

SM/00/180
Supplement 2

December 27, 2000

To: Members of the Executive Board

From: The Acting Secretary

Subject: **SDR Valuation Basket—Revision and Trial Calculation**

Attached for the information of the Executive Directors is a paper on the revision of the SDR basket and trial calculations using the latest available exchange rates. Please note that the actual calculation will be made on December 29, 2000. It will be proposed at that time that Rule O-1 specifying the currency amounts of the SDR valuation basket be amended on the basis of a lapse of time period ending at noon on that day.

Every effort will be made to circulate the paper containing the above proposal to each Executive Director's office no later than 10:30 a.m. on Friday, December 29, 2000.

Questions may be referred to Mr. Wattleworth (ext. 38765).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

SDR Valuation Basket—Revision and Trial Calculation

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by Barry Newman

December 27, 2000

In accordance with Decision No.12281-(00/98), on the method of valuation of the SDR and Decision No.8160-(85/186), on the guidelines for the calculation of the currency amounts of the SDR valuation basket, the amounts of the four currencies in the revised SDR valuation and interest rate baskets that will become effective on January 1, 2001, will be determined on December 29, 2000. The initial percentage weights agreed for the new basket effective January 1, 2001, are: U.S. dollar 45 percent, euro 29 percent, Japanese yen 15 percent, and pound sterling 11 percent.

Decision No.12281-(00/98) stipulates that: (i) the currency amounts correspond to the given set of agreed weights for the revised basket when applied to the average exchange rates over the reference period of three months preceding the coming into effect of the revised basket, and (ii) the new basket will have the same transactions value for the SDR as the existing basket on the last working day (December 29, 2000) before the new basket comes into effect (January 1, 2000).

This supplement provides trial calculations of the currency amounts in the revised SDR valuation basket (Table 1). As indicated in SM/00/180, Supplement 1, the staff has been posting such illustrative calculations on the Fund's website every two weeks since October 27, 2000. The illustrative calculations in Table 1 are based on data for the three-month period ending on December 22, 2000. The actual calculation on December 29, 2000 of the final amounts of each currency in the new SDR basket will be based on the three month period to December 29, 2000. The final currency amounts are expected to be quite close to the illustrative calculation of December 22, which shows the following solution in three significant digits: U.S. dollar 0.579, euro 0.426, Japanese yen 21.1, and pound sterling 0.0976.¹

¹ The guidelines for rounding the currency amounts are explained in Box 3 and Appendix III of SM/00/180.

Table 2 shows the calculation of the SDR interest rate using the latest exchange rates and interest rates available on December 22, 2000, in conjunction with the results of the illustrative calculations presented in Table 1. Accordingly, if these exchange rate and interest rate configurations were to prevail when the new interest rate basket goes into effect on January 8, 2001, the SDR interest rate would be 4.54 percent or about 20 basis points higher than under the current valuation and interest rate baskets. As noted in SM/00/180, Supplement 1, the shift in the SDR interest rate results from the changes in the shares of currencies in the SDR valuation basket and the differences in interest rates on each financial instrument.

Table 1. Illustrative Calculation of Amounts of Currency Units to be Listed in
Amended Rule O-1, Effective January 1, 2001

Currency	Initial New Weight (Share) 1/	Illustrative Currency Amount 2/	Exchange Rate 3/ (Dec. 22, 2000)	U.S. Dollar Equivalent
Euro	29	0.4260	0.9229	0.393155
Japanese yen	15	21.1000	112.3000	0.187890
Pound sterling	11	0.0976	1.4820	0.144643
U.S. dollar	45	0.5790	1.0000	0.579000
SDR1 = US\$ 4/				1.30469

1/ See Decision No. 12281-(00/98), October 11, 2000.

2/ Calculation based on average exchange rates for the three month period up to December 22, 2000.

3/ The exchange rate for the Japanese yen is expressed in terms of currency units per U.S. dollar; other rates are expressed as U.S. dollars per currency unit.

4/ The value in U.S. dollars of one SDR, rounded to six significant digits.

Table 2. Illustrative Calculation of the Combined Market Rate of Interest Under Rule T-1(c),
Effective January 8, 2001

Currency	Currency Amount (1)	Interest Rate (2)	Exchange Rate Against the SDR 1/ (3)	Product (1X2X3)
U.S. dollar	0.5790	5.2700	0.766468	2.3387
Euro	0.4260	4.9468	0.708216	1.4924
Japanese yen	21.1000	0.5700	0.006807	0.0819
Pound sterling	0.0976	5.6407	1.135910	0.6254
			Total	4.54

1/ Exchange rates are expressed in terms of SDRs per currency unit.