Box 2

THE IMF'S RECENT GENERAL ALLOCATION OF SPECIAL DRAWING RIGHTS AND THE OPTIONS FOR CHANNELLING THEM TO VULNERABLE ECONOMIES

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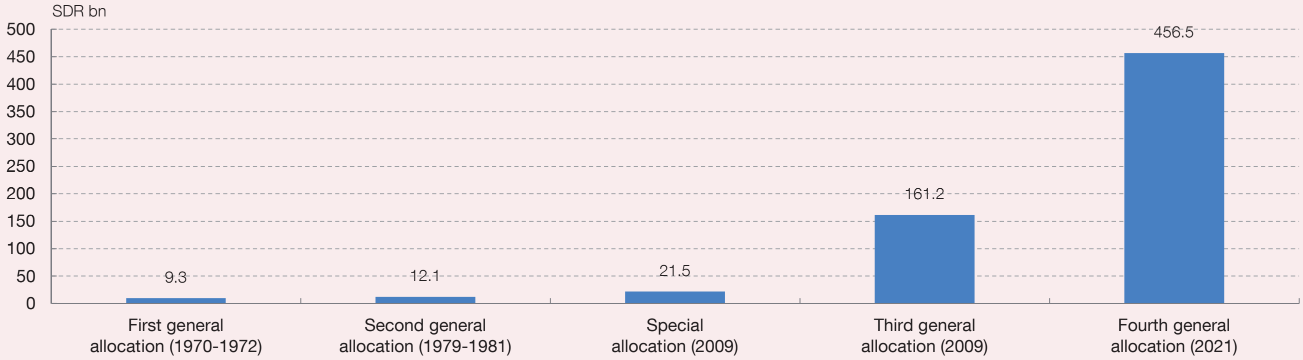
The largest general allocation of special drawing rights (SDRs)[1] in the history of the International Monetary Fund (IMF) was completed on 23 August 2021, for a total equivalent to some $650 billion (SDR 456 billion) (see Chart 1). This allocation is one of the most far-reaching multilateral economic policy responses to the crisis induced by the COVID-19 pandemic and could provide particularly significant support for low-income economies and the most vulnerable countries, whose over-indebtedness has worsened with the outbreak of the crisis. The amount of this general allocation exceeds the total emergency funding granted by the IMF to low-income countries during this crisis and is also larger than the debt relief agreed in the G20-led Debt Service Suspension Initiative (DSSI).

This box first describes the most salient operational aspects of general SDR allocations. It then discusses different options for maximising the capacity of the recently approved allocation to support the most vulnerable economies in the current circumstances. Generally speaking, these options would involve establishing some sort of mechanism providing for SDRs to be channelled from the countries that need them the least (the advanced economies and some emerging economies) to the most vulnerable countries.

In broad terms, general SDR allocations are intended to meet a global need: a reserve shortfall of a broad group of IMF members. The allocation must receive broad support from the IMF's membership (an 85% majority of the total voting power).[2] The amount to be issued is based on an estimate of the reserve needs of non-reserve currency issuing countries.[3] In particular, for this latest issue, needs of between $1.1 billion and $1.9 billion were estimated for the period 2020-2025 (of which around 70% would be for emerging and developing economies), considering the same percentage of SDR coverage as in the 2009 general allocation (between 30% and 60% of the total estimated needs).[4]

Once approved, SDR allocations are distributed to IMF member countries in proportion to their quota shares at the Fund. Thus, based on the current quota distribution, around 58% of the recently approved general allocation will go to advanced economies, 39% to emerging

Chart 1
SDR ALLOCATIONS SINCE 1970



SOURCE: IMF.

1 SDRs are reserve assets allocated by the IMF to supplement the official reserves of its member countries and can be exchanged for any of the currencies in the SDR basket (the US dollar, the euro, the Japanese yen, pound sterling and the Chinese renminbi).

2 See Article XVIII, Section 1(a) of the Articles of Agreement of the IMF on the principles and considerations governing allocation and cancellation of SDRs.

3 Based on IMF classification, the five currencies in the SDR basket plus the Australian dollar, the Canadian dollar and the Swiss franc are considered reserve assets.

4 See IMF, "Proposal for a General Allocation of Special Drawing Rights", 27 May 2021.

economies and the remaining 3% to low-income countries, which are those most likely to use the SDRs (see Chart 1). In any event, as can be seen in Charts 2 and 3, there are notable cross-country differences in terms of the amount of new SDRs to be received as a proportion of countries' international reserves or short-term debt.

The immediate impact of the SDRs allocated will be to strengthen reserve assets among IMF member countries. However, among other uses, they may also enable these countries to obtain international liquidity at low interest rates (by exchanging them for other freely usable currencies), to smooth balance of payment adjustment processes, or to pay off external debt and debt with the IMF. In this respect, a general SDR allocation on the scale of that approved in August may entail a very large volume of SDR transactions (sales and purchases) in coming years. In this respect, it should be noted that the SDR market functions through 32 voluntary trading arrangements, entered into by various governments and central banks, including the Banco de España and the ECB, and that the IMF is currently negotiating new arrangements to ensure that it will be possible to satisfy the new requests for exchange of SDRs that will ultimately be received.[5]

As indicated above, to expand the beneficial effects of the recently approved general SDR allocation, mechanisms would have to be established to enable the SDRs allocated to economies that are reserve asset issuers or that have sound reserve positions to be used by countries that are in a more vulnerable position in the current environment. In this respect the IMF is contemplating several options.

The first would be to allow economies that have surplus SDRs to commit part of their holdings to concessional financing to low-income countries, by means of voluntary contributions to the Poverty Reduction and Growth Trust (PRGT). This trust fund is administered by the IMF and grants emergency assistance and loans, currently at an interest rate of 0%.[6] In the first stage of the COVID-19 crisis, its capacity was increased by some SDR 17.5 billion.

Another option that is gaining importance is the creation of a new trust fund to receive SDRs. It would be administered by the IMF and dedicated to funding structural reforms relating to objectives that the IMF regards as macro-critical (including the fight against climate change and the digital transformation of the economy). This fund would have to be able to reach

Table 1
GENERAL SDR ALLOCATION BY GROUPS OF COUNTRIES

		Holdings pre-allocation (a)		2021 allocation		Holdings post-allocation	
	Number of countries	SDR million	%	SDR million	%	SDR million	%
Advanced economies	27	121,026	59.3	263,611	57.7	384,636	58.2
Emerging economies	94	54,103	26.5	177,948	39.0	232,051	35.1
Low-income countries	69	5,146	2.5	14,927	3.3	20,073	3.0
Prescribed holders (6) and IMF	—	23,939	11.7	—	—	23,939	3.6
Total	190	204,214	100	456,485	100	660,699	100

SOURCE: IMF.

a At 31 July 2021.

5 On IMF estimates, the market absorption capacity of SDRs, following the latest general allocation, will increase from SDR 72.5 billion at present to approximately SDR 290 billion. This figure includes an additional SDR 50 billion arising from new voluntary arrangements to be entered into with members that enjoy a sound financial position.

6 With grace periods of 4 to 5.5 years and maturities of 8 to 10 years according to the credit facility.

vulnerable medium-income countries that are subject to an IMF program, including certain Latin American countries that have been particularly hard hit by the present crisis. One of the advantages of such a fund would be that it could provide additional long-term funding at a lower cost than that of conventional IMF lending.

Lastly, a further option being considered – although still at a very early stage of development – would be to channel surplus SDRs held by some countries into multilateral development banks and other institutions that the IMF designates as prescribed holders. However, this option gives rise to questions about the technical feasibility of concessional funding that circumvents IMF intermediation.[7]

The design of all these points, which must be defined in order to formalise any of the options considered, poses numerous – political and technical[8] – challenges that will have to be addressed in the coming months. The success of this task will determine the extent to which the recently issued SDRs can be channelled to the member countries that most need them and that have less room for manoeuvre for recovery support policies.

Chart 2
2021 SDR ALLOCATION AS A % OF INTERNATIONAL RESERVES. SELECTION OF EMERGING AND LOW-INCOME COUNTRIES

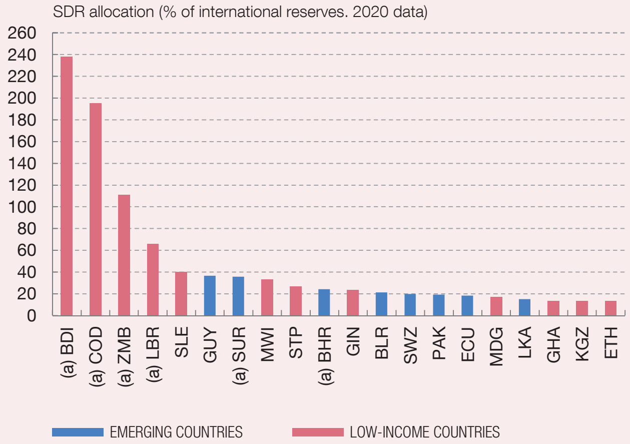
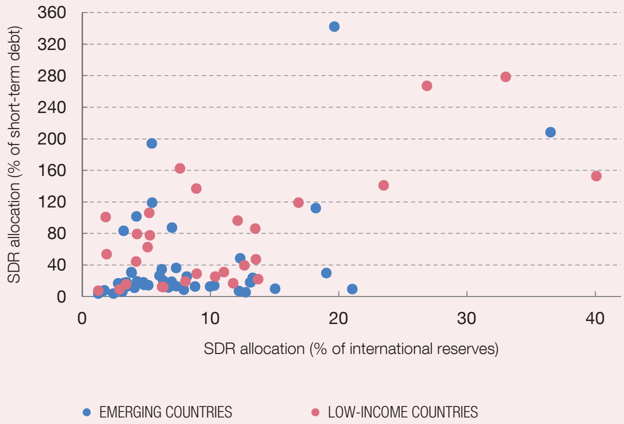


Chart 3
2021 SDR ALLOCATION AS A % OF INTERNATIONAL RESERVES AND SHORT-TERM DEBT. EMERGING AND LOW-INCOME COUNTRIES



SOURCE: IMF.

a Countries not included in Chart 3 because short-term debt is negligible or there are no data available.

7 To be compatible with the EU legal framework, there must be IMF intermediation between the SDR contributors and the recipients.

8 In the case of the European System of Central Banks (ESCB), the SDRs contributed must continue to be considered reserve assets so as to comply with the prohibition on monetary financing envisaged in Article 123 of the Treaty on the Functioning of the European Union (TFEU).