# Real Effective Exchange Rate (REER)

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## Key Updates on REER:

- **Record High REER:** The Reserve Bank of India (RBI) has reported that the rupee’s Real Effective Exchange Rate (REER) reached **108.14 in November 2024**, increasing from **107.20 in October 2024**. This marks its highest level this year.
- **Implications of Overvaluation:** A **REER value above 100** signifies that the rupee is overvalued relative to the base year (2015-16), leading to **reduced export competitiveness** while making imports cheaper.

**About NEER and REER**

- **NEER (Nominal Effective Exchange Rate):** It is the **weighted average of a currency’s bilateral exchange rates** with multiple trading partner currencies.
  - NEER reflects the **nominal strength** of a currency but does not adjust for **inflation or price level differences**.
  - A rise in NEER indicates nominal appreciation, while a decline signals depreciation.
- **REER (Real Effective Exchange Rate):** An improvement over NEER, it adjusts for **relative price levels** (inflation) between domestic and foreign economies.

    - **Calculated as:** NEER × (Domestic Price Index ÷ Foreign Price Index).
    - It is a **purchasing power parity (PPP)-adjusted** measure of competitiveness.
- **Currency basket for India's Indices:** Earlier, the NEER and REER indices included six major currencies: **US Dollar (USD), Euro (EUR), Japanese Yen (JPY), British Pound (GBP), Chinese Yuan (CNY), and Singapore Dollar (SGD)**.
    - The indices now encompass a **broader basket of 36 currencies**, reflecting India's diverse trade relations.
- **Factors influencing NEER and REER:**
    - **Productivity differences:** Affect competitiveness and influence REER values.
    - **Terms of Trade:** The balance of exports and imports can impact both indices.
    - **Inflation:** Higher inflation erodes currency value, affecting REER.
    - **Fiscal spending:** Impacts economic stability and demand, influencing exchange rate dynamics.

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## Q1. What is a Bank Rate?

The bank rate is the rate at which the Reserve Bank of India (RBI) provides the loans to commercial banks without keeping any security. No agreement on repurchase will be drawn up or agreed upon with no collateral as well. The RBI allows short-term loans with the presence of collateral.

**Source:** **IE**

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