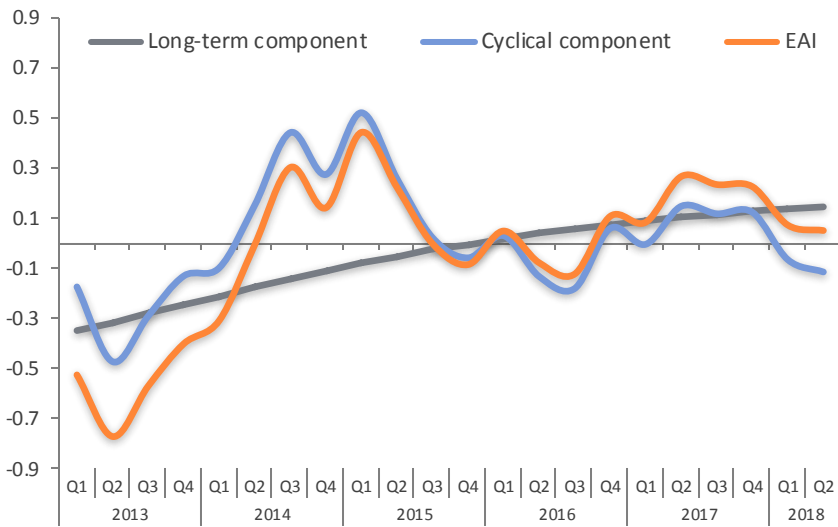


# ECONOMIC ACTIVITY INDICATOR IN BULGARIA

## 1 EAI BY COMPONENTS

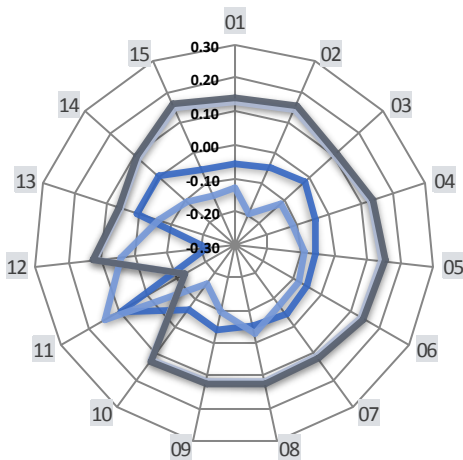


**EAI remained fairly stable**

EAI<sup>1</sup> fell slightly to 0.05 in Q2 2018, down by a marginal 0.02 pps from Q1. The widening negative contribution of the cyclical position was offset by the continuing upward trend in the long-term component.

Source: MF

## 2 DECOMPOSITION OF EAI VARIABLES



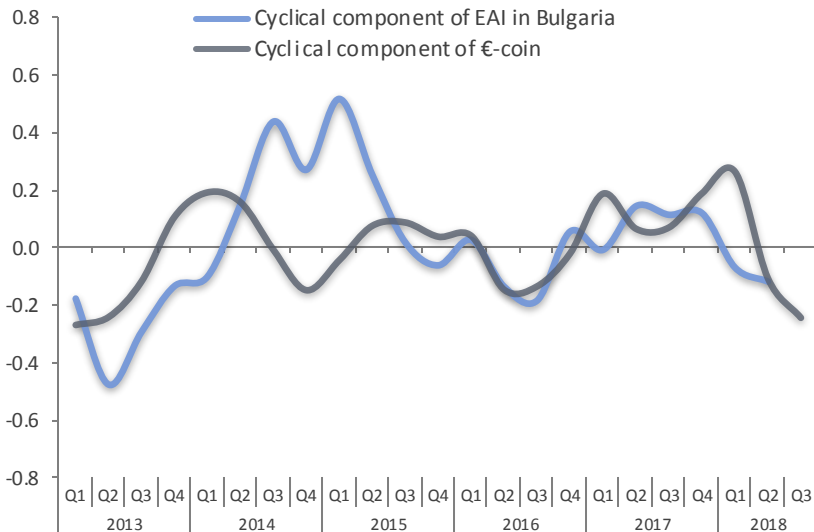
- 1 GDP
- 2 Industrial production index
- 3 Construction index
- 4 Retail trade turnover
- 5 Business climate
- 6 Industrial orders
- 7 Industrial price expectations
- 8 Industrial employment expectations
- 9 Industrial capacity utilisation
- 10 M1
- 11 Long-term loan interest rates in BGN
- 12 VAT revenues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

— Cyclical component Q1'18  
 — Cyclical component Q2'18  
 — Long-term component Q1'18  
 — Long-term component Q2'18

Most of the variables included in EAI made a cyclical downturn, with the largest contribution from the industrial production index. Similarly, a high negative influence came from the capacity utilization, international prices of non-energy commodities and petroleum, and real GDP growth in EU-28. Unlike the observed worsening of the indicators related to the external economic activity, the cyclical position of the sentiment indicators presented with the business climate, industrial orders, expectations for selling prices and employment dynamics remained close to Q1. On the positive side, the cyclical component of VAT revenues increased considerably, thus limiting the EAI downturn.

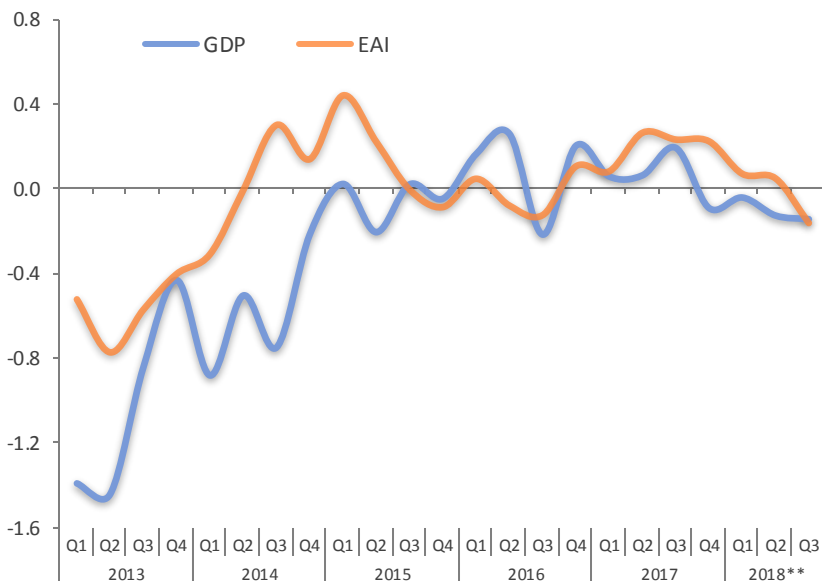
Source: MF

### 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 subtracting the mean and dividing by the standard deviation of the series.

\*\* Preliminary estimates for EAI and GDP for Q3'18.

Source: MF

In Q2, the cyclical component of €-coin<sup>2</sup> fell due to the slowdown in the industrial activity and deterioration of the business confidence in the euro area. Due to the weakening of the world trade and further decline in the business confidence outlook, €-coin remained on the negative territory in July-September, despite in the last month it increased supported by the improving price dynamics. The still subdued cyclical position of the euro area is expected to have a restrictive effect on the EAI in Q3, as the degree of synchronization between the €-coin and EAI from Q1 2016 onwards is estimated to be stronger in the current period.

In Q3 2018, EAI is estimated to decrease. Its lower value will be largely driven by the decrease in the cyclical component, while the long-term position will further increase. All variables included in EAI are expected to have a negative influence on the composite indicator.

<sup>1</sup> See "Rationale and Methodology of the EAI"

<sup>2</sup> 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 Hodrick-Prescott filter.