



SPRING 2011 ECONOMIC OUTLOOK FOR LUXEMBOURG: ANSWERS FROM FEDIL

MAIN FORECAST

Annual % change	2010	2011
Real GDP growth	3,2	3,5
Consumer price inflation	2,8	2,1
Unemployment rate	6,2	6,5
Employment growth	1,7	2,0
Government net lending (% of GDP)	-1,9	-0,7
Gross public debt (% of GDP)	18,2	19,6
Current account balance (% of GDP)	8,4	9,4

Components of aggregate demand - in real terms

Annual % change		
Private consumption	n/a	n/a
Public consumption	n/a	n/a
Investment (Gross Fixed Capital Formation)	n/a	n/a
Private non-residential investment	n/a	n/a
Exports	n/a	n/a
Imports	n/a	n/a

ECONOMIC SENTIMENT

	Positive	Negative	Unchanged
Trend in business climate over the next 6 months	Industry		
	Services		

	Positive	Negative	Unchanged
Trend in profitability over the next 6 months			Industry
	Services		

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

	Global demand	Domestic demand	Cost of finance	Availability of finance	Company Profitability	Capacity Utilisation
Influence on companies' investment decisions	positive	neutral	neutral	neutral	positive	positive

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

	Industry: past 6 months	Industry: next 6 months	Services: past 6 months	Services: next 6 months
Overall trend in employment	Up	Up	Up	Up

ACCESS TO FINANCE AND IMPACT OF THE CRISIS ON POTENTIAL GROWTH

<i>Compared to 6 months ago, cost/access to finance has been... for SMEs</i>	sharply up / restrained	up / more difficult	same Cost Access	down / easier	
<i>for larger companies (>250 employees)</i>			Cost Access		
Over the next 6 months, cost /access to finance will be... <i>for SMEs</i>	sharply up / restrained	up / more difficult Cost	same Access	down / easier	
<i>for larger companies (>250 employees)</i>		Cost	Access		
	Consolidation of banking sector balance sheets	Access to capital markets	Encouraging equity financing through tax reforms	Better use of existing EU instruments (including EIB)	Greater potential for Public-Private-Partnerships
Measures to alleviate current financial difficulties for SMEs	Very limited effect	Very limited effect	Very limited effect	Very limited effect	Very limited effect
	Consolidation of banking sector balance sheets	Access to capital markets	Encouraging equity financing through tax reforms	Better use of existing EU instruments (including EIB)	Greater potential for Public-Private-Partnerships
Measures to alleviate current financial difficulties for midsize and large companies	Very limited effect	Very limited effect	Very limited effect	Very limited effect	Very limited effect



POLICY MIX

	<i>Tight, appropriate for the euro area</i>	<i>Tight</i>	<i>Appropriate</i> 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>	<i>inadequate</i> yes			
<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			