

## SPRING 2008 ECONOMIC OUTLOOK FOR LUXEMBOURG: ANSWERS FROM FEDIL

### MAIN FORECAST

|                          | 2007 | 2008 | 2009 |
|--------------------------|------|------|------|
| Real GDP growth          | 5.0  | 4.0  | 5.0  |
| Consumer price inflation | 2.7  | 2.9  | 2.3  |
| Unemployment rate        | 4.8  | 4.6  | 4.7  |
| Employment growth        | 4.5  | 4.0  | 3.5  |

#### Components of aggregate demand

| Annual % change                            | 2007 | 2008 | 2009 |
|--|------|------|------|
| Private consumption                        | 3.0  | 2.7  | 2.4  |
| Public consumption                         | 3.1  | 3.8  | 3.7  |
| Investment (Gross fixed capital formation) | 13.3 | 5.6  | -5.6 |
| Exports                                    | 5.6  | 3.9  | 8.6  |
| Imports                                    | 5.3  | 3.7  | 6.7  |

### ECONOMIC SENTIMENT

|   |                                |                                |                                |                                |                               |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|
| <b>Trend in business climate over the next 6 months</b>                                     | <b>Positive</b>                | <b>Negative</b>                | <b>Unchanged</b>               |                                |                               |
|   |                                |                                | Industry                       | Services                       |                               |
| <b>Trend in profitability over the next 6 months</b>  | <b>Positive</b>                | <b>Negative</b>                | <b>Unchanged</b>               |                                |                               |
|   | Services                       | Industry                       |                                |                                |                               |
| <b>Investment intentions over the next 6 months</b>   | <b>Increase (faster pace)</b>  | <b>Increase (slower pace)</b>  | <b>Unchanged</b>               | <b>Decrease (slower pace)</b>  | <b>Decrease (faster pace)</b> |
|   |                                | Industry                       |                                |                                |                               |
|   |                                | Services                       |                                |                                |                               |
| <b>Driving force behind investment decisions in the next 6 months</b>                       | <b>Replacement</b>             | <b>Extension</b>               | <b>Rationalisation</b>         | <b>Innovation</b>              |                               |
|   | Same                           | Same                           | Same                           | Up                             |                               |
| <b>Trend in consumer confidence over the next 6 months</b>                                  | <b>Positive</b>                | <b>Negative</b>                | <b>Unchanged</b>               |                                |                               |
|   |                                | yes                            |                                |                                |                               |
| <b>Overall trend in employment</b>  | <b>Industry: past 6 months</b> | <b>Industry: next 6 months</b> | <b>Services: past 6 months</b> | <b>Services: next 6 months</b> |                               |
|   | Same                           | Same                           | Up                             | Up                             |                               |
| <b>Over the next 6 months, cost/access to finance will be...</b>                            | <b>Higher / more difficult</b> | <b>Same</b>                    | <b>Lower / less difficult</b>  |                                |                               |
|   |                                | Cost                           |                                |                                |                               |
|   |                                | Access                         |                                |                                |                               |
| <b>Financial market turmoil has affected companies' investment decisions negatively ...</b> | <b>to a large extent</b>       | <b>to some extent</b>          | <b>to a limited extent</b>     | <b>not at all</b>              |                               |
|   |                                |                                | yes                            |                                |                               |

### EXCHANGE RATE DEVELOPMENTS

| Where will the EUR/USD stand in October 2008 ? | Dollar per euro |
|--|-----------------|
|  | na              |

### POLICY MIX

|   | <b>Not necessary, situation is satisfactory</b> | <b>Excellent</b>                                 | <b>Satisfactory</b>   | <b>Neither satisfactory nor unsatisfactory</b> | <b>Unsatisfactory</b>                             | <b>Deteriorating</b>                      |
|---|---|--|---|--|---|---|
| <b>Progress towards medium-term budgetary objective is...</b>                           |   |  |   | yes  |   |   |
| <b>Monetary policy is...</b>  | <b>Tight, appropriate for the euro area</b>     | <b>Tight</b>                                     | <b>Appropriate</b>  | <b>Loose</b>                                   | <b>Loose, appropriate for the euro area</b>       |   |
|   |   |  | yes   |  |   |   |
| <b>Focus on elements of the ECB analysis underlying its current policy stance is...</b> | <b>Above-target inflation</b>                   | <b>Downside risks to growth over medium term</b> | <b>Inflation pressures from high oil and commodity prices</b> | <b>Upside risks to wage inflation</b>          | <b>Risks related to credit market turbulences</b> | <b>Risks of further euro appreciation</b> |
|   | appropriate                                     | appropriate                                      | appropriate   | appropriate                                    | appropriate                                       | appropriate                               |
| <b>Consistency between fiscal and monetary policies</b>                                 | <b>Adequate</b>                                 | <b>Inadequate</b>                                |   |  |   |   |
|   | yes   |  |   |  |   |   |