Developing the New Nominal Effective Exchange Rate (NEER)

The Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) are two indicators of movement of the baht compared to trading partners’ currencies, which are used to assess the country’s price competitiveness along with its impact on the overall economy.

Construction of the NEER\(^1\) to represent movement of the baht compared to other currencies according to their relative importance in terms of trade requires selection of countries and assignment of weights to the chosen currencies that reflect the structure of trade between Thailand and each chosen country. Additionally, the weights must be revised consistently in order to ensure that the structure of trade can be most accurately proxied in each time period.

The BOT, thus, proceeded to revise the weights used in the construction of the NEER and REER in order to capture the true structure of trade as follows.

1. **Used trade data in 2012 instead of 2007 as weights** for the calculations of the NEER and REER from 2012 onwards. Given that Thailand’s and the global economies became quite stable after the global economic crisis in 2008, it was assessed that trade data in 2012 would be appropriate representations of today’s structure of trade.

2. **Used 2012 as base year instead of 2007** to ensure consistency with year of trade data used.

3. **Improved data filtering method in the calculation of trade value**

   3.1 Included export and import value of services in the calculation of trade weights for Thailand, given that exports of services, particularly tourism, became increasingly more important to the Thai economy compared to previous periods.\(^2\)

   3.2 Excluded export and import value of gold from Thailand’s trade data since gold were more frequently regarded as investment goods rather than traded goods, therefore, it did not reflect the country’s competitiveness. As a result, significant increases in export and import volume of gold in recent periods may, in fact, distort actual structure of trade.

   3.3 Excluded data on re-exports and re-imports\(^3\) to avoid double counting. For example, in case of re-exports, if a country was in the trade chain like Hong Kong and Singapore, the country at the beginning of the chain would be regarded as the true exporter of such re-export goods.

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\(^1\) For further information, please refer to Focused and Quick (FAQ) No. 86 “Getting to know the NEER” [http://www.bot.or.th/Thai/EconomicConditions/Publication/FAQ_documents/FAQ_86.pdf]

\(^2\) Nonetheless, data limitation on the services sector in other countries made it impossible to fully include such data into the calculation of trade weights.

\(^3\) Reasons for re-import include but would not be limited to return of faulty goods, recall of cancelled orders, payment default or trade barrier in importing countries.
(4) For competition in a third market between Thailand and an oil-exporting country, namely Saudi Arabia and United Arab Emirates, a “zero” weight was assigned since Thailand did not compete directly with these countries in that third market.

The revisions outlined above resulted in adjustments in the number of countries and trade weights of Thailand’s important trading partners, as follows.

(1) The number of trading partners’ currencies in the calculation of the NEER increased from 23 to 25 (Table 1) from the addition of Myanmar, Laos and Cambodia, owing to their rising importance in trade which was expected to continue in the future. Moreover, Canada was removed from the calculation since the proportion of its trade and extent of competition with Thailand declined significantly. In addition, given Estonia’s adoption of the euro (making it the 17th country to join the single currency), the total number of countries that were included in the calculations of trade weights increased from 38 to 41 countries.

(2) The weight of each currency was changed. In particular, while China received a larger weight, Japan and the euro area were assigned smaller weights due to their declining roles as Thailand’s trading partners. This observation was consistent with recent dynamics in international trade.

The BOT would begin using the new NEER and REER in March 2013 while data would be revised backwards to January 2012. The base year would also be changed to 2012, which was also the year of data used in the calculations of trade weights. Moreover, the BOT would revise the weights along with calculation methods every three years in order to ensure that the indicators could capture the true structure of trade in line with changing international trade dynamics.