



GEF/R.7/05
April 17, 2017

**TIME PERIOD FOR SETTING THE REFERENCE EXCHANGE
RATES FOR USE IN THE GEF-7 REPLENISHMENT
SUPPLEMENTAL ANALYSIS
(PREPARED BY THE TRUSTEE)**

I. Introduction

1. At the first meeting of the GEF-7 replenishment (Paris, 28-30 March, 2017), Participants considered the paper entitled *Reference Exchange Rates for Use in the Seventh GEF Replenishment* (GEF/R.7/03). The paper proposed that the reference time period for translating GEF-7 contributions from national currency values into SDR values would be April 1 – September 30, 2017. As discussed at the meeting, the Trustee agreed to provide supplementary information to facilitate informed decision making regarding the reference time period to be used for setting the reference exchange rates for the GEF-7 replenishment. To that end, this note presents an analysis performed on the historical volatility of GEF contribution currencies¹ over different time periods.

2. The reference exchange rates will be an average of the daily exchange rates of each national currency against the SDR for the agreed time period. These rates will then be used to translate contributions from national currency values to SDR values for the purposes of burden sharing in the replenishment negotiations and to determine the size of the replenishment.

3. In choosing the reference time period for GEF-7, Contributing Participants agreed to consider the following criteria:

- The time period chosen should not include known exchange rates;
- The end point of the reference time period should allow sufficient lead time to determine the national currency amounts in which Contributing Participants will pledge to meet a specific share objective; and
- The method for determining reference exchange rates should minimize distortions that may be caused by short-term currency fluctuations. Using average exchange rates over several months will serve this purpose.

II. Exchange Rate Volatility Analysis

4. In order to facilitate a decision on the reference time period, the historical volatility of each GEF contributing currency was examined over selected lengths of time. Volatility was calculated as the average annualized standard deviation of daily changes in the exchange rates on a rolling six and nine month basis over three years ending December 31, 2016.

5. The results (as detailed in Table 1 below) show that the volatility of almost all GEF contributing currencies was lower over a six month period than over a nine month period.

¹ Australian Dollar (AUD), Canadian Dollar (CAD), Swiss Franc (CHF), Danish Krone (DKK), Euro (EUR), British Pound (GBP), Japanese Yen (JPY), Norwegian Krone (NOK), New Zealand Dollar (NZD), Swedish Krona (SEK), and Special Drawing Rights (SDR).

Table 1: Exchange Rate Volatilities of GEF Contributing Currencies

Contributing Currency	Average Annualized Volatility (Jan 1, 2014 – Dec 31, 2016)	
	Rolling 6 months	Rolling 9 months
AUD	8.71%	8.80%
CAD	6.91%	6.84%
CHF	8.83%	9.14%
DKK	7.23%	7.24%
EUR	7.27%	7.28%
GBP	7.30%	7.02%
JPY	7.56%	7.63%
NOK	10.05%	10.13%
NZD	9.50%	9.56%
SEK	8.28%	8.32%
XDR	3.34%	3.35%

6. Based on the criteria mentioned in paragraph 3 above, and taking into account the currency volatility analysis, it is proposed that the reference time period for GEF-7 replenishment will be six months, as originally proposed in the paper titled “*Reference Exchange Rates for Use in the Seventh GEF Replenishment*” (GEF/R.7/03).