

**LAPSE OF
TIME**

SM/16/48

February 19, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **Separate Identification of the Chinese Renminbi in the COFER Survey**

Board Action:

Executive Directors' **consideration** on a lapse of time basis

Deadline to Request a
Board Meeting, after
which Consultation with
the Board will be
Deemed Concluded:

**Friday, February 26, 2016
12:00 (noon)**

Publication:

Proposed, after Monday, February 29, 2016

Questions:

Mr. Shrestha, STA (ext. 37202)
Mr. Austin, STA (ext. 39406)
Mr. Galicia-Escotto, STA (ext. 37926)



SEPARATE IDENTIFICATION OF THE CHINESE RENMINBI IN THE COFER SURVEY

EXECUTIVE SUMMARY

Following the recent Executive Board decisions on the determination of the renminbi (RMB) as a freely usable currency, effective October 1, 2016, and its inclusion in the SDR basket on the same date, STA intends to separately identify the RMB in the survey on Currency Composition of Official Foreign Exchange Reserves (COFER) beginning with the survey for the fourth quarter of 2016. Consistent with staff's commitment to consult the Executive Board before separately identifying additional currencies in the COFER survey, this paper sets out the key considerations for the envisaged inclusion of the RMB in the COFER survey.

February 18, 2016

Approved By
Jose Roberto Rosales

Prepared by Staff of the Statistics Department

CONTENTS

BACKGROUND _____ **3**

CONSIDERATIONS REGARDING THE RMB _____ **3**

BACKGROUND

1. **During the Executive Board discussion in November 2012 on the *Review of Data Provision to the Fund for Surveillance Purposes***, staff committed to consult the Executive Board before separately identifying additional currencies in the COFER survey.¹ Staff intends that the renminbi (RMB) be separately identified in the COFER survey, beginning with the survey for the fourth quarter of 2016, and this paper seeks to complete the consultation with the Board in this regard.
2. **The Statistics Department conducts the COFER survey on a quarterly frequency** and disseminates the aggregated data to the public at the end of each quarter for a reference date of the previous end-quarter. Participation by countries in this survey is voluntary.
3. **The concept of reserves covered in the survey is in accord with the IMF's *Balance of Payments and International Investment Position Manual***, sixth edition (*BPM6*), which defines reserves as "those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)" (*BPM6* paragraph 6.64).
4. **At present, the IMF does not have a formal list of reserve currencies, but currencies separately identified in the COFER survey are widely regarded as reserve currencies.**
5. **The COFER survey separately identifies holdings of the following currencies: U.S. Dollar, Euro, Yen, Pound Sterling, Swiss Franc, Australian Dollar, and the Canadian Dollar.** At end-September 2015, these currencies accounted for 97 percent of the reported foreign exchange holdings by monetary authorities as recorded in the COFER survey.²

CONSIDERATIONS REGARDING THE RMB

6. **A growing number of monetary authorities are holding RMB-denominated assets as reserves.** In late 2014/early 2015 staff consulted the membership through the triennial survey of currencies held as reserve assets for end-Q1 2014.³ The survey results indicated that the number of countries holding RMB had increased since the previous survey in 2011/12, to a level that was similar to the number of countries holding Swiss francs, a currency separately identified in the COFER survey, and ahead of all currencies not separately identified in the COFER survey.

¹ At the time of the 2012 Review of Data Provision to the Fund for Surveillance Purposes, staff committed to consult the Board before modifying the COFER survey to separately identify additional currencies (see EBM/12/98-2).

² At end-September 2015 the COFER survey covered around 59 percent of total foreign exchange holdings.

³ This survey and the intent to conduct the survey again in around three years was described in Annex III of the Executive Board paper *Review of Data Provision to the Fund for Surveillance Purposes*, (August 28, 2012).

7. On November 30, 2015, the Executive Board determined the RMB to be a freely usable currency, effective October 1, 2016, and decided to include the RMB in the SDR basket as of that date.⁴ The Executive Board underscored at that time the importance of making efforts to address remaining data gaps, including in the currency coverage of the COFER survey, ahead of the next SDR review.⁵

8. The Board also concluded that the substantial recent reforms that have supported the internationalization of the RMB would facilitate its use in Fund operations. In particular, market access was seen as sufficient to allow Fund members, their agents, and other SDR users to perform Fund-related and reserve management operations in RMB without substantial impediments.⁶ As such, in the view of staff, RMB-denominated assets can be considered readily available for meeting balance of payments financing needs as required by the *BPM6* concept of reserve assets.

9. Against this background, staff intends to separately identify the RMB, in addition to the currently identified currencies, beginning with the COFER survey for the fourth quarter of 2016.⁷ The request for COFER data for end-December 2016 will be sent to the reporting countries during the first half of January 2017 and the survey results disseminated at end-March 2017.

⁴ The term “freely usable currency” is defined under the Articles of Agreement. Article XXX (f) defines a freely usable currency as one that “the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets.” The widely used element aims at ensuring that a currency may be directly used to meet a member’s balance of payments need, while the widely traded element is designed to ensure that it may be indirectly used, i.e., that it can be exchanged in markets for another currency to meet a member’s balance of payments need with reasonable assurances of no substantial adverse exchange rate effect.

⁵ See “IMF Executive Board Completes the 2015 Review of SDR Valuation,” Press Release No. 15/543. (December 1, 2015).

⁶ See Press Release No. 15/543, and “Review of the Method of Valuation of the SDR” (November, 2015, paragraph 38).

⁷ As with the decisions to determine the RMB to be a freely usable currency and to add it to the SDR basket, making the change effective for the fourth quarter of 2016 would provide the lead time necessary for COFER survey respondents to adjust to the change.