

HAS THE 2021 GENERAL SDR
ALLOCATION BEEN USEFUL?
FOR WHAT AND FOR WHOM?

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HAS THE 2021 GENERAL SDR ALLOCATION BEEN USEFUL? FOR WHAT AND FOR WHOM?

Has the 2021 general SDR allocation been useful? For what and for whom? (*)

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Abstract

In the face of the COVID-19 crisis, the International Monetary Fund (IMF), other multilateral institutions and countries took unprecedented measures. Inter alia, the IMF agreed on an historical SDR allocation that more than tripled the volume of SDRs to cover long-term global reserve needs and ultimately support vulnerable countries. Member countries can keep SDRs to boost their reserves or use them in other ways, including to cancel their debts with the IMF, lend to the IMF or exchange SDRs for currencies. This document evaluates how members have used the 2021 SDR allocation. The findings show that most of the allocation has been used to increase reserves, although 40% of emerging economies and more than 60% of low-income countries have used SDRs to service their debts with the IMF or to exchange for currency, mainly for budgetary purposes in relation to social and health policies. Furthermore, in line with the G20's objective to channel USD 100 bn of SDRs to countries in need, members with sound economic positions have voluntarily lent some of their SDRs to IMF trusts that finance vulnerable countries in affordable terms.

Keywords: IMF, special drawing rights (SDRs), SDR allocation, liquidity, international cooperation.

JEL classification: F30, F33, O19, F02.

Resumen

Ante la crisis del COVID-19, tanto el Fondo Monetario Internacional (FMI) como otras instituciones multilaterales y distintos países tomaron medidas excepcionales. Entre otras, el FMI acordó la mayor asignación de derechos especiales de giro (DEG) de su historia, una asignación que más que triplicó el volumen de DEG para cubrir las necesidades globales de reservas y, en última instancia, apoyar a los países más vulnerables. Los países miembros pueden mantener sus DEG para aumentar sus reservas o emplearlos para, por ejemplo, cancelar deudas con el FMI, realizar préstamos al FMI o cambiarlos por divisas. Este documento evalúa cómo los miembros han utilizado la asignación de DEG de 2021. Los resultados muestran que en su mayor parte la asignación ha aumentado las reservas, si bien el 40 % de los países emergentes y más del 60 % de los de bajos ingresos han utilizado DEG para atender sus deudas con el FMI o para cambiarlos por divisas, principalmente con el fin de apoyar políticas sociales y de salud. Además, de acuerdo con el objetivo del G20 de canalizar 100.000 millones de dólares en DEG a países necesitados, los miembros con posiciones económicas sólidas han prestado voluntariamente parte de sus DEG a fondos fiduciarios del FMI que ofrecen financiación a países vulnerables en términos ventajosos.

Palabras clave: Fondo Monetario Internacional (FMI), derechos especiales de giro (DEG), asignación de DEG, liquidez, cooperación internacional.

Códigos JEL: F30, F33, O19, F02.

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1 2021 general SDR allocation: context and features

The IMF introduced the Special Drawing Right (SDR) in 1969 to supplement foreign exchange reserves. The SDR is not a currency but an international reserve asset assigned to member countries only, mainly through general allocations, in proportion to their quotas. SDRs are created through allocations, whereby member countries unconditionally receive equal amounts of SDR holdings (an asset for the country) and SDR allocations (a liability). Member countries can use their SDR holdings in different ways, while their balance sheet liabilities include their cumulative SDR allocations.¹ Other entities and the IMF itself can also hold SDRs, but not the private sector.

The need for and size of general allocations of SDRs are assessed every five years (known as “basic periods”) based on the estimated long-term global reserve needs (consistent with the IMF Articles of Agreement). Since its creation, the IMF has agreed to distribute SDRs under four general allocations and a one-time special allocation. The special allocation allowed for equitable participation in SDRs of IMF members at that time,² including those that had joined the IMF after 1981 (the year of the previous general SDR allocation) and had never before received SDRs.

The COVID-19 crisis prompted the IMF to reassess³ the case for a general allocation close to the end of the 11th basic period. An agreement for a general SDR allocation [International Monetary Fund (IMF), 2021] was reached in 2021, after more than a year of unprecedented measures taken by countries and multilateral organisations to mitigate the economic effects of the pandemic (including the IMF, notably in the form of an easing of lending policies and debt relief; see Banco de España, 2020).⁴ Subsequently, the war in Ukraine triggered an energy and food crisis that, coupled with rising global interest rates, further aggravated the situation of vulnerable countries, driving the IMF to take further measures. Overall, since 2020, the IMF has devoted a great deal of resources to its members, with the SDR allocation being the most far-reaching multilateral economic policy response to the crisis.

Being by far the largest SDR allocation (see Chart 1), the 2021 allocation (SDR 465 bn) more than tripled the number of SDRs, accounting for around 70% of the total SDRs allocated to date. This historical allocation was intended to cover 30%-60% of estimated global long-term reserve needs (IMF, 2021a). The allocation boosted global liquidity, supplementing members’ reserve assets and enhancing global market confidence. It also

1 For simplicity, references in this document to the use of SDRs or of the SDR allocation refer to operations with SDR holdings. Box 1 describes the uses that countries can make of their SDR holdings and their accounting operations.

2 The special one-time allocation was proposed in 1997 and took effect only in 2009 when the required quorum was reached with the acceptance of the United States. It applied to all IMF members as of August 2009. About one in five of those members and notably many of the economies in transition had never before received an SDR allocation at the time.

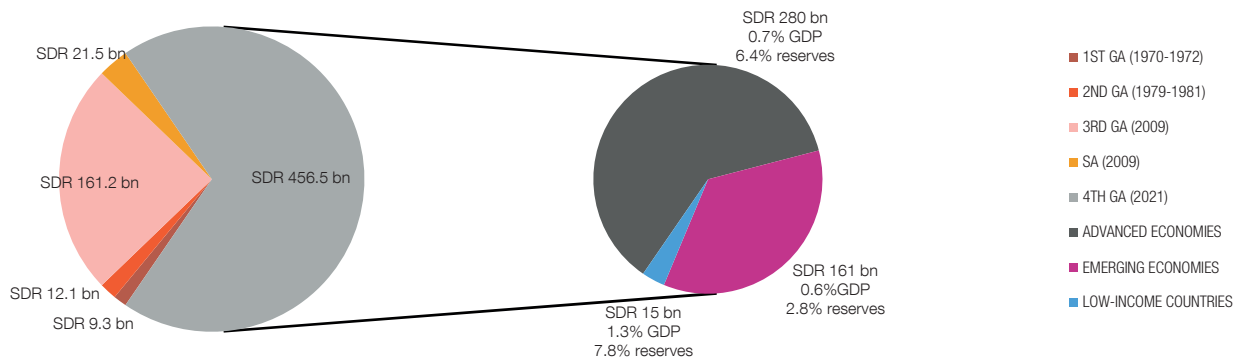
3 No allocation had been deemed necessary in 2016 at the time of the assessment before the start of the 11th basic period (January 2017 to December 2021). See IMF, 2016.

4 Banco de España (2020) describes the measures taken during the early months of the pandemic and the views at the time about an SDR allocation.

Chart 1

SIZE OF IMF SDR ALLOCATIONS AND DISTRIBUTION OF THE 2021 GENERAL SDR ALLOCATION

70% of SDRs were allocated in the 2021 general allocation that tripled the volume of SDRs at that time. SDRs were mainly allocated to advanced economies and low-income countries received the larger share in relation to the size of their economies.



SOURCE: Authors' own calculations based on IMF data. Data: October 2022 WEO database, exchange rate as of 1 July 2021.
NOTE: The left-hand panel includes all general allocations (GAs) and the one-time special allocation (SA). The right-hand panel shows the SDRs allocated in 2021 to each country group, as well as the volume allocated in terms of 2021 GDP and 2020 reserves for each group.

reduced the reliance of emerging market and developing economies on more expensive debt (IMF, 2022b). However, most of the SDRs were allocated to advanced countries, whose quotas are larger (see Chart 1), whereas the reserve needs are mainly in emerging and low-income countries. Even so, low-income countries received the largest share in terms of economic size, amounting to almost 8% of their reserves and 1.3% of their GDP.

The allocation in 2021 also brought some operational changes. First, in response to IMF members' demand for transparency and accountability, information on SDR use by country⁵ is now public⁶ and a report on the use of SDRs is to be issued within two years of the 2021 allocation. The IMF also prepared a new guidance note (IMF, 2021b) on the use of SDRs to assess the macroeconomic implications, statistical treatment and governance of the allocation, and how it might affect debt sustainability.

Second, with the allocation tripling outstanding SDRs, it was important to ensure SDR market liquidity, which primarily relies on "Voluntary Trading Agreements" (VTAs).⁷ Hence, the IMF promoted new VTAs and additional flexibility under the existing ones. Eight

5 In the Annual Update on SDR trading operations (IMF, 2021c, 2022c), actual SDR transactions in quarterly reports on IMF finances (see Annex 1) and countries intended use, according to the "SDR tracker".
 6 Furthermore, the IMF website traditionally provides monthly data on the SDR holdings and allocations of each participant in the SDR Department (members, prescribed holders and the GRA).
 7 SDR transactions may also be arranged bilaterally between parties. The relative importance of this second mechanism to exchange SDRs is smaller and is often related to the settlement of financial obligations between counterparties or between participants and their regional central banks.

new VTAs were eventually added to the existing 32,⁸ increasing both the volume of SDRs that VTAs can trade⁹ as well as the burden sharing among VTA members. Europe, including 20 EU members and 18 euro area members plus the ECB, accounts for a notable share of VTAs with 25 of the current 40 agreements. Currently VTAs have ample capacity to meet the demand for exchange of SDRs into currencies. Should their capacity be insufficient or should no counterparty to a transaction be identified, a mandatory designation plan could be activated by the IMF to guarantee the liquidity of the SDR market. The designation plan relies on members with sufficiently strong external positions and has been unused since 1987.

8 The number of VTA members has expanded from 32 to 40 (the ECB remains as the only prescribed holder with a VTA in place) (IMF, 2022c). In 2009 this number increased from 13 to 32. Garrido I, Serra X, Solera I. (2021) elaborates on the changes in Eurosystem VTAs.

9 VTAs allow member countries or prescribed holders to agree bilaterally with the Fund to buy or sell SDRs within certain limits. According to these limits, SDR holdings should not be over/below a certain percentage of SDR allocations which, depending on the arrangement, is in the range of 135%-200% (for purchasing SDRs) or 35%-50% (for selling SDRs). The ECB's VTA trading range is expressed in nominal terms.

2 Options for the use of SDRs

Depending on domestic legislation, SDRs are generally administered by central banks or monetary authorities and in some cases by the Treasury or Ministry of Finance, while their related legal obligations and rights pertain to the IMF member.¹⁰ As indicated by the IMF guidance note on the use of SDRs (IMF, 2021b), “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.”

SDRs are a highly flexible instrument whose main function goes beyond that of a reserve asset. Member countries can conduct a broad range of operations with SDRs (see Box 1). However, SDRs cannot be used directly in transactions with the private sector and they are neither a currency nor a financial claim on the IMF.

Using SDRs has several advantages. They are available to all IMF members and do not generate debt, as they are unconditional liquidity that in principle does not entail an obligation for repayment of the principal. Additionally, they do not carry any associated policy conditionality, and can help reduce the risk premium for highly indebted countries. In short, the allocation of SDRs has helped boost the level of international reserves of developing economies, strengthen their external positions and reduce their liquidity and default risks. Also, although the use of SDRs (other than holding them as a reserve asset) is not costless, its cost is much lower than market rates for most countries. Members pay (receive) interest on the SDRs held below (above) their cumulative SDR allocation. The SDR interest rate is calculated weekly¹¹ as the higher of (i) the combined interest rate on short-term financial instruments of each currency in the SDR basket (composed of major currencies, currently the euro, the US dollar, the Chinese renminbi, the Japanese yen, and the British pound sterling) or (ii) 0.05%. Thus, the interest rate is linked to international interest rates and, although it 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.

Beyond the direct use of SDRs by member countries, the last allocation generated a debate on how to channel the “idle” SDRs held as international reserves in advanced or large emerging market countries which seldom use them and whose reserve needs are covered (see Garrido et al., 2021). In this regard, the G20 committed at the end of 2021 to voluntarily channelling USD 100 bn of SDRs¹² to countries most in need. Current channelling options include contributions to two IMF Trusts: the Poverty Reduction and

10 Articles XV.1 and XVII.1 of the Articles of Agreement of the IMF expressly define “members” as the entities that are participants in the SDR Department and beneficiaries of the SDRs. The fiscal agent or entity acts as the member’s representative in managing the member’s SDR position (typically, though not always, the central bank).

11 Information regarding the SDR interest rate is posted weekly on the IMF website https://www.imf.org/external/np/fin/data/sdr_ir.aspx.

12 G20 Rome Leaders’ Declaration. Rome, 31 October, 2021. <http://www.g20.utoronto.ca/2021/G20ROMELEADERSDECLARATION.pdf>. In June this year, the IMF’s Managing Director announced that the target had been reached (<https://www.imf.org/en/News/Articles/2023/06/22/sp062223-md-remarks-at-summit-for-new-global-financing-pact>).

Growth Trust (PRGT) and the new Resilience and Sustainability Trust (RST),¹³ which finance vulnerable countries on concessional or semi-concessional terms. The RST has been operational since October 2022 and its creation was closely linked to the 2021 SDR allocation. It aims to support vulnerable countries to undertake structural reforms, including adaptation to climate change and pandemic preparedness. Another debate that is currently attracting attention is the possibility of channelling SDRs to the World Bank and other Multilateral Development Banks (MDBs) in the form of SDR-linked bonds or the subscription of subordinated debt or other forms of hybrid capital. This is a question that needs further study. From the point of view of the European Union, the channelling of SDRs to MDBs by central banks would not be compatible with the monetary financing prohibition (Article 123 of the Treaty on the Functioning of the European Union).¹⁴

13 [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733531/EPRS_BRI\(2022\)733531_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733531/EPRS_BRI(2022)733531_EN.pdf) includes an overview of stakeholders' positions at the discussion of the instrument and (Serra, forthcoming) delves into the features, contributions and use of the newly created RST.

14 As Lagarde has repeatedly stated (IMF, 2021d, 2022d, 2023c).

3 Member countries' use of their 2021 SDR allocation

This section assesses the extent to which members have used SDRs since the allocation of 2021, and then considers how member countries have used SDRs, which has been one of the big debates in the wake of the SDR allocation. Annex 1 provides a description of the data used for this analysis and of the methodology developed to evaluate the use of SDRs by member countries. Given the assumptions applied, the data provided in this report should be taken as an indicator of the use of SDRs by IMF members.

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). The analysis distinguishes two periods: 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. The war in Ukraine triggered an energy and food crisis which particularly affected low-income economies, coming on top of the effects of the pandemic. In order to study whether the side effects of the war have prolonged and intensified the use of SDRs, the period analysed is split into these two sub-periods.

3.1 Which members have used SDRs?

When SDRs are allocated to an IMF member country, the member has two SDR positions, namely “SDR holdings” and “SDR allocations”. The amount of each SDR allocation is accumulated in each member’s “SDR allocations” position. This position increases only upon each allocation and has never been reduced so far. Members’ transactions with SDRs are accounted for under the SDR holdings position, which may increase or decrease depending on the operation (see Box 1).

How a member’s net SDR position (SDR holdings–SDR allocations) evolves provides a first measure of when and how much members have used their SDRs. Since the 2021 allocation, the SDR holdings of EMEs and LICs have increasingly been falling below their SDR allocation, 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, AEs have increased their SDR holdings above their SDR allocations (see Chart 2.1), which means they are net SDR buyers.

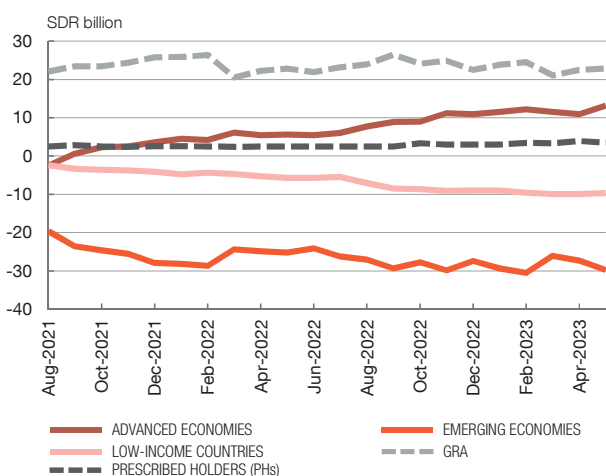
The growing divergence between members’ SDR holdings and allocations, together with last year’s rising SDR interest rates, have led to an increase in SDR charges, which have multiplied by 25 in the last twelve months, reaching levels almost unseen in the IMF’s history (see Chart 2.2). Hence, the cost of using SDRs has increased notably for net SDR users,¹⁵ and LICs record the highest level relative to their allocation.

¹⁵ AEs are net recipients of SDR interest as are the General Resource Account (GRA) and prescribed holders (see Box 2). The GRA is the principal account of the IMF and handles the largest share of operations between the IMF and its members.

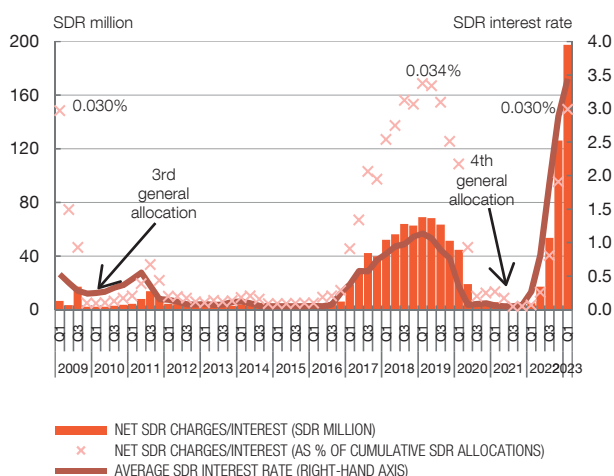
Chart 2

EMERGING ECONOMIES AND LOW-INCOME COUNTRIES HAVE REDUCED THEIR SDR HOLDINGS, PAYING AN INCREASING SDR INTEREST RATE FOR USING THEM

1 MEMBERS: SDR HOLDINGS-SDR ALLOCATIONS.
GRA AND PHs: SDR HOLDINGS



2 MEMBERS' NET SDR CHARGES AND SDR INTEREST RATE



SOURCE: Authors' own calculations based on IMF data.

Notably, by January 2023, SDR holdings had decreased in many countries and stood below their allocations in more than 65% of the 190 IMF members, indicating that SDRs have already been used on a large scale. However, there is significant heterogeneity in SDR utilisation rates among emerging and developing countries. In particular, 44 countries (23 LICs and 21 EMEs) have used their entire 2021 allocation. In turn, more than 60% of advanced economies have increased their net holdings by more than SDR 100 million and, in January 2023, 70% of advanced economies reported SDR holdings above their allocation.

By region, Chart 3 shows that Africa has made the most use of SDRs, relative to its allocation, since August 2021, followed by Latin America and the Caribbean, though the largest share of SDR movements comes from Argentina, which is the largest IMF borrower and used its SDRs to meet its debt payments to the IMF.

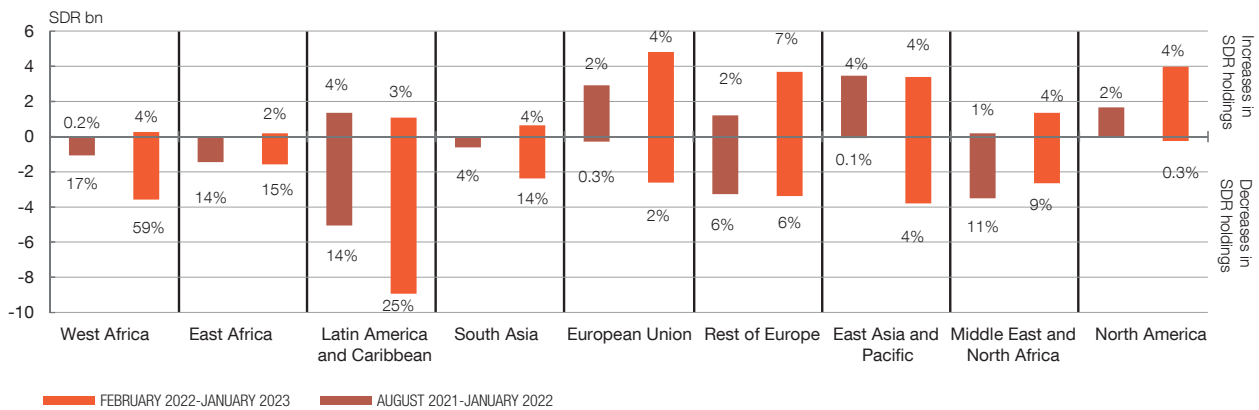
3.2 What have the SDRs been used for?

As described in Section 3.1 above, advanced countries (the recipients of more than 60% of the 2021 allocation) have been net SDR buyers (not “users”) since August 2021 and thus their holdings have risen above their level in the allocation. As a consequence, most of the allocation remains held as reserves, i.e. it is “unused” (see Chart 4). Indeed, only 12% of the allocation has been used so far (and some of the SDRs used actually arise from SDR receipts from IMF loans).

What operations have members actually carried out with their SDRs? As described in Box 1, operations with SDRs include SDR “uses” (which decrease SDR holdings, shown in

Chart 3

CHANGES IN SDR HOLDINGS IN AGGREGATE TERMS BY GEOGRAPHIC REGION. COMPARISON OF TWO PERIODS (a)



SOURCE: Authors' own calculations based on IMF data.

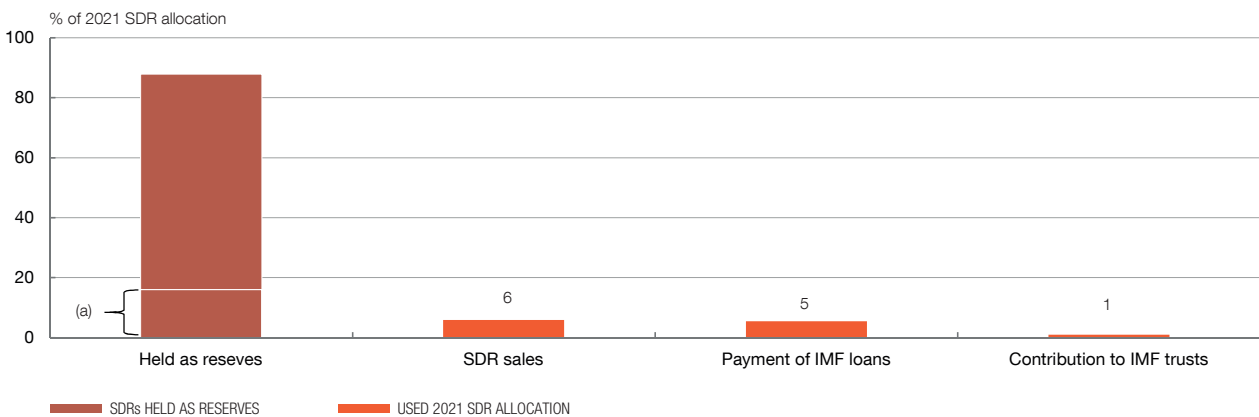
NOTE: The percentages represent the change in each region's SDR holdings relative to their allocation. The bars in the bottom part of the chart show decreases in SDR holdings and the bars in the top part of the chart show increases over the two periods.

a Two periods are considered: August 2021-January 2022 (copper bars) and February 2022-January 2023 (orange bars).

Chart 4

USES OF SDRs (AUGUST 2021-JANUARY 2023) AS % OF THE 2021 SDR ALLOCATION

About 12% of the SDR allocation has been used, primarily to attend to members' needs (with SDRs exchanged for other currencies) and to pay their debts to the Fund. Unused SDR allocations are held as reserves, mostly in advanced economies' hands.



SOURCE: Authors' calculations based on IMF data.

a G20 commitments to rechannel SDRs that have not yet materialised.

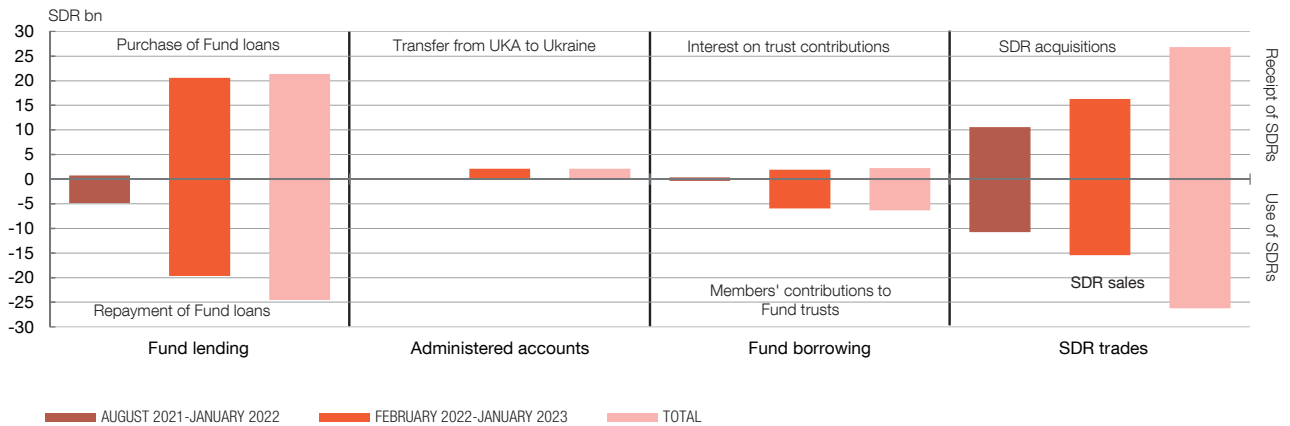
the bottom half of chart 5) and “receipts” of SDRs (which increase SDR holdings, shown in the top half of the chart). Chart 5 distinguishes operations in the first period (copper bars), the second period (orange bars) and the overall period August 2021-January 2023 (pink bars).¹⁶

¹⁶ Together, these transactions have led to a net decrease of SDR 3 bn in members' SDR holdings. In the first period members' SDR holdings decreased from SDR 637 bn to SDR 632 bn, while they increased from SDR 632 bn to SDR 634 bn in the second one.

Chart 5

MEMBERS' SDR HOLDINGS. OPERATIONS SINCE THE ALLOCATION (IN SDR BN)

Members have operated more intensively with their SDRs in the second period analysed than in the first six months after the allocation. Since the allocation, they have used slightly more SDRs to exchange for other currencies than to repay their loans to the Fund. However, SDR outflows to repay Fund loans are comparable in size to SDR inflows from new Fund loans.



SOURCE: Authors' calculations based on IMF data.

As regards SDR uses, between August 2021 and January 2023, SDRs have been equally devoted to paying IMF debt and to exchanging for currencies (SDR sales), approximately SDR 25 bn in each case. However, there are differences between the two periods analysed, with a heavier use in the second period. During the first six months after the allocation members used more SDRs to exchange for currencies than to meet the obligations on their IMF loans. The opposite holds for the second period. In fact, since the onset of the war in Ukraine, members have used SDRs mainly to pay off their debts to the IMF, in a much larger amount than in the first period. They paid nearly SDR 20 bn in the second period, which is close to the amount they received in the same period from their IMF loans and the Administered Account for Ukraine (more than SDR 22 bn in total). Also, in the last year, member countries traded more SDRs than in the six months following the allocation. In fact, both the first quarter after the allocation and the last quarter analysed post the highest levels of SDR trading activity following the allocation (the first quarter alone accounted for 28% of member countries' SDR sales and 27% of their SDR acquisitions up until January 2023).

Overall, SDR sales have exceeded staff estimates at the time of the allocation.¹⁷ This reveals that members' liquidity needs have remained significant even two years after the outbreak of the COVID-19 crisis. Lastly, members devoted some of their SDRs to finance IMF trusts (the PRGT and the RST), mostly after January 2022 and, according to the intentions of other contributors, this item will further increase in the coming months following the G20 commitment.

¹⁷ Staff estimated that SDR sales would reach 4.4%-5.7% of the 2021 allocation, and account for 5.8% of it by January 2023 (IMF, 2021a).

3.3 What have country groupings done with the SDRs?

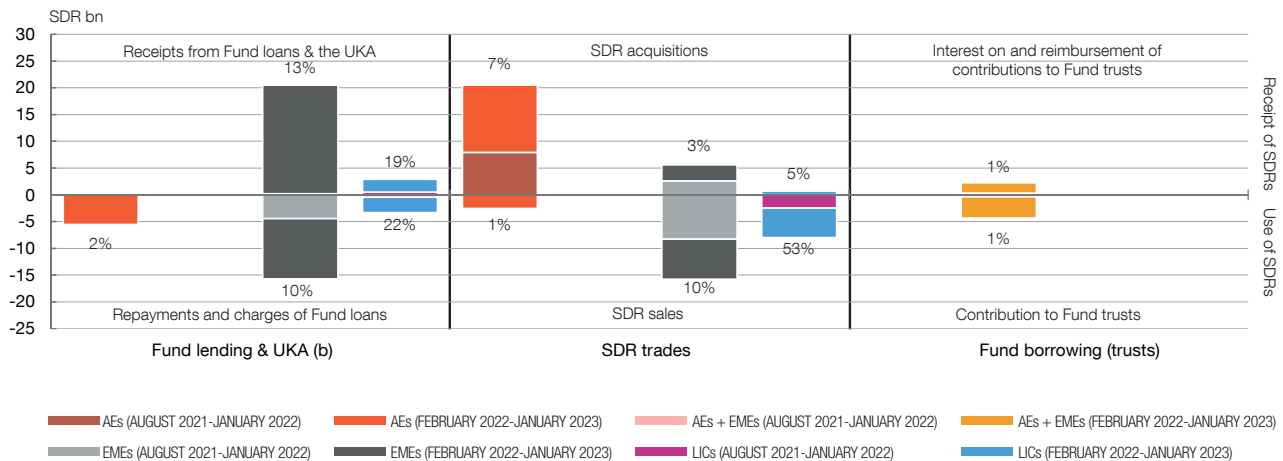
In nominal terms, the main users of SDRs since the allocation have been EMEs (accounting for around 60% of total SDRs used since the allocation) and LICs (over 20%). In fact, 40% of emerging economies and more than 60% of low-income countries have used SDRs to service their debts with the IMF or to exchange for currency. In terms of their respective 2021 SDR allocation, EMEs have used 20%, while LICs have used 75% (see Chart 6).

EMEs have devoted the largest amount of SDRs to paying their obligations to the IMF and they have also received the largest sum of SDR receipts on their IMF loans¹⁸ (see Chart 6). However, in terms of their 2021 allocation, LICs have devoted more than twice as much as EMEs to paying their debt to the IMF (22% of their 2021 allocation). As for SDR sales, EMEs and LICs account for 90% of total net SDR sales during the period under analysis (60% correspond to EMEs). However, again in terms of their 2021 allocation, LICs have sold almost half of their allocation while EMEs have sold 10% of theirs. Therefore, EMEs used a relatively smaller share of their SDR 2021 than LICs did, and they are thus keeping a greater part of their allocation to increase their international reserves than LICs are.

Chart 6

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

Operations are SDR uses (decrease) and receipts of SDRs (increase). Two periods are identified for each type of operation and each group of countries: August 2021-January 2022 and February 2022-January 2023. EMEs have been the main SDR users in absolute terms, both to service their Fund loans and to exchange for currencies, while LICs are the main users relative to their SDR allocations (75%, overall, to service Fund loans and exchange for currencies). EMEs have received SDRs under Fund loans in an amount comparable to the SDRs they have used to service Fund loans. 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 Includes transfers from the Administered Account for Ukraine (UKA) to Ukraine.

¹⁸ It is noteworthy that a significant proportion of these amounts is concentrated in a few countries. Argentina and Ukraine alone have received around 66% of total SDR inflows from Fund loans and the UKA in the period. 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%.

Turning to AEs, their operations mostly entail SDR inflows. They have mainly acquired SDRs, through their VTAs, to provide currencies to countries that have requested them. Members who are VTA participants account for 95% of total countries' net SDR acquisitions (AEs account for 77%).¹⁹ By country, the United States accounts for 18% of net SDR acquisitions and the euro area for 23% (26% including the ECB), followed by China and the United Kingdom, which account for 10% and 8% respectively.

In short, LICs have been the biggest beneficiaries of the allocation as they have used their SDRs more intensively for all purposes (essentially obtaining international liquidity in hard currencies and paying back IMF debt), especially in the second period analysed, following the onset of the war in Ukraine.

3.4 What have regions done with their SDRs?

Public IMF data on monthly SDR holdings and allocations²⁰ (see Annex 1 for information on the methodology used) provide additional information on the use of SDRs by geographic region. Countries are grouped into nine regions: West Africa, East Africa, Latin America and Caribbean, South Asia, European Union, Rest of Europe, East Asia and Pacific, Middle East and North Africa, and North America.

Emerging and developing countries have used a relatively larger share of their allocation of SDRs to exchange for currency. However, Latin America is a notable exception, the main reason for this being Argentina's repayment to the Fund which exceeds the total amount of SDR exchanges in Latin America. 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 these figures are compared with the debt due to the Fund over the period under analysis, some regions have paid more than 60% of their debt payments to the IMF since August 2021 using SDRs (see Chart 7.2).

Between August 2021 and January 2023, 19 African countries drew down more than 100% of their SDR 2021 allocation; of these, 15 were low-income economies and four were countries classified as at high risk of debt distress. By region, West and East Africa drew down 41% of their 17 billion SDR allocation. This represents around 20% of the estimated total global sales of SDRs. The Middle East and North Africa is the third region in terms of making use of its SDR allocation. 16% of its allocation was exchanged for international currency and six countries drew down more than 100% of their allocation. In turn, around 45 countries (including Argentina, Albania, Angola, Bangladesh, Chad, Cote d'Ivoire, Ecuador, Egypt, Ghana, Haiti, Kenya and Rwanda) opted to cancel their debt service obligations to the IMF using SDRs over the period analysed.

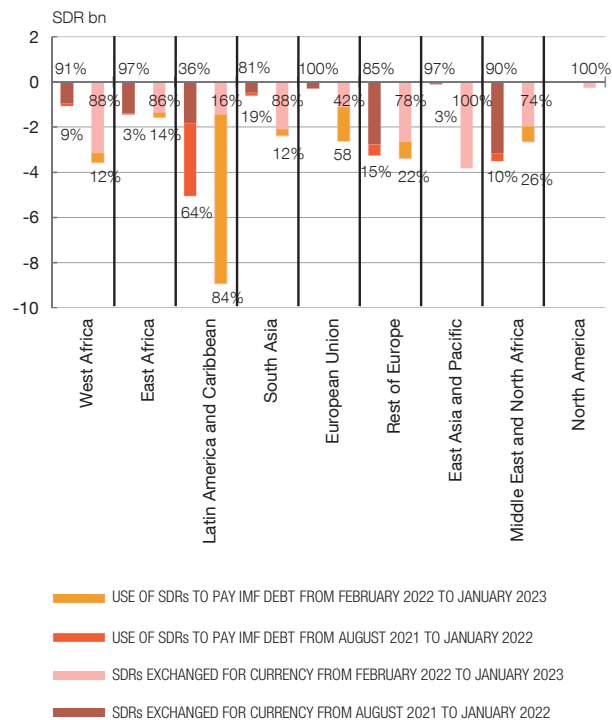
¹⁹ 31 VTA participants are AEs, and 8 are EMEs. A member's net SDR acquisition (sale) refers to a recorded quarterly-net SDR trade increase (decrease) in the International Monetary Fund's Financial Statements (see Annex 1).

²⁰ Available at <https://www.imf.org/external/np/fin/tad/extsdr1.aspx>.

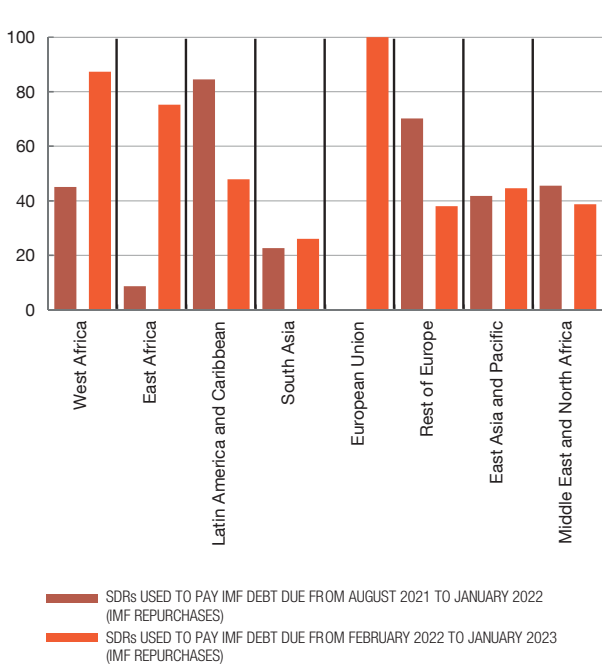
Chart 7

USE OF SDRs SINCE THE 2021 ALLOCATION

1 DECLINE IN SDR HOLDINGS SINCE THE 2021 ALLOCATION (MILLIONS OF SDRs) (a)



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



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.

3.5 Use of SDRs by country

The IMF provides additional information on the use of SDRs in other publications (Article IV consultations, reviews of IMF facilities and staff reports). Since the 2021 general allocation all this information is compiled in the SDR tracker,²¹ which aims to promote transparency and accountability in how countries are putting these resources to use. Table 1 provides an overview of the main uses according to this information, excluding IMF debt repayment as, in most cases, this was not reported in such publications.²²

Based on this information, 128 countries have reported to the IMF how they have used or intend to use their SDR allocation. SDRs in Africa have largely been used for fiscal purposes (as is the case in Uganda, Kenya, Republic of Congo and Cabo Verde) and supporting pandemic response and recovery. The Republic of Congo stated that about half

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

22 The data reported in previous paragraphs on IMF debt repayment were estimated by the authors. See Annex 1.

Table 1

SIZE OF IMF SDR ALLOCATIONS AND DISTRIBUTION OF THE 2001 GENERAL SDR ALLOCATION

	Advanced economies	Emerging economies	Low-income countries
Countries with reported information on the use of SDR in IMF publications	15	66	47
Reserves	9	48	15
Channelling to support other countries and reserves	5	2	
Used exclusively for external financing needs			1 (a)
Used exclusively for debt repayment (non-IMF)		1	1
Used exclusively for fiscal support		6	11
Fiscal support and reserves		3	14
Fiscal support and debt repayment (non-IMF)		1	3
Reserves and debt repayment		3	1
Reserves and external financing needs			1

SOURCE: IMF SDR Tracker. Information provided by the different IMF publications up until December 2022.

a Cote D'Ivoire's Article IV consultation indicated the SDR allocation received from the IMF in 2021 (about \$884 million) was used to substitute for a Eurobond issuance originally planned for the second quarter of 2021.

of the 2021 SDR allocation was spent in the first half of 2022, spread across social and development projects and repayment of domestic social arrears. Similarly, Gambia decided to use part of its allocation to finance health-related spending in the 2022 budget and allow adequate fiscal space for development spending, such as infrastructure projects, while Cabo Verde used all its newly allocated SDRs to finance the 2021 and 2022 budgets and to support pandemic recovery efforts. Likewise, Equatorial Guinea will use a significant portion of its SDR allocation to clear its internal debt arrears. In Guinea Bissau, the authorities decided to use the recent SDR 27.2 million allocation to buttress debt sustainability by pre-paying debt service on BOAD (West African Bank for Development) non-concessional loans due up to 2022, and to cover COVID-related expenditures, including vaccination and improvement in health services.

As for Latin America, following the 2021 SDR allocation most of the countries chose to increase their international reserves. Very few countries have used their SDRs for fiscal purposes, although Ecuador, Haiti, Paraguay and Colombia have to some extent. The SDR 3.1 billion assigned to Argentina were used to pay its obligations to the IMF. In Paraguay, the government used the general SDR allocation to finance expenditures related to the COVID-19 emergency plan. Similarly, in Ecuador the SDR allocation served a dual purpose of boosting Ecuador's international reserves and supporting the government's finances. Haiti also benefited from the SDR allocation, with the central bank on-lending half to the government for emergency spending, including in relation to the 2021 earthquake recovery. The case of Colombia is a special one. The SDR allocation boosted Colombia's liquidity buffers, but the central bank (Banco de la República) sold foreign currency to the Ministry of Finance in an equivalent amount to the SDR allocation in exchange for local treasury bonds

(at market prices). In other words, the operation carried out by the Banco de la República and the Ministry of Finance was an exchange of debt that already existed between institutions, with an extension of maturities.

With regard to the Middle Eastern countries, use of SDRs has been diverse. Egypt has used all of its SDR allocation, in part to pay down its debt to the IMF, due to its status as one of the largest IMF debtors. Iraq has used a portion of its SDR allocation to help pay off its IMF debt entirely. Likewise, Yemen has used the allocation to lower its IMF debt. By contrast, in Jordan the authorities have drawn the SDR allocation for budget financing in lieu of higher domestic debt issuance. Tunisia and Lebanon also exchanged substantial SDRs for currency, although no information is provided by the SDR tracker at this stage. Meanwhile, countries such as Algeria, Israel and Saudi Arabia have participated in VTAs to purchase other governments' SDRs in exchange for currency, thereby increasing their holdings.

As for Asian countries, the majority of them allocated their SDRs to supplement existing reserve assets (India, Vietnam, Bhutan, Malaysia, Timor-Leste and Thailand). So far, few examples can be given of different uses of SDRs. In Papua New Guinea the authorities decided to use the full SDR allocation to support the 2021 budget. They replaced costly financing, while reducing the budget deficit. Similarly, Pakistan has drawn the SDR allocation for fiscal purposes. In turn, Sri Lanka converted 85% of its allocation and used it for debt repayment and FX intervention as of end-2021.

Advanced economies and many emerging economies have purchased SDRs to provide usable currencies to other emerging economies and low-income countries through VTAs or bilateral agreements. The monthly information on SDR holdings shows that Brazil, China, Australia, Japan, Korea, Switzerland, UK, US, Canada, France and Germany have increased their SDR holdings to a greater extent than other countries.

4 Comparison of the two largest SDR allocations

The last two general allocations of SDRs — the third (in August 2009) and the fourth (in August 2021) — were by far the largest in the Fund’s history, increasing the existing stock of SDRs by nine and three times, respectively. Both were agreed in the context of a global crisis, accompanied by a series of other measures to support IMF members and disbursed in a single step.²³ Therefore, it is of interest to compare the differences in how far they have each supported member countries.

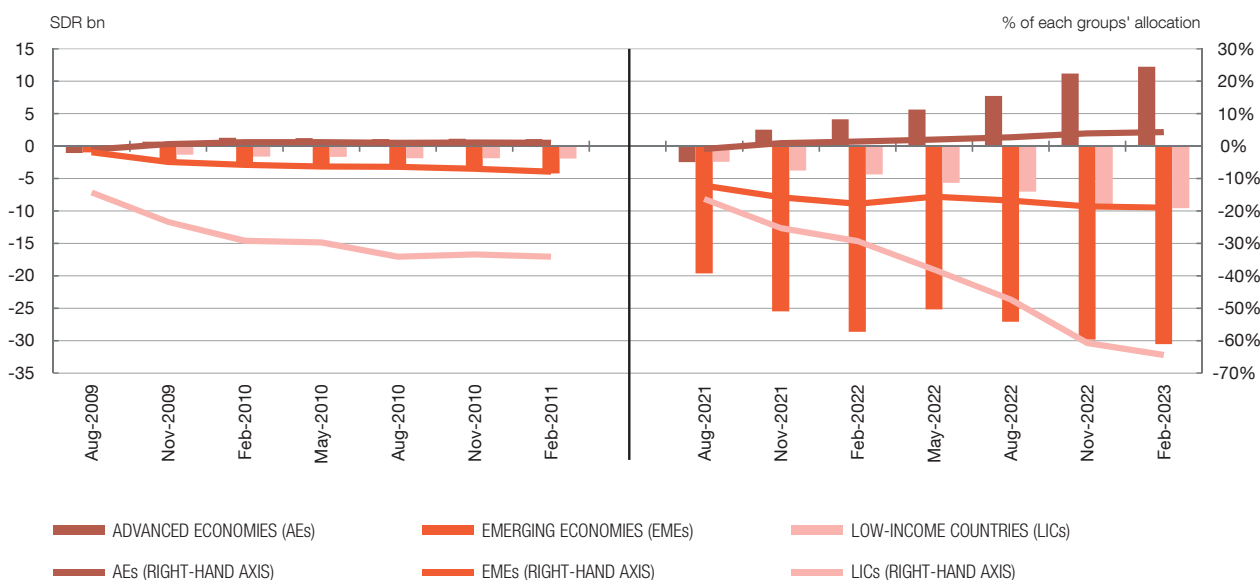
The gap between SDR holdings and allocations provides a first approach to the use of SDRs by member countries. The general pattern of this gap is similar after both allocations but it takes longer to stabilise after the 2021 allocation (see Chart 8). In both cases, AEs accumulate SDRs while EMEs and LICs reduce their holdings. The situation stabilises one year after the 2009 allocation, while the gap keeps growing a year after the 2021 allocation — with increasing intensity in the case of LICs — as the food and energy crisis increases countries’ needs. In terms of each group’s allocation, LICs make much greater use of their SDRs, especially after the 2021 allocation.

Both allocations were expected to cover about 30%-60% of estimated global liquidity needs over the following five years. In the year and a half following each allocation,

Chart 8

SDR NET POSITION (SDR HOLDINGS - SDR ALLOCATIONS) BY COUNTRY GROUP OVER THE 18 MONTHS FOLLOWING EACH ALLOCATION (IN SDR BN AND AS % OF THE ALLOCATION)

THE SDR ALLOCATION IN 2021 HAS BEEN USED FOR LONGER AND MORE INTENSIVELY THAN THE 2009 ALLOCATION



SOURCE: Authors’ calculations based on IMF data.

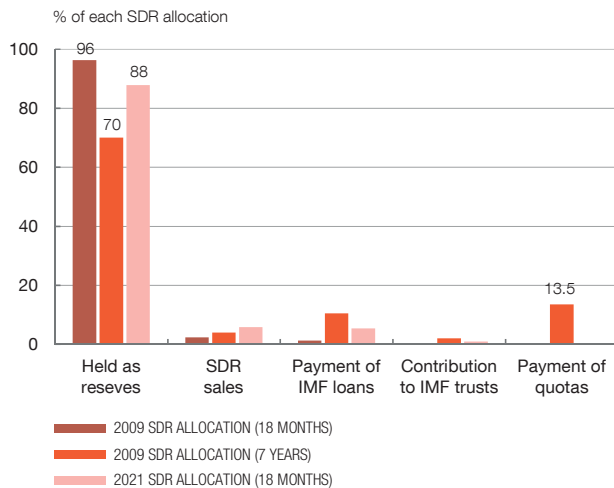
²³ Allocations can also be disbursed in tranches. This was the case in 2011 in order to minimise any inflationary pressures.

Chart 9

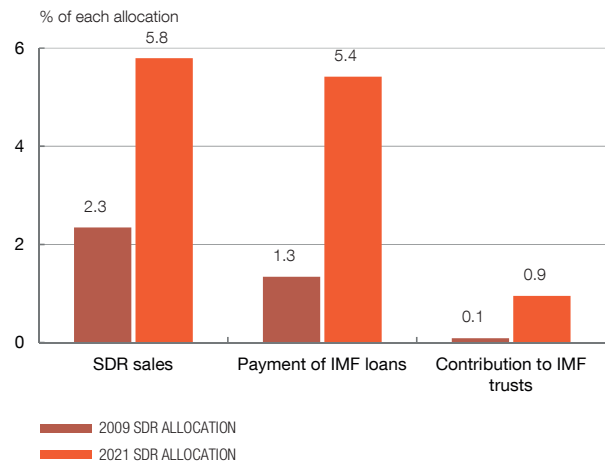
USES OF THE 2009 AND 2021 SDR ALLOCATIONS

The 2009 and 2021 SDR allocations have been held primarily as reserves. In the first 18 months, the 2021 SDR allocation has been used more intensively than the 2009 one. The 14th quota increase after the 2009 allocation led to increased SDR use.

1 USE OF SDRs INCLUDING HOLDING AS RESERVES (PERIOD AFTER EACH ALLOCATION)



2 USE OF SDRs IN THE 18 MONTHS FOLLOWING EACH ALLOCATION



SOURCES: IMF, 2016, 2021a and authors' calculations.

more than 85%²⁴ of the allocations were held “unused” to supplement reserves, and only a small proportion of the SDR allocations was used (see Chart 9.1) mostly by EMEs and LICs.

The 2021 allocation was used more intensively and for longer than the 2009 allocation during the 18 months following the allocation²⁵ (see Chart 9.2). Hence, it has provided greater support to member countries in proportion to the allocation and much greater support in absolute terms (SDR 55 bn following the 2021 allocation compared to SDR 6.8 bn after the 2009 allocation). This also holds true for each of the three main uses: SDR sales, IMF lending and IMF borrowing (even in net terms, SDRs for IMF borrowing decreased in the 18-month period after the 2009 allocation, while they increased after the 2021 allocation).

Both allocations have been used more to exchange for currencies than to pay IMF loans and, while SDR sales did not reach the levels estimated at the time of the 2009 allocation, they have already reached those estimated at the time of the 2021 allocation (4.4%-5.7% of the 2021 allocation) (IMF, 2016 and 2021a).

24 This proportion had decreased to 70% by 2016 (seven years after the 2009 SDR allocation) when, upon implementation of the 14th quota increase, members used more than 13% of the 2009 SDR allocation to pay their quota increases.

25 Also SDR receipts from IMF loans (and from UKA to Ukraine) have been much larger in the 18 months following the 2021 allocation (SDR 23.4 bn) than following the 2009 allocation (SDR 182 million).

5 Conclusions

The IMF's general allocation of SDRs in August 2021 was the most significant measure taken to support member countries in the context of the COVID-19 crisis. SDRs provided a substantial liquidity boost that helped to alleviate policy space constraints and expanded members' reserves. As a result, the allocation improved global market confidence and supported market access for emerging and developing economies, although the positive market perception later faded on account of inflationary pressures, rising global interest rates and increasing risks. Besides, the 2021 SDR allocation has driven the use of SDRs to an all-time high. Overall, member countries have used SDRs for longer than after the 2009 allocation and more intensively than expected. This is probably largely due to the food and energy crisis stemming from the war in Ukraine.

In the first year and a half following the allocation, EMEs and LICs used a total of 43 bn SDRs. Such amount corresponds to 12% of the allocated SDRs and was used by member countries to either cancel their debts with the IMF (5%), contribute to finance IMF trusts (PRGT and RST) (1%) or exchange SDRs for currencies (6%). The rest of the allocation was held as reserves. Of note is also the fact that as many as 44 countries (23 LICs and 21 EMEs) used their entire 2021 allocation.

Low-income countries (particularly African ones) were the primary users of SDRs, both to service their IMF loans and (mainly) to sell SDRs. Overall, their use reached 75% of their 2021 allocation. The currencies acquired with SDRs have been mainly used for fiscal purposes. Additionally, several emerging economies used 20% of their allocation to pay their IMF debts, and they also received SDRs from their IMF loans (amounting to around 13% of their allocation). In line with the G20 commitment to channel SDRs in an amount of USD 100 bn to vulnerable countries, some advanced and emerging economies with sound positions have lent part of their SDRs to finance IMF trusts set up to support countries in need on affordable terms. Indeed, PRGT lending is at record levels and the demand for loans from the new RST (created in the context of the allocation to provide further support to vulnerable countries) is strong. At the moment, channelling SDRs in other ways is not feasible for all member countries, but ways to make the best use of them continue to be studied.

In conclusion, this lending to the PRGT and RST allows inactive SDRs to be channelled from advanced economies to vulnerable countries. The former received the highest volume of SDRs, as the allocation is distributed in proportion to members' IMF quotas, and would otherwise hold them as reserves. In contrast, the vulnerable economies received a lower amount of SDRs but needed them most, as the intense use of their allocation illustrates. As a result, the voluntary channelling of SDRs partly alleviates 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.

RECORDING THE USE OF SDRs. PARTICIPANTS AND OPERATIONS IN THE SDR DEPARTMENT


The SDR Department was established within the IMF to conduct all SDR transactions. Participants in the SDR Department are member countries (the only recipients of allocated SDRs), the IMF itself through the General Resources Account (GRA) and certain designated entities referred to as “prescribed holders” (see Box 2).

shown in Figure 1 below for member country operations). SDR holdings are mostly in member countries’ hands (around 88%-96% of total SDRs, with the largest volumes immediately after allocations), followed by the GRA and, with less than 1% of SDRs, the prescribed holders.

The SDR Department records each member country’s cumulative SDR allocations (which increase only when allocations are made and have never been reduced so far)¹ and each participant’s SDR holdings (which increase or decrease with transactions, as

Member countries can hold their SDRs passively as a reserve asset (in this case SDRs are considered to be “unused”) or enter into operations with other participants. As a result of these operations, their SDR holdings may stand above or below their SDR allocation.

Figure 1
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).

¹ Member countries must reimburse SDRs in proportion to their cumulative allocations in the event that the Board of Governors, on the basis of the assessment of long-term global liquidity needs, decides to cancel SDRs in a basic period (Article XVIII of the Articles of Agreement of the IMF). However, such a decision has to date never been taken. Also, in the event that a member withdraws from the IMF it must return its SDRs. That said, no member has left the IMF since the first SDR allocation.

RECORDING THE USE OF SDRs. PARTICIPANTS AND OPERATIONS IN THE SDR DEPARTMENT (cont'd)

When countries hold fewer SDRs than their cumulative allocations they pay interest at the SDR interest rate on the difference between their cumulative allocations and their SDR holdings,² so using SDRs is not costless. When member countries hold more SDRs than their cumulative allocations they receive a corresponding amount of interest on their excess SDR holdings.

The operations that member countries can conduct may be grouped into:

(1) Fund-related operations (shown in copper in Figure 1)

For member countries, these operations take place in the context of:

- a. A country's IMF membership and participation in the SDR Department (quota payment, SDR allocation, SDR charges or interest on SDR holdings below or above SDR allocations);
- b. IMF lending to members;
- c. IMF borrowing from countries (to increase the Fund's

temporary resources, namely the NAB and bilateral agreements, and trusts, namely the PRGT and the RST); or

- d. Administered accounts (members can be donors or receivers).

Such operations take place between member countries and the GRA or the BIS, which is the prescribed holder authorised to operate in the context of the trusts (PRGT and RST) and administered accounts at the instruction of the IMF.

- (2) SDR trades (in grey in Figure 1).** These operations refer to member countries buying or selling their SDRs (among themselves or *vis-à-vis* prescribed holders). Such operations can be agreed bilaterally but usually take place under a VTA. Members can also settle financial obligations with other member countries or prescribed holders.

As a result of the operations, a member's SDR holdings may be reduced (when it uses SDRs) or increased (when it receives SDRs) (see Figure 1).

² Prescribed holders and the GRA have no SDR allocations, and earn interest on their SDR holdings at the SDR interest rate.

THE USE OF SDRs BY THE PRESCRIBED HOLDERS

A prescribed holder is an official entity designated by the IMF as a holder of SDRs under the Articles of Agreement. Until February 2023 there were 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).

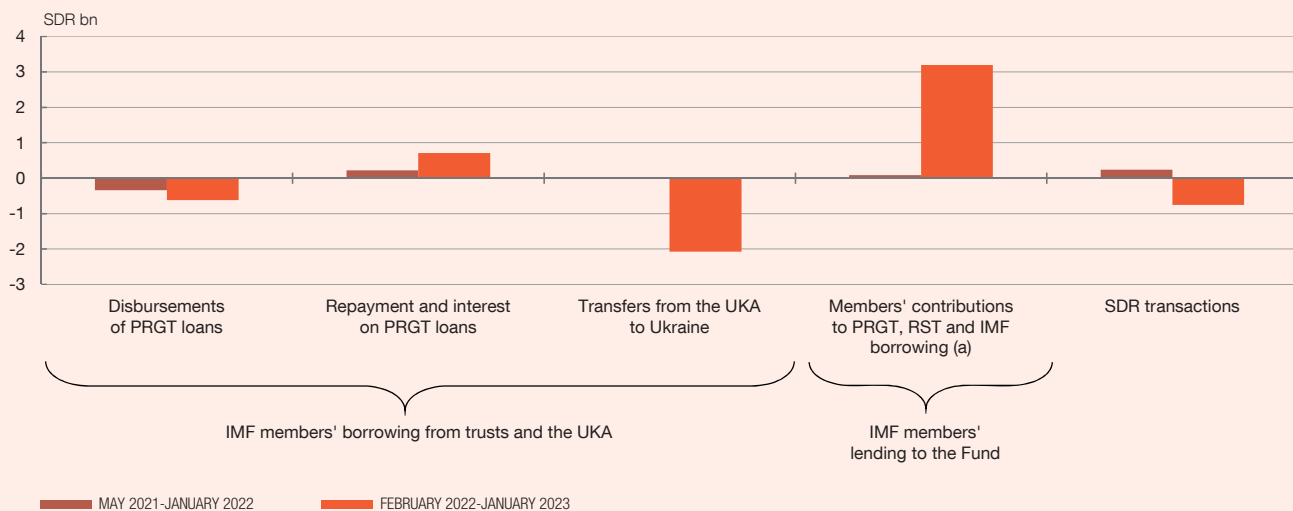
The historic SDR allocation in August 2021 prompted renewed interest among institutions in becoming prescribed holders and thus being able to hold and use SDRs in transactions and operations. Accordingly, in February 2023, the IMF approved the applications of five new institutions (IMF, 2023b) (the Caribbean Development Bank (CDB), the Development Bank of Latin America (known as *Corporación Andina de Fomento* or CAF), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Inter-American Development Bank (IADB)).

Prescribed holders do not receive allocations of SDRs, but they can accept and use them in operations and transactions

with each other and with participants in the SDR Department (Section 3 (ii) of Article XVII). For example, IMF members can use the SDRs they hold to pay their debts to prescribed holders. Most of the operations by prescribed holders consist of exchanges of SDRs for freely usable currencies through bilateral agreements or through VTAs.¹ These are the main operations conducted by the four central banks. Additionally, the IMF has an arrangement with the Bank for International Settlements (BIS), as a monetary institution, to conduct operations on behalf of the trusts (the PRGT and the newly created RST) and accounts (e.g. the Administered Account for Ukraine (UKA)) that the IMF administers.

In general terms, prescribed holders have made limited use of SDRs. Up until January 2023, only six (central banks and intergovernmental monetary institutions)² of the fifteen prescribed holders held SDRs and accounted for most of the activity. One of the most important operations has been the fund-raising effort for the PRGT launched in July 2021 and reviewed in April 2022. This operation has given rise to increased lending to the PRGT (fourth orange bar of Chart 1), which reflect the contributions from IMF member states to the PRGT administered by the BIS. Another significant activity was the transfer of donors' contributions to the Ukraine Administered Account (UKA), also administered by the BIS.

Chart 1
PRESCRIBED HOLDERS: OPERATIONS WITH SDRs (SDR bn)



SOURCE: Authors' calculations based on IMF data (IMF Quarterly Reports on IMF Finances).

a Includes repayment of the contributions and interest earned by members on their contributions.

1 The ECB is currently the only prescribed holder that has a VTA in place.

2 Arab Monetary Fund, BIS, Bank of Central African States, Central Bank of West Africa, European Central Bank and Latin American Reserve Fund.

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Annex 1 Data: sources and methodology

This paper uses two main sources of public data published on the IMF's website. There follows a detailed explanation of the sources and how they have been used in this paper.

International Monetary Fund's Financial Statements and Quarterly Reports on IMF Finances²⁶

The IMF publishes Financial Statements for each financial year (May-April), that are included in the IMF's Annual Report, and Quarterly Reports on IMF Finances (on a cumulative basis from the beginning of each financial year).

These reports include a chapter on the SDR Department. Inter alia, this chapter provides information on the transactions with SDRs by the participants in the SDR Department. Two annexes to this chapter are used in this paper's analysis, namely:

- **Schedule 1. Statements of Changes in SDR Holdings.** Provides information on the operations that lead from total holdings at the beginning of the period to total holdings at the end of the period for each group of participants (member countries, General Resources Account (GRA) and prescribed holders). This information is broken down by operation.
- **Schedule 3. Changes in Holdings (published since 31 October 2021).** Provides information on a cumulative basis on two "major" types of operation (Fund-related operations and SDR trades) for each member country, as well as for the GRA and prescribed holders. *Fund-related operations* include GRA, trust account, administered account and SDR Department operations. *SDR trades* relate to non-Fund transactions (e.g. acquisitions and sales of SDRs through the VTA market or bilateral arrangements, and prescribed operations, such as the settlement of financial obligations).

These statements provide cumulative data starting at the beginning of each financial year (the IMF's financial year starts in May each calendar year). The data for each quarter are calculated as the difference between the cumulative figures.

In this paper, the data broken down by operation are taken from Schedule 1. For simplicity, the operations reported in Schedule 1 are divided up into groups (as described in Box 1) within those that reduce SDR holdings (SDR uses) and those that increase SDR holdings (receipts of SDRs).²⁷

²⁶ Available here: <https://www.imf.org/en/Data/IMF-Finances/Quarterly-Financial-Statements>.

²⁷ This terminology —SDR uses and Receipts of SDRs— is taken from IMF Financial Statements in 2009.

The data for each operation are assigned to groups of countries based on their weight in Schedule 3. In doing so, each country's data on Fund-related operations and SDR trades (as in Schedule 3) are divided into "quarterly-net" positive or "quarterly-net" negative figures. For each of these two types of operations, country data are accumulated in net positive (negative) figures. The weight for each country group is deducted for both positive (negative) Fund-related operations and SDR trades. Next, those weights are assigned to Schedule 1 positive (negative) Fund-related operations and for positive (negative) SDR trades.

Monthly data on SDR holdings and allocations

To provide additional information and give a more detailed overview at a regional level on the use of SDRs, monthly data on SDR holdings and allocations for each IMF member are used.²⁸ The IMF provides data on the net SDR position at the end of the month of each IMF member. The SDR inflows and outflows during the month cannot be identified and are therefore not captured in the data.

One of the purposes of the analysis was to identify the amount of SDRs used by IMF members to pay their IMF loans and the amount of SDRs traded (purchases and sales). To estimate such amounts, the following assumptions were made:

- We compare the monthly debt due to the IMF from each member country (repurchases and charges) with the decrease in their monthly holdings and consider that if the decrease in SDR holdings is very similar to the debt redemption, the country has used its SDR to pay its debts. If, on the other hand, there is no outstanding debt or the reduction in SDR holdings does not coincide with the country's debt obligations or repayments, we assume that SDRs were exchanged for freely usable currency.
- As regards a monthly increase in SDR holdings, we consider that the country in question has purchased SDRs, and we subtract from this value the amount in SDRs of any IMF loan disbursement in the country concerned.

Considering all these assumptions, the data provided in this report should be taken as a proxy of the use of SDRs by IMF members.

28 Available at <https://www.imf.org/external/np/fin/tad/extsdr1.aspx>.

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