

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-euro area 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 the euro area (EA15). The different measures (abbreviations for the deflators are explained in the Annex) 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 fourth quarter of 2007 and first quarter of 2008, the euro continued its appreciation against the US dollar and the British pound sterling while it depreciated slightly against other major currencies. In nominal terms, the euro gained 3.4 percent against the US dollar and 6.9 percent against the British pound sterling. The single currency lost over the same period 3.7 percent against the Japanese yen, 3.5 percent against the Swiss franc and 0.4 against the Chinese renminbi. As a result of these changes, the euro exchange rate stood roughly 32 percent above its 1995 to 2007 average against the US dollar, about 23 percent against the Japanese yen and nearly 10 percent against the British pound sterling in the first quarter of 2008.
- All in all, the euro's nominal effective exchange rate (against 41 countries) appreciated by 2.1 percent between the fourth quarter of 2007 and first quarter of 2008 and stood more than 19 percent above its 1995 to 2007 average.

Relative cost and price indicators: international developments

- The international price and cost competitiveness position of the euro area continued to deteriorate in the first quarter of 2008. 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. As a result, the real effective exchange rate of the euro area stood by 5.7 percent (when deflated by unit labour costs) and by 7.6 percent (when deflated by consumer prices) above its 1995 to 2007 average.
- While in the US and the UK the 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 fourth quarter of 2007 and the first quarter of 2008.

Relative cost and price indicators: intra-euro area developments

- Between the fourth quarter of 2007 and first quarter of 2008, the cost competitiveness position (based on unit labour costs in the whole economy) relative to the other euro area countries improved in Germany, France, Austria, Portugal and in recent euro area entrants (Cyprus and Malta). Greece, Italy and Slovenia recorded the strongest losses in cost competitiveness. As regards price competitiveness, two out of three measures indicated an improvement in Ireland, Cyprus and Portugal. Only in Slovenia, all price competitiveness indicators indicated a loss in competitiveness vis-à-vis the rest of the euro area. For all other Member States, the indices based on various deflators showed mixed results.
- 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 2007 averages. On the other hand, Ireland, Greece, Italy, Spain and recent euro area entrant Cyprus 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 and France, while they were considerably worse in Spain, Italy, Greece, Ireland, Portugal, Cyprus and Malta, 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, Romania, Hungary and Sweden between the fourth quarter of 2007 and first quarter of 2008. Of all other non-euro-area Member States, the Czech Republic, Latvia and Poland recorded the strongest loss of cost competitiveness.
- Except for Sweden and the UK, cost competitiveness positions were worse than their 1995 to 2007 averages for all non-euro area Member States, with the cost indicators showing deviations ranging between 6.5 (Denmark) and 60.9 percent (Romania).

DATA ON PRICE AND COST COMPETITIVENESS

QUARTERLY REPORT - FIRST QUARTER 2008

I. INTERNATIONAL DEVELOPMENTS

1. BILATERAL EXCHANGE RATES OF THE EURO

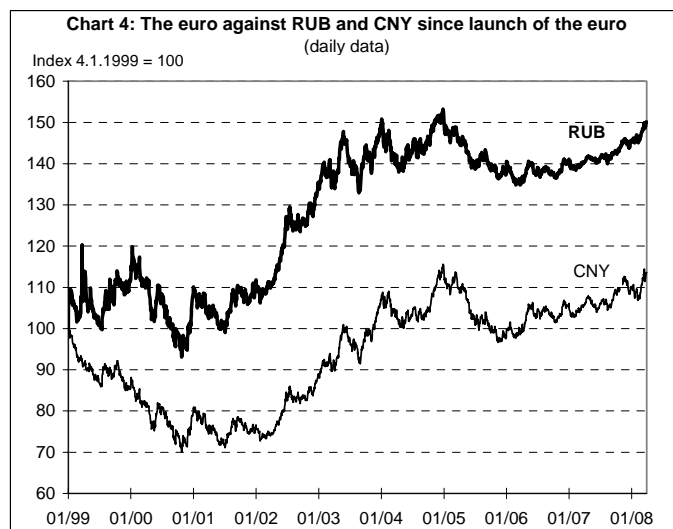
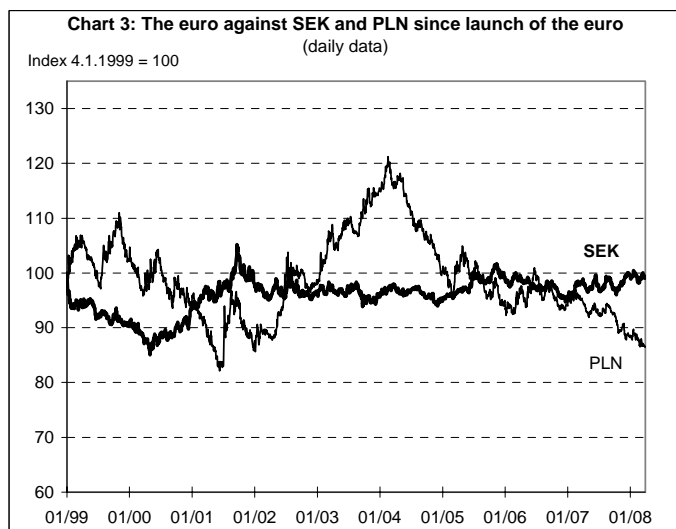
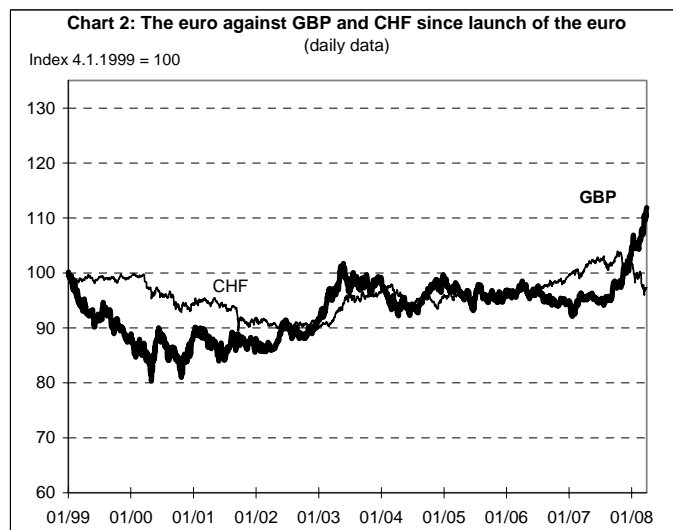
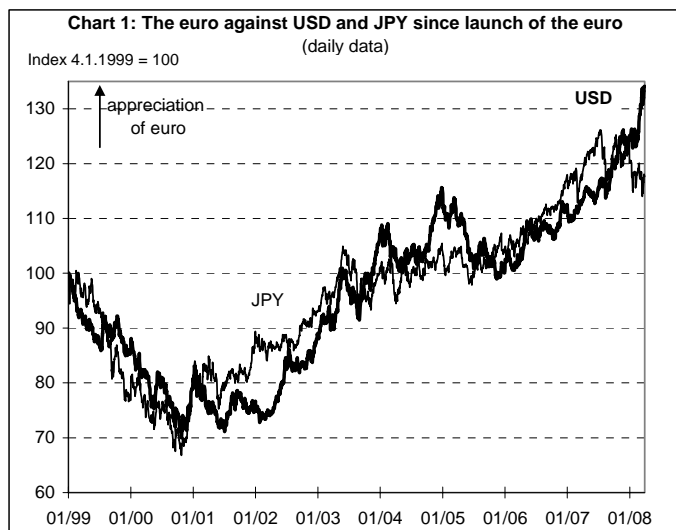


Table 1: Evolution of the bilateral exchange rates of euro area's main trading partners (quarterly averages)

Change relative to previous periods (quarterly averages; pre-1999: synthetic euro)

	previous quarter Q1-08/Q4-07	previous year Q1-08/Q1-07	medium-term avg. Q1-08/avg 95-07
USD/EUR	3.4%	14.3%	32.5%
JPY/EUR	-3.7%	0.9%	22.7%
GBP/EUR	6.9%	12.9%	9.6%
CHF/EUR	-3.5%	-0.9%	2.5%

	previous quarter Q1-08/Q4-07	previous year Q1-08/Q1-07	medium-term avg. Q1-08/avg 95-07
SEK/EUR	1.2%	2.3%	4.3%
PLN/EUR	-2.3%	-8.0%	-8.5%
RUB/EUR	1.7%	5.3%	56.0%
CNY/EUR	-0.4%	5.5%	14.9%

2. NOMINAL EFFECTIVE EXCHANGE RATES

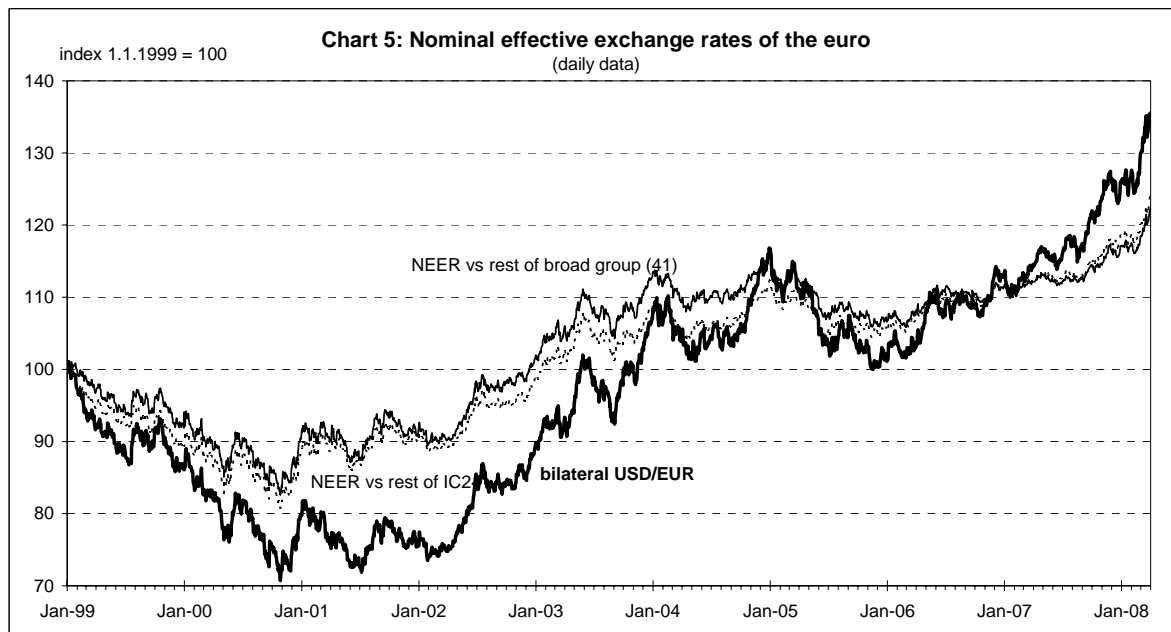
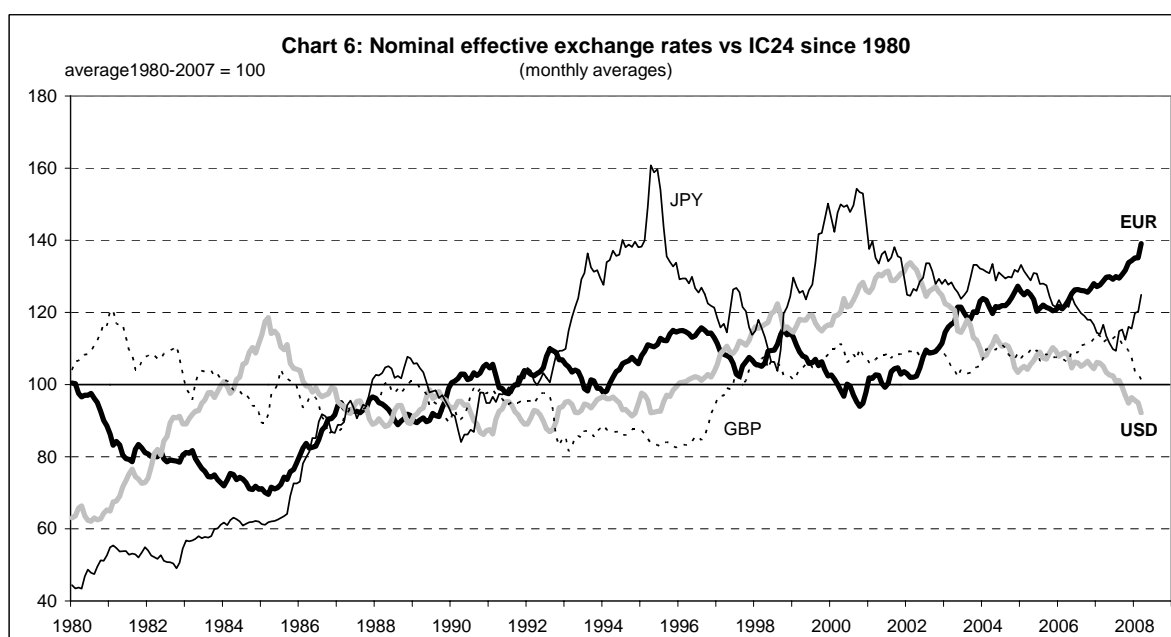


Table 2: Nominal effective exchange rates						
(vs. broad group (41), index average 1999 = 100)						
	First quarter of 2008 (monthly averages)			Change relative to previous periods (quarterly averages)		
	Jan-08	Feb-08	Mar-08	previous quarter Q1-08/Q4-07	previous year Q1-08/Q1-07	medium-term avg Q1-08/avg 95-07
EA15	121.5	121.3	124.7	2.1%	5.8%	19.3%
USA	82.9	82.3	80.5	-1.5%	-10.0%	-14.6%
Japan	91.4	91.6	96.0	6.0%	6.8%	-3.5%
UK	98.7	98.1	96.6	-5.9%	-8.9%	-0.1%



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

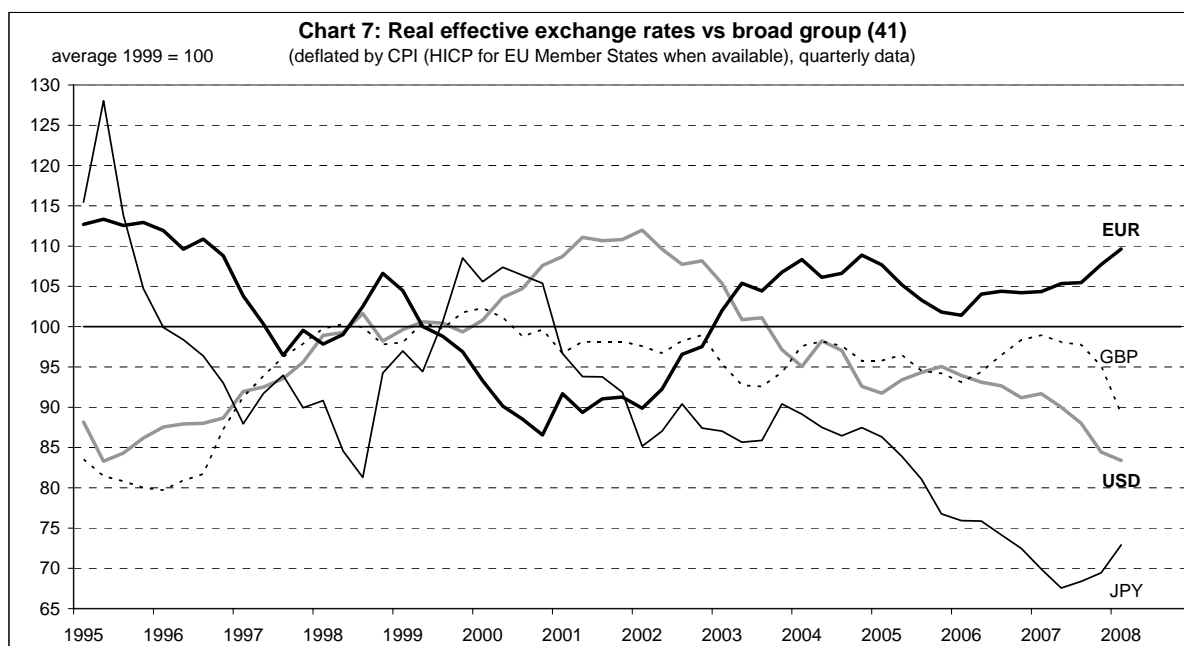
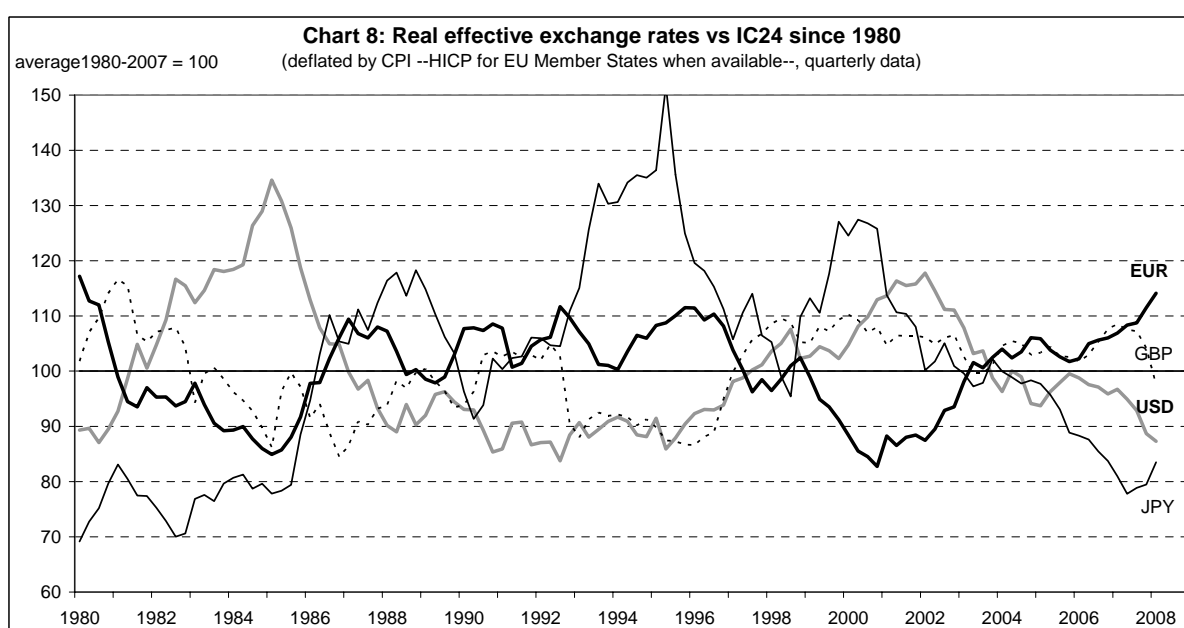


Table 3: Real effective exchange rates (CPI / HICP)							
(vs. broad group (41), index average 1999 = 100)							
	Most recent four quarters (quarterly averages)				Change relative to previous periods (quarterly averages)		
	Q2-07	Q3-07	Q4-07	Q1-08	previous quarter Q1-08/Q4-07	previous year Q1-08/Q1-07	medium-term avg Q1-08/avg 95-07
EA15	105.3	105.5	107.7	109.6	1.8%	5.1%	7.6%
USA	90.0	88.0	84.4	83.4	-1.2%	-9.0%	-14.1%
Japan	67.6	68.4	69.4	72.9	5.0%	4.3%	-19.6%
UK	98.1	97.8	95.1	89.2	-6.2%	-9.9%	-6.0%



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

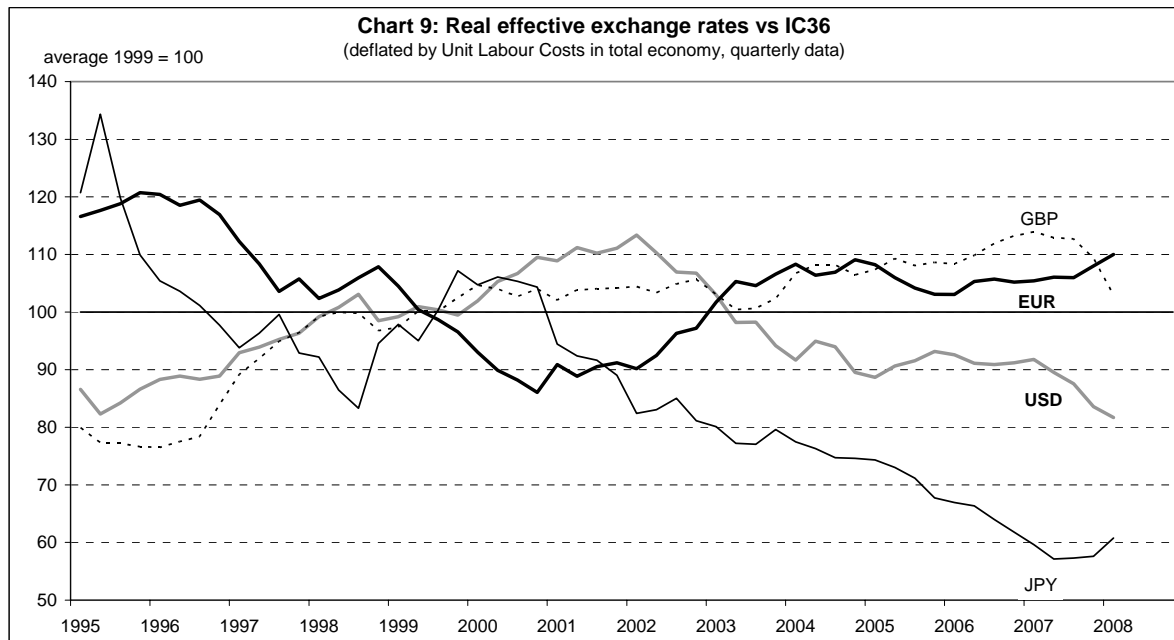
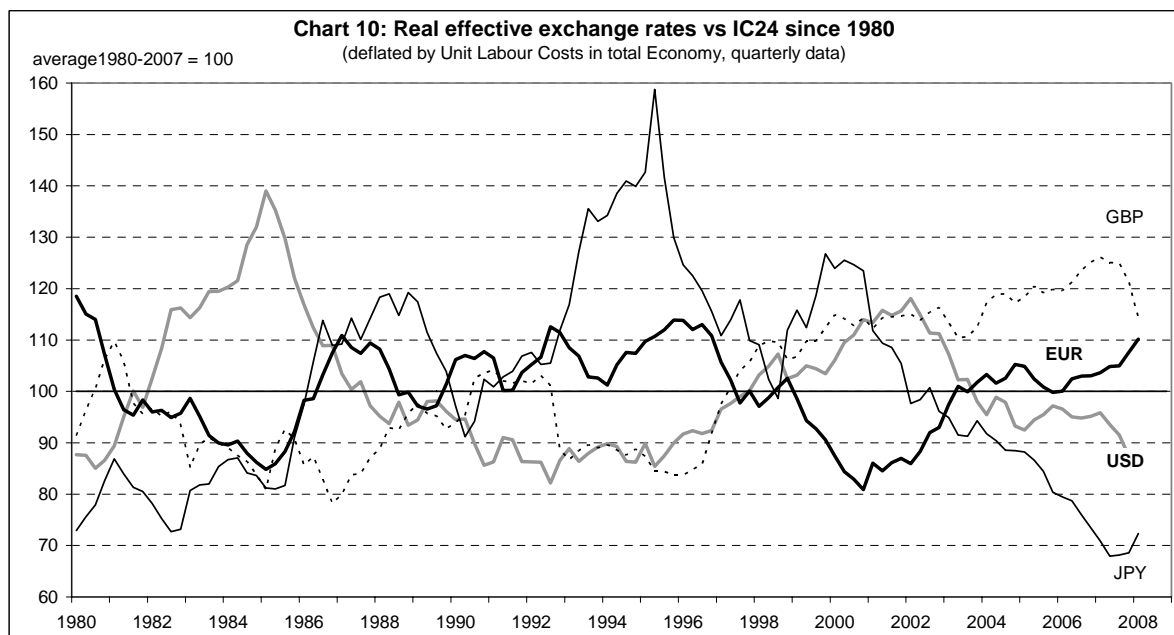


Table 4: Real effective exchange rates (ULCE)							
(vs. 36 countries, index average 1999 = 100)							
	Most recent four quarters (quarterly averages)				Change relative to previous periods (quarterly averages)		
	Q2-07	Q3-07	Q4-07	Q1-08	previous quarter Q1-08/Q4-07	previous year Q1-08/Q1-07	medium-term avg Q1-08/avg 95-07
EA15	106.0	106.0	108.0	110.0	1.8%	4.3%	5.7%
USA	89.5	87.5	83.6	81.7	-2.2%	-11.0%	-15.4%
Japan	57.1	57.3	57.6	60.8	5.4%	1.9%	-30.5%
UK	112.9	112.7	109.3	102.9	-5.8%	-9.6%	2.8%



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

Chart 11: Price and cost indicators for USA and Japan relative to euro area (EA15)

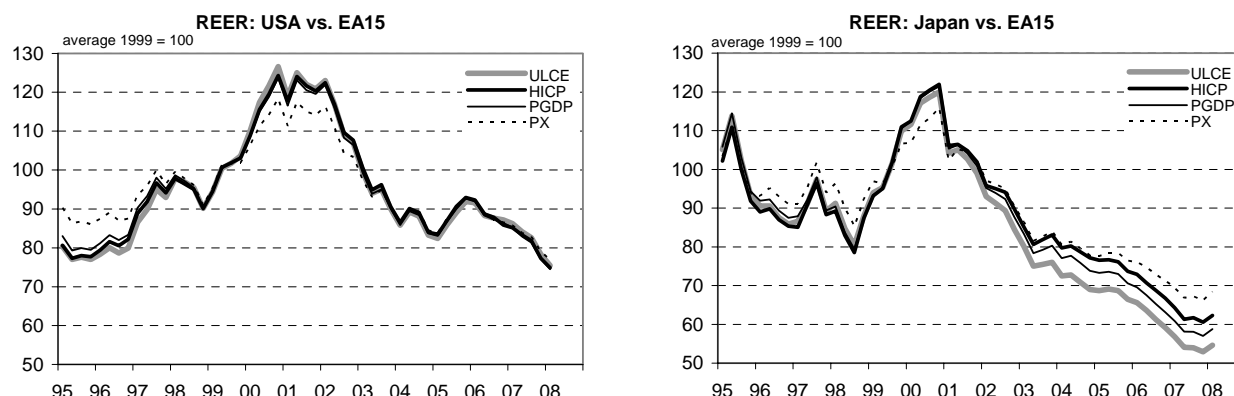
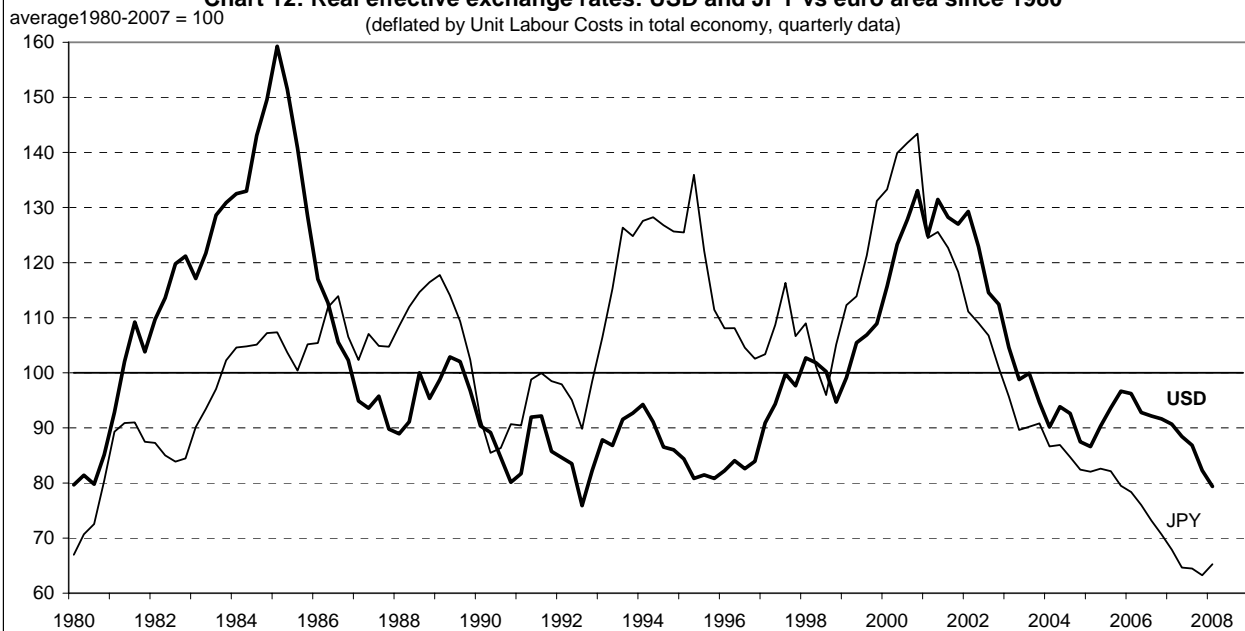


Table 5: Relative price and cost indicators of USA and Japan relative to euro area (EA15)

	over last quarter Q1-08/Q4-07				over last year Q1-08/Q1-07				compared to medium term average Q1-08/avg. 95-07			
% change	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
USA	-3.6%	-3.4%	-2.7%	-3.1%	-12.5%	-12.6%	-10.3%	-12.1%	-20.7%	-22.0%	-19.7%	-21.6%
Japan	3.2%	3.2%	3.4%	2.9%	-3.9%	-3.5%	-1.4%	-3.1%	-36.1%	-33.0%	-24.2%	-29.6%

Chart 12: Real effective exchange rates: USD and JPY vs euro area since 1980



II. DEVELOPMENTS AT MEMBER STATE LEVEL

Table 6: Relative price and cost price indicators: intra euro area												
	over last quarter Q1-08/Q4-07				over last year Q1-08/Q1-07				compared to medium term average Q1-08/avg. 95-07			
% change	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	0.1%	0.1%	-0.2%	0.4%	0.6%	-0.2%	0.4%	0.7%	0.7%	0.7%	9.4%	0.2%
Germany	-0.4%	-0.2%	0.0%	0.1%	-1.6%	-0.3%	-0.5%	-0.2%	-11.7%	-8.3%	-7.8%	-3.6%
Greece	0.7%	0.3%	0.3%	-0.2%	2.7%	0.9%	1.0%	1.0%	13.3%	8.1%	11.3%	5.8%
Spain	0.3%	0.0%	0.0%	-0.4%	1.3%	0.4%	0.4%	1.3%	7.6%	11.3%	7.4%	6.7%
France	-0.1%	0.0%	-0.1%	0.3%	0.2%	0.0%	-0.7%	0.0%	2.3%	-0.7%	-6.4%	-1.5%
Ireland	0.2%	-0.1%	-0.8%	0.0%	1.9%	-1.0%	-2.7%	0.2%	14.2%	6.9%	-5.3%	6.9%
Italy	0.5%	0.1%	0.3%	-0.6%	0.9%	0.5%	1.9%	0.0%	8.5%	5.1%	15.8%	2.6%
Malta	-0.1%	-0.1%	0.4%	-1.2%	-0.9%	-0.1%	2.9%	0.8%	1.3%	3.8%	14.2%	0.4%
Cyprus	-0.6%	0.2%	0.2%	-1.3%	-1.4%	0.1%	0.4%	0.0%	5.7%	6.1%	5.4%	1.8%
Netherlands	0.0%	0.1%	0.0%	-0.1%	0.0%	-0.3%	-0.1%	-1.4%	4.2%	3.0%	0.1%	0.1%
Austria	-0.1%	0.1%	-0.1%	0.1%	-0.1%	0.4%	0.0%	0.0%	-3.2%	-0.3%	1.2%	-1.1%
Portugal	-0.2%	-0.1%	0.4%	-0.1%	-1.2%	0.1%	1.4%	-0.5%	4.7%	5.5%	4.1%	3.5%
Slovenia	0.5%	0.4%	0.4%	0.4%	2.1%	1.9%	1.9%	3.2%	3.8%	4.5%	4.0%	6.0%
Finland	0.5%	0.2%	-0.3%	1.1%	1.3%	0.8%	-0.8%	0.2%	-0.4%	-2.2%	-7.5%	-3.1%

Table 7: Relative price and cost price indicators: intra EU27												
	over last quarter Q1-08/Q4-07				over last year Q1-08/Q1-07				compared to medium term average Q1-08/avg. 95-07			
% change	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	0.9%	0.9%	0.4%	1.2%	1.7%	1.0%	1.1%	2.0%	-0.5%	0.3%	9.7%	0.9%
Bulgaria	1.9%	2.2%	0.8%	3.8%	10.5%	6.2%	2.6%	9.5%	23.1%	26.9%	28.2%	36.4%
Czech Rep.	5.7%	5.7%	2.6%	8.7%	11.0%	11.4%	3.6%	14.8%	39.4%	35.3%	13.9%	36.0%
Denmark	1.1%	1.2%	0.8%	1.5%	2.9%	1.5%	0.5%	1.4%	6.5%	2.5%	4.5%	0.8%
Germany	0.5%	0.7%	0.7%	0.9%	-0.6%	0.8%	0.3%	1.0%	-13.0%	-9.2%	-7.3%	-3.7%
Estonia	1.7%	2.0%	1.2%	2.7%	11.1%	7.6%	3.4%	7.6%	36.9%	29.1%	20.5%	21.4%
Greece	1.4%	1.0%	0.8%	0.4%	3.1%	1.7%	1.6%	1.9%	9.9%	5.5%	9.9%	4.5%
Spain	1.1%	0.9%	0.6%	0.4%	2.4%	1.6%	1.1%	2.6%	6.5%	10.9%	7.8%	7.4%
France	0.8%	0.9%	0.6%	1.1%	1.4%	1.4%	0.2%	1.5%	0.8%	-1.3%	-5.7%	-0.8%
Ireland	1.7%	1.4%	0.3%	1.5%	4.3%	1.6%	-1.2%	3.0%	13.3%	7.5%	-3.8%	9.3%
Italy	1.2%	0.9%	0.9%	0.1%	1.6%	1.5%	2.5%	1.1%	6.0%	3.6%	15.3%	2.4%
Cyprus	0.8%	1.6%	1.2%	0.1%	0.7%	2.3%	1.8%	2.4%	4.0%	5.6%	6.5%	3.3%
Latvia	3.9%	4.1%	1.3%	5.0%	19.5%	13.6%	7.1%	13.5%	51.5%	32.4%	33.1%	22.3%
Lithuania	1.7%	2.0%	1.3%	2.7%	3.9%	6.4%	3.6%	6.6%	27.4%	27.1%	25.4%	21.7%
Hungary	-1.9%	-1.6%	-1.4%	-0.5%	0.0%	0.0%	-4.9%	1.0%	24.5%	16.7%	-6.2%	22.3%
Malta	0.9%	1.0%	1.1%	-0.2%	0.7%	1.6%	4.0%	2.6%	0.7%	3.9%	15.4%	1.8%
Netherlands	0.8%	1.0%	0.6%	0.7%	1.1%	0.9%	0.7%	0.0%	2.9%	2.4%	0.5%	0.8%
Austria	0.3%	0.6%	0.3%	0.5%	0.0%	0.8%	0.3%	0.4%	-6.2%	-2.7%	0.4%	-2.7%
Portugal	0.5%	0.6%	0.9%	0.6%	-0.2%	1.2%	2.1%	0.8%	3.8%	5.2%	4.6%	4.3%
Poland	3.4%	3.5%	2.7%	3.2%	14.3%	11.8%	10.0%	10.7%	13.5%	21.4%	27.1%	21.3%
Romania	-4.0%	-4.5%	-2.9%	-4.5%	2.7%	-1.0%	-1.6%	-3.7%	60.9%	52.8%	15.6%	29.1%
Slovenia	0.8%	0.7%	0.6%	0.5%	1.8%	1.8%	2.0%	3.2%	0.9%	2.1%	2.8%	4.2%
Slovakia	1.5%	1.4%	0.8%	2.2%	3.0%	2.7%	0.5%	3.6%	31.6%	32.5%	20.0%	42.5%
Finland	1.2%	1.0%	0.3%	1.8%	1.8%	1.8%	-0.1%	1.3%	-2.7%	-3.3%	-7.5%	-2.8%
Sweden	-0.3%	-0.8%	-0.7%	-0.4%	0.4%	-1.5%	-1.4%	-1.3%	-4.9%	-6.6%	-6.0%	-6.5%
UK	-6.4%	-6.6%	-4.5%	-6.8%	-12.0%	-11.6%	-6.8%	-12.5%	-4.6%	-6.9%	-8.0%	-12.6%

Table 8: Relative price and cost price indicators of the EU Member States vs. rest of IC36												
	over last quarter Q1-08/Q4-07				over last year Q1-08/Q1-07				compared to medium term average Q1-08/avg. 95-07			
% change	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	1.0%	1.0%	0.5%	1.3%	2.7%	2.0%	1.9%	2.9%	3.7%	4.2%	12.4%	4.6%
Bulgaria	2.3%	2.5%	1.2%	4.0%	10.4%	6.1%	2.6%	9.3%	25.0%	28.4%	29.1%	36.6%
Czech Rep.	5.8%	5.7%	2.7%	8.7%	11.6%	12.0%	4.0%	15.3%	42.1%	37.9%	15.3%	38.5%
Denmark	1.2%	1.3%	0.8%	1.6%	3.8%	2.4%	1.2%	2.3%	10.8%	6.2%	5.8%	5.1%
Germany	0.5%	0.7%	0.6%	0.8%	0.9%	2.2%	1.3%	2.3%	-6.6%	-3.2%	-3.2%	1.7%
Estonia	1.9%	2.1%	1.3%	2.9%	12.0%	8.5%	4.2%	8.5%	39.6%	31.3%	21.2%	23.8%
Greece	1.7%	1.3%	1.1%	0.6%	3.6%	2.2%	2.0%	2.3%	13.4%	8.5%	11.9%	6.7%
Spain	1.3%	1.0%	0.7%	0.5%	3.4%	2.6%	2.0%	3.6%	10.3%	14.6%	10.3%	10.8%
France	0.9%	1.0%	0.6%	1.2%	2.6%	2.6%	1.1%	2.7%	6.1%	3.8%	-2.3%	3.8%
Ireland	2.0%	1.7%	0.4%	1.7%	6.9%	4.0%	0.7%	5.4%	22.1%	15.7%	1.6%	17.1%
Italy	1.3%	1.0%	0.9%	0.3%	2.9%	2.7%	3.4%	2.3%	11.6%	8.9%	18.8%	7.2%
Cyprus	0.8%	1.5%	1.1%	0.0%	1.2%	2.8%	2.1%	2.8%	7.1%	8.4%	8.1%	5.4%
Latvia	3.9%	4.1%	1.4%	5.1%	19.8%	14.0%	7.3%	13.8%	53.7%	34.2%	33.7%	24.1%
Lithuania	1.9%	2.1%	1.5%	2.9%	4.4%	7.0%	4.1%	7.2%	30.0%	29.3%	26.7%	23.9%
Hungary	-1.8%	-1.6%	-1.3%	-0.4%	0.5%	0.5%	-4.6%	1.4%	26.9%	18.9%	-5.0%	24.5%
Malta	0.9%	0.9%	1.0%	-0.2%	3.1%	4.0%	5.7%	4.9%	10.1%	13.1%	22.4%	10.0%
Netherlands	0.9%	1.0%	0.6%	0.8%	1.9%	1.8%	1.4%	0.8%	6.2%	5.6%	2.4%	3.8%
Austria	0.4%	0.6%	0.3%	0.5%	0.9%	1.7%	1.0%	1.3%	-2.6%	0.8%	2.7%	0.6%
Poland	3.5%	3.6%	2.8%	3.3%	14.7%	12.1%	10.3%	11.0%	15.3%	23.1%	27.7%	23.2%
Portugal	0.7%	0.7%	1.0%	0.7%	0.8%	2.2%	2.9%	1.7%	7.1%	8.4%	6.8%	7.3%
Romania	-3.7%	-4.2%	-2.7%	-4.3%	2.8%	-0.9%	-1.5%	-3.7%	64.0%	55.2%	16.7%	30.5%
Slovenia	0.9%	0.7%	0.6%	0.5%	2.2%	2.2%	2.3%	3.5%	2.3%	3.4%	3.5%	5.3%
Slovakia	1.6%	1.4%	0.8%	2.2%	3.5%	3.3%	1.0%	4.2%	33.7%	34.6%	21.2%	44.7%
Finland	1.3%	1.1%	0.3%	1.9%	2.9%	2.9%	0.7%	2.4%	2.4%	1.4%	-5.1%	1.9%
Sweden	0.0%	-0.6%	-0.6%	-0.2%	1.5%	-0.3%	-0.5%	-0.1%	-0.1%	-2.4%	-4.8%	-1.4%
UK	-5.8%	-6.1%	-4.1%	-6.2%	-9.6%	-9.3%	-5.0%	-10.2%	2.8%	0.2%	-3.1%	-5.8%