

AUTUMN 2010 ECONOMIC OUTLOOK FOR ICELAND: ANSWERS FROM SA

MAIN FORECAST

Annual % change	2010	2011
Real GDP growth	-1.9	2.4
Consumer price inflation	5.7	2.8
Unemployment rate	8.2	7.7
Employment growth	0.0	1.7
government net lending (% of GDP)	-9.2	-5.6
gross public debt (% of GDP)	115.6	107.8
current account balance (% of GDP)	-0.9	2.1

Components of aggregate demand - in real terms

Annual % change		
Private consumption	0.2	1.5
Public consumption	-3.2	-3.8
Investment (Gross Fixed Capital Formation)	-3.8	24.6
Private non-residential investment	1.2	32.8
Exports	-1.2	1.2
Imports	1.7	5.9

ECONOMIC SENTIMENT

	<i>Positive</i>	<i>Negative</i>	<i>Unchanged</i>			
Trend in business climate over the next 6 months		Industry Services				
Trend in profitability over the next 6 months		Industry Services				
Investment intentions over the next 6 months	<i>Increase (faster pace)</i> Industry Services	<i>Increase (slower pace)</i>	<i>Unchanged</i>	<i>Decrease (slower pace)</i>	<i>Decrease (faster pace)</i>	
Influence on companies' investment decisions	<i>Global demand</i> neutral	<i>Domestic demand</i> negative	<i>Cost of finance</i> negative	<i>Availability of finance</i> negative	<i>Company Profitability</i> positive	<i>Capacity Utilisation</i> negative
Driving force behind investment decisions in the next 6 months	<i>Replacement</i> neutral	<i>Extension</i> neutral	<i>Rationalisation</i> positive	<i>Innovation</i> positive		
Overall trend in employment	<i>Industry: past 6 months</i> Down	<i>Industry: next 6 months</i> Down	<i>Services: past 6 months</i> Down	<i>Services: next 6 months</i> Down		



ACCESS TO FINANCE AND IMPACT OF THE CRISIS ON POTENTIAL GROWTH

Compared to 6 months ago, cost/access to finance has been...				
	sharply up / restrained	up / more difficult	same	down / easier
<i>for SMEs</i>			Access	Cost
<i>for larger companies (>250 employees)</i>				Cost Access
Over the next 6 months, cost /access to finance will be...				
	sharply up / restrained	up / more difficult	same	down / easier
<i>for SMEs</i>		Access		Cost
<i>for larger companies (>250 employees)</i>			Access	Cost
Measures to alleviate current financial difficulties for SMEs	Measures to improve bank lending capacity	Facilitating access to capital markets (corporate bonds and stock markets)	Improving conditions for equity financing	
	Very important effect	Very important effect	Important effect	



POLICY MIX

	<i>Tight, appropriate for the euro area</i>	<i>Tight yes</i>	<i>Appropriate</i>	<i>Loose</i>	<i>Loose, appropriate for the euro area</i>
<i>Monetary policy is..</i>					
	<i>adequate</i>	<i>inadequate</i>			
<i>Consistency between fiscal and monetary policies</i>		yes			
	<i>excellent commitment</i>	<i>satisfactory commitment</i>	<i>neither satisfactory nor unsatisfactory commitment</i>	<i>unsatisfactory commitment</i>	<i>no clear commitment creating an extremely worrying situation</i>
<i>Regarding the sustainability of public finances, government shows ...</i>		yes			
	<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>Exit Strategies</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>excessive focus</i>	<i>sufficient focus</i>	<i>neither satisfactory nor unsufficient focus</i>	<i>unsufficient focus</i>	<i>so far ignored</i>
<i>Entry Strategies</i>					
<i>More and better-targeted education and training</i>				yes	
<i>More and better targeted R&D and innovation efforts</i>			yes		
<i>Prioritisation of infrastructure investments</i>			yes		
<i>Growth enhancing tax reforms</i>					yes
	<i>respect the 3% limit</i>	<i>be in balance</i>			
<i>In 2015, the government deficit will...</i>	yes	yes			