

**AUTUMN 2010 ECONOMIC OUTLOOK FOR CYPRUS: ANSWERS FROM OEB**
**MAIN FORECAST**

| <b>Annual % change</b>             | <b>2010</b> | <b>2011</b> |
|------------------------------------|-------------|-------------|
| Real GDP growth                    | 0.2         | 0.8         |
| Consumer price inflation           | 2.8         | 2.8         |
| Unemployment rate                  | 7.0         | 6.5         |
| Employment growth                  | -0.1        | 0.1         |
| government net lending (% of GDP)  | 6.0         | 4.5         |
| gross public debt (% of GDP)       | 61.0        | 62.0        |
| current account balance (% of GDP) | 8.0         | 7.0         |

**Components of aggregate demand - in real terms**

| <b>Annual % change</b>                     |      |      |
|--|------|------|
| Private consumption                        | 4.1  | 3.5  |
| Public consumption                         | 1.1  | 1.3  |
| Investment (Gross Fixed Capital Formation) | 10.0 | -3.0 |
| Private non-residential investment         | n/a  | n/a  |
| Exports                                    | 1.1  | 1.2  |
| Imports                                    | 4.5  | 4.4  |

**ECONOMIC SENTIMENT**

|   | <b>Positive</b> | <b>Negative</b> | <b>Unchanged</b> |
|---|-----------------|-----------------|------------------|
| <b>Trend in business climate over the next 6 months</b> | Industry        |                 |                  |
|   | Services        |                 |                  |

|  | <b>Positive</b> | <b>Negative</b> | <b>Unchanged</b> |
|--|-----------------|-----------------|------------------|
| <b>Trend in profitability over the next 6 months</b> |                 | Industry        |                  |
|  |                 | Services        |                  |

|   | <b>Increase (faster pace)</b> | <b>Increase (slower pace)</b> | <b>Unchanged</b> | <b>Decrease (slower pace)</b> | <b>Decrease (faster pace)</b> |
|---|-------------------------------|-------------------------------|------------------|-------------------------------|-------------------------------|
| <b>Investment intentions over the next 6 months</b> |                               |                               | Industry         |                               |                               |
|   |                               |                               | Services         |                               |                               |

|   | <b>Global demand</b> | <b>Domestic demand</b> | <b>Cost of finance</b> | <b>Availability of finance</b> | <b>Company Profitability</b> | <b>Capacity Utilisation</b> |
|---|----------------------|------------------------|------------------------|--------------------------------|------------------------------|-----------------------------|
| <b>Influence on companies' investment decisions</b> | negative             | neutral                | positive               | positive                       | negative                     | negative                    |

|   | <b>Replacement</b> | <b>Extension</b> | <b>Rationalisation</b> | <b>Innovation</b> |
|---|--------------------|------------------|------------------------|-------------------|
| <b>Driving force behind investment decisions in the next 6 months</b> | positive           | neutral          | neutral                | neutral           |

|                                    | <b>Industry: past 6 months</b> | <b>Industry: next 6 months</b> | <b>Services: past 6 months</b> | <b>Services: next 6 months</b> |
|------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Overall trend in employment</b> | Down                           | Same                           | Down                           | Same                           |



**ACCESS TO FINANCE AND IMPACT OF THE CRISIS ON POTENTIAL GROWTH**

|   |                                |                            |             |                      |
|---|--------------------------------|----------------------------|-------------|----------------------|
| <b>Compared to 6 months ago, cost/access to finance has been...</b> | <b>sharply up / restrained</b> | <b>up / more difficult</b> | <b>same</b> | <b>down / easier</b> |
| <i>for SMEs</i>   |                                | Cost                       | Access      |                      |
| <i>for larger companies (&gt;250 employees)</i>                     |                                | Cost                       | Access      |                      |

|   |                                |                            |                |                      |
|---|--------------------------------|----------------------------|----------------|----------------------|
| <b>Over the next 6 months, cost /access to finance will be...</b> | <b>sharply up / restrained</b> | <b>up / more difficult</b> | <b>same</b>    | <b>down / easier</b> |
| <i>for SMEs</i>   |                                |                            | Cost<br>Access |                      |
| <i>for larger companies (&gt;250 employees)</i>                   |                                |                            | Cost<br>Access |                      |

|  |  |   |  |  |
|--|--|---|--|--|
|  | <b>Measures to improve bank lending capacity</b> | <b>Facilitating access to capital markets (corporate bonds and stock markets)</b> | <b>Improving conditions for equity financing</b> |  |
| <b>Measures to alleviate current financial difficulties for SMEs</b> | Very important effect                            | Moderate effect   | Important effect                                 |  |



**POLICY MIX**

|  | <i>Tight, appropriate for the euro area</i> | <i>Tight</i>                   | <i>Appropriate</i><br>yes  | <i>Loose</i>                     | <i>Loose, appropriate for the euro area</i>                         |
|--|---|--------------------------------|--|----------------------------------|---|
| <i>Monetary policy is...</i>   |   |                                |  |                                  |   |
| <i>Consistency between fiscal and monetary policies</i>                      | <i>adequate</i><br>yes                      | <i>inadequate</i>              |  |                                  |   |
| <i>Regarding the sustainability of public finances, government shows ...</i> | <i>excellent commitment</i>                 | <i>satisfactory commitment</i> | <i>neither satisfactory nor unsatisfactory commitment</i><br>yes | <i>unsatisfactory commitment</i> | <i>no clear commitment creating an extremely worrying situation</i> |
| <i>Exit Strategies</i>   | <i>excessive focus</i>                      | <i>sufficient focus</i>        | <i>neither satisfactory nor unsufficient focus</i>               | <i>unsufficient focus</i>        | <i>so far ignored</i>   |
| <i>Tight fiscal rules and more effective institutions</i>                    | yes   |                                |  |                                  |   |
| <i>Greater efficiency of public administrations</i>                          |   |                                | yes  |                                  |   |
| <i>Credible cost-cutting measures</i>  |   |                                |  | yes                              |   |
| <i>Increased scope of public-private partnerships</i>                        |   | yes                            |  |                                  |   |
| <i>Reform of pension systems</i>   |   |                                |  | yes                              |   |
| <i>Improved efficiency of healthcare sector</i>                              |   |                                |  |                                  | yes   |
| <i>Entry Strategies</i>  | <i>excessive focus</i>                      | <i>sufficient focus</i>        | <i>neither satisfactory nor unsufficient focus</i>               | <i>unsufficient focus</i>        | <i>so far ignored</i>   |
| <i>More and better-targeted education and training</i>                       |   |                                | yes  |                                  |   |
| <i>More and better targeted R&amp;D and innovation efforts</i>               |   |                                |  | yes                              |   |
| <i>Prioritisation of infrastructure investments</i>                          |   | yes                            |  |                                  |   |
| <i>Growth enhancing tax reforms</i>  |   |                                | yes  |                                  |   |
| <i>In 2015, the government deficit will...</i>                               | <i>respect the 3% limit</i><br>yes          | <i>be in balance</i><br>yes    |  |                                  |   |