

**IMMEDIATE
ATTENTION**

EBS/03/119

CONFIDENTIAL

August 18, 2003

To: Members of the Executive Board

From: The Acting Secretary

Subject: **SDR Designation Plan for the Quarterly Period
September–November 2003**

Attached for consideration by the Executive Directors is a paper on the proposed SDR designation plan for the quarterly period September–November 2003.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Friday, August 29, 2003**. In the absence of such a request, the draft decision that appears on page 5 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. De Luca (ext. 38258) in FIN.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

**SDR Designation Plan for the Quarterly Period
September–November 2003**

Prepared by the Finance Department

Approved by Bert Keuppens

August 15, 2003

1. This paper proposes an SDR designation plan for the quarterly period September–November 2003.¹ The designation mechanism seeks to assure the conversion of SDRs into freely usable currencies and to promote balanced SDR holdings among designated participants over time. The proposed designation plan is precautionary, as no transaction by designation is envisaged for the forthcoming period.² In recent years, the liquidity of SDRs has been assured mainly through transactions by agreement with 13 participants that have established two-way (buying/selling) arrangements with the Fund.³

2. The designation plan distributes a total designation amount of SDR 1,500 million, an assumed amount for a two-year period, to participants with the lowest initial excess holdings ratios. As indicated in Box 1, the quarterly amounts are one-fifth of the two-year amounts calculated for individual participants.

¹ The rules for designation in the SDR Department are discussed in “Revision of Designation Rules and Designation Plan for the Quarterly Period September–November 1999” (EBS/99/81, 05/20/99).

² Since September 1987, all exchanges of SDRs for currencies between participants have been voluntary. In the unlikely event that the designation plan is activated and the plan amount appears insufficient, the staff would propose an amendment to the plan, which the Executive Board may be requested to approve at short notice.

³ These include 12 Fund members and one prescribed holder. In addition, one member has established a one-way (selling only) arrangement with the Fund.

Box 1. Designation Plan Mechanism

Article XIX of the Fund's Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the Fund, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of need, participants can use SDRs to obtain freely usable currencies at short notice. Participants may need to exchange for currencies SDRs in their holdings or SDRs obtained in purchases from the Fund.

Quarterly designation plans identify members subject to designation and set maximum limits on the amounts of SDRs they can be designated to receive during the quarter. The list of participants subject to designation is the same as the list of members considered sufficiently strong for inclusion in the quarterly financial transactions plan. The amounts of designation for individual participants are determined so as to promote over time a balanced distribution of holdings of SDRs among them. Individual amounts of designation are calculated in an iterative process so that the participants subject to designation would, if called upon to accept the amounts designated to them, achieve a common lowest excess holdings ratio. The excess holdings ratio is calculated as the difference between the member's actual SDR holdings and its net cumulative allocation as a percent of its quota.

A participant's obligation to provide currency against SDRs in designation is subject to a ceiling that limits its holdings to 300 percent of its net cumulative allocation (acceptance limit), unless the participant and the Fund agree to a higher limit. In order to provide a margin of safety, the quarterly amounts of designation for individual participants are taken as one-fifth, rather than one-eighth, of the calculated amounts of designation for the next two years.

3. The staff assessment of the external strength of participants for inclusion in the SDR designation plan and for transfers of currency in the financial transactions plan is presented in the accompanying financial transactions plan paper.⁴ As proposed in that paper, 45 participants are considered sufficiently strong to be subject to designation.

4. The proposed designation plan is based on a total amount of SDR 300 million to be distributed among the 11 participants as shown on Table 1:

⁴ "Financial Transactions Plan for the Quarterly Period September-November 2003."

Table 1. Designation Plan Maximum Amounts
September-November 2003
(In millions of SDRs)

Participants	Maximum Designation Amounts ^{1/}
Australia	22
Chile	5
Cyprus	1
Greece	5
India	71
Israel	6
Italy	14
New Zealand	11
Slovenia	-- ^{2/}
Trinidad and Tobago	4
United Kingdom	<u>161</u>
TOTAL	300

1/ See Table 2 - Column F

2/ Slovenia's maximum designation amount is about SDR 0.3 million

5. No designation amounts have been assigned to other participants either because their SDR holdings already exceed their acceptance limits, or because their excess holding ratios are above the projected common ratio (-7.8 percent)⁵ used in calculating the plan, as shown on Table 2:

⁵ The projected common ratio is found by successively raising the holdings of the participants with the lowest ratios until the assumed designation amount of SDR 1,500 million for the two-year period is fully distributed. The ratio that results in a total designation amount of SDR 1,500 million for the two-year period is -7.8 percent.

Table 2. List of Participants Subject to Designation: Calculation of Designation Amounts
September - November 2003
(In millions of SDRs, unless otherwise indicated)

(in millions of SDRs, unless otherwise indicated)							
	Quotas A	SDR Holdings in Excess of NCA ^{1/} B	Excess Holdings Ratios (Percent) ^{2/} C	Designation Over Two Years		Designation Over Next Quarter	
				Maximum Designation Amounts ^{3/} D	Proj. Excess Holdings Ratios (Percent) E	Maximum Designation Amounts F	Proj. Excess Holdings Ratios (Percent) G
Australia	3,236	-359.6	-11.1	108	-7.8	22	-10.4
Austria	1,872	-46.5	-2.5	--	-2.5	--	-2.5
Belgium	4,605	-57.6	-1.3	--	-1.3	--	-1.3
Botswana ^{4/}	63	29.3	46.6	--	46.6	--	46.6
Brunei Darussalam ^{4/ 5/}	215	7.6	3.6	--	3.6	--	3.6
Canada	6,369	-226.5	-3.6	--	-3.6	--	-3.6
Chile	856	-92.2	-10.8	26	-7.8	5	-10.2
China ^{4/}	6,369	493.7	7.8	--	7.8	--	7.8
Cyprus	140	-17.6	-12.6	7	-7.8	1	-11.9
Czech Republic ^{4/ 5/}	819	5.4	0.7	--	0.7	--	0.7
Denmark	1,643	-93.2	-5.7	--	-5.7	--	-5.7
Finland	1,264	8.5	0.7	--	0.7	--	0.7
France	10,739	-580.9	-5.4	--	-5.4	--	-5.4
Germany	13,008	112.0 ⁵	0.9	--	0.9	--	0.9
Greece	823	-90.0	-10.9	26	-7.8	5	-10.3
Hungary ^{4/ 5/}	1,038	29.5	2.8	--	2.8	--	2.8
India	4,158	-678.6	-16.3	355	-7.8	71	-14.6
Ireland	838	-35.3	-4.2	--	-4.2	--	-4.2
Israel	928	-100.8	-10.9	29	-7.8	6	-10.2
Italy	7,056	-621.1	-8.8	72	-7.8	14	-8.6
Japan	13,313	947.9	7.1	--	7.1	--	7.1
Korea	1,634	-60.2	-3.7	--	-3.7	--	-3.7
Kuwait ^{4/}	1,381	78.6	5.7	--	5.7	--	5.7
Luxembourg	279	-9.1	-3.3	--	-3.3	--	-3.3
Malaysia	1,487	-21.0	-1.4	--	-1.4	--	-1.4
Mauritius	102	1.4	1.4	--	1.4	--	1.4
Mexico	2,586	0.2	0.0	--	0.0	--	0.0
Netherlands	5,162	13.3	0.3	--	0.3	--	0.3
New Zealand	895	-123.3	-13.8	54	-7.8	11	-12.5
Norway	1,672	68.9	4.1	--	4.1	--	4.1
Oman	194	1.2	0.6	--	0.6	--	0.6
Poland ^{4/ 5/}	1,369	34.9	2.5	--	2.5	--	2.5
Portugal	867	6.5	0.8	--	0.8	--	0.8
Qatar	264	8.5	3.2	--	3.2	--	3.2
Saudi Arabia	6,986	82.9	1.2	--	1.2	--	1.2
Singapore ^{4/}	863	121.3	14.1	--	14.1	--	14.1
Slovenia ^{6/}	232	-19.5	-8.4	1	-7.8	--	-8.4
Spain	3,049	-25.0	-0.8	--	-0.8	--	-0.8
Sweden	2,396	-104.6	-4.4	--	-4.4	--	-4.4
Switzerland ^{4/ 5/}	3,459	89.3	2.6	--	2.6	--	2.6
Thailand	1,082	-83.6	-7.7	--	-7.7	--	-7.7
Trinidad and Tobago	336	-45.7	-13.6	20	-7.8	4	-12.4
United Arab Emirates	612	-37.1	-6.1	--	-6.1	--	-6.1
United Kingdom	10,739	-1,640.3	-15.3	804	-7.8	161	-13.8
United States	37,149	3,537.0	9.5	--	9.5	--	9.5
TOTAL	164,144	508.4		1,500		300	

^{1/} SDR holdings in excess of Net Cumulative Allocations (NCA) reflect transactions scheduled to be completed by end-August 2003.

^{2/} Ratios of column B to column A.

^{3/} The amounts shown are derived through an iterative process which raises the lowest excess holdings ratio in column C to the common lowest ratio shown in column E (-7.8 percent).

^{4/} SDR holdings above acceptance limit.

^{5/} These participants have not received any SDR allocations.

^{6/} Slovenia's maximum designation amount over the next quarter is about SDR 0.3 million

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board.

The Executive Board approves the SDR designation plan for the quarterly period September - November 2003 as set out in EBS/03/119.