

## INTERNATIONAL MONETARY FUND

## Allocation of Special Drawing Rights for the Eleventh Basic Period: Draft Executive Board Decision and Managing Director Report to the Board of Governors

Prepared by the Finance, Legal, and Strategy, Policy, and Review Departments

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1. On June 25, 2021, the Executive Board discussed a staff paper setting forth the considerations underlying the case for a general allocation of special drawing rights (SDRs) of an amount equivalent to US\$650 billion (about SDR 456 billion) during the Eleventh Basic Period and the key features that could be included in the Managing Director's proposal for this general allocation.<sup>1</sup> Taking into account those discussions, the Managing Director has prepared a report to the Board of Governors which includes her proposal for a general allocation of SDRs with key features along the lines described in SM/21/86 and a draft Board of Governors' resolution approving such allocation. This report, entitled "*Proposal by the Managing Director of the International Monetary Fund for an Allocation of Special Drawing Rights for the Eleventh Basic Period*," is attached to the draft Executive Board decision that appears below.

2. The Executive Board also supported proposed measures to enhance transparency and accountability in the reporting and the use of SDRs, while strengthening operational measures. To that end, staff will publish additional information on SDR holdings, transactions, and trading in a manner that preserves the nature of the SDR as an unconditional reserve asset and promotes the smooth functioning of the voluntary trading market. In addition, staff is working on a guidance note to provide—in the context of global developments, the outlook, and policy priorities—a consistent framework for assessing the macroeconomic implications of the allocation at the country level, and outline principles that can enhance the transparency and accountability in the use of SDRs (see section D of the attached report to the Board of Governors). Staff will also prepare an ex-post report about two years after the allocation covering the use of SDRs for Fund transactions and operations, broad spending patterns, and macroeconomic outcomes.

3. Pursuant to the Articles, decisions on allocations of SDRs "shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board" (Article XVIII, Section 4(a)). Adoption of the Executive Board's decision to concur in the Managing Director's proposal requires a majority of the votes cast. Adoption of the Board of Governors' resolution to allocate SDRs requires an 85 percent majority of the total voting power of members that are participants in the SDRs Department (Article XVIII, Section 4(d)).

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<sup>1</sup> "*Proposal for a General Allocation of Special Drawing Rights*" (SM/21/86, May 27, 2021). The SDR exchange rate of reference is 0.702283 SDR per USD as of July 1, 2021 (the date of Chairman's Summing Up on the Executive Board discussion of the Proposal) as published on [the IMF's website](#).

4. The proposed Executive Board decision set forth below (a) provides for the Executive Board to concur in the Managing Director's proposal; (b) directs the Secretary to send to all Fund members that are participants in the SDR Department the report and proposed Board of Governors' resolution referred to in paragraph 1 above; and (c) authorizes the receipt of the proposed allocation by a member that became a participant after the commencement of the Eleventh Basic Period but prior to the date of the allocation decision (the Principality of Andorra), as provided for in Article XVIII, Section 2(d).

Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

### Proposed Decision

1. The Executive Board concurs in the proposal by the Managing Director for an allocation of Special Drawing Rights for the Eleventh Basic Period, which, together with a proposed Board of Governors' Resolution, is set forth in the Report attached to this decision entitled "*Proposal by the Managing Director of the International Monetary Fund for an Allocation of Special Drawing Rights for the Eleventh Basic Period.*"

2. Pursuant to Article XVIII, Section 2(d), a member that has become a participant in the Special Drawing Rights Department between January 1, 2017 and the day prior to the date of the allocation proposed pursuant to paragraph 1 of this decision, and has informed the Fund that it wishes to receive such allocation, shall receive an allocation in accordance with the proposed Resolution of the Board of Governors approving the allocation.

3. The Secretary is authorized and directed to send to each member of the Fund by rapid means of communication the Report and the proposed Resolution referred to in paragraph 1 of this decision.

4. The Board of Governors is requested, pursuant to Section 13 of the By-Laws, to vote on the proposed Resolution without meeting. To be valid, votes must be cast by Governors or Alternate Governors by rapid means of communication and must be received at the seat of the Fund before 6:00 p.m., Washington time, on or before August 2, 2021. Votes received after that time will not be counted.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

7. The Secretary is authorized to take such further action as he shall deem necessary or appropriate in order to carry out the purposes of this decision.

# Proposal by The Managing Director of the International Monetary Fund for an Allocation of Special Drawing Rights for The Eleventh Basic Period

## A. Introduction

**1. Against an unprecedented global health and economic crisis, the membership called on the Fund to present a comprehensive proposal for a new general allocation of Special Drawing Rights (SDRs).** The Managing Director initiated consultations with the membership in March 2021. Following broad support of Fund members conveyed by Executive Directors in an informal briefing, the International Monetary and Financial Committee (IMFC) called on the Fund, at the 2021 Spring Meetings, to make a comprehensive proposal for a general SDR allocation in an amount equivalent to US\$650 billion (about SDR 456 billion) to help meet the long-term global need to supplement reserves.<sup>1,2</sup> In response, and having ascertained that there is a broad support among Special Drawing Rights Department participants, this report puts forth a proposal for a general allocation in an amount equivalent to US\$650 billion (about SDR 456 billion or 95.8455025357 percent of each member's quota).<sup>3,4</sup>

**2. The economic environment contrasts sharply with that prevailing immediately prior to the Eleventh Basic Period, when no general allocation was proposed.** In June 2016, the then Managing Director did not put forward a proposal for a general allocation of SDRs. At that time, Directors generally concurred that it would be premature to bring a proposal for an SDR allocation or cancellation to the Board of Governors, pending further work on the reform of the international monetary system.<sup>5</sup> However, the Managing Director stated that she would bring the issue before the Board if and when appropriate.

**3. A general allocation of SDRs would help strengthen members' external positions, build confidence, foster the resilience and stability of the global economy, and contribute to**

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<sup>1</sup> See [Communiqué of the Forty-Third Meeting of the International Monetary and Financial Committee](#), April 8, 2021.

<sup>2</sup> The SDR exchange rate of reference is 0.702283 SDR per USD as of July 1, 2021 (the date of Chairman's Summing Up on the Executive Board discussion of *Proposal for a General Allocation of Special Drawing Rights*) as published on the [IMF's website](#).

<sup>3</sup> Chairman's Summing Up on the Executive Board discussion on the *Proposal for a General Allocation of Special Drawing Rights* (BUFF/21/65), paragraph 2.

<sup>4</sup> Article XVIII, Sections 4(a) and (b) of the Fund's Articles of Agreement provide in the relevant part that: "(a) Decisions under Section 2(a), (b) and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board. (b) Before making any proposal, the Managing Director, after having satisfied [herself] that it will be consistent with the provisions of Section 1(a) of this Article, shall conduct such consultations as will enable [her] to ascertain that there is broad support among participants for the proposal."

<sup>5</sup> IMF, 2016, [Report of the Managing Director to the Board of Governors and to the Executive Board Pursuant to Article XVIII, Section 4\(c\)](#), SM/16/201.

**the global economic recovery.** The allocation has clear advantages in terms of immediate crisis response, mitigation of long-term economic scarring due to the pandemic and longer-term crisis prevention. The report argues that long-term needs for additional reserve assets are expected to be large; the allocation would cover a significant share of the long-term global reserve need.

**4. Accordingly, and pursuant to Article XVIII, Sections 4(a) and (b), I am now submitting to the Board of Governors a proposal for an SDR allocation during the Eleventh Basic Period.** I have satisfied myself, as required by Article XVIII, Section 4(b), that the proposal will be consistent with the provisions of Section 1(a) of that Article, which provides that: *"In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world."* I am also satisfied that there is broad support for the proposed allocation.

## B. The Case for a General SDR Allocation

### Global Context

**5. The world economy is facing an unprecedented health and economic crisis that could affect the stability and smooth functioning of the international monetary system.** The COVID-19 crisis is complex, uncertain, and truly global, posing risks of extended scarring. The crisis has also substantially weakened external positions in many countries, raised external financing needs, exacerbated debt vulnerabilities, and deepened poverty. It may also compound pre-pandemic trends of low productivity growth and rising inequality. While uncertainty remains high, the global adjustment process is expected to be prolonged, with a global negative output gap persisting into the medium term amid higher liquidity and solvency risks.

**6. Many emerging and developing countries (EMDCs) entered the COVID-19 crisis with an inadequate level of reserves and further drew down their reserve buffers to respond to the crisis.** Before the pandemic, more than a half of EMDCs had inadequate reserve assets according to the Fund's Assessing Reserve Adequacy metric. As the pandemic unfolded, many EMDCs outside of Asia saw their current account balances deteriorate alongside the contraction in exports and global economic activity. While bold monetary policy support by major central banks at the onset of the crisis contributed to stabilizing global liquidity conditions, the capital outflow shock has been larger and more persistent than in past crises, and capital flows have yet to recover to their pre-COVID levels.

### Evidence of a Long-Term Global Need for Reserve Assets

**7. Various benchmarks and estimates suggest that long-term global need for additional reserve assets are expected to be large, ranging from US\$1.1 to 1.9 trillion (about**

**SDR 0.8 to 1.4 trillion) in the next five years.** The long-term need for reserve assets is calculated separately for non-reserve currency issuing advanced economies (AEs) and EMDCs, and then aggregated to obtain the global long-term need. The estimates are derived by using the methodologies in line with those employed for the assessment of [the case for a general allocation of SDRs during the Eleventh Basic Period in 2016](#). The estimated range is higher than the one at the time of the 2016 assessment—about US\$0.7 to 1.7 trillion (about SDR 0.5 to 1.2 trillion). The increase since 2016 is mostly explained by the higher need for non-reserve currency issuing EMDCs. Roughly half of the increase since the 2016 assessment can be accounted for by the COVID-19 crisis.

**8. There are upside and downside risks to these estimates.** The global economy faces significant uncertainty and risks that are not captured in the baseline. On the one hand, an adverse turn in the course of the pandemic could worsen the medium-term economic outlook and require countries to further build up their reserve assets. In particular, uneven vaccine access and a divergent recovery between AEs and EMDCs could imperil capital flows to EMDCs, as AEs unwind their policy support. As a result, some EMDCs could face challenges meeting their external financing needs and thus might need to draw down their reserve buffers. On the other hand, the long-term global need for reserve assets could be lower if an upside risk materializes. For example, greater progress with vaccinations could uplift the medium-term global economic outlook and ease external financing conditions for EMDCs.

### Supply of Reserve Assets and Sources to Meet the Global Reserve Need

**9. Countries that need to supplement their reserve assets can rely on several funding sources, but these sources would cover only part of the reserve needs.** Besides an SDR allocation, countries can meet their reserve needs by running current account surpluses, and through net private capital inflows, and/or official financial support, which is critical especially for vulnerable countries with limited access to capital markets. The April 2021 WEO estimates that for countries that need to supplement reserve assets, these sources of financing would cover about US\$0.5–0.6 trillion (about SDR 0.3 to 0.4 trillion) by 2025, compared with the estimated global need of US\$1.1–1.9 trillion (about SDR 0.8 to 1.4 trillion).

**10. Aside from helping to meet the long-term global demand for reserve assets, supplementing reserve assets through a general allocation of SDRs offers several advantages over other funding sources.** SDRs are less costly than borrowing from the markets or accumulating reserves through current account surpluses with foreign exchange intervention. Further, SDRs do not contribute to excess global imbalances, face no immediate rollover risk and provide rapid unconditional liquidity to all members, thus complementing a fragmented and layered global financial safety net. Given those considerations, the general allocation of SDRs will promote international monetary cooperation, facilitate the expansion and balanced growth of international trade, shorten the duration and lessen the degree of disequilibrium in the balance of payments of members, and maintain orderly exchange arrangements. It will thus contribute to the attainment of the Fund's purposes as set out in Article I of the Articles of Agreement.

**11. An allocation in a single tranche in an amount equivalent to US\$650 billion (about SDR 456 billion) would help to meet the long-term global need for reserve assets.** The 2009 allocation covered about 30 to 60 percent of the long-term global reserve need. Using the same percentage translates to a suggested allocation range of US\$0.3–1.2 trillion (about SDR 0.2–0.8 trillion) in 2021. As elaborated above, the allocation within this range would be consistent with the requirements set out in Article XVIII. Considering non-SDR funding sources, the allocation would cover a significant share of the residual long-term global reserve need. Furthermore, the allocation in a single tranche would provide an immediate boost to global reserves and instill global confidence during the COVID-19 crisis. This will support the global recovery and prevent further damage to the global economy and the stability of the international monetary system.

**12. The SDR allocation is not expected to generate global inflationary pressures.** The allocation per se does not exert any inflationary pressure. Even if countries spend their SDRs, this is unlikely to cause global excess demand and global inflation. The global output gap is currently large and negative and the proposed allocation in an amount equivalent to US\$650 billion (about SDR 456 billion) represents a small share of global GDP and money supply. Moreover, by boosting reserves and confidence, an SDR allocation would help stabilize foreign exchange market conditions and mitigate the exchange rate pass-through to inflation. Meanwhile, the US\$650 billion (about SDR 456 billion) general allocation of SDRs would help avoid global economic stagnation by instilling global confidence and helping liquidity-constrained countries to smooth needed adjustment and avoid contractionary and/or distortionary policies. The allocation would thus help avoid *“economic stagnation and deflation as well as excess demand and inflation in the world,”* consistent with Article VIII, Section 1(a) and also further the Fund’s purposes as set out in the Articles of Agreement.

**13. However, there are some potential risks and drawbacks of supplementing reserves with SDRs.** As determined by the Articles of Agreement (Article XVIII, Section 2(b)), the distribution of the SDR allocation is made in proportion to quota shares, which does not reflect individual members’ reserve needs. Also, some recipient countries could unduly delay needed macroeconomic adjustment and reforms; or use SDRs without realizing the potential costs and risks, including the interest charges associated with the use of SDRs at variable interest rates. Therefore, I have instructed staff to enhance transparency and accountability in the reporting and the use of SDRs, while strengthening operational measures (see Section D on Post Allocation Issues).

**14. It will be important to keep the global need for SDRs under review.** As is required under the Articles, such a review will take place, at the latest, six months before the end of the Twelfth Basic Period (i.e., by June 30, 2026). Like other reviews, that review will also involve consultation with Executive Directors.

## C. Key Features of the Allocation

### Eligibility to Receive Allocations During the Eleventh Basic Period

**15. Under the proposal, all Fund members that are participants in the Special Drawing Rights Department are eligible to receive allocations made pursuant to the resolution of the Board of Governors approving this proposal for a general allocation.** This includes one country (the Principality of Andorra) that has become a Fund member and a Special Drawing Rights Department participant after January 1, 2017 (i.e., after the start of the Eleventh Basic Period). Pursuant to Article XVIII, Section 2(d), the participant will be eligible to receive the proposed allocation only if authorized by the Executive Board. On July 8, 2021, the Executive Board provided such authorization.

### Timing for the Allocation for the Eleventh Basic Period

**16. It is proposed that the full amount of the allocation take place 21 days after the adoption by the Board of Governors of the relevant resolution to allocate SDRs.** Although Article XVIII, Section 2(a) provides that decisions of the Fund to allocate SDRs shall be made for "*basic periods*" and that allocations "*shall take place at yearly intervals*" within each basic period, Article XVIII, Section 2(c) also provides that allocations may take place at other than yearly intervals. In addition, it is proposed that the allocation be made in a single tranche in response to the current circumstances as discussed in paragraph 11 above.

### Allocations as Percentages of Quotas

**17. Article XVIII, Section 2(b) provides that "the rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate" and that "the percentages shall be the same for all participants."** However, under Section 2(c) of the same Article, when making the decision to allocate, the basis for allocations may be the quotas of participants on dates other than the date of the decision to allocate.

**18. It is proposed that the allocation be based on participants' paid quotas in the Fund as of the date of adoption of the Board of Governors resolution.** Given the amount that is proposed to be allocated, the rate for the proposed allocation is 95.8455025357 percent of eligible participants' quotas on the date of the adoption of the Board of Governors' resolution on the allocation of SDRs, taking into account certain assumptions on eligibility and opting out. This rate is derived by dividing an amount of SDRs equivalent to US\$650 billion by the total of paid quotas of those participants, using the official SDR/USD exchange rate as of July 1, 2021, the date of the Summing Up of the Executive Board discussion.<sup>6</sup>

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<sup>6</sup> The proposal is consistent with the approach used in 2009. It implies that the actual allocation, when implemented,

**19. The total amount of SDRs to be allocated would be reduced if a participant entitled to receive allocations “opts out” of the allocation.** Consistent with Article XVIII, Section 2(e), a member may opt out of the allocation only if (a) the Governor for the participant did not vote in favor of the decision and (b) the participant has notified the Fund in writing prior to the first allocation of SDRs under that decision that it does not wish SDRs to be allocated to it under the decision.

## D. Post Allocation Issues

### Transparency and Accountability in the Reporting and Use of SDRs

**20. Enhanced transparency and accountability in the reporting and use of SDRs can further strengthen the effective functioning of the SDR Department and help ensure that SDRs contribute to macroeconomic stability.** To further enhance transparency and accountability of SDR reporting, additional information on SDR holdings, transactions, and trading, together with the Board paper on the *Annual Update on SDR Trading Operations*, will be published.<sup>7</sup> The additional information includes quarterly changes in SDR holdings by two broad categories: (i) those related to IMF operations and (ii) SDR trading and other uses. To further enhance transparency and accountability in the use of SDRs, a Guidance Note will be prepared to help country teams develop policy advice consistent with macroeconomic sustainability. The Guidance Note will—in the context of global developments, the outlook, and policy priorities—include a section on principles that can enhance transparency and accountability in the use of SDRs. In addition, an ex-post report on the use of SDRs will be prepared two years after the allocation to review the allocation against the broad macroeconomic context and policy priorities following the COVID-19 pandemic.

### Implications for the SDR Market

**21. Although sales of SDRs are anticipated to increase after the SDR allocation, Voluntary Trading Arrangements (VTA) purchasing capacity would be sufficient even in a high demand scenario.** The VTAs will continue to have ample buying and selling capacities to meet the demand for sales and acquisitions of SDRs. The flexibility and voluntary nature of the market contributes to the willingness of VTA members to have a VTA and actively participate. To further enhance the voluntary SDR trading market, a two-pronged approach (i.e., broadening participants and enhancing operational flexibility under existing VTAs) has been initiated building on the favorable experience from the 2009 SDR allocation. Therefore, post-allocation requests for

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would be expected to be about \$650 billion, but this U.S. dollar equivalent could differ due to changes in USD/SDR exchange rate. Furthermore, the nominal size of the SDR allocation could be slightly higher if one or more of a few members who have not yet consented to and/or paid for their respective quota increases under the 14th General Review of Quotas do so prior to the effectiveness of the allocation, allowing these members to receive their shares of SDR allocation based on their new, higher quotas.

<sup>7</sup> Staff will continue to prepare a Designation Plan, which would remain confidential and not published.



exchange of SDRs are expected to continue to primarily be handled via the voluntary trading market, while the Articles of Agreement provide for a backstop designation mechanism to guarantee the liquidity of the SDR.

### **E. Proposal for the Allocation of Special Drawing Rights**

In light of the foregoing, I hereby propose that the Fund allocate SDRs to the participants in the Special Drawing Rights Department, in accordance with the Articles of Agreement, as follows:

1. An allocation of SDRs shall be made to participants in the Special Drawing Rights Department that are eligible, in accordance with the Articles of Agreement, to receive allocations during the Eleventh Basic Period.
2. The allocation (and recording to participants SDR holdings) shall be made on the twenty-first day following the date on which the proposed Board of Governors' resolution approving the allocation becomes effective.
3. The rate for each participant receiving an allocation shall be 95.8455025357 percent of the quota of each participant on the date on which the proposed Board of Governors' resolution approving the allocation becomes effective.

I therefore recommend that, in accordance with the foregoing proposal, which has been concurred in by the Executive Board on July 8, 2021, the Board of Governors adopt the following resolution:

## Resolution

### Allocation of Special Drawing Rights for the Eleventh Basic Period

Whereas the Managing Director has submitted a proposal for the allocation of Special Drawing Rights pursuant to Article XVIII, Section 4(c) of the Articles of Agreement of the International Monetary Fund;

Whereas in the Report containing her proposal, the Managing Director has declared that, before making the proposal, she had satisfied herself that the proposal would be consistent with the provisions of Article XVIII, Section 1(a), and that, after consultation, she has ascertained that there is broad support among participants for the proposal; and

Whereas the Executive Board, in accordance with Article XVIII, Section 4(a), has concurred in the proposal of the Managing Director.

Now, therefore, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles governing the allocation of special drawing rights set forth in Article XVIII, Section 1(a), hereby resolves that:

1. The Fund shall make an allocation of Special Drawing Rights to participants in the Special Drawing Rights Department that are eligible, in accordance with the Articles of Agreement, to receive allocations during the Eleventh Basic Period.
2. The allocation shall be made on the twenty-first day following the date on which this resolution becomes effective.
3. The rate for the allocation shall be 95.8455025357 percent of the quota of each eligible participant on the date on which this resolution becomes effective.