



Executive Board Minutes 22/44-2

May 11, 2022–11:30 a.m.

Review of the Method of Valuation of the SDR

Documents: EBS/22/27 and Cor. 1, and Sup. 1, and Sup. 2

Staff: Bauer Stampfli, Murgasova, and Nkusu-Mulumba, FIN; Sosa Ravello, SPR

Length: 1 hour, 15 minutes

ISSUED: March 8, 2023

APPROVAL: March 15, 2023

CEDA OGADA
Secretary

TABLE OF CONTENTS¹

The Acting Chair’s Summing Up	3
Executive Board Decision	4
Executive Board Attendance	6
Discussion Record	8
Annex	26
○ Gray Statements	
○ European Central Bank Statement	
○ Staff’s Responses to Executive Directors’ Technical Questions	
○ Constituency Codes	

¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors concluded the quinquennial review of the method of valuation of the Special Drawing Rights (SDR). They supported maintaining the current method of valuation of the SDR, including the selection criteria for inclusion in the basket and the methodologies for determining the currency weights and currency amounts in the basket, while formalizing the current practice and accepted statistical method of dealing with data gaps. Directors agreed to maintain the current composition of the SDR currency and interest rate baskets and approved their updated weights in the baskets.

Directors concurred that the export criterion and the freely usable criterion should continue to guide decisions on inclusion of currencies in the basket. They also agreed to maintain the methodology introduced in the 2015 review for determining currency weights and amounts in the SDR basket. Directors encouraged future reviews to include further analysis of the weights used in the formula to ensure that it continues to adequately capture the role of currencies in global trade and financial markets. They agreed that data gaps for indicators used in the SDR valuation review should be addressed by using available data within the relevant five-year period consistent with past practice, while continuing to explore availability of alternative variables to minimize data gaps.

Directors noted that based on developments in trade and financial markets over the period 2017-2021, the updated weights in the SDR basket maintain the same ranking of the initial weights set in the 2015 review, with slightly higher weights for the U.S. dollar and the Chinese renminbi and, accordingly, somewhat lower weights for the British pound, the euro, and the Japanese yen. Directors concurred that neither the COVID-19 pandemic nor advances in Fintech have had any major impact on the relative role of currencies in the SDR basket so far. They called for continuous monitoring of implications for the SDR valuation framework from fintech and other developments, including potential economic and financial fragmentation and high inflation. A few Directors also called for monitoring implications of economic sanctions on the valuation framework.

Directors welcomed the update on operational issues raised in previous reviews through a survey of SDR users and the finding that most users do not experience significant operational challenges using SDRs or operating in the five SDR basket currencies' markets. They noted however that the survey identified some remaining operational challenges for the currencies in the basket. In this context, Directors broadly acknowledged the progress made on financial market reforms in China, while calling for additional efforts to further open and deepen the onshore renminbi market, with some Directors also stressing the need to further enhance data transparency.

Directors agreed with the Managing Director's proposal for the next SDR review to take place on a five-year basis, to be concluded before end-July 2027.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision:

Review of the Method of Valuation of the SDR

1. Decision No. 15891-(15/109), adopted November 30, 2015, as amended, on the method of valuation of the Special Drawing Right (the “Decision”), shall be further amended as follows:

a. Paragraphs 3, 4 and 5 of the Decision shall be renumbered 4, 5 and 6, respectively, and the references to paragraphs 3 and 4 in the Decision shall be amended to refer to paragraphs 4 and 5, respectively.

b. The following paragraph 3 shall be added to the Decision:

“3. In the event that the data needed to assess the variables set out in Paragraphs 2(a) to 2(d) is not readily available for one or several of the currencies for the period under consideration, the data gaps shall be addressed consistent with accepted statistical methods as follows:

(a) in cases where year-end data for a calendar year of the relevant five-year period is not available, the latest available data for a currency for that same year would be used; and

(b) in cases where data for a currency for one or more calendar years of the relevant five-year period is not available, the data available in that five-year period would be used for that currency.”

c. References in the new paragraph 5 of the Decision to “October 1, 2021, and thereafter on the first day of each subsequent period of five years” shall be revised to read “August 1, 2027 and thereafter on the first day of each subsequent period of five years.”

2. The Executive Board, having reviewed the list and the weights of the currencies that determine the value of the special drawing right (SDR) in accordance with Decision No. 15891-(15/109), adopted November 30, 2015 as amended, decides that, with effect from August 01, 2022, the list of the currencies in the SDR valuation basket shall remain the same, and the weight of each of these currencies to be used to calculate the amount of each of these currencies in the basket will be as follows:

Currency Weight (in percent)

U.S. dollar 43.38

Euro 29.31

Chinese RMB 12.28

Japanese yen 7.59

Pound sterling 7.44

(EBS/22/27, Sup. 1, 05/09/22)

Decision No. 17247-(22/44), adopted
May 11, 2022

EXECUTIVE BOARD ATTENDANCE²

K. Okamura, Acting Chair

Executive Directors

S. Chodos (AG)

Z. Jin (CC)

P. Jennings (CO)

D. Palotai (EC)

T. Tanaka (JA)

M. Poso (NO)

A. Mozhin (RU)

A. BinZarah (SA)

R. Lim (ST)

P. Trabinski (SZ)

Alternate Executive Directors

V. Vumendlini (AE)

A. Olhaye (AF), Temporary

A. Grant (AP)

B. Saraiva (BR)

A. Guerra (CE)

C. Roman (FF)

A. Rieck (GR)

R. Goyal (IN), Temporary

M. Massourakis (IT)

M. El Qorchi (MD)

M. Choueiri (MI), Temporary

M. Ghalanos (NE), Temporary

D. Ronicle (UK)

A. Medearis (US), Temporary

G. Bauche, Acting Secretary

J. Puig, Summing Up Officer

D. Jiang / B. Zhao, Board Operations Officers

M. McKenzie, Verbatim Reporting Officer

Also Present

Asia and Pacific Department: K. Harada, M. Kaufman, S. Panth. Communications Department: W. Amr, N. Ismail. European Central Bank: D. Rakitzis, R. Rueffer. European Department: D. McGettigan. Finance Department: P. Attie, W. Bauer Stampfli,

² For countries in each constituency, please see the Constituency Codes in the annex.

C. Beaumont, C. Blandin de Soyres, Q. Chen, M. Cobanera, G. Everaert, H. Hatanpaeae, S. He, B. Khan, T. Konuki, B. Lauwers, F. Moreau, Z. Murgasova, M. Nkusu-Mulumba, E. Rots, S. Saveikyte, O. Unteroberdoerster, Z. Xie. Legal Department: H. Pham, A. Rosha, B. Steinki, J. Swanepoel. Middle East and Central Asia Department: A. Arvanitis, C. Geiregat, R. van Rooden. Office of Risk Management: B. Boultwood. Strategy, Policy, and Review Department: K. Kostial, E. Pondi Endengle, S. Sosa Ravello, M. Takebe, D. Velculescu, Y. Wu. Statistics Department: P. Tumbarello. Executive Directors: A. Andrianarivelo (AF), S. Bhalla (IN), C. Huh (AP), I. Mannathoko (AE), M. Mohieldin (MI), P. Moreno (CE), Z. Zhang (CC). Alternate Executive Director: A. Alhosani (MI), M. Alrashed (SA), C. Amarasekara (IN), H. Azal (EC), L. Herrera (AG), C. Just (EC), M. Kashima (JA), A. Marcussen (NO), F. Mochtar (ST), W. Nakunyada (AE), R. N'Sonde (AF), F. O'Brolchain (CO), O. Parkyn (AP), J. Romero (CE), F. Sylla (AF). Senior Advisors to Executive Directors: M. Alle (AF), H. Andrianometiana (AF), X. Bai (CC), E. Cartagena (CE), R. Cunningham (CO), J. Garang (AE), V. Grossmann-Wirth (FF), L. Johnson (AP), B. Lischinsky (AG), M. Maidu (AE), S. Naka (JA), D. Ong (ST), C. Quagliarini (IT), J. Rojas (CE), H. Saeed (SA), C. Sassanpour (MD), S. Spurga (NO), N. Thiruvankadam (IN), A. Tolstikov (RU), S. Wongwaisiriwat (ST), B. Yoo (AP). Advisors to Executive Directors: N. Abu Bakar (ST), F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), R. Bah (AF), Dennis Bautista (ST), C. Becker (AP), A. Biriukv (RU), B. Boostani (MD), Campbell (UK), J. Corvalan (AG), F. Dogan (EC), K. Florestal (BR), D. Hamzah (MI), P. Khademi (GR), A. Korinthios (IT), V. Lankester Campos (CE), C. Mastrapasqua (IT), G. Meizer (EC), M. Merhi (MI), R. Moral Betere (CE), A. Nainda (AE), L. Nankunda (AF), C. Ramos Capaquira (AG), E. Shimada (JA), B. Singh (IN), C. Westphal (US), O. Zubareva (RU), J. Barroso (BR), M. Law (CC), F. Lopez (CE), A. Tola (SZ).

DISCUSSION RECORD³

The Acting Chair (Mr. Okamura):

As we know, the method of valuation of the SDR is normally reviewed every five years. In March 2021, the Board approved an extension of the current SDR basket by 10 months, from September 30, 2021, to July 31, 2022, to allow for a prioritization of work during the COVID-19 crisis.

Today's discussion on the SDR valuation review covers the composition and weighting of the SDR currency basket and the financial instruments used to determine the SDR interest rate for the next five years. The staff report for today's meeting reviews developments in the international role of currencies over the period 2017-2021. On this basis, it makes three proposals.

First, maintaining the current composition of the SDR currency and interest rate baskets, as well as the method for determining the currency weights and currency amounts in the basket.

Second, updating weights of the currencies in the basket for the new basket that will enter into effect on August 1, 2022, for a five-year period ending July 31, 2027.

Third, amending the valuation decisions to formalize the current practice of closing data gaps for variables that determine currency weights by using all available data for the relevant five-year period, while leaving unchanged all other aspects of the method of valuation of the SDR.

The Deputy Director of the Finance Department (Mr. Bauer):

First, I would like to thank Directors for the thoughtful comments in their gray statements. There were major changes made to the method of valuation and to the composition of the SDR basket at the time of the last review, in 2015, importantly, with the inclusion of the renminbi (RMB) in the basket. And it is reassuring to see the high degree of consensus and support among Directors for the current setup and the overall framework of SDR valuation.

³ Edited for clarity.

Directors will have seen our technical answers to the questions that were circulated by the Secretary's Department. I would just like to alert the Board to a small correction we discovered this morning, a slight typo in question one. We were discussing the difference between the end-September and end-December data on international banking liabilities, the change in December '21 versus September was 0.2 percent, not 2 percent. These quarterly changes are generally very small, and thus using the end-September data for our valuation purposes does not make a big difference. I am sorry for the oversight. We will circulate a corrected version for the records and for posterity.

At this point, I will just briefly address two remaining questions. The first one relates to the ongoing war in Ukraine and the potential impact on SDR valuation-related variables. As a general matter, the war in Ukraine and its impact on the international role of currencies is outside of the scope of the current review. Consistent with the Board-approved method of valuation, this review focuses strictly on developments in the most recent five-year period, which is 2017-2021. So, any impact from the war in Ukraine would feed into the next valuation review which is proposed to take place in mid-2027. And in that context, we would look at the time period from 2022 to 2026 for valuation variables. As I said, the immediate impact is really in the scope of the next valuation review.

Now, overall, the SDR valuation method is intended and designed to capture long-term trends in the use of currencies in international trade and for financial transactions. While the war in Ukraine and its spillovers are a major concern, and we are rightly focusing on them at this moment, the shock is still very recent, and its broader implications are still very uncertain—it would, therefore, be premature at this stage to assess or predict the impact on the international use of currencies.

Conceptually, if the war were to cause a broader retreat from multilateralism or deglobalization, and an increase in economic fragmentation, the world could experience structural shifts in the patterns of trade and financial transactions, including through the realignment of trade flows, changes in supply chains, changes in investment preferences, et cetera. And the extent to which such developments would have a sustained impact on the relative international use of the currencies in the SDR basket and other currencies, would remain to be seen. We will look at that in due course. What we can say now is that, given the inertia that we generally observe in the use of reserve currencies, even in such a scenario, any changes will likely take some time to materialize. The staff will continue to monitor and analyze

developments in trade and financial flows and the use of currencies. And we will report on them, if there are major changes, in due course to the Board.

The other question I would like to address up front here references to the impact of high inflation and perhaps even persistently high inflation on the SDR valuation framework. The SDR basket consists of currencies that are expected to play an important role as international reserve assets. In this context, what really matters is not the global rate of inflation per se but, rather, the extent to which it is characterized by high and persistent inflation differentials across major economies because these differentials could be expected to affect the performance of currencies and, by extension, their usefulness as a medium for international transactions and as a store of value.

Now, any resulting change or shift in the use of currencies globally would be picked up by the current valuation methodology. For example, if we assume that exchange rates respond to these inflation differentials, the effective weights of the SDR basket would change in favor of appreciating currencies which--everything else equal--would be those that exhibit relatively stronger price stability. We have a box in the staff report, Box 2, where we can see the mechanics or the impact of nominal exchange rates on the weights of the SDR basket.

And the nature of the high inflation environment would also matter more in the longer term because persistent asymmetries in inflation are likely to increase exchange rate volatility and affect the competitiveness of the most inflation-prone economies. And then, over time, this could be expected to negatively affect their financial flows and their trade flows. Such shifts, again, will be reflected in the valuation indicators that we have; and, therefore, they would have an impact on future valuation reviews.

Finally, I would like to acknowledge and thank Directors for a number of suggestions that they made on possible areas of analysis for the next SDR valuation review. These include the feasibility of using different interest rate instruments, such as a single benchmark rate for the euro area, for example; looking at the appropriate balance of the variables in the weighting formula; but also the implications of greater use and future developments in digital money for cross-border purposes. We will consider these and other suggestions at the scoping stage for the next SDR valuation review.

Mr. Tanaka:

As we broadly agree with the staff assessment and the proposals, we would like to offer the following comments for emphasis.

First, we can support maintaining the completion of the SDR currency valuation method to calculate weights and the proposed weights. We note that the pandemic did not cause a significant change to the presence of the five currencies comprising the SDR.

Secondly, having said that, we consider there is a growing need to revisit the appropriate balance between trade and financial transactions in the formula. While stability will be an essential feature for the weighting formula, it should reasonably capture the changing nature of the international financial and trade activities. Since the 50/50 ratio between trade and financial transactions was established, the structure of the global economy has been changing significantly. The value on financial flows overwhelms the volume of trade flows, and this justifies the discussion on increasing the relative weight of the financial variables toward the future reviews.

Thirdly, on the Chinese renminbi, we positively note that data availability has been improved, so that the SDR valuation has enhanced the consistency and comparability among currencies. Still, the survey results show that the renminbi has operational challenges to be improved. In this regard, we expect the Chinese authorities to strive for further reforms to increase capital market openness and foreign exchange flexibility in order to enhance the quality of the SDR as a reserve asset.

Fourth, we welcome the staff's attention and reference to the fintech issue in this review. We stress that it is critical to keep an eye on the potential implications of digital money for the SDR valuation. In particular, while the central bank digital currencies (CBDCs) have not been critical for the SDR valuation framework, the advance of fintech is rapid and warrant close monitoring. If the issuance would become widespread, consideration should be taken for CBDCs to be reflected in the framework of the international monetary and financial system.

Lastly, in this time of heightened risk of global fragmentation, we all need to reconfirm and agree on the importance, integrity, and universal value of SDRs.

Mr. Ghalanos:

We did not issue a gray statement. In addition to agreeing with staff proposals, we would like to raise the following three points.

First, we support the calls for more and timely outreach toward the central banks issuing the currencies composing the SDR basket regarding the use of the financial variables and their relative weighting.

Second, in view of the ECB representative conveying, in his written statement, basically his openness to examining the possibility of including a single euro area benchmark rate for future SDR reviews, we support that there should be a comparative analysis, vis-à-vis the benchmark rate currently used in such an event.

Third, following from the remarks raised by staff this morning on the war in Ukraine, and those from Mr. Andrianarivelo, Mr. Bevilaqua, Mr. Jennings, and Mr. Moreno, we consider it useful to have a digital analysis on the impact of the SDR valuation from the war in Ukraine in the future, next to COVID and fintech.

Mr. El Qorchi:

We issued a joint gray with two other chairs and would like to emphasize the following technical points here.

First, we broadly concur with the staff's assessment and support the proposed decision.

Second, as mentioned by Mr. Palotai and Mr. Moreno, in their gray statements, it is crucial to closely monitor all factors, such as cryptoassets, that may have a potential impact on the SDR basket currencies. Like Mr. Andrianarivelo, we welcome the risk assessment of the valuation framework and the introduction of the Enterprise Risks section in the report.

Finally, and relatedly, we wonder whether economic sanctions imposed by issuers of SDR basket currencies had or could have any effects on the SDR basket or affect the value of reserve assets denominated in the currencies of the countries imposing sanctions. Recently, some members appeared to have substituted their reserve assets denominated in the currency of the sanctioned currency countries with sanction-proof assets, like gold. If the currencies of the sanctioned countries are in the SDR basket, what impact

would that have on the SDR as an international reserve asset? We welcome staff views.

Mr. Trabinski:

We agree with the proposed decision, and I would like to make a few points for emphasis.

First, we welcome that the SDR has remained broadly stable during the period under review. This is important for maintaining the attractiveness of the SDR as a reserve asset.

Second, we appreciate that the review takes place well in advance of the effective date of the revised SDR currency and interest rate baskets. This lapse gives enough time to SDR reviewers to make the necessary portfolio adjustments. In this context, we agree with Mr. Palotai's gray statement on the need to prepare for potentially significant changes in the final currency amounts, considering the recent high volatility of the SDR basket currencies.

Finally, we appreciate staff's efforts to keep track of all factors that could have a meaningful impact on the SDR basket. In this context, like Mr. Tanaka, Mr. El Qorchi, and Mr. BinZarah, among others, we note that staff has not found any systemic impact of the pandemic or the recent fintech developments on key SDR valuation variables. The latter will continue to merit attention, and we welcome the staff's efforts to keep abreast of developments in the areas of private digital money and central bank digital currencies.

Mr. Chodos:

We issued a gray statement with our main comments and concerns. We just want to make a couple of points for emphasis.

First, we acknowledge the resilience that the SDR has shown in the last years, particularly during the pandemic, even through the issuance of the extra liquidity of SDRs and how stable that has proved, vis-à-vis the SDRs. This shows that the incorporation of the renminbi that had occurred some years ago operationalized very well in the rest of the basket. As such, the main focus should be on operational issues. And we take very positive note of the assessment by Mr. Jin regarding extra seminars and making sure that it goes as smoothly as possible, the operational elements on the renminbi side. We think that this is a very good review, and we stand ready to have a very good,

comprehensive assessment on the operational issues and how we can have more uses for the SDR.

Mr. Pösö:

We have issued a gray, supporting the proposed decision. We see merit in maintaining the current method of valuation to ensure continuity, safeguarding confidence in the stability and usability of the SDR as an official international reserve asset.

For the next review, depending on data availability developments, we could be open to consider alternative variables that better capture the extent to which currencies are widely used or traded or better address the current data gaps, such as the low number of data points in some cases.

I also agree with Mr. Trabinski, in his gray statement, that reviews at regular intervals are important. Even with no changes to the valuation method, using annual averages over the five-year cycle can help capture long-term trends, including periods of elevated inflation, to which Mr. BinZarah, Mr. Mohieldin, and Mr. El Qorchi referred in their joint statement.

The inclusion of the Chinese renminbi in the SDR basket was a significant change during the previous review. We note the positive assessment by staff regarding the gradual opening and deepening of the Chinese capital markets. As Mr. Tanaka also mentioned, while many reforms have been implemented, reform gaps persist, including in data transparency. Access to China's onshore market can also be improved. In this respect, we welcome the tentative plans by the Chinese authorities to expand the trading hours in this market, as relayed by Mr. Jin in his gray statement.

Finally, we agree that the feasibility of a single euro area benchmark rate may be considered in the next review, depending on market developments. Joint debt issuance, as part of the EU's pandemic response, has been a landmark step in opening the doors for such a discussion. Any change in the interest rate used would need to include a comparison with the current benchmark rate, which is expected to remain as such for the upcoming years.

Ms. Medearis:

We issued a comprehensive gray statement, supporting the proposed decision in the review, so I will just underscore here a few points for emphasis.

First, we agree with the proposal to maintain the current composition of the SDR basket, and we can also go along with using the same methodology for calculating the five currencies' shares. With respect to the methodology, we encourage staff to consider proxies that would better capture the role of various currencies in global trade in future SDR basket reviews. For example, using exports plus imports, rather than only exports, would eliminate, in our view, a bias toward surplus economies. Alternatively, using the share of the trade invoice in each currency would better capture the role of each currency in global trade. We would appreciate views from staff regarding whether they consider these alternate measures to be feasible. We hope this can be addressed at the next five-year review. And we welcome Mr. Bauer's comments, about a willingness to consider some of these ideas in the next review.

We stress the importance of high levels of data transparency and reporting for the currencies in the basket. While not an explicit part of the SDR basket criteria, we expect the currencies within the basket will adhere to the highest standards of data transparency to help promote a stable and transparent SDR. This is a point we made during the 2015 SDR basket review as well. To this end, we encourage staff to provide details on the shortfalls and gaps in data transparency of SDR basket currencies, alongside operational issues in future SDR basket reviews.

We also encourage the Chinese authorities to follow through on regular, consistent, and accurate data reporting, with the support of IMF staff, and to subscribe to the Special Data Dissemination Standard (SDDS) Plus. We expect progress on these issues ahead of the next review.

We also welcome the U.K.'s assurances during the review of the Fund's Data Standards Initiatives, that they are looking for ways to adhere to SDDS Plus, as well.

Like other chairs, and as expressed today by Mr. Tanaka, we urge the Chinese authorities to take steps to address the operational challenges with transacting in renminbi, as highlighted in the staff report.

Finally, we agree that, at this juncture, fintech developments should not change the nature of the SDR basket. We also agree with the staff's plan to continue monitoring fintech developments ahead of the next review in five years.

Mr. Roman:

We did not publish a gray statement, but I can fully associate myself with the statements published by Mr. Pösö, Mr. Fanizza, Ms. Rieck, Mr. Moreno, Mr. Palotai, Mr. Trabinski, and the ECB representative, Mr. Ruffer.

I want to make three brief points.

First, we can support the decision proposed in the paper to maintain current composition of the SDR currency basket, to use the methodology agreed in the 2015 review, the clarification on data gaps, and the update on the relative weights of currencies in the SDR basket.

Second, we took good note of the results obtained from the survey of SDR Department participants on operational issues. According to respondents, operating across the five SDR basket currencies had occurred without major difficulties, which is very good news, even if some improvements are needed. Like Mr. Moreno and Mr. Guerra, we also validate the continuity of the financial instruments used to calculate the interest rate of the SDR. We welcome staff's assessment on the appropriateness of the five SDR's instruments and that they continue to meet the criteria, in line with the issuing authorities' views. I also welcome staff's analysis on the effects of the pandemic and fintech for this review that we found quite interesting and the additional details on the war in Ukraine provided this morning.

Third, we agree to conclude the next quinquennial review before end-July 2027, in line with the tradition of the five-year timeline. I also want to insist on outreach. Like Mr. Pösö, we agree that future reviews should assess the feasibility of including a single euro area benchmark rate, depending on market developments. I also want to underline that, in the next review, especially if changes to the formula are proposed, it is essential that there is a rigorous analysis and comprehensive prior consultations with all relevant stakeholders well in advance, including with the central banks issuing the currencies composing the SDR basket. It was stressed during the last review, back in 2015, so I really encourage the staff to make it happen going forward.

Mr. Palotai:

We support the proposed decision, so I will be very brief.

First, I would like to make a comment on the merits of the decision. We see no major structural change that would necessitate any change to the applied framework, apart from the formalization of the current practice dealing with data gaps. Hence, the proposal to maintain the current composition of the SDR currency and interest rate basket is well-founded and is also necessary to maintain the attractiveness of the SDR as a reserve asset.

Second, on the role of the RMB, we value the progress China has made in addressing RMB-related operational issues since the 2015 review, which helped to boost the international role of the RMB. As Mr. Pösö highlighted, and the findings of the recent survey indicate, there is still significant scope for advancing market-oriented financial reforms for facilitating access to the onshore market and for improving data transparency. We also emphasize the importance of further capital account liberalization which requires careful sequencing.

Finally, on monitoring, as Mr. Tanaka and Mr. El Qorchi mentioned, we also call for a close monitoring of digital currencies, as they could have implications for the SDR valuation framework. We also invite staff to continue to assess the availability of any new or enhanced data sets that can potentially be better used to capture the role of major currencies and close the data gaps.

Mr. Saraiva:

I will just make a few brief comments.

We issued a gray statement, supporting the completion of this review and the proposed decision. We basically agree that the valuation method is still fit for purpose and broadly appropriate. Also, we think that it is a healthy practice to account for the treatment of data gaps in a more formal way, as suggested, which at this point won't introduce any change in terms of our current practice. Also, in light of the broad stability of the valuation variables, we also agree to maintain the basket's composition.

Let me briefly touch on some of the special topics that were highlighted by staff.

First, we welcome the analysis of the impact of fintech and CBDC. Although at this point, this is not sufficiently material to impact the SDR valuation, we agree that this is a topic that will gain importance in the near-

future. So, we encourage staff to continue monitoring the developments and to adopt a forward-thinking approach on this issue.

On the analysis on the impact of the COVID-19 shock on valuation variables, we also welcome it and call for a further analysis of all the relevant shocks. In particular, we are very much concerned with the medium-term risks of economic and financial fragmentation, an issue that Mr. Bauer expanded on this afternoon. Therefore, it might be interesting for staff to perhaps stress-test the current system and focus on the robustness of the SDR system and valuation methodology under such circumstances.

Third, we welcome the survey on operational issues. We agree with the findings that a further opening and deepening of the renminbi onshore market would help to ease the operational concerns from reserve managers. We welcome the information provided by Mr. Jin in this respect and the forthcoming seminar to be promoted by the People's Bank of China (PBOC) with the different agents.

Finally, I would like to go a little beyond the specific scope of this meeting because the Fund could resume the discussion we had four years ago, about the role of the SDR and think a little outside the basket, especially given the recent substantial general allocation of SDR and the efforts to channel SDR, there is sufficient food for thought to take some of the issues that we somewhat left halfway in that discussion we had in 2018, about the role of the SDR. So perhaps a first step could be to invite outside experts that could bring some fresh air to the debate.

Mr. Jennings:

As noted in our gray statement, we support maintaining the current methodology for SDR valuation that the Board agreed to in 2015. We also agree with the updated weights that result from applying that methodology.

I will make only three brief points.

Firstly, we acknowledge the challenges with data gaps, and we agree with the staff's proposal to formalize the practices to deal with them. However, as some of the data are only available from triennial surveys, the issue is likely to persist. We would, therefore, echo the question posed by Mr. Palotai on whether appropriate alternative or supplementary variables are available that would entail fewer data gaps but would also note the staff's commitment in its response to the question to continue to assess the

availability and suitability of new or improved data sets in the context of SDR reviews.

Secondly, we note that several Directors have raised important issues for consideration at the next review in 2027. We see merit in the suggestion made by Ms. Riach, Mr. Tanaka, and others, that the next review could consider putting more emphasis on financial variables, as these flows are likely to continue to increase in size, relative to the global economy. Similarly, as Ms. Shortino and Ms. Medearis note, the currency of trade invoicing could be a relevant factor for SDR valuation, and we urge staff to assess its impacts for the next review.

Finally, we also support Ms. Shortino and Ms. Medearis's call for more emphasis on data transparency for the SDR basket currencies, consistent with the recent Board discussion on the review of data standards.

Mr. Guerra:

Let me just state very briefly, since we issued a comprehensive gray statement, three points. First, we support the points made by Mr. Pösö, Mr. Roman, and other Directors, and agree that future reviews should assess the feasibility of including a single euro area benchmark rate, depending on market developments. Also, as Mr. Tanaka and other Directors, we believe that staff should make a close analysis of the weights for the financial variables.

Last, but not least. In our gray statement, we highlighted the importance that, to look at the developments of cryptoassets and digital currencies, given the major impact that they could have for the world economy and cross-border payment systems.

Let me just make a complementary argument. That is that, looking forward, in a five-year horizon, given the developments that we are seeing in CBDCs, it will be important that staff—if there are major developments or significant developments in this area, the Board should be informed. We believe that even if CBDCs are used domestically, that could have an impact on the different variables that are taken into account in the financial part of the system. We encourage staff to consider exploring this analysis and, looking forward, the potential implications of CBDC issuance by the monetary authorities and specifically the ones that currently issue SDR basket currencies.

Ms. Vumendlini:

We issued a detailed statement in support of the proposed decision, as we feel that they remain in line with the broad principles and would like to emphasize the following points.

The first one is, like other Directors, on the composition and the weights of the SDRs, we support the new interest rate that will come into effect on August 1st because that serves as a basis for calculating IMF loans. However, for our General Resources Account (GRA) borrowers, we would support a lower interest rate, given the elevated debt costs that risk sustainability.

On the second issue, like other Directors, including Messrs. Bevilaqua, Chodos, and Moreno, we do appreciate the analysis on the market analysis. We also would like to thank the Chinese authorities for the detailed update on financial sector reforms and efforts to address the operational challenges, highlighted by Mr. Jin in his statement. We view the progress on addressing data gaps as necessary to enforce the importance of the transparency of the SDR basket. That said, we encourage further improvements on data transparency and capital market reforms.

Lastly, we do look forward to the next SDR valuation review and to Board updates in country reports on how they address specific challenges to enhance the liquidity and depth of financial markets.

Mr. Mozhin:

We have issued our written statement, where we have broadly agreed with the staff's assessment and supported the proposed decision. I will only offer a few quick comments for emphasis.

First, we welcome a larger weight of the Chinese currency, the yuan, in the updated SDR basket. It reflects the Chinese currency's increased role in the global monetary system and a broad range of the economic and financial system reforms undertaken by the Chinese authorities in the recent years, which boosted the attractiveness of the yuan as an international reserve asset. The yuan has great potential to develop quickly into an even more significant player in the international financial system, as the gradual opening of the Chinese capital market is continuing.

My second point is about the fintech. We would like, first of all, to express our gratitude to staff for extending the analysis of the implications of the advances in fintech for the SDR valuation framework. The developments in fintech have been material since the last review, yet not significant enough to have any meaningful impact on the SDR valuation framework. However, we believe that the Fund should remain vigilant and be ready to account for the increased role of the cross-border use of cryptoassets and CBDCs once the direction and the scale of these effects become clearer.

Some of the questions I was intending to raise have been preempted by the previous speakers. And, I am very much interested in the staff's responses to these questions and, in particular, the question raised by Mr. El Qorchi regarding the potential impact of the recent developments in the international financial system—for example, such developments as the confiscation of the foreign exchange reserves of the Bank of Russia and its potential impact on the currency composition of trade flows and financial flows, if anything could be said about it.

Mr. Jin:

We support the proposed decision. We have issued a comprehensive written gray statement, and I would like to briefly make a few comments for emphasis.

The decision made in the 2015 SDR review was a visionary, inclusive, and constructive one, in that the report discussed operational issues in all the five SDR basket currencies. We take positive note of the staff's assessment that "there has been significant progress in addressing renminbi-related operational issues identified in the 2015 review." To tackle the operational issues referred to by the staff report and by several member countries, Deputy Governor Pan of the PBOC has already chaired a seminar, last week, to explore solutions, together with market participants, foreign reserve asset managers, and the representatives of international organizations, including the IMF and the Bank for International Settlements (BIS).

As an early harvest, the PBOC is planning to expand the trading hours of the onshore foreign exchange market to cover the entire trading hours of Asian and European markets, active trading hours of North American markets, and the afternoon trading hours of Oceania markets. Staff and some Directors' detailed suggestions on tackling the operational issues have been and will be gratefully and faithfully conveyed to our authorities.

A few Directors also mentioned the issue of data transparency of renminbi. Since the last SDR review, China has been making steady progress on this front, preliminarily reflected in our gray. Although the issue of data transparency is not directly related to both the currency selection criteria and the calculation of the currency weights in the SDR basket, we understand the high expectation of members for SDR basket currencies; and China is willing to continue our agenda on data transparency in a constructive manner, including further increasing the transparency of our foreign exchange intervention data in the future.

Looking forward, China will further enhance free usability and convertibility of renminbi-denominated assets held by international organizations, foreign central banks, and institutional investors.

We appreciate and commend the management and the staff's professionalism in doing this review.

I want to echo the concern first expressed by Mr. El Qorchi on the use of some currencies in the SDR basket as a tool of sanction. The frequent use of a currency as a tool of sanctions greatly increases the risk premium of these currencies, and that risk premium has never been calculated by staff's analysis. The sanctioned currency and also any currency in the basket that participated in any sanction will greatly damage the quality of SDR. In any review—either in the staff's analysis in the near future or in the next SDR review—this is an issue that is important and deserves a very detailed, serious analysis. And we may even consider next time, if this situation develops further, we should discuss whether it is necessary to include gold or even commodities into the SDR basket. This is something very important.

We look forward to seeing a more important role of the SDR in promoting global growth and financial stability.

The Deputy Director of the Finance Department (Mr. Bauer):

I would like to address a few things. Questions about sanctions were raised by a number of Directors including Mr. El Qorchi. It is a bit early to think about how far these will go, what the implications are. But, again, going back conceptually, to the extent that sanctions impact trade flows and the use of currencies for financial transactions and for trading, our framework would reflect such changes in the relative use of currencies. So, in principle, the sanctions can have an impact on the valuation framework and, therefore, the value of the basket, also. If these were large, we would potentially see

relatively large fluctuations in the composition of the basket. It is very early to make an assessment, whether this is likely or not; because we are trying to look at longer-term implications when we think about the valuation of the basket. So, the critical question is how long these sanctions will last and what their actual impact is.

On the potential impact of an increasing use of gold as a reserve asset, let me reiterate that the current framework focuses on the use of currencies. In that sense, there is no direct impact. But, of course, to the extent that the use of gold would substitute for the use of a specific currency, there could be changes in the relative use of all the currencies in the basket; and, therefore, we could see an impact on the valuation.

Basically, the key point is that there could be spillovers from the war in Ukraine on the basket valuation, and we will have to see how that plays out, if they are temporary, if they are longer-term. It is very hard to really say ex-ante what direction this will go.

I want to make a comment more broadly on the SDR. One of the things that I have learned is that the SDR is a fragile construct. Sometimes, I think about it as a bonsai tree. It needs a lot of gardening, a lot of tending. It is really a public good par excellence, allowing the pooling of reserve assets based fully on global cooperation. There is no other place so dependent on cooperation—think about the voluntary trading arrangements, for example. So, the value of the SDR, as a reserve asset, is critically dependent on continued international monetary cooperation. That is a key point that I would like to underscore in this context as well. It is important that the membership continues to support the SDR Department and SDR transactions.

Again, there were a number of suggestions for the next review made by Directors and they are well-taken. Maybe just briefly on two points, because I had not mentioned them before. On the issue on why to use exports as a variable, or maybe instead using exports and imports as a broader measure of trade: The rationale, the conceptual underpinning of using exports in the weighting formula goes back quite a long time. It was rooted in the desire to stabilize the value of the reserve asset of the SDR in its use for trade, that is paying for imports, basically.

In considering a broader trade aggregate, we would have to see what the implications are. Remember, also, we have some principles for the basket, including the stability of its value. When we use different variables in the weighting formula or different aggregates, they will lead to different

compositions of the basket, which in turn make the basket more volatile or less volatile. Any analysis will have to look at all these factors. In any event, we take note of this suggestion as input for the next review as well.

The staff representative from the Finance Department (Ms. Nkusu):

On the question of alternative indicators to exports that could be used to measure the importance of currencies in global trade, along the lines of what Mr. Bauer mentioned, looking at exports only is in line with the Board-approved indicators and the underlying Board decision. Specifically, since the SDR basket of currencies was established, the Board decisions on the currency selection and the weighting of SDR basket currencies have always referred to exports. However, we looked at how the composition of the basket would change if an alternative trade measure was used, such as exports and imports that the Director mentioned. It reveals that the ranking of the top five would remain unchanged. Therefore, we did not see merit in continuing in the current review to look at the combination of exports and imports as an alternative indicator.

Also, there was a mention of the use of the currency of invoicing of exports. Currency of invoicing was looked into before, and we looked at it again. We noted that it has two types of shortcomings that I will discuss in turn.

The first is that the data is not available with a broad comparable currency composition. It comes from different sources. There is a staff discussion note (SDN) that was issued in July 2020, prepared by our colleagues from the Research Department, on dominant currencies and external adjustments. They indicate that publicly available data on the currency of invoicing of trade are scant. Many countries do not collect such data, and those that collect do not make the data publicly available. The SDN further notes that greater efforts from national authorities are needed to broaden the coverage and especially increase the granularity of the data.

The second shortcoming is that the data on the currency of invoicing of exports covers only merchandise exports. As such, it would not be adequate for the purpose of the SDR valuation framework, which uses a broader measure of exports, comprising both goods, services, primary income, and secondary income.

The Acting Chair (Mr. Okamura):

Let me briefly run through the next steps in the transition to the new basket, the transition to the new basket.

As the Board has adopted the decision today to update the currency weights in the SDR basket, the next step is to prepare the ground for operationalizing the new weights. Consistent with past practice, this means staff will publish illustrative currency amounts, once in May and June and every week in July 2022, the last month of the transition period. Final currency amounts will be calculated on the last business day before the new basket enters into effect on August 1, 2022. Final currency amounts will be provided to the Board on July 29, 2022, the transition date, for approval on a lapse of time basis. These currency amounts will be published on the same day following the Board's approval.

The Acting Chair (Mr. Okamura) adjourned the discussion.

ANNEX

- Gray Statements
- European Central Bank Statement
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

**Statement by Mr. Jin, Mr. Zhang, and Mr. Bai on Review of the Method of Valuation of
the SDR
Executive Board Meeting 22/44
May 11, 2022**

We would like to first thank staff for the well-drafted report with solid analysis and up-to-date data. **We commend staff's assessment and support the proposed decisions on pages 34-35 of the staff report**, including keeping the currencies in the SDR basket unchanged, and adopting the proposed new currency weights in the SDR basket.

Recent developments in key variables relevant for the SDR valuation suggest that it is appropriate **to ensure simplicity and stability of the methodology at this junction**. We also understand and accept staff's proposal to formalize the current practice of closing data gaps using available data for the relevant five-year period. We also agree that the updated SDR weights can come into effect on August 1, 2022. It is a rational expectation that the updated SDR basket will continue to function as an important official international reserve asset. In addition, we agree that the next SDR valuation review takes place on a five-year basis, to be concluded before end-July 2027.

Most of the member countries' experience in the past seven years has proved that the decision made in 2015 SDR review was a visionary, inclusive and constructive one. In absorbing RMB as a new member of the SDR basket, the 2015 review strengthened the institutional foundation for a more inclusive and cooperative multilateral institutions, reflecting the common interest and stakes of developed countries and EMDCs. It also encouraged and accelerated China's efforts of market-oriented financial reform and opening in cooperation with the Fund and other partners (**see Annex I**).

The policy advice of the Fund has become more closely listened to by the Chinese people and the authorities. China was among the many countries to actively support the general allocation of SDR in 2021, and it has committed to channel a significant portion of its newly allocated SDR to support low-income and vulnerable countries.

China has also played a more supportive role in strengthening the global financial safety net since 2015, by providing side financing to countries supported by IMF programs. In addition, considering the extremely low-interest rates in most of the advanced economies, the inclusion of RMB in the SDR basket has raised the return of SDR-denominated or measured assets, including the Staff's pension assets. In the long run, a more diversified currency composition will make the SDR a more stable reserve asset.

The staff report discussed operational issues in all the five SDR basket currencies.

We take positive note of staff's assessment that "there has been significant progress in addressing renminbi-related operational issues identified in the 2015 review." To tackle the RMB-related operational issues, on May 9th, 2022, Deputy Governor Pan of the PBC chaired a seminar with market participants, foreign reserve asset managers, and representatives of international organizations including the Fund and BIS, to understand details relating to the operational issues and explore measures to increase liquidity of FX market, streamline administrative procedures, and cut transaction costs. **As an early harvest, PBC is tentatively planning to expand the trading hours of the onshore FX market, from 9:30 AM-11:30 PM to 9:30 AM-3:00 AM (the next day),** to cover the entire trading hours of Asian and European markets, active trading hours of North American markets, and the afternoon trading hours of Oceania markets. Staff and some directors' detailed suggestions on tackling the operational issues have been and will be gratefully and faithfully conveyed to our authorities.

On page 26, staff mentioned, "After taking temporary measures to mitigate capital outflows during 2015-16, the Chinese authorities have resumed their policies of a gradual opening of the capital market." We would like to clarify that measures taken during 2015-16 were precautionary macroprudential to prevent systematic risks. China has been more cautious about implementing these measures, with enhanced communications with market participants.

Since the last SDR valuation review, China has been making steady progress on data transparency. For the *Long Forward Position* and *Short Forward Position* data in the reserve template, China has stopped undertaking such transactions since 2016, therefore, some relevant parts in the reserve template were left unfilled.

We will formalize the reporting of these data as zero in the future. For the *currency breakdown of FX reserves* (in Section IV of the reserve template), the numbers for 2020 have been timely published on the PBC website and submitted to the Fund staff. The 2021 data will be duly updated at the end-2022 on PBC website as required by the SDDS.

Looking forward, China will continue to steadily implement its development and reform agenda, facilitate constructive cooperation with the rest of the world, and improve the protection of property rights and privacy of both domestic and foreign investors. China will further enhance free usability and convertibility of RMB denominated assets held by international organizations, foreign central banks and institutional investors, and be compliant with international anti-money laundering and anti-terrorist financing requirements.

Last but not least, we highly appreciate and commend management and staff's professionalism in doing this review. We look forward to seeing a more important role of the SDR in promoting global growth and financial stability.

Annex I: Major Progress in China's Financial Sector Reform and Opening-up (May 2022)

This annex takes stock of the progress in China's financial sector reform and opening-up, including China's market-oriented exchange rates reforms, closing the gap between onshore and offshore exchange rates, policies regarding foreign investment in China's financial market, the enhancement of liquidity in the secondary market for government bonds, clarifying the legal effect of the close-out netting principle, and the development of RMB cross-border payment system.

I. The Market-oriented Exchange Rate Reforms

Since 2016, China has steadily deepened the reform of the RMB exchange rate formation mechanism, and the exchange rate has been made more market-oriented.

The PBC continued to improve the central parity formation mechanism. In February 2016, the RMB/USD central parity formation mechanism, which was based on "the closing rate of the previous day and the exchange rate movement against a basket of currencies," was clarified, making the mechanism more rule-based, transparent and market-oriented. In June 2016, the self-disciplinary mechanism of China's foreign exchange market was established to give more play to financial institutions in upholding the orderly operation and fair competition of the FX market. In October 2020, based on their own assessment of economic fundamentals and market dynamics, some RMB/USD quoting banks successively phased out the "counter-cyclical factor" in their quoting models, further improving the transparency and effectiveness of their quotes and strengthening the central parity's role as a benchmark.

Moving forward, the PBC will continue to deepen the market-oriented exchange rate reform in a steady manner, and will adhere to the managed floating system based on market supply and demand and with reference to a basket of currencies. The flexibility of the exchange rate will be further enhanced, so that it can play its role in macroeconomic adjustment and serve as the automatic stabilizer of the balance of payments. The management of market expectations will also be strengthened. With these, the RMB exchange rate will be maintained largely stable at a reasonable and equilibrium level.

II. Closing the Gap between the Onshore and Offshore RMB Exchange Rates

In recent years, the PBC has improved the liquidity in the offshore RMB market with its regular issuance of RMB central bank bills in Hong Kong SAR, steadily closing the gap between RMB exchange rates in the onshore and offshore markets. Currently, the outstanding RMB central bank bills in the Hong Kong market stands at around RMB 80 billion. The Hong Kong Monetary Authority (HKMA) has made the bills part of the eligible collaterals for accessing RMB liquidity supporting tools. On January 27, 2021, Bank of China (Hong Kong) Limited launched the market-making mechanism of RMB central bank bill repurchase in Hong Kong SAR, which facilitated offshore financial institutions to manage RMB liquidity. The regular issuance of RMB central bank bills in Hong Kong SAR and the improved liquidity in the secondary market have promoted the development of offshore RMB money and bond markets.

At present, with progress in the reform of RMB exchange rate formation mechanism and the development of FX market, the spreads among the central parity, the onshore rate, and the offshore rate have narrowed. The yearly average spread between onshore and offshore exchange rates has narrowed from 205 basis points in 2015 to 9 basis points in 2021.

III. Foreign Investors' Investment in the Domestic Financial Market

In recent years, China has made it increasingly convenient for foreign investors to invest in China's domestic markets. **First, there have been no barriers to foreign central banks (FCBs) and similar institutions to trade FX derivatives.** According to Announcement [2015] No. 31 of the PBC, the FCBs and similar institutions can access China's interbank FX market through various channels, including entrusting the PBC or interbank FX market members (i.e. commercial banks) as agents or directly participating in interbank FX market as foreign members, to trade currency spots and derivatives such as forwards, swaps and options.

Second, foreign investors have been further facilitated in fund transfers and FX risk hedging on a "real demand principle" basis. On September 24, 2020, the China Foreign Exchange Trading System (CFETS) issued the *Notice on the Implementation of the Enhanced Arrangements of the Currency Conversion and FX Risk Management under the Bond Connect Scheme*. Qualified Bond Connect investors are allowed to conduct fund remittance and FX risk hedging with no more than three Hong Kong settlement banks after filing with the CFETS either directly or via a Hong Kong settlement bank.

Third, there are more channels to invest in onshore RMB assets. Following the launch of the Shanghai-Hong Kong Stock Connect in 2014, the Shenzhen-Hong Kong Stock Connect scheme and the China Interbank Bond Market (CIBM) Direct scheme were launched in 2016. The Northbound Bond Connect was launched in 2017. The Shanghai-London Stock Connect was launched in 2019, and the Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (Cross-boundary WMC) and the

Southbound Bond Connect were launched in 2021. With these, a diversified, channel-based system for RMB asset allocation has gradually taken shape.

Fourth, the investment management policies continue to improve. Efforts were made to integrate different investment channels. In 2019, investors were allowed to transfer their bonds and funds between their own QFII/RQFII and CIBM Direct accounts. In 2020, the QFII and RQFII regimes were merged, with their quota limits removed. Meanwhile, the supporting policies and relevant requirements were further improved to facilitate and liberalize investments. In 2019, market entry procedures were streamlined for FCBs and similar institutions. In 2020, the FX risk management of foreign investors in China's bond market was further facilitated. In 2021, QFIIs/RQFIIs were allowed to trade a broader range of financial derivatives. Recently, the scope of the Shanghai-London Stock Connect scheme has been further expanded.

IV. Long-term Tax Exemption Arrangements and Specifications for Overseas Investors in China's Bond Market

In 2018 the Ministry of Finance (MOF) and the State Taxation Administration (STA) jointly issued the *Circular on Corporate Income Tax and Value-Added Tax Policies for Foreign Institutions Investing in Domestic Bond Market*. According to the Circular, foreign institutional investors were exempted from corporate income tax and value-added tax on their bond interest gains from investment in China's bond market for a three-year period, which was welcomed by stakeholders.

In November 2021, MOF and STA jointly issued the *Circular on Extending the Corporate Income Tax and Value-Added Tax Policies for Foreign Institutions Investing in Domestic Bond Market* ([2021] No. 34). The tax exemption period for foreign institutional investors in China's bond market was extended from November 2021 to the end of 2025. Going forward, the PBC will cooperate with fiscal and taxation authorities to develop a long-term tax exemption arrangement for foreign institutions investing in China's bond market, make policies more transparent and operable, and make the investment environment more market-friendly and convenient to domestic and foreign institutional investors.

V. Liquidity in the Secondary Market for China Government Bonds (CGBs)

To narrow the wide bid-ask spread of some off-the-run CGBs and boost the liquidity of the bond market, the PBC has continued to improve the market-making arrangements in the interbank bond market and encouraged market makers to actively quote prices. Since April 1, 2021, the administrative approval process for financial institutions to become market makers was officially removed. To date, there are 93 market makers for spot bond trading; and in 2021, the bid-ask spread from the two-way quotes of market makers has decreased by 28 basis points year-on-year.

Furthermore, the PBC cooperated with MOF to support CGBs market making. It encouraged MOF to both buy and sell at any time and expand the types of securities for such operations, so as to enhance market makers' ability to manage their positions. In 2016, MOF and PBC jointly issued an announcement on the creation of a supporting mechanism for CGBs market making, in which they officially launched the operations to support CGBs market making activities. Starting from February 2020, MOF began to both buy and sell CGBs (rather than only buying or only selling) at any time, and to have two bonds for both buying and selling (rather than only allowing to buy or sell one bond each month, as it did before), as long as relevant conditions are met.

Benefiting from various policies, the CGBs market has kept expanding. The liquidity in the secondary market is improving, and more price signals can be seen. In 2021, the spot transactions in the secondary CGBs market totaled RMB 40.75 trillion, up 223 percent from 2016. Its share in the spot transactions in the overall bond market registered 17.78 percent, up 7.7 percentage points from 2016. And the turnover ratio of CGBs was 1.87 times, up 53 percent from 2016.

VI. Development of the Cross-border RMB System

The PBC has steadily improved the underlying institutional arrangements for cross-border RMB investment, financing, transaction settlement, etc. and now its policies have covered all aspects of cross-border RMB uses. In 2016, the PBC clarified that, for overseas RMB lending by domestic corporates, an integrated macro-prudential management covering both the RMB and foreign currencies shall apply. Domestic corporates are allowed to conduct overseas lending in RMB and foreign currencies at their discretion within a limit linked to their owners' equity.

In 2017, the PBC introduced the full-coverage macroprudential policy framework for cross-border financing, which facilitated enterprises to conduct cross-border financing in RMB and foreign currencies at their discretion within a limit linked to their net assets.

In 2018, the PBC implemented a package of measures to facilitate trade and investment, including launching individual cross-border settlement in RMB under Other Current Accounts Transactions, facilitating foreign investors' direct investment in RMB, launching RMB cross-border settlement of carbon emissions trading, and facilitating the repatriation of RMB funds raised overseas.

In 2020 when the COVID-19 pandemic began, another package of measures was launched to optimize cross-border RMB policies. The package included further facilitating RMB settlement for trade and investment to meet the demand of the real economy, further streamlining the cross-border RMB settlement procedures, improving the management of cross-border RMB investment and financing, facilitating individual cross-border RMB receipts and payments under current accounts transactions, and facilitating the use of RMB settlement accounts of overseas institutions.

In 2021, the PBC introduced policies to support the development of new forms of offshore international trade, in which it encouraged banks to facilitate cross-border settlement for new-type offshore international trade that has true background and is compliant with rules and regulations.

In 2022, the PBC published regulations for China's banking institutions to carry out overseas lending business, which supported domestic banks as they extended loans in RMB and foreign currencies to overseas non-financial enterprises. At present, enterprises can use RMB settlement for all their cross-border transactions that can be settled in foreign exchange under the law. Settlement in RMB is increasingly convenient and operable.

VII. Progress in Promoting the International Use of the RMB

First, the RMB's role in payment has steadily enhanced, as cross-border payments and receipts in RMB has reached a new record. In 2021, the actual cross-border receipts and payments of RMB totaled RMB 36.6 trillion, a year-on-year increase of 29 percent, and accounted for approximately 47.4 percent of the total cross-border receipts and payments in RMB and foreign currencies, with both the value and the share reaching all-time highs since 2009. From January to March 2022, the actual cross-border receipts and payments of RMB totaled RMB 9.7 trillion, up 8 percent year-on-year. According to the latest data from SWIFT, the share of RMB in global payments reached 2.23 percent in February 2022, making it the fifth most active currency for global payments.

Second, the RMB role in investment and financing continues to deepen, as overseas institutions actively increase their exposure to RMB assets. China's financial market is increasingly open to the outside world. China's bonds and stocks are included in a number of the world's mainstream indexes. Foreign institutional investors have speeded up to enter China's financial markets. By the end of February 2021, RMB-denominated domestic assets held by overseas entities totaled about RMB 10.5 trillion, a year-on-year increase of 9.3 percent. By asset type, equity held by overseas investors reached RMB 3.6 trillion, up 1.6 percent year-on-year and accounting for 4.2 percent of the A shares in circulation. Bonds held by overseas investors registered RMB 4.1 trillion, up 11.4 percent year-on-year and accounting for 3 percent of the total bonds in custody in the interbank and the exchange bond markets.

Third, the RMB's role as a reserve currency continues to strengthen, as central banks around the globe are increasingly holding RMB as their reserves. Since the inclusion of the RMB into the SDR basket, the RMB reserves held by central banks have steadily grown. According to IMF figures, RMB reserves reached USD 336.1 billion at the end of Q4 2021, accounting for 2.79 percent of global reserves and up 1.72 percentage points from 2016 when the RMB was first included into the SDR basket. The RMB is now the fifth largest global

reserve currency. According to incomplete figures, more than 70 foreign central banks or monetary authorities have included the RMB in their foreign exchange reserves.

Fourth, the RMB offshore market has developed steadily, with trading activities becoming increasingly brisk. The size of offshore RMB deposits and loans have increased steadily. At the end of 2021, RMB deposits in major offshore markets exceeded RMB 1.54 trillion, a year-on-year increase of 28.4 percent. Outstanding RMB loans stood at RMB 527.1 billion, up 7.6 percent year-on-year. The offshore RMB clearing activities have become increasingly brisk. In 2021, the RMB clearing volume of overseas RMB clearing banks totaled RMB 468.03 trillion, a year-on-year increase of 26.7 percent. The clearing amount processed by Hong Kong SAR's RMB Real-Time Gross Settlement (RTGS) system was RMB 358 trillion, a year-on-year increase of 26.7 percent, twice the size of 2014.

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Barroso on Review of the Method of
Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the detailed report. We fully agree with staff's proposals which are faithful to the long-standing goal to enhance the attractiveness of the SDR as a reserve asset.

We agree with the proposal to maintain the valuation method with an additional provision for the treatment of data gaps. The principles underpinning the comprehensive review of 2015 are still valid and offer a good framework for the SDR valuation. In particular, the current method for determining both the currency weights and the currency amounts in the basket continue to be appropriate. That said, we also agree with staff's proposal to formally incorporate the treatment of data gaps in the method, following the standard procedure of using only available data to calculate valuation-related variables within the relevant five-year period. We take note of staff's preliminary analysis of the potential impact of fintech developments. Monitoring developments and innovative thinking in this area will be key to ensure the continuing and perhaps enhanced significance of the SDR in reserve baskets and international transactions.

We agree to maintain the current composition of the SDR currency and interest rate baskets. This is consistent with the recent developments in SDR valuation-related variables and the actual practice of reserve managers. We take note that Covid-19 had either temporary or small impact on valuation variables and the representative interest rate markets in the five currencies in the SDR basket. That said, we ponder that supply chain disruptions, the war in Ukraine and, possibly, further global economic and financial fragmentation could put greater strains on global trade and reserve holding patterns over the longer run. It would be interesting for staff to elaborate on alternative scenarios and their likely impact on SDR valuation variables, perhaps for the next review window.

We take note of the findings of the survey on operational issues raised in earlier reviews. We agree that findings do not warrant changes in exchange rate collection and reset practices. That said, we echo the survey's findings that the Chinese renminbi market still poses perceptible issues in terms of transaction costs and liquidity, particularly in the onshore market. We therefore support staff's call for further opening and deepening of the renminbi onshore market. We take positive note of Mr. Jin and colleagues' information, in their statement, that the Chinese authorities are planning to organize a seminar to address those issues with market participants, foreign reserve asset managers, and international organizations.

Finally, we agree that the next SDR valuation review takes place in a five-year basis, to be concluded before end-July 2017.

**Statement by Ms. Lim, Mr. Ong, Ms. Abu Bakar, and Mr. Bautista on Review of the
Method of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the comprehensive paper on the review of the Special Drawing Right (SDR) valuation method. As with past reviews, we reiterate that the key objective of the Fund's review should be to enhance the attractiveness of the SDR as an international reserve asset. We would also emphasize that the SDR and its composition have important signaling effects for the state of multilateralism. In this regard, the Fund must ensure that the SDR basket currency composition continues to appropriately reflect usage trends in the international monetary system, while maintaining the stability of the SDR. Against this backdrop, we support the proposed decisions in this quintennial review and offer the following comments for emphasis.

We agree with staff that the methodology to determine currency weights endorsed in 2015 is still relevant for this review. We therefore support staff's proposal to maintain the currency components, alongside some changes to currency weights. We also welcome staff's proposal to formalize methodologies to address data gaps which will ensure consistent and fair application of data gap treatments, in line with accepted statistical methods. *Specifically on international banking liabilities, could staff share the observed differences in end-September 2021 and end-year data for earlier years or even with end year 2021 data, if already available? Relatedly, we seek staff's clarification whether staff has explored other instruments or available indicators, apart from resorting to data gap treatments?*

We note staff's assessment that COVID-19 and recent developments in digital money do not indicate systematic or material impact of these factors on the SDR valuation. However, digital money usage levels while small, are growing at an exponential pace. At the same time, digital money takes many forms, ranging from crypto assets, stablecoins, central bank digital currencies (CDBC) – whether retail or wholesale – each of which has very different implications on the international monetary system and potential impact on SDR valuation. We thus encourage staff to closely monitor developments in different types of digital money and to more rigorously analyze the ensuing impact on SDR valuation. In this regard, we welcome the Data Gap Initiative to address gaps in fintech data collection and see merit to take into account the ongoing discussions on Digital Money and International Monetary Systems for the next review.

We are supportive of maintaining the instruments used to determine SDR interest rates. We note that the instruments are in line with the criteria agreed by the Board, and that staff will continue to monitor SDRi instruments and underlying markets.

We positively note from survey results that the divergence between SDRi reset frequency and underlying instruments in the RMB market largely do not hamper hedging operations. We encourage staff to continue to engage the small number of SDR holders with difficulties on this matter and to explore ways to address them, to enhance the SDR's attractiveness and usability as a reserve asset. In this regard, we also welcome the

Chinese authorities' plans to organize a seminar with the relevant participants, to address some remaining RMB-related operational issues.

**Statement by Mr. Pösö and Mr. Spurga on Review of the Method of Valuation of the
SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the informative paper for the quinquennial review of the method of valuation of the Special Drawing Right (SDR). Safeguarding confidence in the stability, attractiveness, and usability of the SDR as an official international reserve asset is essential in order for the SDR to serve its unique role in the international monetary system. This is even more important with the increased role of the SDRs after the large general allocation in 2021 and the ongoing initiatives for SDR channelling.

The broad principles which have guided SDR valuation decisions in the past remain valid. We support maintaining the current method of valuation to ensure the simplicity, stability, and continuity of the methodology. The balanced approach between trade and key financial transactions provides an appropriate reflection of the different currency usage in the world economy. We also accept the statistical methods for dealing with the data gaps and formalizing the current practice of closing data gaps using available data for the relevant five-year period.

The proposed currency weights based on the unchanged methodology are acceptable and we support the proposal for the updated SDR weights to come into effect on August 1, 2022.

Inclusion of Chinese renminbi (RMB) in the SDR basket was a significant change during the last review in 2015 and it is important to follow the developments concerning the international usage of RMB. We note the fairly positive staff assessment on the gradual opening and deepening of the Chinese capital markets in the Box 6. While many reforms have been implemented and conditions for operating in RMB markets have improved, reform gaps persist, and it remains uncertain whether there will be backtracking under less favourable conditions, as in 2015-16. We encourage the Chinese authorities to continue taking measures to make the RMB exchange rate more flexible and to further liberalize the capital account, particularly for outflows where reform efforts have been lacking. We further note that data transparency, greater reliance on market-based forces as well as improving access and operational procedures in the onshore markets are important.

It is important that the SDR valuation method reflects major changes in the roles of currencies in the world economy. In this respect, we appreciate staff's consideration of potential enterprise risks related to the evolving nature of the international monetary system, including increased use of non-SDR currencies and the impact of fintech developments for international transactions. As regards digital assets, we note staff's point that keeping abreast of developments would be important to inform subsequent SDR valuation reviews. However,

we emphasize that the assets in the valuation methodology should reflect the broad global importance in cross-border transactions within stable and established market segments.

We note that no changes are proposed to the instruments in the SDR basket. Considering the feasibility of a single euro-area benchmark rate could be warranted in the next review, depending on market developments in the next review period. Any change in the interest rate used would need to include a comparison with the current benchmark rate, which at this stage is expected to remain the relevant benchmark for the upcoming years.

We agree to conclude the next quinquennial review before end-July 2027, in line with the tradition of the five-year timeline. In the next review, especially if substantive changes are proposed, it is essential that there is rigorous analysis and comprehensive prior consultations with all relevant stakeholders well in advance, including with the central banks issuing the currencies composing the SDR basket.

**Statement by Ms. Rieck and Mr. Krahnke on Review of the Method of Valuation of the
SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the detailed report on the SDR valuation review.

We agree to maintain the current composition of the SDR currency and interest rate baskets as there have been no major changes in the roles of currencies in the world economy – or rather in the world’s trading and financial systems.

Regarding the currency weighting, we can support Decision 2 and the new initial weights (resulting from the application of the agreed method of SDR valuation) to come into effect on August 1, 2022. We acknowledge the broad principles guiding SDR valuation decisions, including continuity in the method of SDR valuation, as well as the importance of transparent reviews of the valuation methodology for risk mitigation. That said, we take note that mechanically applying the agreed methodology to the most recent 5-year period results in tangible shifts in currency weights and call for clarification on the impact on the stability of the SDR’s value in terms of the major currencies (first of the “Broad principles guiding SDR valuation decisions”), including of the euro, which is to realize a significant reduction in its initial weight in the SDR basket. In this context, we recall that in 2015, choosing the variables and their shares within the new formula involved a considerable amount of judgment, taking into account the still limited set of reliable statistical data on the international use of currencies. *We are interested to know how staff assesses the experience to date with the substantially changed methodology. Are updates in currency weights under the new methodology more pronounced than before, possibly due to higher volatility in the new financial variables?*

We take note of staff’s proposal to formalize the current practice of closing data gaps using available data for the relevant five-year period and can go along with Decision 1. While it appears sensible to use Q3 data for the most recent year of the five-year period if Q4 data is not yet available, other practices, like relying on only one data point for the FXT variable, seem rather poor substitutes. As such, a single data point for FXT significantly affects the overall currency weight calculation and is also one driver of the proposed decreased euro weight. Depending on the collection year, the triennial BIS survey could capture short-term fluctuations rather than medium- to long-term changes. We encourage staff to mitigate the data gap problems more strategically in the medium-term and to work on closing the data gaps, also for example by examining other variables, which could determine the relative importance of currencies in the world’s trading and financial systems. *Staff’s comments are welcome.*

We agree to the next SDR valuation review taking place on a five-year basis, to be concluded before end-July 2027, or earlier if warranted by financial developments in the interim, and call for timely consultations before proposals are presented to the Board for the next review.

**Statement by Ms. Shortino, Ms. Medearis, and Mr. Westphal on Review of the Method of
Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for this report. **We can support staff's recommendations and the proposed decisions.** We agree that the roles of the major currencies in the world have not changed markedly since the 2015-2016 Review. Therefore, we support the inclusion of the same five currencies in the SDR basket and the modest changes to the relative weighting of the underlying currencies. We agree with staff's proposals to address data gaps explicitly to formalize the practices developed over the past several reviews. We also appreciate staff's efforts to provide transparency to markets by publishing the Board decision and new weights several months before it will go into effect on August 1, including illustrative currency breakdowns on a consistent basis before then.

We welcome that most SDR users report no or limited operational issues with hedging their SDR exposures as needed or with using the five currencies in the SDR basket. Nevertheless, we appreciate staff's recognition of the operational challenges that some users face with some of the currencies. *For the renminbi, beyond staff's recommendation to open and deepen onshore markets, we would welcome greater granularity regarding specific reforms that staff would recommend, including the sequencing of those reforms.* It will be important to consider potential financial stability risks that could accompany the opening and deepening of onshore markets, including the potential cross-border transmission channels as China's economy continues to grow and the renminbi becomes more important for global trade.

Recognizing the importance of data transparency for the SDR basket, we urge staff to formalize this norm in the next SDR basket review in 2027. Several Directors argued during the 2022 review of data standards initiatives that countries with SDR basket currencies should be held to the highest levels of data transparency, including SDDS Plus. We echo that point now, and we emphasize that inclusion in the SDR basket is an important marker of a country's role in the global economy and requires a commensurate commitment to act responsibly in ways that strengthen the international monetary system.

We note with concern the limited and inconsistent follow-through by Chinese authorities on their commitments to increase data transparency during the 2015-2016 review. China does not disclose its foreign exchange intervention, making it an outlier among countries whose currencies are in the SDR basket as well as other major economies. In addition, the People's Bank of China appears to have stopped publishing its long FX forward position, alternated between not reporting its short FX forward position or reporting a zero in this category, and has not reported the currency composition of its FX reserves. Further, the Chinese authorities do not permit the BIS to publish China's cross-border claims on a disaggregated basis. We urge staff to emphasize to the authorities the importance of adhering to the highest levels of data transparency for SDR basket currencies and to work with the authorities to correct deficiencies or inaccuracies in their reported data.

Looking ahead to future reviews of the SDR formula, we continue to encourage staff to consider proxies that would better capture the role of currencies in global trade. While we can support the formula for this review, we note that using exports plus imports rather than only exports would eliminate a bias toward surplus economies. Alternatively, using the share of trade invoiced in each currency would better capture the role of each currency in global trade.

**Statement by Mr. Jennings and Ms. Cunningham on Review of the Method of Valuation
of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for their work and comprehensive paper on the Review of the Method of Valuation of the SDR. The SDR plays an important role as an official international reserve asset that contributes to the stability of the international monetary system.

We agree with staff's analysis in the report, and we support its proposals.

Staff show that the roles of currencies in the world economy have been relatively stable since the previous SDR methodology review in 2015. We therefore support staff's proposal to maintain the current method of valuation of the SDR basket that the Board approved in the 2015 review. We note that applying the existing methodology yields the same five currencies in the SDR basket and no change to the relative rankings of the five currencies, although the individual weightings do change.

We also support the updated weights as calculated by applying the current methodology to come into effect on August 1, 2022. We recognize that the updated weights result in the US dollar and Chinese renminbi having larger weights, while the weights for the euro, yen and British pound would be smaller.

We acknowledge the challenges with data gaps and agree with staff's proposal to formalize the practices that have been approved and employed so far to deal with these data gaps.

We agree that the next SDR valuation review should take place on a five-year basis and be conducted before end-July 2027. The SDR basket should continue to be monitored closely to ensure that its valuation remains consistent with the roles of the currencies in the global economy and financial system. We welcome staff's analysis of the effects of the pandemic and fintech for this review. We also encourage staff to continue to analyze the possible impacts on the SDR currency basket and related interest rates from rapid advances in fintech (including cryptoassets and digital currencies), as well as from the Russian invasion of Ukraine or other crises.

We also welcome the inclusion of the section on enterprise risks in the report. We encourage staff to continue to consider enterprise-wide risks when reviewing their operations.

**Statement by Mr. Chodos, Mr. Herrera, Mr. Lischinsky, and Mr. Corvalan Mendoza on
Review of the Method of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the report, which provides clear and simple foundations for the Review of the Method of Valuation of the Special Drawing Rights (SDR).

The report takes into consideration developments that occurred during 2017-2021 and picks up central variables that determine the SDR valuation, the SDR interest rate, and the composition and weighting of the SDR currency basket. With these bases, as Mr. Bevilaqua, Mr. Saraiva, and Mr. Barroso mention in their statement, the attractiveness of the SDR as a reserve asset is enhanced. We also welcome the recent allocation of SDRs and its role in promoting growth, liquidity, and financial stability at the global level and its partial use to channel SDRs to the PRGT and the new RST.

We welcome that during this five-year period there have been no major changes in the roles of currencies in the world economy. We recognize this important finding from the report, that despite the COVID-19 pandemic and significant innovations in the financial system, more specifically with fintech fast developments, no systematic or material impact on SDR valuation was observed.

We support the proposal to maintain the current composition of the SDR currency and interest rate baskets. We also see merit in the suggestion to maintain the method used to weight the currency proportion in the SDR basket and its corresponding amounts. According to the result of this exercise, we will observe a small increase in U.S. dollar and Chinese renminbi weights, and a lower British pound, euro, and Japanese yen weights in the basket. Having said that, the new SDR valuation and interest rate baskets will come into effect on August 1, 2022, and for a period of less than five years, with this topic to be reconvened in at least 2027, in line with previous practice made by the Executive Board.

On explicit treatment of data gaps in the SDR valuation framework, we go along with the idea to formalize the current practice of closing data gaps with available data to calculate valuation-related variables for the period under review.

We welcome the results obtained from a survey of SDR department participants on operational issues. As explained in the document, most survey respondents have said that operating across the five SDR basket currencies had occurred without major difficulties. We also take positive note of Mr. Jin, Mr. Zhang, and Mr. Bai's timely statement, that clarifies the Chinese authorities' intention to organize a seminar that would address operational issues, such as, reducing related operational barriers, increasing liquidity of the FX market, streamlining administrative procedures, and cutting transaction costs, with market participants, international organizations, and foreign reserve asset managers. The latter would prove useful to respond to what the survey has mentioned as remaining operational challenges pertaining to the Chinese renminbi but not specifically described. We also appreciate in their statement the very informative and clear Annex I: Major Progress in China's Financial Sector Reform and Opening-up, which denotes the efforts of the Chinese authorities to make China's monetary and financial system more market-oriented at the domestic and international level.

**Statement by Mr. Fanizza, Mr. Massourakis, and Ms. Quaglierini on Review of the
Method of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for a clear paper and support all the proposed decisions. We appreciate staff's assessment of the COVID-19 pandemic and fintech on the SDR valuation framework that did not find any relevant impact. We offer the following comments.

- **Data gaps.** We support staff's proposal to formalize the current practice to deal with data gaps.
- **Instruments in the SDR interest rate basket.** We encourage a broader outreach with the central banks that issue the currencies included in the SDR basket on the use of the financial variables and their relative weighting. This issue was also stressed during the last Review of the Method of the Valuation of the SDR back in 2015. We note staff's elaborations in paragraphs 29 and 30 regarding the relevant instruments for the euro area and would like to point that we could be open to consider including a single euro-area benchmark rate for future SDR reviews. Nevertheless, a change in the interest rate used for the formula would need to include a comparison with the current benchmark rate.
- **SDR weights.** We note the reduction in the weight of the euro reflects the decline in the euro's share of global FX reserves, FX turnover and international debt securities in the period 2017-2021 relative to 2010-2014 (the period used for the last review).

**Statement by Ms. Riach, Mr. Ronicle, and Ms. Campbell on Review of the Method of
Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the comprehensive paper which provides detailed and useful analysis to inform the five-year review of the method of valuation of the Special Drawing Right (SDR). We support staff's proposals and offer the following comments.

We support maintaining the current method of valuation while formalizing the current practice and accepted statistical method of dealing with data gaps. We agree that the two selection criteria for inclusion of a currency in the SDR basket (i.e. export value and freely useable currency) remain appropriate for now. However, we wondered whether it would be worth considering at the next review the merits of using a financial market criterion, in addition to the export measure, for inclusion of a currency to ensure the attractiveness of the SDR as a reserve asset is maintained. *Staff views would be welcome.* We agree that there is merit in revising the SDR valuation decision to formalize the practice on addressing data gaps that has developed over past reviews.

We support the updated SDR weights as calculated by the current methodology to come into effect on 1 August. We recognize that the current methodology reflects changes made at the last review to establish fixed relative weights between exports and the financial variable to better reflect the growing role of international financial flows. Broadening the coverage of the financial variables beyond reserves better captures different financial flows using indicators used for the freely usable assessment. At the next review, we encourage staff to consider whether the balance between the trade and financial market variables in the formula agreed in 2015 remains appropriate to reflect usage trends in the international monetary system. We think it is worth considering whether more weight should be given to the financial market variables over the trade variable given the increasing importance of international financial flows.

We commend China for improvements in its financial market openness and development since the last review. Onshore and offshore renminbi exchange rates have moved closely together and spreads have been contained since 2016, and the gradual opening of the Chinese capital market has continued as part of the broader reform agenda. **However, as identified in the report, there is more to do if the renminbi is to become a global currency that can support free and fair international exchange.** We agree that China needs to continue to make progress in opening and deepening onshore markets. The specific operational issues identified by the survey show that obstacles remain in the Chinese renminbi market. We thank Mr. Jin for the additional information provided on Progress in China's Financial Sector Reform and Opening-up and welcome the planned seminar with market participants, foreign reserve asset managers and international organizations to address operational issues.

We agree that the next SDR valuation review should take place on a five-year basis and be concluded before end July 2027

**Statement by Mr. Moreno, Mr. Guerra, Ms. Arevalo Arroyo, and Mr. Lopez on Review
of the Method of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the report on the quinquennial review of the method of valuation of the Special Drawing Right (SDR), covering the composition and weighting of the SDR basket. In line with the general guiding principles of stability and continuity of the SDR valuation, **we support staff's proposals to maintain the current composition of the SDR currency basket, and the methodology agreed in the 2015 review for determining the currency weights and amounts.** As rightly stated in the report, ensuring that the SDR basket reflects the leading role of the SDR currencies in international trade and financial markets, is critical to maintain the attractiveness of the SDR as an international reserve asset and a unit of account. Additionally, we would like to offer some remarks.

We do not see the need to change the current SDR valuation method. In line with staff, we think the key elements of the current framework are valid, and no revision is needed regarding the criteria and methods to select currencies and calculate their weights and amounts. Moreover, we agree that the roles of the currencies of the SDR basket in the world economy remain unchanged from the last review, and no other currencies comply with the selection criteria. **On data gaps, we support staff's proposal to formalize the current practice** of dealing with insufficient data by using available data for the time period of interest.

We support updating the relative currency weights in the basket, with entry into force on August 1, 2022, and until July 31, 2027. We note that the five currencies that compound the basket, as well as their ranking, have remained unchanged since the last review, although with variations in their relative weights, reflecting higher weights of the dollar (+1.65 percentage points) and the renminbi (+1.36), and lower weights of the euro (-1 .62), the yen (-0.74) and the sterling pound (-0.65). The renminbi has increased its weight in many variables in the formula, reflecting the gradual integration of the renminbi into the international monetary system. Nevertheless, more than five years after its entry into the SDR basket, the renminbi has still very modest results in international banking liabilities and debt securities. We appreciate staff's analysis in Box 6 on financial market reforms in China. *Could staff provide additional insights on the relative lag of the renminbi in these variables and the reforms still needed to strengthen its role in the international financial markets?*

We also validate the continuity of the financial instruments used to calculate the interest rate of the SDR. We welcome staff's assessment on the appropriateness of the five SDR's instruments and that they continue to meet the criteria, in line with the issuing authorities' views. We agree with staff that future reviews should assess the feasibility of including a single euro-area benchmark rate, depending on market developments, as well as data gaps and reform progress of the bond markets in China.

We welcome the results of the survey of SDR's department participants and authorized holders. They indicate that most of the SDR users actively participate in all basket currencies' markets, facing very limited operational challenges (mainly related to the onshore renminbi market) and no significant obstacles in the few hedging operations they undertake.

For upcoming reviews, it will be critical to continue closely monitoring developments in the international markets. We agree to maintain the five-year frequency of successive reviews. However, the developments of crypto assets and digital currencies could have a future major impact on the world economy and cross-border payment systems, and therefore on the SDR's valuation framework. We commend staff for the analysis of Fintech developments—as well as the impact of the COVID-19 pandemic—and take note of their negligible effect on the current valuation method so far. While CBDCs are generally now at an experimental phase, these developments are evolving quickly. We thus encourage staff to consider exploring analysis of the potential implications of CBDC issuance by the monetary authorities that currently issue SDR basket currencies. The Board should be informed of any significant development in this area. Additionally, other developments should be monitored going forward, especially those related to the potential consequences of deglobalization, geopolitical conflicts, sanctions, or the risks of international fragmentation on the international monetary system. *Could staff comment if the ongoing conflict in Ukraine could have an impact (or exacerbate the impact of COVID-19) on the SDR valuation variables?*

**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Meizer on Review of the Method
of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for providing an in-depth assessment for the SDR valuation review, as well as for their helpful bilateral engagement with our office. With due consideration of the major changes brought about by the last review and staff's assessment, we see merit in maintaining the current method of valuation and the current composition of the SDR currency. Upholding well-known standards in SDR valuation-related decision-making is essential to maintain its attractiveness in the international monetary system (IMS). **We support the proposed decisions and offer the following comments for emphasis.**

There is a convincing argument for maintaining the use of the currency weighting formula that the Board adopted in 2015, with formalizing the method of dealing with data gaps. The current formula – which consists of equal weights on exports and a composite financial indicator – well reflects the expectations that have long characterized decisions about the SDR currency. We note that the SDR has remained broadly stable during the period under review, and the five SDR basket currencies continue to account for the majority of international transactions in the trading and financial systems. Since the inclusion of the Chinese renminbi in the SDR basket, the renminbi's position has strengthened in more indicators, although it continues to show some lag on the indicator of the international debt securities. While the formula builds on widely available data, we understand that some data gaps persist, mainly due to the unavailability of the latest data. Against this background, we agree to have a more formalized practice to deal with data gaps. As for the specific proposals, it would be advisable to link future reviews to dates when respective Q4 data are also available. *We would also appreciate staff's further elaboration on the availability of alternative variables that similarly cover aspects considered important in the SDR valuation but give rise to data gaps to a lesser extent.*

Based on the outcomes of staff's calculations, we agree to maintain the current composition of the SDR currency and interest rate baskets. We note that the current weighting formula does not result in a change in the ranking of the SDR basket currencies, but only a modest change in the share of the currencies, with a slight increase in the weights of U.S. dollar and Chinese renminbi. In view of the available financial instruments, we also agree on the use of the current representative interest rates for the five currencies, but call on staff to continue to monitor their appropriateness for the SDRi basket. Depending on future market developments, we see merit in reconsidering the feasibility of including a single euro-area benchmark rate on the occasion of the next review. We also underscore that any proposal for a change in the interest rates used for the formula should include a comparison with current benchmark rates.

To make an informed decision, we also deem it important to closely monitor all factors that have a potentially meaningful impact on the SDR basket currencies and could give rise to operational challenges in these markets. In this context, we note that neither the

pandemic nor recent fintech developments have had a material impact on the SDR valuation. We encourage staff to continue monitoring developments in the IMS that could have a bearing on the constituent currencies. We also thank staff for following up on some key operational issues that were raised in earlier valuation reviews, with the active involvement of SDR department participants and prescribed holders. We positively note that a majority of survey respondents are operating across SDR basket currencies without major difficulties, including undertaking hedging operations and other reserve management activities. We note the progress China achieved in addressing renminbi-related operational issues since the last review, and underscore the importance of data transparency and continuing capital market reforms, with special focus on further improving access to the onshore market. We also learned from the respective survey that some operational challenges also characterize other SDR-related currency markets.

We agree on the importance of deciding on the current review well before the effective date of a new valuation basket and giving timely notice to SDR users. In this vein, we support the updated SDR weights coming into effect on August 1, 2022, while also calling on staff to develop a structured communication strategy about the envisaged decisions to further mitigate transition risks. We note that the currency amounts in the SDR basket will be calculated based on the last three months of exchange rates. Considering the increased volatility of the SDR basket currencies in the recent period, the respective parties should also be prepared for a potentially greater change in the final currency amounts, compared to the illustrative figures presented in the paper.

We can go along with the proposal to maintain the practice of quinquennial review.

**Statement by Mr. Mozhin and Mr. Biriukov on Review of the Method of Valuation of the
SDR
Executive Board Meeting 22/44
May 11, 2022**

1. We thank staff for the concise report on review of the method of valuation of the SDR. **We broadly concur with staff's assessment and support the proposed decisions.** With this in mind, we would like to offer the following comments for emphasis.
2. **We align ourselves with the current principles guiding the SDR valuation decisions.** They ensure relative stability of the composition of the SDR currency basket and increase attractiveness of the SDR as an official international reserve asset. The present method of valuation adequately reflects the relative importance of major currencies in the world's trading and financial system.
3. **We thank staff for extending the analysis to implications of the advances in Fintech for the SDR valuation framework.** Indeed, developments in Fintech have been material since the last review, yet not significant enough to have any meaningful impact on the SDR valuation framework. However, the Fund should remain vigilant and be ready to account for the increased role of cross-border use of crypto assets and CBDCs once the directions and the scale of their effects become clear.
4. **We also see merit in formalization of the current practice of dealing with data gaps.** Annual data may not always be available for all currencies across all the variables used in the weighting formula, which requires utilization of alternative calculation methods. Yet it is important to ensure that the substitute statistical approaches still follow the evenhanded approach.
5. **We welcome a higher weight of the Chinese renminbi in the updated SDR basket.** It reflects the Chinese currency's increased role in the global monetary system and a broad range of economic and financial system reforms undertaken by the Chinese authorities in the recent past. The renminbi has a great potential to develop quickly into an even more significant player in the international financial system, as the gradual opening of the Chinese capital market continues. In this respect, we appreciate the Chinese authorities' intention to organize a special seminar to address the remaining RMB-related operational issues, as signaled by Mr. Jin and his colleagues in their statement.

**Statement by Mr. Trabinski and Mr. Tola on Review of the Method of Valuation of the
SDR
Executive Board Meeting 22/44
May 11, 2022**

We support keeping the current method of valuation of the SDR. Revisions to this method should occur only as a result of major changes in the roles of currencies in the world economy during the five-year period the review covers, and that has not been the case.

More specifically, we agree with maintaining the current composition of the SDR currency and interest rate baskets and endorse the proposed updated weights of the currencies in the SDR basket. We take note that applying the formula adopted by the Board in the 2015 review results in a modest increase in the weights of the U.S. dollar and the Chinese renminbi.

We support the proposed modification of the valuation decision to formalize the current practice of addressing data gaps. We welcome the progress in addressing data gaps by formalizing the current practice of using data that is available within the relevant five-year period as part of the SDR valuation methodology.

We agree that the new currency and interest rate baskets should come into effect on August 1, 2022, and that the next SDR valuation review take place in five years.

Reviews at regular intervals are important to ensure that the currencies in the basket and their weights reflect the currencies' importance in international trade and financial transactions. This is crucial to maintaining the attractiveness of the SDR as an international reserve asset and as a unit of account.

We thank staff for pointing out and assessing the implications of advances in fintech for the SDR valuation framework. We agree with staff that the cross-border use of cryptocurrencies and central bank digital currencies is poised to have an impact on the global financial system should there be wide adoption. In this context, we welcome the efforts of the Fund to keep abreast of developments in these areas, which would be useful to inform subsequent SDR valuation reviews.

Finally, we welcome that a majority of respondents to the survey for SDR users operate without major difficulties across the five markets whose currencies constitute the SDR basket.

**Statement by Ms. Grant, Ms. Johnson, and Mr. Yoo on Review of the Method of
Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the informative paper on the method of valuation of the SDR currency basket and the associated technical updates. The SDR serves as the unit of account of the IMF and the SDR interest rate provides the basis for calculating the interest charged on IMF loans. Therefore, regular reviews and updates of the SDR are essential to the Fund's operations and to adequately reflect developments in international financial markets. **We welcome the review that has been postponed due to the pandemic, concur with the staff's assessment and support the proposed decision.**

We support the proposal to maintain the current composition of the SDR currency and interest rate basket as well as the method of valuation of the SDR. We agree that there have been no significant changes in the position of the current SDR currencies in the global economy and financial markets. We note that the COVID-19 pandemic has not had a systematic impact on the SDR valuation and digital monies have not had a material impact on the SDR valuation framework, despite the substantial increase in usage and awareness in recent years. However, if digital monies continue to develop quickly, it may become game-changing for the international monetary system and the SDR evaluation framework may not be able to be ignored, so we call on staff to continue to closely monitor developments in this area.

We support the formalization of the current practice dealing with data gaps by using available data within the relevant five-year period in calculating the five-year averages for SDR valuation-related variables. In the same vein, we agree that, in this review, the ways of addressing data gaps for FX turnover, international bank liabilities, and international debt securities in euro are consistent with past practice and appear reasonable.

We note that the survey result presented in the paper showed that there were no major operational difficulties across the five SDR currencies' markets, though some operational challenges remain. Noting that among the five SDR currencies, the proportion of respondents who reported operational challenges for the Chinese renminbi is the highest, we encourage the Chinese authorities to continue to pursue progress in opening and deepening onshore financial markets.

We support the updated SDR weights, as calculated by the current methodology, to come into effect on August 1, 2022, and look forward to the next SDR valuation review to be concluded before end-July 2027 on a five-year basis.

**Statement by Ms. Mannathoko, Mr. Garang, Ms. Maidu, and Ms. Nainda on Review of
the Method of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the informative quinquennial review of the method of valuation of the Special Drawing Right (SDR). We support the proposed decisions as they remain in line with the broad principles guiding SDR valuation and preserving its role as a potential claim on freely usable currencies of IMF members. We are satisfied that the five currencies included in the SDR basket continue to meet the required criteria. On the export criterion, the members of the basket remain the top five world exporters; and on the freely usable currency criterion, all currencies in the basket continue to be widely used to make payments for international transactions and widely traded in principal exchange markets. We also agree with the updated SDR weights, as calculated by the current methodology and support their proposed effective date of August 1, 2022.

We agree with the proposal to maintain the current method of valuation. Staff's assessment of developments in SDR-valuation variables is appreciated; the analysis also presents a compelling case to maintain the current method of SDR valuation, with supporting evidence that there has been no major change in the roles of currencies in the global economy that would warrant modifications, notwithstanding the COVID-19 pandemic's and digital money impacts. That said, given the rapid evolution of digital money, closer monitoring of fintech market developments including stable coins, CBDCs, and other non-SDR basket currencies, will be required to address potential risks in the future. We note that currencies in the valuation methodology will continue to reflect broad global importance in stable, established market segments.

We note the proposal to formalize the current practice of closing data gaps using available data for the relevant five-year period and note that this is consistent with accepted statistical methods. We welcome the progress in enhancing data disclosures since the last review including increased periodicity of data on financial soundness indicators necessary for enhanced financial sector surveillance. Nonetheless, we are concerned at the use of the BIS 2019 triennial FX turnover survey, which predates the pandemic period. *While we note staff expectations to mitigate this data challenge as timely surveys will be available in the next two consecutive quinquennial valuation reviews, we however urge staff to seek an update on the results of the survey to better understand the impact of the pandemic on FX turnover. We also encourage staff to explore the use of big data analytics in future reviews, to better inform data gap analysis. Staff comments are welcome.*

We appreciate the detailed analysis of China's financial sector performance since the inclusion of the Chinese renminbi (RMB) in the SDR basket in 2016. We commend the Chinese authorities' significant progress on financial market reforms and data dissemination since the last review. We are happy to note that the three-month Treasury market of the Chinese renminbi has seen a higher frequency and volume of issuances, along with growing policy rate transmission via the bond market. For gaps that remain compared to more mature bond markets, including limited market depth and liquidity and limited lead time for

announcing issuance volumes, we encourage prioritization of ongoing efforts to build the maturity of the market. The intention of the Chinese authorities to further enhance free usability and convertibility of RMB denominated assets held by international organizations, foreign central banks and institutional investors, while complying with international requirements, is welcome.

Going forward, we encourage staff to continue working with countries where obstacles remain on various operational issues across markets. In particular, we note survey respondents' concerns regarding transaction costs seen as a challenge mentioned for the British pound and the onshore RMB market. We encourage ongoing work to address remaining operational challenges, including flexibility of trading hours in the RMB market, while also giving attention to addressing transaction costs and operational procedures.

The SDR interest rate remains an important consideration for current and potential borrowing members. Given that the SDRi provides the basis for calculating the interest rate charged to members on their non-concessional borrowing from the IMF, it has important implications for borrowing costs going forward, as SDR basket interest rates rise. In this regard, we are hopeful that more efficient market operations in SDR countries alongside management of inflation expectations, can help to contain this cost to some extent.

Finally, we agree that the next five-year SDR valuation review be concluded before end-July 2027.

**Joint Statement by Mr. Binzarah, Mr. Mohieldin, Mr. El Qorchi, Ms. Choueiri, Mr. Saeed, and Mr. Boostani on Review of the Method of Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for the informative paper. The review of valuation of the Special Drawing Rights (SDR) currency basket mainly aims to enhance the role of the SDR as an international reserve asset. We note that the SDR's value has been stable in terms of the major currencies since the last review in 2015. Therefore, we believe that the current valuation framework has served its purpose well. Against this background, **we support staff's proposal and the associated decisions.** That said, we offer the following points.

We support maintaining the current composition of the SDR currency and basket. We note that developments in SDR valuation-related variables, comprising exchange rates, exports, and financial variables, have not been significant, which indicates that the relative roles of currencies in the world economy have not meaningfully changed.

We welcome the staff elaboration on the impacts of fintech developments and the pandemic on the SDR valuation framework. Staff indicates that COVID-19 and fintech developments have not had a material impact on the SDR valuation framework. We encourage staff to continue to carefully monitor the rapid developments in digital money and their potential implications on the SDR valuation. *We also encourage staff to elaborate on the protentional impacts of high inflation in countries/monetary unions issuing the currencies in the SDR basket.* The current valuation framework has been developed and evaluated in a prolonged period of low inflation. *Would the framework also serve the purpose during a high—and perhaps persistent—inflation?*

We support enhancing transparency in the treatment of the data gaps and agree with the staff proposal to formalize the current practice dealing with data gaps by using available data for the time period of interest.

We support the updated SDR weights, as calculated by the current methodology. We note that the ranking of the updated weights is similar to that set in 2015, with minor redistribution of weights from the British pound, the euro, and the Japanese yen to the US dollar and the Chinese renminbi. Since the weight redistribution in the SDR basket is expected to have a trivial effect on the SDR interest rate and it is not envisaged to have an impact on market developments, we support the new weights to come into effect as soon as on August 1, 2022.

We agree with the proposal that the next SDR valuation review should take place on a five-year basis, and to be concluded before end-July 2027.

**Statement by Mr. Bhalla and Mr. Goyal on Review of the Method of Valuation of the
SDR
Executive Board Meeting 22/44
May 11, 2022**

1. We thank Staff for a comprehensive paper to review the method of valuation of the SDR. We broadly support the observations and proposals made in the Paper. Since the current SDR basket became effective, we observe that the SDR has remained fairly stable, fluctuating within a narrow range of 4 per cent.
2. We support Paper's proposal to maintain the current composition of the SDR currency basket based on the current Board-approved methodology. It is based on twin selection criteria, viz., exports of goods and services and free usability of the currency. We note that since the last review, the ranking of the World's largest exporters has remained broadly unchanged. Similarly, the current SDR basket currencies continued to play a dominant role in terms of official reserves, international debt securities and bank liabilities. However, with regard to the size of the SDR basket, the Staff may extend its work towards developing possible new criteria that would broaden the SDR basket. Notably, several non-SDR currencies are gaining importance in international financial transactions. We also propose that Staff may continue to closely monitor developments and the role of crypto assets and CBDCs in international transactions for consideration during future reviews.
3. We also agree with the proposal to keep the composition of financial instruments determining SDR interest rate unchanged. However, we note relatively much larger volatility in one of the currency instruments over the past five years. Further, the higher yield on this instrument seemed to have influenced the overall SDR interest rate.
4. As per the survey conducted by the Staff, SDR users have faced only limited operational challenges. However, the share of respondents who have reported challenges is the largest in the case of RMB. Operational challenges identified by the respondents include – transaction cost, operational procedures, less flexible trading hours, and low liquidity. We encourage authorities to undertake steps to enhance the liquidity and depth of financial markets.
5. We support the current method of valuation and practices to deal with the data gaps as proposed in the Paper.

6. We also agree with the proposal to implement the updated SDR weights from 1st August 2022 and the next SDR valuation review to take place on a five-year basis.

**Statement by Mr. Andrianarivelo, Mr. Alle, and Mr. Olhaye on Review of the Method of
Valuation of the SDR
Executive Board Meeting 22/44
May 11, 2022**

We thank staff for a comprehensive report which provides the basis for the quinquennial SDR valuation review. We appreciate staff's continued effort to maintain a framework that is consistent with the Board's past decisions on the valuation of the SDR, guided by the principles highlighted in Box 1. We agree with staff's analysis and proposals in the report, aiming at continuously enhancing the attractiveness of the SDR as a reserve asset. We would like to make the following comments for emphasis.

We support maintaining the current method of valuation to reflect the fact that there have been no major changes in the roles of currencies in the world economy since the 2015 review. We also see merit in the proposed refinement, that is formalizing the current practice of dealing with data gaps by using available data for the time period of interest.

We also agree to maintain unchanged, the current composition of the SDR currency and interest rate baskets, considering that the basket currencies continue to dominate official reserves balances, and to play a key role in international financial markets. We take note of staff's assessment of the impact of the COVID-19 pandemic on SDR valuation-related variables, as well as fintech advances and their potential implications for the method of valuation of the SDR. We take comfort in their conclusions that there has not been a systematic impact of COVID-19 on the current valuation method, neither have fintech developments had a material impact on the SDR valuation framework.

Against this backdrop, we support the updated SDR weights, as calculated by the current methodology, to come into effect on August 1, 2022, when the current basket ends.

We welcome the introduction of a section on "Enterprise Risks" in the report. In our view, it is paramount for the IMF to ensure that all risks are accounted for about the SDR as a reserve asset, including by predominantly reflecting the actual developments in the world economy. That is why we would have liked staff to take account and assess the potential implications of the war in Ukraine on the SDR currency basket and valuation variables in the report's section on "Other Developments." There have been major changes recently in international financial transactions and some SDR basket currencies as a consequence of the conflict, and not reflecting those changes in the Fund's relevant work like the SDR valuation can pose both a strategic and reputational risk to the institution. *We would appreciate staff's*

comments on this point. Could staff explore a mid-term update on these developments before the 2027 review?

We agree that the next SDR valuation review should take place on a five-year basis, to be concluded before end-July 2027, while recommending a mid-term briefing to the Board on SDR basket currencies, should developments in international financial transactions require it.

**Statement by Rasmus Ruffer (ECB Representative) and Dimitrios Rakitzis (Advisor) on
the Staff Proposal for the Review of the Method of Valuation of the SDR**

IMF Executive Board Meeting

11 May 2022

We would like to thank Staff for this Report, which marks the conclusion of the quinquennial review of the method of valuation of the SDR delayed from 2021. We would like to re-iterate the role of the SDR as an official international reserve asset for the stability of the international monetary system.

Following the review of the method of valuation of the SDR, we take note that using the established methodology approved by the IMF Executive Board in 2015, Staff proposes to decrease the share of the euro by 1.62 percentage points to 29.31%. The Japanese yen and the British pound also see a decrease in their shares (of 0.74 and 0.65 percentage points, respectively), to 7.59% and 7.44%, while the share of the US dollar increases by 1.65 percentage points, to 43.38%, and the share of the renminbi increase by 1.36 percentage points, to 12.28%. In their calculations, Staff has applied the methodology agreed by the Executive Board in 2015 and the results seem to appropriately reflect this agreed methodology.

We note that the proposed decrease of the euro weight comes mostly from the decline in the euro's share in global FX reserves, FX turnover and international debt securities in the period 2017-2021 relative to 2010-2014 (the period used for the last review). With respect to the US dollar, it is noteworthy, that, a large part of the increase in the proposed US dollar's weight comes from one indicator, namely the significant increase in its share in international debt securities.

We thank Staff for the outreach on the appropriateness of the euro area rate being used to calculate the interest rate on the SDR. In its feedback to Staff, the ECB confirmed that the current euro rate (i.e. the three-month spot rate derived from an estimated yield curve based on euro area central government bonds with a rating of AA and above published by the ECB) taken into account for the calculation of the interest rate on the SDR is still appropriate, and its definition is consistent with that of the rates for the other currencies that form the SDR basket.

Going forward, the ECB could be open to consider the feasibility of including a single euro-area benchmark rate for future SDR reviews, but a change in the interest rate used for the formula would need to include a comparison with the current benchmark rate, which at this stage is expected to remain the relevant benchmark for the upcoming years.

Looking ahead, we would like to reiterate our call on Staff for timely and comprehensive consultations with the ECB, as one of the central banks whose currency is part of the SDR basket constituent currencies, ahead of SDR-related reviews, as also stressed during the last Review of the Method of the Valuation of the SDR back in 2015.

Review of the Method of Valuation of the SDR

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/22/44—May 11, 2022

Staff's responses to technical questions are below.

Methodology and Data Gaps

1. **We also welcome staff's proposal to formalize methodologies to address data gaps which will ensure consistent and fair application of data gap treatments, in line with accepted statistical methods. Specifically on international banking liabilities, could staff share the observed differences in end- September 2021 and end-year data for earlier years or even with end year 2021 data, if already available? Relatedly, we seek staff's clarification whether staff has explored other instruments or available indicators, apart from resorting to data gap treatments?**
- End-September international banking liability (IBL) data have typically been only slightly different from the end-December ones, as shown in the comparator table below, which provides total IBL for all SDR basket currencies using the currency-based approach as in the staff report Table AI.2. At this point, only very preliminary data has become available for end-December 2021 and this data shows a 0.2 percent increase from end-September 2021.

Total IBL for SDR Basket Currencies (in billion
SDR, unless otherwise specified).

Year	Q3	Q4	Percentage change
2017	18,790.5	18,668.1	-0.7
2018	19,148.7	19,175.9	0.1
2019	19,926.9	19,611.1	-1.6
2020	21,249.9	21,222.5	-0.1

- Data gaps are not a new feature of this SDR valuation review but have also occurred in past reviews. For instance, during the 2000 review, only one year of data was available for euro reserves. During the 2015 review, only one year of data was available for international bank liabilities in renminbi. When data gaps arose in past reviews, staff made the case to use best available data, while staying consistent with the underlying methodology. In line with past practice, staff's current approach does not propose—consistent with the principle of continuity in the method of valuation—to change the indicators or the method of valuation but to further enhance the transparency on filling data gaps by formalizing this through a Board decision.
- Overall, staff does not consider the remaining data gaps to constitute a major shortcoming of the current methodology. As noted above, differences in Q3 and Q4 data on IBL are very small. Moreover, the share of international debt securities in euros excluding intra euro area positions in total international debt securities in euros has been quite stable, varying within a very narrow range of 0.777 to 0.783 percent over the period

2017-20 (as noted also in ¶12 of the staff report). Finally, we acknowledge that lack of multiple data points for annual foreign exchange turnover is a limitation. The issue of having only one data point arises only in one out of three reviews, given that the BIS survey of foreign exchange turnover is triennial. However, this data is the most comprehensive survey on foreign exchange turnover available. Data on foreign exchange turnover from regional centers has been used as a cross-check by staff, including in the 2015 review, but this data has much more limited coverage.

2. **We would also appreciate staff's further elaboration on the availability of alternative variables that similarly cover aspects considered important in the SDR valuation but give rise to data gaps to a lesser extent.**

We encourage staff to mitigate the data gap problems more strategically in the medium-term and to work on closing the data gaps, also for example by examining other variables, which could determine the relative importance of currencies in the world's trading and financial systems. Staff's comments are welcome.

- The use of financial indicators in the weighting formula was discussed over several reviews and formalized in the 2015 review. Staff did not formally explore the use of alternative indicators in this review, in line with the principle of continuity of the method of valuation. For foreign exchange turnover, some alternative data sources exist, including data published by certain central banks. However, this data is not comprehensive and may not be as thoroughly checked for consistency as data published by the BIS, even though the latter publishes foreign exchange turnover data only every three years. Overall, staff does not consider the remaining data gaps to constitute a major shortcoming of the current methodology. Staff will continue to assess the availability and suitability of any new or improved data sets in the context of the quinquennial SDR reviews.
3. **We are interested to know how staff assesses the experience to date with the substantially changed methodology. Are updates in currency weights under the new methodology more pronounced than before, possibly due to higher volatility in the new financial variables?**
- While it is too early to draw firm conclusions given that this is the first quinquennial period in which the new methodology approved in 2015 is being applied, the magnitude of changes in currency weights in the current review is comparable to the magnitude of changes observed in past reviews

Change in weight at time of SDR valuation review, (ppts)					
	2000	2005	2010	2015	2022
US\$	0	-1	-2.1	-0.17	1.65
Euro	4	5	3.4	-6.47	-1.62
Pound	0	0	0.3	-3.21	-0.65
Yen	-4	-4	-1.6	-1.07	-0.74
Renminbi	10.92	1.36

4. We wondered whether it would be worth considering at the next review the merits of using a financial market criterion, in addition to the export measure, for inclusion of a currency to ensure the attractiveness of the SDR as a reserve asset is maintained. Staff views would be welcome.

- From the inception of the SDR as a currency basket, the motivation for using exports as a determinant for the basket composition was to stabilize the purchasing power of the SDR as a reserve asset. Conceptually, if the main exporters' currencies are in the basket, the cost of imports in SDRs should be broadly stable (i.e., not affected by exchange rate movements). Over time, the selection criteria were expanded to consider other uses of the SDR as a reserve asset. Specifically, in 2000, freely usable was added as a second criterion to bring financial considerations into the currency selection process, thus recognizing the growing importance of financial transactions in overall international transactions. The current methodology thus already provides for the consideration of financial markets in the currency selection decision.

5. We are concerned at the use of the BIS 2019 triennial FX turnover survey, which predates the pandemic period. While we note staff expectations to mitigate this data challenge as timely surveys will be available in the next two consecutive quinquennial valuation reviews, we however urge staff to seek an update on the results of the survey to better understand the impact of the pandemic on FX turnover. We also encourage staff to explore the use of big data analytics in future reviews, to better inform data gap analysis. Staff comments are welcome.

- As noted in the answer to question 1, the lack of multiple data points for annual foreign exchange turnover constitutes a limitation. However, the volume of transactions in foreign exchange markets has been recognized by the Executive Board as a key indicator in the assessment of free usability, and the BIS survey is currently the most comprehensive data source available for its assessment.
- The use of big data analytics could be explored in the future to see if it can help improve the frequency of reporting on annual foreign exchange turnover. However, recourse to this approach in the SDR valuation framework would have to be considered cautiously given the need to provide transparency and continuity in the SDR valuation.

Operational Issues and SDR Basket's Currencies

6. For the renminbi, beyond staff's recommendation to open and deepen onshore markets, we would welcome greater granularity regarding specific reforms that staff would recommend, including the sequencing of those reforms.

- While operational issues are not formal requirements for the SDR currency selection criteria, currencies in the SDR basket are nevertheless expected to have certain characteristics, including open and deep markets, so as to facilitate access by reserve managers and smooth functioning of Fund operations. During the 2015 SDR Review, it was determined that RMB markets had reached a depth that allows executing transactions of the size Fund members might undertake within a reasonable time frame, without an appreciable change in the exchange rate. It was recognized that the Chinese authorities had made important progress in addressing operational issues.
- The current Review documents continued progress since then. By documenting challenges reported by SDR users, this Review also provides some directions for further progress, for example related to operational procedures and transaction costs in the onshore market or on data transparency.
- Going forward, the sequencing of further capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability. Specifically, further capital account opening is likely to create substantially larger two-way gross capital flows. The associated balance sheet adjustments and shifts in market sentiment thus require prioritizing the shift to an effective float (while using FX intervention to counter disorderly market conditions) and strengthening domestic financial stability prior to a substantial further opening. Efforts should also be redoubled to encourage inward FDI, which would support growth, and to improve corporate governance.

7. The renminbi has increased its weight in many variables in the formula, reflecting the gradual integration of the renminbi into the international monetary system. Nevertheless, more than five years after its entry into the SDR basket, the renminbi has still very modest results in international banking liabilities and debt securities. We appreciate staff's analysis in Box 6 on financial market reforms in China. Could staff provide additional insights on the relative lag of the renminbi in these variables and the reforms still needed to strengthen its role in the international financial markets?

- The use of currencies in international transactions is sticky and changes are thus expected to occur in a gradual manner and not necessarily uniformly and at the same pace across different markets and channels.
- The results of the questionnaire sent to member countries and prescribed holders of SDRs show that the RMB markets are accessible, and that reserve managers are able to operate in RMB. While there has been progress since the inclusion of the RMB in the SDR basket, there is also still room for improvement, for example related to operational procedures and transaction costs in the onshore market or on data transparency.

- Going forward, the sequencing of further capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability. Specifically, further capital account opening is likely to create substantially larger two-way gross capital flows. The associated balance sheet adjustments and shifts in market sentiment thus require prioritizing the shift to an effective float (while using FX intervention to counter disorderly market conditions) and strengthening domestic financial stability prior to a substantial further opening. Efforts should also be redoubled to encourage inward FDI, which would support growth, and to improve corporate governance.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States