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Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges

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ABSTRACT
The historic allocation of $650 billion in Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) provided countries with an immediate infusion of international reserves. It was the largest debt-free support low- and middle-income countries received to respond to the crisis triggered by the COVID-19 pandemic. This article provides an overview of what SDRs are, how they can be used by countries, how they were used, and the relationship between high-income countries and SDRs. The four main ways to use SDRs identified are (1) to supplement existing reserves, (2) to exchange them for hard currency, (3) for fiscal uses, and (4) for IMF debt relief. Data show that between August 2021 and March 2022 ninety-eight low- and middle-income countries proactively used SDRs at least one way; thirty countries in at least two ways, and ten countries in at least three ways. This allocation increased the fiscal space for developing countries despite the uneven distribution based on IMF quota shares and no downsides were identified for advanced economies that made no use of their allocation. Given the ongoing crisis and additional shocks from Russia's war in Ukraine and monetary tightening in advanced economies, new allocations of SDRs can help close the gap in the available fiscal space developing countries have to address these challenges.

Introduction

In April 2020, the COVID-19 pandemic led the International Monetary Fund (IMF) to downgrade global growth projections for 2020 by 6.3% points, making the pandemic the cause of the worst economic downturn since the Great Depression (IMF 2021i). The United Nations called for a $2.5 trillion relief package for low- and middle-income countries in March 2020 to counteract the crises, which had the potential to erase any recent development gains (UNCTAD 2020b). This was in part because most low- and middle-income countries have fewer tools available to address major economic shocks. In March 2020, IMF Managing Director Kristalina Georgieva was the first to propose

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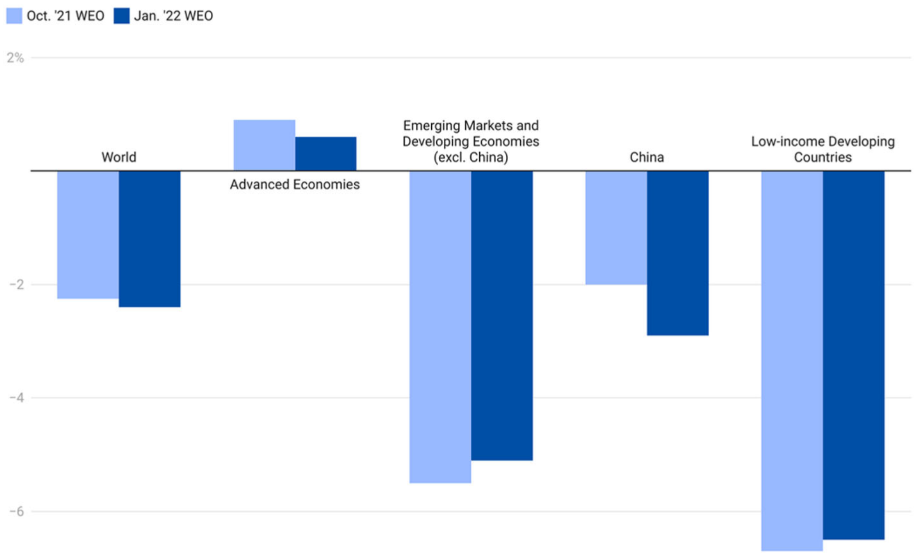

Figure 1. Real output, percent deviation from pre-crisis trend. *Source*: adapted from Gopinath (2022).

an SDR allocation in response to the pandemic, saying that the IMF estimated that the financing needs of emerging market countries were $2.5 trillion and that this estimate "is on the lower end" (IMF 2020). This essentially refers to what countries would need to avoid economic crises, such as balance of payments, debt, or fiscal crises.

Low- and middle-income countries are thus more vulnerable to economic shocks from the twin economic and health crises posed by COVID-19 than advanced economies are. Economies dependent on tourism saw the industry collapse; many of those dependent on exports of manufactured products also got hit by a drop in demand. For many countries, capital outflows and declining exports led to decreases in reserves and put pressure on their exchange rates. The hard currency needed for external debt obligations became scarce.

Although the economic and public health crises around the world have abated to some degree since 2020, many economies are still struggling to recover from the effects of the pandemic. The IMF and the United Nations have warned about ongoing economic difficulties due to new variants of the COVID-19 virus as well as an uneven recovery, especially between advanced economies and poorer countries (Gopinath 2021; IMF 2022d; UN 2021).

In January 2022 forecast, the IMF downgraded its projections for economic growth at the global level and showed that divergent recoveries nevertheless persist (Figure 1). The disparity between rich and developing countries in the capacity of governments to provide fiscal support has been one of the primary challenges posed by the pandemic. Shortly after the pandemic started, some high-income countries—most importantly the United States and in Europe—created trillions of dollars' worth of hard currency to use for spending; many also had access to swap lines from the US Federal Reserve.[1] The rest of the world—with majority of the world's population—has far fewer options for countercyclical, expansionary fiscal policy, or for relief spending.

Additionally, the consequences of the Russian invasion of Ukraine contributed to economic downgrades for 143 countries, threatening global growth (Wiseman 2022). The

Table 1. 2021 SDR allocation by IMF categorization; by broad and narrow categorization, with special aggregates.

Broad IMF categorization	IMF categorization	Approximate amount of 2021 allocation (millions USD)	Percent of 2021 allocation (%)
World		$650,000	100.00
Advanced economies	Advanced Economies	$399,241	61.40
Emerging and developing economies	Emerging and Developing Economies, total	$250,914	38.60
	Emerging and Developing Asia	$84,361	13.00
	Latin America and the Caribbean	$51,505	7.90
	Middle East and Central Asia	$49,484	7.60
	Emerging and Developing Europe	$42,634	6.60
	Sub-Saharan Africa	$22,931	3.50
Special aggregates	Advanced Economies, plus China	$440,853	67.80
	Emerging and Developing Economies, total excluding China	$209,302	32.20
	Emerging and Developing Asia, excluding China	$42,749	6.60
	Low-Income Countries	$21,508	3.30

The exchange rate used is SDR 1 = 1.42426 USD. Numbers in the table may not sum to the totals due to rounding. *Source: Authors' analysis and* IMF (2021k, 2022e, 2022g).

war has already raised the prices of many commodities, with food and energy prices particularly affected (WFP 2022b; Kammer et al. 2022). Many countries, especially in North Africa and the Middle East, have seen the price of food staples rise sharply (WFP 2022c). The World Food Programme estimates that 276 million people face acute food insecurity today (doubled since 2019), and 44 million are on the edge of famine WFP 2022a). The war in Ukraine likely adds significantly to some of these figures.

On August 23, 2021, the IMF allocated a historic $650 billion worth of Special Drawing Rights (SDRs)—an international reserve asset that can be exchanged for hard currency or donated among member countries—in a general allocation to its 190 members, proportional to their quota. These new SDRs added much-needed liquidity to the global economy during the pandemic and, according to the IMF, sought to "benefit all members, address the long-term global need for reserves, build confidence, and foster the resilience and stability of the global economy" (IMF 2021f). Table 1 shows the approximate amount IMF member countries received from this allocation by income group, based on IMF classifications.

This article assesses the uses and impacts of the August 2021 allocation of SDRs, which is perhaps the single most important global economic policy response to the pandemic, eclipsing the IMF's emergency lending programs, the Debt Service Suspension Initiative (DSSI) from the Group of 20, and the IMF's debt relief through the Catastrophe Containment and Relief Trust (CCRT). SDRs arguably provide better quality support than these sources as well, since they do not add to debt burdens like emergency lending does, and they offer more flexibility than the CCRT and DSSI (Figure 2).[2]

Almost immediately after the allocation, countries used these new SDRs in various ways to improve their economic situations. As a reserve asset, the allocation itself increased the financial resources available to all countries experiencing economic challenges, and as noted above, had stabilizing impacts while just sitting as reserves, and not drawn upon. To date, 98 countries have proactively used their SDRs, either by

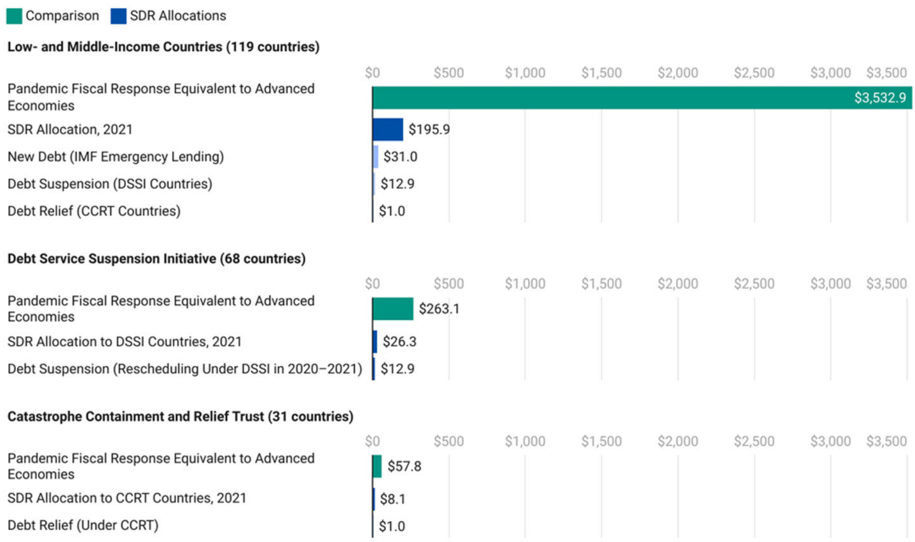

Figure 2. SDR Allocation in 2021, and other Sources of Support, by Country Groupings (USD billions). The exchange rate used is SDR 1 = 1.4 USD. Countries in the sample are the 119 low- and middle-income countries included in the World Bank's International Debt Statistics database. The pandemic fiscal response equivalent to advanced economies is the amount of fiscal support this set of countries would have if it were proportional, by GDP, to the amounts that advanced economies created in response to the pandemic. Thirty-one countries received support under CCRT; 48 received support under DSSI. *Source*: Authors' analysis, World Bank (2022a, 2022b), and IMF (2021d, 2021e).

exchanging SDRs for hard currency, using them for payments to the IMF, and/or by adding their SDRs to domestic budgets.[3]

What Are Special Drawing Rights and Why Are They Important?

SDRs are an international reserve asset, created by the IMF in 1969 to supplement member countries' other reserve assets. SDRs can be exchanged for hard currency among member countries and select prescribed holders, such as regional banks. SDRs are not debt and do not represent loans. SDRs' value is based on a basket of five currencies: dollars, euro, pounds, yen, and renminbi.[4] To facilitate the market for SDRs, the IMF maintains Voluntary Trading Arrangements with 34 countries and the European Central Bank to exchange SDRs for specific hard currencies within set trading limits (IMF).

There were four SDR allocations from 1970 to 2009.[5] Although SDRs have historically mostly been held as international reserves, the IMF specifies that they can be bought or sold; borrowed, lent, or pledged; used in swaps; and given or received in donations (IMF 2021h). A total of $250 billion worth of SDRs were allocated in the wake of the global financial crisis in 2009 (an approximate value of $325 billion today).

We identify the following characteristics for SDRs as policy tool:

- ***SDRs can be mobilized quickly if there is the political will to do so.*** The formal process starts with the IMF staff preparing a document for the Board of Governors, which must show that there is a global need.[6] Once the IMF Board of Governors votes with at least 85% majority to approve an SDR allocation, the

IMF credits the accounts of its members. For the latest allocation, the IMF Board of Governors approved the $650 billion worth of SDRs on August 2, and credited member accounts on August 23.[7]

- ***SDRs can be exchanged for hard currency on demand and relatively quickly, and they are freely convertible.***[8] After the August 23 allocation, some countries used their new SDRs within days (Arauz and Cashman 2021). The IMF does not place restrictions on what currencies in the basket SDRs can be exchanged for, nor does the IMF set limits on how many SDRs can be exchanged at once, provided that counterparties are available.
- ***SDRs are nonreimbursable and have a low cost for countries that use them.*** Once countries use SDRs, they are not obliged or expected to reimburse them to the IMF or to anyone else.[9] If a country exchanges or draws down its SDR holdings, it is required to pay a very modest interest rate on the difference between the SDRs that it is holding, and the total amount that it has been allocated over time, when the former is less than the latter. This interest rate is based on the interest rates in the advanced economies that make-up the currency basket and significantly lower than borrowing costs for low- and middle-income countries (IMF 2021j).
- ***SDR allocations are cost-free, and countries that exchange hard currency for them earn interest.*** This means that the $650 billion allocation in August 2021 did not impose a burden on any IMF member countries. The use of SDRs benefits parties on either side of the exchange; those that accept them in exchange for hard currencies earn interest charged if their SDRs holdings are above their allocation amount (IMF 2021h).
- ***SDRs belong to sovereign governments, are not aid or loans, and do not have conditionality attached to their use.*** Governments have much leeway in deciding how to use their SDRs, including in crediting them to general government accounts. The depth and variety of uses by countries following the 2021 allocation shows that SDRs can be adapted to local conditions and realities in ways that loan programs or aid often cannot.
- ***SDRs cannot be wasted.*** Because SDRs are allocated in proportion to an IMF member country's quota share, advanced economies and China received over two-thirds of the 2021 allocation, or a little less than $441 billion. For countries that do not need them do not use them—they are simply held on balance sheets, and do not effectively represent a net real use of (or claim on) resources.
- ***SDRs can be used to pay the IMF without first exchanging them for hard currency.*** This includes the ability to pay for routine charges and fees, as well as outstanding balances—including interest and principal—on loan programs. This does not require exchanging them for hard currency.
- ***The SDR system is, by default, sanctions-compliant and does not need to be tailored to various sanctions regimes over time.*** The desire of participants of the SDR system to comply with sanctions extends the sanctions to the system itself, without any additional rules or changes to the underpinnings of the system. Overarching sanctions already effectively prevent SDR transactions.[10]

Ways to Use Special Drawing Rights

SDRs can be used in two distinct monetary layers. The top layer is composed of the accounts that IMF member countries and other entities have at the IMF's Special Drawing Rights Department (hereafter, SDRD). The SDRD is a specialized unit at the Fund, which has its own balance sheet, ledger, and accounting framework. It is separate from the IMF General Resources Account (GRA) or any of the IMF-managed trusts or administered accounts. Unlike the GRA, the SDRD is authorized to issue and create SDRs by expanding its balance sheet. In fact, the GRA has an SDR account at the SDRD.

The second layer is composed of the SDR-denominated, SDR-backed, SDR-leveraged or SDR-linked transaction accounts within member countries. For example, the US Treasury's Exchange Stabilization Fund (ESF) issues SDR-denominated bonds backed by the SDRs that the ESF has at the IMF's SDRD. The SDR-denominated bonds are purchased by the Federal Reserve Bank of New York. These transactions are not registered anywhere at the IMF SDRD ledger, and they only exist in ledgers within the United States.

In other cases, a country may decide that, after receiving SDRs at the SDRD, its central bank should lend an equivalent amount of money in local currency to its government. Again, this loan will not show up in the SDRD ledger, but will show up in the balance sheets of the countries involved.

Table 2 shows the four main ways that countries can use SDRs (reserves and hard currency involve using the top SDR layer at the SDRD ledger).

Reserves

The simplest and easiest use for SDRs is the default option: holding them as reserves. Countries do this as a matter of course after an allocation: SDRs are kept in a country's SDR account at the IMF's SDRD and these assets are (usually) added to the central bank's balance sheet as international reserves. Legally, SDRs from the new allocation held as reserves are treated the same as SDRs that the country was allocated previously. There is no data necessarily available to indicate that a country is using SDRs as reserves, although it is sometimes noted in media reports and government statements. Figure 3 is a simplified diagram of adding SDRs to reserves.

An increase in reserves can signal a higher capacity to pay future obligations, thus potentially reducing credit risk and borrowing costs. It can also signal the ability to defend the stability of a country's exchange rate and stronger macroeconomic fundamentals, in general. If the government is targeting a certain amount of reserves, an allocation that pushes reserves over the target may result in hard currency resources being freed up for other purposes.

Since the 2021 allocation, SDRs have been credited with boosting the reserves of vulnerable countries (EconomyNext 2021; Koc 2021). Figure 4 shows the SDR allocation as a percentage of reserves for low- and middle-income countries. Although the percentage of reserves is not the only way to assess whether an SDR allocation would be useful to countries, Figure 4 shows that the 2021 allocation represented a significant portion of many countries' reserves, with 21 countries receiving SDRs that represented over 20% of their reserves. Of the 152 IMF member countries with data available, 42 saw their

Table 2. Overview of how countries can use special drawing rights.

Use of SDRs	Principal actor	Requires exchanging SDRs for hard currency	Advantages	Available data
Reserves	Central banks	No	Easiest option, no exchange necessary; provides resources for future crises or to give more confidence to creditors	None, does not require any action
Obtaining hard currency	Central banks and/or governments	Yes	Hard currency can be used to stabilize exchange rates, pay debt denominated in a foreign currency, and import necessities, among other things; although it is not necessary to convert SDRs to hard currency in order to augment domestic budgets based on additional SDRs, some countries do so	IMF monthly statements on balances of country SDR holdings
Fiscal: avoid new debt	Governments	No	Allows for more fiscal space in budgets	IMF country-specific documents, media reports, and government statements; if SDRs were exchanged, monthly IMF statements
Fiscal: new spending	Governments	No	Most flexibility in allocating resources to particular challenges; can directly address health and social crises	IMF country-specific documents, media reports, and government statements; if SDRs were exchanged, monthly IMF statements
IMF debt relief	Governments	No	Easy option for debt relief; allows for more fiscal space in budgets	IMF monthly statements on balances of country SDR holdings; statements from corresponding IMF accounts

Source: Authors' analysis.

reserves decline from 2019 to 2020, with Zimbabwe and South Sudan reducing their reserves by 77.9% and 51.5%, respectively.

Exchanging for Hard Currency

Countries may also exchange SDRs for hard currency. During the pandemic, a country might face a balance of payments crisis if it had a large drop in the amount of hard currency it normally received. Hard currency is useful in stabilizing currencies, paying for imports, and paying debt denominated in foreign currencies, among other things. It

Figure 3. Use of SDRs as reserves. *Source*: Authors' analysis.

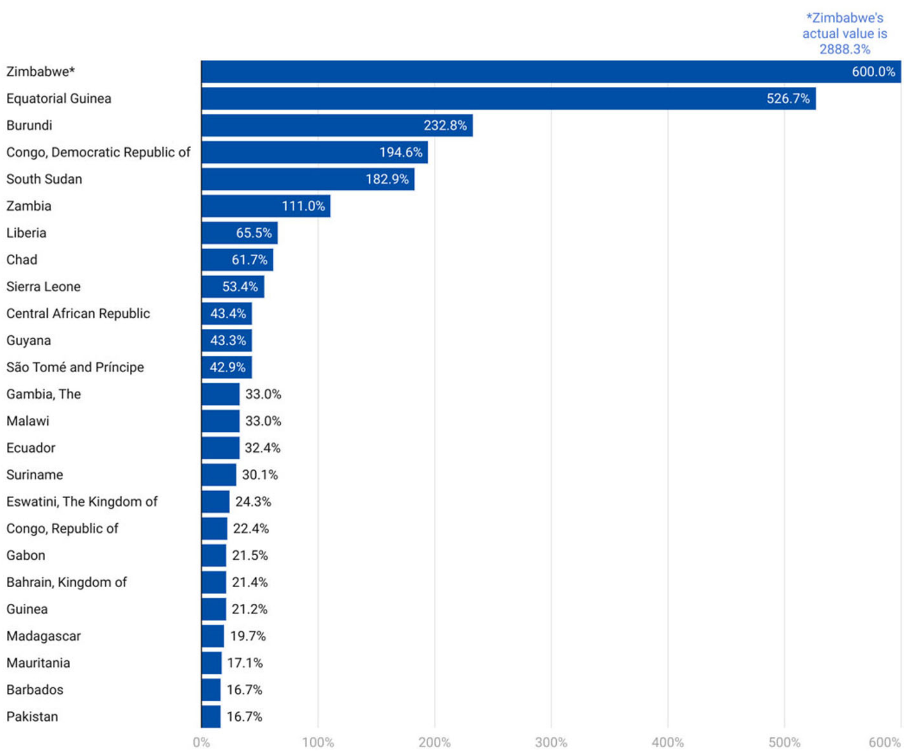

Figure 4. SDR allocation from 2021 as a proportion of total reserves, top 25 low- and middle-income countries. Reserves data is from either 2019 or 2020, whichever is smaller (see text). Out of 190 countries, 25 did not have reserves data for 2019 and 2020. *Source*: Authors' analysis, World Bank (2022c), and IMF (2021p, 2022e).

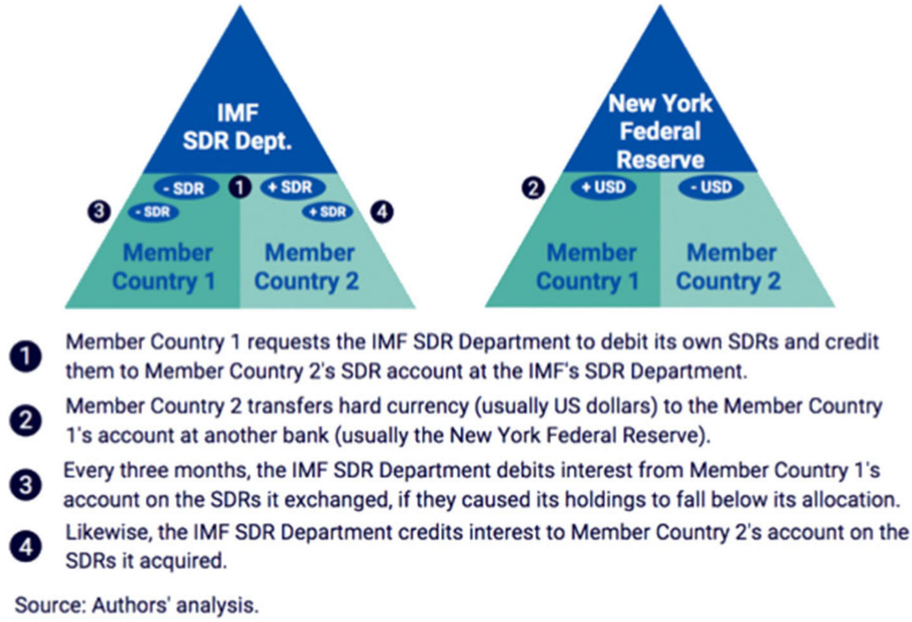

Figure 5. Using SDRs to acquire hard currency. *Source*: Authors' analysis.

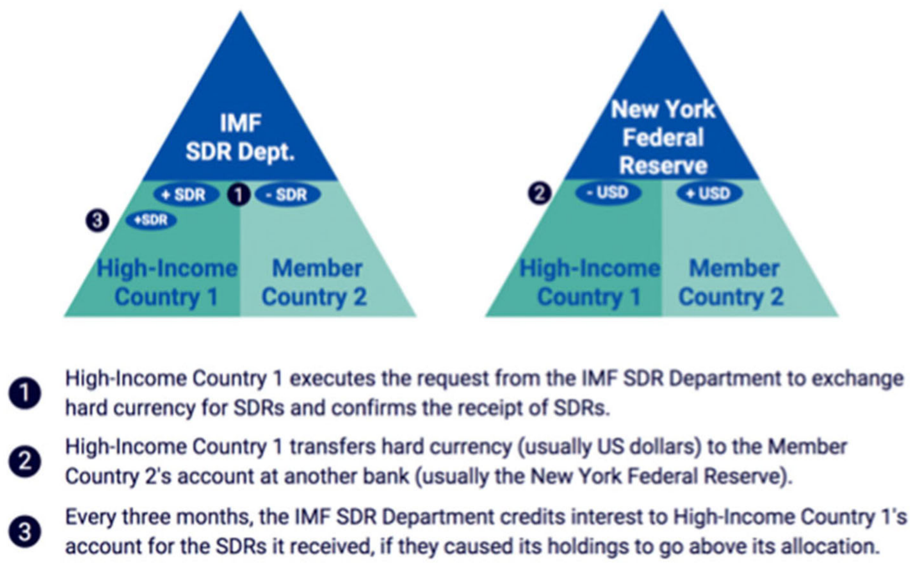

Figure 6. Using hard currency to buy SDRs. *Source*: Authors' analysis.

is possible to track exchanges of SDRs into hard currency by monitoring differences in IMF monthly statements of country SDR holdings net of IMF payments. Figure 5 is a simplified diagram of how countries can exchange SDRs for hard currency. The currency acquired can then be used to pay for imports and other transactions.

Countries may also “buy and sell SDRs both spot and forward; borrow, lend, or pledge SDRs; use SDRs in swaps; or use or receive SDRs in donations” (IMF 2021h). Figure 6 is a simplified illustration of buying SDRs in exchange for hard currency.

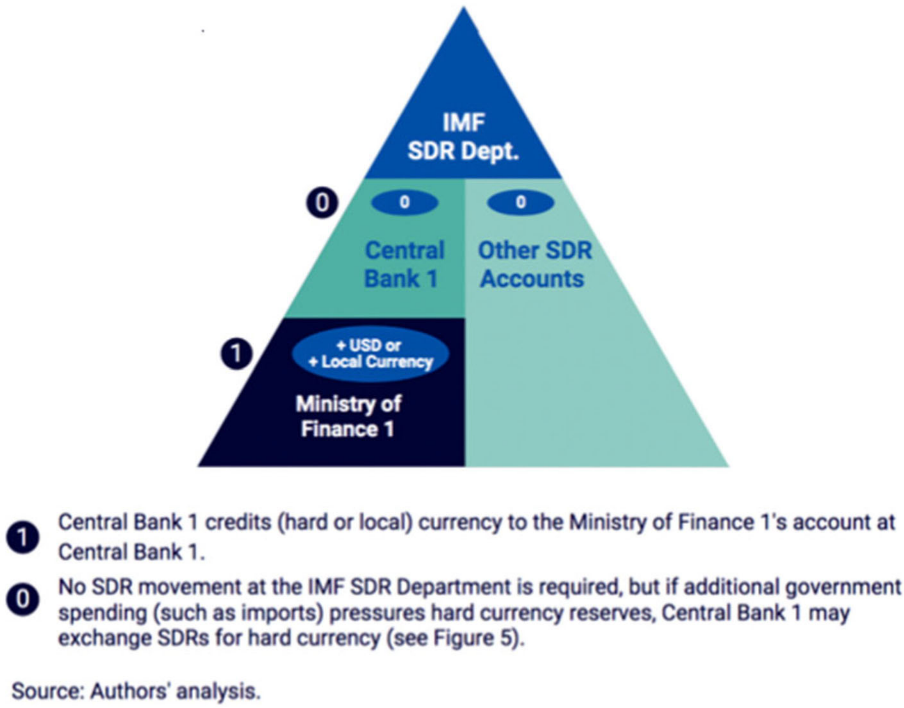

Figure 7. Fiscal use of SDRs. *Source*: Authors' analysis.

Bilateral agreements, referred to as Voluntary Trading Arrangements, or VTAs, between the IMF and certain entities allow them to buy and sell SDRs, on the initiation of the counterparty.[11] This process is managed by IMF staff, who distribute purchases and sales across VTA participants by considering a number of factors (IMF 2021b). As of September 30, 2021, the buying and selling capacities of the VTA system reached $327 billion and SDR 153 billion, respectively, increasing with the 2021 allocation. The IMF continues to strengthen the VTA system by streamlining the transaction process as well as by seeking new entrants to the system (IMF 2021a).

Fiscal Use

The fiscal use of SDRs can happen by using SDRs to reduce a country's deficit or debt, and by facilitating new spending. Figure 7 shows a simple model of using SDRs for fiscal use. A country can record SDRs at the local currency equivalent value in its government budget for domestic spending. If it is eventually necessary to cover payments abroad such as those required for importing goods, a country can exchange SDRs for hard currency. A government can also sell or swap its SDRs with the local central bank and get local currency to use for domestic spending, or convert SDRs to hard currency to pay creditors abroad. Since fiscal use does not necessarily require an exchange of SDRs for hard currency, it is not necessarily visible in the SDRD's central database for this type of use. Available data is compiled from government statements, IMF country reports, and specialized media.

IMF Articles of Agreement state that SDRs belong to IMF "members," i.e., national governments (and not central banks).[12] Recent IMF guidance supports these assertions and indicates there is considerable leeway in what accounting treatment SDRs receive.[13] Governments ultimately have the authority to prescribe certain accounting treatments and incorporate their ownership into law. One constraint in many countries is that local laws may assign ownership of SDRs to entities other than the national government, such as central banks. In such cases, absent emergency measures—including monetary financing—or swift legal action, this means that these resources may not be available for entities responsive to the public or their needs.

Fiscal uses afford the most flexibility when using SDRs and allow governments to directly address social and health crises caused by the pandemic.

IMF Debt Relief

A country can directly use SDRs to pay the IMF for prior IMF loans or obligations (fees, charges, principal, and interest)—without exchanging them for hard currency Unlike payment for other debt obligations, where countries would require converting SDRs to hard currency (or SDRs could be used to free up hard currency), debt owed to the IMF can be paid directly with SDRs, without conversion.

How Low- and Middle-Income Countries Have Used SDRs

A snapshot of country financial positions with the IMF is released monthly and extends to the last day of the previous month (IMF 2021g). This provides data on changes in member countries' SDR holdings. Along with payment data on IMF loan balances, it is possible to piece together a dataset that shows which countries exchanged SDRs during the previous month, and to determine net changes in holdings since the August 23, 2021 allocation. It is also possible to infer possible exchange partners, even though the IMF does not release data on specific exchanges that happened between holders in the previous month. Together with IMF country-specific staff reports, government statements, and media reports, it is possible to get a picture of how countries used SDRs to acquire hard currency, for IMF debt relief, and for fiscal uses. In addition to these main uses, there is evidence of ad hoc reserve management uses by a few countries.

Table 3 compares the 2009 and 2021 SDR allocations in inflation-adjusted and percentage terms. The percent of the usable allocation—defined as the 2021 share of the allocation to emerging and developing economies, excluding China—used for IMF debt relief, acquiring hard currency, and especially for fiscal use are significantly higher for the 2021 allocation. The fiscal use in particular is over 34% points higher, highlighting the higher needs.

Figure 8 shows a map of the 98 identified countries that proactively used SDRs (i.e. used SDRs in ways other than as reserves) from the 2021 allocation on August 23, 2021, until March 31, 2022.

The breakdown for how countries used their 2021 based on available information is as follows:

- Ninety-eight low- and middle-income countries have used SDRs in at least one way (acquiring hard currency, for IMF debt relief, or fiscal uses), 30 countries

Table 3. 2009 and 2021 SDR allocations compared by use.

Indicator	2009 SDR allocation	2021 SDR allocation
Amount of allocation	$325 billion (adjusted)	$650 billion
Approximate usable amount of allocation	$105 billion (adjusted)	$209 billion
Number of countries that used SDRs	38	105
Percent used for IMF debt relief	1.30%	8.06%
Percent used for hard currency	6.07%	7.78%
Percent used for fiscal use	4.75%	38.47%

Nominal dollar values of 2009 allocation are adjusted for inflation. The usable amount of both allocations represents the 2021 share of the allocation going to emerging and developing economies, excluding China. Exchange or debt relief uses of SDRs are not necessarily additive with fiscal uses. Reserves use of SDRs is difficult to quantify and not included, but it is likely significant in both allocations. *Source:* Authors' analysis and IMF (2022e).

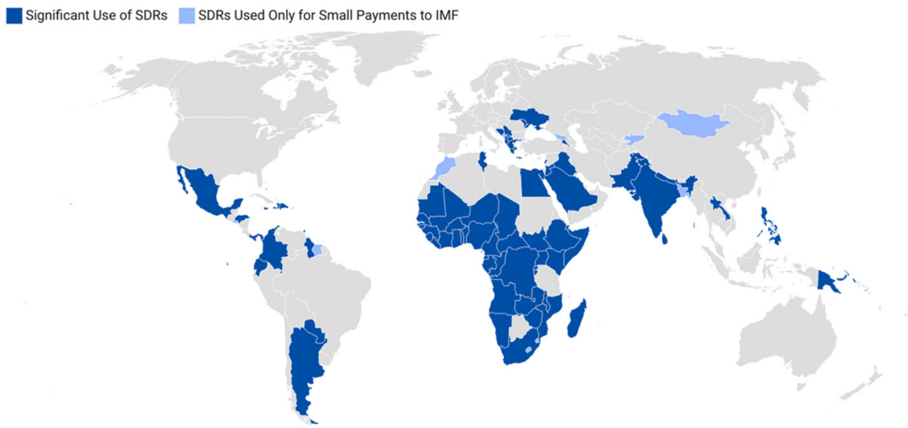

Figure 8. Countries that used SDRs. *Source*: Authors' analysis and IMF (2022e).

have used SDRs in at least two ways, and 10 countries, three ways. This is 60 more countries than the number that used SDRs, by this point, after the 2009 allocation in the wake of the Great Recession.

- Forty-two countries have exchanged a large portion of the SDR allocation for hard currency; this amounted to a total of $17.0 billion. This is about 3.5 times the equivalent amount after the 2009 allocation.
- Fifty-five countries have used SDRs for IMF debt relief, totaling about $7.6 billion.
- At least 69 countries have included SDRs totaling $81.0 billion worth in their government budgets or used them for fiscal purposes—over 20 times the amount from the 2009 allocation.

Monthly data shown in Figure 9 indicates that post allocation, countries obtained about $1.3 billion in hard currency and about $852 million in IMF debt relief. September—the first full month after the allocation—had about $5.8 billion converted to hard currency, along with about $2.4 billion in IMF debt relief. Many countries acted promptly: 27 countries used a significant portion of their SDRs for IMF debt relief or to acquire hard currency within the first five weeks after the allocation. This suggests the allocation was urgently needed.

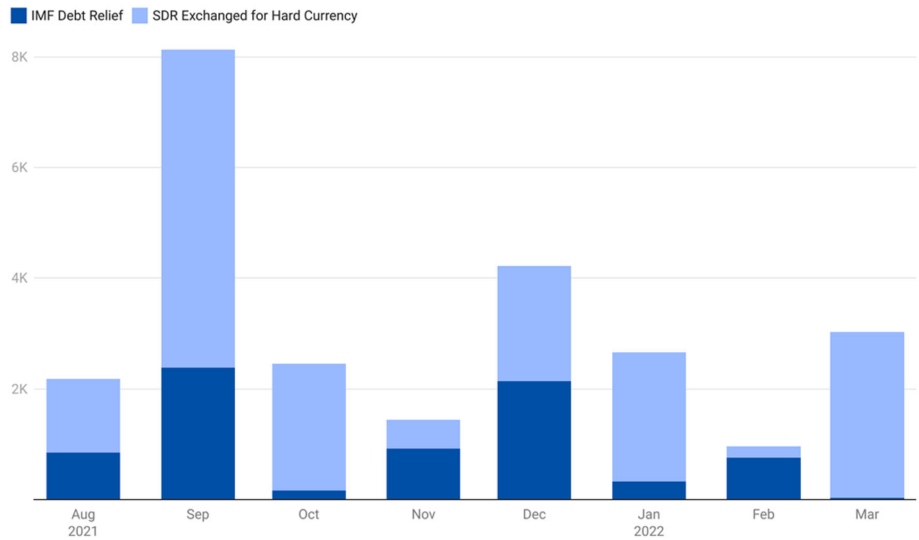

Figure 9. SDRs Exchanged for Hard Currency and SDRs Used for IMF Debt Relief, August 23, 2021–March 31, 2022, by Month (USD millions). The exchange rate used is SDR 1 = 1.4 USD. August data is from August 23 to 31, 2021. SDRs exchanged for hard currency are from the IMF member countries identified as having that use; this does not include any SDRs bought by any of these countries. Exchange or IMF debt relief uses of SDRs are not necessarily additive with fiscal uses. *Source*: Authors' analysis and IMF (2022e).

Levels for debt relief and hard currency exchange declined in subsequent months but still remained significant, with about $4.2 billion used in December and just under $2.7 billion in January 2022; use picked up in March with over $3 billion. This also suggests that there is enduring need for these resources.

Countries also used SDRs for fiscal purposes. This is confirmed by information gathered from statements from IMF country staff reports, national governments, and news reports about how SDRs have been used in national budgets. At least 47 countries used SDRs for budget support, 13 for deficit reduction, 22 for debt service or financing, and 9 for reserves (with many countries engaging in multiple uses). In total, 69 countries used SDRs for fiscal purposes, totaling $81.0 billion.

Table 4 shows that the SDR allocation is well-targeted. If the countries that used SDRs are divided into groups consisting of low-income countries (those eligible for the PRGT), middle-income countries (emerging and developing economies not eligible for the PRGT), and high-income countries (advanced economies according to the IMF), SDR use has been overwhelmingly concentrated among low- and middle-income countries. Sixty percent of the low-income country group used SDRs, as did just under half of the middle-income group. Only one advanced economy—Greece—used SDRs, and only for a modest $11 million.[14]

A breakdown of SDR use by IMF geographic categories is shown in Table 5. SDR use by continent shows that fiscal uses, as a percentage of the aggregate SDR allocation of country users and by aggregate amount, dominate. This extends to IMF categories as well, although exchange uses in emerging and developing Europe rival fiscal uses

Figure 10 shows SDR users as a percentage of all countries by indicated geographic category. By continent and IMF category, Africa, and sub-Saharan Africa in particular,

Table 4. IMF member countries using SDRs, by income group, August 23, 2021–March 31, 2022 (USD millions).

Category	Countries that used SDRs	Aggregate amount of 2021 allocation for users	Aggregate SDRs exchanged	… as a Share of allocation (%)	Aggregate SDRs used for IMF debt relief	… as a Share of allocation (%)	Aggregate fiscal use	… as a Share of allocation (%)
Low-income	43 of 70	$16,541	$4,301	26.00	$362	2.19	$10,741	64.94
Middle-income	41 of 84	$84,672	$12,683	14.98	$7,191	8.49	$70,277	83.00
High-income	1 of 36	$3,316	$0	0.00	411	0.34	$0	0.00

The exchange rate used is SDR 1 = 1.4 USD. Numbers in the table may not sum to the totals due to rounding. Exchange or debt relief uses of SDRs are not necessarily additive with fiscal uses. Low-income is emerging and developing economies eligible for the PRGT. Middle-income means those countries ineligible for the PRGT. High-income countries are advanced economies. *Source*: Authors' analysis and IMF (2022e).

Table 5. IMF member countries using SDRs, by geographic grouping, August 23, 2021–March 31, 2022 (USD millions).

Geographic grouping	Eligible countries that used SDRs	Aggregate amount of 2021 allocation for users	Aggregate SDRs exchanged	… as a Share of allocation (%)	Aggregate SDRs used for IMF debt relief	… as a Share of allocation (%)	Aggregate fiscal use	… as a Share of allocation (%)
Africa	47 of 54	$27,092	$6,549	24.17	$855	3.16	$20,330	75.04
Asia	16 of 40	$44,147	$4,542	10.29	$459	1.04	$35,973	81.49
Europe	9 of 16	$8,130	$3,429	42.17	$992	12.20	$3,726	45.83
North America	14 of 20	$15,913	$986	6.20	$33	0.21	$7,978	50.13
Oceania	6 of 12	$454	$1	0.24	$2	0.48	$361	79.50
South America	6 of 12	$8,793	$1,478	16.80	$5,222	59.39	$12,650	143.86
Emerging and Developing Asia	14 of 30	$23,877	$758	3.17	$122	0.51	$20,938	87.69
Emerging and Developing Europe	8 of 16	$4,815	$3,429	71.21	$981	20.37	$3,726	77.40
Latin America and the Caribbean	20 of 32	$24,706	$2,464	9.97	$5,256	21.27	$20,628	83.49
Middle East and Central Asia	14 of 31	$25,911	$7,051	27.21	$865	3.34	$18,619	71.86
Sub-Saharan Africa	41 of 45	$21,903	$3,282	14.99	$329	1.50	$17,107	78.10

The exchange rate used is SDR 1 = 1.4 USD. Numbers in the table may not sum to the totals due to rounding. The exchange rate used is SDR 1 = 1.4 USD. Numbers in the table may not sum to the totals due to rounding. Exchange or debt relief uses of SDRs are not necessarily additive with fiscal uses. Eligible countries do not include high-income countries. Each set of geographies is distinct. High-income countries are advanced economies. *Source*: Authors' analysis and IMF (2022e).

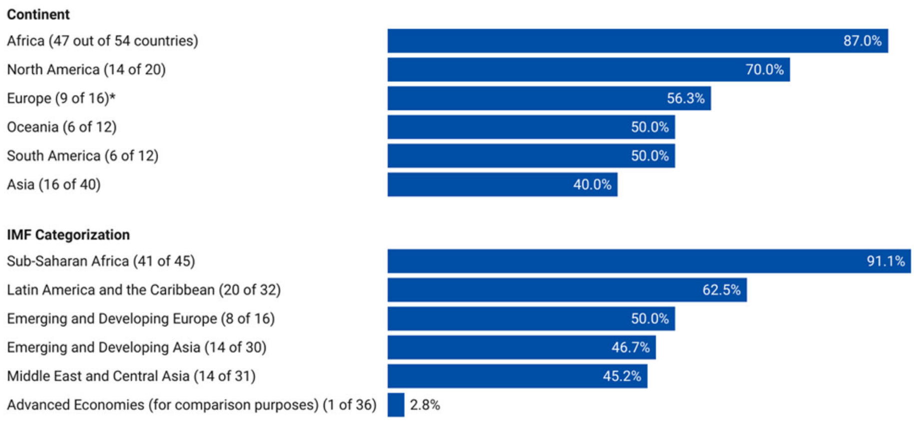

Figure 10. 2021 SDR Allocation and Other Sources of Support; By Country Groupings (USD billions). Eligible countries do not include high-income countries. Each set of geographies is distinct. An asterisk ("*") indicates that Greece, the only advanced economy that used SDRs, is not included in this measure, although it is included for comparison purposes under IMF Categorization. *Source*: Authors' analysis and IMF (2022e).

had the highest use of SDRs by far. Forty-seven of 54 African countries used SDRs, as did 41 of 45 sub-Saharan African countries. This shows that sub-Saharan Africa is the region that has most benefited from the use of SDRs, and that the allocation was badly needed by countries in these regions. Take-up rates in other geographies were high as well, with most around or above 50%. Only one advanced economy, Greece, used SDRs.

These results suggest that the self-selection criteria for the fiscal, debt relief, and exchange uses of SDRs works as expected. The countries most in need are using SDRs the most.

High-Income Countries and SDRs

"Advanced economies"—or high-income countries—received over 60% of the total 2021 SDR allocation. These countries, together with China, received almost $441 billion worth of SDRs, but they are nevertheless net buyers of SDRs (Bretton Woods Committee). These countries normally have plentiful access to hard currency and do not have the need to exchange SDRs for additional hard currency. Although it appears that these countries received a large portion of the value of the SDR allocation, in effect, the SDRs for these countries are rarely used. For these reasons—unless there is a donation of SDRs from rich to poor countries—it is better to view the $650 billion SDR allocation as having an impact of around $210 billion when considering the effect on the world.[15]

For advanced economies that participated in VTAs, the amount of SDRs purchased as a percentage of reserves was the highest in Slovenia, comprising about 3% of its reserves, followed by Cyprus at 1.5%. In absolute terms, the United States was the largest net buyer of SDRs over this period, adding about $2.4 billion to its holdings. The United States is followed by China and Japan, purchasing $1.7 billion and $1.6 billion, respectively. For these countries, the SDRs purchased represent 0.9%, 0.1%, and 0.1% of their total reserve holdings, respectively.

New Allocations of SDRs

At the beginning of the pandemic, the United Nations called for a $2.5 trillion relief package for low- and middle-income countries; in fall 2020, it was estimated that the same countries needed between $2 and $3 trillion in the next 18 months to avoid a lost decade—but those countries received no more than a tenth of that amount (UNCTAD 2020a, 2020b). The need for the world to deliver more "fiscal firepower" for low- and middle-income countries is an urgent and continuing task that will only grow more important as the effects from climate change increasingly are felt (IMF 2022a).

Considering the needs and the findings on use and exchange of SDRs implies that the risk of increased inflation from allocating SDRs is likely to be negligible both for countries using SDRs and for countries exchanging hard currency for SDRs. For poor countries, SDRs exchanged for hard currency generally are used for imports, so there is no real risk of inflation domestically from this use. It is estimated that $78.7 billion has been or will be used domestically; assuming no sterilization, this amount would still pale in comparison to the size of these countries' aggregate GDP and would be a one-time injection of about 0.3% of GDP.

For richer countries, SDRs are not used, meaning they are permanently sterilized. If the hard currency that richer countries exchanged for SDRs somehow recirculated exclusively back to those richer countries, it would represent a small fraction of 1% of these countries' GDP. In addition, this amount would average less than 1% of these countries' reserves.

Prior to the 2021 SDR allocation, there were considerable efforts in the US Congress to pass legislation requiring the United States to support a larger allocation of SDRs—SDR 2 trillion (or about $2.8 trillion worth).[16] After the 2021 allocation, there has been interest in the US Congress and civil society to supplement the $650 billion allocation (which is about SDR 465 billion).

At the end of January 2022, US Senator Elizabeth Warren, along with nine other US senators, sent a letter to the senate majority leader to urge the inclusion or retention of a provision for US support for a new SDR 1.5 trillion allocation ($2.1 trillion) in the conference version of the 2022 Department of State, Foreign Operations, and Related Programs (SFOPs) Appropriations Act (Warren 2022; Martin 2022b). The US House of Representatives has approved this amount; this provision was included in the SFOPs Appropriations Act passed by the House. This would bring the total allocations during the pandemic to $2.75 trillion (SDR 2 trillion).

If legislation were to pass the US Congress mandating US approval for a new allocation of this size, IMF staff could more easily facilitate the process for a new allocation. This would include the presentation of the technical inputs prior to a vote at the Board of Governors of the IMF—the final procedural step required for a new allocation. Given the time between the vote and the allocation itself in 2021 (21 days), SDR 1.5 trillion could be allocated in short order.

Another potential ongoing use of SDRs has been proposed by Barbados prime minister Mia Mottley. In the context of the Conference of the Parties on Climate Change (COP26) in November 2021, she called for an annual $500 billion allocation of SDRs to finance a transition to climate mitigation and climate adaptation policies while noting that advanced economies have spent $25 trillion over the last decade on quantitative easing (Ellsworth 2021).

Lastly, it is important to note that the benefits of SDR allocation accrue to high-income countries through increased spending and a healthier global economy. One example of this potential is regarding trade. Trade plummeted in the midst of the pandemic, with low- and middle-income countries reducing imports so that there would be less pressure on the level of their reserves and their currencies. This also meant that certain countries went without necessities. At the same time, exports dropped in many high-income countries. As seen from the data in this report, SDRs can open up fiscal and foreign exchange space so that low- and middle-income countries can afford imports. This would lead to a faster recovery of jobs in high-income countries that lost jobs in exporting industries, including the United States, which lost an estimated more than 2 million export-related jobs from January 2020 to May 2021 (Cashman 2021).

Making the Most of Allocated Special Drawing Rights

Although the data has shown that low- and middle-income countries have used SDRs from the 2021 allocation and that high-income countries have voluntarily exchanged those SDRs for hard currency, there is considerable discussion about how to make the most of the SDRs allocated to high-income countries. These discussions are also taking place in the context of pandemic-related debt relief initiatives.

One option that has been widely considered is rechanneling SDRs from high-income countries to poorer ones. This has mainly been in the context of rechanneling SDRs to the Poverty Reduction and Growth Trust (PRGT), an IMF facility that lends to low-income countries, and the Resiliency and Sustainability Trust (RST, a trust being established at the IMF to help a broader subset of countries adapt to climate change and health challenges), and a new trust aimed at supporting Ukraine (Martin 2022a; Pazarbasioglu and Ramakrishnan 2022).

As of mid-March 2022, the IMF reports that the total outstanding loans for 94 countries, including Poverty Reduction and Growth Trust (PRGT) loans, amount to $145 billion (IMF 2022c). This is roughly equivalent to a third of the SDRs recently allocated to advanced economies, or a quarter of these countries' current SDR holdings. Hypothetically, rich countries could donate just 25% of their SDRs and provide complete relief in terms of debt owed to the IMF. After this, advanced economies would still have approximately $270 billion more reserves than before the SDR allocation.

High-income countries and China could also transfer all recently allocated SDRs that they received to low- and middle-income countries. China and high-income countries could then cover the interest due on the use of these SDRs on behalf of the recipient countries. This would mean that nearly $441 billion would go to low- and middle-income countries.

However, there are legal and institutional obstacles to these rechanneling efforts (Plant 2022b). Even though SDRs do not represent a real use or claim on resources for high-income countries, some countries must seek legislative approval or authorization to rechannel them. In other countries, central banks may be in control of SDRs and may argue that if they are invested, they lose their reserve status. In fact, the US Congress failed to include the authorization to recycle its SDRs in its omnibus spending bill approved in March (Plant 2022a). This suggests that rechanneling may only be possible after long, disjointed, and time-consuming institutional arrangements are established, and that this may result in small amounts pledged from a small number of high-income countries. It follows that the most effective way to get more SDRs for poorer countries is through a new allocation.

Conclusion

The extensive use of SDRs following the allocation points to their success in supporting countries through the pandemic. SDRs have been used in at least 98 countries, including a diverse set of poor countries and war-torn countries, as well as developing countries on all continents. SDRs have been used to pay back the IMF, and they have also been used for urgent social spending in the context of the pandemic and its divergent recovery. However, more SDRs are needed to fully meet these countries' needs.

If the IMF follows through with the US Congress plan for another general allocation of $2.1 trillion worth of SDRs, the total amount allocated directly to low- and middle-income countries since last year would be just under $900 billion. This would cost high-income countries nothing, and would not carry significant geopolitical risks. Although SDR allocations go to IMF member countries regardless of income level—rich countries receive allocations as well—no real resources are wasted, as rich countries do not use SDRs. A new allocation is also the fastest global response that can get resources of this magnitude to low- and middle-income countries, and likely the easiest to coordinate as well. It would therefore help save hundreds of thousands, if not millions, of lives in a world where the World Food Programme currently estimates that 44 million people in 38 countries are on the brink of famine (WFP 2022b).

Other proposals, like Barbados prime minister Mottley's proposal for an annual $500 billion allocation of SDRs, also deserve attention. They illustrate the full potential of SDRs as a tool that can manage the challenges still posed by the pandemic and climate change, and more broadly, as a tool that can be incorporated into the Global Financial Safety Net.[17] The track record of success from both the 2021 and 2009 general SDR allocations should provide assurance that SDRs are a proven mechanism that deliver what they promise.

As colossal disparities in the capacity for expansionary fiscal and monetary policy, relief, access to vaccines, income, and finance jeopardize the world's ability to solve problems, SDRs are an established and proven tool that should be considered for regular use. A new SDR allocation should happen in the near future. The 2021 allocation was used effectively, and the world wants, and needs, another.

Notes

1. The US Federal Reserve extended unlimited swap lines to the central banks of the European Union, the United Kingdom, Japan, Switzerland, and Canada. Nine other countries received more limited swap lines. Altogether, this meant that 33 countries with about 17.7 percent of the world's population were given the extraordinary privilege to swap their local currencies for dollars outside of the exchange markets, meaning they could cover any and all obligations (Latindadd 2021b).
2. Figure 2 compares the scale of the SDR allocation among low- and middle-income countries in the World Bank's International Debt Statistics databases with alternate sources of support. SDRs represent over six times the amount of IMF emergency lending during the

pandemic. For countries eligible for the DSSI, SDRs represent more than the projected relief under the program, and much more than the amount of relief actually received so far. The CCRT, which provides debt relief rather than suspension, provided less than $1 billion in support, or less than one-eighth of that provided by SDRs for this set of countries.

3. Countries need to be able to show need in order to use SDRs; this is a self-judgment. This precludes most high-income countries, which usually have other tools to use. See IMF (2020), "Articles of Agreement, Article XIX: Operations and Transactions in Special Drawing Rights, Section 3: Requirement of need" which says: "(a) In transactions under Section 2(a) of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves."
4. The SDR is also the official unit of account of the IMF and other international organizations. The International Standards Organization denomination for the unit of account is XDR. The IMF's books and transactions are denominated in XDR even though they are settled in US dollars or other currencies.
5. This includes three general allocations and one special allocation (IMF 2021h).
6. "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." (IMF 2021h).
7. For the 2009 allocation, the time elapsed from the first announcement by the G20 to the date of the allocation was less than five months (IMF 2021f).
8. It is important to note that countries that wish to use SDRs for domestic fiscal purposes do not necessarily need to exchange SDRs for hard currency first. Rather, the allocated SDRs can be simply added to domestic accounts.
9. Technically, the IMF has the power to cancel SDRs, but a vote approving a cancellation would be very unlikely. See IMF (2020).
10. The authors do not wish to imply that the sanctions discussed here, or the decisions by the IMF not to recognize sanctioned governments, are legitimate, legal, or justified. Many of them are not. Some of the sanctions would in fact violate the Geneva conventions against collective punishment if they were implemented by a government at war, as noted by the Office of the UN High Commissioner of Human Rights (OHCHR 2018). This is because they target the civilian population and they have killed tens, or hundreds, of thousands of civilians (see e.g., Weisbrot and Sachs 2019).
11. These entities include Australia, China, Japan, Korea, New Zealand; the European Central Bank, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Lithuania, Malta, the Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom; Canada, Chile, Mexico, United States; Algeria, Oman, and Saudi Arabia. The data suggests that Brazil became a VTA member in December.
12. Articles XV and XVII of IMF (2020).
13. "Members enjoy a large degree of freedom in how to manage the SDRs allocated to them, including to what extent central banks are involved in their management and whether the budget can directly use them for budget support," and, "In some countries, authorities record the SDRs in the government balance sheet and their domestic legislation specifies that a government agency is the ultimate owner of SDRs" (IMF 2021c, footnote 13).
14. The Greek economy is still recovering from major crises over the last decade. See Weisbrot and Montecino (2012).
15. Rich countries do have an important part to play in any SDR allocation. As net buyers of SDRs, these countries earn a modest amount of interest on SDRs that they accept in exchange for hard currencies.

16. H.R.6581, the Robust International Response to Pandemic Act introduced by Rep. Chuy Garcia (D-IL) on April 21, 2020, was the first bill requiring more SDRs, and had 34 cosponsors. A companion bill in the Senate, S.4139, the Support for Global Financial Institution Pandemic Response Act of 2020, was introduced by Sen. Dick Durbin (D-IL) on July 1, 2020, and cosponsored by Sens. Sanders (I-VT), Reed (D-RI), Cardin (D-MD), and Merkley (D-OR).
17. See, for example, Gallagher et al. (2021).

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