Allocation of SDRs to Colombia by the IMF and Sale of Foreign Reserves to the National Government

On August 2, 2021, the Board of Governors of the International Monetary Fund (IMF) approved a general allocation of Special Drawing Rights (SDR) for SDR 456 billion (equivalent to USD 650 billion). This allocation strengthens the international liquidity of the Fund's 190 member countries by providing them with an asset that is easily exchanged for freely usable currencies. This is an extraordinary measure taken by the IMF t**o build confidence, and to promote the resilience and stability of the global economy, which has been severely affected by the fallout from the COVID-19 pandemic**. With this aim, **the IMF left the decision on the use of the allocation to the discretion of member countries in accordance with their legal frameworks.**

The SDRs were allocated on August 23, 2021. They were credited to IMF member countries in proportion to their quota in the Fund. **Colombia received SDR 1.96 billion, which is equivalent to USD 2.79 billion.** As per Colombia's constitutional and legal framework, the allocation of SDRs was received by *Banco de la República* as part of the international reserves it manages, being the only institution authorized to do so.

Prior to the SDR allocation, the country had sufficient international liquidity in the form of an adequate level of foreign reserves (USD 58.9 billion) and the IMF Flexible Credit Line (approximately USD 12.2 billion). In these circumstances and in line with the purpose of the IMF's SDR allocation, the Board of Directors of *Banco de la República* and the Ministry of Finance and Public Credit found it appropriate to strengthen the liquidity of the National Government in a period during which the country continues to face major challenges due to the pandemic and its consequences. To this end, the Bank sold international reserves to the Government in an amount in USD equivalent to the SDR allocation, receiving class B TES bonds from the portfolio of the General Directorate of Public Credit and National Treasury as payment. With this operation, the Government obtained immediate liquidity in USD and improved the profile of its domestic debt, since part of the TES used to pay for the international reserves came from internal swaps undertaken by the Treasury in which bonds with an initial maturity in 2022 were exchanged for longer term securities.

The operation was carried out entirely at market prices. Specifically, the National Government bought USD 2.79 billion from *Banco de la República* today, at the current exchange rate. As payment for the US dollars, the Government provided *Banco de la República* with public debt TES bonds from its diversified portfolio, valued at market prices. These securities are liquid and belong to references that must be acquired by primary dealers. As such, they are actively traded in the secondary market and can be used easily by the Bank in its monetary policy operations.

Since payment for the reserves was made with securities from the portfolio of the General Directorate of Public Credit and National Treasury of the Ministry of Finance and Public Credit, the total amount of the public debt remains unchanged. Therefore, the sale of reserves is not a financing operation, but a transaction that facilitates the Government's access to liquid resources that may be used now or in the future. The country's international reserves remain at the adequate levels witnessed prior to the allocation of SDRs, which are complemented by the IMF's Flexible Credit Line. Also, there is no change in the monetary base.

The Board of Directors of *Banco de la República* and the Ministry of Finance and Public Credit reiterate this operation is possible thanks to the allocation of SDRs to Colombia by the IMF, to the country's international liquidity, which is adequate, and to the fact that the transaction does not involve an increase in the public deficit or its financing and, consequently, does not raise the level of the public debt.

Publication Date:
Monday, August 30, 2021 - 12:00
Hour
14:10

- Print