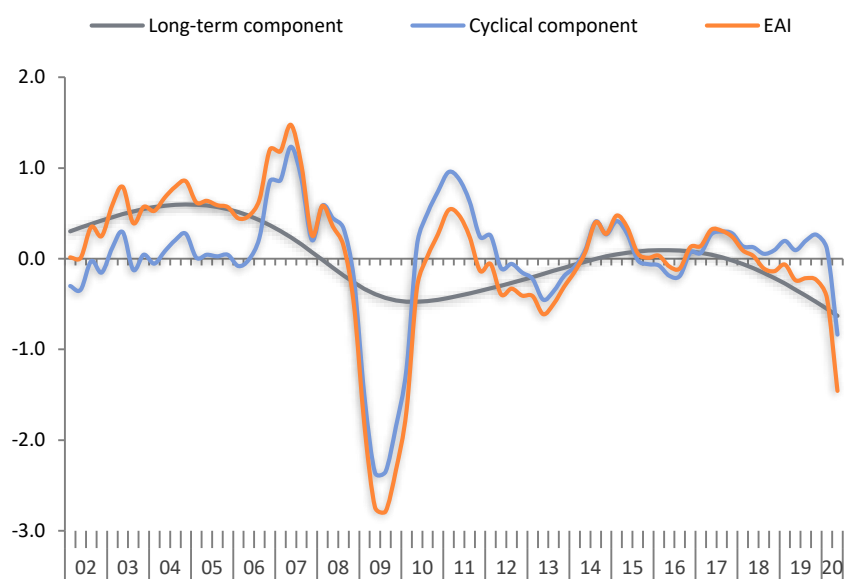


ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS



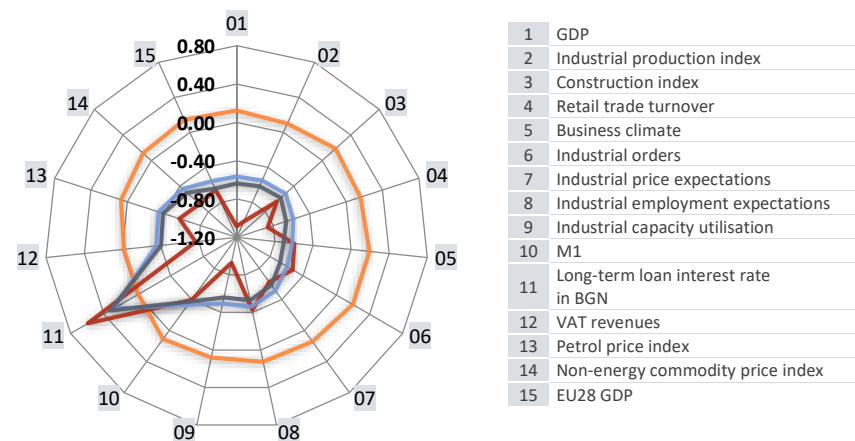
Source: MF

EAI decreased further

In the second quarter of 2020 EAI¹ continued to decline to -1.46, down from -0.43 in Q1, due to the containment measures, undertaken against the spread of the pandemic.

The current reading of EAI is the lowest since the recorded collapse at the height of the economic and financial crisis in 2009. The indicator was primarily affected by the weakened cyclical position. The assessment of the long-term component did not show any significant change on a quarter earlier. The latter however, remained strongly negative, reflecting the adverse effect from the shortfall in demand on potential output since the beginning of 2020.

2 DECOMPOSITION OF EAI VARIABLES

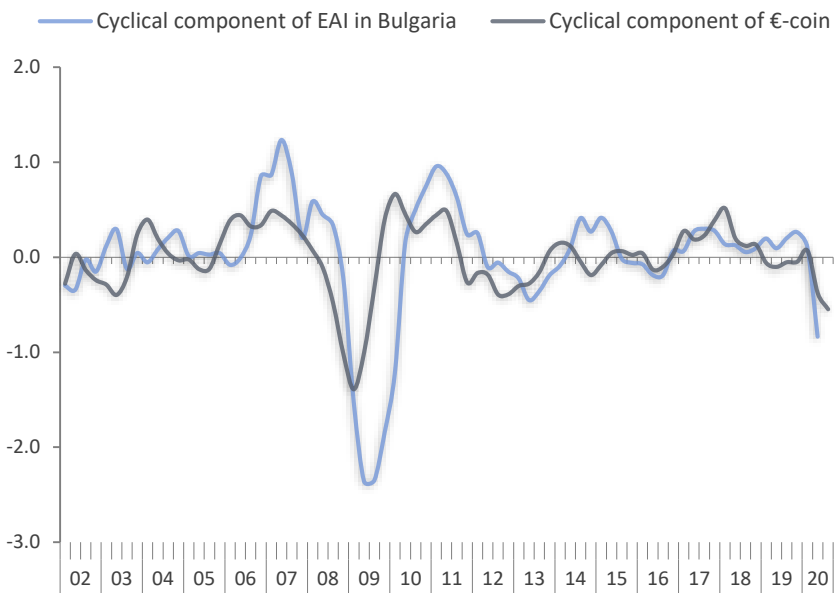


— Cyclical component I'19
 — Cyclical component II'20
 — Long-term component I'20
 — Long-term component II'20

Source: MF

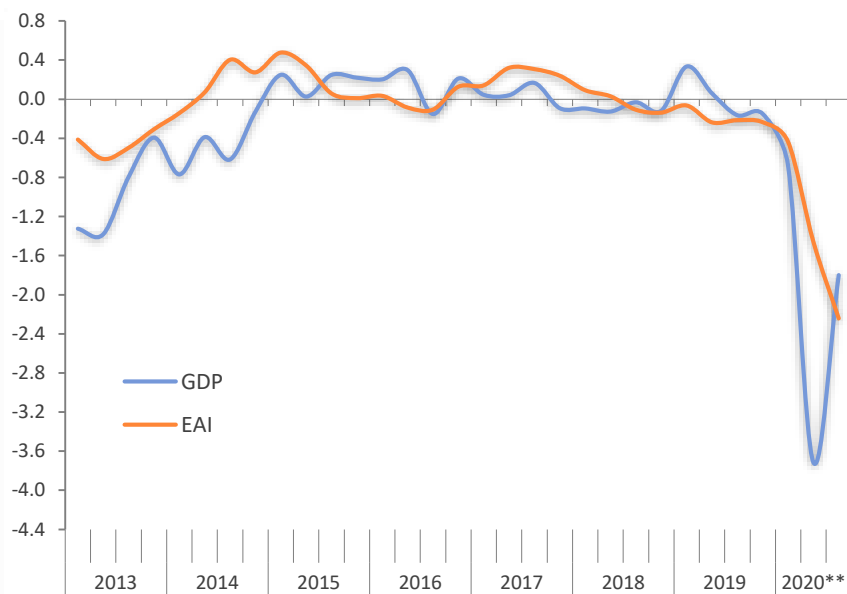
The cyclical deterioration in the indicator was mainly driven by industrial production, retail trade turnover, capacity utilization, which was as low as the levels recorded in 2009, and the weakened external economic environment. These developments corresponded to the widespread worsening in sentiment indicators' assessments, such as country's business climate, provision of industrial orders and price expectations in manufacturing. The cyclical components of the long-term loan interest rate in BGN and monetary aggregate M1 made relatively lower negative impact on EAI.

3 ESTIMATED CYCLICAL FLUCTUATIONS IN THE EURO AREA AND BULGARIA



Source: MF, CERP

4 EAI AND GDP*



Source: MF

* 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 Q3'20. In assessing the full scale of the ongoing pandemic on economic activity it is assumed that Q3 estimates of the variables, making up EAI, at the current period are based on the reported data for July and August, in particular industrial production, construction index, retail trade turnover, M1 and VAT revenues. While the Q3 reading of the industrial capacity utilisation is available, the rest of the variables have been taken with a one-lag period and their impact on EAI is based on Q2 data.

In Q2, the cyclical fluctuations in the euro area and Bulgaria followed the same direction. However, the magnitude of the estimated drop in EAI was larger than that of €-coin².

In July and August 2020, €-coin decreased further as a result of the weakened industrial production and international trade, reaching the levels, recorded in 2009 during the global crisis. On the positive side, after decreasing for six consecutive months, €-coin turned upwards in September, but remained clearly in negative territory. It benefited from the improvement in consumer and business confidence and the more favourable developments in non-durable goods consumption. Overall, the factors that led to the reduction in €-coin in the period April-June 2020, continued to affect the economic activity in the euro area in the third quarter. Thus, the external environment is not likely to impart any positive impetus on EAI performance in Q3.

In Q3, EAI estimate suggests deeper downturn, driven by the profound decline of all variables included. The different dynamics of GDP and EAI in Q3 on a quarter earlier (unlike EAI, GDP is estimated to turn upwards) is due to the significant deviation of GDP from its average in Q2, which was not fully reflected in the EAI. In Q3, when the subset of the data available covers more information on the unfolding of the impact of COVID-19 on economic activity, EAI is estimated to decline further, moving away from its average value.

¹ See "Rationale and Methodology of the EAI"

² For more detailed data and methodological notes on €-coin, monthly estimates of the economic activity in the euro area visit <http://eurocoin.cepr.org/>. Data have been averaged to make the 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.