

GREEN/23/5

February 8, 2023

Green Statement by Mr. Palotai and Mr. Just on Applications to Become Holders of SDRs (EBS/23/10)

We agree with granting the prescribed holder (PH) status to the five applicants in line with the provisions of the Articles of Agreement and to ensure equal treatment with the multilateral development banks (MDBs) that are already PHs. We also note the clarification of the PHs' more limited rights compared to participants in the SDR Department, in line with the relevant Board Decision of 1980. Furthermore, we take note that the prescription of new holders is likely to result in a modest increase only in operating costs.

On the general discussion of the possible options of a channeling of SDRs, there are potential ramifications of an increased SDR channeling for the purpose of SDRs, which according to the Articles of Agreement is to supplement, if needed, members' existing reserve assets.

We have some doubts that, when channeling SDRs to MDBs, those would continue to meet the reserve asset character which the Fund has to guarantee. For this very reason, financing MDBs directly through SDR channeling is not possible for EU central banks, as this would not be compatible with the EU's monetary financing prohibition. Furthermore, the purpose of the SDR and the functioning of the SDR system might be undermined, as SDR channeling on a substantial scale could have a "detrimental effect on the liquidity of the voluntary trading arrangements (VTA) market," if PHs hold on to the SDRs (para. 19). Staff's suggestion to encourage PHs to become VTA members if they are expected to maintain sizeable SDR holdings strikes us as sensible.

To avoid a gradual change of the use of SDRs, we emphasize that SDRs should continue to be held primarily by participants in the SDR Department. While we acknowledge that the use of SDRs by existing PHs has been limited so far, and "sporadic" for MDBs, the increase in the number of PHs warrants a closer monitoring of the SDR holdings by PHs and the way in which the channeled SDRs are used. We thus suggest conducting a review, e.g. in five years' time. The use of SDRs by PHs, meanwhile, could be part of the planned ex-post report on the use of SDRs after the allocation.

We consider that these issues warrant a thorough assessment and further discussion going forward.