

The Central Bank of Iceland publishes *Peningamál* (*Monetary Bulletin*)

On November 6, 2003, the Central Bank of Iceland published the November issue of *Peningamál* (*Monetary Bulletin*), a quarterly publication in Icelandic, including the Bank's quarterly inflation forecast and a macroeconomic forecast.

Inflation has been stable, remaining below the Central Bank's inflation target so far this year and well in line with forecasts made earlier this year. The forecast for GDP growth is now slightly lower than in July and will remain below the potential long-term growth rate of output, at 2% this year and 3% in 2004. In 2005 economic growth will gain momentum and be significantly above potential at 4¼%. There is currently some slack in the economy and according to the forecast it will not disappear until 2005. Inflation is expected to remain under the target throughout 2004 but slightly exceed the target towards the end of the two-year forecast horizon as the output gap closes, assuming an unchanged policy rate.

Unlike the July forecast, the current forecast does not take account of the proposed Norðurál aluminium smelter expansion, which is still somewhat uncertain. If the Norðurál expansion goes ahead in the next few months, annual output growth will be ½% greater in both 2004 and 2005 than in the current forecast. In that case, the output gap will be closed by next year, and inflation will exceed the target sooner and by more than otherwise.

The Bank kept its policy interest rate unchanged but indicated that interest rate increases are on the horizon.

As usual an unchanged monetary stance and exchange rate are assumed throughout the forecast period.

The English translation of *Peningamál*, *Monetary Bulletin*, will be published on the Bank's website, each chapter as soon as it becomes available.

The Central Bank of Iceland macroeconomic forecast

	Billion krónur at current prices ¹			Volume change on previous year (%) ²			Change since previous forecast ²	
	2003	2004	2005	2003	2004	2005	2003	2004
Private consumption.....	449.6	479.3	517.1	5½	4¼	5	3½	1¼
Public consumption.....	214.9	226.6	239.6	3½	1	2	1	-1½
Gross fixed capital formation	162.0	176.7	197.6	6¾	8	8½	-4	-3¼
Industries.....	89.8	104.0	123.4	12¼	15	14½	-1¾	-5½
Excl. power-intensive projects, ships and aircraft	65.6	67.5	71.7	-1¼	2¼	2½	½	-7¼
Residential housing.....	40.4	42.9	45.8	3	3½	3½	-	-
Public investment	31.8	29.8	28.3	3½	-8½	-8	-7¾	-1¼
National expenditure	826.5	882.6	954.3	5¼	4¼	5	1½	-¼
Exports of goods and services	294.0	312.5	333.3	0	4	4¼	-2	-
Imports of goods and services	307.8	340.0	369.7	8½	7½	7	4	½
Gross domestic product.....	812.7	855.1	917.8	2	3	4¼	-¾	-½
Current account balance, % of GDP.....	-3½	-5¼	-6	.	.	.	-2¾	-3¼
Gross national saving, % of GDP.....	16½	15½	15½	.	.	.	-1¾	-2½
Net external debt, % of GDP ³	95¼	100¼	107¼	.	.	.	1	6¼
International investment position, % of GDP ³	-73¾	-78	-84½	.	.	.	-¾	-5
Private sector wages, % change between annual averages.....	.	.	.	5	4¼	5½	-	-
Labour productivity, % change between annual averages	2	1½	1¾	-	-
Real household disposable income per capita, % change between annual averages.....	.	.	.	2¼	2¼	2	-	-1
Unemployment, % of labour force	3½	2¼	2¼	.	.	.	¼	¼
Output gap, % of GDP.....	-½	-¼	1¼	.	.	.	-	-½

1. Unless otherwise indicated. 2. "." indicates no change. 3. International investment position and GDP are calculated using the same SDR exchange rate.

The Central Bank of Iceland inflation forecast

Quarterly changes (%)

	Percentage change on previous quarter	Annualised quarterly change	Change on same quarter of previous year
2001:1	0.9	3.4	4.0
2001:2	3.5	14.5	6.0
2001:3	2.3	9.7	8.0
2001:4	1.6	6.6	8.5
2002:1	1.0	4.2	8.7
2002:2	0.4	1.6	5.5
2002:3	0.2	0.7	3.3
2002:4	0.6	2.3	2.2
2003:1	0.7	2.9	1.9
2003:2	0.5	2.0	2.0
2003:3	0.3	1.1	2.1
2003:4	0.7	3.0	2.2
2004:1	0.5	2.1	2.0
2004:2	0.6	2.3	2.1
2004:3	0.6	2.3	2.4
2004:4	0.4	1.7	2.1
2005:1	0.6	2.5	2.2
2005:2	0.9	3.8	2.6
2005:3	0.9	3.6	2.9
2005:4	0.6	2.4	3.1

Figures indicate changes between quarterly averages of the consumer price index. Shaded area indicates forecast.

Annual changes (%)

Year	Year-on-year	Within year
2000	5.0	3.5
2001	6.7	9.4
2002	4.8	1.4
2003	2.0	2.2
2004	2.2	2.1
2005	2.7	3.1

Shaded area indicates forecast.

Central Bank inflation forecast November 2003

