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ANNUAL UPDATE ON SDR TRADING OPERATIONS

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- The **Staff Report**, prepared by IMF staff and completed on September 22, 2022 for the Executive Board's information.

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ANNUAL UPDATE ON SDR TRADING OPERATIONS

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EXECUTIVE SUMMARY

This paper provides an update on the status of the SDR trading market and operations one year after the historic fourth general allocation of SDRs. The SDR market has continued to function smoothly since the SDR allocation of SDR 456 billion (US\$650 billion) in August 2021. Cumulative allocations now amount to SDR 660.7 billion. In the past three decades, SDRs have been exchanged for freely usable currencies in transactions by agreement, primarily through the Voluntary Trading Arrangements (VTAs). The VTAs are bilateral arrangements between the Fund and SDR participants or prescribed holders, in which the VTA members agree to buy and sell SDRs within certain limits. Historically, only a fraction of transactions by agreement—sales or acquisitions of SDRs—has been arranged directly between parties. The paper covers the period September 2021 to August 2022.

In the reporting period, SDR trading has been dominated by SDR sales due to the 2021 SDR allocation. From September 2021 to August 2022, 48 members exchanged a total of SDR 17.3 billion into currencies through VTAs, with individual amounts ranging from SDR 37 thousand to 1.7 billion per request. Low Income Countries (LICs) accounted for 29 percent of the total amount sold. On the purchase side, the number of transactions declined as the SDR allocation provided new SDRs to all SDR participants, while the volume increased due to the establishment of the Administered Account for Ukraine.

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 member is willing to hold and the actual SDR holdings of each VTA member. Based on the status of VTAs in place as of August 31, 2022, the buying and selling capacities of the VTAs stand at about SDR 237 billion and SDR 134 billion, respectively.

Staff has made significant progress in further strengthening the SDR trading market. Since the SDR allocation, eight new VTA members have been welcomed to the SDR trading market and many existing VTA members provided additional operational flexibilities. Discussions with a number of potential new entrants continue in the broader context of SDR channeling, which encourages contributors to have VTAs.

Approved By
Bernard Lauwers

Prepared by the Finance Department (Jane Mburu, Vendula Kurcova, Breno Oliveira, and Martina Schmid under the guidance of Jeannie Khaw and Andreas Bauer), in consultation with the Legal Department.

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