

Box 4 Financial market analysts' assessments of the economic outlook

A year ago the Central Bank approached a number of financial market analysts to survey their forecasts for various economic aggregates which have subsequently been published in *Monetary Bulletin*.

The accompanying table shows the forecasts made in April. The average inflation forecast for 2003 (January-January) is higher than in the January survey but in line with the inflation target. Soaring real estate prices in recent months and a surge in inflation in March have been cited as reasons for upping the forecast. The Central Bank's inflation forecast for the same period is somewhat lower, or 1.9%, which is down from its January projection. Analysts and the Central Bank are virtually unanimous about the year-on-year increase between 2002 and 2003. Financial market analysts are forecasting a higher rate of inflation in 2004 than the Central Bank, in particular in terms of the year-on-year figure.

As usual, analysts were also asked about the outlook for other key economic aggregates. In January there was a fairly wide divergence in the growth fore-

casts by financial companies and the Central Bank. That discrepancy has all but disappeared and GDP growth forecasts are quite similar. The Central Bank forecasts 2½% GDP growth this year and 3¼% in 2004.

All the respondents expect little change in the exchange rate of the króna for the next twelve months and over a two-year horizon most of them foresee little change in the value of the króna. As in January market analysts consider that the lowering of Central Bank interest rates has come to an end, which naturally reflects the pending aluminium industry investments. They expect the policy rate to be up to 6% after one year and close to 7% after two years, which is virtually identical to their previous forecasts.

The analysts expect rather more modest rises in equity prices than in the last survey. Expectations vary widely, however, as indicated by the wide range between the highest and lowest values. Views on the outlook for real estate prices also differ, but none of the analysts expects a fall over the next two years.

Overview of forecasts by financial market analysts¹

	2003			2004		
	<i>Average</i>	<i>Highest</i>	<i>Lowest</i>	<i>Average</i>	<i>Highest</i>	<i>Lowest</i>
Inflation (within year)	2.5	3.4	2.0	2.9	3.5	2.0
Inflation (year-on-year)	2.3	2.9	2.0	2.8	3.5	2.0
GDP growth	2.2	2.5	1.9	3.4	3.8	3.0
	<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) ...	120.0	122.0	118.0	122.0	125.0	115.0
Central Bank policy interest rate	6.0	6.3	5.8	6.8	7.6	6.5
Nominal long-term interest rate ²	7.4	8.0	7.0	7.8	8.2	7.3
Real long-term interest rate ³	4.7	5.1	4.3	4.8	5.4	3.8
ICEX-15 share price index (12-month change) ...	4.9	10.0	-1.1	9.8	18.0	4.2
Housing prices (12-month change)	4.7	7.0	1.0	6.1	12.5	2.0

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 Búnaðarbanki, Economic Consulting and Forecasting, Íslandsbanki, Kaupþing, 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.