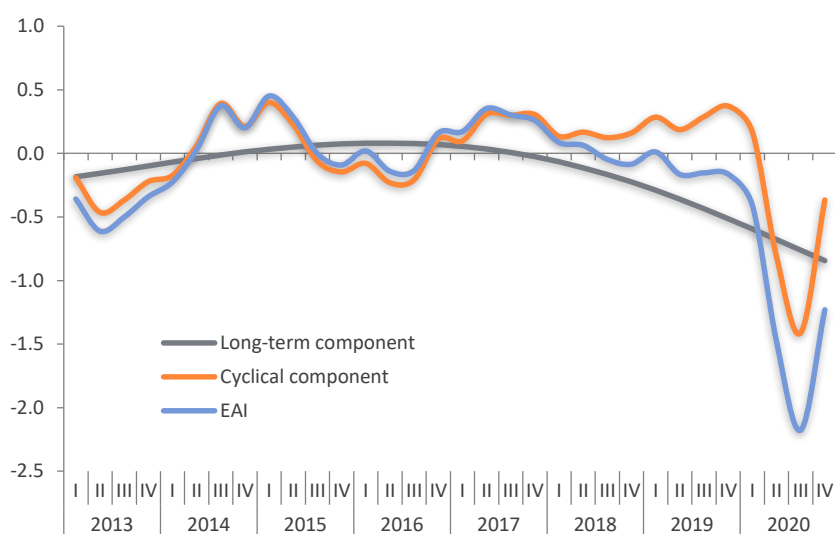


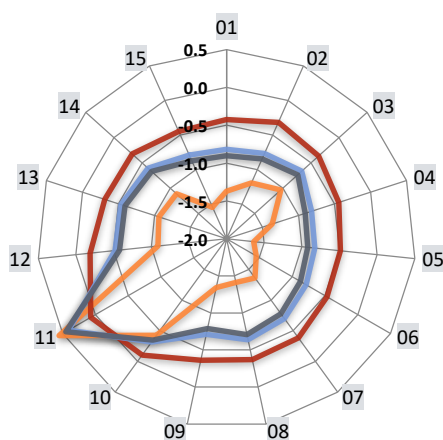
ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS



Source: MF

2 DECOMPOSITION OF EAI VARIABLES



Source: MF

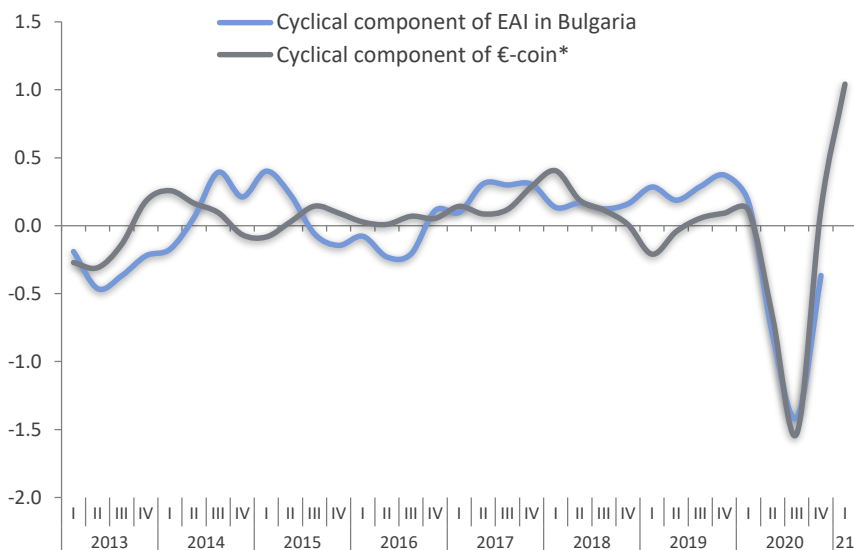
- 1 GDP
- 2 Industrial production index
- 3 Construction index
- 4 Retail trade turnover
- 5 Business climate
- 6 Industrial orders
- 7 Industrial price expectations
- 8 Industrial employment expectations
- 9 Industrial capacity utilisation
- 10 M1
- 11 Long-term loan interest rate in BGN
- 12 VAT revenues
- 13 Petrol price index
- 14 Non-energy commodity price index
- 15 EU27 GDP

EAI improved in Q4

Over the fourth quarter of 2020 EAI¹ remained negative but turned upwards. The composite indicator improved to -1.2 from -2.2 in Q3, mainly benefitting from improvement in its cyclical component. The long-term position slightly decreased and had relatively lower negative impact on EAI.

The main positive influence on EAI cyclical position resulted from the less pessimistic sentiment indicators' assessments, including the country's business climate, provision of industrial orders and employment and price expectations in manufacturing. The external economic activity also made a strong cyclical improvement, compared to the previous quarter, as the manufacturing sector has limited the overall real GDP decline in EU 27. The estimated drop in the rest variables of the composite indicator, slowed down on a quarter earlier as well.

3 ESTIMATED CYCLICAL FLUCTUATIONS IN THE EURO AREA AND BULGARIA



* The estimate of the cyclical component of €-coin is based on data for January-March.

Source: MF, CERP

Despite being still negative, upward cyclical position of EAI followed the cyclical fluctuations in the euro area. In Q4, €-coin² turned into positive territory as a result of the ongoing moderate recovery in consumption and manufacturing.

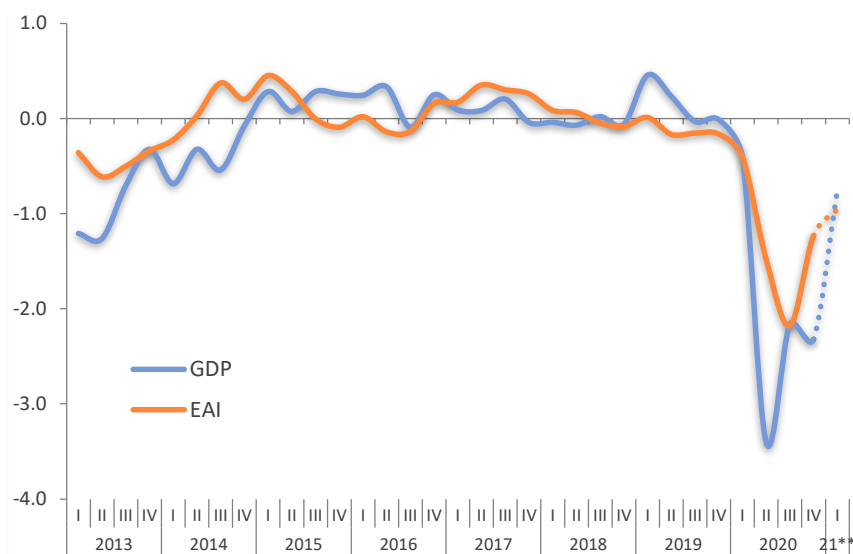
The positive development of €-coin seen in Q4 has continued well through the first quarter of 2021. In March, the €-coin figures indicated recovery in the overall eurozone economy for the fifth month in a row. In Q1 the composite indicator of the euro area reflected the improvement in manufacturing firms' confidence and less pessimism in the service sector. Based on the estimated high degree of synchronization between the €-coin and EAI (0.85 in the current period), the cyclical position of the Bulgarian economy is expected to increase further in the forthcoming months.

In compliance with the upward expectations for the cyclical component, the preliminary estimates for both EAI and GDP in Q1 also improve.

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.

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 Q1'21. It is assumed that Q1 estimates of the variables, making up EAI at the current period, are based on the reported data for January and February, in particular industrial production, construction index, retail trade turnover, M1 and VAT revenues. While the Q1 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 Q4 data.

Source: MF