



IMF POLICY PAPER

ANNUAL UPDATE ON SDR TRADING OPERATIONS

October 2022

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- The **Staff Report**, prepared by IMF staff and completed on September 22, 2022 for the Executive Board's information.

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ANNUAL UPDATE ON SDR TRADING OPERATIONS

September 21, 2022

EXECUTIVE SUMMARY

This paper provides an update on the status of the SDR trading market and operations one year after the historic fourth general allocation of SDRs. The SDR market has continued to function smoothly since the SDR allocation of SDR 456 billion (US\$650 billion) in August 2021. Cumulative allocations now amount to SDR 660.7 billion. **In the past three decades, SDRs have been exchanged for freely usable currencies in transactions by agreement, primarily through the Voluntary Trading Arrangements (VTAs). The VTAs are bilateral arrangements between the Fund and SDR participants or prescribed holders, in which the VTA members agree to buy and sell SDRs within certain limits.** Historically, only a fraction of transactions by agreement—sales or acquisitions of SDRs—has been arranged directly between parties. The paper covers the period September 2021 to August 2022.

In the reporting period, SDR trading has been dominated by SDR sales due to the 2021 SDR allocation. From September 2021 to August 2022, 48 members exchanged a total of SDR 17.3 billion into currencies through VTAs, with individual amounts ranging from SDR 37 thousand to 1.7 billion per request. **Low Income Countries (LICs) accounted for 29 percent of the total amount sold.** On the purchase side, the number of transactions declined as the SDR allocation provided new SDRs to all SDR participants, while the volume increased due to the establishment of the Administered Account for Ukraine.

The VTAs continue to have ample capacities to meet the demand for exchange of SDRs into currencies. The SDR trading capacities consider the minimum and maximum SDR amounts that a VTA member is willing to hold and the actual SDR holdings of each VTA member. Based on the status of VTAs in place as of August 31, 2022, the buying and selling capacities of the VTAs stand at about SDR 237 billion and SDR 134 billion, respectively.

Staff has made significant progress in further strengthening the SDR trading market. Since the SDR allocation, eight new VTA members have been welcomed to the SDR trading market and many existing VTA members provided additional operational flexibilities. Discussions with a number of potential new entrants continue in the broader context of SDR channeling, which encourages contributors to have VTAs.

Approved By
Bernard Lauwers

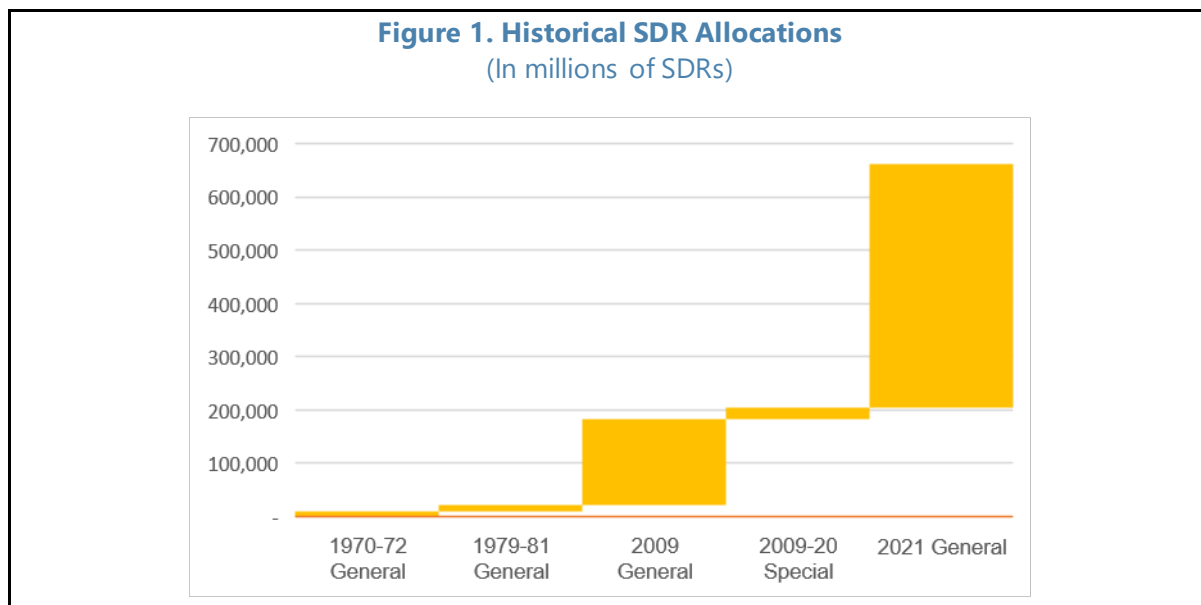
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INTRODUCTION

1. The current review of the SDR trading operations provides an insight into SDR trading one year after the historic 2021 General Allocation of SDRs. On August 2, 2021, the IMF Board of Governors (BoG) approved a fourth general SDR allocation in the amount of SDR 456 billion (about US\$ 650 billion), bringing the cumulative allocation amount to SDR 660.7 billion (Figure 1). The new SDRs were credited to SDR participants (currently all 190 members of the IMF) that can hold SDRs as part of their reserve assets, exchange them to obtain freely usable currencies, or use them in a wide range of operations authorized by the Fund (e.g., payments of financial obligations, loans, pledges, donations).^{1,2} SDRs can also be used in operations and transactions involving the IMF, such as payments of interest and repayments of loans, or payments for quota increases.



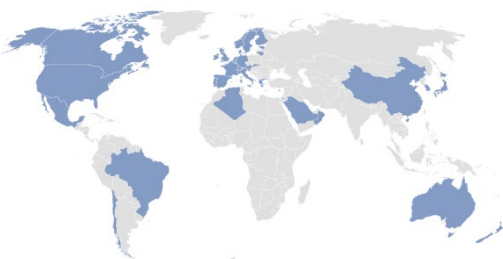
2. For more than three decades, SDR participants and prescribed holders have executed exchanges of SDRs for freely usable currencies through transactions by agreements, primarily using VTAs. A participant or a prescribed holder may use SDRs freely, without the requirement of a balance of payments need, to obtain an equivalent amount of currency in a transaction by agreement with another participant. These transactions, which comprise both sales and purchases of SDRs, can be either arranged directly between parties or facilitated by the Fund through VTAs. The VTAs are bilateral arrangements between the Fund and currently 39 SDR participants and 1 prescribed holder, in which the VTA members agree to buy and sell SDRs within certain limits (Box 1). SDR trades can also be agreed directly (bilaterally) between participants and/or prescribed

¹ See IMF Board of Governors approval of the 2021 SDR Allocation.
<https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights>

² Refer to Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations.
<https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319>

holders, and some SDR purchases needed to meet members' obligations to the IMF can be conducted through the General Resources Account (GRA) of the IMF in certain circumstances.³ In the event that transactions by agreement cannot provide for an exchange of SDRs into currencies, the Articles of Agreement provide for a designation mechanism to guarantee the liquidity of the SDR. The IMF prepares a Designation Plan annually, which can be activated in such an event; however, these plans have never been activated and have remained precautionary since 1987.

Box 1. Voluntary SDR Trading Arrangements



Africa: Mauritius^{1,2}

Asia and Pacific: Australia, China, Japan, Korea, Singapore¹, and New Zealand

Europe: Austria, Belgium, Cyprus, Denmark, ECB, Estonia¹, Finland, France, Germany, Greece, Ireland, Israel, Italy, Lithuania¹, Luxembourg^{1,2}, Malta, The Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom

Middle East & Central Asia: Algeria¹, Oman¹, and Saudi Arabia

Western Hemisphere: Brazil¹, Canada, Chile, Mexico, and the United States

¹ New VTAs after the 2021 General SDR Allocation.

² VTA was signed after the reporting period for this paper in September 2022.

3. This annual paper provides information on SDR trading operations. The first section of the paper provides data on SDR trading operations, including trends in SDR exchanges and activity after the general SDR allocation, while the second section offers an update on the voluntary trading arrangements which handle nearly all SDR trading requests. The third and final section describes currently available information sources on SDR transactions. In line with the commitment to increased transparency on SDR operations following the SDR allocation, this paper, which was previously prepared for the information of the Executive Board, is being published since 2021.

SDR TRADING OPERATIONS

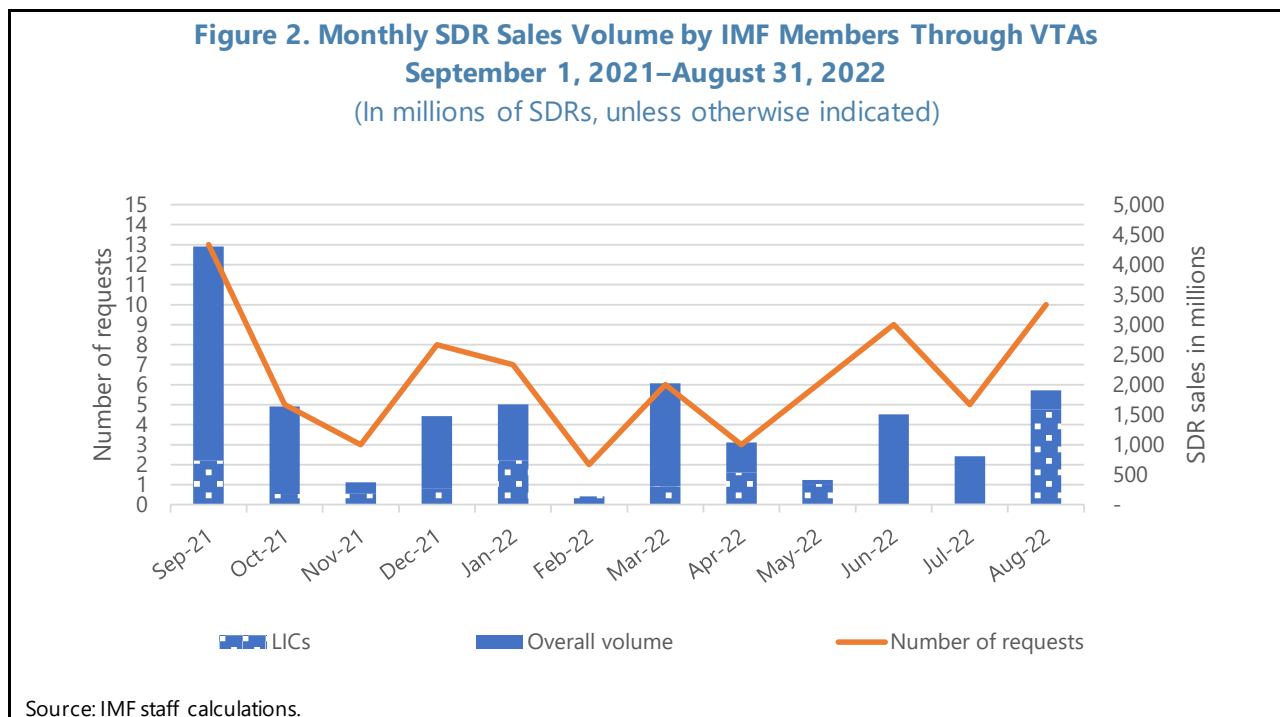
4. This section summarizes SDR trading operations for the past 12 months and trends over the last five years (2017–2022).⁴ Specifically, it provides information on SDR sales through VTAs, SDR acquisitions through VTAs and the GRA and other SDR operations.

³ SDR acquisitions from the GRA can only be arranged to cover a shortfall in member's SDR holdings arising from upcoming GRA and SDR charges payable within 30 days.

⁴ The annual reporting period for SDR transactions for this paper is September 1, 2021, to August 31, 2022, while the cumulative period is from January 1, 2017, to August 31, 2022.

A. SDR Sales Through VTAs

5. As a consequence of the General SDR allocation in 2021, the number and volume of SDR sales through VTAs increased significantly in comparison with the prior 12-month period. From September 2021 to August 2022, there were 148 SDR sales transactions amounting to SDR 18.3 billion compared to 30 sales totaling SDR 1.7 billion during the previous 12 months. 48 IMF members sold SDR 17.3 billion through VTAs, while prescribed holders sold SDR 1.0 billion.⁵ All member sale requests (ranging from SDR 37 thousand to SDR 1.7 billion) were made by Emerging Markets and Developing Countries (EMDCs), with Low Income Countries (LICs) accounting for 29 percent of the total SDR sales volume.⁶ Members sold on average of SDR 360 million in the reporting period, which is equivalent to 82 percent of their individual 2021 allocations.⁷ After the 2021 allocation, the monthly number and volume of sales through VTAs increased significantly in September 2021 (total SDR 4.3 billion), but has come down since then with an average of SDR 1.4 billion per month (Figure 2). Cumulatively, for the period since January 2017, SDR sales have totaled SDR 34.1 billion (360 transactions with an average size of SDR 95 million) by 63 SDR participants and 4 prescribed holders (Table 1 and Figure 3).



⁵ In addition, between August 23, 2021 (the day when the SDR allocation took effect) and August 31, 2021, five members sold SDR 0.8 billion through the VTA market.

⁶ LICs are a subset of EMDC countries and are defined as PRGT-eligible countries.

⁷ Some members sold their SDRs in multiple tranches.

Table 1. Summary of SDR Sales Through VTAs
January 1, 2017–August 31, 2022^{1,2,3}

(In millions of SDRs, unless otherwise indicated)

	2017	2018	2019	2020	2021	Jan-Aug 2022	Total	Sep 2020- Aug 2021	Sep 2021- Aug 2022
Number of Sales Requests ⁴	55	40	45	33	53	55	281	27	90
Number of Transactions ⁴	61	47	49	34	83	86	360	30	148
<i>Of which:</i>									
in connection with GRA lending	21	23	19	1	1	-	65	1	-
in connection with PRGT lending	22	11	11	20	5	-	69	11	1
in connection with PRGT liquidity	7	6	12	6	5	3	39	5	4
others	11	7	7	7	72	83	187	13	143
Total amount of SDR sales	4,241	3,898	4,179	2,173	9,532	10,080	34,103	1,721	18,338
<i>Of which:</i>									
in connection with GRA lending	3,019	2,903	2,945	200	144	-	9,211	144	-
in connection with PRGT lending	617	348	633	1,701	164	-	3,463	507	49
in connection with PRGT liquidity	465	538	437	196	242	115	1,993	217	175
others	140	110	165	76	8,982	9,965	19,438	853	18,114

Source: IMF staff calculations.

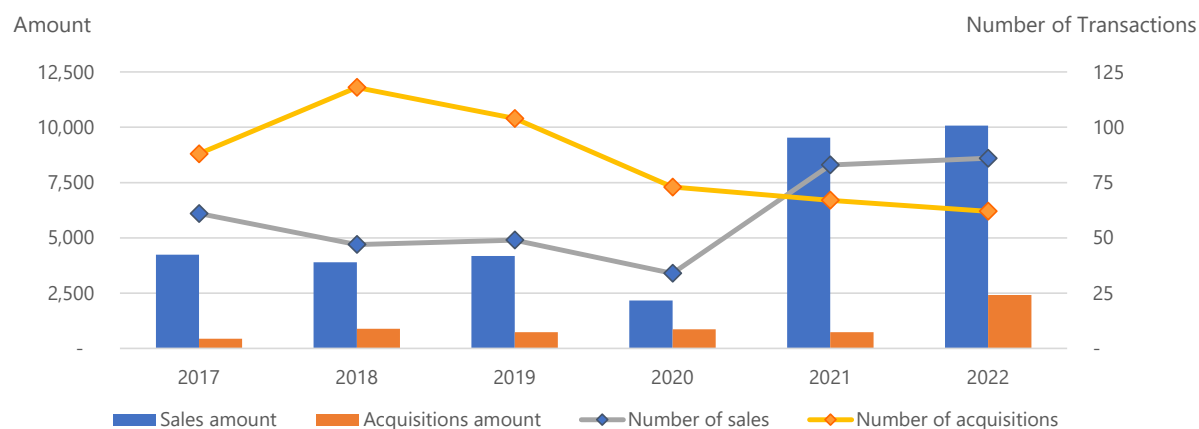
¹ Periods run from January to December unless indicated otherwise.

² Sales in connection with GRA and PRGT lending relate to sales of SDRs which were received by borrowers in GRA purchases or PRGT loans. Sales in connection with liquidity ensure that concessional financing vehicles have appropriate currencies to cover financial operations. Sales in the “others” category pertain to requests received directly from SDR participants or prescribed holders.

³ Table may include small differences due to rounding.

⁴ Number of transactions might be higher than number of sale requests since multiple counterparties and/or currencies might be needed to fulfill one sale request.

Figure 3. SDR Sales and Acquisitions Through VTAs
January 1, 2017–August 31, 2022¹
(In millions of SDRs and number of transactions)



Source: IMF staff calculations.

¹ Periods run from January to December except for the year 2022, which covers the period from January through August (last available observation).

6. A significant share of the 2021 SDR allocation has been retained by members to supplement their reserve assets. From September 2021 to August 2022, SDR sales through VTAs by IMF members have amounted to 3.8 percent of the 2021 SDR allocation. All sales were by EMDCs and LIC sales amounted to 1.1 percent of the new allocation. Members also continued to use their SDRs to settle obligations with the IMF including payment of interest and repayment of IMF financing. Staff will issue an ex-post report on the use of SDRs by end-2023, in line with commitments made at the time of the SDR allocation. Information on members' use or plans to use SDRs, drawn from staff reports on Fund arrangements or Article IV consultations published after the 2021 general allocation, is available on the IMF website.⁸

B. Acquisitions of SDRs Through VTAs and GRA

7. On the demand side, purchases of SDRs somewhat dropped in numbers but increased in volume relative to the previous reporting period. In the period of September 2021 to August 2022, there were 90 acquisitions in the amount of SDR 2.9 billion, compared to 101 transactions for SDR 1.3 billion in the previous 12 months. The slight decrease in the number of acquisitions is a result of the SDR allocation, which provided new SDRs to all participants in the SDR Department thereby reducing the need for members to acquire SDRs. However, in the second half of the 12-month reporting period, the volume of acquisitions increased primarily due to the establishment of the Administered Account for Ukraine, which has received contributions in currencies that needed to be subsequently converted into SDRs (the transactions amounted to about SDR 1.6 billion).⁹ Since January 2017, the Fund assisted 70 members and 2 prescribed holders in over 500 purchase transactions through VTAs amounting to SDR 6.1 billion, while a total of 166 transactions (SDR 2.8 billion) were handled through the GRA (Table 2).

8. There are currently 24 members with SDR holdings of less than five percent of their cumulative allocation.¹⁰ As indicated above, several SDR participants sold close to their full allocation. Members are strongly encouraged to continue monitoring their SDR balances to ensure they have sufficient SDRs to meet upcoming obligations to the IMF payable in SDRs.¹¹ This is particularly important in a period of rising interest rates where the charges on SDR denominated obligations are expected to increase over time.¹² Staff will continue to monitor SDR balances and prompt members to ensure timely acquisition of SDRs.

⁸ Tracker on the Allocated Use of SDRs: <https://www.imf.org/en/Topics/special-drawing-right/SDR-Tracker>

⁹ IMF Press Release on Establishment of a Multi-Donor Administered Account for Ukraine. <https://www.imf.org/en/News/Articles/2022/04/08/pr22111-imf-executive-board-approves-establishment-of-a-multi-donor-administered-account-for-ukraine>

¹⁰ The day before the 2021 SDR allocation on August 22, 2021, 30 members had holdings below five percent.

¹¹ Members are required to pay net SDR charges in SDRs. They may also decide to cover other obligations such as repurchases in the GRA or principal repayments in PRGT in SDRs.

¹² The average SDR interest rate has increased from .05 percent as of end-September 2021 to 1.566 percent as of end-August 2022 reflecting the global increase in interest rates. See <https://www.imf.org/external/np/fin/data/query.aspx>

Table 2. Summary of SDR Acquisitions Through VTAs
January 1, 2017–August 31, 2022^{1,2}
(In millions of SDRs)

	2017	2018	2019	2020	2021	Jan-Aug 2022	Total	Sep 2020- Aug 2021	Sep 2021- Aug 2022
Number of Requests through VTAs	86	116	104	73	66	56	501	72	68
Number of Transactions through VTAs	88	118	104	73	67	62	512	73	74
Amount of acquisitions through VTAs	448	891	740	863	740	2,422	6,104	927	2,531
<i>Memorandum Item:</i>									
<i>Acquisitions of SDRs from GRA</i>									
Number of Requests	25	31	27	19	22	15	139	28	16
Number of Transactions	38	41	31	19	22	15	166	28	16
Amount	768	482	599	335	263	335	2,782	343	345
<i>Total Number of Transactions</i>	126	159	135	92	89	77	678	101	90
<i>Total Amount</i>	1,216	1,373	1,339	1,198	1,004	2,757	8,887	1,270	2,875

Source: IMF staff calculations.

¹ Periods run from January to December unless indicated otherwise.

² Table may include small differences due to rounding.

C. Other SDR Transactions

9. While most transactions are channeled through VTAs, SDR transactions can also be conducted bilaterally between participants or prescribed holders. Historically, bilateral transactions have not been significant, with an average annual amount over the last five years of only SDR 0.2 billion. These transactions primarily relate to the settlement of financial obligations between counterparties or between participants and their regional central banks. The increase observed in calendar year 2021 was due to bilateral sales after the 2021 SDR allocation, while the rise in 2022 is mainly explained by a settlement of financial obligation between a participant and prescribed holder. Cumulatively since 2017, 193 bilateral transactions have been conducted in the amount of SDR 1.2 billion (Table 3).

Table 3. SDR Bilateral Trades
January 1, 2017–August 31, 2022¹
(In millions of SDRs)

	2017	2018	2019	2020	2021	Jan-Aug 2022	Total	Sep 2020- Aug 2021	Sep 2021- Aug 2022
Number of Transactions	34	34	30	32	36	27	193	36	38
Amount	49	271	26	41	376	438	1,201	219	615

Source: IMF staff calculations.

¹ Periods run from January to December unless indicated otherwise.

VOLUNTARY TRADING ARRANGEMENTS (VTAs)

10. VTAs have ample capacities to accommodate future exchanges of SDRs. The SDR trading capacities are determined by considering the minimum and maximum SDR amounts that a VTA member is willing to hold, which is called the trading range, and the actual SDR holdings of each VTA member. The purchasing and selling capacities at end-August 2022 remain large at about SDR 237 billion and SDR 134 billion, respectively. Specifically, both capacities increased from SDR 234.1 billion to purchase SDRs and SDR 109.0 billion to sell SDRs as of end-September 2021. The increases were primarily due to new VTA members joining the market (Algeria, Brazil, Estonia, Lithuania, Oman, and Singapore) and several existing VTAs updating their absolute trading ranges. Table 4 represents the purchasing and selling capacities by various trading ranges and Figure 4 provides a regional perspective of VTAs.

Table 4. VTAs: Trading Ranges Including Average Purchasing and Selling Capacity as of August 31, 2022
(In millions of SDRs, unless otherwise indicated)

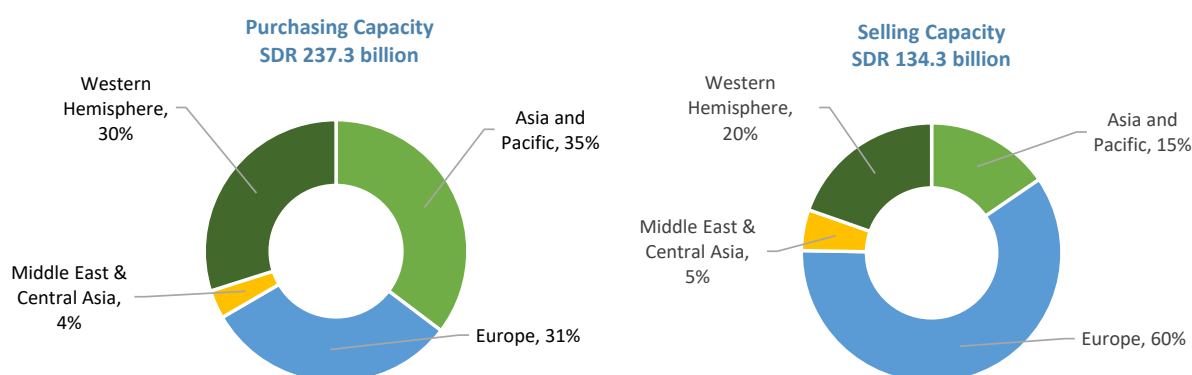
Arrangements	Trading Range (In percent of Net Cumulative Allocations)	Number	Purchasing Capacity	Average Purchasing Capacity	Selling Capacity	Average Selling Capacity
Standard	50 – 150	12	39,198	3,266	44,808	3,734
Eurosystem ^{1,2}	65 – 135	18	65,980	3,666	60,008	3,334
Other various ranges	35 – 200	8	132,092	16,511	29,460	3,682
Total		38	237,270	6,244	134,276	3,534

Source: IMF staff calculations.

¹ Two non-euro system members have adopted this range. Includes the nominal trading range for the ECB, a prescribed holder of SDRs, that adds to the euro area trading capacity.

² Includes the purchasing and selling capacity of one VTA member that had credit outstanding to the Fund within last 12 months.

Figure 4. Purchasing and Selling Capacity of VTAs by Region as of August 31, 2022

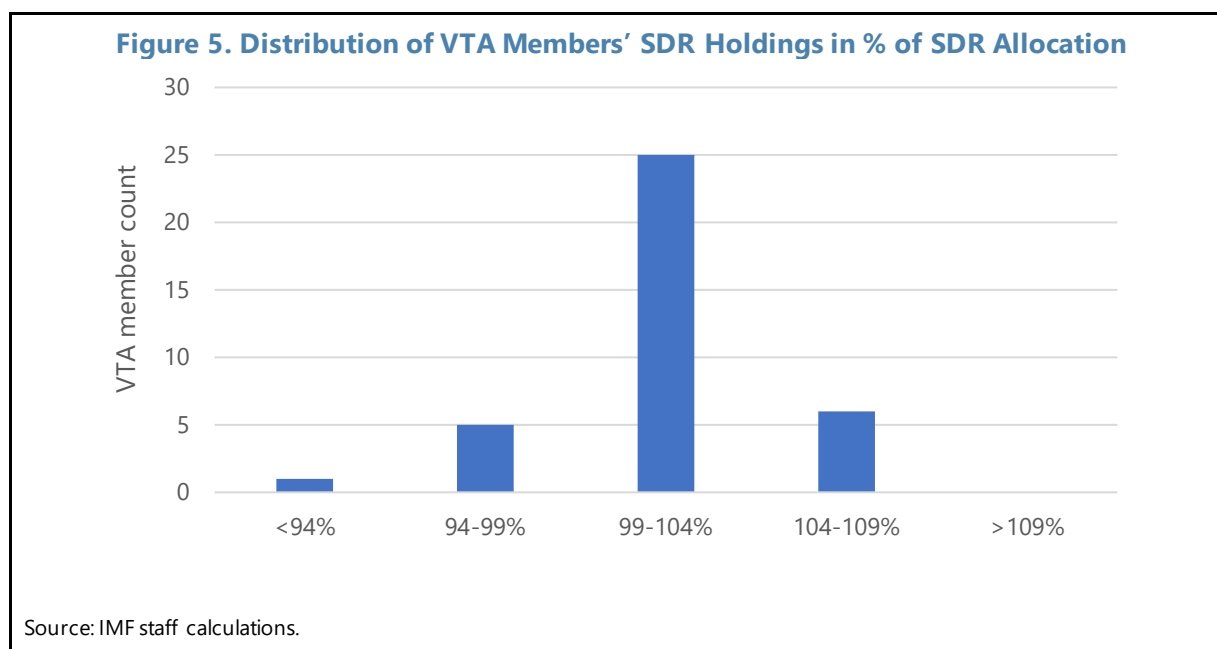


Source: IMF staff calculations.

11. In distributing sale and purchase requests across VTAs, staff carefully considers a range of criteria that aim at ensuring equitable use over time. Specifically, they include:

- **The relative dispersion of SDR holdings.** This criterion is based on the ratio of SDR holdings-to-allocation of individual VTA members; for example, a VTA member with relatively low SDR holdings-to-allocation ratio would be more likely to be called to purchase SDRs.
- **The scope of VTAs to absorb a given transaction.** The deviation of SDR holdings from the mid-point VTA trading range determines how far each individual VTA is from its minimum and maximum trading ranges, usually set as a percentage of allocation. This criterion is designed to take into account the variety of trading ranges across the VTAs.
- **Other considerations.** These include the relative use of each VTA as a share of allocation of total VTAs, individual transaction and counterparty limits, currency preferences, notification periods and holidays, and the need to split large requests among multiple VTAs.

12. The outlined modalities have been successful in spreading SDR transactions across VTAs. In the reporting period, 37 VTAs were utilized and each VTA member participated on average in 6 SDR trades (Table 5).¹³ SDR holdings of VTA members are clustered tightly around the median holdings-to-allocation ratio of 101.6 percent (Figure 5). Reflecting the commitment of VTA members to facilitate increased sales of SDRs after the allocation, the SDR holdings-to-allocation ratio of VTA members increased on average by about 2.7 percentage points during the reporting period. Higher frequency information on the participation of VTAs in SDR trading operations can be found in the IMF's quarterly financial report (see section on SDR Reporting below).



¹³ One VTA member had credit outstanding to the IMF until recently and therefore, has not been approached for SDR trading operations. Staff plan to re-engage with the VTA member in the next year.

Table 5. SDR Sales and Acquisitions VTA Participation Including Purchasing and Selling Capacity by Region September 1, 2021–August 31, 2022¹

Sales of SDRs						
Region	Number of VTAs Available	Number of VTAs Used	Number of Sales	Amount of SDR Sales (millions)	Percent of Sales	Percent by Purchasing Capacity ²
Asia and Pacific	6	6	35	5,371	29	35
Europe	24	23	73	7,176	39	31
Middle East & Central Asia	3	3	8	442	2	4
Western Hemisphere	5	5	32	5,349	29	30
<i>Total</i>	<i>38</i>	<i>37</i>	<i>148</i>	<i>18,338</i>	<i>100</i>	<i>100</i>
Acquisitions of SDRs						
Region	Number of VTAs Available	Number of VTAs Used	Number of Acquisitions	Amount of SDR Acquisitions (millions)	Percent of Acquisitions	Percent by Selling Capacity ²
Asia and Pacific	6	5	15	1,062	42	15
Europe	24	14	45	1,047	41	60
Middle East & Central Asia	3	2	2	1	0	5
Western Hemisphere	5	3	12	420	17	20
<i>Total</i>	<i>38</i>	<i>24</i>	<i>74</i>	<i>2,530</i>	<i>100</i>	<i>100</i>

Source: IMF staff calculations.

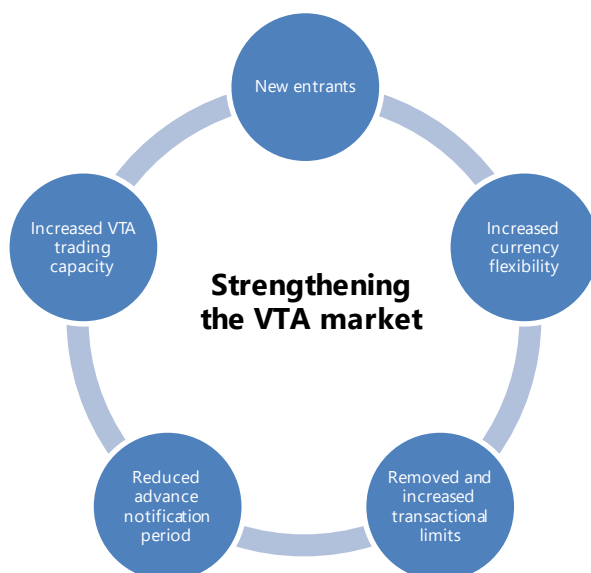
¹ VTA members (if any) with terminated VTA during the reported period are not included in the Table. No VTAs were terminated in the current period.

² Data as of August 31, 2022.

13. Staff welcomed eight new VTA members and implemented additional operational flexibilities in the existing VTAs to further strengthen the voluntary trading market. In line with the call by the membership at the time of the SDR allocation to expand and strengthen the VTA trading market, staff has successfully onboarded eight new VTA members—Algeria, Brazil, Estonia, Lithuania, Luxembourg, Mauritius, Oman, and Singapore—that have been finalized since the 2021 allocation.¹⁴ The recent addition of Mauritius has provided for some further geographical diversification of the VTA market, being the first by a sub-Saharan African member. Several other VTAs are under discussion, particularly in the context of channeling of SDRs, in which having a VTA in place is strongly encouraged.¹⁵ In addition, there is scope to provide additional operational flexibilities in existing VTAs, such as increasing or removing transactional limits. Staff will continue to engage with existing VTA members and potential new entrants to further enhance the operational capacities of the VTA market (Figure 6).

¹⁴ For more information, refer to the Status of SDR Trading Operations Board Paper issued in October 2021. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/10/26/Annual-Update-on-SDR-Trading-Operations-498096>

¹⁵ Following the 2021 General SDR allocation, the IMF has reached out to members that have historically participated in other Fund financing initiatives (i.e. NAB, PRGT, BBAs) and have VTAs to encourage them to voluntarily channel SDRs under the various IMF initiatives.

Figure 6. Measures to Strengthen the VTA Market

Source: IMF Finance Department

SDR REPORTING

14. The Fund has increased the disclosure of information about SDR transactions. The IMF's annual and quarterly financial reports include holdings and allocations by member and aggregate data about SDR flows.¹⁶ The quarterly financial reports that include individual member's SDR holdings also provide net changes in those holdings split in two broad categories: (i) those related to IMF operations; and (ii) SDR trading and other uses.¹⁷ Separately, the IMF Finances webpage continues to publish monthly information on SDR holdings and allocations of participants.¹⁸ The periodic IMF Financial Operations publication also provides extensive information on the functioning of the voluntary SDR trading market and includes details on the operating modalities, capacity, trading by region, and aggregate transaction volumes.

¹⁶ See <https://www.imf.org/data/imf-finances>

¹⁷ See <https://www.imf.org/en/Data/IMF-Finances/Quarterly-Financial-Statements>

¹⁸ See <https://www.imf.org/external/np/fin/tad/query.aspx>