



SPRING 2011 ECONOMIC OUTLOOK FOR CYPRUS: ANSWERS FROM OEB

MAIN FORECAST

Annual % change	2010	2011
Real GDP growth	0,9	1,5
Consumer price inflation	2,4	2,8
Unemployment rate	7,0	6,5
Employment growth	-0,2	0,1
Government net lending (% of GDP)	-5,5	-4,5
Gross public debt (% of GDP)	61,0	62,0
Current account balance (% of GDP)	6,0	7,0

Components of aggregate demand - in real terms

Annual % change	2010	2011
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	2,1	1,9
Imports	3,7	3,8

ECONOMIC SENTIMENT

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

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

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

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

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

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



ACCESS TO FINANCE AND IMPACT OF THE CRISIS ON POTENTIAL GROWTH

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

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



POLICY MIX

	<i>Tight, appropriate for the euro area</i>	<i>Tight</i>	<i>Appropriate yes</i>	<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> 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> 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&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> yes	<i>be in balance</i> yes			