The Re-Launch of SDR Denominated Assets

In 2014 the Robert Triffin International published a report[1], titled "Using the Special Drawing Rights as a lever to reform the international monetary system", which explored the potential role of the SDR for strengthening monetary and financial stability. The report contained nine suggestions aimed at overcoming the deficiencies of the international monetary system through an enhancement of official SDRs and the development of a private SDR market.

Two years later, two out of nine of these recommendations have seen very significant progress. In particular, the report pointed to the need to have a SDR basket composition reflecting "more closely the relative importance of economies in international trade and financial transactions", with a specific reference to the renminbi as the first possible currency to join the basket. This suggestion, formulated ahead of the basket review scheduled by end 2015, found its answer in November 2015 when the IMF announced that the Chinese renminbi met the criteria and therefore was to be included in the SDR basket, with effect from October 2016 and a weight of some 11%.

Another suggestion included in the report stated that "SDR-denominated debt instruments should be floated by international institutions, first and foremost the World Bank and other supranational international financial institutions", in order to provide a "critical mass for the development of an SDR debt market".

In August 2016, the World Bank announced to have received the approval from the People's Bank of China to issue SDR-denominated bonds in the Chinese domestic market. The total size of the World Bank's issuance program is 2 billion SDR (some 2.8 billion $) and a first tranche of 500 million SDR (some 700 million $) was issued at the beginning of September 2016 with a maturity of 3 years and a coupon of 0.49% per annum. All payments will be made in Chinese renminbi.

The bonds, according to a note of the World Bank, were "2.5 times oversubscribed with around 50 orders from bank treasuries (53%), central banks and official institutions (29%), securities companies and asset managers (12%) and insurance companies (6%)."

The launch of SDR denominated bonds by the World Banks constitutes a major step after over thirty years of stop[2] and opens the way for other issues. China Construction Bank, one of the lead underwriters of the issuance, forecasts that bonds denominated in SDR will swell to 5 billion SDR units (7 billion $) in China in the next few years. Similar issues could also be launched in other countries both by multilateral financial institutions and commercial banks.

The debate on the role of the SDR was also revived by an important publication of the IMF. In fact, in July 2016 the IMF published a Staff Note for the G20[3], setting some considerations on the role of the SDR in each of three concepts: i) the O-SDR (the official SDR, the composite reserve asset issued and administered by the IMF); ii) the M-SDR (SDR-denominated financial markets instruments, which could be both issued and held by any parties); and iii) the SDR as a unit of account. Even if the document recognizes the presence of possible drawbacks and challenges, there is a general view of benefits linked to the use of SDR, which would need further investigation: a path that the Robert Triffin International has in mind to follow. (*e.f.*)

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[1] The Federalist Debate Papers No. 1, July 2014. The report was the result of the work of a group of experts convened by the Robert Triffin International and chaired by André Icard.

[2] SDR-denominated assets were first issued in 1975 and reached a peak in the early 1980s. No SDR bonds or credits have been issued since 1981.

[3] Staff Note for the G20, The role of the SDR – Initial considerations, IMF, July 15, 2016.