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## 7 Things You Need to Know About SDR Allocations

**Let's start from the beginning – What is an SDR? Is it money?** Special Drawing Rights (SDRs) are an asset, though not money in the classic sense because they can't be used to buy things. The value of an SDR is based on a basket of the world's five leading currencies – the US dollar, euro, yuan, yen and the UK pound. The SDR is an **accounting unit** for IMF transactions with member countries – and a stable asset in countries' international reserves.

**Why are SDRs important for reserves?** International reserves are like large national savings accounts in foreign currencies— typically managed by the central bank—that ensure that a country has the foreign currencies it needs to trade with the world (e.g., to pay for imports). Adding SDRs to a country's international reserves makes it more resilient financially. In times of crisis, a country can dip into its savings for urgent needs (e.g., to pay for importing vaccines).

**So, how will a new SDR allocation help countries?** The world is going through the worst economic crisis in peacetime since the Great Depression. In around 150 countries, income per capita this year will be lower than in 2019. Many countries are less able to pay for vaccines or invest in their recovery – and are more indebted.

This is where a new SDR allocation comes in. It supplements countries' reserves, using the collective strength of the Fund's membership to make all 190 member countries a little stronger. It would provide liquidity support to many developing and low-income countries that are struggling, allowing them to pay for healthcare and support vulnerable people. All countries will benefit from a quick eradication of the virus. It is important to make sure they all have the financial resources to do that.

**If SDRs are not money, how can countries use them?** Countries can exchange their SDRs for hard currencies with other IMF members. This has historically been done on a voluntary basis, with countries in a stronger financial position agreeing to help others when needed. They can also use their SDRs in a range of operations with other countries or to settle financial obligations to the Fund. Many member countries that don't need the support have used SDRs to support concessional financing to low-income countries.

**So, how much are we talking about?** SDR allocations are distributed in proportion to countries' participation in the IMF capital, which in turn closely relate to the size of their economies. Of a possible US\$650 billion SDR allocation, \$274 billion would go to emerging and developing countries, a 10% boost to their international reserves, and in some cases, doubling them. Low-income countries would receive about \$21 billion, in some cases more than 6% of their GDP.

Since the start of the pandemic, the IMF has already mobilized \$15 billion in SDRs voluntarily pledged by some members that can be lent to low-income countries at zero interest rate. While this might not sound like much to the largest economies, it can be very significant for the poorest countries in the world, particularly during a devastating crisis.

**Has a general SDR allocation been done before?** Yes. There have been three prior general allocations. The most recent was in 2009, during the Global Financial Crisis, when the IMF allocated the equivalent of \$250 billion in new SDRs to its membership. It is widely seen as having contributed to stabilizing financial conditions around the world.

**Is there a cost to allocating SDRs?** An SDR allocation is cost free. Allocating SDRs does not require contributions from donor countries' budgets. SDRs are a reserve asset, not foreign aid. Most importantly, an SDR allocation does not add to any country's public debt burden.