

**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**

#### **The euro against major international currencies**

- Between the first and second quarter of 2007, the euro's appreciation against most major currencies accelerated. The euro appreciated by 2.9 percent against the US dollar and by 4.1 percent against the Japanese yen. At the same time, it gained 1.2 percent against the British pound sterling and 2.0 percent against the Swiss franc. As a result of the appreciation, the euro exchange rate stood roughly 19 percent above its 1995 to 2006 average against the US dollar and more than 26 percent against the Japanese yen in the second quarter of 2007, while it was still almost 2 percent below its medium-term average against the British pound sterling.
- All in all, the euro's nominal effective exchange rate (against 29 countries) appreciated by 1.1 percent between the first and second quarter of 2007 and stood more than 15 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 first and second quarter of 2007. As developments in the underlying deflators were slightly favourable, the real effective exchange rate of the euro appreciated by considerably 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 1.7 percent (when deflated by unit labour costs) and by 3.6 percent (when deflated by consumer prices).
- In the US, the UK and Japan, price and cost competitiveness indicators indicated an improvement of the countries' respective competitiveness positions. Among these three countries, Japan saw the strongest improvement of its price and cost competitiveness positions between the first and second quarter of 2007.

#### **Relative cost and price indicators: intra-euro area developments**

- Between the first and second quarter of 2007, cost competitiveness positions relative to the other euro area countries continued to improve only in Germany. Of all other Member States, Greece and the Netherlands recorded the strongest losses in cost competitiveness. As regards price competitiveness, all three measures indicated an improvement in France and Finland. In Greece, Spain, Italy and Ireland all price competitiveness indicators indicated a loss in competitiveness vis-à-vis the rest of the euro area. For all other Member States, the different deflators pointed into opposite directions.
- In a medium-term perspective, the intra-euro area cost competitiveness positions of Belgium/Luxemburg, Finland, Austria and, in particular, Germany continued to be more favourable than their 1995 to 2006 averages. On the other hand, Ireland, Greece, Italy and Spain 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 and Ireland, with the exception that the Irish price competitiveness position based on export prices was somewhat better than its medium-term average.

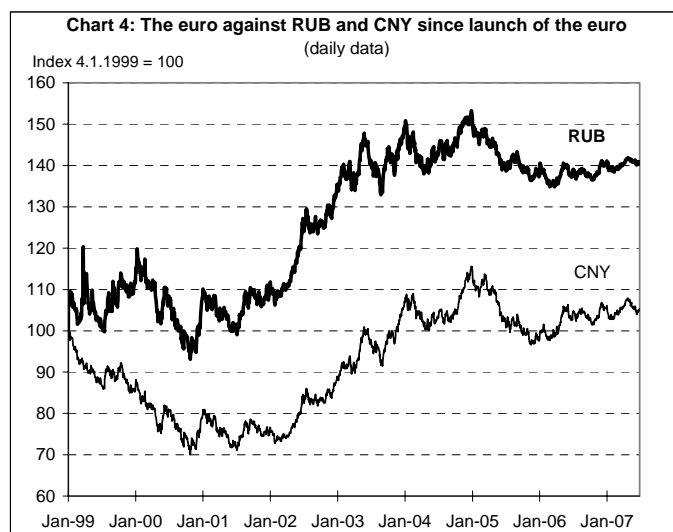
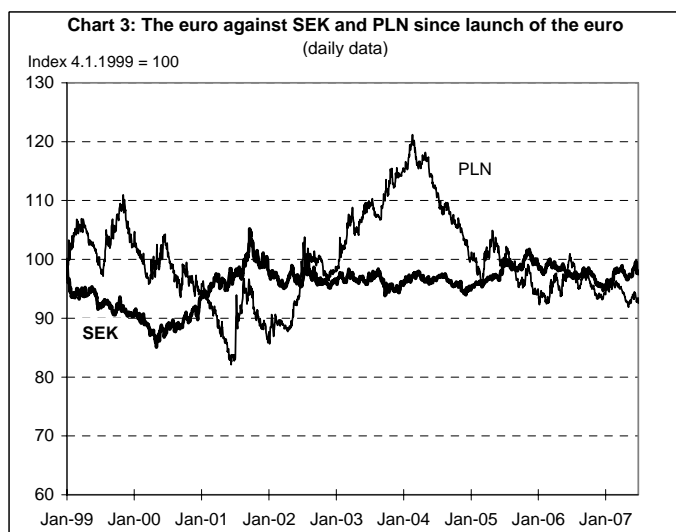
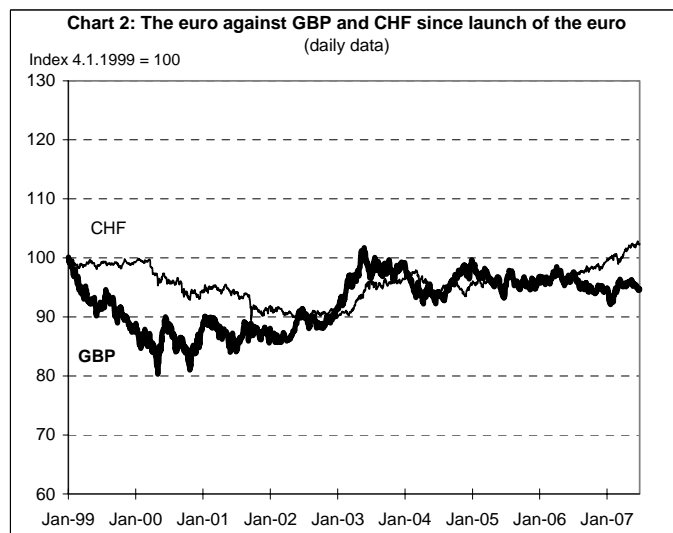
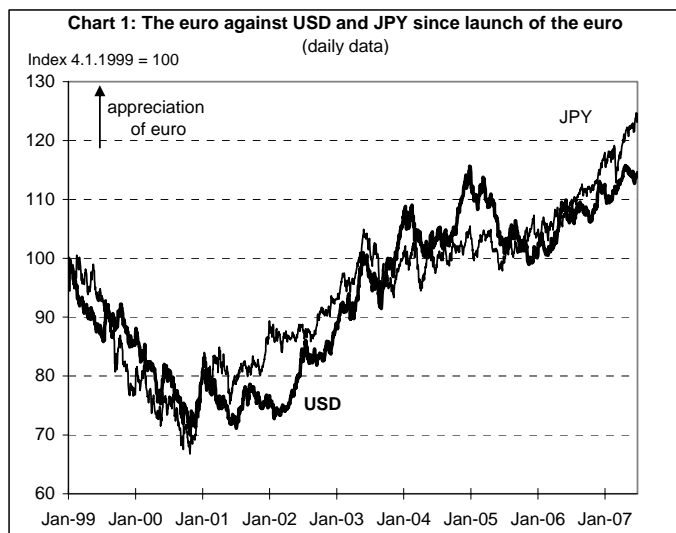
#### **Relative cost and price indicators: intra-EU developments**

- In non-euro-area Member States, cost competitiveness improved relative to other EU27 Member States in the Czech Republic, the UK, Cyprus, Sweden and Malta between the first and second quarter of 2007. Of all other non-euro-area Member States, Romania, Hungary and Latvia recorded the strongest loss of cost competitiveness.
- Except for Malta and 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 3.1 (Poland) and 67.9 percent (Romania).

# DATA ON PRICE AND COST COMPETITIVENESS

## QUARTERLY REPORT - SECOND QUARTER 2007

### I. INTERNATIONAL DEVELOPMENTS



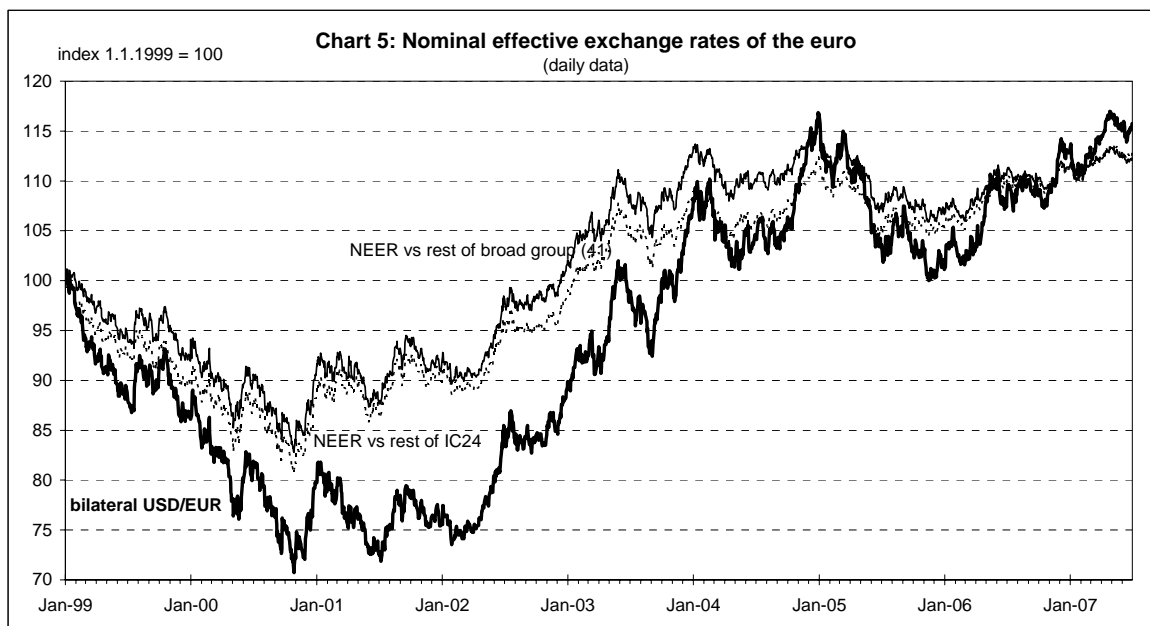
**Table 1: Evolution of the bilateral exchange rates of euro area's main trading partners (quarterly averages)**  
Change relative to previous periods (quarterly averages; pre-1999: synthetic euro)

	previous quarter Q2-07/Q1-07	previous year Q2-07/Q2-06	medium-term avg. Q2-07/avg 95-06
USD/EUR	2.9%	7.1%	19.2%
JPY/EUR	4.1%	13.3%	26.6%
GBP/EUR	1.2%	-1.3%	-1.7%
CHF/EUR	2.0%	5.4%	5.5%

	previous quarter Q2-07/Q1-07	previous year Q2-07/Q2-06	medium-term avg. Q2-07/avg 95-06
SEK/EUR	0.7%	-0.4%	2.7%
PLN/EUR	-2.2%	-3.7%	-2.8%
RUB/EUR	1.1%	2.0%	49.7%
CNY/EUR	1.8%	2.6%	10.9%

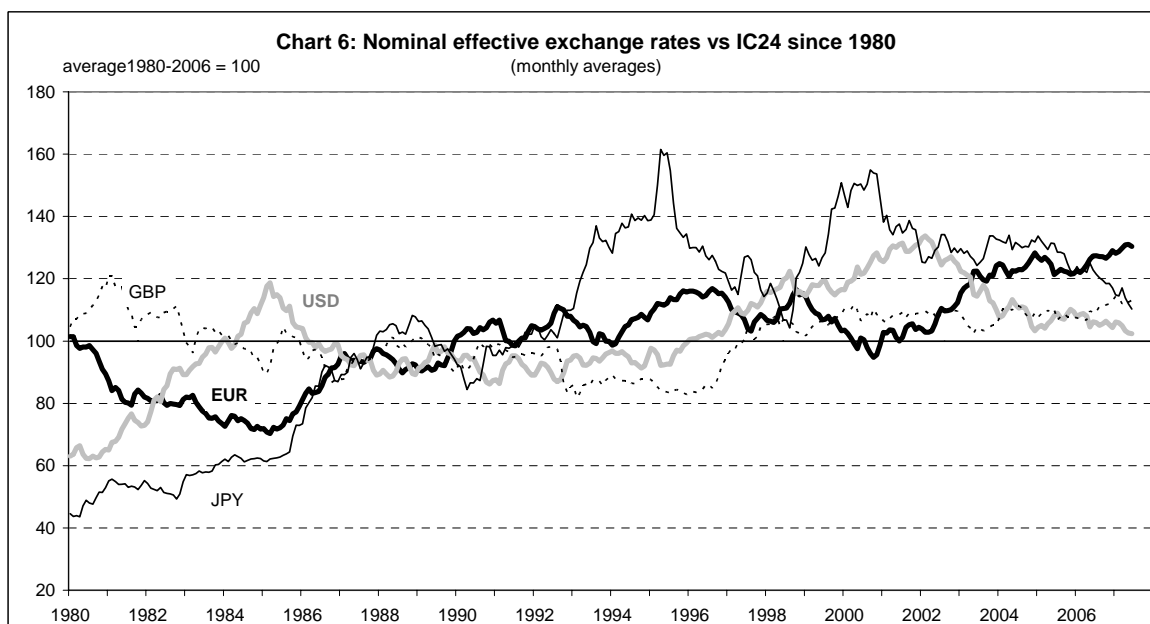
# 1. BILATERAL EXCHANGE RATES OF THE EURO

## 2. NOMINAL EFFECTIVE EXCHANGE RATES

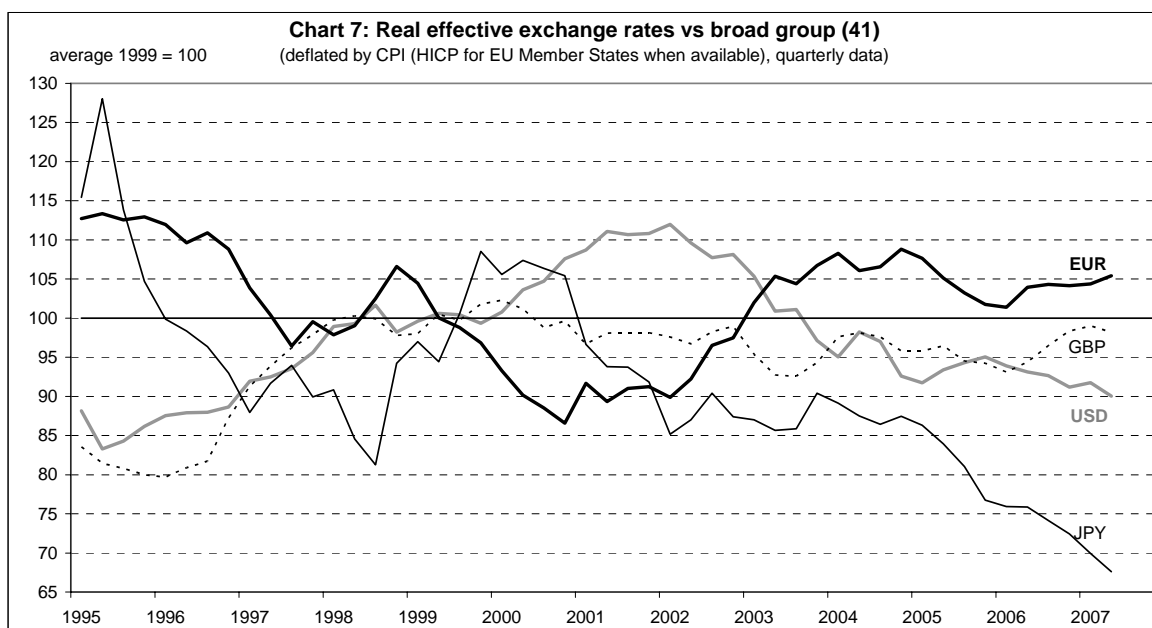


**Table 2: Nominal effective exchange rates**  
(vs. broad group (41), index average 1999 = 100)

	Second quarter of 2007 (monthly averages)			Change relative to previous periods (quarterly averages)		
	Apr-07	May-07	Jun-07	previous quarter Q2-07/Q1-07	previous year Q2-07/Q2-06	medium-term avg Q2-07/avg 95-06
EUR13	117.2	117.1	116.4	1.1%	2.4%	15.2%
USA	89.1	88.3	87.9	-2.8%	-3.7%	-8.5%
Japan	86.3	84.7	83.3	-2.6%	-8.7%	-12.8%
UK	106.8	106.4	107.0	-0.5%	3.7%	9.9%

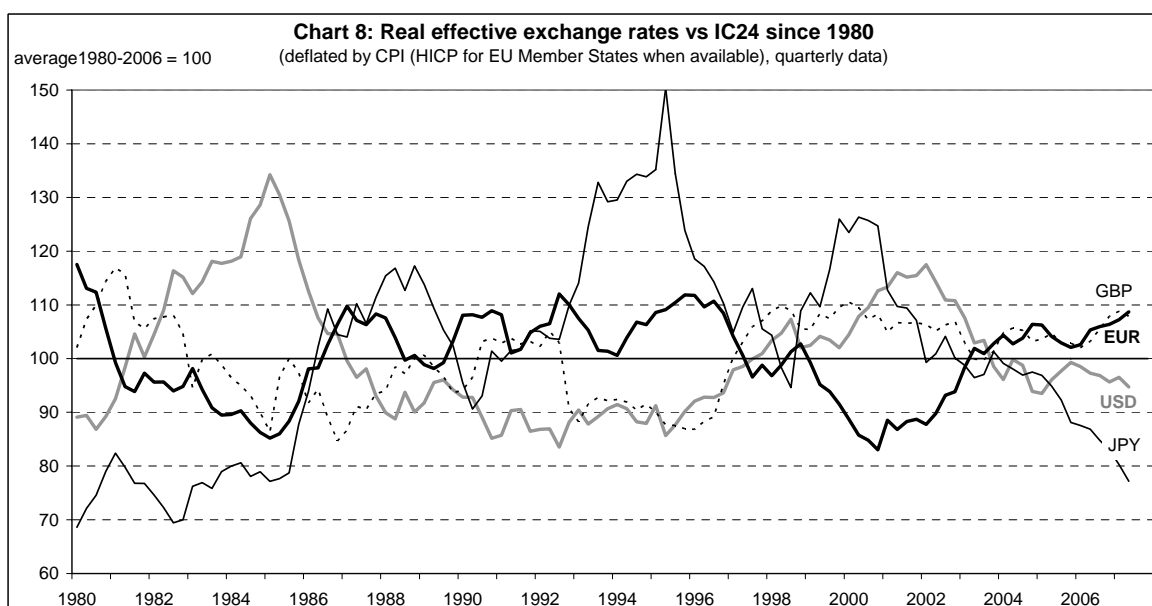


### 3. PRICE COMPETITIVENESS BASED ON CPI (HICP WHEN AVAILABLE)

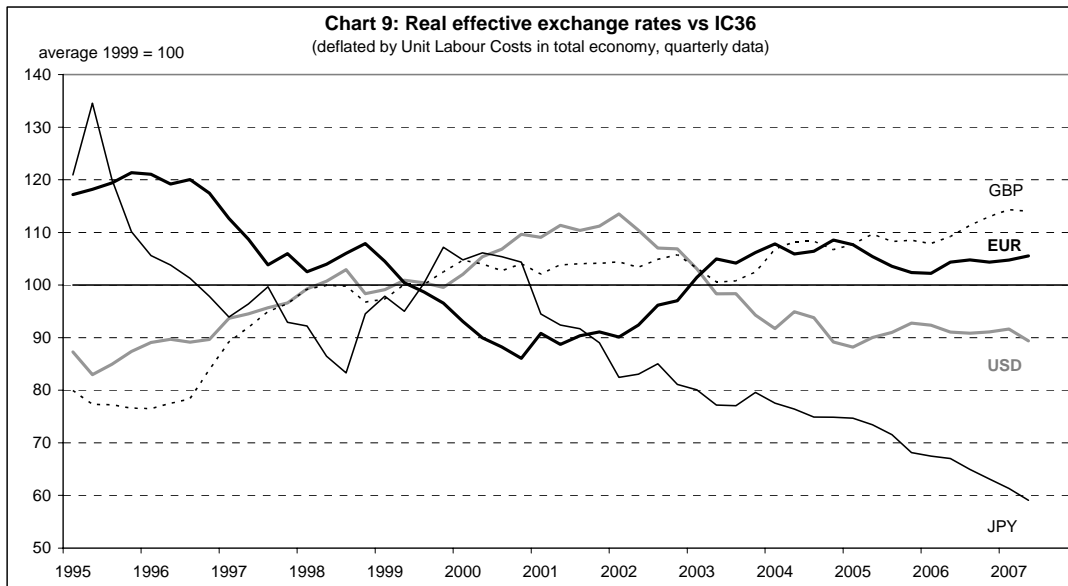


**Table 3: Real effective exchange rates (CPI / HICP)**  
 (vs. broad group (41), index average 1999 = 100)

	Most recent four quarters (quarterly averages)				Change relative to previous periods (quarterly averages)		
	Q3-06	Q4-06	Q1-07	Q2-07	previous quarter Q2-07/Q1-07	previous year Q2-07/Q2-06	medium-term avg Q2-07/avg 95-06
EUR13	104.3	104.2	104.4	105.4	1.0%	1.4%	3.8%
USA	92.7	91.2	91.8	90.0	-1.9%	-3.3%	-7.9%
Japan	74.1	72.5	69.9	67.6	-3.3%	-10.9%	-26.9%
UK	96.5	98.3	99.0	98.2	-0.8%	4.1%	3.7%

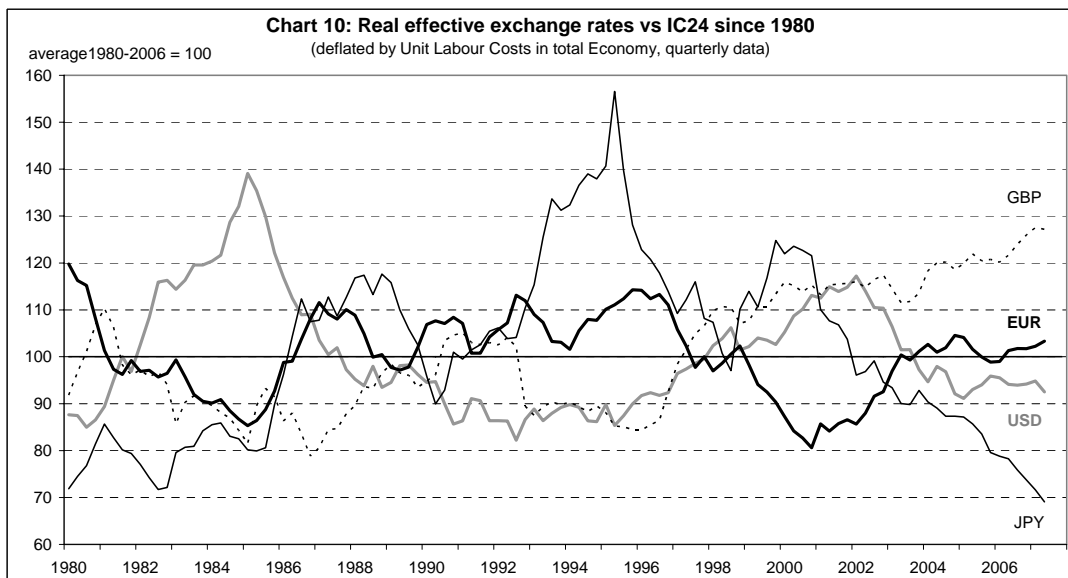


#### 4. COST COMPETITIVENESS BASED ON UNIT LABOUR COSTS IN TOTAL ECONOMY



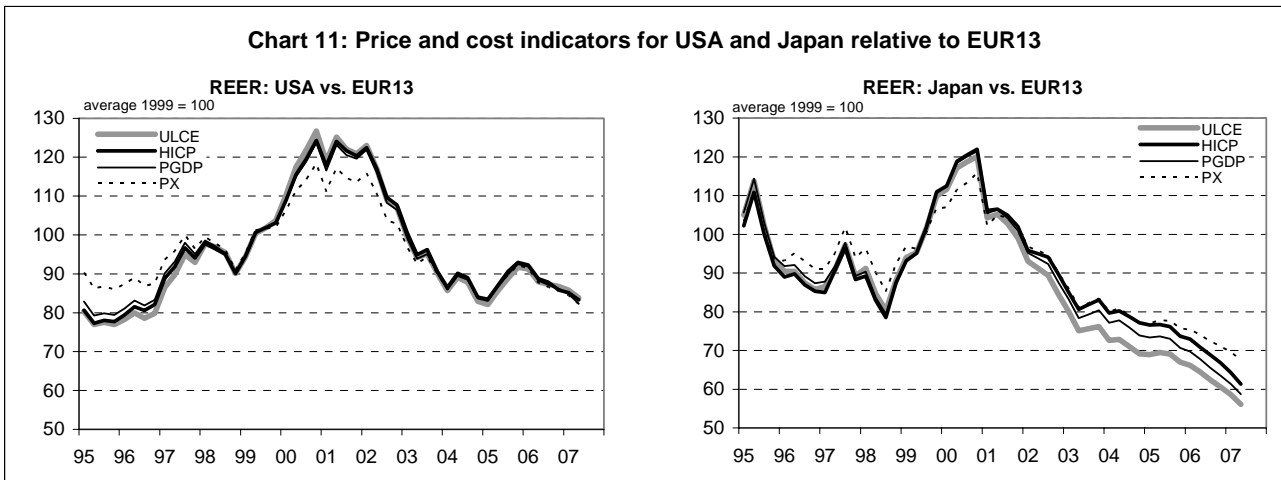
**Table 4: Real effective exchange rates (ULCE)**  
(vs. 36 countries, index average 1999 = 100)

	Most recent four quarters (quarterly averages)				Change relative to previous periods (quarterly averages)		
	Q3-06	Q4-06	Q1-07	Q2-07	previous quarter	previous year	medium-term avg
					Q2-07/Q1-07	Q2-07/Q2-06	Q2-07/avg 95-06
EUR13	104.8	104.4	104.7	105.5	0.8%	1.1%	1.7%
USA	90.9	91.1	91.7	89.4	-2.5%	-1.8%	-8.2%
Japan	65.0	63.1	61.3	59.1	-3.6%	-11.8%	-34.4%
UK	111.3	113.0	114.3	114.0	-0.3%	4.4%	15.0%



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

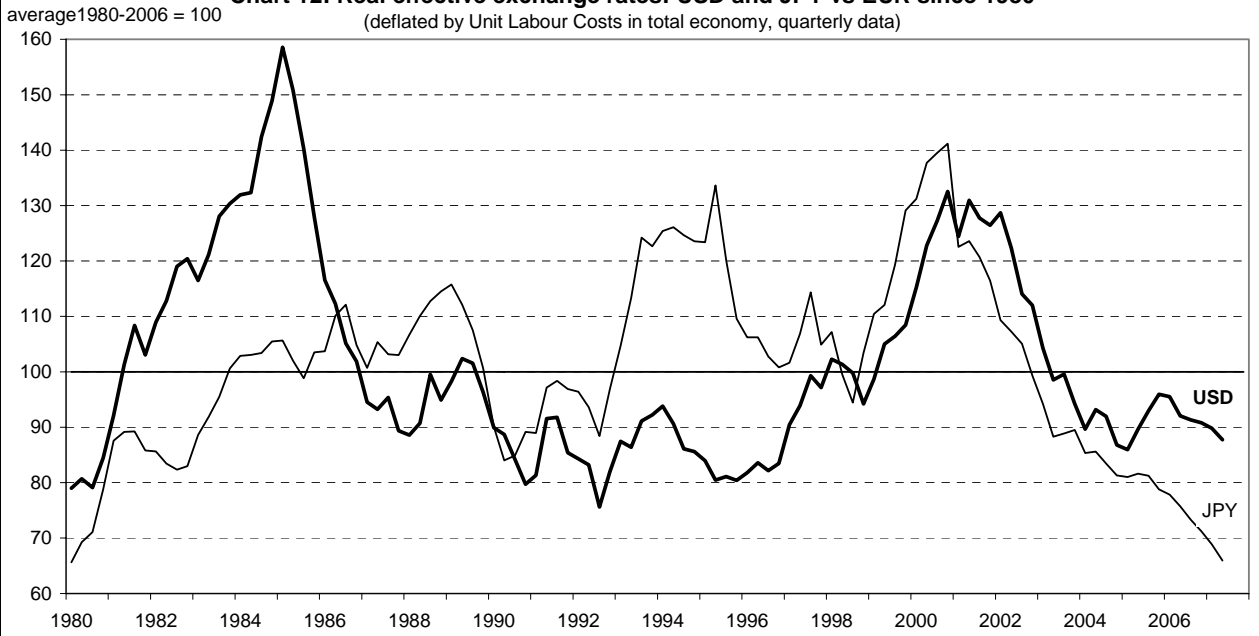
**Chart 11: Price and cost indicators for USA and Japan relative to EUR13**



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

% change	over last quarter Q2-07/Q1-07				over last year Q2-07/Q2-06				compared to medium term average Q2-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
USA	-2.3%	-2.9%	-2.6%	-2.2%	-4.7%	-6.7%	-6.2%	-6.1%	-12.9%	-14.8%	-14.9%	-13.8%
Japan	-4.2%	-4.3%	-3.1%	-4.5%	-12.9%	-13.3%	-8.8%	-13.3%	-36.4%	-34.9%	-26.7%	-32.3%

**Chart 12: Real effective exchange rates: USD and JPY vs EUR since 1980**





## II. DEVELOPMENTS AT MEMBER STATE LEVEL

% change	over last quarter Q2-07/Q1-07				over last year Q2-07/Q2-06				compared to medium term average Q2-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	0.1%	0.1%	-0.1%	0.0%	0.1%	0.5%	0.5%	-0.4%	-0.1%	1.5%	8.8%	-0.5%
Germany	-0.5%	0.1%	0.0%	-0.6%	-2.2%	-0.2%	-0.5%	0.2%	-11.9%	-9.1%	-8.4%	-4.2%
Greece	0.5%	0.3%	0.2%	0.7%	2.1%	1.4%	1.1%	0.7%	10.5%	9.1%	9.8%	6.0%
Spain	0.3%	0.2%	0.5%	1.0%	1.6%	1.1%	1.7%	0.6%	7.9%	12.0%	8.1%	6.9%
France	0.1%	-0.2%	-0.1%	-0.2%	0.9%	-0.5%	-0.8%	-0.7%	3.1%	-1.2%	-8.0%	-1.9%
Ireland	0.2%	0.3%	0.1%	0.3%	1.5%	1.3%	0.2%	1.0%	12.1%	11.7%	-0.9%	7.6%
Italy	0.2%	0.0%	0.4%	0.5%	1.0%	0.0%	2.0%	0.0%	9.9%	5.8%	21.2%	3.4%
Netherlands	0.4%	-0.1%	-0.6%	0.3%	0.7%	-0.4%	-1.6%	0.1%	3.2%	3.4%	-1.5%	1.9%
Austria	0.1%	-0.1%	0.0%	-0.3%	0.2%	-0.3%	-0.2%	0.0%	-3.4%	-1.2%	-0.1%	-1.5%
Portugal	0.2%	0.1%	-0.2%	0.4%	0.5%	0.6%	0.2%	0.6%	6.4%	6.7%	2.6%	4.8%
Slovenia	0.3%	0.1%	-0.4%	1.5%	1.2%	0.5%	-0.1%	1.4%	2.2%	2.8%	2.4%	4.6%
Finland	0.1%	-0.1%	-0.3%	-0.2%	-0.5%	-0.2%	-0.6%	-0.4%	-1.7%	-3.5%	-8.7%	-3.9%

% change	over last quarter Q2-07/Q1-07				over last year Q2-07/Q2-06				compared to medium term average Q2-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	0.2%	0.1%	0.0%	0.1%	-0.6%	-0.1%	0.2%	-0.9%	-2.4%	-0.2%	8.7%	-1.0%
Bulgaria	0.5%	-0.3%	-0.4%	-0.5%	2.2%	0.8%	1.4%	2.0%	7.8%	18.3%	22.0%	26.9%
Czech Rep	-1.7%	-0.8%	-0.6%	-0.7%	-2.7%	0.1%	-0.3%	-0.1%	23.4%	23.0%	9.0%	19.6%
Denmark	0.3%	0.4%	0.3%	0.0%	0.7%	0.2%	-0.7%	-0.8%	4.2%	2.9%	5.4%	-0.7%
Germany	-0.5%	0.1%	0.2%	-0.4%	-3.0%	-1.2%	-1.0%	-0.8%	-14.0%	-11.0%	-8.2%	-5.4%
Estonia	1.3%	1.8%	0.7%	1.0%	5.1%	5.4%	3.2%	3.0%	22.1%	23.7%	15.1%	15.3%
Greece	0.4%	0.3%	0.3%	0.8%	1.0%	0.5%	0.5%	-0.1%	6.3%	5.2%	7.7%	3.6%
Spain	0.4%	0.2%	0.6%	1.1%	1.0%	0.5%	1.4%	0.1%	5.6%	10.2%	8.0%	6.3%
France	0.1%	-0.2%	0.1%	0.0%	0.0%	-1.1%	-1.1%	-1.3%	0.2%	-3.1%	-7.7%	-2.5%
Ireland	0.4%	0.5%	0.4%	0.6%	0.6%	0.5%	-0.2%	0.3%	8.4%	9.5%	-0.2%	7.3%
Italy	0.1%	0.0%	0.4%	0.5%	0.0%	-0.9%	1.4%	-0.8%	6.3%	3.0%	19.9%	2.0%
Cyprus	-0.6%	-0.5%	-0.2%	0.7%	-2.0%	-1.9%	-1.7%	-2.0%	4.5%	2.7%	3.7%	1.7%
Latvia	2.4%	1.9%	1.0%	2.1%	7.4%	5.3%	2.2%	5.0%	24.2%	20.9%	24.8%	11.2%
Lithuania	0.5%	0.3%	1.1%	0.4%	3.2%	1.8%	1.3%	1.9%	22.8%	21.3%	23.4%	16.2%
Hungary	2.5%	2.6%	-0.5%	2.2%	9.9%	10.5%	2.2%	13.5%	23.8%	21.2%	-0.9%	26.3%
Malta	-0.1%	0.3%	-0.3%	2.7%	-1.7%	0.0%	1.3%	-3.2%	-0.1%	2.4%	10.7%	2.0%
Netherlands	0.4%	0.0%	-0.5%	0.4%	0.0%	-1.1%	-1.9%	-0.5%	0.7%	1.5%	-1.5%	1.3%
Austria	-0.1%	-0.2%	0.0%	-0.3%	-0.8%	-1.3%	-0.8%	-1.0%	-6.6%	-4.2%	-1.1%	-3.7%
Portugal	0.3%	0.2%	-0.1%	0.6%	0.0%	0.1%	-0.1%	0.2%	4.4%	5.3%	2.8%	4.4%
Poland	1.6%	2.3%	2.4%	2.6%	2.1%	3.1%	4.3%	3.4%	3.1%	12.4%	18.8%	13.7%
Romania	4.7%	4.7%	3.7%	2.9%	13.9%	14.0%	10.6%	8.4%	67.9%	68.7%	26.4%	42.4%
Slovenia	0.2%	-0.1%	-0.4%	1.4%	0.3%	-0.4%	-0.6%	0.5%	-0.4%	0.2%	1.1%	2.6%
Slovakia	1.4%	1.8%	-0.1%	0.9%	10.6%	11.8%	5.5%	10.2%	32.8%	36.9%	20.5%	43.3%
Finland	0.1%	-0.1%	-0.1%	-0.1%	-1.4%	-1.1%	-1.0%	-1.2%	-4.6%	-5.5%	-8.8%	-4.5%
Sweden	-0.4%	-0.6%	-1.1%	-0.9%	0.1%	0.1%	-1.2%	-0.6%	-6.2%	-6.7%	-7.5%	-6.7%
UK	-0.9%	-1.2%	-1.3%	-1.5%	2.4%	1.6%	0.8%	1.8%	8.6%	3.9%	-3.8%	-1.8%

**Table 8: Relative price and cost price indicators of the EU Member States vs. rest of IC36**

% change	over last quarter Q2-07/Q1-07				over last year Q2-07/Q2-06				compared to medium term average Q2-07/avg. 95-06			
	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP	ULCE	PGDP	PX	HICP
BLEU	0.4%	0.5%	0.3%	0.4%	0.5%	1.3%	1.2%	0.4%	1.0%	3.3%	11.3%	2.2%
Bulgaria	0.4%	-0.4%	-0.4%	-0.6%	2.2%	1.2%	1.6%	2.2%	8.8%	19.6%	23.9%	27.2%
Czech Rep	-1.6%	-0.6%	-0.5%	-0.5%	-2.1%	0.8%	0.2%	0.7%	25.5%	25.1%	10.4%	21.7%
Denmark	0.6%	0.8%	0.5%	0.3%	2.1%	1.9%	0.3%	0.9%	8.1%	6.2%	6.5%	3.2%
Germany	0.0%	0.6%	0.6%	0.0%	-1.1%	0.9%	0.7%	1.3%	-8.6%	-5.5%	-4.1%	-0.6%
Estonia	1.4%	1.9%	0.8%	1.1%	5.8%	6.3%	3.6%	3.8%	23.5%	24.9%	15.1%	16.9%
Greece	0.4%	0.4%	0.4%	0.8%	1.6%	1.4%	1.2%	0.7%	8.9%	7.8%	10.1%	5.7%
Spain	0.6%	0.5%	0.9%	1.3%	1.9%	1.7%	2.3%	1.2%	8.6%	13.2%	10.2%	9.1%
France	0.5%	0.4%	0.5%	0.4%	1.6%	0.8%	0.4%	0.5%	4.7%	1.5%	-4.3%	1.7%
Ireland	1.0%	1.3%	1.0%	1.2%	2.8%	3.2%	1.9%	2.9%	15.2%	16.5%	4.7%	13.7%
Italy	0.5%	0.5%	0.8%	0.9%	1.5%	1.0%	2.8%	1.0%	10.9%	7.8%	23.4%	6.2%
Cyprus	-0.4%	-0.2%	-0.1%	0.9%	-1.2%	-0.9%	-1.0%	-1.0%	7.3%	5.3%	5.6%	3.7%
Latvia	2.5%	2.0%	1.1%	2.3%	8.2%	6.2%	2.8%	5.9%	26.0%	22.5%	25.4%	12.8%
Lithuania	0.6%	0.5%	1.1%	0.5%	4.1%	2.9%	2.1%	3.0%	24.7%	23.1%	24.6%	18.0%
Hungary	2.6%	2.8%	-0.3%	2.4%	10.6%	11.4%	2.8%	14.4%	25.8%	23.3%	0.4%	28.3%
Malta	0.7%	1.2%	0.3%	3.4%	0.8%	3.1%	3.7%	-0.3%	7.7%	10.4%	17.2%	9.1%
Netherlands	0.7%	0.3%	-0.2%	0.7%	0.9%	0.1%	-1.0%	0.6%	3.4%	4.3%	0.3%	3.8%
Austria	0.3%	0.2%	0.3%	0.0%	0.3%	0.1%	0.4%	0.5%	-3.8%	-1.1%	1.2%	-0.7%
Poland	1.7%	2.5%	2.5%	2.6%	2.6%	3.9%	4.8%	4.2%	4.4%	13.8%	19.4%	15.3%
Portugal	0.5%	0.5%	0.1%	0.8%	0.8%	1.2%	0.7%	1.1%	6.8%	7.8%	4.5%	6.8%
Romania	4.6%	4.8%	3.8%	2.8%	14.1%	14.6%	11.0%	8.9%	70.6%	71.3%	28.4%	44.1%
Slovenia	0.3%	0.1%	-0.3%	1.5%	0.8%	0.2%	-0.2%	1.1%	0.6%	1.2%	1.9%	3.6%
Slovakia	1.5%	2.0%	0.1%	1.0%	11.2%	12.6%	6.1%	10.9%	34.4%	38.6%	21.6%	45.1%
Finland	0.4%	0.3%	0.2%	0.2%	0.0%	0.7%	0.2%	0.6%	-0.2%	-1.3%	-6.5%	-0.3%
Sweden	-0.1%	-0.2%	-0.8%	-0.6%	1.7%	2.1%	0.1%	1.6%	-1.9%	-3.0%	-6.6%	-1.9%
UK	-0.3%	-0.4%	-0.7%	-0.9%	4.4%	4.3%	2.8%	4.3%	15.0%	10.4%	0.9%	4.3%