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INTERNATIONAL MONETARY FUND

ANNUAL UPDATE ON SDR TRADING OPERATIONS

September 19, 2023

EXECUTIVE SUMMARY

This paper provides an update on the status of the SDR trading market and operations. For more than three decades, SDRs have exclusively been exchanged for freely usable currencies in transactions by agreement, primarily through the Voluntary Trading Arrangements (VTAs). A small fraction of transactions by agreement—sales or acquisitions of SDRs—has been arranged directly between parties. VTAs are bilateral arrangements between the Fund and SDR department participants or prescribed holders, in which the VTA participants agree to buy and sell SDRs within certain limits. The paper covers SDR trading operations during the period September 2022 to August 2023.

Since the last annual update, SDR trading has continued to be dominated by SDR sales, although SDR acquisitions have increased significantly. From September 2022 to August 2023, SDR 17.9 billion were sold through the VTA market, of which SDR 8.9 billion were exchanged by 29 participants into currencies and SDR 8.0 billion were sold by the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST) for liquidity management and to facilitate the investment of SDR contributions. On the purchase side, the volume and number of transactions increased from the previous year as more participants needed to replenish their SDR holdings to cover charges to the IMF, reflecting the rising SDR interest rate.

The VTAs continue to have ample capacities to meet the demand for exchange of SDRs into currencies. The SDR trading capacities consider the minimum and maximum SDR amounts that a VTA participant is willing to hold and the actual SDR holdings of each VTA participant. The number of VTA participants increased from 38 to 40 in the reporting period and as of August 31, 2023, the buying and selling capacities of these VTAs stood at about SDR 208 billion and SDR 165 billion, respectively.

Approved By
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CONTENTS

INTRODUCTION 3

SDR TRADING OPERATIONS 4

A. SDR Sales Through VTAs 4

B. Acquisitions of SDRs Through VTAs and GRA 6

C. Other SDR Transactions 8

VOLUNTARY TRADING ARRANGEMENTS (VTAS) 9

SDR REPORTING 12

BOX

1. Voluntary SDR Trading Arrangements 3

FIGURES

1. Monthly SDR Sales Volume by IMF Members Through VTAs 5
2. Annual SDR Sales Through VTAs 6
3. Annual SDR Acquisitions Through VTAs and GRA 8
4. Purchasing and Selling Capacity of VTAs by Region as of August 31, 2023 10
5. Distribution of VTA Participants' SDR Holdings in % of SDR Allocation 11

TABLES

1. Summary of SDR Sales Through VTAs 5
2. Summary of SDR Acquisitions Through VTAs and GRA 7
3. SDR Bilateral Transactions 9
4. VTAs: Trading Ranges Including Average Purchasing and Selling Capacity as of August 31, 2023 9
5. SDR Sales and Acquisitions VTA Participation Including Purchasing and Selling Capacity by Region 11

INTRODUCTION

1. For more than three decades, SDR participants and prescribed holders have exclusively executed exchanges of SDRs for freely usable currencies through transactions by agreement, primarily using VTAs. A participant or a prescribed holder may use SDRs freely, without the requirement of representing a balance of payments need, to obtain an equivalent amount of currency in a transaction by agreement with another participant. These transactions, which comprise both sales and purchases of SDRs, can be either be arranged directly between parties or facilitated by the SDR Department through VTAs. The VTAs are bilateral arrangements between the Fund and currently 39 SDR participants and 1 prescribed holder, in which the VTAs agree to buy and sell SDRs within certain limits (Box 1). SDR trades can also be agreed directly (bilaterally) between participants and/or prescribed holders, and some SDR purchases needed to meet members' obligations to the IMF can be conducted through the General Resources Account (GRA) of the IMF in certain circumstances.[1] In the event that transactions by agreement cannot provide for an exchange of SDRs into currencies, the Articles of Agreement provide for a designation mechanism, which guarantees the liquidity of the SDR by ensuring that, in case of a balance of payment need, participants can use SDRs to obtain freely usable currencies.. The IMF prepares a Designation Plan annually, which can be activated in such circumstances; however, these plans have not been activated and remained precautionary since 1987.[2]

Box 1. Voluntary SDR Trading Arrangements



Africa: Mauritius[1,2]
Asia and Pacific: Australia, China, Japan, Korea, Singapore[1], and New Zealand
Europe: Austria, Belgium, Cyprus, Denmark, ECB, Estonia[1], Finland, France, Germany, Greece, Ireland, Israel, Italy, Lithuania[1], Luxembourg[1,2], Malta, The Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom
Middle East & Central Asia: Algeria[1], Oman[1], and Saudi Arabia
Western Hemisphere: Brazil[1], Canada, Chile, Mexico, and the United States

[1] New VTAs after the 2021 General SDR Allocation.
[2] VTA was signed during the reporting period.

2. Against the backdrop of the 2021 SDR General Allocation, the VTA market has continued to effectively support the liquidity of the SDR. The VTA trading market has operated smoothly and staff has successfully onboarded eight new VTAs since the 2021 allocation—Algeria,

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

[2] See *SDR Designation Plan for the Period October 2023–September 2024* (EBS/23/102).

Brazil, Estonia, Lithuania, Luxembourg, Mauritius, Oman, and Singapore. In addition, VTAs have remained responsive to requests by staff for further operational flexibilities when needed. Since the 2021 allocation, all 40 VTAs have been used (up from 37 last year). Discussions with a number of potential new entrants continue in the broader context of SDR channeling, which involves a strong expectation that contributors have VTAs.

3. This annual paper provides information on SDR trading operations.[3] The first section of the paper provides data on SDR trading operations, while the second section offers an update on the voluntary trading arrangements, which handle nearly all SDR trading requests. The third and final section highlights publicly available information resources on SDR transactions. In line with the commitment to increased transparency on SDR operations following the 2021 SDR allocation, this paper is proposed to be published.

SDR TRADING OPERATIONS

4. This section summarizes SDR trading operations for the past 12 months and trends over the last five years (2018–2023).[4] Specifically, it provides information on SDR sales through VTAs, SDR acquisitions through VTAs and the GRA, and other SDR operations.

A. SDR Sales Through VTAs

5. The number and volume of SDR sales through VTAs decreased in comparison with the prior 12-month period. From September 2022 to August 2023, there were 140 SDR sales transactions amounting to SDR 17.9 billion compared to 148 sales totaling SDR 18.3 billion during the previous 12 months. As expected, prior year sales were elevated following the historic 2021 SDR allocation of about SDR 456 billion (US$650 billion). Cumulatively, since the SDR allocation, the VTA market has supported the conversion of SDR 37.0 billion into currencies (SDR 26.9 billion by 66 SDR department participants, SDR 8.3 billion by the Trusts and SDR 1.8 billion by prescribed holders).

6. All participant sales were made by Emerging Markets and Developing countries (EMDCs). In the current period, 29 participants sold SDR 8.9 billion through VTAs. Individual sale requests by participants ranged from SDR 1.6 million to SDR 600 million, and Low Income Countries (LICs) accounted for 43 percent of the total SDR sales volume.[5] The number and volume of sales by participants through VTAs have continued to slow down with an average of SDR 740 million per month (Figure 1), compared to an average of SDR 1.4 billion in the preceding 12-month period. Cumulatively, for the period since January 2018, all SDR sales have totaled SDR 47.8 billion (439 transactions with an average size of SDR 108.9 million), made by 75 SDR participants and 6 prescribed holders (Table 1 and Figure 2).

[3] For the review on the use of the 2021 SDR allocation and its economic implications two years after its implementation, see *2021 Special Drawing Rights Allocation – Ex-post Assessment report (FO/DIS/23/87).*

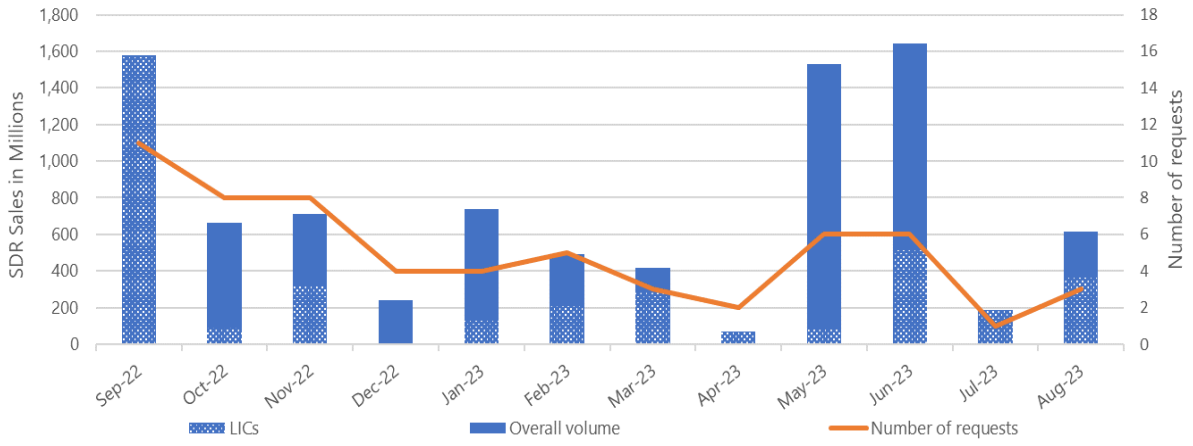
[4] The annual reporting period for SDR transactions for this paper is September 1, 2022, to August 31, 2023, while the cumulative period is from January 1, 2018, to August 31, 2023.

[5] LICs are a subset of EMDC countries and are defined as PRGT-eligible countries.

Figure 1. Monthly SDR Sales Volume by Participants Through VTAs

September 1, 2022–August 31, 2023

(In millions of SDRs, unless otherwise indicated)



Source: IMF staff calculations.

Table 1. Summary of SDR Sales Through VTAs[1,2,3]

January 1, 2018–August 31, 2023

(In millions of SDRs, unless otherwise indicated)

	2018	2019	2020	2021	2022	Jan-Aug 2023	**Total**	Sep 2021-Aug 2022	Sep 2022-Aug 2023
Number of Sales Requests [4]	40	45	33	53	93	47	**311**	90	85
Number of Transactions [4]	47	49	34	83	144	82	**439**	148	140
Of which:									
in connection with GRA lending	23	19	1	1	-	-	**44**	-	-
in connection with PRGT lending	11	11	20	5	-	-	**47**	1	-
in connection with PRGT liquidity	6	12	6	5	13	13	**55**	4	23
in connection with RST lending	-	-	-	-	-	2	**2**	-	2
in connection with RST liquidity	-	-	-	-	10	18	**28**	-	28
others	7	7	7	72	121	49	**263**	143	87
Total amount of SDR sales	3,898	4,179	2,173	9,532	16,501	11,512	**47,795**	18,338	17,933
Of which:									
in connection with GRA lending	2,903	2,945	200	144	-	-	**6,192**	-	-
in connection with PRGT lending	348	633	1,701	164	-	-	**2,846**	49	-
in connection with PRGT liquidity	538	437	196	242	1,504	2,936	**5,853**	175	4,325
in connection with RST lending	-	-	-	-	-	88	**88**	-	88
in connection with RST liquidity	-	-	-	-	1,812	1,894	**3,706**	-	3,706
others	110	165	76	8,982	13,185	6,594	**29,112**	18,114	9,815

Source: IMF staff calculations.

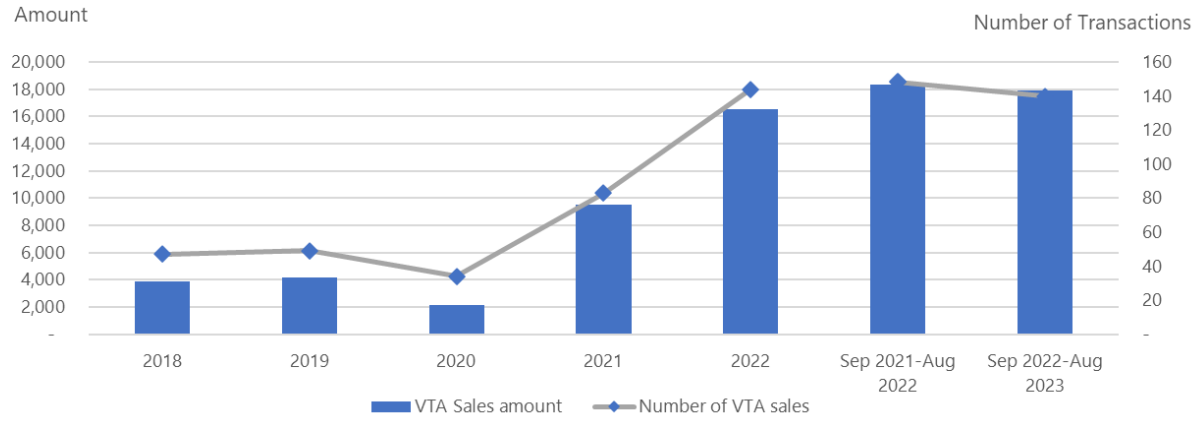
[1] Periods run from January to December unless indicated otherwise.

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

[3] Table may include small differences due to rounding.

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

Figure 2. Annual SDR Sales Through VTAs[1]
January 1, 2018–August 31, 2023
(In millions of SDRs and number of transactions)



Source: IMF staff calculations.
[1] Periods run from January to December, unless indicated otherwise.

7. The smooth functioning of the VTA market has enabled the conversion of channeled SDRs into currencies by the IMF-administered Trusts. In line with pledges following the SDR allocation, contributions in SDRs by IMF members with strong external positions to the IMF's Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST) (collectively "the Trusts") have increased significantly.[6] In the current period, to primarily support the investment of the contributions received in SDRs, the Trusts have converted SDR 8.0 billion (about 45 percent of the total SDR sales volume) into currencies through the VTA market. This elevated level of conversions by the Trusts (exchanges by the Trusts amounted only to about 1 percent of the total sales volume in the previous 12 months) is expected to continue in the near term as members fulfill their commitments to increase resources to the PRGT and RST.

8. SDR trading by prescribed holders has remained limited. In the current period, prescribed holders exchanged a total of SDR 1.0 billion compared with SDR 823 million in the previous reporting period and, as expected, the SDR holdings by these official entities remain modest at about 0.3 percent of total SDR holdings. On February 8, 2023, the IMF prescribed five official institutions as new holders of SDRs, bringing the total number of prescribed holders to twenty.[7] Staff has successfully onboarded the new entities to the SDR Department.

B. Acquisitions of SDRs Through VTAs and GRA

9. On the demand side, purchases of SDRs increased significantly both in numbers and in volume relative to the previous reporting period. In the period September 2022 to August 2023, there were 195 acquisitions in the amount of SDR 5.3 billion, compared to 90 transactions for

[6] See *2021 Special Drawing Rights Allocation – Ex-post Assessment report (FO/DIS/23/87)*.

[7] See *Applications to Become Holders of SDRs* (*EBS/23/10*).

SDR 2.9 billion in the previous 12 months. The increase in the acquisitions was primarily due to two factors:

- SDR department participant requests to replenish their SDR holdings to cover charges to the IMF increased significantly, reflecting the increase in the SDR interest rate from 1.566 percent to 4.067 percent between end-August 2022 and 2023, respectively. In total, acquisitions from the GRA to cover charges increased from SDR 345 million to SDR 2,051 million during the 12-month period.

- Contributions in currencies to the Administered Account for Ukraine needed to be subsequently converted into SDRs. Those transactions totaled about SDR 1.7 billion compared with SDR 1.6 billion in the prior reporting period.[8]

Since January 2018, the Fund assisted 73 participants and 2 prescribed holders in over 500 purchase transactions through VTAs amounting to SDR 8.9 billion, while a total of 193 purchase transactions (SDR 4.1 billion) were handled through the GRA (Table 2 and Figure 3).

Table 2. Summary of SDR Acquisitions Through VTAs and GRA[1,2]
January 1, 2018–August 31, 2023
(In millions of SDRs)

	2018	2019	2020	2021	2022	Jan-Aug 2023	**Total**	Sep 2021- Aug 2022	Sep 2022- Aug 2023
Number of Requests through VTAs	116	104	73	66	91	88	**538**	68	123
Number of Transactions through VTAs	118	104	73	67	98	94	**554**	74	130
Amount of acquisitions through VTAs	891	740	863	740	3,136	2,509	**8,879**	2,531	3,223
Number of Requests through GRA	31	27	19	22	27	53	**179**	16	65
Number of Transactions through GRA	41	31	19	22	27	53	**193**	16	65
Amount of acquisitions through GRA	482	599	335	263	621	1,765	**4,065**	345	2,051
Total Number of Transactions	159	135	92	89	125	147	**747**	90	195
Total Amount	1,373	1,339	1,198	1,004	3,757	4,275	**12,946**	2,875	5,274

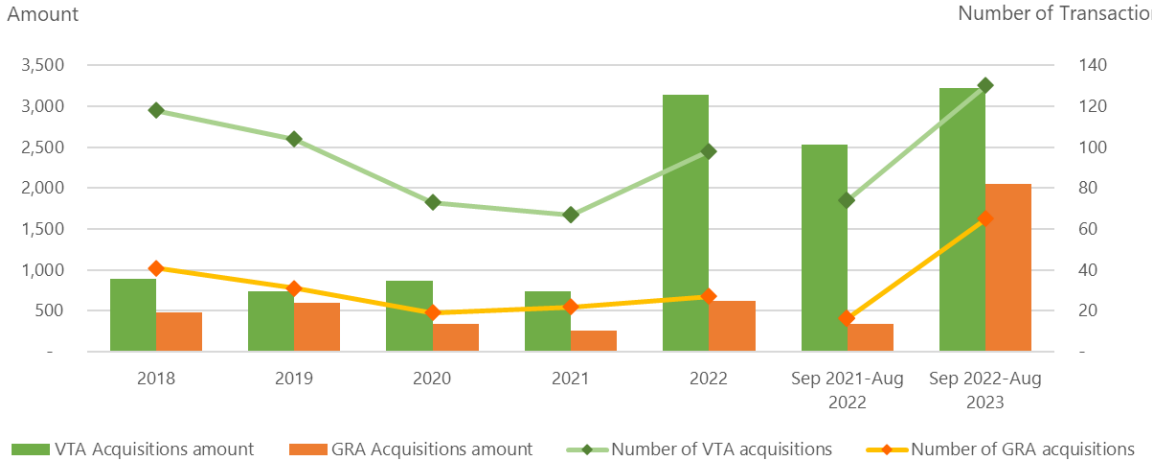
Source: IMF staff calculations.
[1] Periods run from January to December unless indicated otherwise.
[2] Table may include small differences due to rounding.

10. A significant number of SDR participants have largely drawn down their SDR holdings and will need to make acquisitions going forward. There are currently 33 participants with SDR holdings of less than five percent of their cumulative allocation, compared to 24 participants at end-August 2022. Participants are strongly encouraged to proactively manage their SDR balances to ensure they have sufficient SDRs to meet upcoming obligations to the IMF payable in SDRs.[9] This is particularly important in a period of rising interest rates where the charges on SDR denominated

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

[9] GRA and net SDR charges are settled by members in SDRs. They may also decide to cover other obligations such as repurchases in the GRA or principal repayments in PRGT and RST in SDRs.

Figure 3. Annual SDR Acquisitions Through VTAs and GRA[1]
January 1, 2018–August 31, 2023
(In millions of SDRs and number of transactions)



Source: IMF staff calculations.
[1] Periods run from January to December, unless indicated otherwise.

obligations are expected to increase over time.[10] Staff will continue to monitor SDR balances and prompt participants to ensure timely acquisition of SDRs.

C. Other SDR Transactions

11. While most transactions are channeled through VTAs, SDR transactions can also be conducted bilaterally between participants and/or prescribed holders. Historically, bilateral transactions have not been significant, with an average annual amount over the last five years of only SDR 0.2 billion. These transactions primarily relate to the settlement of financial obligations between counterparties or between participants and their regional central banks. A moderate increase in volume was observed in 2022 due to a settlement of financial obligation between a participant and prescribed holder. The volume rose further in 2023, due to a settlement of financial obligations between a participant and a prescribed holder, as well as the extension of an SDR loan between participants which was fully settled in SDRs during the same reporting period. Cumulatively since 2018, 204 bilateral transactions have been conducted in the amount of SDR 3.0 billion (Table 3).

[10] The quarterly average SDR interest rate has increased from 1.846 percent as of end-August 2022 to 4.045 percent as of end-August 2023 reflecting the global increase in interest rates. See https://www.imf.org/external/np/fin/data/query.aspx

Table 3. SDR Bilateral Transactions[1]
January 1, 2018–August 31, 2023[2]
(In millions of SDRs)

	2018	2019	2020	2021	2022	Jan-Aug 2023	**Total**	Sep 2021- Aug 2022	Sep 2022- Aug 2023
Number of Transactions	34	30	32	36	36	36	**204**	38	45
Amount	271	26	41	376	463	1,779	**2,956**	615	1,804

Source: IMF staff calculations.
[1] Excludes intra-day SDR bridge loans.
[2] Periods run from January to December unless indicated otherwise.

VOLUNTARY TRADING ARRANGEMENTS (VTAs)

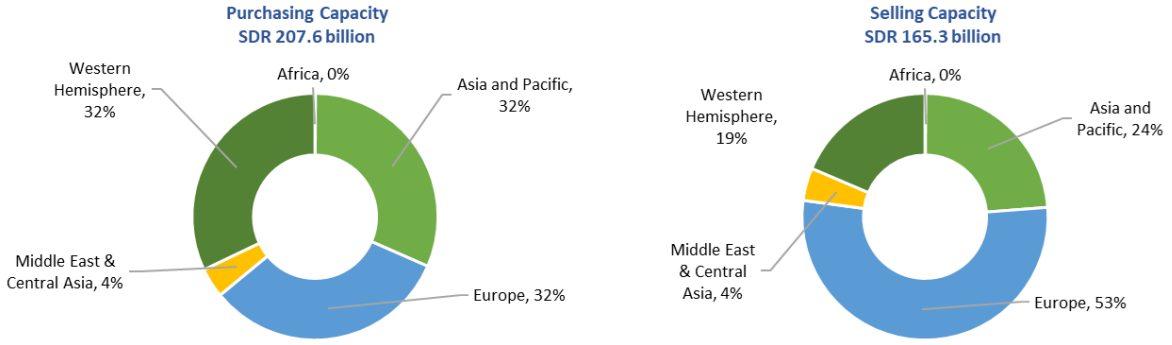
12. The VTAs continue to have ample capacities to support the liquidity of the SDR. The SDR trading capacities are determined by considering the minimum and maximum SDR holding amounts established in a VTA, which is called the trading range, and the actual SDR holdings of each VTA. The aggregate purchasing and selling capacities at end-August 2023 remained large at about SDR 208 billion and SDR 165 billion, respectively (Table 4). Specifically, these capacities reflected updated trading ranges of VTAs, the cumulative effect of the absorption of SDR sales by VTAs, and the effect of additional capacity provided by new VTAs joining the market. The robust trading capacities, together with the broad regional representation of the VTAs (Figure 4), is expected to support the continued smooth functioning of the SDR market.

Table 4. VTAs: Trading Ranges Including Average Purchasing and Selling Capacity as of August 31, 2023
(In millions of SDRs, unless otherwise indicated)

Arrangements	Trading Range (In percent of Net Cumulative Allocations)	Number	Purchasing Capacity	Average Purchasing Capacity	Selling Capacity	Average Selling Capacity
Standard	50 – 150	13	59,121	4,548	66,709	5,131
Eurosystem[1]	65 – 135	19	60,059	3,161	66,983	3,525
Other various ranges	25 – 200	8	88,389	11,049	31,629	3,954
Total		**40**	**207,569**	**5,189**	**165,321**	**4,133**

Source: IMF staff calculations.
[1] Two non-euro system participants have adopted this range. Includes the nominal trading range for the ECB, a prescribed holder of SDRs, that adds to the euro area trading capacity.

Figure 4. Purchasing and Selling Capacity of VTAs by Region as of August 31, 2023



Source: IMF staff calculations.

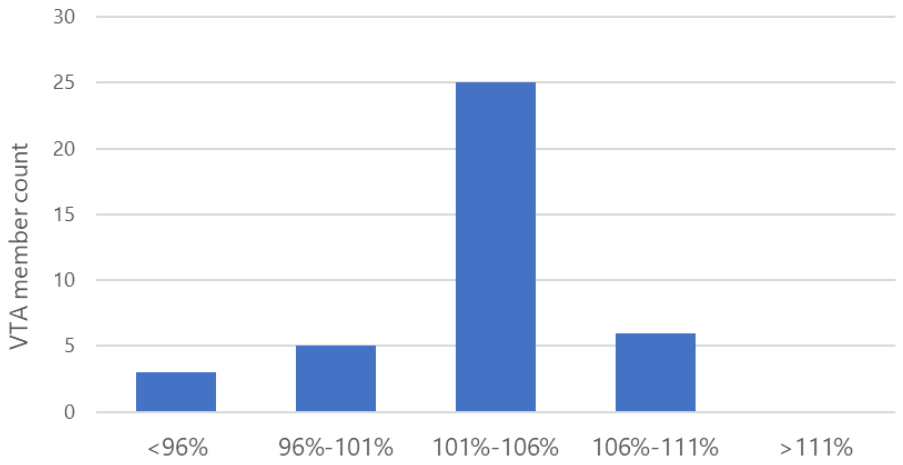
13. In distributing sale and purchase requests across VTAs, staff carefully considers a range of criteria that aim at ensuring equitable use over time. Specifically, they include:

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

14. The outlined modalities have been successful in spreading SDR transactions across VTAs. In the reporting period, all 40 VTAs were utilized and each VTA participated on average in 7 SDR trades (Table 5).[11] SDR holdings of VTA participants are clustered tightly around the median holdings-to-allocation ratio of 103.6 percent (Figure 5). Reflecting the commitment of VTA participants to facilitate increased sales of SDRs after the 2021 SDR allocation, the SDR holdings-to-allocation ratio of VTA participants increased on average by about 1.7 percentage points during the reporting period (and cumulative by 4.5 percentage points since the SDR allocation). Higher frequency information on the participation of VTAs in SDR trading operations can be found in the IMF's quarterly financial report (see also the section on SDR reporting below).

[11] In line with current practices, VTAs of members with IMF credit outstanding are not called upon to participate in SDR trading operations. Staff successfully re-engaged in VTA operations with one member after fully repayment of its IMF credit outstanding in the previous reporting period.

Figure 5. Distribution of VTA Participants' SDR Holdings in % of SDR Allocation



Source: IMF staff calculations.

Table 5. SDR Sales and Acquisitions VTA Participation Including Purchasing and Selling Capacity by Region[1]

September 1, 2022–August 31, 2023

Sales of SDRs

Region	Number of VTAs Available	Number of VTAs Used	Number of Sales	Amount of SDR Sales (millions)	Percent of Sales	Percent by Purchasing Capacity[2]
Africa	1	1	2	8	0	0
Asia and Pacific	6	6	31	4,437	25	32
Europe	25	24	73	8,928	50	32
Middle East & Central Asia	3	3	10	180	1	4
Western Hemisphere	5	5	24	4,381	24	32
Total	*40*	*39*	*140*	*17,934*	100	100

Acquisitions of SDRs

Region	Number of VTAs Available	Number of VTAs Used	Number of Acquistions	Amount of SDR Acquisitions (millions)	Percent of Acquisitions	Percent by Selling Capacity[2]
Africa	1	1	8	12	0	0
Asia and Pacific	6	5	22	1,187	37	24
Europe	25	21	76	1,207	37	53
Middle East & Central Asia	3	2	11	74	2	4
Western Hemisphere	5	4	13	743	23	19
Total	*40*	*33*	*130*	*3,223*	*100*	*100*

Source: IMF staff calculations.

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

[2] Data as of August 31, 2023.

SDR REPORTING

15. The Fund continues to publish a wide range of information about the SDR and its uses. The IMF's annual and quarterly financial reports include holdings and allocations by participants and holdings by prescribed holders and aggregate data about SDR flows.[12] The quarterly financial reports that include individual participant's SDR holdings also provide net changes in those holdings split in two broad categories: (i) those related to IMF operations; and (ii) SDR trading and other uses.[13] Separately, the IMF Finances webpage publishes monthly information on SDR holdings and allocations of participants.[14] The periodic IMF Financial Operations publication also provides extensive information on the functioning of the voluntary SDR trading market and includes details on the operating modalities, capacity, trading by region, and aggregate transaction volumes. Finally, the information on SDR channeling pledges and delivery of these pledges is now published on the IMF SDR webpage.[15]

16. The Fund has issued a comprehensive ex-post assessment report on the 2021 SDR allocation. In line with commitments made at the time of the allocation, staff has prepared a report two years after the allocation covering the impact of the allocation for the global economy, members' use of the allocation, economic implications at the country level, and voluntary channeling of SDRs from economically strong members to the most vulnerable ones.[16]

[12] See https://www.imf.org/data/imf-finances.

[13] See https://www.imf.org/en/Data/IMF-Finances/Quarterly-Financial-Statements.

[14] See https://www.imf.org/external/np/fin/tad/query.aspx.

[15] See https://www.imf.org/en/Topics/special-drawing-right.

[16] See https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/08/28/2021-Special-Drawing-Rights-Allocation-Ex-Post-Assessment-Report-538583.