Weak króna delays disinflation

The króna has remained weak in recent months, and the exchange rate has been weaker than was assumed in the Central Bank's last forecast, which appeared in the May issue of Monetary Bulletin. *The exchange rate outlook has deteriorated somewhat since May, although projections of a larger trade surplus offset this to a degree. The poorer prospects for the exchange rate will be reflected in slightly slower disinflation than previously projected. In addition, Government policy action and the review of wage settlements will involve a larger rise in wage costs than was previously assumed. A smaller output slack in 2009 will also tend to deter disinflation. The Government's fiscal consolidation measures entail sharp rises in indirect taxes in coming years. These tax hikes will have a direct impact on the consumer price index; therefore, headline inflation will be considerably higher over the next two years than was forecast in May. Underlying inflation, however, is still expected to reach the target early in 2010. Fiscal consolidation measures have been adopted with the aim of guaranteeing sustainable public sector finances; the restructuring of the banks is well underway; and an analysis of the debt of the public sector and the nation as a whole has been completed. All of these are prerequisites for the removal of restrictions on capital movements to and from Iceland. A strategy for the phased removal of the capital controls has been announced. The pace at which the strategy is implemented will depend on the success of plans to strengthen the foreign exchange reserves through, among other things, loans from the International Monetary Fund and the Nordic countries.*

The króna has remained weak and the exchange rate outlook has deteriorated since May

The exchange rate of the króna has fallen by over 6% against the euro so far this year, in addition to a roughly 45% depreciation in 2008. The króna is now nearly one-third lower against the euro than in the beginning of September 2008, when the global financial crisis began in earnest.

The króna was weaker in Q2/2009 than in the forecast published in the May issue of *Monetary Bulletin*. In May, an exchange rate of roughly 157 krónur against the euro was assumed, while the actual exchange rate averaged nearly 172 krónur, some 8½% lower. The updated forecast assumes a lower exchange rate than the May forecast. The current forecast assumes a Q4/2009 exchange rate of roughly 176 krónur against the euro, which is slightly more than 8% lower than in the May forecast. The króna is expected to remain in the 157-176 range against the euro for the remainder of the forecast horizon, which corresponds to an exchange rate index of 205-230.

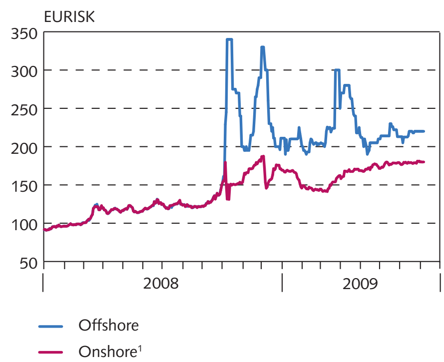
In keeping with the experience of other countries that have been hit by financial crises, it is assumed that the equilibrium real exchange rate will temporarily drop below its long-term equilibrium level. Furthermore, in the updated forecast the real exchange rate is somewhat lower throughout the forecast horizon than was assumed in May.

Apart from the fact that recent developments have been more negative than was projected in May, there are several reasons for a deteriorating exchange rate outlook. The restructuring of the domestic financial system has been delayed beyond the timetable assumed in May, the currencies of most small nations have been under pressure following the global financial crisis, and terms of trade have deteriorated. Furthermore, a number of transitory factors have contributed

Chart 1

The ISK exchange rate against the euro

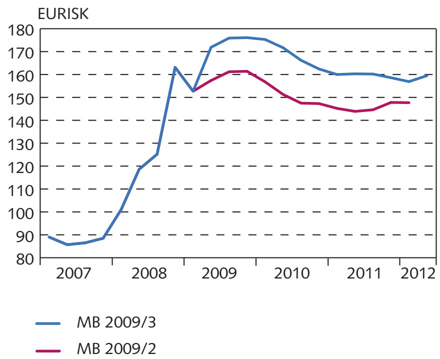
Daily data January 1, 2008 - August 6, 2009



1. The onshore rate is the daily closing rate.
Source: Reuters.

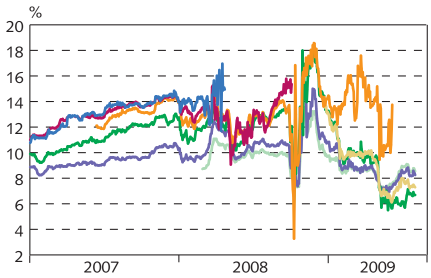
Chart 2

The ISK exchange rate against the euro - comparison with MB 2009/2



Source: Central Bank of Iceland.

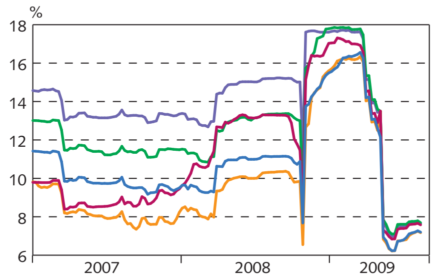
Chart 3
Long-term nominal Treasury bond yields
Daily data January 3, 2008 - August 6, 2009



- RIKB 08 0613
- RIKB 08 1212
- RIKB 09 0612
- RIKB 10 0317
- RIKB 13 0517
- RIKB 10 1210
- RIKB 19 0226

Source: Central Bank of Iceland.

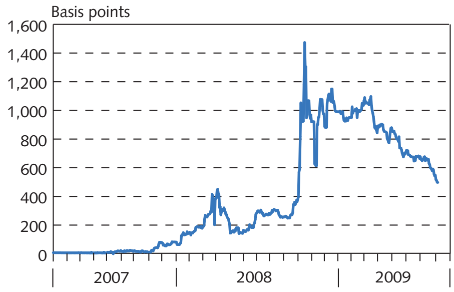
Chart 4
Short-term interest rate differential[1]
Weekly data January 4, 2007 - August 4, 2009



Interest rate differential according to:
- Iceland/Euro area
- Iceland/US
- Iceland/UK
- Iceland/Switzerland
- Iceland/Japan

1. 3-month interbank rates.
Source: Reuters EcoWin.

Chart 5
CDS spread for Iceland
Daily data March 28, 2007 - August 5, 2009



Source: Bloomberg.

to the depreciation of the króna, including relatively heavy interest payments to abroad in early summer and a seasonal surge in imports in July. Moreover, indicators suggest that the trade surplus for the first half of the year will be somewhat lower than was forecasted in May.

It is also possible that the sharp drop in interest rates in the first half of 2009 has weakened the króna in spite of the capital controls. The policy rate has already been cut by 6 percentage points, and bond and bank interest rates have fallen off as well. The drop in interest rates could have caused a currency depreciation if the capital controls are not fully effective, either because exporters have less incentive than otherwise to convert their export revenues to Icelandic krónur or because of expected króna depreciation when the capital controls are lifted. Offsetting this is the prospect of a larger trade surplus as the forecast horizon progresses, which should support the currency over time; moreover, risk premia on Icelandic financial assets appear to be declining. If this materialises, it could create greater scope for a reduction in the interest rate differential with abroad without undermining the króna.

Adverse exchange rate developments have impeded disinflation

The consumer price index (CPI) has risen sharply in recent months, in response to a falling króna exchange rate. The exchange rate weakening appears to have had limited effects on prices in the early months of 2009, most likely because importers have absorbed a part of the depreciation through lower margins or have been able to negotiate more advantageous terms with suppliers. They may also have made use of stocks purchased prior to the sharpest currency depreciation. Expectations of a reversal in exchange rate developments tend to wane as the weak exchange rate persists, increasing the probability that the depreciation will pass through to domestic inflation.

In spite of a low exchange rate, twelve-month inflation has continued to subside, although at a slower rate than previously. The past few months' rise in prices is attributable in large part to items that are sensitive to the exchange rate of the króna; that is, imported goods, and goods and services that compete with imports. For example, petrol prices rose by nearly 5% month-on-month in July, and the price of new motor vehicles by just over 3%. House prices, however, have continued to slide. Imputed rent has fallen by 14.3% in the past twelve months, and the housing component by some 2.6%. The difference is attributable to the fact that paid rent and various expenses related to housing maintenance have risen sharply due to the drop in the exchange rate. In July, twelve-month inflation measured 11.3%. Annualised seasonally adjusted three-month inflation was lower, however, at 10.6%.

Underlying inflation outstrips headline inflation

An element in the Government's plans to restore a positive fiscal balance is to raise taxes on various goods, such as alcoholic beverages and petrol. This decision is estimated to have raised the CPI by just over half a percentage point, which will affect measured twelve-month inflation through mid-2010. The Government plan also includes further hikes in consumption taxes, which means that headline inflation will temporarily exceed underlying inflation. After adjusting for these effects, twelve-month inflation currently measures 10.4%. On the other hand, inflation is somewhat higher in terms of core indices, which are intended to measure underlying inflation. Underlying inflation according to Core Index 3, after adjusting for tax effects, is 13%.[1]

Inflation will subside more slowly than previously forecasted throughout the year

Inflation measured 11.9% in Q2/2009, having dropped from 17.1% from the previous quarter. While this is somewhat higher than the Central Bank had forecasted in May, the difference is attributable in part to the above-mentioned consumption tax hikes, which had not been decided on when the May forecast was prepared. After adjusting for these tax effects, inflation in Q2/2009 was 11.5%.

As is mentioned above, adverse exchange rate developments will probably impede disinflation in the next few months. According to the baseline forecast, twelve-month inflation will measure about 10.6% in Q3, as opposed to 8% in the May forecast; and 8.4% in Q4, instead of 4.8% in the projections from May. The difference is also attributable in part to the above-mentioned consumption tax increases. Excluding the effects of those tax hikes, inflation in Q4 is estimated at around 7%.

Smaller GDP contraction in 2009, but weaker outlook for the next two years

The Q1/2009 national accounts were published on June 8. Although preliminary figures should generally be interpreted with caution, they indicate greater resilience in the economy than was reflected in the Central Bank's May forecast. For example, the contraction in domestic demand, while considerable, was slightly smaller than had been predicted. National expenditure contracted by 22% instead of the more than 23% in the May forecast. A more beneficial external trade contribution meant that the contraction in GDP measured 4% instead of the projected 7%, due largely to greater-than-expected growth in exports of goods and services. However, it should be borne in mind that aluminium exports only gained full strength in Q2/2008, so robust export growth year-on-year is due in part to base effects that will subside as the year passes.

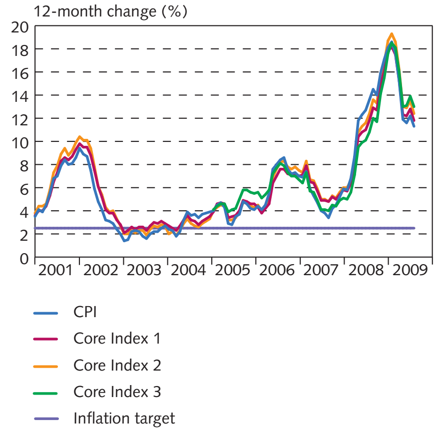
According to the updated forecast, the economic outlook for 2009 is a bit more positive. The contraction in national expenditure and exports is smaller than expected, resulting in a projected GDP contraction of about 9% instead of 11%. The outlook for 2010 has deteriorated, however, with a 2% contraction instead of the previously estimated 1%. The prospects for 2011 have deteriorated as well, with GDP growth at around 1% instead of 2½% in May.

There are two main reasons for a poorer GDP outlook in the coming two years compared to the May forecast. First, real disposable

1. Core Index 3 excludes volatile items (agricultural products, vegetables, fruit, and petrol), public services, and the effects of interest rate changes on the housing component from the headline index.

Chart 6

Inflation January 2001 - July 2009[1]

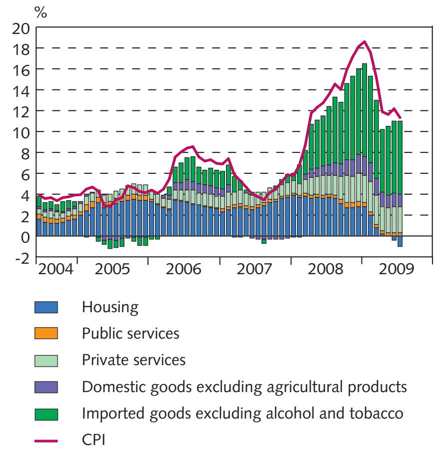


1. The core indices measure underlying inflation, with Core Index 1 excluding prices of agricultural products and petrol, and Core Index 2 excluding prices of public services as well. Core Index 3 also excludes the effect of changes in real interest rates.
Source: Statistics Iceland.

Chart 7

Components of the CPI June 2004 - July 2009

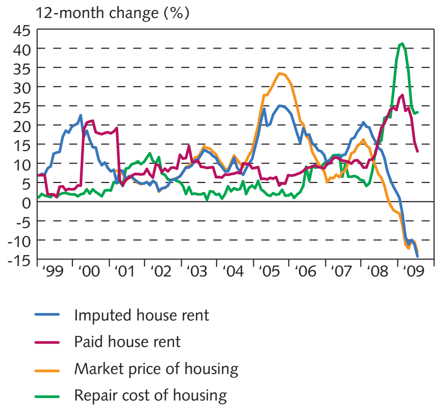
Contribution to CPI inflation in past 12 months



Source: Statistics Iceland.

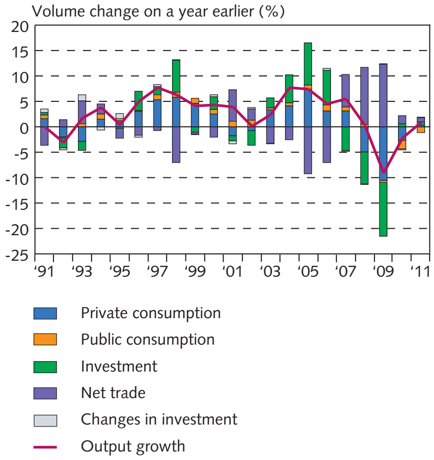
Chart 8

Housing component of the CPI
January 1999 - July 2009



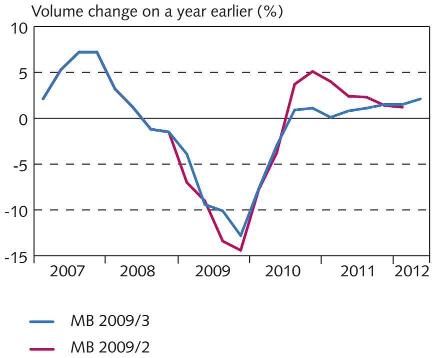
Source: Statistics Iceland.

Chart 9
Output growth and contribution of underlying components 1991-2011[1]



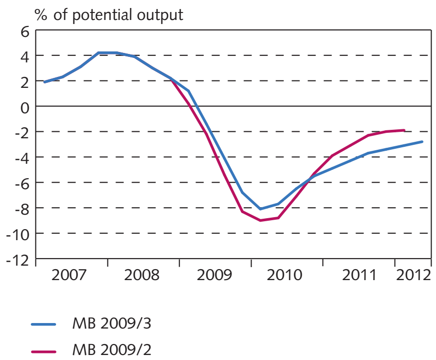
1. Central Bank baseline forecast 2009-2011.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart 10
Economic growth - comparison with MB 2009/2



Sources: Statistics Iceland, Central Bank of Iceland.

Chart 11
Output gap - comparison with MB 2009/2



Sources: Statistics Iceland, Central Bank of Iceland.

income is assumed to contract more sharply in spite of more advantageous nominal wage developments. This is due in large part to the assumption that fiscal consolidation will be achieved to a much larger degree through tax increases and lower fiscal transfer payments than was assumed in May, as is described in further detail below. The contraction in private consumption will therefore be greater over the next two years. Second, it is now assumed that there will be further delay in previously planned aluminium sector investments. The postponement of investments and a slower pace of development can be traced in large part to difficulties in financing energy-intensive projects. Recovery in overall investment will therefore be delayed beyond what was assumed in May; however, more robust investment growth in 2011 will counteract this.

Outlook for narrower output slack in 2009

The above forecast indicates that the trough of the contraction will be reached at about the time projected in May but that the recovery will be somewhat slower. This year's output slack will be slightly narrower, or just under 7% instead of 8½%. The forecast for the output gap must be interpreted with caution, however, as the financial crisis makes any assessment of output gap or slack unusually problematical. Unemployment developments and information on firms' plans tend to support the forecast, however.

Wage cost rises more than projected in May

Demand for labour continued to contract in Q2/2009. The total number of hours worked dropped by 14% year-on-year according to the Statistics Iceland labour market survey, due to a contraction in both the number of workers and the number of hours worked. Seasonally adjusted unemployment also rose slightly in the second quarter, although registered unemployment had declined after reaching 9.1% in April. The drop in registered unemployment is probably due to the Directorate of Labour's closer monitoring of unemployment registers. Registered unemployment measured 8.1% in June and 8.6% for the second quarter of the year, which is in line with the May forecast. The current forecast assumes rather lower unemployment in 2009, but due to a larger contraction over the subsequent two years, unemployment is estimated to be about the same in the latter part of the forecast horizon.

The review of the contractual wage agreements and the Stability Pact between the social partners and the Government entail a somewhat larger rise in wage costs than was forecast in May. This is due mostly to the 1.66% payroll tax increase, although wage rises in November 2009 will be larger than previously assumed.

Fiscal sustainability requires greater restraint than projected in May

As is discussed in the May issue of *Monetary Bulletin*, broad-based policy action is needed to reduce the large fiscal deficit that has developed after the economic collapse, if public sector debt is not to grow excessively in coming years. The May forecast assumed that the sustainability of public sector finance would be ensured with measures that would have a generally equal impact on the revenue and expenditure sides, and that these measures would affect the various elements of Government operations more or less evenly, as no detailed fiscal plan had been prepared at that time.

After the May *Monetary Bulletin* was published, the Government announced a fiscal consolidation plan that assumes a primary budget surplus in 2011 and an overall surplus in 2013. However, the Central Bank forecast assumes that the objectives for fiscal surplus will be achieved a year later. This is due largely to more cautious expectations concerning revenue generation from indirect taxes than are assumed in the Government plan.

In order for public sector finances to be in balance, consolidation measures must amount to 200 b.kr. between 2009 and 2013, which is more than was considered necessary in May. The adjustment path is therefore both more prolonged and more front-loaded. The difference amounts to some 10 b.kr. in 2010, and 50 b.kr. in the period of 2012 and 2013.[2] It is also assumed that the contraction in public consumption will be greater than was forecast in May, largely due to increased contraction in municipal expenditure, as it has emerged that the municipalities' financial position is weaker than previously thought. Another important change in the assumptions concerning fiscal policy is that, in contrast to the May forecast, tax hikes are now assumed to include increases in indirect taxes. These are expected to correspond to 0.4% of GDP in 2010; 1.1% in 2011; 1.0% in 2012; and 0.6% in 2013. These increases come on top of the rises in indirect taxes in June and the proposed rise in the coming autumn.

Given this forecast, the primary budget surplus will be about 7% of GDP in 2014, which gives the Treasury some margin to lower its debt level.[3]

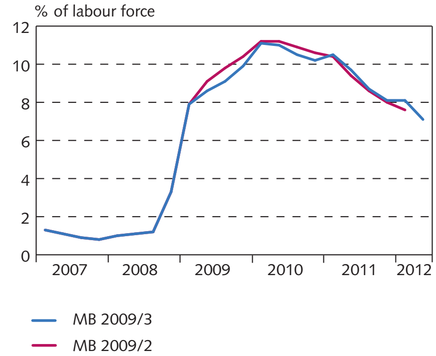
Treasury debt rises sharply, but not out of line with the experience of many other countries

Comparing the development in the debt position of various countries puts the Icelandic Treasury's position in a global context. A year prior to the collapse of the banking system, the State's assets exceeded liabilities by 19% of GDP, while total debt amounted to 41% of GDP. Tax revenues had grown rapidly in the preceding years, concurrent with substantial growth in economic activity. A comparison with other countries was therefore advantageous, as can be seen on Chart 14. This year, the State's total debt amounts to 165% of GDP; thus the overall position has deteriorated by more than one GDP. Substantial assets offset the increased liabilities, however, and the net position has not worsened correspondingly. The net debt position has deteriorated by 44 percentage points of GDP and will be negative by 25% of GDP in 2009. Due in part to fiscal deficits over the next few years, the net

2. This path is quite consistent with the fiscal adjustment programmes in the other Nordic countries in the wake of their own banking crises in the early 1990s.

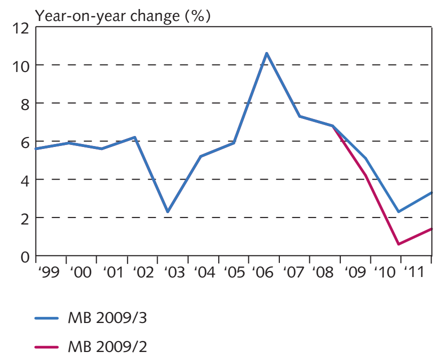
3. If the long-term interest rate on Treasury debt is, for example, 1 percentage point higher than the long-term GDP growth rate, some 6% of GDP remains to pay down the debt as a proportion of GDP. Thus it would not only have been possible to stop debt accumulation, but also to create the premises for rather rapid, secure repayment of debt.

Chart 12
Unemployment - comparison with MB 2009/2



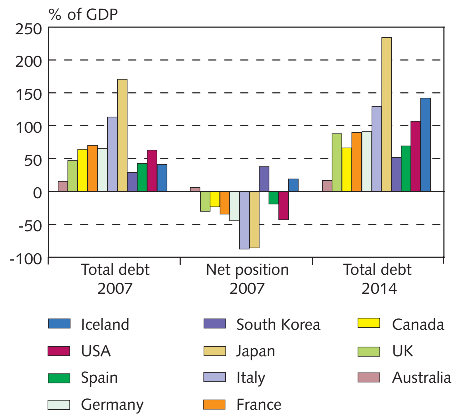
Sources: Directorate of Labour, Central Bank of Iceland.

Chart 13
Unit labour cost 1999-2011[1]



1. Central Bank baseline forecast 2009-2011.
Source: Central Bank of Iceland.

Chart 14
Debt of Iceland's Treasury and other countries



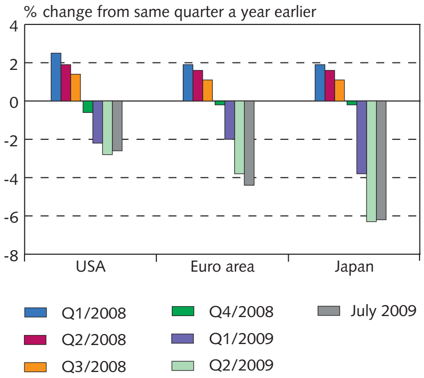
Sources: IMF, OECD, Central Bank of Iceland.

debt position will continue to deteriorate to about 53% of GDP in 2014. The Government balance sheet will contract, however, at the same time; therefore, by 2014 total debt will have declined to 142% of GDP according to the forecast. This is certainly a high debt ratio in international comparison, but not without precedent.

Global recovery expected sooner than previously thought

The economic contraction in most of Iceland's main trading partners was larger than expected in Q1/2009. Developments in the second quarter appear to have been poorer as well. Recent forecasts by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) are rather more optimistic than before, however, especially for the US and Asia. It is thought that recovery will be somewhat slower to reach Europe, owing particularly to declining exports to Eastern and Central Europe. The main reason for the international agencies' more upbeat projections is the positive effects of economic stimulus packages and improved inventory positions. Furthermore, equity prices have risen sharply, risk premia in bond markets have fallen, and corporate bond issuance has increased markedly. Furthermore, indicators imply that the decline in house prices in the US has come to a halt. Unemployment, however, has continued to rise in most areas. It is thought possible that recovery will begin in the US in Q3/2009. Most forecasts assume a slow recovery, however, as private consumption could contract anew when the effects of government stimulus packages wear off. On the other hand, the inflation outlook has changed little since the May issue of *Monetary Bulletin*.

Chart 15
Output growth forecasts for 2009
Time axis shows month of forecast (from Q1/2008)



Source: Consensus Forecasts.

Trade surplus is expected to grow over the next two years …

The outlook for international trade has been revised in line with changes in the prospects for global growth. The outlook is for international trade to contract more in the first half of 2009 than was assumed in May, and to increase more, and earlier, in the latter half of the year.

It is now projected that exports apart from energy-intensive industrial and marine products will grow faster than previously expected in the next two years, in line with more robust recovery of global demand and a lower real exchange rate. On the other hand, marine exports are expected to contract in 2009 and 2010 due to quota cuts, and aluminium exports are expected to drop in 2011 due to the previously mentioned delays in development projects. However, the outlook for aluminium prices has improved since May. This year's contraction in imports will be rather smaller than previously forecasted, in line with developments in domestic demand, but will be greater in 2010, owing to weaker domestic demand and a lower real exchange rate.

The terms of trade are expected to be rather worse in 2009 than was projected in May but to recover in the ensuring two years. The trade surplus is projected to be somewhat smaller in 2009 and then increase in 2010-11, in line with the revised estimate of the terms of trade.

A trade surplus of the size now forecasted is virtually without precedent in Iceland. It must be interpreted in light of the contraction in domestic demand, however, and in view of expectations of a very low real exchange rate in coming years, both of which tend to shift demand away from imports and towards domestic production.

... and the current account deficit to disappear in 2010

The current account deficit is expected to amount to 7% of GDP in 2009, despite a considerable trade surplus stemming from a large deficit on the balance on income. This is a substantial decrease from the year-2008 current account deficit, which measured 43% of GDP according to revised figures and is the largest deficit ever measured in any country. A current account surplus is forecasted for 2010, as the trade surplus outweighs the income account deficit. As expected, a persistent deficit on the balance on income is projected throughout the forecast horizon.

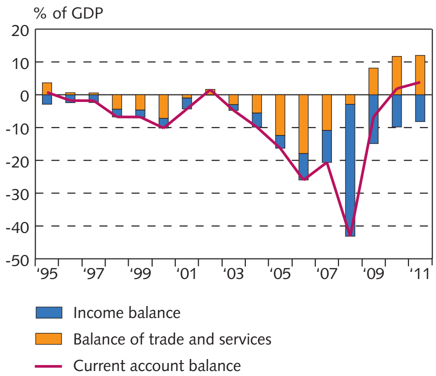
Underlying inflation at target in 2010

As is discussed above, inflation seems likely to subside more slowly in coming months than was previously assumed. The exchange rate of the króna has been lower than assumed in previous forecasts, and it appears that the output slack will be somewhat smaller in 2009 than in the May forecast. As a result of the indirect tax hikes mentioned above, CPI inflation will be higher than pre-tax-hike forecasts indicated. This will add nearly 1 percentage point to the CPI in 2009, and about 2 percentage points in 2010-11. CPI inflation will therefore be just under 4% at the end of the forecast horizon, while inflation excluding tax effects will be close to target.

It is appropriate to look beyond the first-round effects of these tax increases when conducting monetary policy. Excluding these first-round effects, it is assumed that inflation will be close to target early in 2010, and that inflationary pressures will be very limited in the next few years. Although wage costs are expected to increase more than was projected in May, a sizeable output slack has developed, and unemployment is higher than is consistent with price stability. Inflation is therefore expected to be very low for a while, and the possibility of temporary deflation in late 2010 and 2011 cannot be ruled out. As the forecast horizon progresses, however, inflation is projected to approach the target once again.

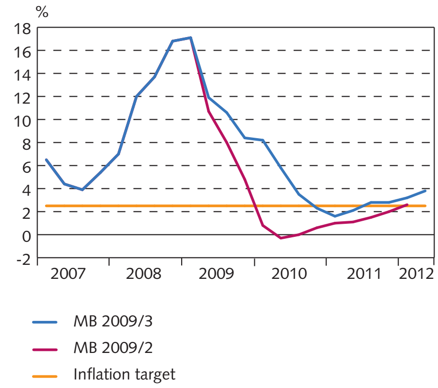
In spite of the fact that most underlying indicators of inflationary pressures suggest that inflation will taper off rapidly in the near future, domestic and international experience shows that inflation can develop independently for a long period in spite of a slack in the economy. This is especially the case if inflation has been high in the run-up to a contraction and if monetary policy has not anchored inflation expectations sufficiently. It can happen if wages or prices are directly or indirectly linked to past inflation – for example, if provisions in contractual wage agreements provide for corrections in real wages or if prices of goods or services are indexed to past inflation. Fears of further currency depreciation can also deter disinflation. Thus it is not certain that inflation will be low in the medium term. Sufficiently tight monetary policy is needed in order to ensure this.

Chart 16
Current account 1995-2011[1]



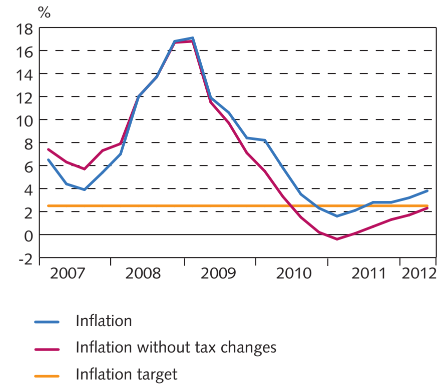
1. Central Bank baseline forecast 2009-2011.
Sources: Statistics Iceland, Central bank of Iceland.

Chart 17
Inflation - comparison to MB 2009/2



Sources: Statistics Iceland, Central Bank of Iceland.

Chart 18
Inflation including and excluding effect of indirect taxes



Sources: Statistics Iceland, Central Bank of Iceland.

The Government's economic programme is moving forward

The goals of the economic programme of the Government and the IMF are to support exchange rate stability, debt sustainability, and the reconstruction of a viable financial system in the wake of the banks' collapse. Work has been progressing apace on all these fronts in recent months. As is mentioned above, fiscal consolidation measures have been initiated for 2009, and a report on the fiscal balance for 2009-2013 has been presented. Both of these tend to bolster confidence in the Government's ability to reduce the government deficit and ensure the sustainability of fiscal policy in spite of the extreme burden brought on by the economic collapse. The Central Bank has assessed the debt position of the Government and the overall economy, taking account of the estimated cost of financial sector restructuring, borrowings to reinforce the foreign exchange reserves, and the repayment of deposit insurance claims due to the Icesave agreements, as well as the impact of the contraction on public sector revenues and expenditures. According to that assessment, it is possible to ensure debt sustainability through prudent economic policy and borrowings from the IMF and other countries.

Furthermore, the final steps are being taken in the restructuring and recapitalisation of the banks, which is an important phase in the restoration of the financial system. Work is underway on the basic restructuring of the domestic financial system, which aims to guarantee that the institutional framework of the new banking system will be sounder than that which collapsed last autumn. Finally, an approved capital account liberalisation strategy has now been published, which aims at removing the capital controls without jeopardising the stability of the króna. All of these measures, which focus on exchange rate stability, debt sustainability, and financial sector restructuring, are interdependent. Continued interest rate reductions and capital account liberalisation are therefore determined by the success achieved in a number of areas of the economic programme.

Appendix 1

Baseline macroeconomic and inflation forecast 2009/3

Table 1 Macroeconomic forecast[1]

	B.kr.	Volume change on previous year (%) unless otherwise stated				
				Forecast		
GDP and its main components	*2007*	*2007*	*2008*	*2009*	*2010*	*2011*
Private consumption	754.6	5.6 (5.6)	-7.7 (-7.7)	-19.7 (-23.5)	-4.4 (-2.1)	0.7 (2.9)
Public consumption	316.8	4.2 (4.2)	2.8 (2.8)	-2.3 (-2.7)	-5.9 (-4.5)	-4.7 (-3.9)
Gross capital formation	364.5	-12.8 (-12.8)	-21.8 (-21.8)	-48.4 (-44.8)	5.7 (12.8)	5.5 (4.9)
Business investment	219.2	-24.5 (-24.5)	-27.2 (-27.2)	-50.5 (-44.5)	28.4 (35.5)	9.3 (8.0)
Residential investment	90.6	13.2 (13.2)	-23.1 (-23.1)	-47.3 (-42.8)	-14.2 (-18.5)	7.6 (7.8)
Public investment	54.7	19.2 (19.2)	1.6 (1.6)	-42.5 (-47.8)	-35.6 (-25.6)	-18.5 (-18.5)
National expenditure	1,442.5	-0.6 (-0.6)	-9.3 (-9.3)	-21.5 (-23.5)	-4.0 (-0.3)	0.1 (1.4)
Exports of goods and services	449.7	17.7 (17.7)	7.1 (7.1)	-1.8 (-3.0)	0.4 (0.7)	2.7 (2.1)
Imports of goods and services	590.9	-1.0 (-1.0)	-18.0 (-18.0)	-33.0 (-35.6)	-5.5 (2.9)	1.2 (-1.4)
Gross domestic product	1,301.4	5.5 (5.5)	0.3 (0.3)	-9.1 (-11.0)	-2.2 (-0.8)	0.9 (2.5)
Other key aggregates						
Trade account balance (% of GDP)		-10.8 (-10.8)	-2.9 (-2.9)	8.1 (10.8)	11.7 (9.5)	12.0 (10.3)
Current account balance (% of GDP)		-20.6 (-16.1)	-43.1 (-34.6)	-6.8 (-1.8)	1.9 (-0.5)	3.8 (2.0)
Output gap (% of potential output)		4.2 (4.2)	2.2 (2.2)	-6.8 (-8.3)	-5.5 (-5.3)	-3.4 (-2.0)
Unit labour cost (change in average year-on-year)		7.3 (7.3)	6.8 (6.8)	5.1 (4.2)	2.3 (0.6)	3.3 (1.4)
Real disposable income (change in average year-on-year)		8.1 (8.1)	-7.5 (-7.5)	-19.9 (-15.6)	-7.4 (-0.1)	1.4 (0.8)
Unemployment (% of labour force)		1.0 (1.0)	1.6 (1.6)	8.9 (9.3)	10.7 (11.0)	9.2 (9.1)
EURISK exchange rate		87.4 (87.4)	127.0 (127.0)	169.2 (158.2)	168.9 (150.7)	159.8 (145.4)

1. Figures in parentheses show forecast in *Monetary Bulletin* 2009/2.

Table 2 Inflation forecast (%)[2]

Quarter	*Inflation (change year-on-year)*	*Inflation excluding tax effects (change year-on-year)*	*Inflation (annualised quarter-on-quarter change)*
		Measured value	
2008:1	7.0 (7.0)	7.9 (7.9)	8.2 (8.2)
2008:2	12.0 (12.0)	12.0 (12.0)	27.0 (27.0)
2008:3	13.7 (13.7)	13.7 (13.7)	12.1 (12.1)
2008:4	16.8 (16.8)	16.7 (16.7)	20.5 (20.5)
2009:1	17.1 (17.1)	16.8 (16.8)	9.6 (9.6)
2009:2	11.9 (10.7)	11.5 (10.4)	5.9 (1.4)
		Forecasted value	
2009:3	10.6 (8.0)	9.7 (7.7)	7.0 (1.7)
2009:4	8.4 (4.8)	7.1 (4.6)	11.2 (6.9)
2010:1	8.2 (0.8)	5.5 (0.8)	8.6 (-6.4)
2010:2	5.8 (-0.3)	3.3 (-0.3)	-3.0 (-3.1)
2010:3	3.5 (0.0)	1.5 (0.0)	-2.0 (2.9)
2010:4	2.3 (0.6)	0.2 (0.6)	5.8 (9.5)
2011:1	1.6 (1.0)	-0.4 (1.0)	5.8 (-4.8)
2011:2	2.1 (1.1)	0.1 (1.1)	-0.9 (-2.4)
2011:3	2.8 (1.5)	0.7 (1.5)	0.5 (4.2)
2011:4	2.8 (2.0)	1.3 (2.0)	6.1 (11.9)
2012:1	3.2 (2.6)	1.7 (2.6)	7.4 (-2.6)
2012:2	3.8	2.3	1.3

Annual average	*Inflation*	*Inflation excl. tax effects*
2008	12.4 (12.4)	12.6 (12.6)
2009	11.8 (9.9)	11.1 (9.6)
2010	4.9 (0.3)	2.6 (0.3)
2011	2.3 (1.4)	0.4 (1.4)

2. Figures in parentheses show forecast in *Monetary Bulletin* 2009/2.