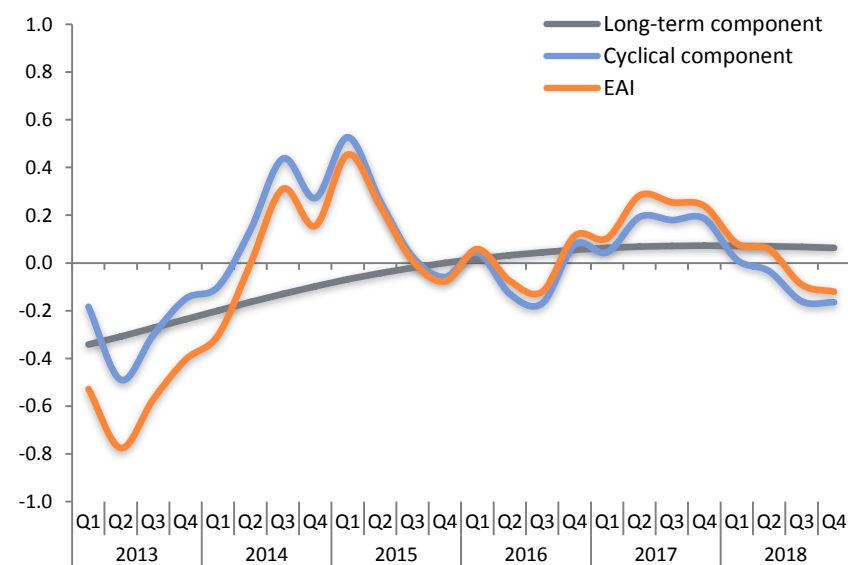


ECONOMIC ACTIVITY INDICATOR IN BULGARIA

1 EAI BY COMPONENTS



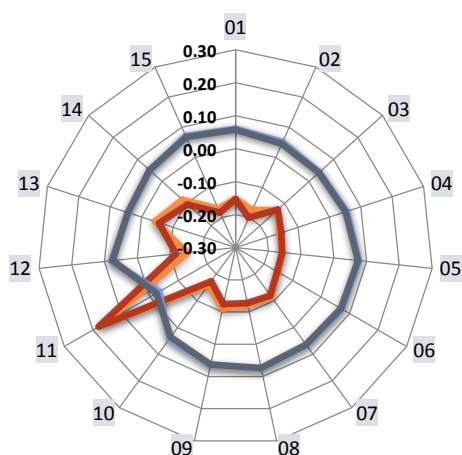
Source: MF

EAI remained stable in Q4

In Q4 2018 EAI¹ stood at its negative value as of Q3 held by the cyclical component. The long-term component also remained close to the previous quarter. Its recalculation, however, revealed the increasing trend since end-2010 was discontinued as of early 2018.

The retention of the cyclical position of the economy was determined by the aggregated influence of the domestic market variables which offset the negative impact from foreign environment. A positive contribution made the VAT cyclical improvement which corresponded to the increase of the retail trade turnover. The estimated cyclical components of the construction production index, business climate, industrial orders and employment expectations remained unchanged and also supported the overall cyclical position retention. On the other hand, the cyclical component of EU 28 GDP went down. This was in line with the lowered positions of the industrial production index, capacity utilization and employment expectations. The decrease in foreign demand was also evidenced with the decline in the cyclical components of the price indexes of petroleum and non-energy commodities.

2 DECOMPOSITION OF EAI VARIABLES



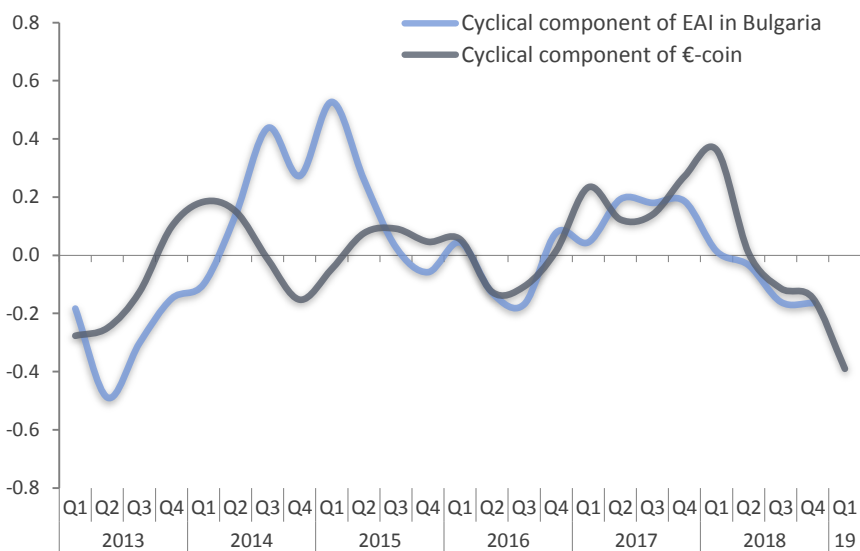
Legend:

- Cyclical component Q3'18
- Cyclical component Q4'18
- Long-term component Q3'18
- Long-term component Q4'18

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

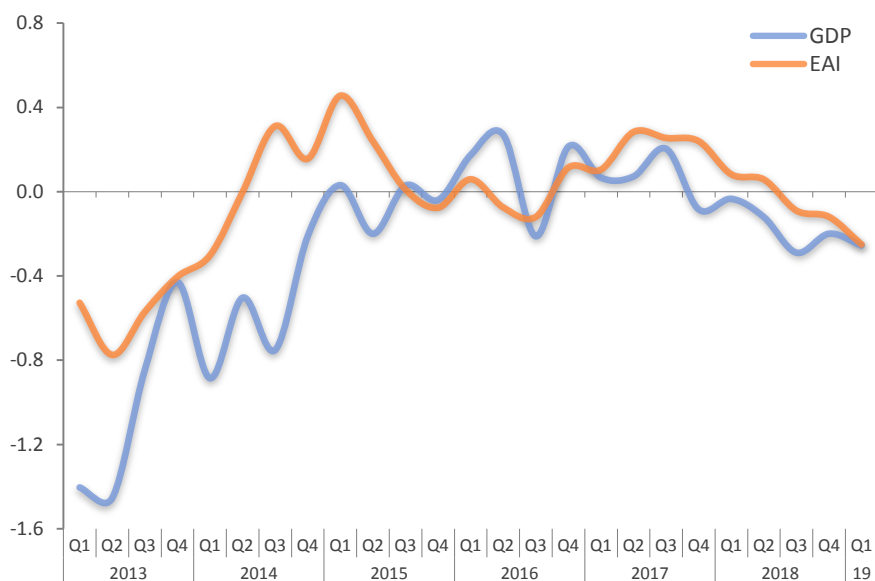
Source: MF

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 Q1'19.

Source: MF

The negative EAI cyclical position was in line with the weakened economic activity in the euro area. The estimated cyclical component of €-coin² started to decrease since Q2 mainly due to agents' uncertainty. The higher caution of firms reflected the less optimistic assessment of production development in industry and order-book levels. Similarly, the drop in consumers' confidence signalled growing worries about the current and future economic situation and a decline in job security over the next twelve months. The external environment will continue to curb the EAI cyclical component over the next three to six months given that in Q1 2019 €-coin fell to its lowest level since end-2012.

EAI is estimated to decrease again in Q1 2019. The expected developments will be driven by the weakened economic growth in EU 28, less optimistic assessment of the country's business climate and lower production capacity in industry.

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 Hodrick-Prescott filter.