

Box 2 Survey of finance market analysts' assessments of the economic outlook

In the last survey of finance market analysts' assessments the questions were conditional such that the proposed, but then somewhat uncertain, aluminium projects should not be taken into account. The findings were published in *Monetary Bulletin* 2002/4. For the present survey, on the other hand, respondents were free to choose their forecast assumptions for themselves. They all expected construction work in connection with the Alcoa smelter would go ahead, and some also expected the Nordurál expansion to take place during the period, since the survey was taken before the announcement of the recent ruling by the acting Minister for the Environment on a hydropower project to supply electricity to it.

Firstly, the table shows the analysts' evaluation of inflation prospects for this and the following year. Their inflation forecasts for this year are close to the Central Bank's forecast and below its inflation target. However, the analysts forecast a rather higher inflation than the Bank in 2004, both over the year and between annual averages.

Analysts were also asked about the outlook for other key economic aggregates. Interestingly, they are more optimistic than the Central Bank. On average they forecast 2½% GDP growth this year – some way

above their forecasts in October – and 3½% next year. The Central Bank's current forecast is for 1¾% for 2003 and 3% for 2004, which is a small change from its previous forecast.

Five out of six of the analysts expect the exchange rate of the króna to strengthen slightly over the next twelve months, but over a two-year horizon there are conflicting views. In general they expect the króna to appreciate more over the medium term than in their last forecasts. The table shows that market analysts now foresee an end to the lowering of Central Bank interest rates, which can be understood in light of the investment projects. They expect the policy rate to be up to 6% after one year and close to 7% after two years.

Finally, the survey findings suggest that analysts foresee brighter prospects in the equity market than in their last forecast. They expect the ICEX-15 index to rise on both a one-year and two-year horizon. However, their views differ widely. Opinions are also divided about real estate prices. Forecasts over the next twelve months range from a 2% decrease to a 5% increase, but they all expect higher prices two years hence.

Overview of forecasts by financial market analysts¹

	2003			2004		
	Average	Highest	Lowest	Average	Highest	Lowest
Inflation (within year)	2.3	3.2	1.5	2.9	3.8	2.0
Inflation (year-on-year)	2.1	2.8	1.5	2.6	3.7	2.0
Economic growth	2.5	3.0	2.0	3.6	4.0	3.1
	One year forward			Two years forward		
The effective exchange rate index of foreign currencies vis-à-vis króna (Dec. 31, 1991=100)...	121.3	125.0	120.0	125.0	130.0	115.0
Central Bank policy interest rate	6.0	6.3	5.8	6.9	7.5	6.3
Nominal long-term interest rate ²	7.2	8.0	6.7	8.1	9.5	7.3
Real long-term interest rate ³	4.6	5.1	4.0	5.0	5.4	4.8
ICEX-15 share price index (12-month change) ...	8.4	12.0	3.7	13.6	26.0	5.0
Housing prices (12-month change)	3.1	5.0	-2.0	5.2	10.0	1.0

1. 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 Búnadarbanki, Economic Consulting and Forecasting, Íslandsbanki, Kaupthing, Landsbanki and SPRON (Reykjavík and Environment's 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.