

PART 1

MAIN DEVELOPMENTS

Methodological note

Since the issue for the second quarter of 2004, nominal and real effective exchange rates presented in this report are calculated based on a reference group of 41 countries. By extending the group of reference countries from 24 countries to 41 countries, over 80 percent of extra-EU12 exports instead of 58 percent are covered. The effective exchange rate calculations consequently better reflect trade patterns.

The reference group of 41 countries has been constructed by extending the former IC24 group (which includes the initial 15 EU countries, Norway, Switzerland, Australia, the United States, Canada, Japan, Mexico, New Zealand and Turkey) with the twelve recently acceded Member States, Russia, China, Brazil, Korea and Hong Kong. Due to data constraints, real effective exchange rates based on unit labour costs cannot be calculated for this group. Therefore, for the time being, only real effective exchange rates calculated to measure *price competitiveness* (i.e., based on consumer price indices) are based on this new reference group (“broad group”). Real effective exchange rates calculated to measure *cost competitiveness* are based on a reference group of 36 countries (the former IC24 group plus the twelve recently acceded Member States).

The “broad group” is included in the tables and charts where appropriate. In the tables and charts on pages 1 to 76 of part 2, each country’s relative position is assessed with respect to the rest of 36 countries (the EU27 countries, Norway, Australia, Canada, Japan, the United States, Mexico, New Zealand, Turkey and Switzerland), with the European Union and with the euro area.

Diverging movements in costs and prices may change the relative competitiveness positions of Member States. This report presents five measures of the real effective exchange rate of individual countries, EU27 and EUR13 (abbreviations for the deflators are explained in the Annex). The different measures do not always give a uniform picture of the movement over time in the real effective exchange rate of a given country against its partners and, as such, the indicators of cost and price competitiveness need to be interpreted carefully.

DEVELOPMENTS OF PRICE AND COST COMPETITIVENESS IN THE EUROPEAN UNION, THE UNITED STATES AND JAPAN

MAIN FEATURES

Exchange rate moves of the euro against major international currencies

- Between the third and fourth quarters of 2007, the euro appreciated significantly against major currencies. In nominal terms, the euro appreciated 5.4 percent against the US dollar, 4.1 percent against the British pound sterling, 3.7 percent against the Chinese renminbi and 1.2 percent against the Japanese yen. As a result of these changes, the euro exchange rate stood roughly 28 percent above its 1995 to 2006 average against the US dollar, about 27 percent against the Japanese yen and about 2.5 percent against the British pound sterling in the fourth quarter of 2007.
- All in all, the euro's nominal effective exchange rate (against 41 countries) appreciated by 2.3 percent between the third and fourth quarters of 2007 and stood more than 18 percent above its 1995 to 2006 average.

Relative cost and price indicators: international developments

- The international price and cost competitiveness position of the euro area continued to deteriorate between the third and fourth quarters of 2007. As developments in the underlying deflators were slightly favourable, the real effective exchange rate of the euro appreciated less than its nominal effective exchange rate. The real effective exchange rate of the euro area continued to stand above its 1995 to 2006 average, by 3.6 percent (when deflated by unit labour costs) and by 6.1 percent (when deflated by consumer prices).
- While in the US and the UK, price and cost competitiveness indicators (against 41 countries) indicated an improvement of the countries' respective competitiveness positions, Japan saw a deterioration of its price and cost competitiveness position between the third and fourth quarters of 2007.

Relative cost and price indicators: intra-euro area developments

- Between the third and fourth quarters of 2007, the cost competitiveness position (based on unit labour costs in the whole economy) relative to the other euro area countries continued to improve in Germany. Of all other Member States, the Netherlands and Greece recorded the strongest losses in cost competitiveness. As regards price competitiveness, all three measures indicated an improvement in Germany and Finland. In Spain and Greece, all price competitiveness indicators indicated a loss in competitiveness vis-à-vis the rest of the euro area. For all other Member States, the various deflators pointed in different directions, or were unchanged.
- From a medium-term perspective, the intra-euro area cost competitiveness positions of Austria, Finland and, in particular, Germany continued to be more favourable than their 1995 to 2006 averages. On the other hand, Ireland, Greece, Italy, Spain and Portugal continued to face cost competitiveness positions that were considerably worse than their 1995 to 2006 averages. Price competitiveness positions were more favourable than their medium-term averages in Germany, Finland, France and Austria, while they were considerably worse in Spain, Italy, Greece, Ireland, Portugal and Slovenia, with the exception that the Irish price competitiveness position based on export prices was somewhat better than its medium-term average.

Relative cost and price indicators: intra-EU developments

- In non-euro-area Member States, cost competitiveness improved relative to other EU27 Member States in the UK and Romania between the third and fourth quarters of 2007. Of all other non-euro-area Member States, the Czech Republic and Poland recorded the strongest loss of cost competitiveness.
- Except for Sweden, cost competitiveness positions were worse than their 1995 to 2006 averages for all non-euro area Member States, with the cost indicators showing deviations ranging between 0.2 (Malta) and 64.5 percent (Romania).

DATA ON PRICE AND COST COMPETITIVENESS

QUARTERLY REPORT - FOURTH QUARTER 2007

I. INTERNATIONAL DEVELOPMENTS

1. BILATERAL EXCHANGE RATES OF THE EURO

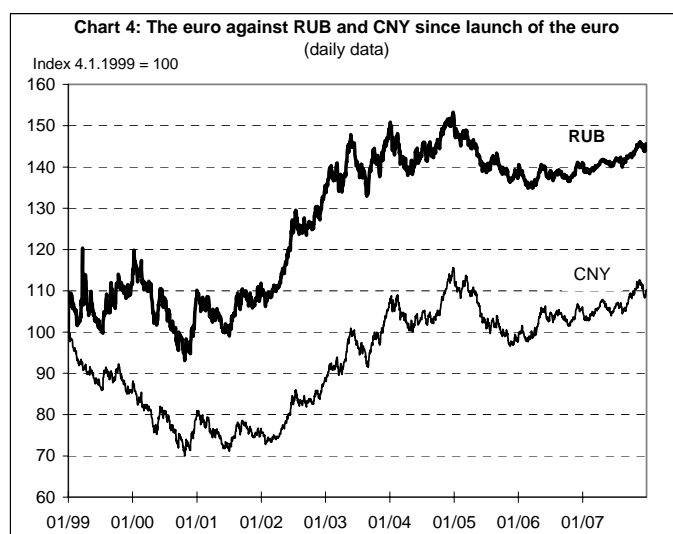
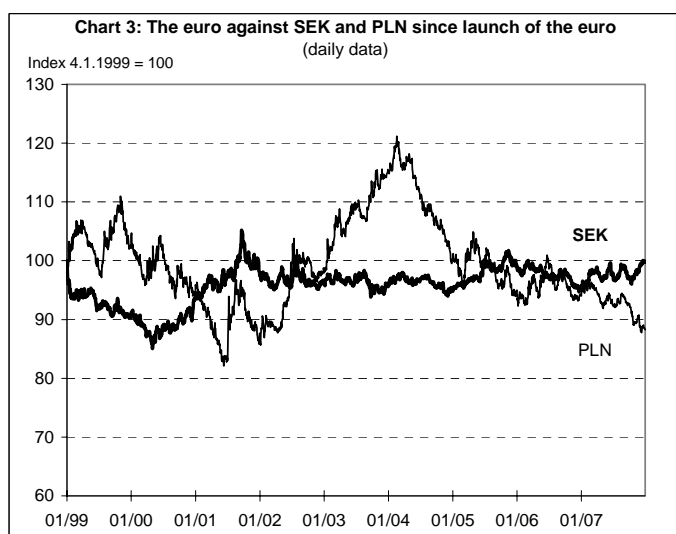
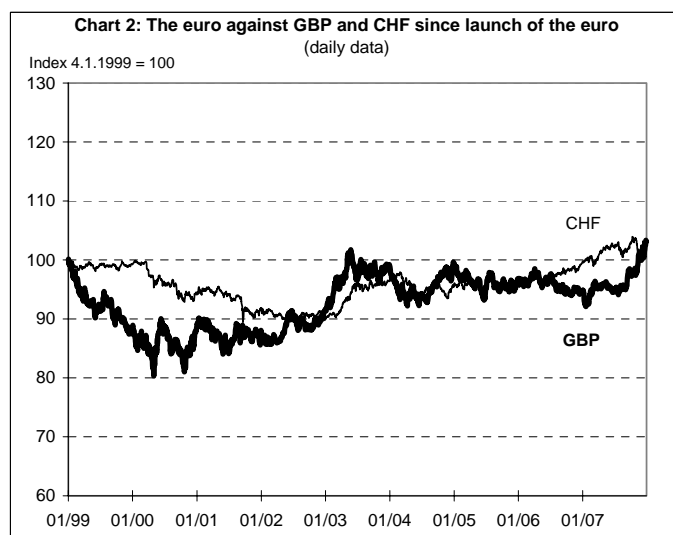
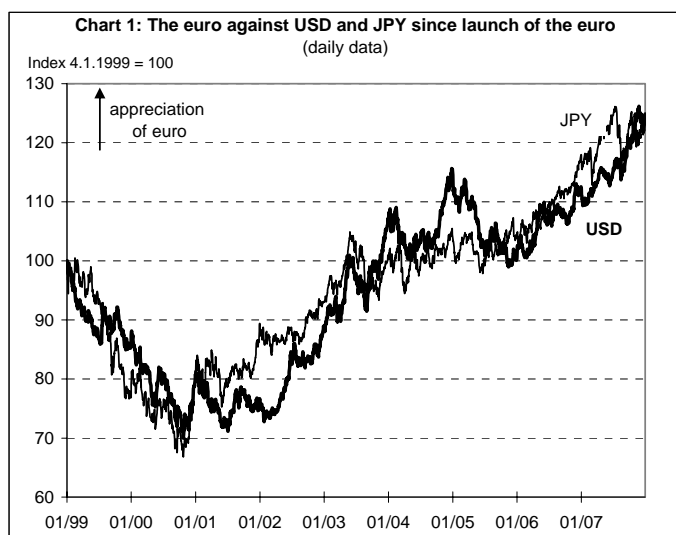


Table 1: Evolution of the bilateral exchange rates of euro area's main trading partners (quarterly averages)
Change relative to previous periods (quarterly averages; pre-1999: synthetic euro)

	previous quarter Q4-07/Q3-07	previous year Q4-07/Q4-06	medium-term avg. Q4-07/avg 95-06		previous quarter Q4-07/Q3-07	previous year Q4-07/Q4-06	medium-term avg. Q4-07/avg 95-06
USD/EUR	5.4%	12.4%	28.1%	SEK/EUR	0.3%	1.7%	3.1%
JPY/EUR	1.2%	8.0%	27.3%	PLN/EUR	-3.5%	-4.9%	-6.4%
GBP/EUR	4.1%	5.2%	2.5%	RUB/EUR	1.9%	4.2%	53.3%
CHF/EUR	0.7%	4.2%	6.3%	CNY/EUR	3.7%	6.3%	15.4%

2. NOMINAL EFFECTIVE EXCHANGE RATES

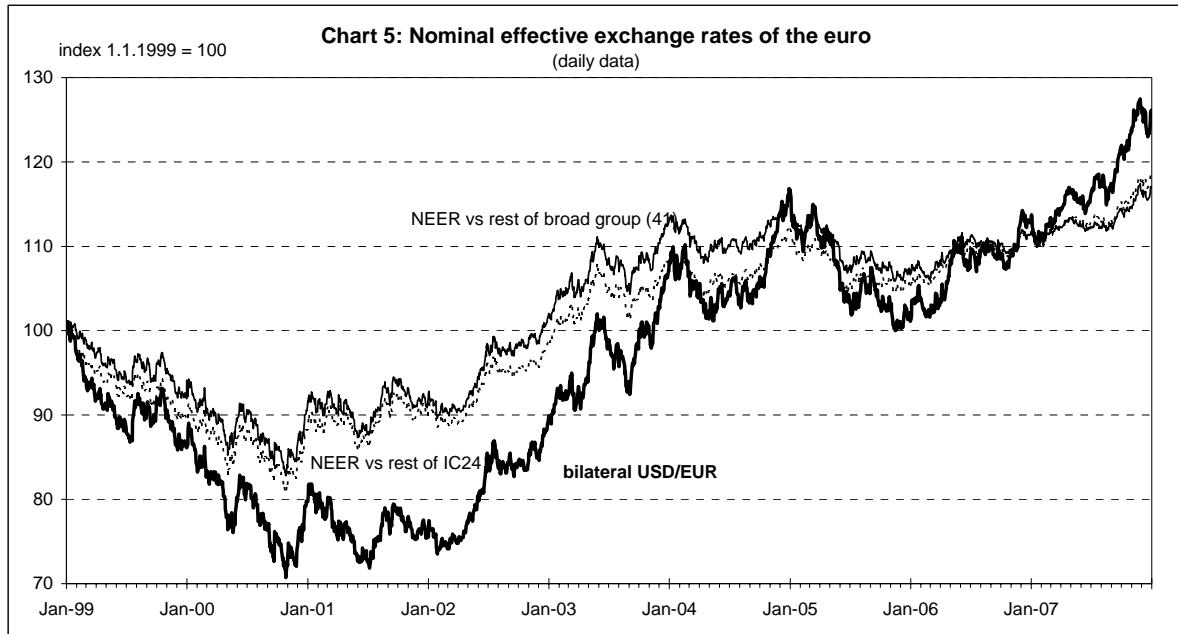
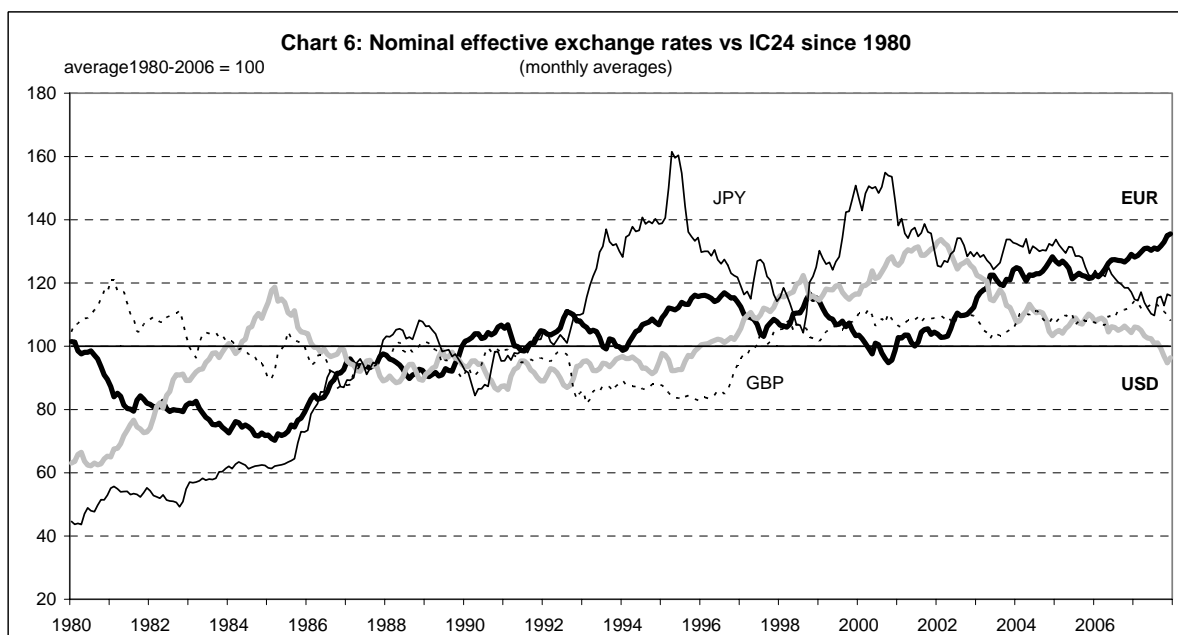


Table 2: Nominal effective exchange rates
(vs. broad group (41), index average 1999 = 100)

	Fourth quarter of 2007 (monthly averages)			Change relative to previous periods (quarterly averages)		
	Oct-07	Nov-07	Dec-07	previous quarter Q4-07/Q3-07	previous year Q4-07/Q4-06	medium-term avg Q4-07/avg 95-06
EUR13	118.7	120.5	120.6	2.3%	4.3%	18.2%
USA	83.6	82.2	83.4	-3.9%	-8.5%	-14.0%
Japan	85.9	88.9	88.6	2.1%	-1.5%	-9.7%
UK	105.1	104.2	102.9	-2.5%	-2.0%	7.1%



3. PRICE COMPETITIVENESS BASED ON CPI (HICP WHEN AVAILABLE)

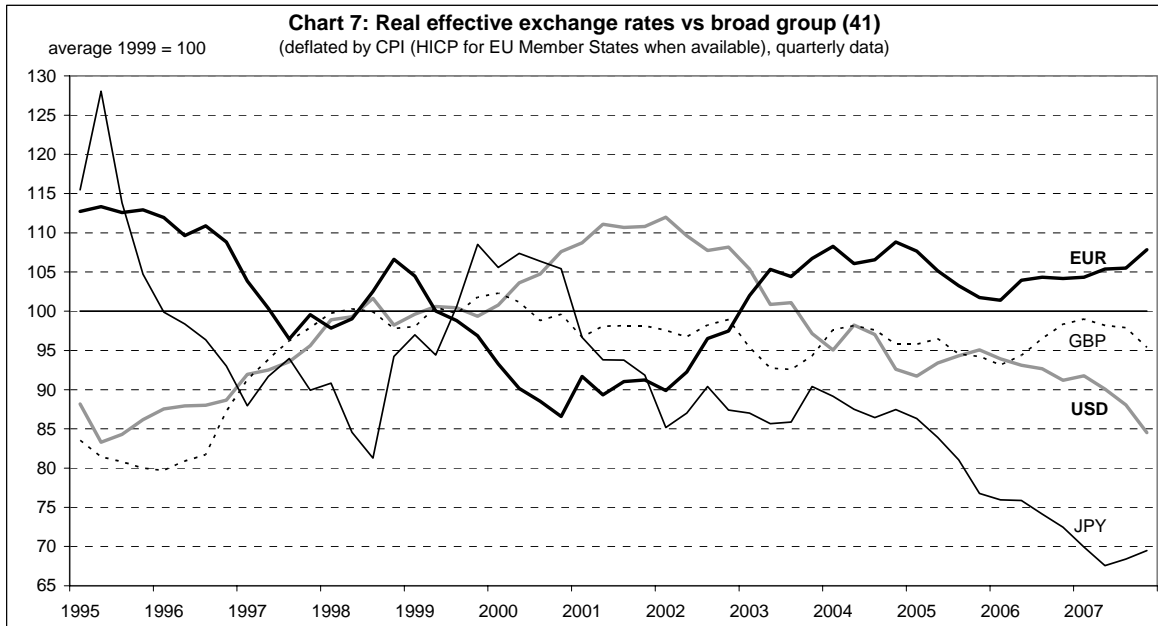
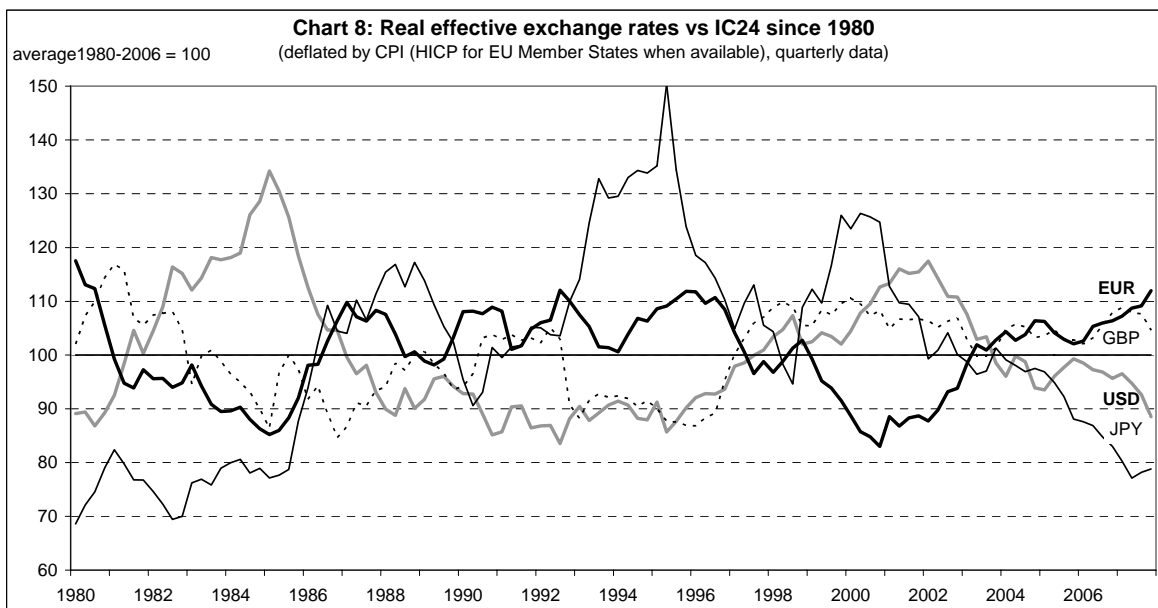


Table 3: Real effective exchange rates (CPI / HICP)
(vs. broad group (41), index average 1999 = 100)

	Most recent four quarters (quarterly averages)				Change relative to previous periods (quarterly averages)		
	Q1-07	Q2-07	Q3-07	Q4-07	previous quarter Q4-07/Q3-07	previous year Q4-07/Q4-06	medium-term avg Q4-07/avg 95-06
EUR13	104.3	105.4	105.5	107.9	2.2%	3.5%	6.1%
USA	91.8	90.1	88.1	84.5	-4.0%	-7.3%	-13.6%
Japan	69.9	67.6	68.4	69.5	1.6%	-4.1%	-24.9%
UK	99.0	98.2	97.9	95.4	-2.6%	-3.0%	0.8%



4. COST COMPETITIVENESS BASED ON UNIT LABOUR COSTS IN TOTAL ECONOMY

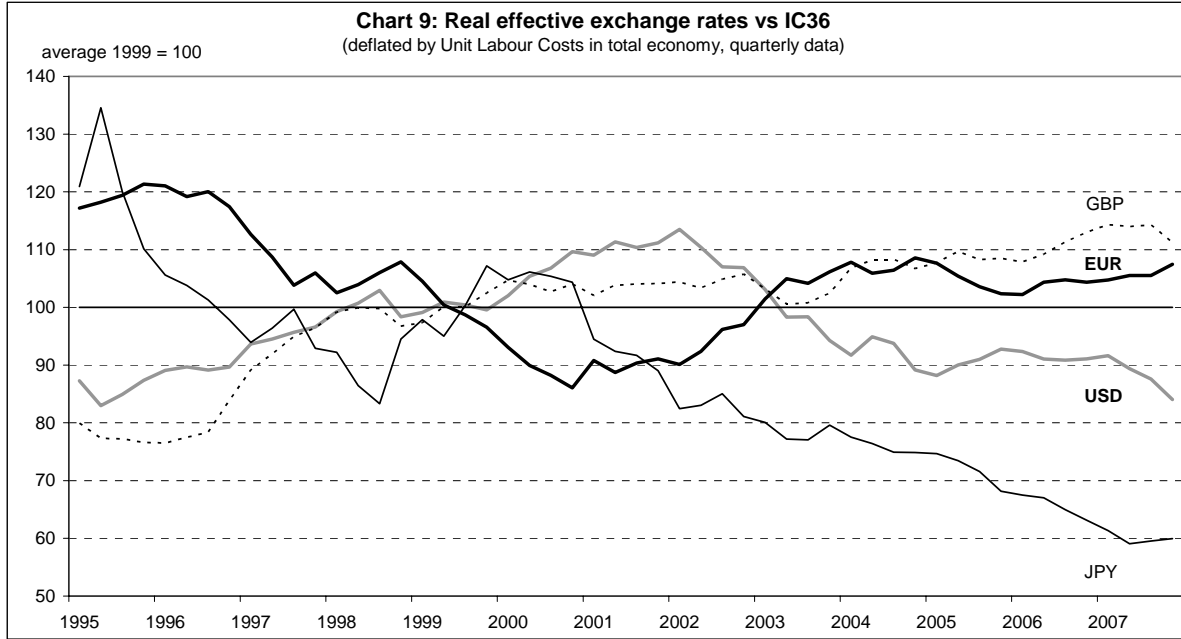
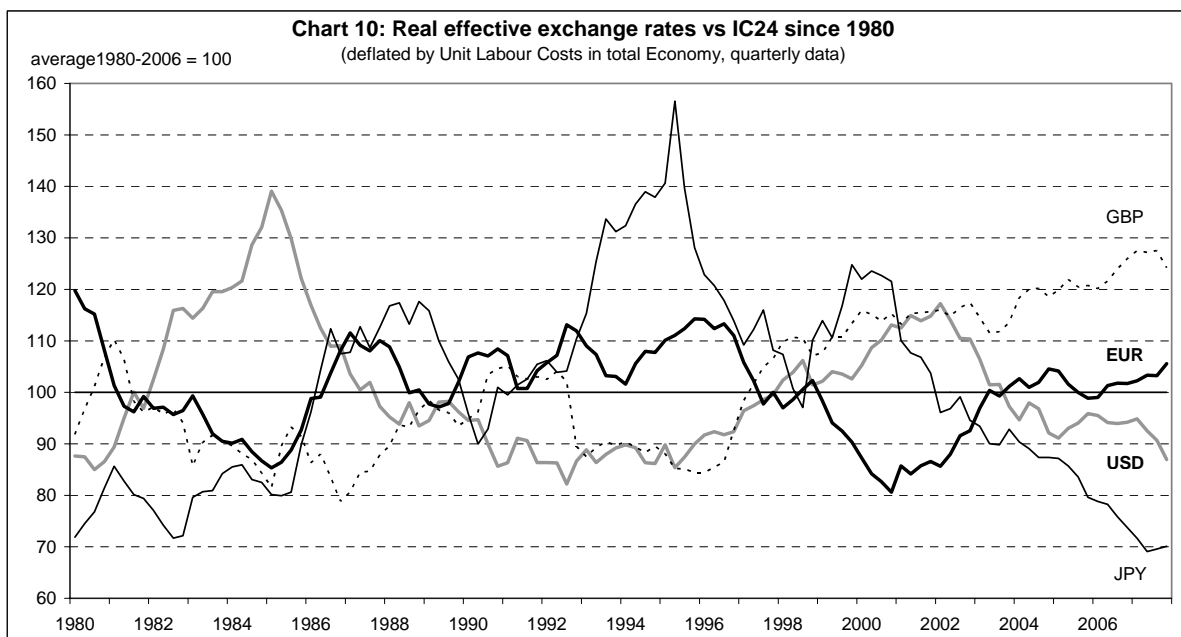


Table 4: Real effective exchange rates (ULCE)
(vs. 36 countries, index average 1999 = 100)

	Most recent four quarters (quarterly averages)				Change relative to previous periods (quarterly averages)		
	Q1-07	Q2-07	Q3-07	Q4-07	previous quarter Q4-07/Q3-07	previous year Q4-07/Q4-06	medium-term avg Q4-07/avg 95-06
EUR13	104.7	105.5	105.5	107.5	1.9%	3.0%	3.6%
USA	91.7	89.4	87.6	84.0	-4.1%	-7.7%	-13.8%
Japan	61.3	59.1	59.5	59.9	0.7%	-5.1%	-33.4%
UK	114.3	114.0	114.3	111.2	-2.7%	-1.6%	12.3%



5. COMPETITIVENESS OF THE USA AND JAPAN RELATIVE TO THE EURO AREA

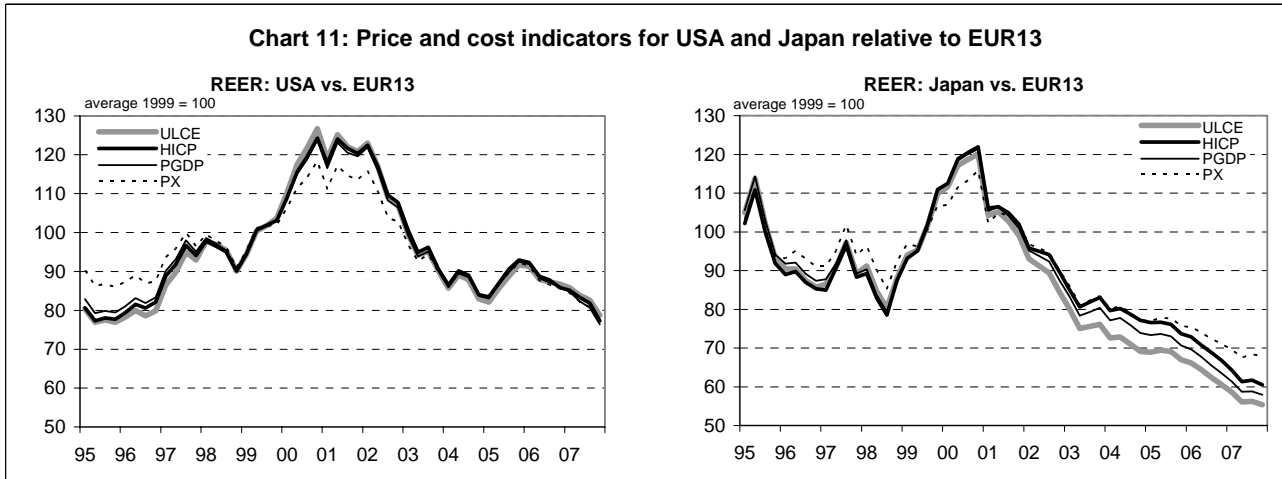
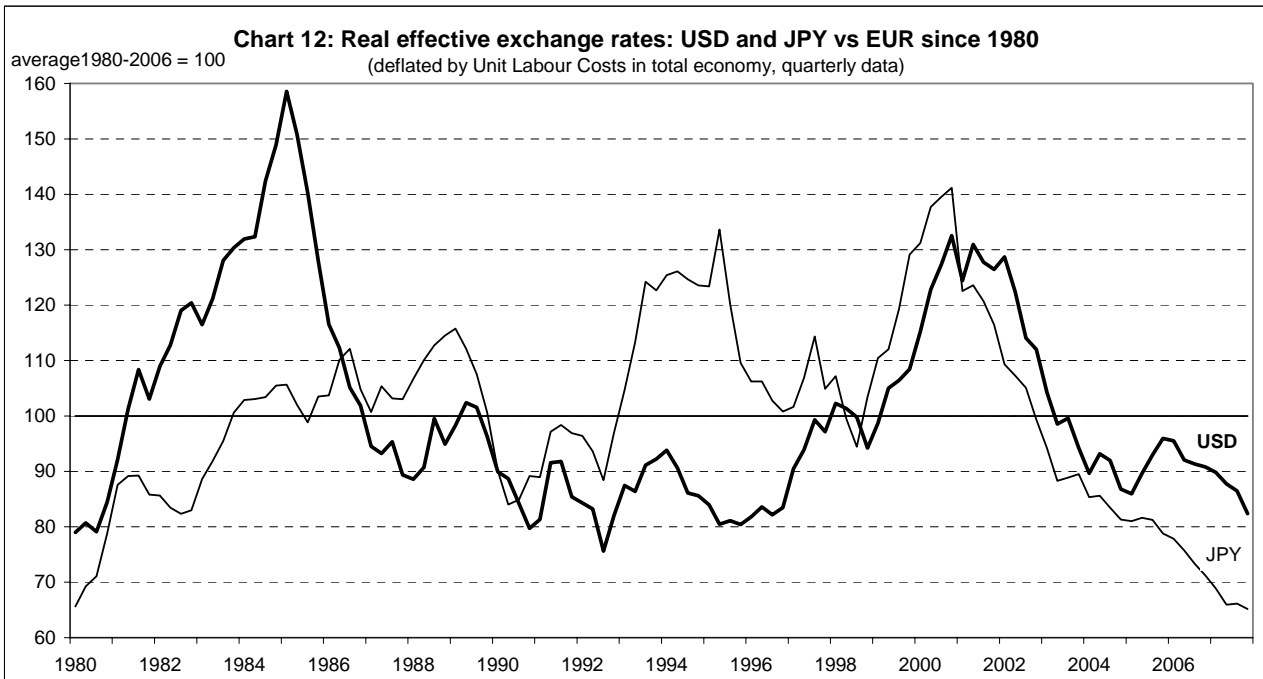


Table 5: Relative price and cost indicators of USA and Japan relative to EUR13

% change	over last quarter Q4-07/Q3-07				over last year Q4-07/Q4-06				compared to medium term average Q4-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
USA	-4.7%	-5.3%	-5.0%	-5.6%	-9.3%	-11.3%	-10.4%	-10.0%	-18.2%	-20.9%	-20.5%	-20.0%
Japan	-1.5%	-1.6%	-0.6%	-2.0%	-8.5%	-8.8%	-4.4%	-9.4%	-37.2%	-35.7%	-26.1%	-33.3%



II. DEVELOPMENTS AT MEMBER STATE LEVEL

	over last quarter Q4-07/Q3-07				over last year Q4-07/Q4-06				compared to medium term average Q4-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
% change												
BLEU	0.1%	0.1%	0.0%	0.5%	0.4%	0.4%	-0.3%	0.0%	0.1%	1.7%	8.7%	-0.2%
Germany	-0.4%	-0.1%	-0.1%	-0.4%	-2.0%	0.1%	0.0%	0.4%	-12.7%	-9.1%	-8.5%	-3.9%
Greece	0.4%	0.4%	0.3%	1.4%	1.8%	1.3%	1.0%	0.8%	11.4%	9.8%	10.3%	6.7%
Spain	0.2%	0.2%	0.5%	1.1%	1.2%	0.8%	1.9%	1.3%	8.4%	12.4%	9.1%	7.7%
France	0.1%	-0.2%	0.0%	-0.1%	0.3%	-0.8%	-0.2%	-0.4%	3.2%	-1.6%	-8.0%	-1.9%
Ireland	0.1%	0.3%	0.2%	-0.4%	0.8%	1.3%	0.5%	0.5%	12.4%	12.4%	-0.6%	7.6%
Italy	0.2%	0.0%	0.3%	0.5%	0.7%	0.0%	1.3%	-0.3%	10.3%	5.9%	21.8%	3.5%
Netherlands	0.4%	0.0%	-0.5%	-0.6%	1.6%	-0.3%	-2.3%	-1.2%	4.1%	3.3%	-2.6%	0.3%
Austria	0.0%	0.0%	0.0%	0.3%	0.1%	-0.3%	-0.1%	0.3%	-3.4%	-1.3%	-0.1%	-1.3%
Portugal	0.2%	0.1%	-0.2%	-0.4%	0.8%	0.5%	-0.7%	-0.3%	6.9%	6.9%	2.2%	4.0%
Slovenia	0.3%	0.1%	-0.3%	0.7%	1.2%	0.4%	-1.3%	2.6%	2.8%	3.0%	1.6%	6.0%
Finland	0.2%	-0.1%	-0.3%	-0.4%	0.4%	-0.4%	-1.1%	-0.8%	-1.4%	-3.6%	-9.3%	-4.5%

	over last quarter Q4-07/Q3-07				over last year Q4-07/Q4-06				compared to medium term average Q4-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
% change												
BLEU	0.5%	0.5%	0.5%	0.9%	0.7%	0.7%	0.3%	0.5%	-1.9%	0.4%	9.1%	-0.3%
Bulgaria	1.0%	0.2%	0.1%	2.4%	2.6%	-0.6%	-0.9%	8.1%	9.4%	18.2%	21.5%	34.5%
CzechRep	3.5%	4.6%	4.8%	4.6%	1.1%	5.0%	5.7%	6.3%	28.1%	30.4%	16.0%	27.2%
Denmark	0.4%	0.6%	0.6%	0.5%	1.1%	1.5%	1.1%	0.1%	4.8%	3.8%	6.3%	-0.7%
Germany	0.0%	0.3%	0.4%	0.0%	-1.6%	0.2%	0.6%	0.7%	-14.5%	-10.7%	-7.7%	-4.8%
Estonia	1.3%	1.8%	0.9%	1.8%	5.1%	7.0%	3.0%	6.0%	25.0%	28.0%	16.9%	19.7%
Greece	0.8%	0.8%	0.8%	1.7%	1.8%	1.5%	1.5%	0.8%	7.5%	6.3%	8.9%	4.5%
Spain	0.6%	0.6%	0.9%	1.5%	1.4%	1.1%	2.5%	1.8%	6.5%	11.1%	9.5%	7.6%
France	0.5%	0.3%	0.6%	0.4%	0.6%	-0.4%	0.5%	0.2%	0.7%	-3.0%	-7.2%	-2.0%
Ireland	0.9%	1.1%	1.0%	0.5%	1.4%	2.1%	1.6%	1.6%	9.5%	11.0%	1.0%	8.3%
Italy	0.6%	0.5%	0.7%	0.8%	0.8%	0.1%	1.8%	0.0%	7.0%	3.4%	21.1%	2.5%
Cyprus	0.6%	0.8%	1.0%	1.8%	-0.9%	-0.4%	0.4%	0.2%	4.6%	3.3%	4.6%	3.6%
Latvia	1.7%	1.4%	0.4%	3.2%	7.0%	5.3%	1.6%	9.8%	28.4%	24.2%	25.7%	17.7%
Lithuania	0.6%	0.6%	1.3%	2.1%	2.4%	1.8%	4.4%	4.3%	24.1%	22.4%	26.4%	20.2%
Hungary	0.4%	0.6%	-1.6%	0.4%	6.0%	6.5%	-4.3%	6.9%	23.5%	21.2%	-5.8%	25.5%
Malta	0.5%	0.8%	0.1%	-1.2%	-0.2%	1.2%	-1.1%	0.6%	0.2%	3.3%	10.1%	2.3%
Netherlands	0.8%	0.4%	0.0%	-0.1%	1.8%	0.0%	-1.6%	-0.7%	2.0%	1.8%	-2.1%	0.1%
Austria	0.2%	0.1%	0.3%	0.4%	-0.1%	-0.6%	0.1%	0.1%	-6.5%	-4.2%	-0.9%	-3.4%
Portugal	0.6%	0.5%	0.3%	0.0%	1.2%	0.9%	-0.1%	0.2%	5.2%	5.9%	2.8%	4.1%
Poland	3.3%	4.2%	4.1%	4.2%	2.8%	5.7%	5.9%	6.1%	6.0%	17.5%	24.1%	18.9%
Romania	-4.8%	-4.8%	-5.6%	-4.6%	7.1%	7.1%	3.4%	4.5%	64.5%	65.3%	21.8%	39.7%
Slovenia	0.4%	0.2%	-0.2%	0.7%	1.0%	0.0%	-1.2%	2.3%	0.2%	0.4%	0.6%	4.0%
Slovakia	0.1%	0.4%	-0.7%	0.4%	5.9%	7.4%	0.8%	6.0%	33.1%	38.1%	18.3%	44.0%
Finland	0.5%	0.3%	0.2%	0.0%	0.5%	-0.2%	-0.4%	-0.4%	-4.0%	-5.4%	-8.9%	-4.8%
Sweden	0.3%	0.1%	-0.4%	0.4%	-0.4%	-1.2%	-3.1%	-1.9%	-5.7%	-6.6%	-8.4%	-6.6%
UK	-3.7%	-3.9%	-4.0%	-4.2%	-3.8%	-4.7%	-5.1%	-5.8%	4.8%	-0.3%	-7.8%	-6.3%

Table 8: Relative price and cost price indicators of the EU Member States vs. rest of IC36												
% change	over last quarter Q4-07/Q3-07				over last year Q4-07/Q4-06				compared to medium term average Q4-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	0.9%	1.0%	0.8%	1.4%	1.6%	2.0%	1.3%	1.6%	2.0%	4.5%	12.2%	3.5%
Bulgaria	0.9%	0.3%	0.1%	2.3%	1.9%	-0.7%	-1.1%	7.6%	10.1%	19.3%	23.3%	34.6%
CzechRep	3.7%	4.9%	5.0%	4.8%	1.6%	5.7%	6.2%	6.9%	30.5%	33.0%	17.7%	29.8%
Denmark	0.8%	1.0%	0.9%	1.0%	2.0%	2.7%	1.7%	1.3%	9.1%	7.7%	7.6%	3.8%
Germany	0.6%	1.0%	1.0%	0.7%	0.0%	2.1%	2.0%	2.3%	-8.4%	-4.5%	-3.0%	0.9%
Estonia	1.5%	2.0%	1.0%	2.0%	5.4%	7.5%	3.2%	6.5%	26.7%	29.4%	16.9%	21.6%
Greece	1.0%	1.1%	1.1%	2.0%	2.0%	2.1%	2.0%	1.3%	10.3%	9.3%	11.6%	6.8%
Spain	1.0%	1.1%	1.3%	2.0%	2.3%	2.3%	3.4%	2.8%	9.9%	14.7%	12.3%	10.9%
France	1.1%	0.9%	1.1%	1.0%	2.0%	1.4%	1.8%	1.8%	5.8%	2.4%	-3.2%	3.0%
Ireland	1.8%	2.2%	2.0%	1.7%	3.8%	5.1%	4.0%	4.3%	17.7%	19.9%	7.2%	16.4%
Italy	1.1%	1.1%	1.3%	1.5%	2.1%	1.9%	3.1%	1.6%	12.3%	9.0%	25.5%	7.6%
Cyprus	0.8%	1.0%	1.2%	2.1%	-0.3%	0.3%	0.9%	0.9%	7.7%	6.1%	6.7%	5.9%
Latvia	1.8%	1.6%	0.6%	3.4%	7.5%	5.9%	1.9%	10.5%	30.4%	26.0%	26.4%	19.7%
Lithuania	0.9%	0.9%	1.5%	2.4%	2.9%	2.5%	4.8%	4.9%	26.2%	24.7%	27.8%	22.4%
Hungary	0.6%	0.8%	-1.4%	0.6%	6.5%	7.2%	-3.9%	7.5%	25.7%	23.6%	-4.4%	27.8%
Malta	1.4%	1.8%	1.0%	-0.1%	2.3%	4.3%	1.2%	3.4%	9.3%	12.9%	17.8%	10.9%
Netherlands	1.1%	0.8%	0.3%	0.3%	2.6%	1.1%	-0.8%	0.2%	5.0%	5.1%	0.0%	3.2%
Austria	0.6%	0.6%	0.7%	0.9%	1.0%	0.7%	1.1%	1.4%	-3.2%	-0.6%	1.9%	0.1%
Poland	3.5%	4.3%	4.2%	4.4%	3.1%	6.1%	6.1%	6.5%	7.5%	19.2%	24.8%	20.8%
Portugal	0.9%	0.9%	0.6%	0.4%	1.9%	1.9%	0.7%	1.1%	8.1%	9.1%	5.0%	7.0%
Romania	-4.8%	-4.7%	-5.4%	-4.6%	6.8%	7.3%	3.5%	4.5%	66.9%	68.0%	23.7%	41.4%
Slovenia	0.5%	0.3%	-0.1%	0.9%	1.2%	0.4%	-0.9%	2.7%	1.3%	1.5%	1.4%	5.0%
Slovakia	0.3%	0.7%	-0.5%	0.6%	6.3%	8.1%	1.2%	6.6%	35.0%	40.3%	19.6%	46.2%
Finland	0.9%	0.8%	0.6%	0.5%	1.6%	1.2%	0.5%	0.9%	0.8%	-0.7%	-6.3%	0.0%
Sweden	0.9%	0.8%	0.1%	1.1%	0.7%	0.2%	-2.3%	-0.4%	-0.9%	-2.3%	-7.2%	-1.1%
UK	-2.7%	-2.7%	-2.9%	-2.9%	-1.6%	-1.9%	-2.9%	-3.3%	12.3%	7.6%	-2.1%	1.0%