

Box 2 The Central Bank's system for assessing the economic situation and outlook

The Central Bank assesses the economic situation and outlook in a variety of ways, drawing not only on its own work but also that of other official economic agencies such as the National Economic Institute. Furthermore, it keeps abreast of analyses from financial institutions, industry and employers organizations and the labour movement. The Bank also closely monitors international economic developments which have an impact on the domestic economy.

Broadly speaking, the Bank's monitoring work may be divided into the following categories:

- Assessment of economic indicators
- Forecasting
- Market watch
- Surveys
- Personal contact with financial institutions, industry organizations, labour unions and businesses

Assessment of economic indicators: New economic statistics are scrutinised soon after they are published. Each month the Bank's Economics Department observes and analyses at least 82 domestic economic aggregates, which are generally compiled on a monthly or more frequent basis. These indicators are analysed in a number of ways to extract the information they contain. For example, the interest rate spectrum is analysed to obtain information on expectations about interest rate trends and inflation.

Forecasts: The Central Bank conducts quarterly inflation forecasts spanning a horizon of at least two years. As part of the forecasting process it makes a comprehensive assessment of the factors that are most crucial for inflation developments. As a rule the Central Bank builds on NEI macroeconomic forecasts but also eval-

uates them independently. The Bank also considers inflation forecasts made by financial institutions.

Market watch: The Markets Unit of the Bank's Monetary Department closely monitors developments in domestic financial markets and maintains close contact with other financial institutions.

Surveys: The Central Bank surveys the general public's inflation expectations. The Bank is considering whether to launch more comprehensive surveys of consumer and business sentiment. Furthermore, the Bank takes into account other surveys conducted in this field.

Personal contact: Bank officials hold discussions with a broad range of economic and social group to gather information and hear their views. The Governors have a regular contact with senior officers of other financial institutions. The Bank's Economics Department has contact with analysts at other financial institutions, industrial organisations, labour organisations, real estate market players and individual companies. Officials at the Markets Unit also have very frequent contact with their counterparts at financial institutions as well as firms that are major players in the foreign exchange market. Furthermore, the Bank's Financial Department maintains contact with financial institutions concerning the monitoring of financial stability.

After the Central Bank adopted inflation targeting, the Bank's system of monitoring the economy has become more important. In the near future the Bank will strive to improve its ability in this area. The focus will be on improving the Bank's forecasts and its methods of monitoring expectations, among other things via surveys.