

Box 3 Finance market analysts' assessments of the economic outlook

The Central Bank is publishing for the third time the results of its survey of financial market analysts' assessment of the economic outlook for the next two years. Analysts' assessments, it should be pointed out, are based on the assumption that no power-intensive industrial development projects will materialise, which is consistent with the Bank's macroeconomic forecast presented above.

Firstly, the table shows the analysts' evaluation of inflation prospects for this year and next year. Their forecasts for inflation in the course of 2002 and annual average inflation correspond very closely to the Central Bank forecast. For this year the forecasts are virtually identical, but for 2003 the analysts' average forecast is marginally lower than the Bank's forecast.

Analysts were also asked about the outlook for other key economic aggregates. Their responses revealed an average assessment of GDP growth prospects not far from the Central Bank's macroeconomic forecast, although individual forecasts diverged quite widely.

Five out of six of the analysts expect the exchange rate of the króna to remain virtually unchanged for the

next twelve months and over a two-year horizon half of them still hold this view. In general there is far more optimism about the long-term exchange rate of the króna than earlier this year. The analysts also expect that the Central Bank will continue to lower interest rates and that the policy rate will be under 6% one year hence. As in the last survey, most expect to see interest rates to bottom out within the next two years, with a slight rise in the second half of the forecasting period, even though no power-intensive industrial projects are assumed.

Finally, the survey findings suggest that analysts have conflicting views about equity price developments over the coming two years. Most expect equities to rise over the coming twelve months, across a range of 6-34%. Others are more pessimistic and the lowest recorded value was a decline of 7%. Looking further ahead, however, they are unanimous that equity prices will rise, although there is substantial variation. The analysts' views on the outlook for real estate price also differ, with some forecasting a rise and others a fall.

Overview of forecasts by financial market analysts¹

	2002			2003		
	<i>Average</i>	<i>Highest</i>	<i>Lowest</i>	<i>Average</i>	<i>Highest</i>	<i>Lowest</i>
Inflation (within year)	1.8	2.1	1.6	2.2	2.6	1.5
Inflation (year-on-year)	4.9	5.0	4.8	2.3	2.8	1.5
Economic growth	-0.1	0.3	-0.8	1.8	2.3	1.5
	<i>One year forward</i>			<i>Two years forward</i>		
The effective exchange rate index of foreign currencies vis-à-vis króna (Dec. 31, 1991=100) ...	129.0	130.0	124.0	129.2	132.0	120.0
Central Bank policy interest rate	5.8	6.2	5.2	6.1	6.5	5.0
Nominal long-term interest rate ²	6.4	7.0	5.5	6.6	7.0	5.3
Real long-term interest rate ³	4.7	5.2	4.2	4.8	5.0	4.3
ICEX-15 share price index (12-month change) ...	5.8	16.8	-7.0	19.1	34.2	0.0
Housing prices (12-month change)	1.5	5.0	-1.5	1.4	4.0	-2.5

The table shows percentage changes, except for interest rates (percentages) and the exchange rate index for foreign currencies (index points). Participants in the survey were the research departments of Búnaðarbanki, Economic Consulting and Forecasting, Íslandsbanki, Kaupthing, Landsbanki and SPRON (Reykjavík and Environs Savings Bank). 2. Based on yield in market makers' bids on non-indexed T-notes (RIKB 07 0209). 3. Based on yield in market makers' bids on indexed housing bonds (IBH 41 0315). *Source:* Central Bank of Iceland.