ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS

— Long-term component — Cyclical component — EAI

Q1|Q2|Q3|Q4 2013 | Q1|Q2|Q3|Q4 2014 | Q1|Q2|Q3|Q4 2015 | Q1|Q2|Q3|Q4 2016 | Q1|Q2|Q3|Q4 2017 | Q1|Q2|Q3|Q4 2018 | Q1|Q2 2019
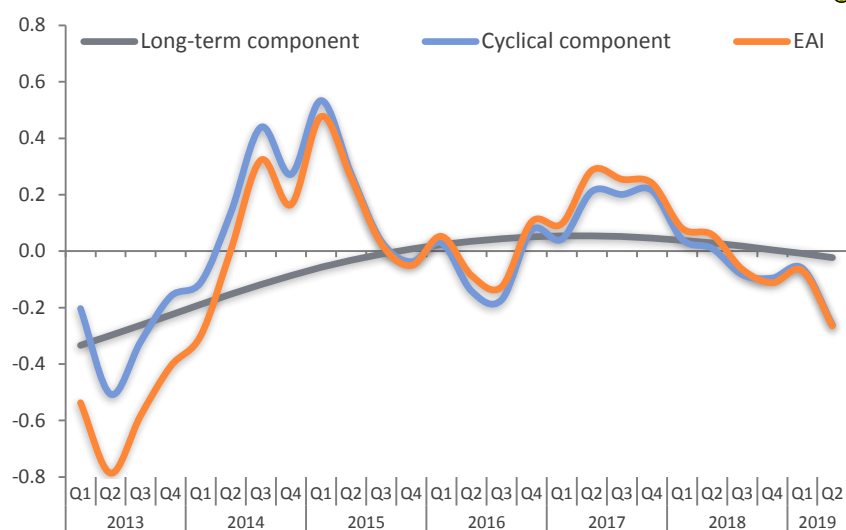
Source: MF

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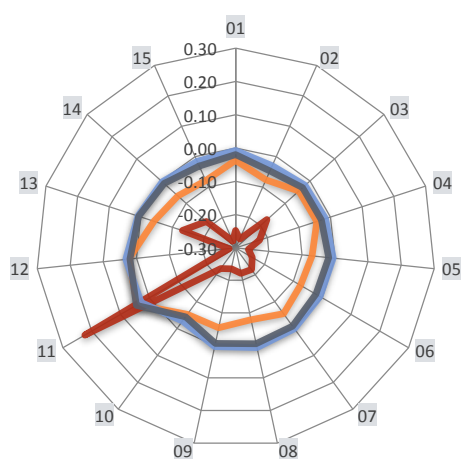
1	GDP
2	Industrial production index
3	Construction index
4	Retail trade turnover
5	Business climate
6	Industrial orders
7	Industrial price expectations
8	Industrial employment expectations
9	Industrial capacity utilisation
10	M1
11	Long-term loan interest rates in BGN
12	VAT revenues
13	Petrol price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

— Cyclical component Q1'19
— Cyclical component Q2'19
— Long-term component Q1'19
— Long-term component Q2'19

Source: MF

EAI declined in Q2

In Q2 2019 EAI[1] fell to -0.26 after having recorded a slight improvement in the previous quarter. The indicator's decrease was due to the decline in the cyclical component, while the long-term economic position remained close to 0.

The drop in EAI cyclical position reflected the negative effects, generated by the weakened external environment (presented with the real GDP growth in EU 28) and the related domestic activity indicators. The latter affected mostly the country's industrial production, orders and the overall business climate. The cyclical position of VAT revenues also weakened due to the decline in receipts from import, narrowed by the negative import dynamics from third countries in Q2.

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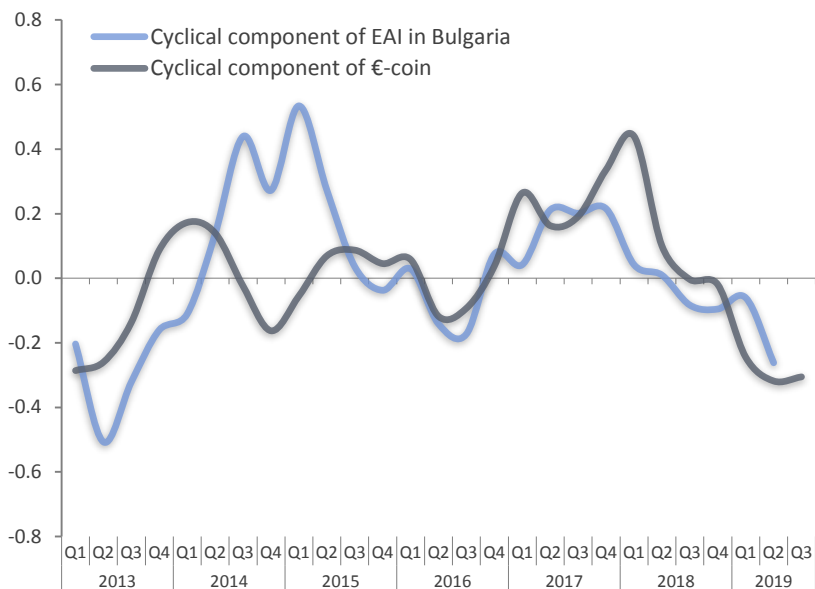
Source: MF, CERP

4 EAI AND GDP*
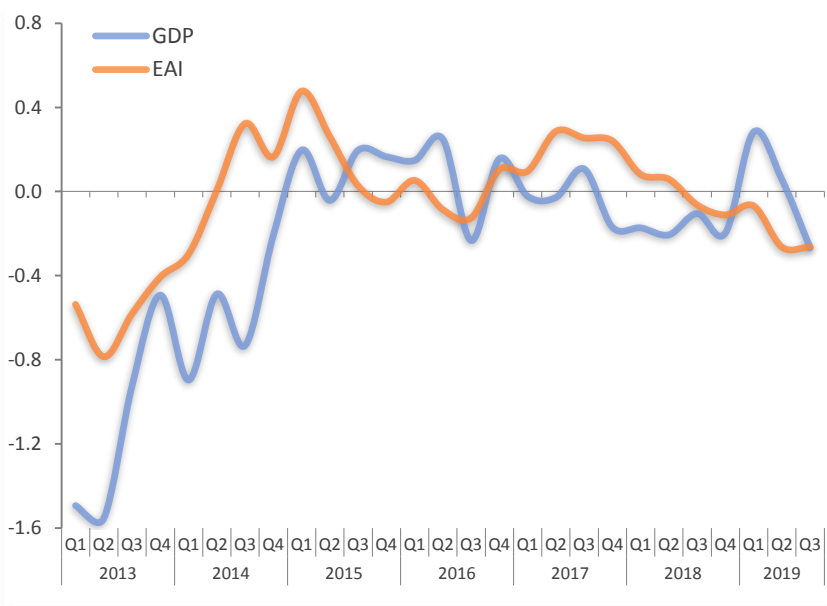
* To achieve better compatibility, real GDP growth data has been standardized by subtracting the mean and dividing by the standard deviation of the series.
** Preliminary estimates for EAI and GDP for Q3'19.

Source: MF

Q2 EAI dynamics proved a higher degree of synchronization between the cyclical €-coin[2] and EAI fluctuations in the current period. In Q2 the estimated cyclical component of €-coin fell to its lowest level since mid-2013. This corresponded to the country's cyclical downturn.

In Q3, €-coin was still adversely affected by the slowdown in international trade and weakened industrial activity. However, the indicator gained grounds in July due to the improvement in consumer confidence and the rise in new car registrations. As a result, the indicator's cyclical decline came to a halt. The latter is expected to narrow the EAI decrease in Q3 as well.

According to preliminary estimates EAI is expected to stabilize in Q3. This will be largely due to the improved assessments of industrial business climate indicators and capacity utilization.

[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.