### GOVERNMENT OF INDIA MINISTRY OF FINANCE DEPARTMENT OF ECONOMIC AFFAIRS LOK SABHA UNSTARRED QUESTION NO. 2262 TO BE ANSWERED ON MAY 06, 2016

## REER OF RUPEE

#### 2262. SHRI RAMSINH RATHWA:

Will the Minister of FINANCE be pleased to state:

- (a) the method and reason behind calculating the Real Effective Exchange Rate (REER) of the Indian Rupee;
- (b) the weightage assigned to various currencies while calculating the index along with the reasons therefor; and
- (c) the details of REER of the Indian Rupee between 2004-2015?

#### ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a) Real Effective Exchange Rate (REER) is defined as a weighted geometric average of nominal exchange rates of the home currency in terms of the foreign currencies adjusted for relative price differentials. With the launch of new Consumer Price Index (CPI), measuring changes in prices of goods and services consumed by rural and urban households, CPI based REER index is computed for India by the Reserve Bank of India (RBI). The CPI based index of REER is the most frequently used indicator of competitiveness across countries. REER index constructed using CPI for both India and trade partner countries would ensure a higher degree of comparability of former's international competitiveness vis-à-vis trading partner countries. REER has mainly three parameters (i) exchange rate of respective countries, (ii) trade weights and (iii) relative prices. REER index for Indian rupee is computed based on six currency as well as thirty-six currency basket.

(b) The RBI calculates CPI based REER index using 3-year moving average trade weights with a view to suitably reflect the dynamically changing pattern of India's foreign trade with its major trading partner countries. In order to calculate the weights, the geometric average of India's bilateral trade (exports plus imports) with countries/regions represented by the six and thirty six currencies during the preceding three years has been taken. The weight of each country/currency in the six and thirty-six currency basket is given in Annex-I

(c) The details of REER indices (6-currencies and 36 currencies- trade weights) of the Indian rupee since 2004-05 are given in the table below.

Table : Indices of REER of the Indian Rupee					
(Base Year: 2004-05=100)					
Year	6-currency basket	36-currency basket			
2004-05	100.0	100.0			
2005-06	104.4	102.4			
2006-07	103.8	100.8			
2007-08	113.4	109.2			
2008-09	103.9	99.6			
2009-10	110.7	103.9			
2010-11	124.5	112.7			
2011-12	121.2	110.3			
2012-13	117.2	105.6			
2013-14	112.8	103.3			
2014-15	119.9	109.0			
2015-16 (P)	123.5	112.1			

P: Provisional. Source: RBI

# Annex-I

CI Mo	26 countries	Watalet	6 Countries	Waight
51.INO. 1	So countries	weight	o Countries	weight
	Euro area	0.120	Euro	0.299
2		0.103		0.202
3		0.099	USA Usas Kana	0.240
4		0.097	Hong Kong	0.076
5	Saudi Arabia	0.068	Japan	0.064
6	Switzerland	0.039	UK	0.058
8	Hong Kong	0.031		
9	Indonesia	0.030		
7	Singapore	0.029		
12	South Korea	0.027		
10	Kuwait	0.026		
11	Japan	0.026		
13	Nigeria	0.025		
15	Qatar	0.025		
14	UK	0.023		
18	Malaysia	0.023		
16	Iran	0.022		
17	Australia	0.021		
19	South Africa	0.019		
20	Brazil	0.016		
21	Thailand	0.014		
22	Vietnam	0.012		
23	Taiwan	0.010		
24	Russia	0.010		
25	Bangladesh	0.010		
26	Israel	0.009		
27	Turkey	0.009		
28	Mexico	0.009		
29	Sri Lanka	0.009		
30	Egypt	0.008		
31	Canada	0.008		
32	Kenya	0.006		
33	Sweden	0.004		
34	Pakistan	0.004		
35	Argentina	0.003		
36	Philippines	0.003		

# Trade weights of 36 and 6 countries for 2015-16