

Has the IMF's 2021 general SDR allocation been useful? For what and for whom?*



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In the face of the COVID-19 crisis, the International Monetary Fund (IMF) took unprecedented measures including, in 2021, an historical SDR allocation to cover long-term global reserve needs and ultimately support vulnerable countries. Since the allocation members have held most of the allocated SDRs as reserves, but emerging economies and low-income countries have used them to service their debts with the IMF and (primarily) to exchange for currencies. Those funds have mainly been used for budgetary purposes in the face of the food and energy crisis triggered by the war in Ukraine. Furthermore, in line with the G20's objective to channel USD 100 bn of SDRs to vulnerable countries, members with sound economic positions have lent some of their SDRs to IMF trusts. This partly offsets the fact that countries that needed the allocated SDRs most received less.

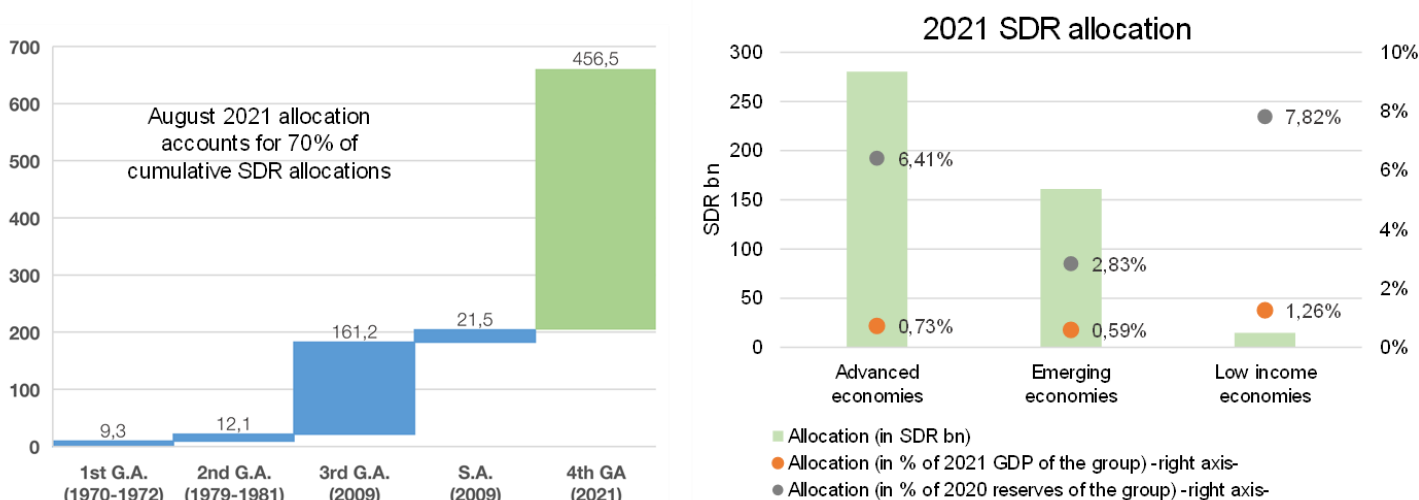
*This brief is based on [Garrido and Solera \(2023\)](#). The views in this contribution represent those of the authors and not necessarily those of the Banco de España.

The SDR and the 2021 allocation

The IMF's Special Drawing Right (SDR) is not a currency but an international reserve asset unconditionally assigned to member countries in proportion to their quotas through so called general allocations. Member countries can use their SDR holdings in different ways and their accumulated SDR allocations are held as liabilities on their balance sheets.¹ Other entities and the IMF itself can also hold SDRs, but not the private sector.

The general allocation agreed in August 2021 has been by far the largest in IMF history accounting for 70% of total SDRs allocated to date. The allocation boosted global liquidity, supplementing members' reserve assets and enhancing global market confidence. 60% of the allocation went to advanced economies, but low-income countries received a larger share in terms of their economic size (see chart 1).

Chart 1: SDR allocations and distribution of the 2021 allocation



What can countries use SDRs for?



Member countries can keep SDRs as reserves or operate with their SDR holdings.² Such operations take place between participants in the SDR Department who are IMF country members, the IMF itself through the General Resources Account (GRA) and certain designated entities referred to as “prescribed holders”.³ Member countries’ operations “using” SDRs (see Table 1) include, among others, the reimbursement of IMF loans and charges, the exchange of SDRs for currencies or the lending of SDRs to the IMF both to borrowing instruments (NAB and Bilateral Borrowing) or to its trusts (PRGT and RST). Members receive SDR holdings not only at the time of allocations, but also as a result of operations such as disbursements (purchases) of their loans from the Fund, exchange of their currencies for SDRs, or repayments or interest earned on their loans to the Fund. In addition, when members hold more (less) SDRs than their cumulative allocation they earn (pay) the SDR interest rate on their net SDR position.

¹ Members’ cumulative SDR allocations increase only at allocations and might decrease (a) in the event that the Board of Governors (BoG) decides to cancel SDRs in a basic period (Article XVIII of the Articles of Agreement of the IMF) or (b) in the event that the member withdraws from the IMF. That said, no such BoG decision has been taken to date and no member has left the IMF since the first SDR allocation.

² For simplicity, references in this document to “use of SDRs” or “receipt of SDRs” —except in an allocation— mean the use/receipt of “SDR holdings”.

³ In an allocation only members receive equal amounts of SDR holdings (an asset for the country) and SDR allocations (a liability). The GRA and prescribed holders receive no allocation and only have SDR holdings.

Table 1: Members' operations with SDR holdings

OPERATIONS WITH SDR HOLDINGS		
	 SDR outflows: uses of SDRs (a)	 SDR inflows: receipts of SDRs
Fund membership and SDR Department	<ul style="list-style-type: none"> – Quota payment – Payment of SDR charges on SDR holdings below SDR allocations 	<ul style="list-style-type: none"> – SDR allocation – SDR interest earned on SDR holdings above SDR allocations
Fund lending	Repurchases and charges <ul style="list-style-type: none"> – GRA repurchases, charges and fees – PRGT repayments, charges and fees 	Purchases <ul style="list-style-type: none"> – GRA purchases – PRGT disbursements
Fund borrowing	Members' contributions to... <ul style="list-style-type: none"> – ...GRA borrowing – ...PRGT and RST borrowing 	Refunds, remuneration and interest on... <ul style="list-style-type: none"> – ...GRA borrowing – ...PRGT and RST borrowing
Administered Accounts	<ul style="list-style-type: none"> – Donors' contributions to the Account 	<ul style="list-style-type: none"> – Recipients receiving donors' contributions (b)
SDR Trades	<ul style="list-style-type: none"> – SDR sales – Repayment of financial obligations to prescribed holders 	<ul style="list-style-type: none"> – SDR acquisitions – Financing received from prescribed holders

SOURCE: Devised by authors.

a Members can also use SDRs as a reserve asset, keeping their SDR holdings.

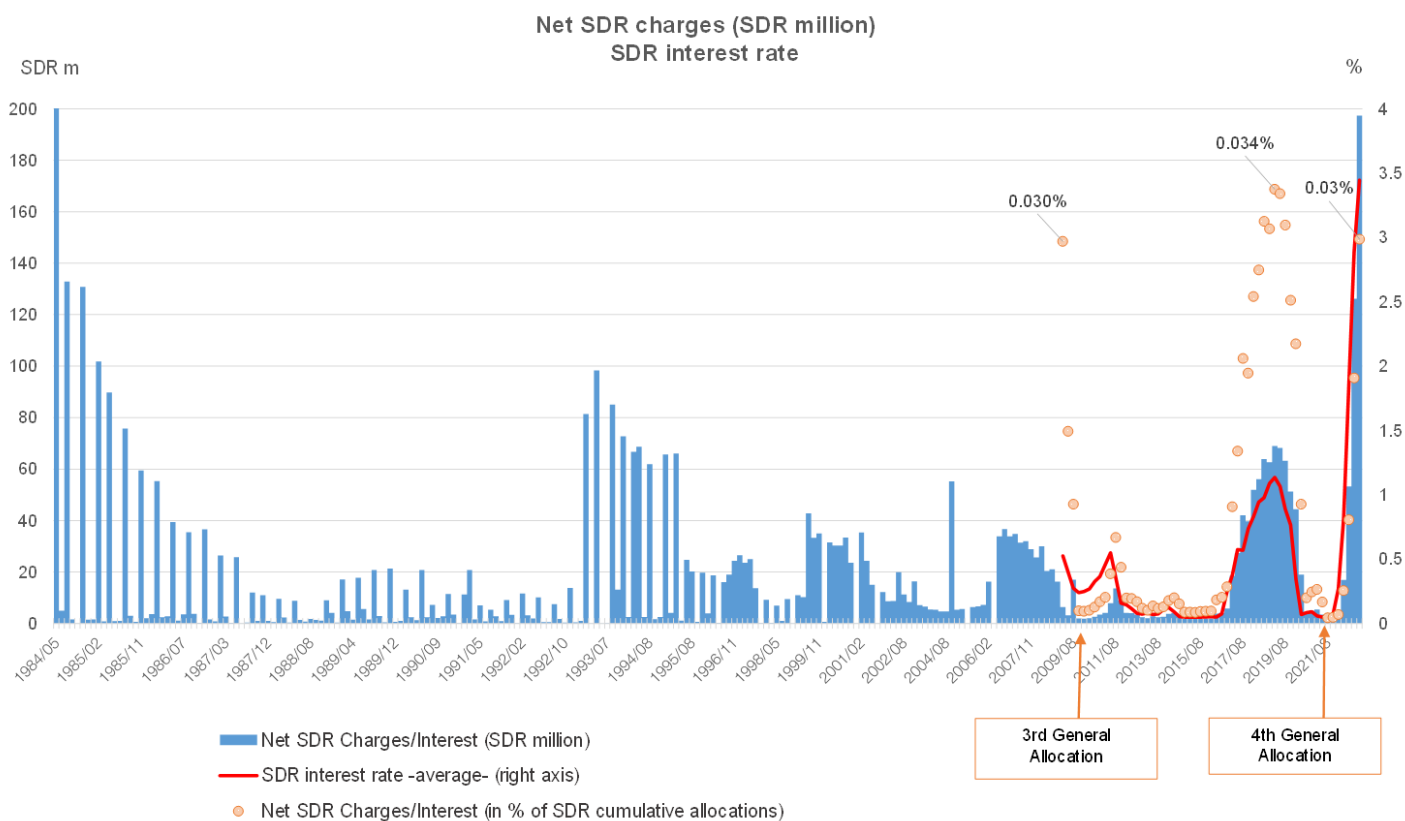
b For instance, Ukraine receiving SDRs from the Administered Account for Ukraine (UKA).

Using SDRs has several advantages: SDRs are unconditional liquidity that does not entail in principle⁴ an obligation for repayment, they do not carry any associated policy conditionality, they can help reduce the risk premium for highly indebted countries and its cost⁵ is much lower than market rates for most countries. In fact, although the SDR interest rate —that is linked to international interest rates— has increased from 0.05% at the time of the 2021 allocation to 3.8% in May 2023, it is still lower than the market rates in developing economies. Yet, the intense use of SDRs by some countries together with rising interest rates have multiplied SDR charges by 25 in the last twelve months, reaching levels almost unseen in the IMF's history (chart 2).

⁴ Unless members' SDR allocation decreases, which has never occurred in the Fund's history (see footnote 1).

⁵ Members pay (receive) interest on the SDRs held below (above) their cumulative SDR allocation.

Chart 2: SDR charges and SDR interest rate



What have countries used the 2021 SDR allocation for?

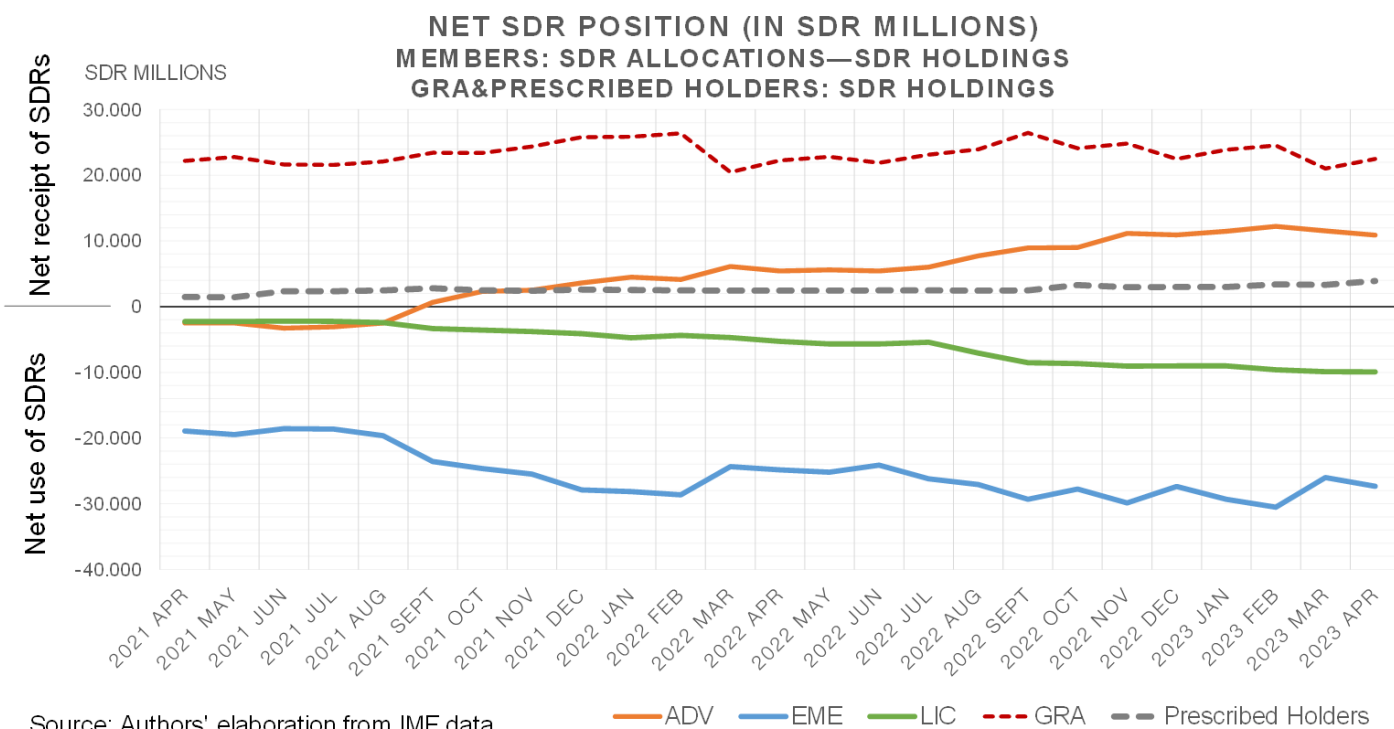
Analyzing the data provided by the Fund^{6,7}, we disentangle what members have done with their allocation until January 2023. The trend of SDR holdings gives a first insight of whether members have used SDRs or kept them as reserves. In this period, the SDR holdings of emerging market economies and middle-income countries (EMEs) and low-income developing countries (LICs)⁸ have increasingly been falling (chart 3), which means they are net users of SDRs: they have traded their SDRs for freely usable currencies or used them to pay their IMF debts. By contrast, advanced economies (AEs) have been net SDR buyers and have kept SDRs as reserves.

⁶ As per SDR holdings movements, we use two sources of data published on the IMF's website: the "[Financial Statements and Quarterly Reports on IMF Finance](#)", that since October 2021 provides information on two major types of SDR operations by each country member (Fund-related operations and SDR trades), and monthly data on [members' positions on SDR holdings](#).

⁷ A detailed explanation of the methodology applied to use the data can be found in [Garrido and Solera \(2023\)](#).

⁸ This document classifies IMF member countries into three groups: 36 advanced economies (AEs), 85 emerging market economies and middle-income countries (EMEs) and 69 low-income developing countries (LICs) (which may access the PRGT).

Chart 3



Data as of January 2023 show that almost 90% of the allocation remains “unused” as reserves. About 11% of the allocation has been used to exchange for currencies (SDR sales) and to pay IMF debt —around SDR 25 bn each, slightly more to exchange for currencies— (chart 4). But differences appear in the two periods of analysis: from August 2021 (when the general allocation was made) to January 2022, and from February 2022 (onset of the war in Ukraine) to January 2023. In fact, SDRs have been used more intensively since January 2022, meaning that the allocation is attending members’ needs beyond those at the time of the allocation. As a consequence, the use of the 2021 allocation has been more than triple of that of the 2009 general allocation —the second largest allocation, that increased the existing stock of SDRs by nine times— in the first eighteen months after each one.

The types of use and users also differ between periods. Taken together, members have used more SDRs in the second period than in the first one for both types of operations. However, the sale of SDRs for currencies was the prominent operation of the members in the first period —mainly EMEs, and LICs in a greater proportion of their allocation—, while since the onset of the war in Ukraine, members —mainly EMEs—have used SDRs mainly to pay their debts to the IMF⁹. In fact, in the first quarter after the allocation countries’ SDR sales accounted for 28% of the total SDRs allocated.

⁹ EMEs have also received the largest sum of SDR receipts on their IMF loans in the period (upper part in Chart 4) largely concentrated in a few countries. Argentina and Ukraine alone received around 66% of total SDR inflows from Fund loans and the Administered Account for Ukraine (UKA). Likewise, half of the total charges on the Fund’s loans since the allocation have been paid by Argentina, followed by Egypt with almost 20%.

Chart 4

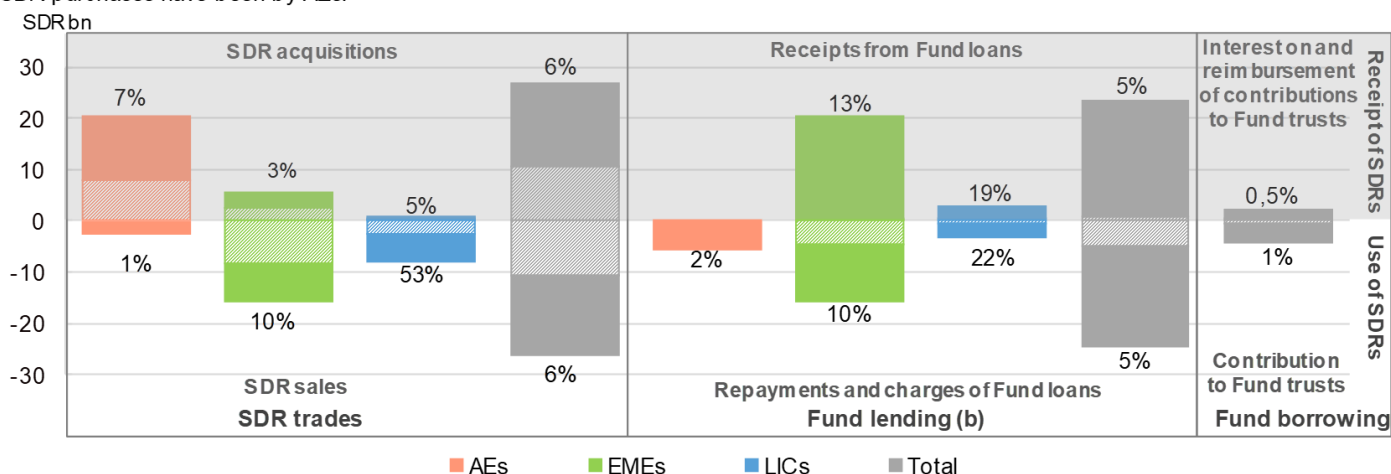
OPERATIONS WITH SDRs BY COUNTRY GROUP AND PERIOD (SDR BN) (a)

Operations are SDR uses (decrease in the lower part of the chart) and receipts of SDRs (increase in the upper part).

Two periods are identified: August 2021-January 2022 (striped bars) and February 2022-January 2023 (solid bars).

EMEs have been the main SDR users in absolute terms, both to service their Fund loans and to exchange for currencies. EMEs have received SDRs under Fund loans (upper part of the chart) in an amount comparable to the SDRs they have used to service Fund loans (lower part).

LICs are the main users relative to their SDR allocations (75%, overall, to service Fund loans and exchange for currencies). Most of the SDR purchases have been by AEs.



SOURCE: Authors' calculations based on IMF data.

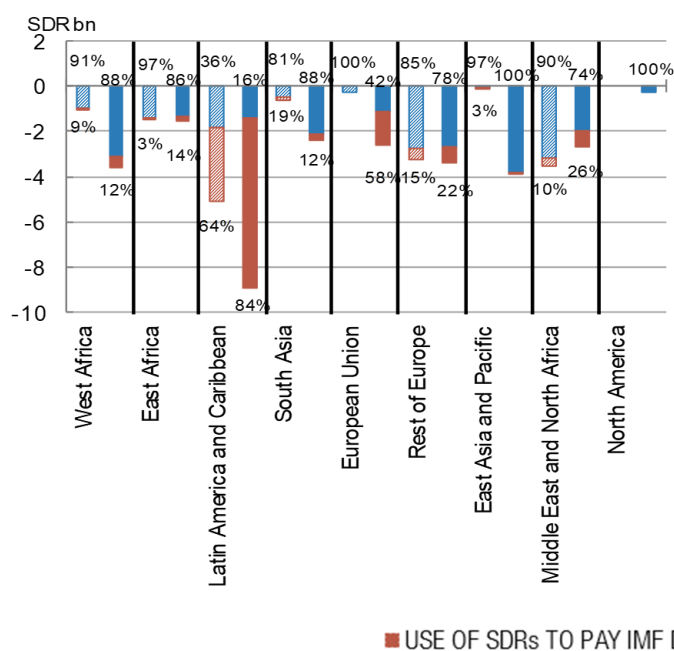
- a. Numbers in the bars represent the total SDR use as a % of each group's allocation.
- b. Also includes transfers from the Administered Account for Ukraine (UKA) to Ukraine.

When grouping countries into regions we find that Africa stands out as the primary user of SDRs, which were mainly used to exchange them for currencies. In fact, 19 African countries drew down more than 100% of their SDR allocation. Per regions, West and East Africa drew down 41% of their allocation accounting for 20% of the estimated total global sales of SDRs. Following these African regions, the Middle East and North Africa has exchanged 16% of its allocation, and six countries within the region drew down more than 100% of their allocation.

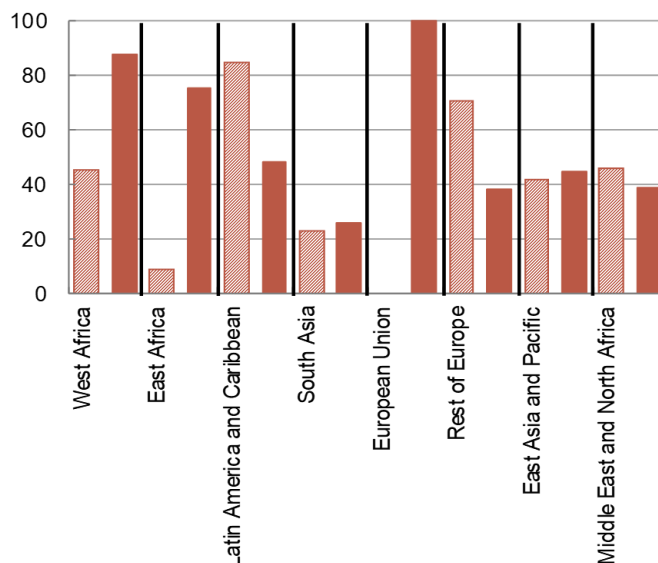
Unlike other EMDEs, countries in Latin America have used far more SDRs to service their Fund loans than to exchange for currencies (chart 5, left). But, when Argentina is excluded from the sample, the share of SDRs used for IMF debt repayments declines very notably (from 64% to 3% in the first period and from 84% to 12% in the second period). Besides, even though the use of SDRs to pay IMF debt seems relatively low in other regions, when compared with the debt due to the Fund over the same periods, some regions have used SDRs to pay more than 60% of their debt payments to the IMF since August 2021 (chart 5, right).

Chart 5

USE OF SDRs SINCE THE 2021 ALLOCATION (a)



SDRs USED TO PAY IMF DEBT AS A PERCENTAGE OF THE IMF DEBT DUE SINCE THE AUGUST 2021 ALLOCATION (b)



Two periods are identified: August 2021-January 2022 (striped bars) and February 2022-January 2023 (solid bars).

SOURCE: Authors' calculations based on IMF data.

- a. The percentage figures represent the share of each of the two SDR uses by region and period.
- b. The bars represent the SDRs used to pay IMF debt as a percentage of the IMF debt due during the periods under analysis.

Use of SDRs by country

The IMF SDR tracker¹⁰ provides additional information on the use of SDR at country level. SDRs exchanged for currencies have been largely used in African countries for fiscal purposes. As for Latin America, most of the countries chose to increase their international reserves, very few have used their SDRs for fiscal purposes and few have used SDRs to payback IMF debt. The same applies to Asia, where most countries have used their SDRs to supplement existing reserve assets.

With regard to the Middle Eastern countries, use of SDRs has been diverse. Some countries have used all of its allocation to pay down its debt to the IMF, while others have drawn the SDR allocation for budget financing in lieu of higher domestic debt issuance.

Advanced economies and many emerging economies –some MENA countries among others- have purchased SDRs to provide usable currencies to other countries. Moreover, in line with the G20 commitment,¹¹ some advanced and emerging economies with sound economic positions have lent part of their SDRs to finance IMF trusts set up to support countries in need on affordable terms.

¹⁰ Information on the SDR Tracker is available at <https://www.imf.org/en/Topics/special-drawing-right/SDR-Tracker>.

¹¹ In [G20 Rome Leaders' Declaration](#). Rome, 31 October, 2021: "We are working on actionable options ... voluntary channelling of part of the allocated SDRs ... according to national laws and regulations ... towards a total global ambition of USD 100 billion of voluntary contributions for countries most in need". In June 2023, the IMF's [Managing Director announced that the target had been reached](#) "The target ... was set at US\$100 billion. And I can announce today that we reached that target".

In conclusion, the 2021 general SDR allocation has served its members well not only in the face of the Covid-19 but also in the midst of the food and energy crisis after the war in Ukraine, making this allocation the most used. In the first year and a half following the allocation, members —primarily EMEs and LICs— used a total of 43 bn SDRs, 11% of total allocated SDRs, almost equally to cancel their debts with the Fund (5%) and to exchange SDRs for currencies (6%). Most SDRs used to pay IMF debt are from EMEs —mainly driven by Argentina—. LICs used 75% of their allocation mostly (70%) to exchange for currencies for fiscal purposes.

Furthermore, some advanced and emerging economies with sound positions have pledged almost 24% of their 2021 allocation to support IMF trusts (the PRGT and the recently created RST). This lending to IMF trusts allows inactive SDRs to be channeled from countries who received the highest volume of SDRs to vulnerable economies who received a lower amount of SDRs but needed them most. As a result, the voluntary channeling of SDRs partly compensates for the fact that the distribution of the SDR allocation and countries' liquidity needs (which ultimately determine the size of the allocation) do not necessarily bear any relation to one another. Additional ways to lend SDRs and make the best use of them continue to be studied. ■

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