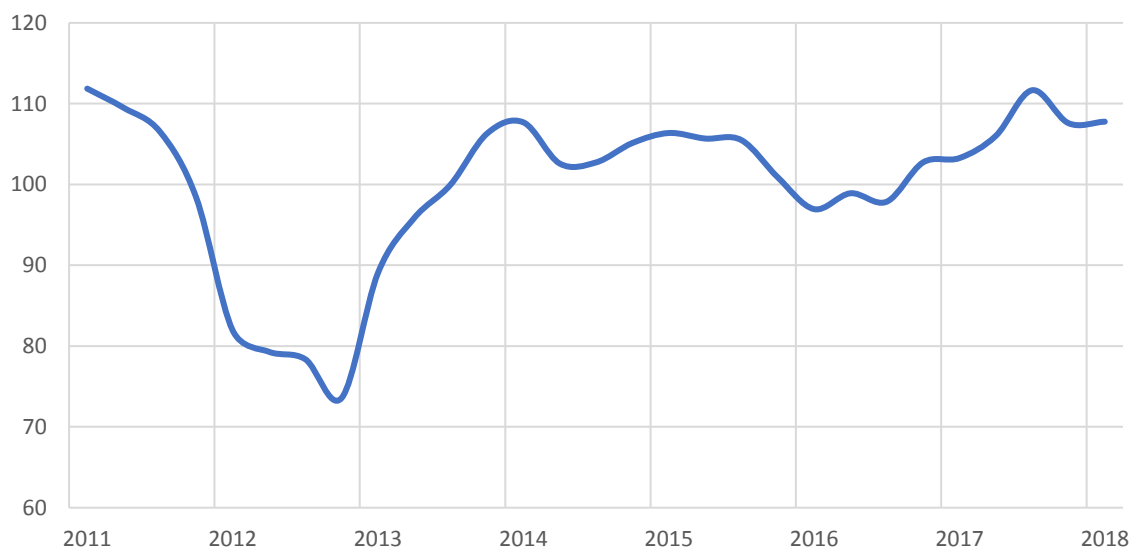


## A COMPOSITE LEADING INDICATOR FOR THE MONTENEGRIN BUSINESS CYCLE

In the 1st quarter of 2018, ISSP EB Index has remained relatively unchanged with a slight rise by 0.18 index points compared to the previous quarter values. The present value continues to maintain the level that is beyond the long-term average with a present figure of 107.77 index points (long-term average = 100). Figures beyond long-term average indicate a positive trend of growth for the business cycle of Montenegro, which can be expected to continue above average growth in the near future.

ISSP EB Index (Index values)



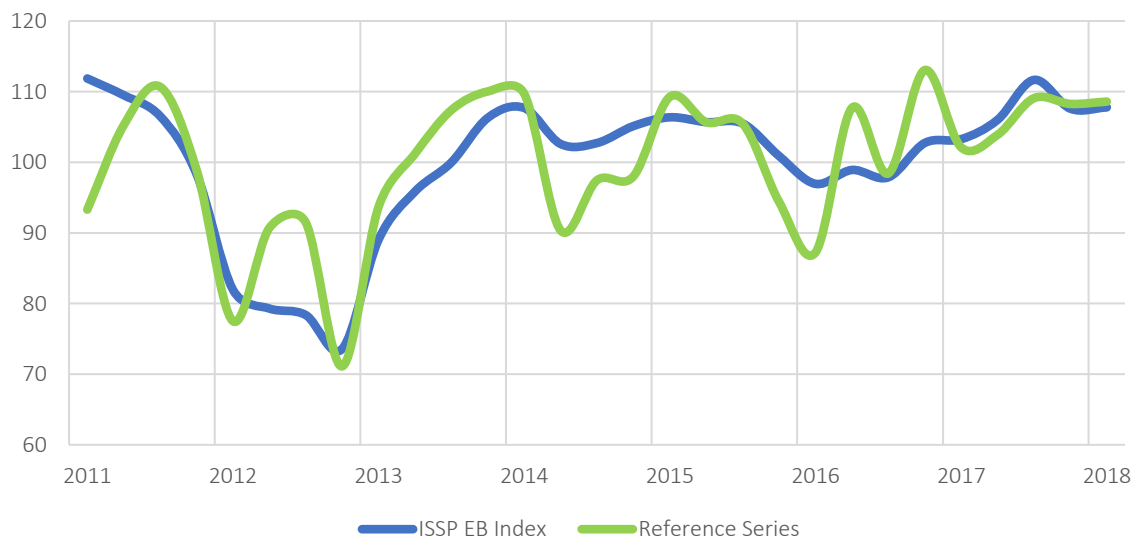
ISSP EB Index has shown insignificant growth in the 1st quarter of 2018 compared to the 4th quarter of 2017 with a rise of just 0.18 index points. Although unchanged, ISSP EB Index remains

significantly above long-term average and it's near its long-term peak in the observed period. This could apply potential continuation of the positive growth of Montenegro's business cycle in the near future. Also, unchanged index values could indicate the start of the stabilization of growth. There was a high incline of Montenegro's business cycle in the recent period from the start of 2016 until now, as it can be seen from the first graph. Unchanged index values could indicate the stabilization of that trend. In the next few quarters with more EB points calculated, this hypothesis will be tested.

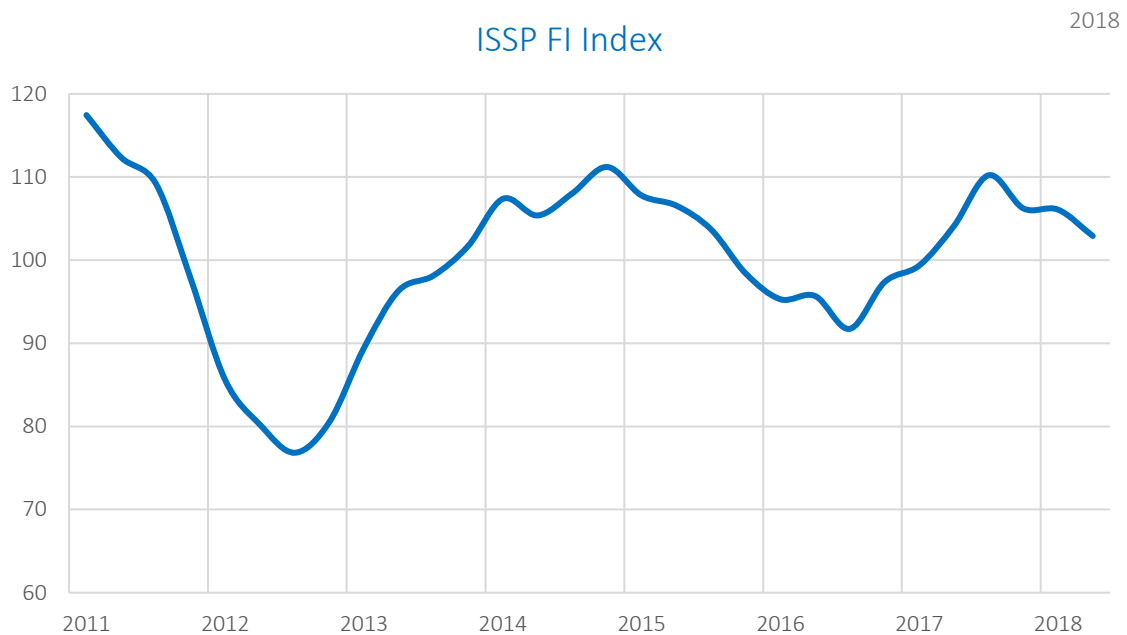
Compared to the 1st quarter of 2017, ISSP EB Index rose by 4.50 index points (the value of the EB Index in the 1st quarter of 2017 was 103.26 index points). Compared to that point in time, the rise in sectors of industry, foreign trade, finance, labour market and international indicators used for the calculation of EB Index is evident with a few exceptions. On another side, compared to the previous, 4th quarter of 2017, values there is a relatively steady trend in the foreign trade sector, labour market and banking industry important for the calculation of EB index with the exception of a rise in the industrial sector and fall in the construction sector.

As it can be seen from the graph 2, reference series has had its fluctuations over the observed period that are not fully compatible with the ISSP EB Index values but on the other hand, it has always followed the same trend as this Index. It is also evident that in the last two quarters reference series and ISSP EB Index are almost merging, following not only the same trend but on the same level as well.

ISSP EB Index and Reference Series



The other important Index for the ISSP Economic Barometer is the ISSP FI Index which captures the movement of the Reference Series in the following quarter based upon 11 observed lagged variables which are highly correlated with the Reference Series and can help in predicting the trend of the Reference Series in the near future. Based on the available data, with the help of the ISSP FI Index, timely information on the growth rate of the Reference Series in the following quarter is calculated. Now, with calculated FI Index, one can state that the growth rate of the Reference Series in the 2nd quarter of 2018 will be at the level of 3.22%.



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