Questions and Answers on Special Drawing Rights

August 23, 2021

These Q&As cover recent questions about an SDR allocation. For additional background and basic facts please refer to the SDR factsheet (https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR).

BACK TO TOP

Q1. What is an SDR?

- The Special Drawing Right (SDR) is an interest-bearing international reserve asset created by the IMF in 1969 to supplement other reserve assets of member countries.
- The SDR is based on a basket of international currencies comprising the U.S. dollar, Japanese yen, euro, pound sterling and Chinese Renminbi. It is not a currency, nor a claim on the IMF, but is potentially a claim on freely usable currencies of IMF members. The value of the SDR (https://www.imf.org/external/np/fin/data/rms_sdrv.aspx) is set daily by the IMF on the basis of fixed currency amounts of the currencies included in the SDR basket and the daily market exchange rates between the currencies included in the SDR basket.
- SDRs are only allocated to IMF members that elect to participate in the SDR Department. Currently all members of the IMF are participants in the SDR Department.

- SDRs can be held and used by member countries, the IMF, and certain designated official entities called "prescribed holders" (see below)—but it cannot be held, for example, by private entities or individuals. Its status as a reserve asset derives from the commitments of members to hold and exchange SDRs and accept the value of SDRs as determined by the Fund. The SDR also serves as the unit of account of the IMF and some other international organizations, and financial obligations may also be denominated in SDR.
- Only members that are not participants in the SDR Department, non-members, and official entities may be prescribed as holders of SDRs under the Articles of Agreement. Currently there are 15 prescribed holders: four central banks (European Central Bank, Bank of Central African States, Central Bank of West African States, and Eastern Caribbean Central Bank); three intergovernmental monetary institutions (Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund); and eight development institutions (African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development and the International Development Association, Islamic Development Bank, Nordic Investment Bank, and International Fund for Agricultural Development).

BACK TO TOP

Q2. What is a general SDR allocation?

- An SDR allocation is a way of supplementing Fund member countries' foreign exchange reserves, allowing members to reduce their reliance on more expensive domestic or external debt for building reserves.
- The IMF has the authority under its Articles of Agreement (https://www.imf.org/external/pubs/ft/aa/index.htm) to create unconditional liquidity through "general allocations" of SDRs to participants in its SDR Department (currently, all members of the IMF) in proportion to their quotas in the IMF (https://www.imf.org/external/np/sec/memdir/members.aspx).
- The IMF's Articles prescribe the conditions under which such allocations can be made, namely that general allocations of SDRs should meet a long-term global need to supplement existing reserve assets in a manner that will promote the attainment of the IMF's purposes and avoid economic stagnation and deflation, as well as excess demand and inflation; and that these allocations should have the broad support of SDR Department participants.

BACK TO TOP

Q3. What are the purpose and benefits of the 2021 general SDR allocation?

- A direct benefit of a general SDR allocation, and indeed the purpose of such an allocation under the Fund's Articles of Agreement, is to supplement existing reserve assets to help meet a long-term global need. This boosts buffers and bolsters international economic resilience. By helping stabilize vulnerable countries, an SDR allocation can help mitigate risks of economic and social fragility, minimize spillovers, and enhance the stability of the international monetary system.
- The general allocation of SDR 456.5 billion (equivalent to about US$650 billion) implemented on August 23, 2021, addresses the long-term global need for reserves, builds confidence, and supports a sustainable and resilient global recovery. It benefits all member states, and helps emerging market and low-income countries struggling to cope with the impact of the COVID-19 crisis. This general allocation, by far the largest to date, is a prime example of an international cooperative response to the COVID-19 pandemic.

BACK TO TOP

Q4. How many SDRs have been allocated so far?

- The Fund has allocated a total of SDR 660.7 billion (equivalent to about US$935.7 billion), including four general allocations and a one-time special allocation. Specifically:
- SDR 9.3 billion was allocated in yearly installments in 1970–72.
- SDR 12.1 billion was allocated in yearly installments in 1979–81.
- SDR 161.2 billion was allocated on August 28, 2009.
- A special one-time allocation of SDR 21.5 billion took effect on September 9, 2009 to correct for the fact that members that had joined the IMF after 1981 had never received an allocation (the Fourth Amendment special allocation)..
- SDR 456.5 billion (equivalent to about US$650 billion) was allocated on August 23, 2021, by far the largest allocation to date.
- In addition, new members to the Fund receive an SDR allocation upon their participation in the SDR Department.

BACK TO TOP

Q5. How did the Fourth Amendment special allocation of SDRs come about?

- A special one-time allocation of SDR 21.5 billion was proposed in 1997 under what is known as the Fourth Amendment of the IMF's Articles of Agreement, to allow members to participate equitably in the SDR system, even if they joined after previous SDR allocations.

- The Fourth Amendment provided for a special allocation of SDRs to raise the ratios of members' cumulative SDR allocations relative to quota to a common benchmark ratio as described in the amendment.

- The Fourth Amendment became effective for all members on August 10, 2009 when the Fund certified that at least three-fifths of the IMF membership (112 members) with 85 percent of the total voting power accepted it. On August 5, 2009, the United States joined 133 other members in supporting the Amendment. The special allocation of SDR 21.5 billion was implemented thirty days after the effective date, on September 9, 2009.

BACK TO TOP

Q6. How much of a general allocation is distributed to each member country?

- General allocations of SDRs are distributed across the IMF membership in proportion to IMF quota shares (https://www.imf.org/en/About/executive-board/members-quotas) . On this basis, the share of emerging market and developing countries is about 42.3 percent (about USD 275 billion), of which 3.3 percent (about USD 21 billion) is for low-income countries.

- Member countries' individual SDR allocations and holdings can be found here (https://www.imf.org/external/np/fin/tad/extsdr1.aspx).

BACK TO TOP

Q7. What happens to the SDRs once they are allocated? What can they be used for?

- The IMF's SDR Department keeps records of SDR allocations to members and holdings of SDRs by members and prescribed holders; the SDR Department is also the channel through which all transactions and operations involving SDRs are conducted.

- Once allocated, members can hold their SDRs as part of their foreign exchange reserves or sell or use part or all of their SDR allocations. Members can exchange SDRs for freely usable currencies among themselves and with prescribed holders; such exchange can take place under a voluntary arrangement or under a mandatory designation plan on members with sufficiently strong external positions, which serves as the ultimate backstop for the SDR market. Since 1987, the SDR market has functioned through voluntary arrangements, without the need to activate the designation plan.

- IMF members can also use SDRs in a range of other authorized operations among themselves (e.g. loans, payment of obligations, pledges) and in operations and transactions involving the IMF, such as the payment of interest on and repayment of loans, or payment for quota increases.

BACK TO TOP

Q8. How will you keep track of the use of the SDR allocation by countries and improve transparency?

- Enhanced transparency and accountability in the reporting and use of SDRs, while preserving the unconditional reserve asset nature of the SDRs, is important and the Fund already publishes a range of information about the SDR. Information on participants' SDR allocations and holdings is made available in the Fund's annual and quarterly financial reports (https://www.imf.org/external/pubs/ft/quart/index.htm).

- These published reports also include aggregated information on changes in SDR holdings by transaction type. Separately, the IMF Finances webpages (https://www.imf.org/en/data/imf-finances), publishes monthly information on SDR allocations and holdings of participants. The periodic IMF Financial Operations publication (https://www.elibrary.imf.org/view/books/071/24764-9781484330876-en/24764-9781484330876-en-book.xml?language=en&redirect=true) also provides extensive information on the functioning of the voluntary SDR trading market and includes details on the operating modalities, capacity, trading by region, and aggregate transaction volumes.

- To further enhance transparency, staff will enhance its existing quarterly financial reports by publishing changes in individual members' SDR holdings by two broad aggregate categories: (i) those related to IMF operations; and (ii) SDR trading and other uses. Staff also proposes to begin publishing the Annual Update on SDR Trading Operations. These updates provide additional analysis on the use of Voluntary Trading Arrangements (VTAs) and trends in SDR exchanges, such as experience with sales after the SDR allocation, and aggregate VTA trading information, such as trading ranges.

- In addition, IMF staff has prepared a Guidance Note for Staff (https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319) to help IMF country teams develop policy advice consistent with macroeconomic sustainability, aiming to ensure that countries do not postpone needed macroeconomic adjustment and reforms. The SDR is an unconditional reserve asset, which means that the decision on how to utilize the SDRs rests with each member country. In keeping with those principles, the Guidance Note provides a consistent framework for assessing the macroeconomic implications of the allocation at the country level, including for accounting and statistical treatment, reserve management, and debt sustainability. A section on transparency highlights how Fund-endorsed frameworks of best practices on governance and policies can support transparency in the use of the SDR allocation, leveraging the set of already existing principles and best practices for central bank governance and operations, fiscal governance (https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/46/Encouraging-Greater-Fiscal-Transparency) , public financial management, and debt sustainability.

- IMF staff will also prepare an ex-post report on the use of SDRs two years after the allocation to review the allocation against the broad macroeconomic context and policy priorities following the COVID-19 pandemic.

BACK TO TOP

Q9. Can existing SDRs be 'recycled' or channeled toward other purposes? What are the options for member countries to voluntarily channel a share of their allocated SDRs to help vulnerable countries?

- Under current decisions of the IMF Executive Board authorizing the use of SDRs, SDR Department participants and prescribed SDR holders are permitted to buy and sell SDRs both spot and forward; borrow, lend, or pledge SDRs; use SDRs in swaps; or use or receive SDRs in donations.

- SDR Department participants with strong external positions have historically used some of their SDR holdings to help countries in need. For instance, during the current crisis, several countries have used part of their SDR holdings to expand the IMF's concessional financing by scaling up the IMF's Poverty Reduction and Growth Trust's (PRGT) loan resources. Total new PRGT loan resources mobilized to date as part of the PRGT's fast-track loan mobilization round launched last spring amount to about $24 billion, of which two-thirds or about $15 billion, are from the use of existing SDRs. Concessional support through the Poverty Reduction and Growth Trust (PRGT) is currently interest free.

- We are also exploring other options for voluntarily channeling SDRs from members with strong external positions to support poorer and more vulnerable countries to help their recovery from the pandemic. Depending on the priorities of the membership, a new Resilience and Sustainability Trust could be considered to facilitate structural transformations, including greener recoveries from this crisis, for resilient and sustainable growth in the medium term. Another possibility could be to channel SDRs to support lending by multilateral development banks.

BACK TO TOP

Q10. Is the SDR allocation a loan from the IMF?

- The Special Drawing Right (SDR) allocation is not a loan from the IMF. When the IMF allocates SDRs, participants in the SDR Department receive unconditional liquidity represented by an interest-bearing reserve asset (SDR holding) and a corresponding long-term liability to the SDR Department (SDR allocation).

BACK TO TOP

Q11. Are there any costs involved in a general SDR allocation? Is there any other cost associated with holding SDRs?

- An SDR allocation is 'cost free'. An SDR allocation involves two elements: an increase in the SDR Department participants' (currently all Fund members) allocation of SDRs (liabilities) and a matching increase in its holdings of SDRs (assets). The SDR Department pays interest on SDR holdings to each member and levies charges on SDR allocations of each member at the same rate (the SDR interest rate (https://www.imf.org/external/np/fin/data/sdr_ir.aspx)). Thus, an SDR allocation is 'cost-free' for all members because charges and interest net out to zero if the countries do not use their SDR allocations. Participants incur a very small annual levy to cover the operational costs of the SDR Department (recently, around one-thousandth of one percent levied on the cumulative allocation of each participant).
- The use of SDRs is not 'cost free'. The use of SDRs occurs when a country reduces its SDR holdings vis-à-vis its cumulative SDR allocation. Countries that exchange their SDRs for currency will incur net charges on the difference between their cumulative SDR allocations and their SDR holdings. The SDR interest rate (https://www.imf.org/external/np/fin/data/sdr_ir.aspx) (as of August 20) is 0.05 percent. Members that receive SDRs, either under a voluntary transaction or by designation, have to provide foreign exchange in exchange, effectively replacing one reserve asset by another.

BACK TO TOP

Q12. How does the SDR market work?

- For more than three decades, the SDR market has functioned purely on a voluntary basis.
- Various Fund members and one prescribed SDR holder have agreed to stand ready to buy and sell SDRs on a voluntary basis.

- The Fund facilitates transactions between members seeking to sell or buy SDRs and these counterparties to the voluntary arrangements that effectively make a market in SDRs. Under the guidance of the Fund, participants in the SDR department can also enter into bilateral transactions amongst themselves or with prescribed holders.
- In the event that there are not enough voluntary buyers of SDRs, the IMF can designate members with strong balance of payments positions to provide freely usable currency in exchange for SDRs. This so-called "designation mechanism" ensures that a participant can use its SDRs to readily obtain an equivalent amount of currency if it has a need for such a currency because of its balance of payments, its reserve position, or developments in its reserves. The designation mechanism has not been activated since 1987.

BACK TO TOP

Q13. What is the SDR interest rate and how is it determined?

- The SDR interest rate is determined weekly (https://www.imf.org/external/np/tre/tad/sdr_ir.cfm) on each Friday and is based on a weighted average of representative interest rates on 3-month debt in the money markets of the five SDR basket currencies (i.e., the U.S. dollar, Japanese yen, euro, and pound sterling, and the Chinese renminbi).

BACK TO TOP

Q14. How does the recent SDR extension of the current SDR valuation basket relate to the new SDR allocation?

- The quinquennial (5 yearly) review of the SDR basket and discussions on a potential SDR allocation are two separate processes that do not have any substantive impact on each other. The extension of the current SDR valuation basket contributes to the Fund’s ongoing efforts to prioritize work during the COVID-19 crisis and also allows for a more suitable effectiveness date of a new basket on August 1, 2022, which does not coincide with some major markets being closed.

BACK TO TOP

Q15. What is the link between the SDR valuation decision announced July 29, 2022 and the Currency Amounts in the new SDR basket announced on May 14, 2022?

- On May 11, 2022, the Board decided to keep the composition of the SDR currency basket unchanged and to update the basket with new currency weights, to become effective for the new five-year valuation period starting August 1, 2022. The Executive Board's decision of July 29 is the final step to implement the SDR valuation review, as it sets the new currency amounts consistent with the SDR currency basket weights decided on May 11. These currency amounts are a key input in the calculation of the daily valuation of the SDR and will remain fixed over the new five-year valuation period starting August 1, 2022.
- Technical background: The Executive Board in 2016 updated the methodology to translate the SDR basket currency weights into currency amounts. Based on this methodology, these currency amounts are determined based on two conditions. First, on the last day before new currency weights become effective, that is, on July 29, the value of the SDR in U.S. dollar terms based on the currency weights effective through end-July 2022 is the same as the value of the SDR in U.S. dollar terms under the basket that will become effective August 1 onward. Second, on that same day, the share of each currency in the value of the SDR corresponds to the weight approved by the IMF Executive Board on May 11, 2022, valued at the average exchange rates for the past three-months (i.e., May 2 through July 29, 2022).