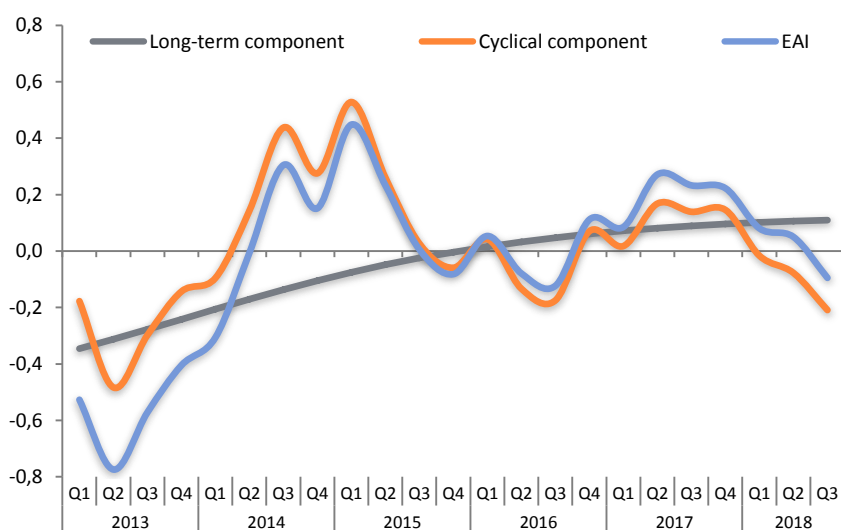


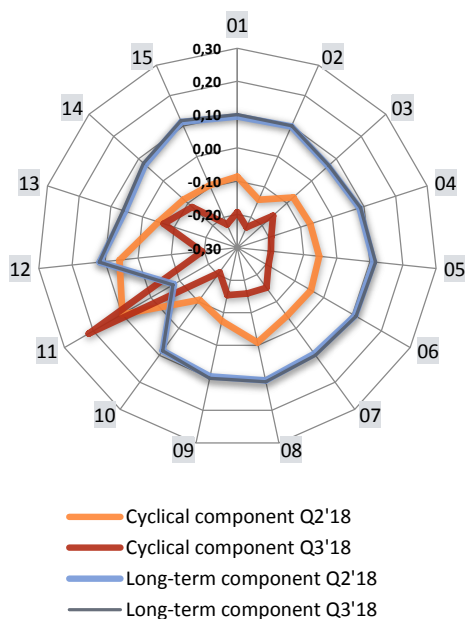
ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS



Source: MF

2 DECOMPOSITION OF EAI VARIABLES

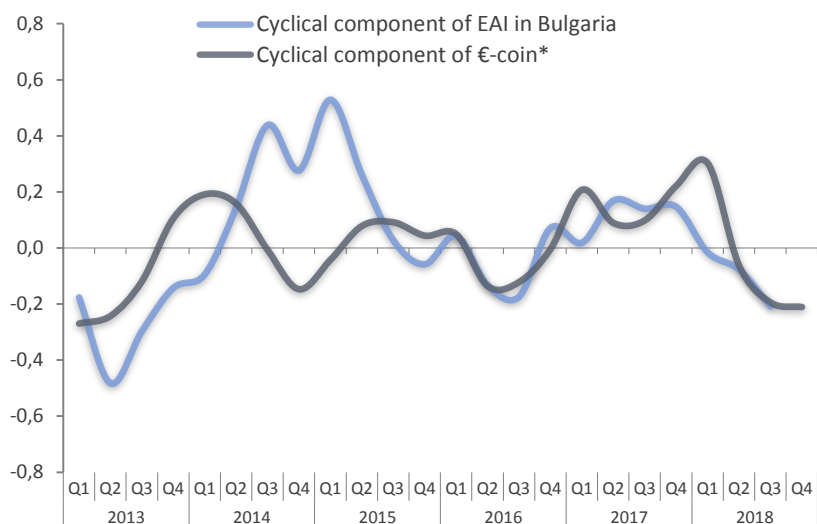


Source: MF

The long-term component continued to gradually increase in Q3 2018, but it was not enough to determine a positive value of EAI¹. The latter indicator fell into negative territory at -0.1 for the first time in seven quarters. The decrease in the cyclical component which has begun in Q1 deepened further in Q3 and was the main driver for the EAI downward movement.

All variables included in the EAI contributed negatively to its current cyclical component. The main influence came from the lower VAT revenues cyclical position, reflecting the slowdown in domestic receipts. The latter corresponded to the registered cyclical decline in the retail trade turnover and the less favourable sentiment indicators' assessments, such as the country's business climate, provision of industrial orders and employment expectations in manufacturing. These developments were in line with the estimated cyclical decrease in the external economic activity presented with the real GDP growth in EU 28. In Q3 the cyclical components of the international prices of crude oil and non-energy commodities showed no significant changes on a quarter earlier.

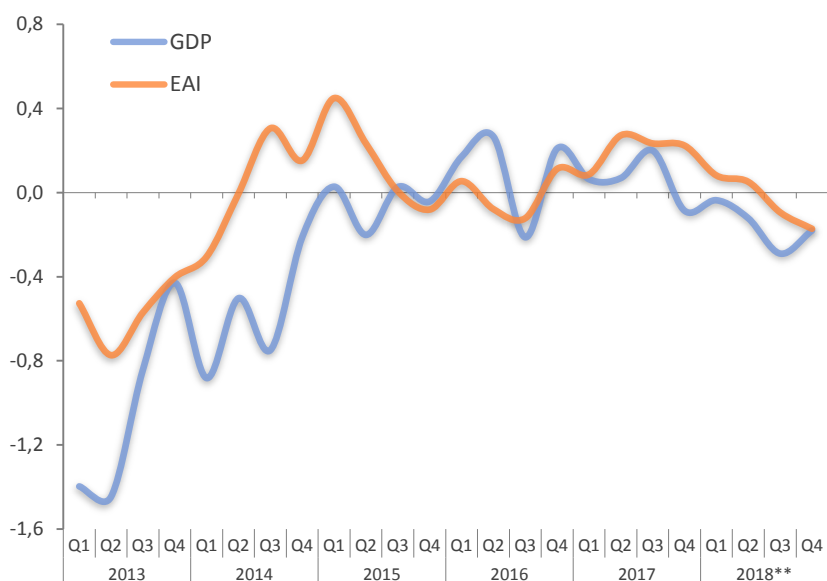
3 ESTIMATED CYCLICAL FLUCTUATIONS IN THE EURO AREA AND BULGARIA



* The Euro-coin estimate for Q4 is based on the October and November data

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 Q4'18.

Source: MF

In Q3 the cyclical component of Euro-coin² continued to decrease on account of the weak industrial cycle of the euro area countries and worsening of the business confidence in manufacturing, despite in September Euro-coin went up due to the positive contribution from stock prices dynamics. The development of the indicator in October and November suggests the cyclical position of the euro area countries will remain on the negative territory in Q4, as well. The latter could be expected to further curb the domestic economic activity, as the degree of synchronization between the Euro-coin and EAI in the current period strengthened since 2016.

In Q4, the EAI is estimated to decrease due to the profound decline of the cyclical component, while the long-term position of the economy continues to improve. All variables included in the EAI are expected to contribute to the downward trend of the composite indicator.

¹ See "Rationale and Methodology of the EAI"

² For more detailed data and methodological notes on the euro area cyclical indicator Euro-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 Euro-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.