

February 8, 2023

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

We thank staff for the assessment. **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 prescribed holders' 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, we would like to point to 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.

Whether SDRs channeled to development banks to support their lending activity would meet the standards of foreign reserves in terms of liquidity and credit risks is subject of an ongoing discussion. In the case at hand, using channeled SDRs to "leverage [MDBs'] development financing operations" (para. 16) suggests SDRs may be used as a subordinated equity contribution. We have some doubts that SDRs would then still be readily available for monetary authorities to meet balance of payment financing needs and be considered safe. It also seems that this use of SDRs stands in conflict with the Fund's stated responsibility to guarantee the SDR's reserve asset quality. We consider that these issues warrant a thorough assessment and further discussion going forward. For similar reasons, 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 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 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 prescribed holders 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.