

Box 5**Adjustments in the computation of the euro effective exchange rate indices following the adoption of the euro by Greece**

Up until 31 December 2000 the effective exchange rate (EER) indices of the euro were calculated against both a narrow and a broad group of countries, comprising 13 and 39 trading partners of the euro area respectively, including Greece. As from 1 January 2001, following the adoption of the euro by Greece, the euro EER series have been modified to reflect the enlargement of the euro area.

Greece in particular has been excluded from both the narrow and the broad group of the euro area's trading partners. Consequently, starting on 1 January 2001, these groups are composed of 12 and 38 countries

Weights in the ECB's narrow and broad effective exchange rate indices

(as percentages)

Partner countries	Overall weights in the narrow EER index		Overall weights in the broad EER index	
	as from 2001	up to 2000	as from 2001	up to 2000
Broad group			100.00	100.00
Narrow group	100.00	100.00	69.31	69.69
<i>Australia</i>	1.13	1.12	0.80	0.79
<i>Canada</i>	1.96	1.93	1.46	1.45
<i>Denmark</i>	3.50	3.45	2.58	2.55
<i>Greece</i>	-	1.47	-	1.10
<i>Hong Kong SAR</i>	3.90	3.83	2.06	2.03
<i>Japan</i>	15.01	14.78	10.10	9.98
<i>Norway</i>	1.70	1.68	1.33	1.32
<i>Singapore</i>	3.50	3.44	2.06	2.04
<i>South Korea</i>	4.91	4.80	2.82	2.76
<i>Sweden</i>	6.23	6.14	4.35	4.31
<i>Switzerland</i>	8.84	8.71	6.51	6.44
<i>United Kingdom</i>	24.26	23.92	18.03	17.85
<i>United States</i>	25.05	24.72	17.21	17.07
Additional countries in the broad group			30.69	30.31
<i>Algeria</i>			0.32	0.32
<i>Argentina</i>			0.53	0.53
<i>Brazil</i>			1.44	1.43
<i>China</i>			4.05	3.99
<i>Croatia</i>			0.50	0.49
<i>Cyprus</i>			0.12	0.10
<i>Czech Republic</i>			1.85	1.83
<i>Estonia</i>			0.16	0.15
<i>Hungary</i>			1.54	1.52
<i>India</i>			1.47	1.46
<i>Indonesia</i>			0.92	0.91
<i>Israel</i>			1.10	1.08
<i>Malaysia</i>			1.31	1.30
<i>Mexico</i>			0.83	0.82
<i>Morocco</i>			0.63	0.63
<i>New Zealand</i>			0.20	0.20
<i>Philippines</i>			0.42	0.42
<i>Poland</i>			2.31	2.29
<i>Romania</i>			0.69	0.68
<i>Russia</i>			2.38	2.33
<i>Slovakia</i>			0.76	0.76
<i>Slovenia</i>			0.82	0.81
<i>South Africa</i>			0.90	0.89
<i>Taiwan</i>			2.15	2.13
<i>Thailand</i>			1.22	1.20
<i>Turkey</i>			2.07	2.04

Sources: Eurostat (Comext) and ECB calculations.

respectively, while the associated overall trade weights (which are still based on 1995-97 manufacturing trade) have been adjusted accordingly. The changes made to the overall trade weights underpinning the computation of the EER indices as a result of the inclusion of Greece in the euro area are very small, as shown in the table below. The resulting new nominal and real EER indicators, which reflect the enlarged composition of the euro area, have been chain-linked to the old EER series (see Chart 27 in the main text).

For analytical purposes, “historical” nominal and real EER series – treating Greece as a euro area country prior to January 2001 – have also been constructed. In this case, the new weights are applied for the whole of the period over which the euro EER indices are calculated. In this context, a “theoretical” euro exchange rate has been computed in which the Greek drachma is treated as an EMU legacy currency, while accounting for its actual evolution against the euro within ERM II in the two-year period preceding Greece’s entry into the euro area. Euro area-wide deflators used for this purpose include Greek cost or price developments, again prior to Greece’s adoption of the single currency.

The new chain-linked EER series are shown in Table 10 in the “Euro area statistics” section of the Monthly Bulletin. Data for January 2001 were first published in the February 2001 issue of the Monthly Bulletin. The associated “historical” EER indices including Greece appear in Table C of the special section of the Monthly Bulletin entitled “Past data for selected economic indicators for the euro area plus Greece”.