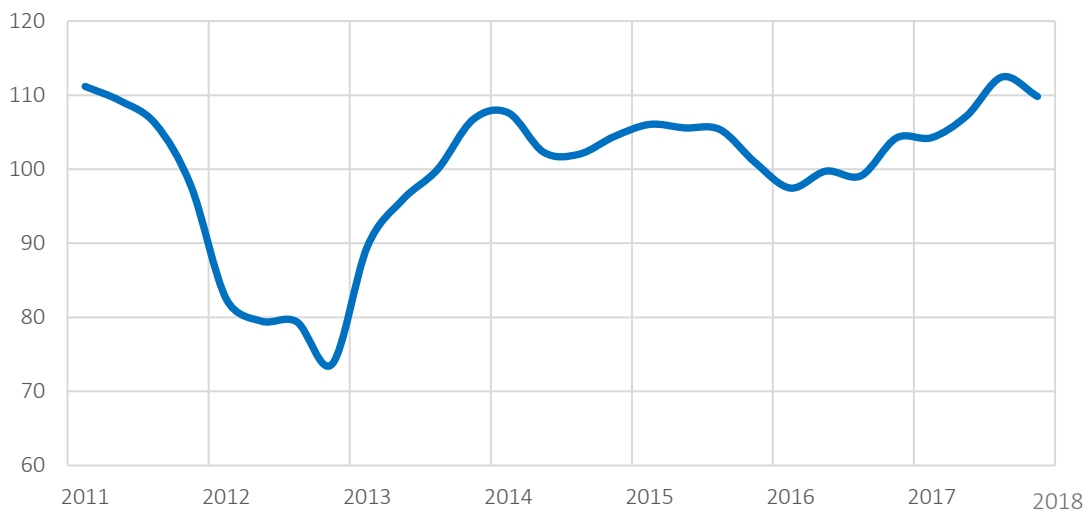


A COMPOSITE LEADING INDICATOR FOR THE MONTENEGRIN BUSINESS CYCLE

In the 4th quarter of 2017, ISSP EB Index fell by 2.7 index points compared to the previous quarter. Although the Index fell, the present value continues to maintain a level that is clearly beyond the long-term average. This indicates a positive trend of growth for the Montenegrin economy, which in the near future should continue to grow at above average rates.¹

ISSP EB Index (Index values)



In the 4th quarter of 2017, ISSP EB Index was 109.8 index points. As noted above, it fell by 2.7 points from 112,5 points in the 3rd quarter, when the Index was at its long-term maximum. In the observed period, from 2011 to the present, the 3rd quarter of 2017 set a record high index value. Therefore, in the 4th quarter this amount was settled and stabilized at a lower value. Although lower, the value

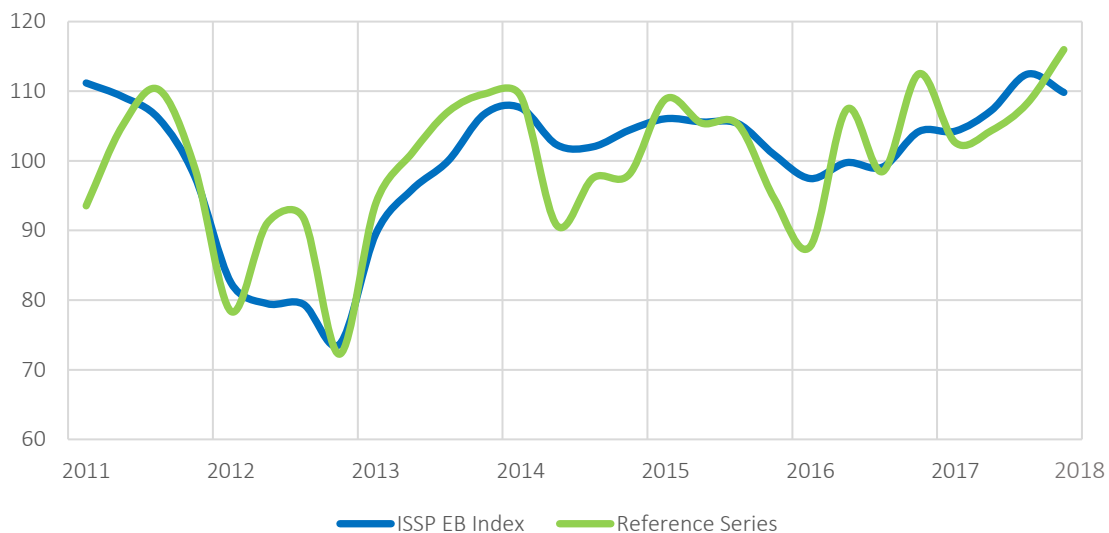
¹ A leading composite indicator, the ISSP Economic Barometer, is designed to predict the movement of Montenegrin economy in the near future. More precisely, the Barometer provides information about the business cycle for the upcoming period. The present version of the Barometer is based on the Reference Series: the quarterly growth rate of gross domestic product with the base in 2010, which most strongly reflects the movement of business cycle, and a number of variables, both national and international, which have a close relation with the business cycle itself.

of ISSP EB Index in the 4th quarter is well above the long-term average (long-term average 2011 – 2017 = 100 index points), which implies a potential continuation of the positive growth of the business cycle.

The fall in the ISSP EB Index in the 4th quarter of 2017 is largely attributable to the decline in the sectors of industry, foreign trade and capital market. The decline in the industrial production index, together with the sharp decline in exports of goods and services as well as the decline of Monex Index in the Montenegro Stock Exchange, compared to the 3rd quarter, had the largest impact on the decrease in the index value. In addition, the rise of public debt and higher unemployment also contributed to the decline of ISSP EB Index.

Other national indicators remained relatively unchanged compared to the previous quarter, with the exception of the construction industry which recorded high growth rates. Among international indicators, the highest negative impact comes from the reduction of tourism expenditures in Serbia's balance of payments, while on the positive side, there is a slight increase in aluminum prices in the international market as well as the growth of gross domestic product in the European Union.

ISSP EB Index and Reference Series

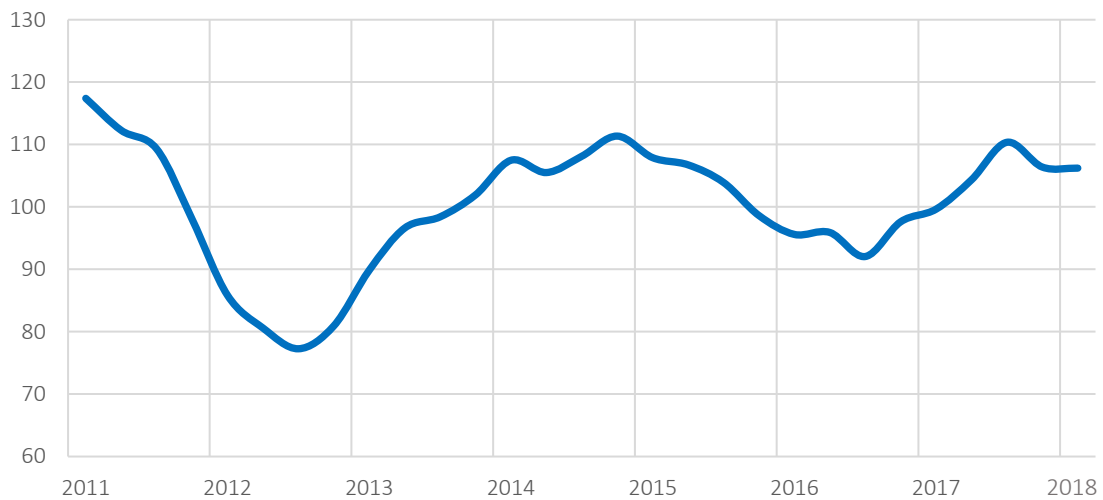


On the other hand, based on updated data for the 4th quarter of 2017 and eleven variables, which we use to forecast the movement of the Reference Series in the next quarter, with the help of the ISSP FI Index, the growth rate of the Reference Series in the 1st quarter of 2018 amounts to 4.3%.²

² Within the Economic Barometer, two indexes were constructed: ISSP EB Index and ISSP FI Index. The ISSP EB Index, comprised of 26 variables, provides timely information on the expected value of the Reference Series in the observed quarter. That is, it shows how

In the 1st quarter of 2018, the value of ISSP FI Index was 106.2 index points, which is 0.2 points lower than the previous quarter's value. With this, in the 1st quarter of 2018, the growth of the Reference Series can be expected to be similar as in the previous quarter, without a significant deviation. This is due to relatively unchanged conditions in the international indicators which ISSP FI Index monitors.

ISSP FI Index



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the Reference Series should be based on the given variables. The ISSP FI Index, comprised of 11 variables, predicts a growth rate of the Reference Series for the next quarter. In this way, through the ISSP FI Index we get early information on the movement of the business cycle in the next quarter.