

REAL EFFECTIVE EXCHANGE RATES

Effective exchange rates are a summary measure of the changes in the exchange rates of a country vis-à-vis its trading partners. This indicator provides a broad interpretation of a country's price competitiveness, which is, in turn, a major determinant of the success of different countries in raising productivity, fostering innovation and improving living standards.

Definition

Nominal effective exchange rate indices are calculated by comparing, for each country, the change in its own exchange rate against the US dollar to a weighted average of changes in its competitors' exchange rates, also against the US dollar. Changes in the competitor exchange rates are weighted using a matrix measuring the importance of bilateral trade flows in the current year.

The indicator of real effective exchange rates shown here, relative consumer price indices, takes into account not only changes in market exchange rates but also variations in relative prices using, consumer prices.

The change in a country's relative consumer prices between two years is obtained by comparing the change in

the country's consumer price index converted into US dollars at market exchange rates to a weighted average of changes in its competitors' consumer price indices, also expressed in US dollars. The weighted average of competitors' prices is based on a matrix for the current year expressing the importance of bilateral trade.

Comparability

The index shown here is constructed using a common procedure that assures a high degree of comparability both across countries and over time.

A rise in the index represents a deterioration in that country's competitiveness. Real exchange rates are a major short-run determinant of any country's capacity to compete. Note that the index only shows changes in the international competitiveness of each country over time. Differences between countries in the levels of the indices have no significance.

Real effective exchange rates try to eliminate the weakness in the nominal effective exchange rates, namely that potential competitiveness gains from exchange rate depreciations can be eroded by local inflation, by correcting effective nominal exchange rates for differences in inflation rates (consumer prices). While consumer prices are readily available, this raises another issue, namely the assumption that the relative price of domestic tradable goods as compared with foreign tradables evolves in parallel to the relative consumer prices.

Overview

Real effective exchange rates continue to show a diverging pattern among OECD countries. The United States and the United Kingdom have both seen their international competitiveness increase significantly in the last ten years and in particular the United Kingdom between 2007 and 2009.

Germany and France have almost exactly the same pattern in their real effective exchange rates. From 2002 to 2009 their real effective exchange rates were more or less stable, however since 2009 both countries have seen their rates fall (implying an improvement in their competitiveness) with Germany recording the bigger fall. Since 2009, Italy has also seen its real effective exchange rate decreasing. A European country showing an interesting pattern is Switzerland, which saw a huge increase in its competitiveness from 2003 to 2007. Since the Lehman Brother bankruptcy in 2007 and up to 2011, the Swiss real effective exchange rate increased by more than 20%. The National Bank of Switzerland, by introducing a ceiling value for the exchange rate of the Swiss franc against the euro, ended the deterioration in competitiveness. Ireland has seen its competitiveness sharply improved since 2007 although it has been hit hardly by the global financial crisis.

Japan witnessed a large improvement in its international competitiveness from 2000 to 2007, followed by a drastic deterioration after the financial crisis. However, since 2009 growth in its real effective exchange rate has flattened out.

Sources

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Further information

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Methodological publications

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Online databases

- *OECD Economic Outlook: Statistics and Projections*.

Websites

- Sources & Methods of the OECD Economic Outlook, www.oecd.org/eco/sources-and-methods.



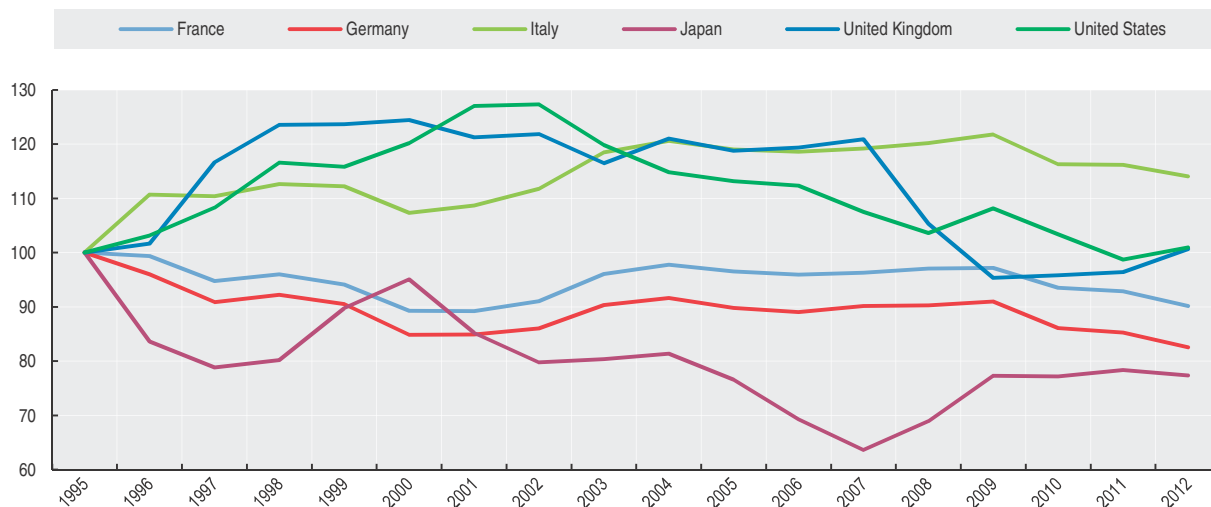
REAL EFFECTIVE EXCHANGE RATES

Real effective exchange rates
 Based on consumer price indices, 2010 = 100

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Australia	69.0	66.1	69.8	79.0	85.7	88.2	87.6	92.5	90.7	88.2	100.0	107.1	108.3
Austria	97.6	97.9	98.8	102.1	103.3	102.4	101.6	102.1	102.3	103.1	100.0	100.4	98.9
Belgium	91.3	92.2	93.8	98.5	100.5	100.4	100.0	100.7	103.5	103.5	100.0	101.0	99.0
Canada	75.3	73.8	73.4	81.3	85.5	90.6	95.7	98.8	96.2	92.0	100.0	101.5	101.1
Chile	89.1	83.8	88.9	82.7	88.5	94.3	98.7	97.1	98.5	94.8	100.0	101.2	103.8
Czech Republic	66.7	71.0	79.2	77.6	78.5	83.0	87.3	89.7	102.9	98.9	100.0	102.0	98.8
Denmark	91.0	92.3	94.7	100.0	101.0	99.8	99.4	100.1	101.7	104.4	100.0	99.5	96.9
Estonia	80.7	82.7	85.2	88.5	90.2	90.5	91.6	95.7	102.4	104.0	100.0	101.3	100.1
Finland	99.0	100.2	101.8	106.7	106.7	103.6	102.2	103.5	105.2	106.5	100.0	99.7	97.0
France	95.5	95.4	97.4	102.7	104.6	103.2	102.6	103.0	103.8	104.0	100.0	99.3	96.5
Germany	98.6	98.6	100.0	105.0	106.5	104.3	103.4	104.7	104.9	105.7	100.0	99.0	95.9
Greece	83.7	84.3	87.1	92.6	94.8	95.0	95.8	97.4	99.5	101.1	100.0	100.6	97.0
Hungary	72.4	78.3	86.6	89.0	95.0	96.6	91.9	102.4	105.4	99.2	100.0	99.8	96.8
Iceland	132.4	116.8	124.7	131.4	134.9	152.6	142.4	148.2	116.3	95.1	100.0	101.1	101.6
Ireland	81.5	84.4	89.2	98.0	100.6	100.3	102.0	107.0	112.1	107.9	100.0	100.2	95.7
Israel	113.9	113.0	102.5	96.6	90.1	87.7	87.1	87.7	97.8	95.5	100.0	101.0	96.1
Italy	92.3	93.4	96.1	101.9	103.7	102.3	102.0	102.5	103.4	104.7	100.0	99.9	98.1
Japan	123.2	110.4	103.4	104.1	105.4	99.2	89.8	82.4	89.3	100.1	100.0	101.5	100.2
Korea	106.6	100.4	105.5	106.9	108.5	121.3	129.8	128.2	104.6	92.7	100.0	100.3	99.9
Luxembourg	93.1	93.7	94.8	98.1	99.3	99.1	99.8	100.7	101.7	102.3	100.0	100.5	99.0
Mexico	115.3	123.5	124.0	110.0	105.3	109.2	109.1	107.7	105.6	92.9	100.0	100.0	97.2
Netherlands	92.4	95.0	98.3	103.9	104.8	103.4	102.1	102.5	103.0	104.8	100.0	99.5	97.0
New Zealand	75.4	74.3	81.7	93.6	100.7	106.2	98.6	105.4	98.4	92.3	100.0	104.1	106.8
Norway	88.0	91.1	99.1	98.9	94.8	98.1	97.6	97.7	98.2	96.1	100.0	100.4	99.8
Poland	92.0	103.1	98.8	88.3	87.5	97.3	99.1	102.4	111.7	94.8	100.0	98.3	95.7
Portugal	92.4	94.9	97.6	101.8	102.9	102.0	102.6	103.3	103.4	102.8	100.0	100.8	99.7
Slovak Republic	59.2	59.7	60.9	69.1	75.8	77.4	81.4	89.8	97.5	104.6	100.0	100.9	100.6
Slovenia	93.7	93.6	95.5	98.9	99.1	98.1	98.2	99.7	102.0	103.5	100.0	99.0	97.3
Spain	85.7	87.7	90.7	95.5	97.6	98.2	99.5	101.0	103.2	103.2	100.0	100.5	98.4
Sweden	109.5	100.4	103.6	110.4	111.0	106.2	105.6	106.8	104.5	94.5	100.0	105.8	105.4
Switzerland	92.2	94.3	98.2	98.8	97.9	95.8	93.0	88.8	92.5	96.4	100.0	109.8	105.4
Turkey	82.4	67.1	73.4	77.8	80.5	89.2	88.4	95.7	96.8	91.1	100.0	88.5	91.8
United Kingdom	129.9	126.6	127.2	121.6	126.3	124.0	124.6	126.2	109.9	99.5	100.0	100.6	105.0
United States	116.3	122.9	123.2	115.9	111.1	109.5	108.7	104.0	100.2	104.6	100.0	95.5	97.6
Brazil	62.6	55.5	55.7	53.5	55.8	69.2	77.5	83.5	87.8	87.9	100.0	104.8	94.8
China	93.8	98.3	96.2	89.3	86.6	85.5	86.6	89.4	97.2	101.6	100.0	102.5	108.8
India	84.6	85.6	85.0	83.3	82.4	84.9	83.9	90.4	86.1	88.6	100.0	98.8	94.0
Indonesia	71.2	67.4	81.7	87.5	83.6	82.4	95.0	94.1	89.9	89.3	100.0	100.0	96.0
Russian Federation	53.9	64.2	66.6	68.3	73.9	81.7	90.1	94.8	101.3	92.3	100.0	103.7	104.1
South Africa	95.5	84.2	73.5	96.6	103.5	103.7	98.1	91.3	80.0	87.3	100.0	98.5	92.5

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Real effective exchange rates based on consumer price indices

1995 = 100


 StatLink <http://dx.doi.org/10.1787/888933025442>



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