
FORECAST UPDATE

1th Quarter of 2016

The global economy is characterised by moderate improvements in world trade and investment, as well as by increased political uncertainty in many parts of the world. The estimated growth rate of the global GDP was 2.3% in 2016, while according to World Bank data, the GDP growth rate is expected to be 2.7% in 2017. The economies of the United States and the European Union grew at identical rates of 1.6%, which was not the case in the past few years when the US experienced growth a few percentage points higher. There was rapid growth in the countries of the Western Balkans during 2016, which led to an increase in employment. This growth was particularly pronounced in those countries that have implemented fiscal consolidation measures.

When it comes to Montenegrin economy, it is estimated that the real GDP in 2016 grew at a rate of 2.5%, which was especially due to increased economic activity in the third and fourth quarters. The main drivers of GDP growth were the development of infrastructure (energy and transport) and tourism.

Investment activity largely led to an increase in the GDP (the estimated growth in investment spending was almost 30%). This should take into account the importance of large infrastructure projects, the implementation of which was

intensified in 2016. However, large investments influenced the import of goods needed to meet investment spending, which resulted in a growth rate of 13% of the import of goods. On the other hand, the increase in total exports is primarily due to the export of services, where notable export growth was recorded in transport and tourism. A positive trend in the transport sector is the result of increased economic activity - an increase in total exports, developments in the areas of tourism and energy, as well as improved transport infrastructure.

In addition to investments, personal consumption expenditures grew at a rate of 2.7% on the consumption side, which represents an important influence on GDP growth. The increase in private consumption can be explained by the increase in wages, especially in the public sector, which employs over a quarter of the total number of employed persons. Also, the increase in consumption is the result of an increase in pensions and higher allocations based on changes to the Law on Social and Child Protection (affecting mothers with three or more children).

GDP growth analysis based on production shows that the most important factors for growth were tourism and construction. The construction of the highway and the wind farm creates large

investments. Namely, the index of finalised construction works indicates that there was an increase of 30% in 2016, and the number of issued building permits increased at that time as well. Activity in the tourism sector contributed to the

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Gross domestic product of Montenegro will record a real growth of 4.1% in 2017, which is a noteworthy revival of the Montenegrin economy compared to 2016 when the estimated growth rate was 2.5%. Gross investments, which were one of the main growth generators in the previous year, will again significantly contribute to the higher growth rate of the GDP this year. The expected growth of gross investment in the current year is projected to be around 13% and will mainly result from higher activity in the construction industry or the more intensive realisation of work on some projects that entered the intensive phase of realisation in 2016 (this primarily refers to the highway).

Furthermore, the import and export of goods and services were among the other components contributing to GDP growth, which demonstrates the importance of foreign trade relations. After several years of decreasing values of export goods, export growth was recorded in 2016, and the continuation of growth at a slightly lower rate is expected in 2017. On the other hand, the export of services, or revenues from services, will increase greatly as a result of the increase in tourism revenues. These revenues will again dominate because of the planned growth of a number of foreign tourist overnights, which are increasingly putting Montenegro on the map of not only attractive, but safe tourist destinations. In addition

increase in the exports of services and GDP growth. In 2016, the number of tourist overnight stays increased as well, bearing in mind the importance of foreign tourists, who accounted for almost 90% of the total number of overnight stays.

to the contribution of tourism, growth in revenues from transport services is also expected, due to a somewhat larger commodity export. Total exports will primarily result from the growth of services. Moreover, total imports are expected to grow, which, as in the previous years, will mainly be reflected in the growth of the imports of goods in 2017. This increase will be the result not only of the imports of food, oil, and transport equipment, but also of the higher imports of machinery and equipment for the construction of the highway and energy plant. However, the growth rate of imports will not be at the level it was the previous years when the estimate was about 14%. The lower growth rate of imports this year, with a higher rate of export growth compared to last year, will certainly reflect on the overall economy and GDP increase.

Finally, a higher GDP growth rate will also have an impact on higher population consumption, which will increase at a rate of 3.3%, unlike last year's estimated increase of 2.6%. Higher consumption growth rates this year will largely be the result of higher disposable income due to the projected slight increase in employment and real earnings. Employment growth is expected mainly due to the growth in tourism and generated growth from the previous period, which will further accelerate investment activity in 2017.