Finding Bigfoot: New Data Shows the Difficulty of Tracking IMF Special Drawing Rights

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JANUARY 17, 2022

Tracking Bigfoot is a time-consuming and highly technical endeavour. One must be ready to spend hours, if not days, in the wilderness setting up traps and analysing every inch of dirt. Yet, every sighting is inconclusive, and raises as many questions as it answers.

In a way, tracking the movements of IMF special drawing rights (SDRs) can be just as confusing and challenging. The IMF released a major new allocation of $650 billion of the reserve asset in August 2021 to help member countries cope with the fiscal impacts of the pandemic. Since the fresh allocation, SDRs have begun to circulate around the global economy as some countries exchange their SDRs for hard currency. But without a central repository of transactions, tracking what’s happening with this major part of the world’s COVID response is proving to be as elusive as finding Bigfoot, and every new piece of information seems to raise more questions than answers.

In an effort to increase transparency around SDR transactions, the IMF released its Annual Update on SDR Trading Operations. Most of the report focuses on Voluntary Trade...
Countries that hold SDRs and other prescribed holders (which are development banks and other international financial institutions) can freely exchange their SDRs for hard currency. These exchanges can either occur as ad hoc bilateral agreements between a seller and a buyer, or they can be facilitated by Voluntary Trade Arrangements (VTAs). In the past three decades, the vast majority of SDR exchanges has taken place under VTAs.

VTAs are pre-settled arrangements between countries or prescribed holders and the IMF in which the VTA participant agrees to buy or sell SDRs within a set limit and in a specific currency from or to any IMF member country. Thus, when a country in need of hard currency wishes to exchange its SDRs, it contacts the IMF, which then invokes an existing VTA and proceeds to mediate the transaction. The opposite is also true: if a country is looking to acquire SDRs, it can place a demand to the IMF, which will then deduct SDRs from a pre-agreed VTA participant and transfer the hard currency.

The main advantage of VTAs is their speed and simplicity. Instead of going through fresh negotiations to confirm the details of an exchange of SDRs, the country that wants to buy or sell SDRs can contact the IMF, take advantage of a pre-arranged agreement, and in 7 days, the transaction is completed. VTAs are at the heart of the SDR mechanism, as they are the fastest way for a country to exchange its SDRs for hard currency.

**Figure 1**
As of June 30th, 2021, 31 countries (mostly high-income) and one prescribed holder have agreed to participate in VTAs. Figure 1 depicts the countries that currently have VTAs. Each VTA participant has a different arrangement with the IMF, with varying trading ranges (the percent of their net cumulative SDR allocation they are willing to buy or sell) and, thus, different selling and purchasing capacity. The various ranges are shown in Table 1.

### Table 1. VTAs: Trading Ranges Including Average Purchasing and Selling Capacity as of September 30, 2021 (in millions of SDRs, unless otherwise indicated)

<table>
<thead>
<tr>
<th>Arrangements</th>
<th>Net Cumulative Allocations</th>
<th>Trading Range (In percent of)</th>
<th>Number</th>
<th>Purchasing Capacity</th>
<th>Average Purchasing Capacity</th>
<th>Selling Capacity</th>
<th>Average Selling Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>50 – 150</td>
<td>10</td>
<td>37,107</td>
<td>3,711</td>
<td>39,347</td>
<td>3,935</td>
<td></td>
</tr>
<tr>
<td>Eurosystem 1/2</td>
<td>65 – 135</td>
<td>15</td>
<td>50,532</td>
<td>3,369</td>
<td>40,909</td>
<td>2,727</td>
<td></td>
</tr>
<tr>
<td>Other various ranges</td>
<td>35 – 200</td>
<td>34</td>
<td>146,498</td>
<td>16,278</td>
<td>28,751</td>
<td>3,195</td>
<td></td>
</tr>
<tr>
<td><strong>Total 3/</strong></td>
<td></td>
<td></td>
<td>234,137</td>
<td>6,886</td>
<td>109,007</td>
<td>3,206</td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF staff calculations.

1/ Includes Euro area members. For three members, the highest maximum range is slightly below 135 percent. The euro area trading ranges are adjusted to reflect the participation of the ECB. The trading range for the ECB, a prescribed holder of SDRs, is expressed in nominal terms and adds to the euro area trading capacity.

2/ Includes the purchasing and selling capacity of one VTA member with credit outstanding to the Fund.

3/ Almost all arrangements are two-way (buying/selling), with one participant having a buying only arrangement.

Source: IMF Annual Update on SDR Trading Operations
How do VTAs compare to swap lines?

Swap lines are a better-known way for a country to increase its foreign currency reserves. The US Federal Reserve and other central banks have in place agreements to swap currencies when the need arises. But swap lines are limited to a small set of countries and particular times. For instance, the US Federal Reserve swap agreements are only made available to a limited number of central banks, generally in high-income countries, or only in times of crisis. This is to mitigate the pressure on dollar markets and control the cost of domestic borrowing in the US. Even though the Fed increased the number of swap lines available during the pandemic, access is still severely restricted.

Exchanging SDRs through VTAs offers some crucial flexibility compared to swap agreements, and serves a different set of countries that typically don’t have access to swap lines. Any IMF member can access voluntary trade agreements at any time to exchange their SDRs for hard currency, without providing collateral.

Since the allocation of new SDRs on August 23, 2021, more than 6.6 billion in SDRs (about USD 9 billion) have been traded through VTAs, with all sales from emerging markets and developing countries. By comparison, swap agreements in that time involving the Fed reached just USD 1.6 billion in volume, and involved exclusively central banks in high-income countries.

What does data on VTAs tell us about SDR flows around the world?

Understanding SDR flows is important to tracking the global economic recovery and assessing how one of the IMF’s most important tools has (or hasn’t) benefitted lower-income countries. But tracking these flows is difficult, and data from VTAs shows us how patchy our knowledge is.

Comparing the movements of SDRs declared through VTAs with the difference in total holdings of every VTA participant since 2016 shows a clear difference, indicating massive SDR flows that are not being accounted for.

Table 2

<table>
<thead>
<tr>
<th>Market Used</th>
<th>SDR Sales via VTAs</th>
<th>SDR Acquisitions via VTAs</th>
<th>Total SDR Flow via VTAs</th>
<th>Total SDR Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>4,175</td>
<td>558</td>
<td>3,617</td>
<td>1,767</td>
</tr>
<tr>
<td>Asia and Pacific</td>
<td>6,384</td>
<td>2,184</td>
<td>4,149</td>
<td>701</td>
</tr>
<tr>
<td>Middle East</td>
<td>750</td>
<td>200</td>
<td>550</td>
<td>389</td>
</tr>
<tr>
<td>Europe</td>
<td>9,447</td>
<td>7,065</td>
<td>2,882</td>
<td>-2,006</td>
</tr>
</tbody>
</table>

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For instance, European countries with VTAs purchased 2 million SDRs from various SDR holders since 2016, providing hard currency in exchange, according to the new IMF report on SDR trading. However, looking at the IMF tables on SDR holdings, we find that the SDR holdings of VTA members in Europe decreased by 2 million over the same period, indicating a movement of 4 million of SDRs that cannot be easily traced from available data. Similar discrepancies are found in other regions (table 2).

Unfortunately, we cannot know for sure what those other SDR flows represent. A credible hypothesis would be repayments to the IMF. However, as mentioned above, the Eurosystem saw a decrease of 4 million in its SDRs holdings, which would be an excessive repayment from Europeans to the IMF.

Thus, these unaccounted SDR flows seem to elude other IMF reports and perhaps constitute direct agreements between two or more actors. As the IMF has promised more transparency and data regarding SDR exchanges, five months after that proclamation, information is still scarce and scattered.

There are four primary sources where information on SDRs is publicly available: The IMF Finances website offers the detail of each country's SDRs holdings and allocation. This data is updated monthly but offers no insight as to how SDRs are used.

The IMF's Annual Financial Statement and Quarterly Financial Reports offer more information. In them, we can find charts showing the use of SDRs and the change in SDR holdings between VTA participants, the IMF, and prescribed holders. Unfortunately, the reports are only published annually or quarterly, and the data presented is technical and unintuitive.

The IMF does publish a Financial Operations Publication, a document containing a summary of the use of SDRs, a list of VTA members, information on the modalities of the VTA market, and data on SDR transaction volumes and trends. However, this report is not published on a regular basis—the last one was published in June 2018!

The Annual Update on SDR Trading Operations, the document we have been drawing from in this post, offer a valuable insight to the mechanism of SDR trading and the movements of SDRs. But crucial gaps remain in our understanding as non-VTA SDR flows seem to increase in volume.