Institute for Strategic Studies and Prognoses

# FORECAST UPDATE
# 1st Quarter of 2017

In the first quarter of 2017, the economy of Montenegro was considerably more dynamic compared to the same period of the previous year. Real GDP grew at a rate of 3.2% compared to the same quarter of 2016, which is a significantly higher growth rate compared to the 1.1% registered in the first quarter of 2016 (compared to the first quarter of 2015). The main drivers of GDP growth in the first quarter of 2017 were the noteworthy development of infrastructure and the construction of the highway, which caused strong growth in gross fixed capital formation.

Investment activity in the first quarter of 2017 largely led to an increase in the GDP (the estimated growth in gross fixed capital formation was 30%). This should take into account the importance of large infrastructure projects that, apart from the impact on gross investments, had an important impact on the growth of the imports of goods in the observed period. The total imports of goods and services grew at a real rate of 14%. On the other hand, the increase in total exports at a real rate of over 18% is primarily due to the export of services, where significant export growth was recorded in tourism. Growth of the exports of goods was also recorded.

In addition to investments, on the consumption side, the consumption of households grew at a rate of 6.9% and government consumption at a rate of 3.5% in the first quarter. The increase in private consumption can be explained by an increase in wages, which, with stable inflation, has caused an increase in available income and an increase in total employment.

## *Forecasts*

ISSP forecasts that are based on the macroeconomic model show that the gross domestic product of Montenegro will have a real growth of 4.2% in 2017, which is close to the previous forecasts of real GDP growth. The current year will be a period of much more dynamic movements of the Montenegrin economy in relation to 2016, which is confirmed by the official data from the first quarter of 2017. Further intensive growth is expected in the remaining quarters, which will affect the much higher annual growth rate of the real GDP compared to the previous year when the estimated growth rate was 2.5%.

Minor corrections in the estimated growth rate for 2017 were due to the changes in the expected inflation rate (as a result of the announced increases of excise duties in the third and fourth quarters), which slightly affected estimated consumption and disposable income. On the other hand, the estimated number of foreign tourist overnight stays had a positive impact on the expected growth rate in this year. This impact influenced the expected growth of the export of services and, consequently, of total exports.

As before, gross fixed capital formation will greatly contribute to the estimated real growth of the GDP this year, and its projected growth is around 14%. This growth rate is the result of the expected dynamics of construction activity and the announced dynamics in the implementation of some infrastructural projects (highway) and investments. This expected growth rate of gross fixed capital formation is particularly notable since a growth rate of almost 30% was recorded in the previous year. Nevertheless, despite the very high growth rate in the first quarter of 2017, slightly lower growth in gross fixed capital formation is expected in the remaining quarters.

In addition, other components have also greatly contributed to the growth of the GDP in 2017. When it comes to foreign trade relations, the continuation of the growth of the export of goods was projected to be at a rate of around 7%. On the other hand, the exports of services, i.e. revenues from services, will increase significantly (over 10%), mainly as a result of the growth of tourism revenues. These revenues will again dominantly increase due to the much larger projected increase in the number of foreign tourist overnight stays. Additionally, in terms of the export of services, growth in revenues from transport services is also expected, due to somewhat higher commodity exports. Having in mind the above forecasts, the total exports of goods and services are expected to grow at a rate of 10%. However, growth is also projected on the import side, which will be predominantly due to the increase in the imports of goods. This trend was present in the previous years and in 2017 as well, and growth of the import of goods is expected to be about 9.5%. This growth will be a consequence of not only the import of food, oil, and transport equipment, but also of higher imports of machinery and equipment for the highway and the construction of energy facilities. The growth rate of total imports (9%) will be somewhat lower compared to the previous year's growth rate, since lower growth rates of total imports are expected in the coming quarters. Such foreign trade relations will certainly reflect on the overall economy and GDP growth.

Finally, a higher GDP growth rate will also be affected by private consumption, which will grow at a rate of 3.8%, as opposed to last year's estimated growth of 2.7%. Marginally higher consumption growth rates this year will mainly result from higher disposable income due to the projected slight increase in employment, while net wages will also register an increase. The increase in employment is expected mainly due to the growth of tourism and generated growth from the previous period, which will additionally accelerate investment activity in 2017.