

**LAPSE OF
TIME**

EBS/21/87

CONFIDENTIAL

September 22, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **SDR Designation Plan for the Period October 2021–September 2022**

Board Action:	Executive Directors' consideration on a lapse of time basis
Deadline to Request a Board Meeting, after which Proposed Decision Deemed Approved:	Wednesday, September 29, 2021 12:00 (noon)
Proposed Decision:	Page 7
Publication:	Not proposed, due to the confidentiality of the financial information contained.
Questions:	Ms. Manno, FIN (ext. 38175) Ms. Mburu, FIN (ext. 38443)



September 22, 2021

SDR DESIGNATION PLAN FOR THE PERIOD OCTOBER 2021–SEPTEMBER 2022

EXECUTIVE SUMMARY

The designation mechanism ensures that, in case of balance of payments need, participants can use SDRs to obtain freely usable currencies at short notice.

Article XIX of the Fund's Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the Fund, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation plan has been precautionary from September 1987, and since October 2015 it has been prepared on an annual basis. The plan functions as a backstop mechanism to the current SDR Voluntary Trading Arrangements (VTA) market, which has been used for exchanges of SDRs for over 30 years. This paper proposes an SDR designation plan for the upcoming annual period October 2021–September 2022.

After the 2021 general SDR allocation, the VTAs continue to have adequate liquidity for exchanges of SDRs and are expected to continue to be the main vehicle for members to buy and sell SDRs. The capacity of the VTAs has scaled up with the new allocation as most arrangements have trading ranges defined as a percentage of net cumulative allocations. As of August 31, 2021, there is sufficient buying (SDR 238.0 billion) and selling (SDR 104.4 billion) capacity to meet the expected demand for sales and acquisitions of SDRs, respectively. More information on the functioning of the SDR trading market will be provided in a forthcoming annual paper on the status of the SDR trading operations.

The proposed designation plan for October 2021 to September 2022 maintains the previous annual designation amount of SDR 3 billion and is envisaged to be precautionary. The designated amount is kept unchanged from the prior period as the scaled up VTA absorptive capacity is deemed sufficient to handle the potential increase in demand for sales of SDRs. Staff will review the designation amount in the next annual cycle (2022–2023) after there is more experience with actual demand for sales of SDRs post-allocation. Approval of the current plan requires a Board decision by a simple majority of votes cast.

Approved By
Bernard Lauwers

Prepared by the Finance Department (Maria Manno, Jane Mburu, Vendula Kurcova, Anna Nakafeero, and Martina Schmid under the guidance of Zuzana Murgasova), in consultation with the Legal Department.

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SDR DESIGNATION PLAN

1. The SDR designation plan for the upcoming annual period

October 2021–September 2022 is expected to remain precautionary.¹ The designation mechanism seeks to assure the conversion of SDRs into freely usable currencies by participants, subject to a balance of payments need, and to promote, over time, balanced SDR holdings among designated participants in accordance with Article XIX, Section 5, and Decision No. 11976-(99/59)/S.² As in the past, the designation plan includes the amounts by which designations would be made until the next decision takes effect. The designation plan is expected to remain precautionary given that the scaled-up capacity of the SDR voluntary market, of about SDR 240 billion under the VTAs as of August 31, 2021, appears to be sufficient to absorb the potential SDR trading volume, as has been the case since September 1987.³

2. Staff proposes to maintain the designation amount of SDR 3 billion for the period October 2021–September 2022 and review this amount in the next annual cycle in light of the potential changes in demand for SDR sales after the new SDR allocation. In light of the scaled-up VTA capacity and the expectation that the VTA market will be able to handle SDR sale requests, it is proposed to leave the designation amount for the upcoming period unchanged at SDR 3 billion. With the VTAs currently in place and the anticipated volume of SDR sales, this amount continues to reflect staff's judgment of the amount required to provide a meaningful backstop in the event that a transaction by designation becomes necessary.⁴ The proposed designation plan allocates both the total designation amount for a 2-year period (SDR 6 billion) and the annual amount to participants with the lowest initial excess holding ratios, in accordance with the burden-sharing methodology described in Box 1.⁵ In the unlikely event that the SDR designation plan is activated and the plan's amount appears insufficient, staff would propose an amendment to the plan, which the Executive Board may be requested to approve at short notice.

¹ In line with the 2021 Proposal For a General Allocation of Special Drawing Rights, staff has separated this designation plan Board paper from the annual update on SDR trading operations. The latter paper will be issued for the information of the Board and published on the Fund's external website. See [Proposal For a General Allocation of Special Drawing Rights \(imf.org\)](#).

² The rules for designation in the SDR Department are discussed in Revision of Designation Rules and Designation Plan for the Quarterly Period June–August 1999 (EBS/99/81, 05/20/99).

³ The 2021 Proposal for a General Allocation of Special Drawing Rights (SM/21/86) presented illustrative scenarios of potential demand for SDR sales range from an upper bound scenario of SDR 90 billion if all non-FTP members exchange their SDRs to a lower-end scenario of SDR 20 billion based on a survey of mission chiefs. Even under the unlikely upper bound scenario, the post allocation VTA capacity of about SDR 240 billion is more than sufficient at nearly three times the level of sales.

⁴ This amount is unchanged from the amount designated under the last designation plan for the period October 2020–September 2021 (EBS/20/149, 9/22/20). In evaluating the adequacy of the designation amount, staff considered that this designation amount is greater than the SDR holdings of nearly each of the members not in the Financial Transactions Plan which is the group of members for which a BOP need could arise. In the tail risk scenario where the VTAs were not able to serve as a backstop for one of these members, it would likely be a one-off event. Further, staff considered that the probability of multiple participants necessitating simultaneous transactions by designation is extremely low.

⁵ In the Review of the Rules of Designation and the Method of Calculating Designation Amounts (SM/79/183), the designation amount was set for a two-year period to allow enough time for harmonization of excess ratios.

Box 1. Designation Plan Mechanism

Article XIX of the Fund’s Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the Fund, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of balance of payments need, participants can use SDRs to obtain freely usable currencies at short notice.

Each designation plan identifies participants subject to designation and sets maximum limits on the amounts of SDRs they can be designated to receive during the next period. Since 1970, the designation plan was made quarterly. Effective October 1, 2015, the designation plan will be decided by the Executive Board on an annual basis. In practice, the list of participants subject to designation is the same as the list of members considered sufficiently strong for inclusion in the FTP at the time of the review, but depending on the proposed designation amount and participants’ SDR holdings, not all may need to be designated for receiving SDRs during each plan period. The amounts of designation for individual participants are determined so as to promote over time a balanced distribution of the excess SDR holdings above allocations in relation to quotas. Each participant’s designation is calculated so that the participants subject to designation would, if called upon to accept the amounts designated to them, achieve a common lowest “excess holdings ratio”. The excess holdings ratio is calculated as the difference between the member’s SDR holdings and its net cumulative allocation as a percent of its quota.

A participant’s obligation to provide currency against SDRs in designation is subject to a ceiling that limits its SDR holdings to 300 percent of its net cumulative allocation (acceptance limit), unless the participant and the Fund agree to a higher limit. The annual amounts of designation for individual participants are taken as one-half of the calculated amounts of designation for the next two years. If a designation had to be made during the plan period, staff would give priority in designation to participants that have lower excess holdings ratios in comparison with other participants. If a participant’s currency is no longer used for transfers under the Financial Transactions Plan during a Designation Plan period, the participant would also not be selected for a transaction by designation. If a new participant is added to the Financial Transactions Plan, it would not be called upon in a transaction by designation until it has been included in the next Designation Plan.

Staff would propose to amend the designation amount in the interim between the annual designation periods if the total maximum designation amount is insufficient to meet a request to convert SDRs or if other developments so warrant. In such a case, staff would propose for Board approval an upward revision of the total designation amount, as appropriate, and propose to the Executive Board a revised Designation Plan. In such circumstance, the list of participants potentially subject to designation would be based on the FTP participants at that time.

3. The SDR designation plan considers participants whose external position is deemed sufficiently strong, in line with the latest list of members in the Fund’s Financial Transactions Plan (FTP).⁶ In the latest staff paper on the FTP, 50 participants were considered sufficiently strong to participate in the FTP and, accordingly, these members are also considered for inclusion in the designation plan.⁷

⁶ Article XIX, Section 5, a), i).

⁷ See Financial Transactions Plan for the Period August 2021–January 2022 (EBS/21/74, 07/22/2021).

4. The proposed annual SDR designation plan distributes SDR 3 billion among 14 FTP participants for the upcoming designation period (Tables 1 and 2). Amounts are assigned to members with the aim of harmonizing over time excess holdings ratios, which are members' SDR holdings net of their cumulative allocation in percent quota. No designation amounts have been assigned to the other FTP participants because their excess holding ratios are above the projected common ratio (-4.72 percent) used in calculating the plan.

Table 1. SDR Designation Plan Maximum Amounts
October 2021–September 2022
(in millions of SDRs)

Participants	Maximum Designation Amounts 1/	Participants	Maximum Designation Amounts 1/
Algeria	94	Oman	27
Chile	90	Peru	22
Czech Republic	110	Poland	405
Estonia	13	Russian Federation	65
France	497	Saudi Arabia	188
India	1,135	United Arab Emirates	153
Malaysia	175	Uruguay	26
Total (14)			3,000

Source: IMF staff projections.

1/ Consistent with Table 2 (see Column G).

**Table 2. List of Participants Subject to the SDR Designation:
Calculation of Designation Amounts
October 2021–September 2022**
(in millions of SDRs, unless otherwise indicated)

	Quotas	SDR Holdings 1/	SDR Holdings in Excess of NCA	Excess Holdings Ratios (Percent) D = C / A	Designation Over Two Years		Designation Over Next Period	
					Maximum Designation Amounts 2/	Projected Excess Holdings Ratios (Percent) F = (C + E) / A	Maximum Designation Amounts	Projected Excess Holdings Ratios (Percent) H = (C + G) / A
					A	B	C	D = C / A
Algeria	1,959.9	2,796.7	-279.9	-14.3	187	-4.72	94	-9.50
Australia	6,572.4	9,326.0	-56.5	-0.9	0	-0.86	0	-0.86
Austria	3,932.0	5,464.6	-40.4	-1.0	0	-1.03	0	-1.03
Belgium	6,410.7	10,459.6	-8.1	-0.1	0	-0.13	0	-0.13
Botswana	197.2	248.4	1.9	1.0	0	0.98	0	0.98
Brazil	11,042.0	13,579.0	108.7	1.0	0	0.98	0	0.98
Brunei Darussalam	301.3	506.4	14.1	4.7	0	4.68	0	4.68
Canada	11,023.9	16,914.8	360.8	3.3	0	3.27	0	3.27
Chile	1,744.3	2,226.0	-262.8	-15.1	180	-4.72	90	-9.89
China	30,482.9	37,858.6	1,652.4	5.4	0	5.42	0	5.42
Czech Republic	2,180.2	2,547.2	-322.6	-14.8	220	-4.72	110	-9.76
Denmark	3,439.4	4,684.2	-143.8	-4.2	0	-4.18	0	-4.18
Estonia	243.6	258.5	-37.0	-15.2	26	-4.72	13	-9.95
Finland	2,410.6	3,434.7	-65.3	-2.7	0	-2.71	0	-2.71
France	20,155.1	27,507.1	-1,944.9	-9.6	994	-4.72	497	-7.18
Germany	26,634.4	37,466.6	-120.5	-0.5	0	-0.45	0	-0.45
India	13,114.4	13,656.6	-2,891.3	-22.0	2,275	-4.72	1,135	-13.38
Israel	1,920.9	2,707.6	-16.9	-0.9	0	-0.88	0	-0.88
Italy	15,070.0	20,385.5	-634.6	-4.2	0	-4.21	0	-4.21
Japan	30,820.5	44,279.8	2,454.8	8.0	0	7.96	0	7.96
Korea	8,582.7	10,880.9	250.4	2.9	0	2.92	0	2.92
Kuwait	1,933.5	3,189.3	20.6	1.1	0	1.06	0	1.06
Lithuania	441.6	561.0	0.5	0.1	0	0.10	0	0.10
Luxembourg	1,321.8	1,517.6	4.1	0.3	0	0.31	0	0.31
Malaysia	3,633.8	4,307.2	-521.7	-14.4	350	-4.72	175	-9.54
Malta	168.3	248.6	-8.1	-4.8	0	-4.72	0	-4.78
Mauritius	142.2	226.5	-6.6	-4.7	0	-4.67	0	-4.67
Mexico	8,912.7	11,695.0	301.4	3.4	0	3.38	0	3.38
The Netherlands	8,736.5	13,435.2	225.0	2.6	0	2.58	0	2.58
New Zealand	1,252.1	2,059.2	5.3	0.4	0	0.43	0	0.43
Norway	3,754.7	5,280.8	119.1	3.2	0	3.17	0	3.17
Oman	544.4	621.7	-78.9	-14.5	53	-4.72	27	-9.61
Peru	1,334.5	1,782.9	-106.0	-7.9	43	-4.72	22	-6.33
Philippines	2,042.9	2,814.3	18.3	0.9	0	0.90	0	0.90
Poland	4,095.4	4,226.6	-1,003.3	-24.5	810	-4.72	405	-14.61
Qatar	735.1	981.0	25.0	3.4	0	3.40	0	3.40
Russian Federation	12,903.7	17,301.6	-737.8	-5.7	129	-4.72	65	-5.22
Saudi Arabia	9,992.6	15,413.0	-847.0	-8.5	376	-4.72	188	-6.60
Singapore	3,891.9	4,498.8	24.3	0.6	0	0.63	0	0.63
Slovak Republic	1,001.0	1,274.3	-25.6	-2.6	0	-2.56	0	-2.56
Slovenia	586.5	761.2	-16.8	-2.9	0	-2.87	0	-2.87
Spain	9,535.5	11,697.0	-269.9	-2.8	0	-2.83	0	-2.83
Sweden	4,430.0	6,540.7	45.8	1.0	0	1.03	0	1.03
Switzerland	5,771.1	8,956.0	136.6	2.4	0	2.37	0	2.37
Thailand	3,211.9	4,069.1	20.4	0.6	0	0.63	0	0.63
Trinidad and Tobago	469.8	771.4	0.0	0.0	0	0.00	0	0.00
United Arab Emirates	2,311.2	2,368.3	-415.2	-18.0	306	-4.72	153	-11.34
United Kingdom	20,155.1	29,226.8	-225.2	-1.1	0	-1.12	0	-1.12
United States	82,994.2	116,316.0	1,454.2	1.8	0	1.75	0	1.75
Uruguay	429.1	632.8	-71.7	-16.7	51	-4.72	26	-10.72
TOTAL	394,971.5	539,962.3	-3,915.0		6,000		3,000	

Source: IMF staff projections.

1/ SDR holdings reflect SDR transactions known to be completed by end-September 2021 (including SDR sales and acquisitions, and PRGT drawings in SDRs).

2/ / The amounts shown are derived through an iterative process, which raises the lowest excess holdings ratio in column D to the common lowest ratio shown in column F (4.72 percent).

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Executive Board approves the SDR designation plan for the period

October 1, 2021–September 30, 2022 as set out in EBS/21/87.