



## NOVEMBER 2011 ECONOMIC OUTLOOK FOR ICELAND: ANSWERS FROM SA

### MAIN FORECAST

Annual % change	2011	2012
Real GDP growth	2,5	3,1
Consumer price inflation	7,2	6,0
Unemployment rate	7,2	6,0
Employment growth	-0,3	0,0
government net lending (% of GDP)	-2,6	0,1
gross public debt (% of GDP)	96,6	91,6
current account balance (% of GDP)	-7,4	-6,0

### Components of aggregate demand - in real terms

Annual % change		
Private consumption	3,1	3,3
Public consumption	-2,6	-0,8
Investment (Gross Fixed Capital Formation)	15,0	14,5
Private non-residential investment	25,2	17,6
Exports	2,1	3,3
Imports	3,8	4,9

### ECONOMIC SENTIMENT

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

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

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

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

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

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

<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	Access
<i>for larger companies (&gt;250 employees)</i>			Cost	Access

	<b>Consolidation of banking sector balance sheets</b>	<b>Access to capital markets</b>	<b>Encouraging equity financing through tax reforms</b>	<b>Better use of existing EU instruments (including EIB)</b>	<b>Greater potential for Public-Private-Partnerships</b>
<b>Measures to alleviate current financial difficulties for SMEs</b>	Important effect	Very important effect	Important effect	Important effect	Moderate effect
	<b>Consolidation of banking sector balance sheets</b>	<b>Access to capital markets</b>	<b>Encouraging equity financing through tax reforms</b>	<b>Better use of existing EU instruments (including EIB)</b>	<b>Greater potential for Public-Private-Partnerships</b>
<b>Measures to alleviate current financial difficulties for midsize and large companies</b>	Important effect	Very important effect	Important effect	Important effect	Moderate effect



**POLICY MIX**

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