

Box 3 The SDR basket – composition and size

The Special Drawing Right, or SDR, is an international reserve asset, created by the International Monetary Fund (IMF) in 1969 to supplement member countries' official reserves. Its value is currently based on a basket of four major currencies: the US dollar, euro, Japanese yen, and pound sterling. A review of the SDR basket is conducted every five years by the IMF's Executive Board; this could be commissioned earlier if warranted by circumstances. The purpose of the review is to ensure that the SDR basket reflects the relative importance of major currencies in the world's trading and financial systems, with a view to enhancing the SDR's attractiveness as a reserve asset.

At its November 2015 review, the IMF Executive Board decided to include the Chinese renminbi in the SDR basket as a fifth currency, effective 1 October 2016, since it considered the renminbi to have met the existing criteria for SDR basket inclusion. As the world's third-largest exporter (in the past five years), China met the first inclusion criterion. The IMF also determined that, effective 1 October 2016, the renminbi would be freely usable, thus meeting the second criterion for basket inclusion. Despite its recent slowdown, the Chinese economy has grown considerably over the past few decades, increasing the importance of the renminbi in the international financial markets. Certain central banks around the world have already begun to include the renminbi in their portfolios as part of their diversification strategy in the management of their international reserves.

The IMF adopted a new formula for determining currency weights in the SDR basket to address the long-recognised issues with the formula that had been in place since 1978. The new formula assigns equal shares to the currency issuer's exports and a composite financial indicator. The following weights, based on the new formula, will be used to determine the amounts of each of the five currencies in the new SDR basket that will take effect on 1 October 2016:

- US dollar: 41,73 per cent (41,9 per cent in 2010);
- euro: 30,93 per cent (37,4 per cent in 2010);
- Chinese renminbi: 10,92 per cent (new);
- Japanese yen: 8,33 per cent (9,4 per cent in 2010); and
- pound sterling: 8,09 per cent (11,3 per cent in 2010).

Until the implementation of the new SDR basket on 1 October 2016, the current SDR basket and valuation will continue to consist of four currencies and their respective weights at the time of the 2010 review will still be applicable.

SDR currency basket

