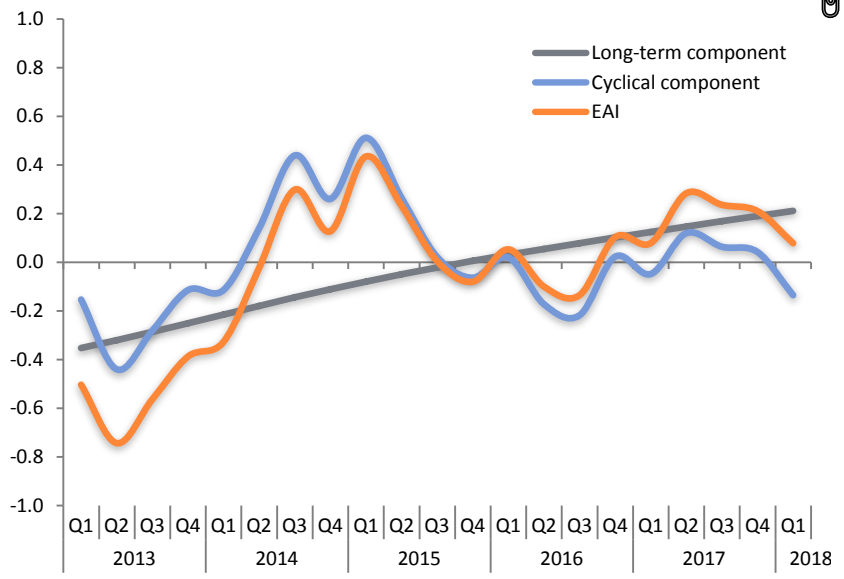
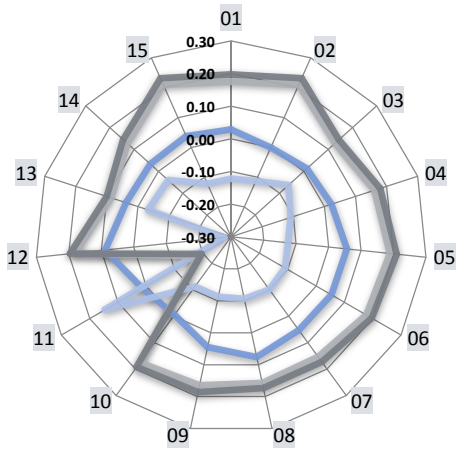
ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS



Source: MF

2 DECOMPOSITION OF EAI VARIABLES



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

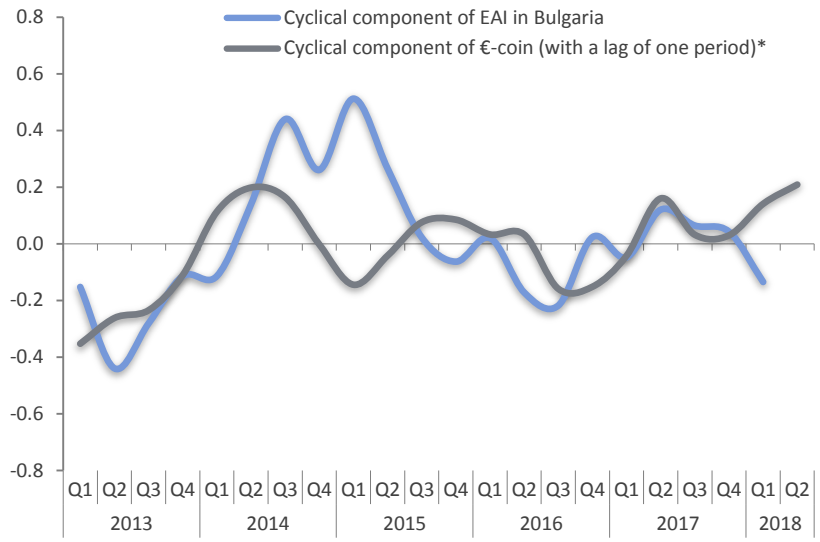
EAI still positive but decreasing

In Q1 2018 EAI[1] remained on the positive territory but decreased to 0.08 from 0.21 in Q4. The long-term economic position further increased to become comparable with the values from the first half of 2007; however, the cyclical component declined and turned negative for the first time during the last year.

The cyclical decrease of EAI was driven by all variables included in the composite indicator. The biggest contribution made VAT revenues due to the decline in receipts from import. This was in line with the import growth deceleration in Q1 curbed by the registered drop from third countries, as well as with the slowdown in the pace of increase of consumption.

The external economic activity presented with the real GDP growth in EU 28 also made a cyclical decrease compared to the previous quarter and corresponded with the weaker provision of industrial orders in manufacturing and the less favourable assessment of the business climate in the country. Expectations for selling prices and employment dynamics in manufacturing, similarly, changed on the negative side. The registered cyclical decline in the production capacity was also among the main drivers of the EAI downturn in Q1.

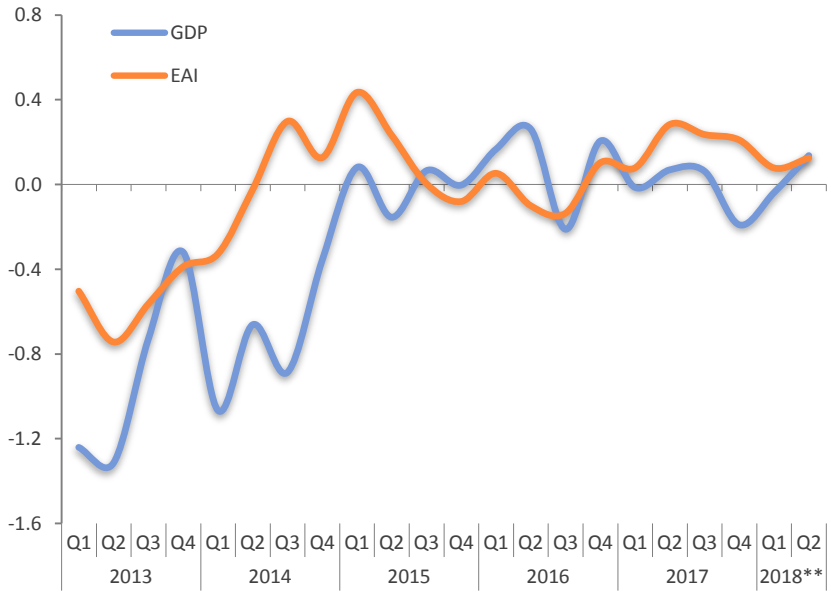
3 ESTIMATED CYCLICAL FLUCTUATIONS IN THE EURO AREA AND BULGARIA



* Correlation is estimated for the period Q1'02 – Q1'18.

Source: MF, CERP

4 EAI AND GDP*



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

** Preliminary estimates for EAI and GDP for Q2'18.

Source: MF

The cyclical position of the euro area evidenced with the composite indicator €-coin[2] gained momentum since end-2017 due to the strengthening industrial production and more favourable confidence assessments of consumers and the business. Despite the latter, the EAI cyclical component decreased in Q1 reflecting the economic activity slowdown within non-euro area member states.

The preliminary estimate for the overall EAI for Q2 increases compared to Q1 in compliance with the favourable expectations for the long-term position of the economy. The upturn in €-coin in January-March will influence positively the EAI cyclical component; nevertheless a restrictive impact could be expected on the back of the ongoing slowdown in the real GDP growth in the non-euro area member states in Q1.

The more optimistic assessment of entrepreneurs for the overall business climate in the country and industrial orders, as well as the continuous uprise of the international prices support the expected improvement in EAI in Q2. The latter is in line with the observed favourable dynamics in construction, retail trade and industrial production in April.

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

[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.

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