. On the grounds of the estimated degree of synchronization between the €-coin and EAI (0.74 и 0.87, with one and two periods lag[3]), it could be expected the cyclical position of the Bulgarian economy to continue to improve in the forthcoming months.

In compliance with the favourable expectations for the cyclical component and the increased long-term position of the economy, the preliminary estimate for the overall EAI indicator for Q3 also increases. Expectations further include EAI dynamics to correspond with the GDP pace of increase.

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[2] For more detailed data and methodological notes on the euro area cyclical indicator €-coin, visit http://eurocoin.cepr.org/. As this is a monthly indicator, data have been averaged to make comparison with the quarterly EAI possible. In addition, since €-coin excludes only short-term (seasonal) fluctuations in euro area business activity, it was also necessary to eliminate the long-term trend in the time series, using the Hordrick-Prescott filter.

[3] Correlation is estimated for the period Q1 2002 – Q2 2017.