

<b>Competitiveness</b>	Slovenian Economic Mirror	IMAD
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Price and costs competitiveness indicators, indices	Φ Q2 2003/ Φ Q1 2003		Φ Q2 2003/ Φ Q2 2002	Φ Q1-2 2003/ Φ Q1-2 2002
	Original	Seas. adj.	Original	
Tolar's effective exchange rate <sup>1</sup> - nominal	100.3	-	100.2	100.0
Real exchange rate – based on consumer prices	101.7	-	104.4	104.3
Real exchange rate – based on producer prices	101.5	-	101.9	101.3
<b>Unit labour costs and components</b>				
Unit labour costs, in nominal terms, in SIT <sup>2</sup>	105.7	102.3	106.1	104.5
In SIT in real terms <sup>3</sup>	105.1	101.3	103.4	101.7
In the basket of currencies <sup>4</sup>	106.1	102.3	106.4	104.5
Compensation of employees, in real terms <sup>5</sup>	108.1	101.2	102.4	101.2
Net wages and other remuneration	112.8	101.2	102.4	100.7
Tax burden <sup>6</sup>	100.8	100.0	100.0	100.0
Labour productivity	103.5	100.2	101.7	102.5
Consumer prices/nominal effective exchange rate <sup>7</sup>	101.9	101.4	105.9	105.9

Sources of data: SORS, AP, BS, OECD Main Economic Indicators. Calculations by the IMAD.

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

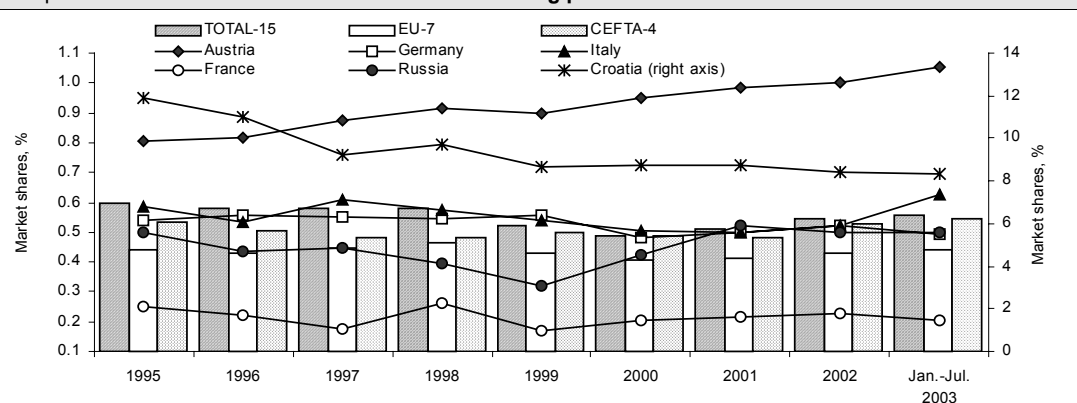
Slovenian manufacturing's price and cost competitiveness continued to worsen in the **second quarter**. Slovenia's market share in the main trading partners is increasing for the third year running, according to figures for the first six months, however, this increase is weaker than in 2002 and 2001.

The **tolar's** nominal appreciation against the **basket of OECD currencies** continued in the second quarter owing to the US dollar's fall. Appreciation amounted to 0.3% compared to the first quarter and 0.2% compared to the second quarter of 2002. The tolar depreciated slowly against the **euro** in nominal terms; it lost 0.7% of its value quarter on quarter (after depreciating 0.9% in the first quarter) and 3.3% year on year (3.5%). As price rises abroad slowed down significantly compared to domestic prices, the tolar appreciated sharply in real terms against the basket of OECD currencies. Measured by relative consumer prices, the tolar strengthened by 1.7% compared to the first quarter (0.8% against the euro) and by 4.4% compared to the second quarter of 2002 (0.9% against the euro). Measured by relative producer prices, the tolar's real appreciation was 1.5% quarter on quarter (0.4% against the euro) and 1.9% year on year (1.5% real depreciation against the euro). Price competitiveness also fell relative to Croatia and CEFTA-4 (Czech Republic, Hungary, Poland and Slovakia) compared to both the first quarter of this year and the second quarter of 2002. Measured by relative inflation, the tolar's quarterly rise against the **Croatian kuna** was 0.2%, while its annual rise was 6.2%; the respective rises against the **CEFTA-4 currencies** were 1.7% and 5.3%.

Given the tolar's nominal appreciation against the basket of OECD currencies, **Slovenian manufacturing's cost competitiveness** was undermined rapidly by modest labour productivity growth (see table), which was the result of a rapid fall in employment, while production contracted in both quarter-on-quarter and year-on-year terms (down 0.3%). Growth in the real compensation of employees was higher than productivity growth (by 1 percentage point and 0.7 of a percentage point).

The decelerated growth in Slovenia's **aggregate market share** (from an average of 0.544% in 2002 to 0.557% in the first six months) was chiefly due to falls in the market shares in France and Germany after they had expanded quickly in 2002. Slovenia's market share in the Italian and Austrian markets grew faster this year, while its share in the Russian market increased modestly after having shrunk in 2002. The market share in Croatia continued to shrink moderately (see graph).

Graph: **Slovenia's market shares in the 15 main trading partners**



Sources of data: SORS, WIW, calculations by the IMAD.