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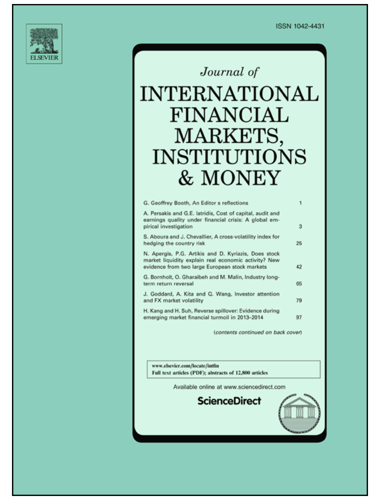

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Forecasting European interest rates in times of financial crisis – What insights do we get from international survey forecasts?

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Abstract

Interest rate forecasts are widely used in the international financial services industry. For decades both practitioners and academic researchers question the quality and usefulness of forecasts. Survey predictions do not only deliver point forecasts but also allow to draw conclusions with regard to the variety of forecasts provided by professional analysts. We evaluate the quality of interest rate forecasts for the three months interbank rate in the UK (LIBOR) and Germany (EURIBOR) as well as the corresponding 10Y government bond yields using the root mean squared error as well as the Theil's U measure and also apply models of time series analysis (i.e. cointegration and causality analysis). Finally, we check for possible implications from uncertainty measures (i.e. High-Low-Spread of forecasts as well as forecast errors) and structural breaks. We are able to find some links to the real economy. Applying our methodological approach both to the UK and Germany we are able to draw conclusions with regard to the quality of international forecasts in times of uncertainty.

JEL classification: G17, G01

Keywords: Global financial crisis, survey forecasts, interest rate forecasts, forecast evaluation

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