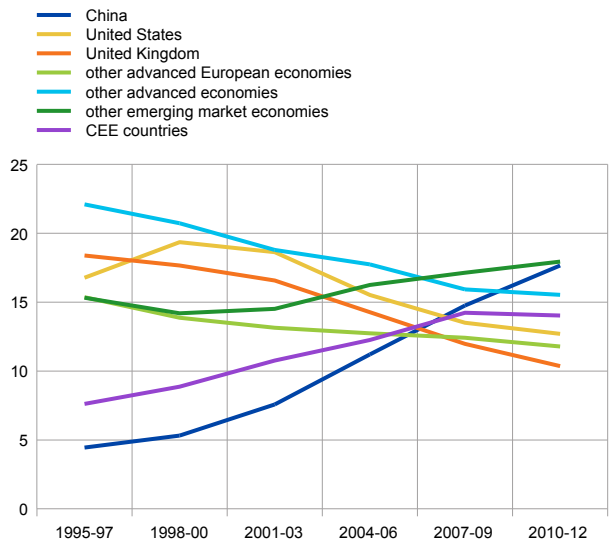
Box 5
Revised trade weights for the effective exchange rates of the euro reflect the increasing importance of emerging market economies

The ECB has updated recently the trade weights underlying the calculation of the effective exchange rates (EERs) of the euro. This is carried out every three years to capture medium-term changes in the pattern of euro area manufacturing trade in a timely fashion.[1] In the most recent exercise, carried out in August 2015, average trade weights for the three-year period from 2010 to 2012 were added to the series, while weights for previous time periods (from 1995 to 2009) were updated to reflect revised trade data.

Chart A

Evolution of trade weights of the EER-38 group of trading partners

(percentages)



Source: ECB.
Notes: The item "other advanced European economies" comprises Denmark, Norway, Sweden and Switzerland; "other advanced economies" comprises Australia, Canada, Hong Kong, Iceland, Israel, Japan, Korea, New Zealand, Singapore and Taiwan; "CEE countries" comprises Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania; and "other emerging market economies" comprises Algeria, Argentina, Brazil, Chile, India, Indonesia, Malaysia, Mexico, Morocco, Philippines, South Africa, Russia, Thailand, Turkey and Venezuela.

The updated and revised series shows a continued rise in the importance of emerging market economies, in particular China, as trading partners of the euro area (see Chart A and the table). The weight of China in a basket of 38 of the euro area's most important trading partners (the EER-38 group), which stood at around 4% in the period 1995-97, rose further from about 15% in the period 2007-09 to around 18% in the period 2010-12. The importance of other emerging economies as trading partners of the euro area also increased – albeit at a more moderate pace – with Turkey, Russia and Indonesia recording the largest gains. Conversely, the trade weights of advanced economies in the EER-38 group declined over the same period. In 1995 the two largest trading partners of the euro area were the United Kingdom and the United States, with trade weights of around 18% and 17% respectively. In 2012 their shares had declined to about 10% and 13% respectively.

The importance of central and eastern Europe (CEE) in euro area trade has also increased, in line with growing economic integration in Europe. Since the period 1995-97 the combined weight of CEE

[1] For an overview of the methodology used to calculate the euro EERs, see Schmitz, M., De Clercq, M., Fidora, M., Lauro, B. and Pinheiro, C., "Revisiting the effective exchange rates of the euro", *Occasional Paper Series*, No 134, ECB, 2012.

Trade weights for the EER-38 group of trading partners

(percentages)

Country	1995-97	1998-00	2001-03	2004-06	2007-09	2010-12	Change 2010-12 versus 1995-97
China	4.4	5.3	7.6	11.2	14.8	17.7	13.2
United States	16.8	19.4	18.7	15.5	13.5	12.7	-4.1
United Kingdom	18.4	17.7	16.6	14.3	12.0	10.3	-8.1
Switzerland	6.7	6.0	5.8	5.4	5.3	5.5	-1.2
Japan	9.6	8.8	7.6	6.7	5.7	5.3	-4.3
Poland	2.4	2.8	3.3	4.0	5.0	5.1	2.7
Czech Republic	2.2	2.4	3.0	3.4	4.1	4.1	1.9
Sweden	4.8	4.4	3.9	4.1	3.9	3.6	-1.2
Russia	2.5	1.8	2.2	3.0	3.5	3.5	1.0
Turkey	2.2	2.2	2.3	3.0	3.1	3.3	1.1
Korea	2.9	2.7	2.8	3.2	3.2	3.2	0.3
Indonesia	1.5	1.3	1.5	1.8	2.1	2.4	1.0
Hungary	1.5	2.2	2.5	2.6	2.5	2.3	0.7
Denmark	2.6	2.3	2.3	2.2	2.1	1.7	-0.9
Romania	0.7	0.8	1.1	1.4	1.6	1.7	1.0
Taiwan	2.3	2.4	2.1	1.8	1.5	1.5	-0.8
Brazil	1.5	1.4	1.2	1.2	1.4	1.4	-0.1
Hong Kong	2.0	1.7	1.5	1.5	1.3	1.4	-0.6
Mexico	0.9	1.2	1.3	1.2	1.2	1.3	0.5
Singapore	1.8	1.6	1.4	1.4	1.2	1.3	-0.6
Canada	1.5	1.6	1.6	1.4	1.3	1.2	-0.3
Thailand	1.2	1.0	1.0	1.0	1.1	1.1	-0.1
Malaysia	1.2	1.2	1.2	1.1	1.0	1.0	-0.2
South Africa	0.9	0.9	0.9	1.0	0.9	1.0	0.0
Norway	1.3	1.2	1.0	1.1	1.1	1.0	-0.3
Australia	0.8	0.7	0.7	0.7	0.7	0.8	0.0
India	1.0	0.8	0.7	0.6	0.6	0.7	-0.3
Israel	1.1	1.0	0.9	0.7	0.7	0.7	-0.4
Morocco	0.6	0.6	0.6	0.6	0.6	0.6	0.0
Bulgaria	0.3	0.3	0.4	0.4	0.5	0.5	0.2
Chile	0.3	0.3	0.3	0.4	0.4	0.4	0.1
Algeria	0.3	0.3	0.3	0.3	0.4	0.4	0.1
Argentina	0.6	0.5	0.3	0.3	0.3	0.4	-0.2
Croatia	0.5	0.4	0.5	0.5	0.5	0.4	-0.2
Philippines	0.4	0.5	0.5	0.4	0.3	0.3	-0.1
Venezuela	0.2	0.2	0.2	0.2	0.2	0.2	-0.1
New Zealand	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Iceland	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**

Source: ECB
Note: Countries are listed in the order of their trade weights for the period 2010-12.

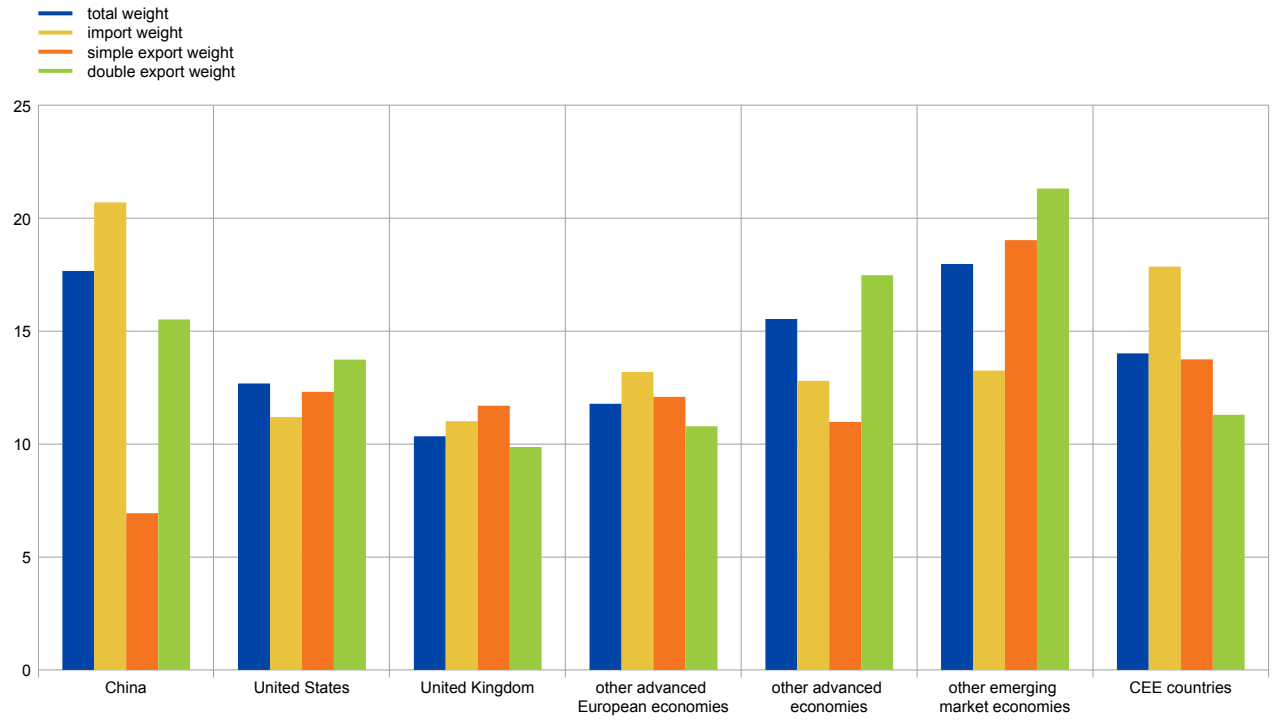
economies has risen above that of, for example, the United States and the United Kingdom, although it remained stable in the 2010-12 reference period, at 14% of the EER-38 group, reflecting the downturn in intra-European trade over that period. In particular, CEE countries had a weight of 18% in euro area manufacturing imports, which was second only to that of China and reflects their crucial role in the pan-European contribution to global value chains.

China's position as the euro area's largest trading partner mainly results from its importance in imports and third-market competition (see Chart B). China has become the main source of euro area manufacturing imports, with a share of 21% over the period 2010-12. On the export side, to also account for competition faced by euro area companies in foreign markets from exporters based in third countries,

Chart B

Comparison of trade weights of the EER-38 group of trading partners, 2010-12

(percentages)



Source: ECB.
Notes: The simple export weights are the shares of each country or group of countries in euro area manufacturing exports. Double export weights capture the competition faced by euro area exporters in foreign markets from domestic producers and exporters from third countries.

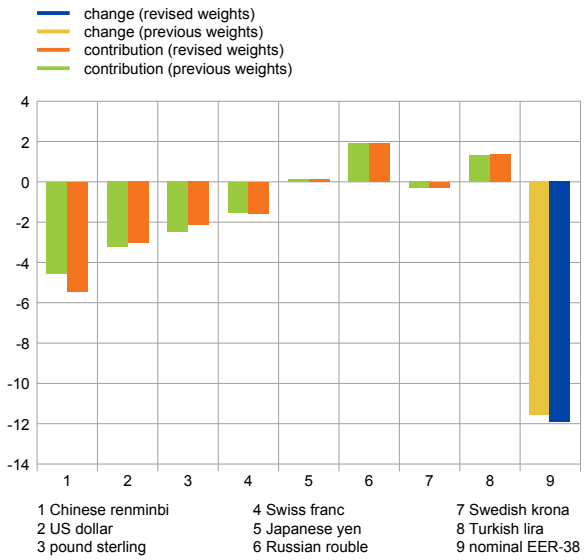
the overall trade weights are adjusted through “double-weighting”. In particular, owing to the importance of China, as well as some other advanced and emerging market economies, as competitors of euro area exporters, this adjustment results in a significant increase in their trade weights beyond the levels implied by direct export linkages. In the case of China, the “double” export weight amounted to 16%, compared with a simple export weight of 7%, over the period 2010-12.

Using the updated weighting scheme, it emerges that the depreciation of the euro – in both nominal and real effective terms – since 2010 was slightly more pronounced than previously indicated. Between the beginning of 2010 and the end of July 2015 the updated daily nominal EER of the euro vis-à-vis the EER-38 group of trading partners depreciated by 12.0%, compared with 11.6% based on the previous indicator. The revision was primarily due to the increased trade weight of the Chinese renminbi (see Chart C). The improvement in euro area price competitiveness since early 2010, as reflected in the real depreciation of the euro, was also slightly more sizeable according to the updated indicators. From the beginning of 2010 to June 2015 the updated CPI-deflated real EER-38 declined by 16.1%, whereas the previous index decreased by 15.3% (see Chart D).

Chart C

Contributions to the change in the nominal EER-38 since 2010

(percentages; percentage points)

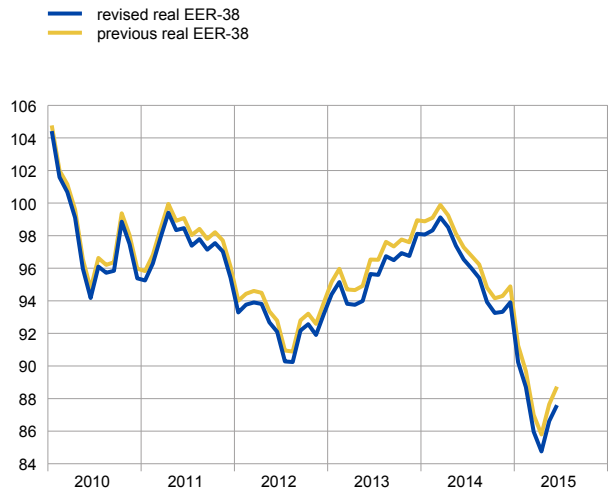


Source: ECB.
Notes: A negative value indicates a depreciation of the euro, while a positive value indicates an appreciation of the single currency. The chart covers the period from 1 January 2010 to 31 July 2015.

Chart D

Previous and revised real EER-38

(CPI-deflated; index: Q1 1999 = 100)



Source: ECB.
Note: A downward movement indicates a depreciation of the euro, while an upward movement indicates an appreciation of the single currency.