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## CONSEQUENCES FOR AFRICAN COUNTRIES OF THE NEW METHOD OF EVALUATING THE SPECIAL DRAWING RIGHT (SDR)

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INTRODUCTION

1. Following various modifications which were made in the method of evaluating the SDR, the last of which took place in December 1980, the first meeting of the Ministerial Follow-up Committee on International Trade and Finance for African Development requested the secretariats of the Economic Commission for Africa and the Organization of African Unity to study the consequences for African countries of the new method of evaluating the SDR. This document was prepared pursuant to that request.

2. It comprises two sections :

(i) Introduction of the new method of calculating the SDR;

(ii) Evaluation of its impact on African economies.

## I. Introduction of the new method of calculating the SDR

3. The method of evaluating the SDR is constantly changing. From July 1974 to December 1980, 16 currencies were used to determine the value of the SDR. The selction of the basket's currencies was regularly modified on the basis of statistics on exports of goods and services over a five-year period (see annex 1).

4. In January 1981, a simplified basket of five currencies was adopted. It is made up of currencies of the five member States whose exports of goods and services were the highest during the period 1975-1979 : the United States dollar, the deutsche mark, the Japanese yen, the French franc and the pound sterling. This Fund decision implements a recommendation of the Interim Committee of the Fund's Board of Governors. At its meeting at Hamburg in April 1980, the Interim Committee had decided that it was advisable to simplify the baskets used to calculate the SDR and interest paid on it in order to make the SDR even more attractive. The Committee had also considered that the two baskets should be identical.

5. The weights selected for the revised basket to evaluate the SDR and set the interest rate paid on it were decided as follows :

| Currency | Weight in percentage |
|---|---|
| United States dollar | 42 |
| Deutsche mark | 19 |
| French franc | 13 |
| Japanese yen | 13 |
| Pound sterling | 13 |

6. The composition of the currencies in the basket must be revised every five years, starting on 1 January 1986, unless otherwise decided by the Executive Board of the Fund to comprise the currencies of the five State members of the Fund whose exports of goods and services have been the highest during the five-year period preceding the review (for example, 1980-1984 for the review which will take place on 1 January 1986).

7. The weighting coefficients of the currencies comprising the basket must also be revised simultaneously to reflect the value of the cash held in each of these five currencies at the end of each year by the monetary authorities of the other countries members of the Fund and the value of exports of goods and services of the country issuing each of these currencies during the previous five-year period, so that the relative scope of the factors on which the weights have been previously set can be maintained 1/.

## II. Evaluation of the impact of the new methods of calculating the SDR on African economies

8. To determine the possible impact of the new method of calculating the SDR on African economies, it is necessary to be familiar with the system of pegging of African currencies to the basket's currencies and the level of trade existing between African countries and the five countries whose currencies are used to calculate the value of the SDR.

### Pegging of African currencies to the SDR and the basket's currencies

9. As shown in annex 3, African currencies are generally pegged either to the SDR or to another currency in the basket :

- 11 currencies are pegged to the SDR;
- 14 currencies are pegged to French franc;
- 8 currencies are pegged to the United States dollar;
- 1 currency is pegged to the pound sterling.

This means that 34 African currencies depend directly or indirectly on the SDR.

10. According to the standard basket method, appreciation or depreciation of one of the currencies of the basket with respect to the others increases or decreases the value of the SDR with respect to each of the other currencies, which means that the 11 African currencies pegged to the SDR directly experience a change in parity of one of the basket's currencies.

11. As concerns currencies pegged to the five currencies in the basket, appreciation or depreciation of the currency of the reference basket is reflected in an equivalent increase or decrease in value of the currency pegged to it, and, accordingly, the value of the currency expressed in SDRs is affected by the fluctuation.

### Level of trade between Africa and the countries whose currencies are used to calculate the value of the SDR

12. In 1980, the amount of exports and imports traded between Africa and countries whose currencies are used to calculate the SDR, totalled $US 49.9 billion, representing 43.1 per cent of total African trade. The corresponding percentages in 1978 and 1979 were 50.3 per cent and 46.4 per cent respectively. In fact, in 1980, 34 per cent of African exports were destined to the five countries in question; in 1978 the corresponding figure was 48.9 per cent.

13. African imports from these countries represented 50 per cent of total African imports in 1980, 53 per cent in 1979 and 56.8 per cent in 1978.

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1/ IMF Bulletin, 22 September 1980, p. 293.

14. It is therefore clear that the impact of the fluctuations of the five currencies in question on African economies will depend directly on the situation prevailing on the exchange markets.

Impact on price levels

15. Any fluctuation of the pegged currency will result in the inverse fluctuation of prices of imported goods from countries other than the countries to which the currency is pegged in direct proportion to the differences in the exchange rates. For example, in case of devaluation of the French franc, African countries whose currencies are pegged to the franc will note an increase in the prices of goods imported from countries other than France equivalent to the devaluation rate. The cost of living will be affected according to the origin of imports and their importance in over-all demand.

16. Likewise, export prices, which are set on international markets and are almost entirely expressed in the basket's currencies, will have their equivalent value in national currencies adjusted upwards or downwards according to whether there is depreciation or appreciation; this adjustment will take place at the same rate as the fluctuation of the pegged currency.

Impact on the budget plan

17. In a similar manner, African countries are expected to be aware of the fluctuations of their revenues and the variation in some of their budget expenditures expressed in national currencies following changes in the exchange rates of the five currencies in the basket. This is necessary because of the change in the price level of imported and exported goods of the five countries, which will affect import and export duties.

18. There will be similar consequences on the external public and private debt expressed in the five currencies or in SDRs.

Impact on the balance of payments

19. As shown above, African countries are heavily dependent on the five countries whose currencies make up the SDR. It can therefore be expected that fluctuations of these currencies and of the SDR will influence the balance of payments of African countries. In this respect, the most important effect should be felt through the balance of trade, since more than 45 per cent of African trade takes place with the five countries in question. Moreover, the stability of exchange rates of the currencies of these countries and of the SDR will have a favourable effect on export revenues of the African countries and on their import costs. Such stability will actually help to avoid deterioration of revenues from the major African exports expressed in the five currencies of the basket or in SDRs and the rapid increase in prices of a large part of the imports from the five countries. Apart from the stability of exchange rates, all other things being equal, stability of the economies of the five countries considered would help to improve export revenues of African countries. Experience has shown that economic cycles in developing countries have an important impact on African exports and, in particular, on their prices. The countries most directly affected are the middle-income countries which generally produce ores and agricultural raw materials.

20. The favourable impact of the new method of evaluating the SDR on export revenues seems therefore to result primarily from a reduction in the scope and frequency of economic cycles caused by variations in exchange rates of the five currencies.

## Impact on external assets of Central Banks

21. Except for countries which have agreed on a special exchange guarantee clause with a given country, like the countries of the franc zone with France, the external assets of African Central Banks will register the impact of variations in exchange rate affecting the five currencies, whether these assets are expressed in SDRs or in one of the basket's currencies.

## CONCLUSION

22. The least that can be said is that there are a great many uncertainties influencing monetary policies, including those pertaining to the exchange rates of Africa's principal trading partners, in general, and of the five countries whose currencies are used to determine the value of the SDR, in particular. In view of these uncertainties and the disorder characterizing the international monetary situation for several years, the introduction of a new method of evaluating the SDR can, in the best case, be no more than a very limited palliative, as it does not deal with the basic problems requiring genuine reform of the international monetary system. Pending that reform, it is essential for African countries to take all necessary measures, including the establishment of an African Fund as provided for in the Lagos Plan of Action, to limit, in so far as possible the negative impact of this situation on their economies.

ANNEXE I

COMPOSITION OF THE BASKET OF CURRENCIES OF THE SDR

| Currency | Weight (percentage) | Amount in respective currency units |
|---|---|---|
| United States dollar | 33 | 0.40 |
| Deutsche mark | 12.5 | 0.38 |
| Pound sterling | 9 | 0.045 |
| French franc | 7.5 | 0.44 |
| Japanese yen | 7.5 | 26 |
| Canadian dollar | 6 | 0.071 |
| Italian lira | 6 | 47 |
| Netherlands guilder | 4.5 | 0.14 |
| Belgian franc | 3.5 | 1.60 |
| Swedish krona | 2.5 | 0.13 |
| Australian dollar | 1.5 | 0.012 |
| Danish krone | 1.5 | 0.11 |
| Norwegian krone | 1.5 | 0.099 |
| Spanish peseta | 1.5 | 0.10 |
| Austrian shilling | 1 | 0.22 |
| South African rand | 1 | 0.0082 |
| | 100 | |

Source : IMF, Valuation and Rate of Interest of the SDR, by J.J. Polak - Pamphlet Series, No. 18, 1975, p. 2.

# ANNEX II

## EXPORTS OF AFRICAN COUNTRIES TO DEVELOPED COUNTRIES

| | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|
| World including : | 24 070 | 28 531 | 31 953 | 43 235 | 58 536 |
| United States | 2 560 | 3 130 | 3 730 | 4 452 | 5 641 |
| Japan | 1 303 | 1 448 | 1 586 | 2 512 | 3 008 |
| Federal Republic of Germany | 1 783 | 1 969 | 2 245 | 3 011 | 3 700 |
| France | 2 663 | 2 987 | 3 112 | 4 230 | 4 968 |
| United Kingdom | 2 526 | 3 018 | 3 007 | 3 001 | 3 995 |
| TOTAL | 10 835 | 12 552 | 13 680 | 17 206 | 21 312 |
| Percentage of total exports | 45 % | 44 % | 42.8 % | 39.8 % | 36.4 % |

## IMPORTS

| | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|
| World, including : | 25 152 | 28 022 | 32 370 | 39 646 | 57 294 |
| United States | 3 019 | 2 766 | 2 779 | 3 481 | 5 153 |
| Japan | 1 548 | 1 936 | 2 276 | 2 177 | 3 514 |
| France | 4 338 | 5 318 | 6 154 | 7 364 | 9 052 |
| Federal Republic of Germany | 2 746 | 2 820 | 3 731 | 3 916 | 5 387 |
| United Kingdom | 2 769 | 2 666 | 3 458 | 4 089 | 5 529 |
| TOTAL | 14 420 | 15 506 | 18 398 | 21 027 | 28 635 |
| Percentage of total imports | 57.3 % | 55.3 % | 56.8 % | 53 % | 50 % |

(in thousands $US)

Source : IMF, Direction of Trade, Year book 1981.

# ANNEX III

## AFRICAN CURRENCIES

### I. Pegged to a basket of currencies other than the SDR (7)

| Country | Currency |
|---|---|
| 1. Algeria | Algerian dinar |
| 2. Botswana | Pula |
| 3. Cape Verde | Escudo |
| 4. Mauritania | Ouguiya |
| 5. United Republic of Tanzania | Tanzanian shilling |
| 6. Tunisia | Tunisian dinar |
| 7. Zimbabwe | Dollar |

### II. Pegged to the SDR (11)

| | |
|---|---|
| 1. Guinea | Syli |
| 2. Guinea-Bissau | Peso |
| 3. Kenya | Kenyan shilling |
| 4. Malawi | Kwacha |
| 5. Mauritius | Rupee |
| 6. Uganda | Uganda |
| 7. Sao Tome and Principe | Dobra |
| 8. Seychelles | Rupee |
| 9. Sierra Leone | Leone |
| 10. Zaire | Zaire |
| 11. Zambia | Kwacha |

### III. Pegged to the French franc (14)

| | |
|---|---|
| 1. Benin | CFA franc |
| 2. United Republic of Cameroon | " " |
| 3. Comoros | Comorian franc |
| 4. Congo | CFA franc |
| 5. Ivory Coast | " " |
| 6. Gabon | " " |
| 7. Upper Volta | " " |
| 8. Madagascar | Malagasy franc |
| 9. Mali | Mali franc |
| 10. Niger | CFA franc |
| 11. Central African Republic | " " |
| 12. Senegal | " " |
| 13. Chad | " " |
| 14. Togo | " " |

Source : IMF Bulletin, 27 April 1981, p. 123.

# ANNEX III

## AFRICAN CURRENCIES (Cont'd)

IV. Pegged to the US dollar (8)

| | | |
|---|---|---|
| 1. | Burundi | Burundi franc |
| 2. | Djibouti | Djibouti franc |
| 3. | Egypt | Egyptian pound |
| 4. | Ethiopia | Birr |
| 5. | Liberia | Liberian dollar |
| 6. | Rwanda | Rwanda franc |
| 7. | Somalia | Somali shilling |
| 8. | Sudan | Sudanese pound |

V. Pegged to the pound sterling (1)

| | | |
|---|---|---|
| 1. | Gambia | Dalasi |

VI. Pegged to the Spanish peseta (1)

| | | |
|---|---|---|
| 1. | Equatorial Guinea | Epkwele |

VII. Pegged to the South African rand (2)

| | | |
|---|---|---|
| 1. | Lesotho | Maloti |
| 2. | Swaziland | Ligangeni |

VIII. **Not pegged** (1)

| | | |
|---|---|---|
| 1. | Libyan Arab Jamahiriya | Libyan dinar |