Methodology on determination of NEER & REER

Nominal Effective Exchange Rate (NEER) is calculated as a weighted geometric average of nominal exchange rates against main trade partner countries' currencies (see below).

$$NEER = \prod_{i=1}^{n} [1/e_i]^{w_i} \quad ,$$

Where e_i is nominal exchange rate to the i partner countries' currencies, w_i - weight of the country i in the foreign trade turnover of Myanmar, *n* – number of major trading partner countries of Myanmar.

The growth of the index means appreciation of MMK. The reduction indicates depreciation.

Real Effective Exchange Rate presents evolution of the REER index based on the CPI. It is computed as a weighted geometric average of the real exchange rates to the major trade partners' currencies (China, Thailand, Singapore, Japan, India, Malaysia, Eurozone, Indonesia, South Korea, USA, Vietnam * and UK). The formula for calculation is:

$$REER = \prod_{i=1}^{n} \left[\frac{P}{Pi} * (1/e_i)\right]^{w_i} \quad ,$$

Where e_i is nominal exchange rate to the i partner countries' currencies, w_i - weight of the country i in the foreign trade turnover of Myanmar, $P$and P_i - consumer price indices in Myanmar and country i, n – number of major trading partner countries of Myanmar.

An increase in the REER represents the real appreciation of MMK whereas decrease denotes vice versa.

The index uses weights based on trading with above mentioned countries: China (38%), Thailand (17%), Singapore (12%), Japan (7%), India (6%), Malaysia (3%), Eurozone (5%), Indonesia (3%), South Korea (3%), USA (3%), Vietnam (2%), UK (1%).

The trade turnover with selected major trading partners cover not less than 85% of the overall Myanmar foreign trade.

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*Vietnam has been included instead of Hong Kong since January 2020.