

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 section shows one indicator of real effective exchange rates, namely changes in consumer good prices of a given country relative to those of its competitors. This indicator provides a broad interpretation of a country's price competitiveness. This competitiveness is, in turn, a major determinant of the success of different countries in raising productivity, fostering innovation and improving living standards.

There are several ways of looking at exchange rates as a measure of price competitiveness. One indicator is the nominal effective exchange rate; other things being equal, a nominal depreciation of any country's currency leads, in the short run, to a decrease in the relative price of its products internationally. Potential competitiveness gains derived from nominal exchange rate depreciations however, can be eroded by local inflation.

Real effective exchange rates try to eliminate this factor by correcting effective nominal exchange rates for differences in inflation rates. In the index at hand, these are measured as consumer price changes. While consumer price indexes 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. In an attempt to remove these differences, relative production costs can be used; these are generally measured by trade weighted relative unit labour costs in the manufacturing sector.

Definition

Nominal effective exchange rate indices are calculated by comparing, for each country, the change in its own

Overview

The last ten years have seen a number of patterns emerge among OECD countries. Germany and France have seen little variation in their real effective exchange rates and are now only just above values recorded 10 years ago. After a rise in real effective exchange rates in the first half of the decade, both have seen declines (an increase in competitiveness) in the last few years.

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 since 2007. The same cannot be said for other countries, for example Italy that has seen its international competitiveness deteriorate since 2001. Finally, Japan which from 2000 to 2007 saw a large improvement in its international competitiveness is now back at the same levels as 10 years ago.

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.

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.

Comparability

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

Sources

- OECD (2012), *OECD Economic Outlook*, OECD Publishing.

Further information

Analytical publications

- OECD (2012), *OECD Economic Surveys*, OECD Publishing.

Statistical publications

- OECD (2012), *Main Economic Indicators*, OECD Publishing.

Methodological publications

- Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness", *OECD Economics Department Working Papers*, No. 195.
- Durand, M., J. Simon and C. Webb (1992), "OECD's Indicators of International Trade and Competitiveness", *OECD Economics Department Working Papers*, No. 120.

Online databases

- OECD Economic Outlook: *Statistics and Projections*.

Websites

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



Real effective exchange rates

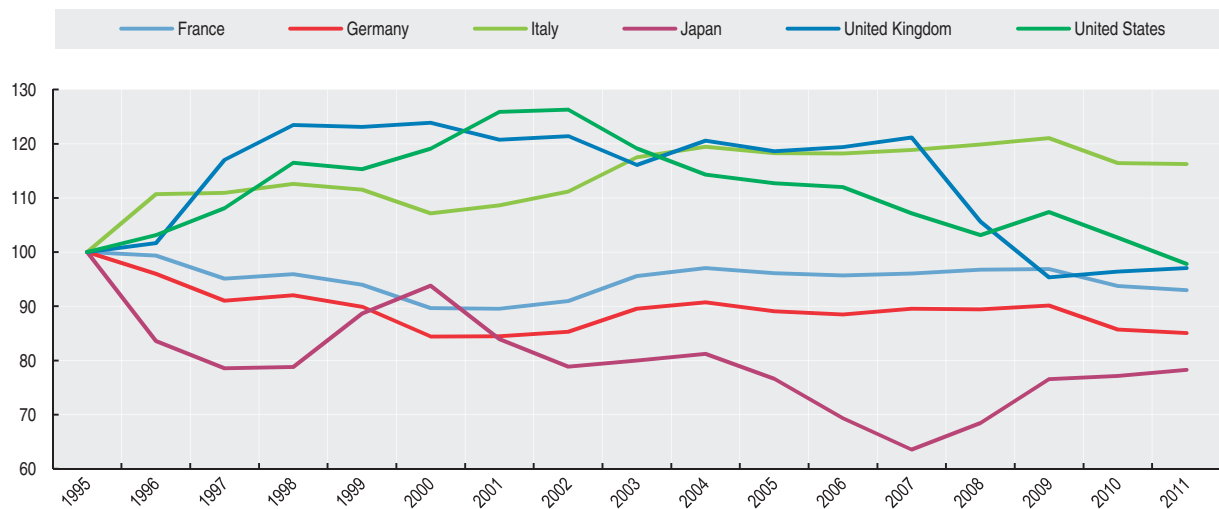
Based on consumer price indices, 2005 = 100

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	81.5	77.7	74.7	79.1	89.5	97.0	100.0	99.9	105.9	103.8	100.6	114.9	123.2
Austria	98.4	95.9	96.1	96.6	99.5	100.5	100.0	99.4	99.8	100.0	100.6	98.2	98.6
Belgium	94.8	91.1	92.0	93.5	98.0	99.8	100.0	99.7	100.5	103.4	103.4	100.4	101.3
Canada	83.1	83.6	81.1	80.4	89.4	94.2	100.0	105.6	109.6	107.3	101.9	111.8	114.3
Chile	105.5	104.1	95.7	94.7	88.6	94.7	100.0	104.0	102.1	103.7	100.0	106.4	107.7
Czech Republic	78.9	80.4	85.9	95.5	93.5	94.3	100.0	105.5	108.3	123.9	118.9	120.9	123.2
Denmark	95.6	92.1	93.5	95.4	100.3	101.0	100.0	99.7	100.2	101.8	104.9	101.2	100.4
Estonia	90.7	88.5	91.2	93.7	97.0	99.3	100.0	101.7	106.4	113.9	116.3	112.4	113.6
Finland	100.3	96.0	97.3	98.5	102.7	102.6	100.0	99.0	100.3	102.1	103.0	97.1	96.7
France	97.8	93.3	93.2	94.7	99.4	101.0	100.0	99.6	99.9	100.7	100.8	97.5	96.8
Germany	100.9	94.8	94.8	95.8	100.5	101.9	100.0	99.4	100.5	100.4	101.2	96.2	95.5
Greece	94.2	88.0	89.0	91.7	97.3	99.6	100.0	100.9	102.6	104.8	106.1	105.5	106.2
Hungary	74.2	75.1	81.3	89.7	91.9	98.0	100.0	95.4	106.3	109.0	102.4	104.1	103.8
Iceland	82.7	85.9	76.3	81.6	85.8	88.1	100.0	93.7	97.5	76.4	62.0	66.0	66.8
Ireland	83.7	80.6	83.7	88.4	97.6	100.0	100.0	101.8	106.9	112.7	108.8	101.4	101.3
Israel	120.9	128.6	127.6	115.6	109.4	102.5	100.0	99.7	100.6	112.5	109.5	114.9	116.3
Italy	94.3	90.6	91.9	94.0	99.4	101.0	100.0	100.0	100.5	101.4	102.4	98.4	98.3
Japan	115.7	122.5	109.6	103.0	104.4	106.0	100.0	90.5	82.9	89.4	100.0	100.7	102.2
Korea	80.2	86.4	81.7	86.2	87.5	89.0	100.0	107.8	107.1	86.8	76.0	82.4	82.4
Luxembourg	95.5	93.5	94.1	95.4	98.9	100.2	100.0	100.9	102.3	103.1	102.9	101.4	101.9
Mexico	96.7	105.1	112.1	112.5	100.4	96.4	100.0	100.0	99.1	97.4	85.4	92.4	92.5
Netherlands	91.9	86.9	89.5	93.1	99.7	101.3	100.0	99.0	99.8	100.2	101.2	96.4	95.8
New Zealand	78.9	71.6	70.7	77.5	88.3	94.6	100.0	93.2	99.7	93.1	86.7	93.7	97.0
Norway	92.1	91.0	94.5	102.0	100.5	96.0	100.0	99.9	99.7	99.7	98.1	102.7	102.9
Poland	85.4	94.0	106.2	101.5	90.2	89.4	100.0	102.2	105.7	115.4	97.6	103.7	102.0
Portugal	93.6	91.7	94.0	96.2	99.9	100.7	100.0	100.6	101.2	101.2	100.3	97.7	98.4
Slovak Republic	69.7	76.9	77.9	78.9	89.1	97.6	100.0	105.4	116.2	125.8	135.2	129.5	130.6
Slovenia	97.3	94.1	93.9	96.3	100.9	101.4	100.0	99.8	101.6	104.2	106.0	102.1	101.1
Spain	90.1	88.1	90.1	92.5	97.2	99.3	100.0	101.5	103.0	105.1	105.1	102.2	102.6
Sweden	105.7	104.2	95.6	98.2	104.0	104.2	100.0	99.6	100.5	98.2	88.8	95.0	100.5
Switzerland	99.1	96.2	98.5	102.3	102.7	101.8	100.0	97.4	93.2	97.1	101.1	105.8	115.9
Turkey	82.8	92.4	75.4	82.3	86.9	89.9	100.0	99.6	108.1	109.7	102.5	113.3	100.1
United Kingdom	103.8	104.4	101.8	102.3	97.9	101.6	100.0	100.6	102.1	89.0	80.4	81.3	81.8
United States	102.3	105.6	111.6	112.0	105.7	101.4	100.0	99.3	95.1	91.5	95.3	91.1	86.8
Brazil	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..	..
Russian Federation	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	..	..	..	..	..	..	..	..	..	..	..	..	..

StatLink <http://dx.doi.org/10.1787/888932707838>

Real effective exchange rates based on consumer price indices

1995 = 100



StatLink <http://dx.doi.org/10.1787/888932707857>





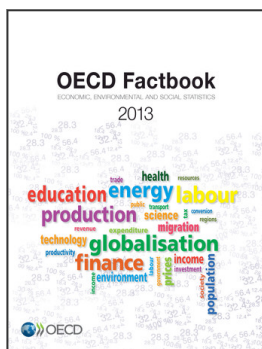
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