LKR Competitiveness analysis

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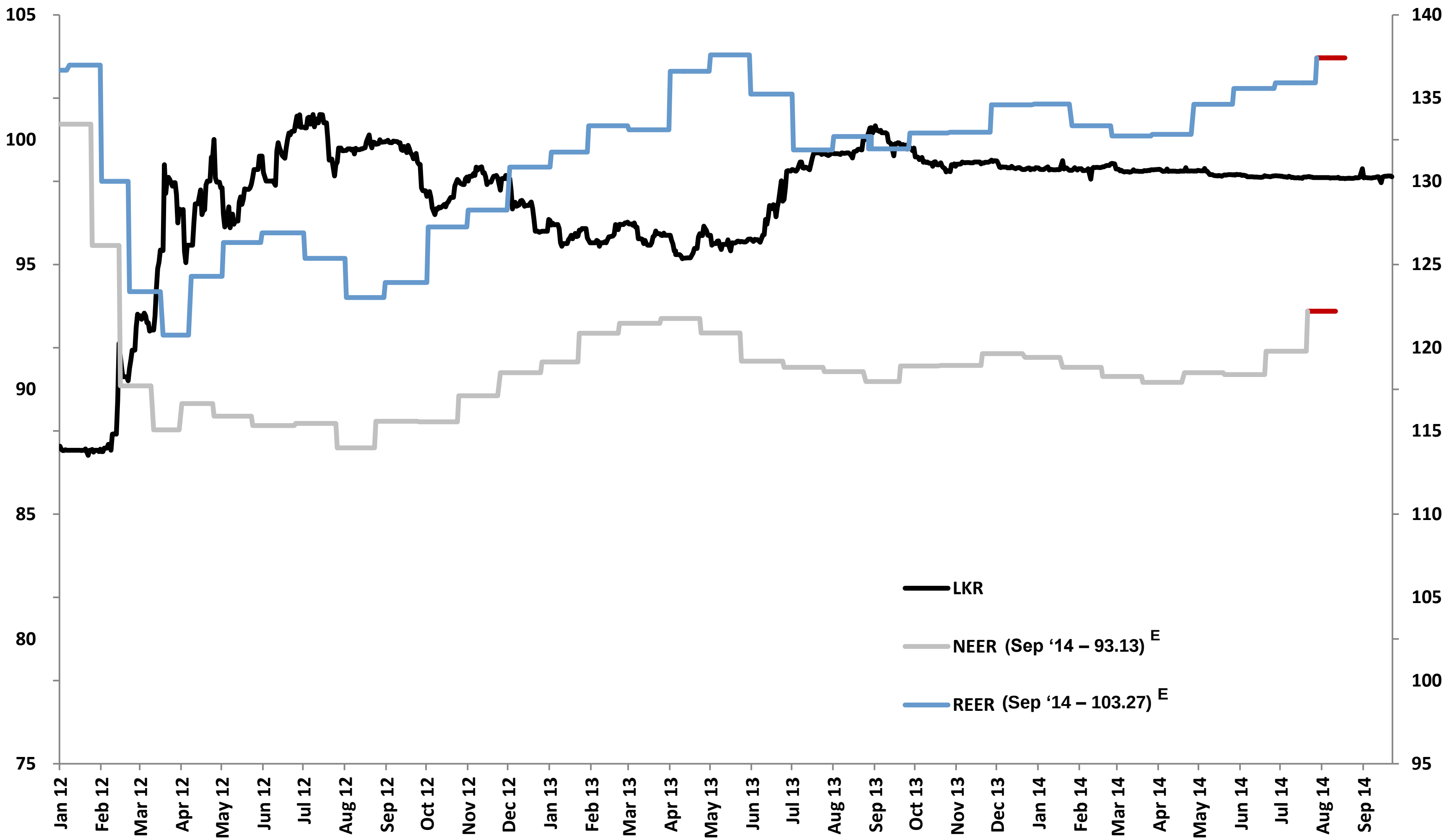
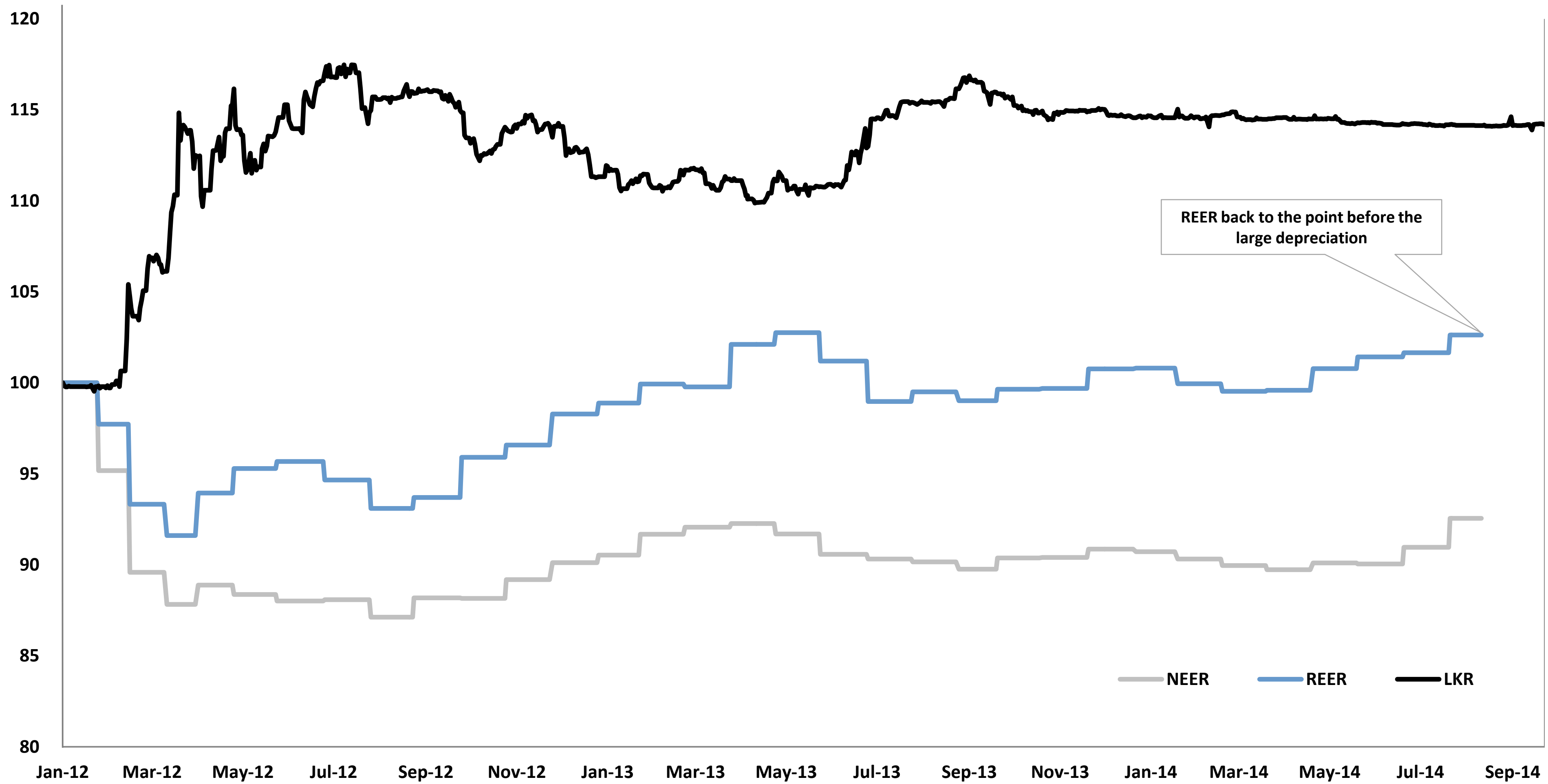
LKR losing competitiveness ….



E – estimated figures

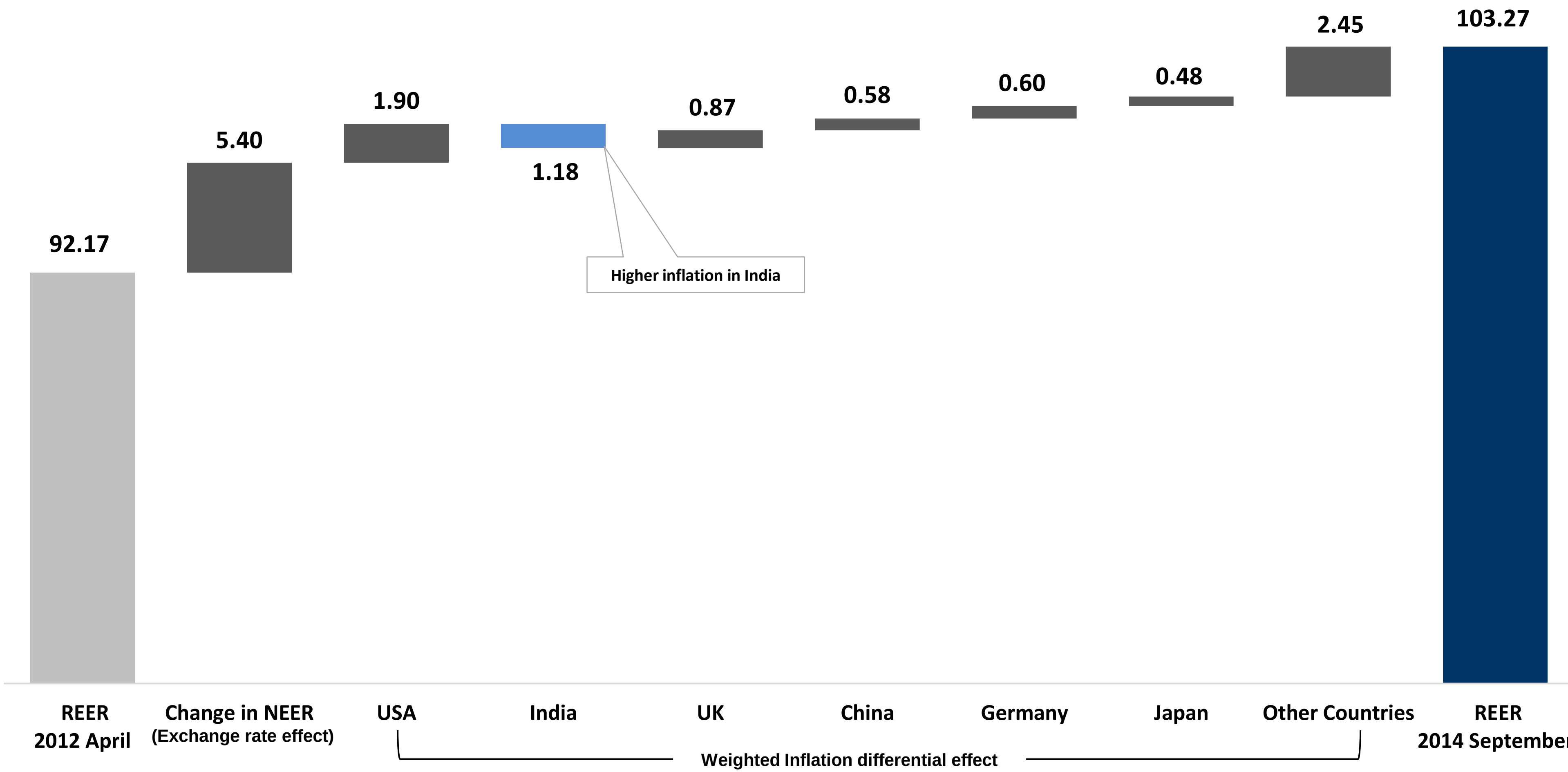
Source: forexpros.com, Central Bank of Sri Lanka, JBS Research

REER back to the level in Jan 2012 before the large fall in the currency...



Source: forexpros.com, Central Bank of Sri Lanka, JBS Research

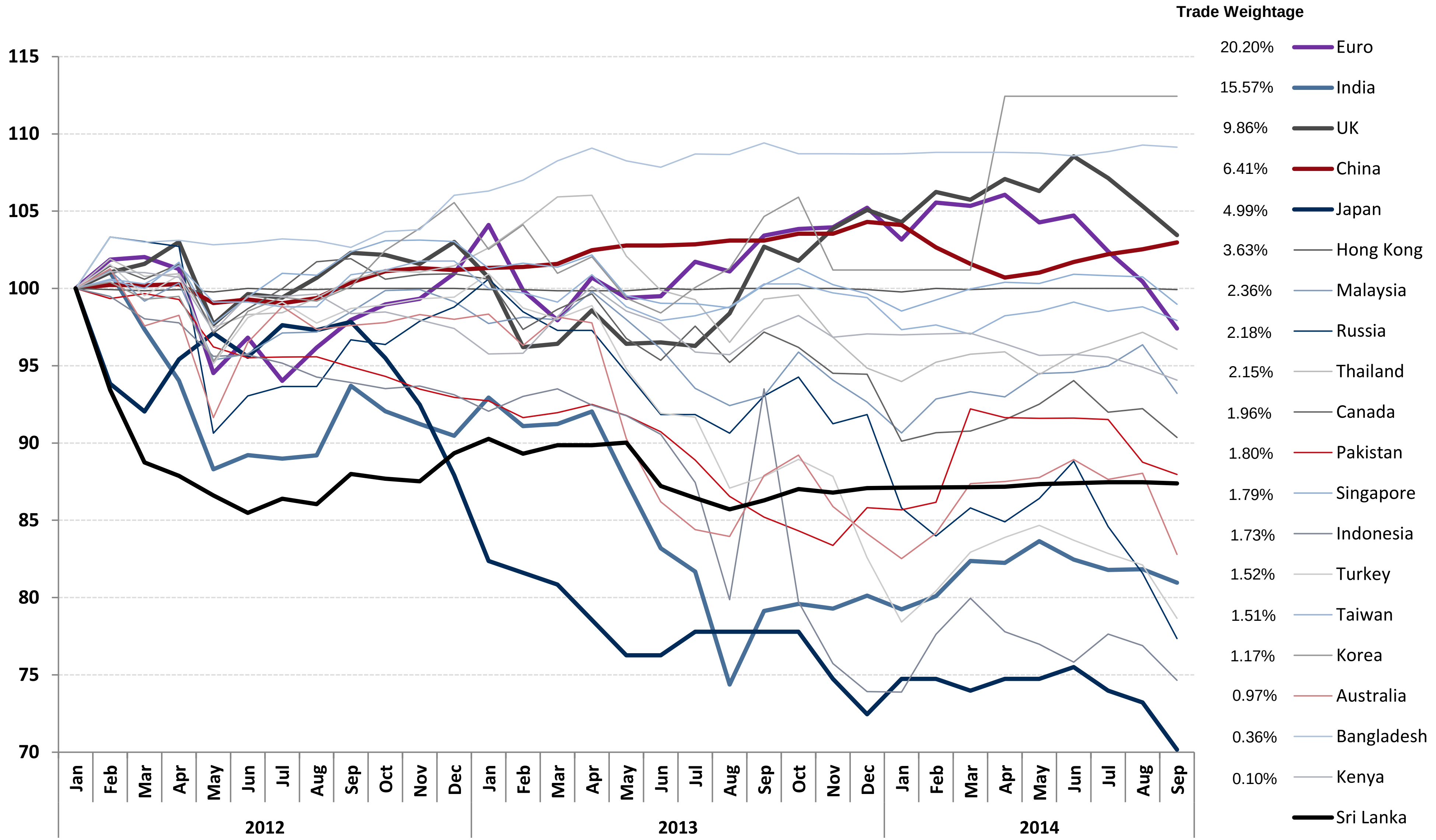
Loss in competitiveness is on the back of higher relative inflation



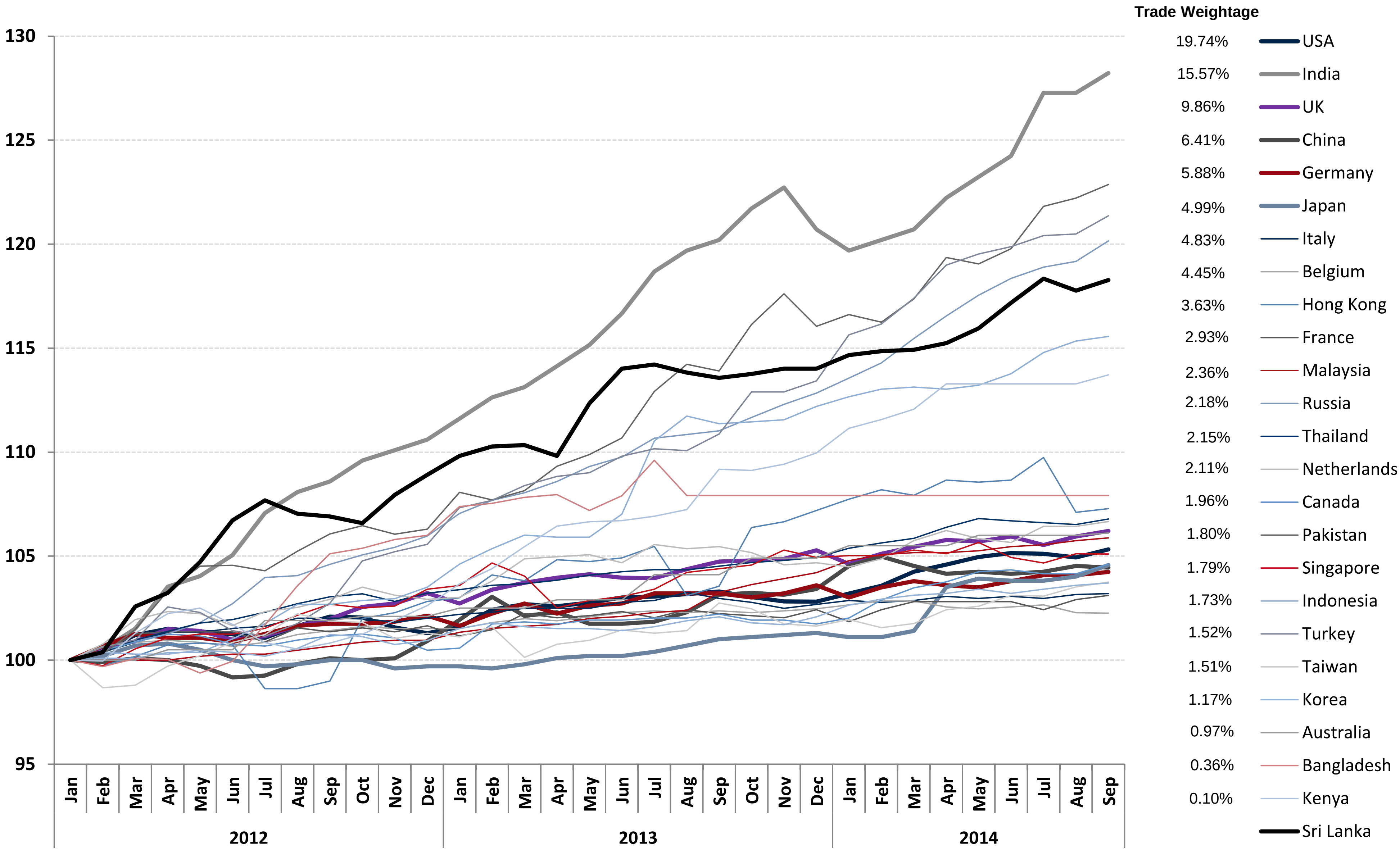
1 Logarithmic analysis scaled proportionately

Source: CBSL, JBS Research Analysis

Monthly exchange rate movement for 24 countries



Monthly CPIs for 24 countries



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NEER

NEER is the weighted geometric average of the bilateral nominal exchange rates of the domestic currency in terms of a basket of foreign currencies.

$$\text{NEER} = \prod_{i=1}^{24} \left[\left(\frac{e}{e_i}\right)\right]^{w_i}$$

where **e** : Exchange rate of the Sri Lankan rupee against the US dollar (US dollars per rupee in indexed form)

e_i : Exchange rates of currency ***i*** against the US dollar (US dollars per currency ***i*** in indexed form)

w_i : Weights attached to the country/currency ***i*** in the index

REER

REER is the inflation adjusted NEER.

$$\text{REER} = \prod_{i=1}^{24} \left[\left(\frac{e}{e_i}\right)\left(\frac{P}{P_i}\right)\right]^{w_i}$$

where **P** : Consumer Price Index (CPI) of Sri Lanka compared to the base period index

P_i : CPI of country ***i***

Logarithmic Transformation of REER

$$log_{10}(REER) = \log_{10}(NEER) + \sum_{i=1}^{24} wi * log_{10}(\mathrm{P/Pi})$$

References

Central Bank of Sri Lanka, Annual Report (2010), *External sector developments and policies*, *page 126*

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