

[Download](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Cote-Barón, Juan Pablo

Cristiano-Botia, Deicy Johana

Hernández-Montes, María Alejandra

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date:

Wednesday, 29 December 2021

Abstract

This paper presents a new real exchange rate index that includes weights accounting for both direct trade links and third-market competition effects. We use trade data at 3 digit Standard International Trade Classification (SITC) level for a set of 39 countries annually updated. We find important differences between this new index and the one weighted only by bilateral trade, which is currently calculated and published by the Central Bank of Colombia. In particular, the weights for the USA and China are significantly lower in the new index, while by groups of countries, Latin America and the Caribbean have the highest weight. The new index shows a larger depreciation during 2007-2021. We also construct indexes weighted by each component of the total weight of the new index, and we find that the index based on third-market competition differs considerably from the current competition index, suggesting a lower competitiveness of Colombia.