

Competitiveness	Slovenian Economic Mirror	IMAD
	No. 5/2004	p. 5

Price and costs competitiveness indicators, indices	Φ Q1 2004/ Φ Q4 2003		Φ Q1 2004/ Φ Q1 2003	Φ 2004/ Φ 1995
	Original	Seas. adj.	Original	
Tolar's effective exchange rate ¹ - nominal	100.2	-	99.9	66.0
Real exchange rate – based on consumer prices	100.3	-	102.2	106.4
Real exchange rate – based on producer prices	101.1	-	102.9	97.9
Unit labour costs and components				
Unit labour costs, in nominal terms, in SIT ²	96.8	101.2	103.2	161.5
In SIT in real terms ³	95.3	99.9	100.0	101.8
In the basket of currencies ⁴	96.9	101.4	103.1	106.6
Compensation of employees, in real terms ⁵	93.3	100.3	104.6	122.1
Net wages and other remuneration	92.9	100.1	104.5	121.1
Tax burden ⁶	99.0	100.1	100.5	99.5
Labour productivity	96.6	99.6	105.3	141.4
Consumer prices/nominal effective exchange rate ⁷	101.0	100.6	103.6	122.9

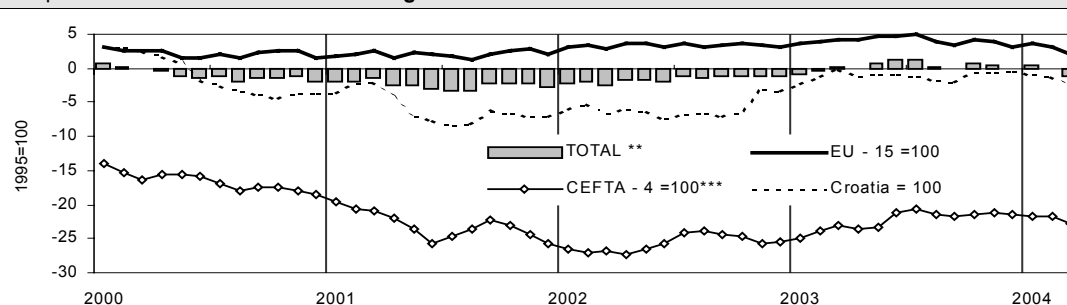
Sources of data: SORS, AP, BS, OECD Main Economic Indicators. Calculations by the IMAD. Notes: ¹based on market exchange rates: growth in index value denotes appreciation of the tolar and vice versa; ²in manufacturing, for entities with three or more employees; ³measured by producer prices, ⁴nominal, ⁵deflated by consumer prices, ⁶gross wages and employers' contributions relative to net wages, ⁷foreign currencies. Seasonally adjusted by the TRAMO-SEATS method.

The average price and cost competitiveness of Slovenian manufacturing fell in the **first quarter of 2004**.

Price competitiveness in the currency area of industrialised trading partners worsened due to the US dollar's fall as well as the accelerated rise in relative prices (industrial producer prices). As the dollar lost 4.9% of its nominal value against the euro in quarterly terms and 14.1% in annual terms, the **tolar** continued to **appreciate against the basket of OECD currencies** in the first quarter (see table). The tolar depreciated against the **euro** by 0.6% quarter on quarter (the same as in the last quarter of 2003) and by 2.6% year on year (2.8%) in nominal terms. Following the slowing rise in relative consumer prices, the tolar's real appreciation against the basket of OECD currencies slowed down from 0.7% to 0.3% in quarterly terms and from 2.9% to 2.2% in annual terms, while the tolar depreciated against the euro in real terms (by 0.5% and 0.3%). Conversely, following the accelerated rise in relative industrial producer prices, the tolar's real appreciation against the basket of OECD currencies climbed from 0.7% to 1.1% in quarterly terms and from 1.6% to 2.9% in annual terms. The tolar also rose against the euro in real terms (by 0.4% and 0.6%). Slovenian manufacturing's price competitiveness improved in the currency area of the Croatian kuna. After rising in nominal and real terms in the last quarter of 2003, the tolar fell against the **kuna** in real terms (measured by relative inflation) by 1.1% quarter on quarter and 0.5% year on year. In the **CEFTA-4** area, improvement in price competitiveness continued rapidly in quarterly terms (by 1%), while the worsening slowed down in annual terms (to 2.4%).

The **cost competitiveness of manufacturing** declined quarter on quarter due to the fall, or slow growth, seen in labour productivity, while the year-on-year drop was also due to the accelerated rise in the real compensation of employees. Productivity fell according to the seasonally adjusted data (down 0.4% after rising 3.2% in the last quarter of 2003), while productivity growth slowed down according to the trend rate and year-on-year figures (down from 2.2% to 0.3% and from 7.3% to 5.3%). While employment shrank, production activity fell by 0.8% over the last quarter of 2003 (after rising 3.2%) according to the seasonally adjusted data, the trend rate stagnated at the level of the previous quarter (after rising 2.2%), while year-on-year growth in production slowed down from 5.9% to 4.2%. The rise in the real compensation of employees slowed down markedly from 1.6% to 0.3% according to seasonally adjusted figures and marginally from 0.8% to 0.7% according to the trend rate. However, the real compensation of employees surged year on year from 1.5% to 4.6% partly due to the downward trend seen at the beginning of last year. As the exchange rate lagged less behind the domestic inflation, unit labour costs against the basket of currencies rose by 1.4% compared to the last quarter of 2003 (seas. adj. figures) or 1% according to the trend rate and by 3.1% compared to the same period last year.

Graph: **The tolar's real effective exchange rate***



Sources of data: OECD, WIIW, SORS, calculations by the IMAD. Note: * deflator CPI; ** including USA and Switzerland. A fall signifies an improvement in competitiveness.