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Factsheet

Explaining SDRs (Special Drawing Rights)

photo by Michele Henderson on Unsplash

Share on Special Drawing Rights (SDR)

SDR Allocations Example

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Special Drawing Rights (SDR)

August 5, 2021

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. To date, a total of SDR 660.7 billion (equivalent to about US$932 billion) have been allocated. This includes the largest-ever allocation of about SDR 456 billion approved on August 2, 2021 (effective on August 23, 2021). This historic allocation will help to address the long-term global need for reserves, and help countries cope with the impact of the COVID-19 pandemic. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

The role of the SDR

The SDR was created as a supplementary international reserve asset in the context of the Bretton Woods fixed exchange rate system. The collapse of the Bretton Woods system in 1973 and shift of major currencies to floating exchange rate regimes lessened the reliance on the SDR as a global reserve asset. Nonetheless, SDR allocations can play a role in providing liquidity and supplementing member countries' official reserves, as was the case amid the global financial crisis.

The SDR serves as the unit of account of the IMF and other international organizations.

The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies.

A basket of currencies determines the value of the SDR

SDR Value

The SDR value in terms of the U.S. dollar is determined daily based on the spot exchange rates observed at around noon London time, and is posted on the IMF website.

The SDR was initially defined as equivalent to 0.888671 grams of fine gold^{1}which, at the time, was also equivalent to one U.S. dollar. After the collapse of the Bretton Woods system, the SDR was redefined as a basket of currencies.

Currencies included in the SDR basket have to meet two criteria: the export criterion and the freely usable criterion. A currency meets the export criterion if its issuer is an IMF member or a monetary union that includes IMF members, and is also one of the top five world exporters. For a currency to be determined if freely usable by the IMF, it has to be widely used to make payments for international transactions and widely traded in the principal exchange markets. Freely usable currencies can be used in Fund financial transactions.

The SDR basket is reviewed every five years, or earlier if warranted, to ensure that the basket reflects the relative importance of currencies in the world^{2}'s trading and financial systems. The reviews cover the key elements of the SDR method of valuation, including criteria and indicators used in selecting SDR basket currencies and the initial currency weights used in determining the amounts (number of units) of each currency in the SDR basket.

These currency amounts remain fixed over the five-year SDR valuation period but the actual weights of currencies in the basket fluctuate as cross-exchange rates among the basket currencies move. The value of the SDR is determined daily based on market exchange rates. The reviews are also used to assess the appropriateness of the financial instruments comprising the SDR interest rate (SDR) basket (see below).

During the last review concluded in November 2015, the Board decided that the Chinese renminbi (RMB) met the criteria for SDR basket inclusion. Following this decision, the Chinese RMB joined the US dollar, euro, Japanese yen, and British pound sterling in the SDR basket, effective October 1, 2016 and the three-month benchmark period for the SDR interest rate included the Chinese RMB. During the 2015 review, the Board also approved a new formula^{3}assigning equal shares to the currency issuers' ^{4}'s exports and a composite financial indicator^{5}to determine the weights of currencies in the SDR basket.

In March 2021, the Executive Board delayed the next review of the SDR valuation basket to July 31, 2022 to effectively maintain the five-year cycle of SDR valuation reviews. With the next review to be completed by mid-2022, the new basket will become effective on August 1, 2022

The SDR interest rate (SDRi)

The SDRi provides the basis for calculating the interest rate charged to members on their non-concessional borrowing from the IMF and is paid to members for their remunerated creditor positions in the IMF. It is also the interest paid to members on their SDR holdings and charged on their SDR allocations.

Currency	Weights determined in the 2015 Review	Fixed Number of Units of Currency for a 5-year period Starting Oct. 1, 2016
U.S. Dollar	41.73	0.58252
Euro	30.93	0.38671
Chinese Yuan	10.92	1.0174
Japanese Yen	8.33	11.900
Pound Sterling	8.09	0.085946

SDR VALUE

Determined weekly based on a weighted average of representative interest rates on short-term government debt instruments in the money markets of the SDR basket currencies, with a floor of 5 basis points. It is posted on the IMF website.

SDR allocations

The Articles of Agreement, determine that under certain conditions the IMF may allocate SDRs to members participating in the SDR Department (currently all members of the IMF).

General SDR allocation

A general allocation of SDRs must be consistent with the objective of meeting the long-term global need to supplement existing reserve assets. It must also receive broad support from the IMF's membership (an allocation requires Board of Governors approval by an 85 percent majority of the total voting power of the members in the SDR Department). Once agreed, the allocation is distributed to member countries in proportion to their quota shares at the Fund.

On August 2, 2021 the Board of Governors of the IMF approved a general allocation of SDRs equivalent to US$650 billion (about SDR 456 billion) to boost global liquidity. This largest-ever allocation of SDRs in the history of the IMF (effective on August 23, 2021) addresses the long-term global need for reserves, helps build confidence, fosters the resilience and stability of the global economy, and supports liquidity-constrained countries in addressing the impact of the COVID-19 pandemic.

Special SDR allocation

A special one-time allocation in 2009 enabled countries that joined the IMF after 1981 (i.e., after previous allocations) to participate in the SDR system on an equitable basis.

SDR Operations

Participating members and prescribed holders can buy and sell SDRs in the voluntary market. If required, the IMF can also designate members to buy SDRs from other participants.

SDRs may be used by IMF members and the IMF itself in accordance with the Articles of Agreement and decisions adopted by the Executive Board and Board of Governors. The IMF has the authority to prescribe other holders of SDRs, nonmembers, member countries that are not SDR Department Participants, institutions that perform the functions of a central bank for more than one member, and other official entities. As of end-January 2021, there were 15 organizations approved as prescribed holders. Prescribed holders may not receive allocations of SDRs. SDRs cannot be held by private entities or individuals.

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