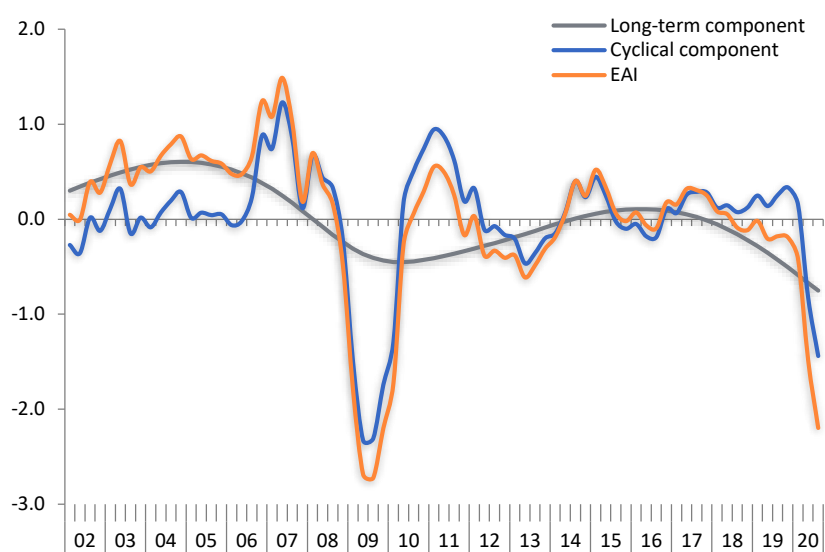


ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS

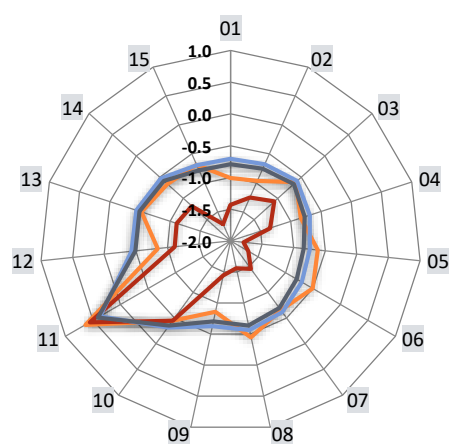


Source: MF

EAI continued to decrease in Q3

In the third quarter of 2020 EAI¹ fell again. The composite indicator made a decrease to -2.2 in Q3, from -1.4 in Q2 primarily, due to continuing deterioration of its cyclical component. The long-term position also decreased but had relatively lower negative impact on EAI.

2 DECOMPOSITION OF EAI VARIABLES



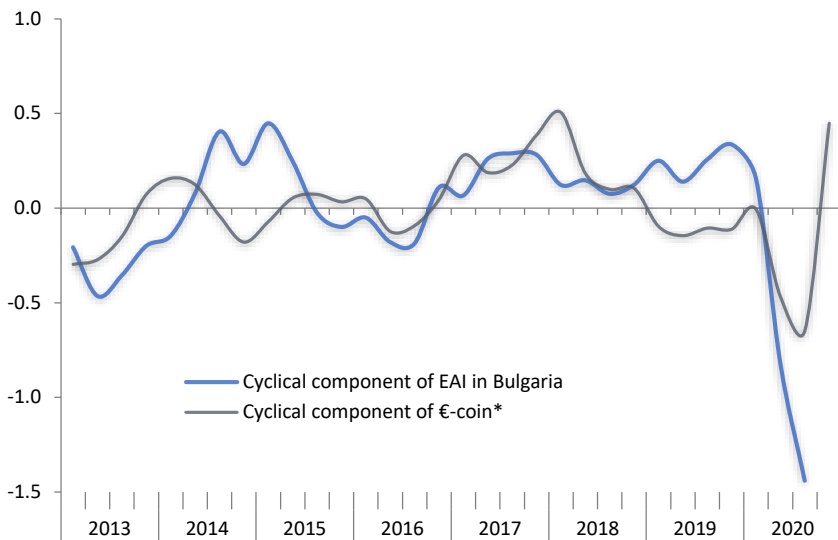
01	GDP
02	Industrial production index
03	Construction index
04	Retail trade turnover
05	Business climate
06	Industrial orders
07	Industrial price expectations
08	Industrial employment expectations
09	Industrial capacity utilisation
10	M1
11	Long-term loan interest rate in BGN
12	VAT revenues
13	Petrol price index
14	Non-energy commodity price index
15	EU27 GDP

— Cyclical component II'20
— Cyclical component III'20
— Long-term component II'20
— Long-term component III'20

Source: MF

The main negative influence on EAI cyclical position came from the less favourable sentiment indicators' assessments, including the country's business climate, provision of industrial orders and employment expectations in manufacturing, as well as the external economic activity, presented with the real GDP growth in EU 27. The magnitude of the estimated drop in the rest variables, making up the composite indicator, slowed down on a quarter earlier. The pace of EAI contraction was reduced in Q3.

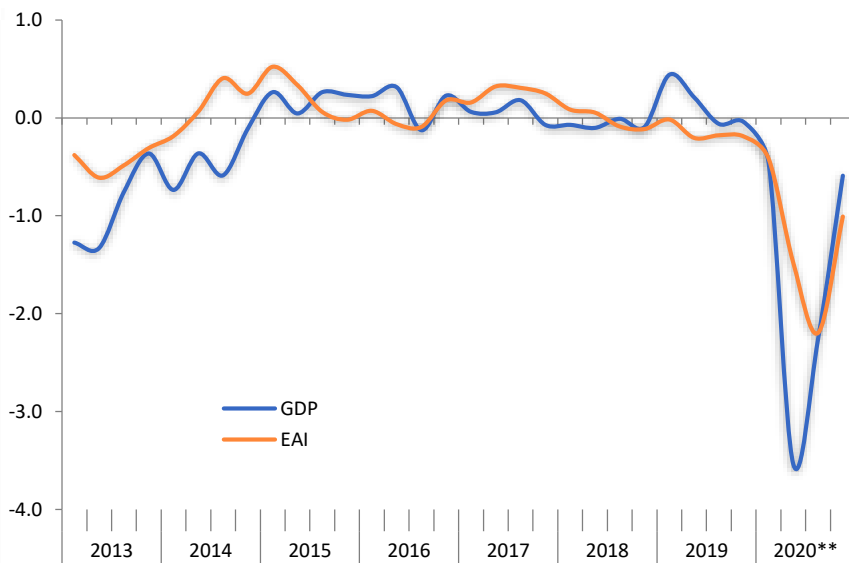
3 ESTIMATED CYCLICAL FLUCTUATIONS IN THE EURO AREA AND BULGARIA



* The estimate of the cyclical component of €-coin is based on data for October and November. The release of December's €-coin indicator has been postponed until 13 January since some revisions have been made to the indicator.

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 Q4'20. In assessing the full scale of the ongoing pandemic on economic activity it is assumed that Q4 estimates of the variables, making up EAI, at the current period are based on the reported data for October, in particular industrial production, construction index, retail trade turnover, M1 and VAT revenues. While the Q4 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 Q3 data.

Source: MF

The cyclical position of EAI follows the cyclical fluctuations in the euro area. In Q3, €-coin² decreased to its lowest-hit level since 2009, as a result of the weakened industrial production and international trade. However, there were some positive signs thereafter and the estimated cyclical position in the euro area is likely to enter positive territory in Q4. €-coin moved upwards in September and October, benefitting from the ongoing moderate recovery in consumption and manufacturing. Moreover, in November €-coin turned positive which essentially reflected the strong real GDP rebound in the euro area in Q3. On the grounds of the estimated high degree of synchronization between the €-coin and EAI (0.7 in the current period), the cyclical position of the Bulgarian economy is expected to improve in the forthcoming months.

In compliance with the upward expectations for the cyclical component, the preliminary estimate for the overall EAI indicator for Q4 also improves but remains in negative territory. Further expectations include EAI dynamics to correspond with the GDP lower rate of decrease.

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 Hodrick-Prescott filter.