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International Monetary Fund
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IMF Completes Review of SDR Valuation

The International Monetary Fund (IMF) announced today the completion of the regular five-yearly review of the method of valuation of the Special Drawing Right (SDR) and the determination of the SDR interest rate. The value of the SDR will continue to be based on a weighted average of the values of a basket including the U.S. dollar, euro, Japanese yen, and pound sterling.

The SDR interest rate will also continue to be determined as a weighted average of the interest rates on short-term financial instruments in the markets of the currencies in the SDR basket. However, one of the components of the SDR interest rate basket is being changed to reflect the developments in financial markets since the last review in 2000.

SDR Valuation

The criteria for selecting the currencies in the SDR basket are the same as in the previous review: The currencies included in the SDR shall be the four currencies issued by Fund members, or by monetary unions that include Fund members, whose exports of goods and services during the five-year period ending 12 months before the effective date of the revision had the largest value and which have been determined by the Fund to be freely usable currencies in accordance with Article XXX (f). In the case of a monetary union, trade between members of the union is excluded from the calculation.

The weights assigned to the currencies in the SDR basket are based on the value of the exports of goods and services and the amount of reserves denominated in the respective currencies which are held by other members of the IMF.

With effect from January 1, 2006, the IMF has determined that the four currencies that meet both selection criteria for inclusion in the SDR valuation basket will be assigned the following weights based on their roles in international trade and finance: U.S. dollar (44 percent), euro (34 percent), Japanese yen (11 percent), and pound sterling (11 percent).

The amounts of each of the four currencies to be included in the new SDR valuation basket will be calculated on December 30, 2005 in accordance with the new weights. The calculation will be made on the basis of the average exchange rates for these currencies over the three months

ending on that date in such a manner as to ensure that the value of the SDR will be the same on December 30, 2005 under both the revised valuation and present valuation baskets.

As a service to the users of SDRs, the Fund will project the currency amounts in the basket based on average exchange rates over the previous three months, beginning December 9, 2005, and update these projections every week for the remainder of the year and post them on the IMF's website (www.imf.org). As the currency amounts will be based on a moving average of exchange rates, they will tend to iterate toward the final effective amounts, thereby keeping users fully informed of the likely final currency amounts in the new basket that takes effect on January 1, 2006.

SDR Interest Rate

The IMF also reviewed the method for determining the SDR interest rate and decided to continue to set the weekly interest rate on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. However, the IMF has modified the representative interest rate for the euro, replacing the three-month Euribor (Euro Interbank Offered Rate) by the three-month Europe rate. The interest rate on the three-month United States and United Kingdom Treasury bills, and on the Japanese Government thirteen week financing bills, will continue to serve as the representative interest rates for the U.S. dollar, pound sterling, and Japanese yen, respectively.

A press release providing the final currency amounts in the new SDR valuation basket to take effect on January 1, 2006 will be issued by the IMF on December 30, 2005. The first SDR interest rate based on the new basket will be calculated and announced on January 6, 2006, and will be effective during the week of January 9–13, 2006. Further information on the SDR can be found on the IMF's website (www.imf.org) under IMF Finances.