

Summary

Real effective exchange rates are commonly used as indicators of international competitiveness at the macroeconomic level, since they also significantly affect the enterprises involved in international trade flows. The main purpose of the presented changes in the methodology used by the IMAD to calculate the tolar's effective exchange rate is to ensure methodological comparability with the calculations of the European Central Bank (ECB) and the Bank for International Settlements (BIS), on whose methodology the ECB method is modelled. In addition, the change was also necessitated by the considerable changes in the currency structure of Slovenia's trade in goods.

According to the new method, the calculation of the effective exchange rate includes 17 trading partners: 7 from the euro area (Austria, Belgium, Germany, Italy, France, the Netherlands and Spain), 7 from outside the euro area (United Kingdom, Denmark, Sweden, the Czech Republic, Hungary, Poland, Slovakia) and 3 from outside the EU (the USA, Switzerland, Japan). In 2001-2003, Slovenia realised 78% of its total manufacturing trade (and 68% of Slovenia's total trade in goods) with the selected trading partners.

Because Slovenia's trade with countries outside the EU is less well covered, Croatia, Russia and Turkey are included in an extended group of 20 trading partners for which the real effective exchange rate can for the time being be calculated only on the basis of relative prices (data on relative costs are not available). Slovenia's trade with the extended group of 20 countries accounted for 87% of its total manufacturing trade in 2001-2003 (and 75% of its total merchandise trade).

The weights used to calculate the currencies and prices (costs) of trading partners are the export and import shares of products in manufacturing, more specifically in sectors 5-8 of the Standard International Trade Classification (SICT) in the 2001-2003 period. Export weights are double weighted.

Although the calculation of the effective exchange rate hitherto included only four currencies out of Slovenia's seven main developed trading partners (Germany, Austria, Italy, France, the USA, United Kingdom and Switzerland), the new method had a relatively small aggregate impact on the dynamics of the effective exchange rate. In the last four years, the effect of these changes has been apparent in the lower real appreciation of the tolar's effective exchange rate, mainly due to the sizeable nominal depreciation of the tolar against the currencies of new EU members, in addition to the slightly faster price rises in these countries.

The above-average share of intra-euro area trade, where the common currency eliminates currency risks, will place Slovenia in the group of euro area countries that are relatively less vulnerable to the volatility of the euro in international currency markets. On the other hand, the relative significance of the dynamics of Slovenian prices (costs) in comparison with its trading partners will have an accordingly higher impact on the dynamics of Slovenia's price and cost competitiveness.

Key words: international competitiveness, price and cost competitiveness, real effective exchange rate, method for calculating effective exchange rates, double weighted export weights.