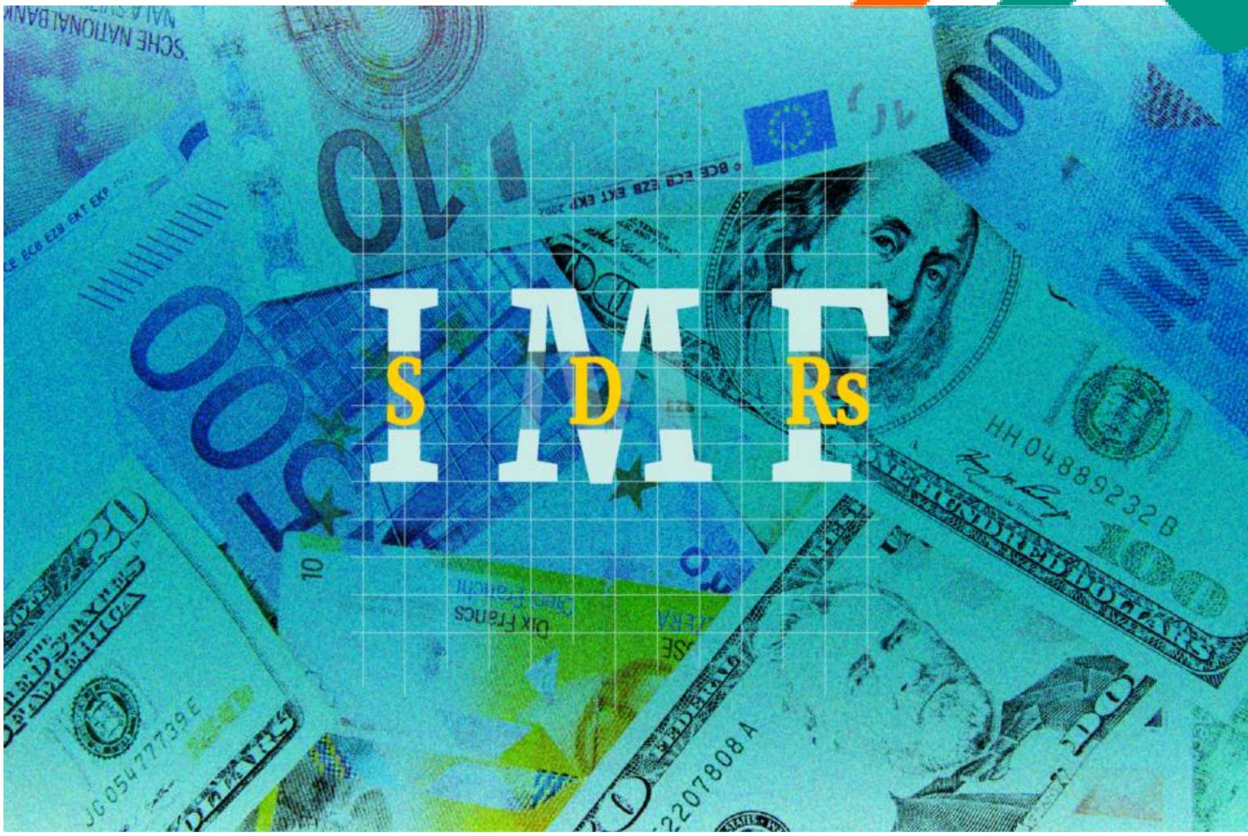

Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges

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Executive Summary

On August 23, 2021, the International Monetary Fund (IMF) allocated a historic $650 billion worth of Special Drawing Rights (SDRs) to its 190 member countries. It was the largest ever such allocation, and has already had a very important impact on developing countries that were hit by the pandemic and world recession, saving possibly hundreds of thousands of lives.
SDRs are an international reserve asset that can be exchanged for hard currency or donated among IMF member countries. The value of SDRs is derived from a basket of currencies comprised of dollars, euro, pounds, yen, and renminbi.

This paper looks at the available evidence of how these reserve assets issued by the IMF have been used, since August, by developing countries. This is of particular importance given that policymakers in the US, which has the most powerful voice of any country at the IMF and a veto on many major Fund decisions, have been voicing support for another allocation.[1] This support can be decided by Congress, where the House has already approved another allocation; or by the US Treasury, which represents the United States government at the Fund.[2] Therefore, US support for another allocation, along with support from a significant part of the rest of the world, is critical to obtain a new allocation.

An assessment of how SDRs have been used is of particular importance at this current critical juncture, as the global economy is rocked by daunting new challenges that have generated renewed appeals for another issuance of SDRs from around the world.

Whether a fresh allocation of these resources will take place depends on whether the IMF Board of Governors, and in particular the US Treasury, which represents the United States government at the Fund, supports such a decision. The US Congress, where the House of Representatives has already approved another issuance, can also instruct the US Treasury to support a new allocation.

The World Food Programme currently estimates that 44 million people in 38 countries are on the brink of famine. Even before the war in Ukraine, 811 million did not have enough to eat.[3] The war has pushed up food prices and threatened millions more people with starvation. Financial support from the IMF is therefore badly needed. Ukraine itself, for example, has an estimated 4 million

1 See Warren (2022) and Martin (2022b).
2 An allocation in which US support at the IMF is decided by Treasury, without a vote of Congress — like the August allocation — is limited to about $680 billion worth of SDRs. However, Congress can approve much more, and the House has done so recently, but this was blocked by Republicans in the Senate.
3 WFP (2022b).

refugees, 6.5 million internally displaced persons, and one-third of the population in need of humanitarian assistance.[4] The country would get $2.75 billion from a Treasury-supported allocation; while the legislation in Congress, after approval by the IMF, would bring Ukrainians more than three times that amount. All of this would incur no cost to the US government.

SDRs are by far the fastest way to get this magnitude of aid to all the developing countries that need it. Last year, the IMF Board of Governors officially approved the $650 billion worth of SDRs on August 2, and credited member country accounts on August 23. Unlike loans, SDRs do not add to a country's debt, and there are no conditions attached to them.

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.[5] Mottley's proposal is in line with a recent article co-written by IMF Managing Director Kristalina Georgieva which notes "[t]he world is not short of money or ideas needed to fight climate change" and calls for action from the international community.[6]

Having more reserve assets can allow governments greater fiscal space to respond to economic challenges — as they have during the COVID-19 pandemic — with reduced balance of payment constraints and less chance of economic crises. The increase in reserves also reduces exchange rate risks and interest costs when borrowing. Of course, the majority of countries are vastly more constrained in using expansionary fiscal or monetary policy to counteract economic downturns, as compared with many high-income countries. The central banks of high-income countries — mostly in the United States and Europe — have created $25 trillion through quantitative easing since the Great Recession. In the past two years, the United States has run fiscal deficits of more than 15 percent and 12 percent of GDP, respectively. Developing countries generally cannot do these things; therefore, their economies get hit vastly harder than high-income countries do when the world economy falls into recession, or slows down. And the consequences of any economic downturn for them are far more lethal.

SDRs can do much to close this gap — because they are recognized as international reserves, and therefore increase the amount of these reserves held by countries that receive them; and they can be exchanged for hard currency.

4 Office of the Chief Economist (2022).
5 Ellworth (2021).
6 Georgieva and Verkooijen (2021).

When the IMF allocates SDRs to its member countries, these countries can exchange those reserve assets for hard currency, in particular the US dollar, euro, yen, pound, or renminbi. This currency can be used for various purposes, including finance of cross-border payments, or for spending on imports. This allows countries to import vaccines, personal protective equipment, and other necessities; they can use the money to support domestic spending — for example, to provide payments directly to residents or businesses — and they can use the money to cover debt obligations.

This addition to import capacity, in addition to directly saving lives by allowing for health-related spending such as for food, medicine, and water or sanitation infrastructure needs, is also vital in allowing for imports that the economy is dependent upon for production, e.g., fertilizers for food crops. Data show that 155 of 173 countries saw their imports fall from 2019 to 2020.

SDRs that are not exchanged for hard currency still help stabilize economies in their capacity as international reserves. These lower the risk of economic crises, including balance of payments, debt, and fiscal crises.

This report tracks how countries made use of SDRs after the IMF issued $650 billion worth to member countries, from August 23, 2021, until March 31, 2022. Apart from supplementing existing reserves, this report identifies three other main ways that countries have used SDRs:

- To acquire hard currency by exchanging them
- For fiscal uses, e.g., to support their domestic budgets or to reduce their external, non-IMF debt, and
- For IMF debt relief

The data show that during this period:

- 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 have used SDRs in at least two ways; and 10 countries, three ways.
- Forty-two countries have exchanged a large portion of the SDR allocation for hard currency; this amounted to a total of $17.0 billion.
- Fifty-five countries have used SDRs for IMF debt relief, totaling about $7.6 billion. The new SDRs were a lifeline for 23 of those countries, who would not have had enough resources in their holdings to pay the IMF without the new SDRs.
- At least 69 countries have included SDRs totaling $81.0 billion worth in their government budgets or used them for fiscal purposes.

The data show that sub-Saharan Africa is the region that has most benefited from the use of SDRs, with 41 of 45 countries using SDRs in some way. Additionally, countries have used SDRs to procure vaccines and for other pandemic relief; for ration cards, welfare payments, and wages; and for budget support, among other things.

However, the amounts received by low- and middle-income countries are still insufficient to prevent widespread and unnecessary loss of life from a global pandemic and/or economic downturn. Some high-income countries have committed to channeling their SDRs as additional support for poorer countries. However, current proposals for vehicles for such reallocation incorporate conventional IMF lending mechanisms involving new debt and conditionality. Bilateral lending or bilateral donations of SDRs are permitted under the Fund's Articles of Agreement, but to date there is little indication that this is being considered by high-income countries' governments, some of which face domestic legal or legislative hurdles that may prevent them from engaging in bilateral SDR transfers. Therefore, the most accessible, costless, and rapid way to get desperately needed aid to developing countries is through a new allocation of SDRs. No significant downside risks to a new allocation have been identified, or appear in the results of the last allocation or in any prior allocation.

Many developing nations still face major economic challenges, including unsustainable debt levels and other fiscal constraints. While more than half of an SDR allocation goes to high-income economies that do not need them, this does not lead to waste or maldistribution, because high-income countries do not use SDRs. The SDRs that go to high-income countries therefore do not involve any costs or use of resources; they are an accounting entry that is required by the IMF rules when an allocation is made. Although it can be argued that these rules should be changed, there is no argument that they undermine the positive impact that SDRs have on the developing countries who need them.

Although high-income countries do not use their SDRs, they still benefit indirectly from the SDR allocation. It is estimated that the United States lost more than 2 million export-related jobs from January 2020 to May 2021, due to the falloff in demand from the rest of the world, including much from developing countries.[7] The US economy, and workers in the US, therefore benefit significantly from the stabilizing impact of an SDR allocation on aggregate demand from the rest of the world for US exports.

7 See, e.g., Cashman (2021).

As this report demonstrates, the countries that have an actual need for the resources that SDRs can provide are those that use them. Furthermore, the available evidence shows that countries targeted by broad economic sanctions, or governments that are not recognized by the United States and its allies at the IMF, are unable to access SDRs. As detailed in this report, this is mainly because sanctions deter countries that could serve as counterparties in transactions from engaging in transactions with the sanctioned countries' central banks or other representatives. For example, this has been true for the Central Bank of Iran, which has been under sanctions since the Trump administration's withdrawal from the Joint Comprehensive Plan of Action as well as Syria and, more recently, Russia and Belarus.

There is therefore no basis for the concerns that some have expressed that SDRs will be used by sanctioned countries.

And despite the unequal distribution of SDRs among member countries, the $650 billion allocation in 2021 still accounted for the most substantial debt-free form of support for low- and middle-income countries during the pandemic. Data available about other initiatives, including the Debt Service Suspension Initiative (DSSI) from the Group of 20, and the Catastrophe Containment and Relief Trust (CCRT) from the IMF, show that these programs amount to a small fraction of the support received from SDRs.

It is instructive to compare the magnitude of the SDR allocation for developing countries to these prominent multilateral programs to help these countries cope with the COVID-19 pandemic and/or other public health disasters. The DSSI suspends — but does not cancel — "debt service payments from the poorest countries (73 low- and lower middle-income countries) that request the suspension. It is a way to temporarily ease the financing constraints for these countries and free up scarce money that they can instead use to mitigate the human and economic impact of the COVID-19 crisis."[8]

The amount of debt suspension under this initiative for the two years 2020–2021 is an estimated $6.9 billion. The 2021 SDR allocation to these countries, by comparison, was nearly four times as much, at $26.3 billion (see **Figure 2** in the report). And again, the $6.9 billion was not debt relief, but only suspension; so it is not nearly comparable to the SDRs in terms of resources made available.

8 IMF (2021l).

The CCRT is better in the sense that it "allows the IMF to provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters."[9] But in 2021, it provided a total of just under $1 billion in debt relief to the 31 countries. This compares to $8.1 billion that those same countries received in SDRs that year (see again **Figure 2**).

The global economy is facing serious shocks including price increases for food, fuel, and other commodities, resulting from the war in Ukraine.[10] Monetary and fiscal policy are also tightening in some countries in response to these shocks, and there is uncertainty about the continued course of the COVID-19 pandemic. Given the already extremely high levels of hunger, malnutrition, and risk of famine, much of the world is in dire need of the help that another allocation of Special Drawing Rights can bring. This policy has proven its effectiveness since last year.

9 IMF (2021c).
10 Kammer, Azour, et. al. (2022).

Introduction

In April 2020, the COVID-19 pandemic led the International Monetary Fund (IMF) to downgrade global growth projections for 2020 by 6.3 percentage points, making the pandemic the cause of the worst economic downturn since the Great Depression.[11] Later, in fall 2020, the World Bank projected that the pandemic would push between 110 million and 150 million more people into extreme poverty in 2020 and 2021.[12] The World Food Programme estimated that the pandemic could double the number of people facing acute hunger in 2020 without intervention.[13] Human development, as measured by the UN Development Programme Human Development Index, which measures health, education, and living standards, was projected to decline in 2020, for the first time since 1990.[14]

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.[15] This was in part because, even though these countries play an important role in the global economy, most low- and middle-income countries have fewer tools available to address major economic shocks. In March of 2020, IMF Managing Director Kristalina Georgieva was the first to propose 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."[16] 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.

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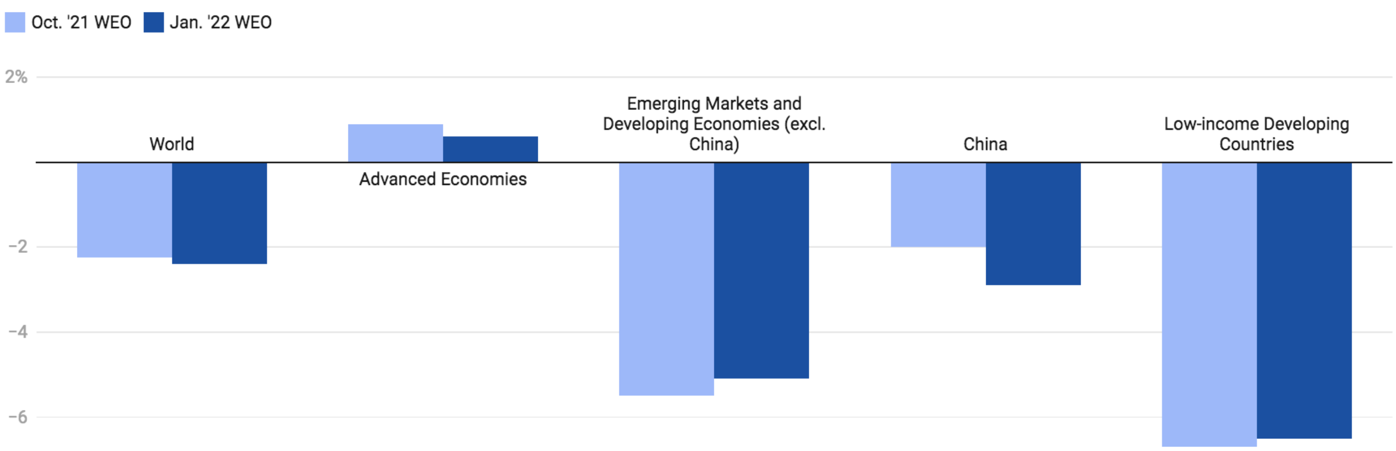
11 Gopinath (2020); this projection was slightly optimistic, as growth was slightly lower in 2020.
12 Freije-Rodríguez, Woolcock, et. al. (2020, v). Later, the World Bank projected that 97 million more people would be pushed into extreme poverty in 2020, and extreme poverty would decrease by 21 million in 2021, although they were careful to emphasize that the level of poverty was still very high compared to pre-pandemic levels, and that the trend of poverty reduction in the poorest countries has dramatically worsened (Mahler, Yonzan, et. al. 2021).
13 WFP (2020). Acute hunger in 2020 rose by 20 million (FAO 2021).
14 May 2020 projection, UNDP (2020). Human development did decline significantly in 2020 (UNDP 2022).
15 UNCTAD (2020b).
16 IMF (2020).

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.[17] In its recent January 2022 forecast, the IMF downgraded its projections for economic growth at the global level, and showed that divergent recoveries nevertheless persist (**Figure 1**).[18] In addition, the consequences of the Russian invasion of Ukraine contributed to economic downgrades for 143 countries, threatening global growth.[19] The war has already raised the prices of many commodities, with food and energy prices particularly affected.[20] Many countries, especially in North Africa and the Middle East, have seen the price of food staples rise sharply.[21] 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.[22] The war in Ukraine likely adds significantly to some of these figures.

Figure 1

Real Output, Percent Deviation from Pre-Crisis Trend (Data from IMF World Economic Outlook)

Medium-term output losses for emerging markets and developing economies are likely to be large



The bars show the difference in real output four years after the crisis and anticipated output for the same period prior to the crisis, for the indicated regional group.

Source: Adapted from Gopinath (2022).

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

17 Gopinath (2021), IMF (2022m), and UN (2021).
18 Gopinath (2022).
19 Wiseman (2022).
20 WFP (2022c) and Kammer, Azour, et. al. (2022).
21 WFP (2022d).
22 WFP (2022a).

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."[23] **Table 1** shows the approximate amount each IMF member country received from this allocation, as well as how the IMF categorizes these countries.

Table 1

Approximate Amount of 2021 Special Drawing Rights Allocation by IMF Member Country (USD millions)

By country, continent, and IMF categorization; abbreviated table, see the full table here: https://cepr.net/report/special-drawing-rights-the-right-tool-to-use/

Member Country	Continent	IMF Categorization	Approximate Amount of 2021 Allocation (USD millions)
World			***$650,000***
Afghanistan, Islamic Republic of*	Asia	Middle East and Central Asia	$442
Albania	Europe	Emerging and Developing Europe	$190
Algeria	Africa	Middle East and Central Asia	$2,675
Andorra	Europe	Advanced Economies	$113
Angola	Africa	Sub-Saharan Africa	$1,010
Antigua and Barbuda	North America	Latin America and the Caribbean	$27
Argentina	South America	Latin America and the Caribbean	$4,351
Armenia, Republic of	Asia	Middle East and Central Asia	$176
Australia	Oceania	Advanced Economies	$8,972
Austria	Europe	Advanced Economies	$5,368
Azerbaijan	Asia	Middle East and Central Asia	$535
Bahamas, The	North America	Latin America and the Caribbean	$249
Bahrain, Kingdom of	Asia	Middle East and Central Asia	$539
Bangladesh	Asia	Emerging and Developing Asia	$1,456

The exchange rate used is SDR 1=1.42426 USD, the rate at the time of the allocation. Numbers in the table may not sum to the totals due to rounding. An asterisk ("") indicates that the country cannot currently access SDRs (see Box 1).*

Source: Authors' analysis, IMF (2021n, 2021o, 2021p, 2022e), and the Bretton Woods Committee (2021).

See the full table here: *https://www.datawrapper.de/_/1cWuw/*

This report will focus on 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).

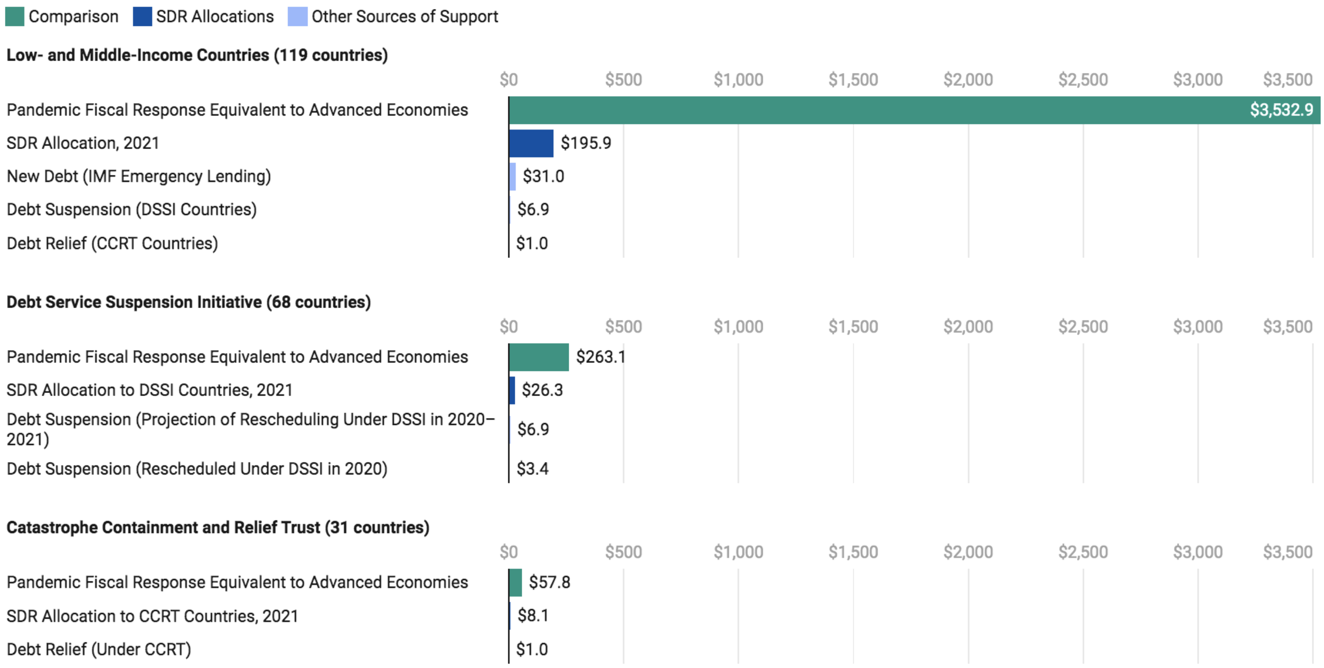
23 IMF (2021h).

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**).[24]

Figure 2

SDR Allocation in 2021, and Other Sources of Support, by Country Groupings (USD billions)

The 2021 allocation of Special Drawing Rights represented the best source of economic support for countries overall but falls short of what is needed



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. Data for the amount of relief under DSSI for 2021 is not yet available; it is assumed to be the same as 2020. Thirty-one countries received support under CCRT; at least 37 received support under DSSI.

Source: Authors' analysis, World Bank (2022b, 2022f), and IMF (2021f, 2021g).

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

24 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. When looking at all of these countries, the new 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. Not only do SDRs provide more support than these other sources, SDRs as a tool are significantly more valuable than new debt or debt suspension, and arguably, than debt relief. The data from Figure 2 also shows that while SDRs are a significant source of support, if low- and middle-income countries aimed to reach the level of fiscal support high-income countries implemented, this would be significantly larger than the 2021 SDR allocation. This suggests that more SDRs are needed to fill this gap.

proactively used their SDRs, either by exchanging SDRs for hard currency, using them for payments to the IMF, and/or by adding their SDRs to domestic budgets.[25] The data shows that SDRs are an invaluable resource and lifeline for these countries.

Since SDRs are an important tool in general and especially in the context of the pandemic, this report examines:

- Why SDR allocations are important as a policy tool
- The ways in which countries can use SDRs, and how countries actually used SDRs following the 2021 allocation, and
- The relationship between high-income countries and SDRs

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.[26] 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.[27]

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25 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 (2010), "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."

26 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. This is not to be confused with actual SDRs, which are money holdings allocated to countries and are settled when paid to the IMF or when exchanged for hard currency.

27 IMF (2018). These entities are 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, the United Kingdom; Canada, Chile, Mexico, the United States; Algeria (IMF 2021a), Oman, and Saudi Arabia. Brazil may also have become a VTA participant, or may become one in the near future.

There were a total of four SDR allocations from 1970 to 2009.[28] 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.[29] 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).

As a policy tool, SDRs have a number of characteristics that make them attractive for policymakers and governments.

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.[30] Then the IMF Board of Governors votes to approve an SDR allocation (these votes require 85 percent of the voting share to pass), and finally the IMF credits the accounts of its members. For the latest allocation, the IMF Board of Governors officially approved the $650 billion worth of SDRs on August 2, and credited member accounts on August 23.[31] SDRs are likely one of the fastest mechanisms by which the world can collectively respond to economic challenges. An SDR allocation does not require a new international treaty and, once the political will exists, can be operationalized swiftly. While the world has tried for decades to negotiate a global financial transaction tax or a global carbon tax, and it has spent almost a decade negotiating a digital tax and a minimum corporate tax (with very asymmetric results in terms of revenue for developing countries and difficult cross-border distributive tensions), SDRs are straightforward and take only months to become reality.

SDRs can be exchanged for hard currency on demand and relatively quickly, and they are freely convertible.[32] After the August 23 allocation, some countries used their new SDRs within days.[33] And 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.

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28 This includes general allocations and one special allocation (IMF 2021k).

29 IMF (2021k).

30 "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 2021k).

31 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 2021h).

32 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.

33 Arauz and Cashman (2021).

SDRs are nonreimbursable and have very low costs 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.[34] 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 currently just under 39 basis points (0.39 percent) as of mid-April 2022, and was just 5 basis points (0.05 percent) throughout 2020 and 2021.[35] Country officials value these specific characteristics of SDRs. The Senegalese minister of economy, planning, and international cooperation Amadou Hott explains these advantages well: "When countries receive SDRs, it is practically free financing. It is perpetual financing. The IMF is never going to say to the country, 'Give me back my SDRs one day.'"[36]

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.[37]

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. This greatly simplifies SDRs use by countries and enhances their value. 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. Senegalese minister Hott again explains this well: "SDRs must not be considered development aid because SDRs are issued by the IMF, not by developed countries in the context of their commitments to aid for development ...The idea is to replicate this financing instrument in our countries, so that there is no impact on the deficit and no impact on the debt ... [T]his will allow us to frontload a lot of projects ..."[38]

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. **Table 2** shows that "Emerging and Developing Economies" — the

34 Technically, the IMF has the power to cancel SDRs, but a vote approving a cancellation would be very unlikely. See IMF (2010).
35 IMF (2021m).
36 See CEPR (2022).
37 IMF (2021k).
38 See CEPR (2022).

IMF's category for low- and middle-income countries — excluding China, received in total just over $209 billion in the 2021 SDR allocation, or 32.2 percent of the total.

Table 2

2021 SDR Allocation by IMF Categorization; by broad and narrow categorization, with special aggregates

Low- and middle-income countries, excluding China, received over $209 billion worth of Special Drawing Rights from the 2021 allocation

Broad IMF Categorization	IMF Categorization	Approximate Share of 2021 Allocation (USD millions)	Percent of 2021 Allocation
World		***$650,000***	***100.0%***
Advanced Economies	Advanced Economies	$399,241	61.4%
Emerging and Developing Economies	Emerging and Developing Economies, total	$250,914	38.6%
	Emerging and Developing Asia	$84,361	13.0%
	Latin America and the Caribbean	$51,505	7.9%
	Middle East and Central Asia	$49,484	7.6%
	Emerging and Developing Europe	$42,634	6.6%
	Sub-Saharan Africa	$22,931	3.5%
Special Aggregates	Advanced Economies, plus China	$440,853	67.8%
	Emerging and Developing Economies, total excluding China	$209,302	32.2%
	Emerging and Developing Asia, excluding China	$42,749	6.6%
	Low-Income Countries	$21,508	3.3%

The exchange rate used is SDR 1=1.42426 USD. Numbers in the table may not sum to the totals due to rounding. SDRs allocated to advanced economies and countries that do not need them are not wasted and do not effectively represent a net real use (or claim) on resources (see text).

Source: Authors' analysis and IMF (2021p, 2022e, 2022g).

However, one advantage of SDRs as a policy tool is that they are not wasted. 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. Indeed, virtually all uses of SDRs since the allocation have been by low- and middle-income countries (see **Table 9**).

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 (see **Box 1**).

Box 1. SDRs and Sanctions

The SDR system works in large part due to the voluntary participation of countries in exchanges.[39] In this sense, it is effectively sanctions-compliant, meaning that the desire of its participants to comply with sanctions extends the sanctions to the system itself, without any additional rules or changes to the underpinnings of the system. Indeed, countries whose central banks are under broad US sanction regimes have, effectively, not been able to use SDRs.[40] This is because sanctions deter countries that could serve as counterparties in transactions from engaging in transactions with the sanctioned countries' central banks or other representatives.[41] This is true for the Central Bank of Iran, which has been under sanctions since the Trump administration's withdrawal from the Joint Comprehensive Plan of Action, as well as for Syria and, more recently, Russia and Belarus.[42]

In other cases, sanctions and ambiguity regarding the legitimate government of a country (usually after a coup d'état) have also prevented countries from exchanging SDRs. When the IMF Managing Director has suspended recognition of a country's government, the Executive Board's voting threshold likely requires the United States', or the United States' and Europe's, assent for the Managing Director to recognize it again. Without recognition, the aforementioned government cannot access its SDRs.[43] The combination of lack of IMF recognition and US sanctions is why Afghanistan, Myanmar, Sudan, and Venezuela have not been able to exchange their SDRs for hard currency.[44] Given how the SDR system currently works with regard to sanctions, US legislative efforts which seek to weaken the SDR system in order to formally incorporate US sanctions regimes are misguided.[45]

***Box Table 1** shows that countries either not recognized by the IMF or whose central banks are sanctioned by the US or the European Union, have not been able to exchange their SDRs. In the cases of Afghanistan and Myanmar, the minimal use is due to the fact that the IMF automatically debits countries' SDR accounts (even if it does not recognize their governments) when payments from previous IMF loans come due.*

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39 US Department of Treasury (2021b).

40 Treasury Assistant Secretary for Legislative Affairs John Davidson said there were "significant barriers" to these countries accessing their SDR holdings and, "This coalition will not undertake SDR transactions with Russia … Moreover, even if the Central Bank of Russia were able to acquire key usable currencies — US dollars, euro, yen, or pounds — as a result of an SDR transaction, new sanctions would effectively immobilize those assets, along with Russia's other foreign exchange reserves in these currencies." (Lawder 2022). IMF Managing Director Georgieva, speaking specifically about Russia said, "When it comes down to the use of SDRs, those of you that are familiar with the SDRs know that to be converted into currency, that has to be done with the involvement of financial intermediations, financial institutions and there has to be a willing party and at this point, given the sanction regime that is really unprecedented on Russia. This is highly, highly, highly improbable." (IMF 2022j).

41 Bretton Woods Committee (2021).

42 Iran International Newsroom (2022), Lawder (2021) and Politi and Foy (2022). In the case of Russia, its 2021 SDR allocation ($17.6 billion) represents less than 3 percent of its pre-sanction reserves, which were about $640 billion. Due to recently implemented sanctions, it is thought that Russia has access to over half of its reserves, or about $340 billion. The 2021 SDR allocation represents just over 5 percent of these remaining assets, and $17.6 billion is equivalent to barely 32 days of hydrocarbons revenue from European countries at current prices (Blas 2022 and Tan 2022).

43 IMF (2021n), IMF (2021o), and Xinhua (2022).

44 Small debits from Afghanistan and Myanmar's respective SDR holdings have occurred and are likely to have been initiated by the IMF itself in order to pay fees or other charges on other IMF accounts.

45 See, e.g. Kovaleski (2022).

Box 1. SDRs and Sanctions (cont.)

Box Table 1

SDR Holdings for Member Countries with Sanctioned Central Banks or Governments Unrecognized by the IMF, August 23, 2021 and March 31, 2022

Sanctioned countries or unrecognized governments cannot access their holdings of Special Drawing Rights (small changes, including declines in Afghanistan and Myanmar's respective holdings, are due to automatic debit transactions initiated by the IMF, see Box 1)

Member Country	Holdings from 2021 Allocation (SDR millions)		Mar. 31 Holdings as % of Aug. 23, 2021 Holdings
	on Aug. 23, 2021	on Mar. 31, 2022	
Afghanistan, Islamic Republic of	348	345	99.1%
Belarus, Republic of	1,027	1,027	100.0%
Iran, Islamic Republic of	4,972	4,972	100.0%
Myanmar	496	493	99.4%
Russian Federation	17,301	17,302	100.0%
Sudan	772	772	100.0%
Syrian Arab Republic	564	564	100.0%
Venezuela	3,611	3,610	100.0%

Source: Authors' analysis and IMF (2022e).

As Box Table 1 shows, heavily sanctioned countries have not made use of their newly allocated SDRs. This is mostly because of paramount risks involved in dealing with these countries, including the threat of secondary sanctions against central banks willing to exchange the SDRs. In fact, the threat of stigma exists even for non-sanctioned countries. Even the central bank of Yemen's internationally recognized government in Aden has been unable to find a counterparty with which to exchange its newly allocated SDRs.[46] This underscores that the SDR system — since 1987 — has worked on the principle of voluntary participation.[47]

Overarching sanctions already effectively prevent SDR transactions; there is no logical reason to limit a useful instrument to the rest of the world in order to exclude countries that would not be able to use their SDRs anyway.[48]

46 Barrington and Ghobari (2021).
47 CEPR (2021). "The last transaction with designation took place in August 1987 when Mexico sold SDRs to Austria, Denmark, the Netherlands, and Sweden for a total of SDR 12.5 million." (IMF 2009, 47).
48 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).

How Low- and Middle-Income Countries Used Special Drawing Rights Following the 2021 Allocation

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

Table 3
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

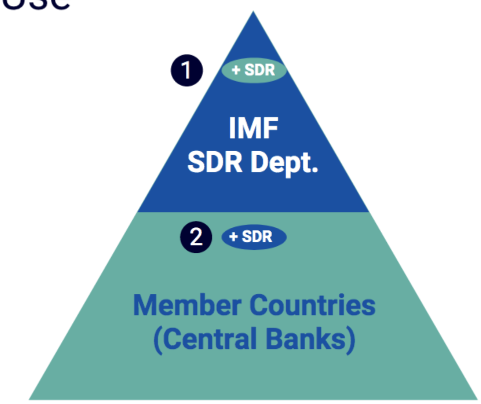
Source: Authors' analysis.

Reserves

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. This does not require any action besides updating the balance sheet. 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 these uses of SDRs as 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. Of course, if a country is holding SDRs as reserves, it means that it is not using them to directly address the health and social challenges posed by the pandemic. However, 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 (see the case of Colombia in **Box 2**).

Figure 3
Reserves Use



1. The IMF SDR Department issues new SDRs.
2. The IMF allocates the new SDRs to every Member Country's account at the IMF SDR Department. Each Member Country adds the new SDRs holdings to its reserve assets as an accounting entry. Reserves are usually managed by each country's central bank.

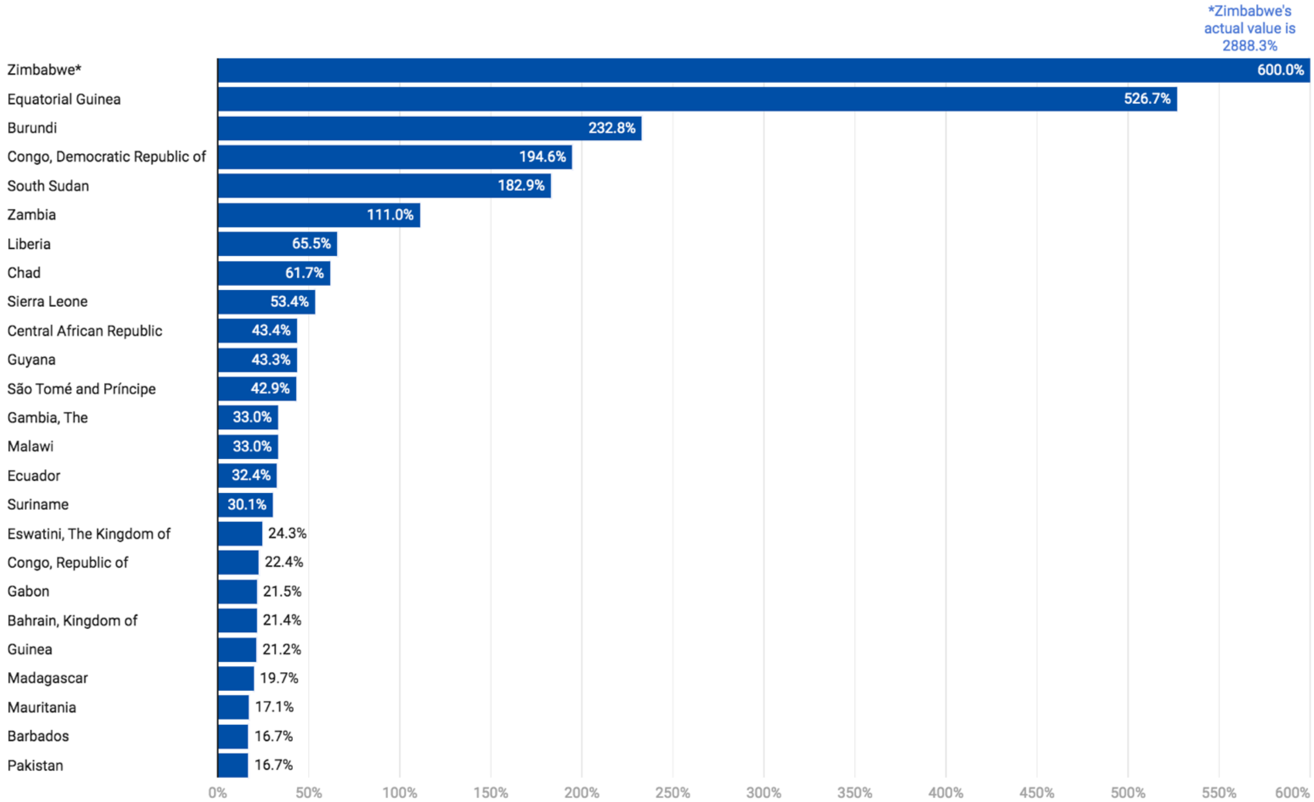
Source: Authors' analysis.

Since the 2021 allocation, SDRs have been credited as boosting the reserves of vulnerable countries.[49] **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 percent of their reserves.[50] Of the 152 IMF member countries with data available, 42 saw their reserves decline from 2019 to 2020, with Zimbabwe and South Sudan reducing their reserves by 77.9 and 51.5 percent, respectively.

49 See e.g., Economynext (2021) and Koc (2021).
50 Reserves are 2019 or 2020 data, whichever is smaller. At the start of the pandemic, some low- and middle-income countries imported less due to supply chain problems or a collapse in demand, which raised reserve levels. For these countries, 2019 data provides a more accurate picture of their reserve positions. Out of 190 countries, 25 have neither 2019 nor 2020 data available.

Figure 4
SDR Allocation from 2021 As a Proportion of Total Reserves, Top 25 Low- and Middle-income Countries

The 2021 allocation of Special Drawing Rights represented a significant amount of reserves for many countries

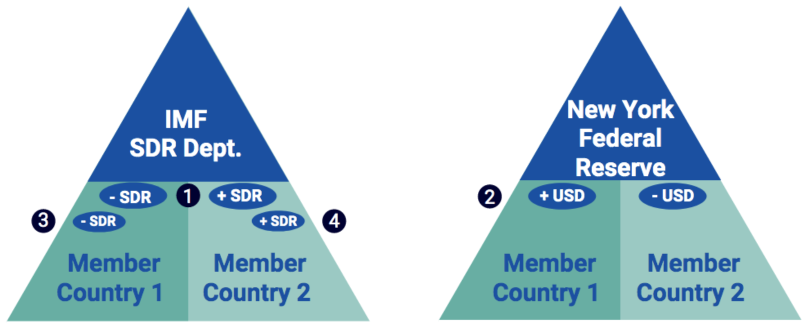


Reserves data is from either 2019 or 2020, whichever is smaller (see text). Out of 190 countries, 25 did not have reserves data for 2019 and 2020.
Source: Authors' analysis, World Bank (2022h), and IMF (2021p, 2022e).

Acquiring Hard Currency

Countries may also have a need to exchange SDRs for hard currency. Hard currency is useful in stabilizing currencies, paying for imports, and paying debt denominated in foreign currencies, among other things. 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. For example, tourism — a large source of hard currency for many countries — might have declined precipitously during the pandemic. Because hard currency is now scarce, the local currency may depreciate. This causes imports (oftentimes food or other necessities) to become more expensive. It 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.

Figure 5
Acquiring Hard Currency



1. Member Country 1 requests the IMF SDR Department to debit its own SDRs and credit them to Member Country 2's SDR account at the IMF's SDR Department.
2. Member Country 2 transfers hard currency (usually US dollars) to the Member Country 1's account at another bank (usually the New York Federal Reserve).
3. Every three months, the IMF SDR Department debits interest from Member Country 1's account on the SDRs it exchanged, if they caused its holdings to fall below its allocation.
4. Likewise, the IMF SDR Department credits interest to Member Country 2's account on the SDRs it acquired.

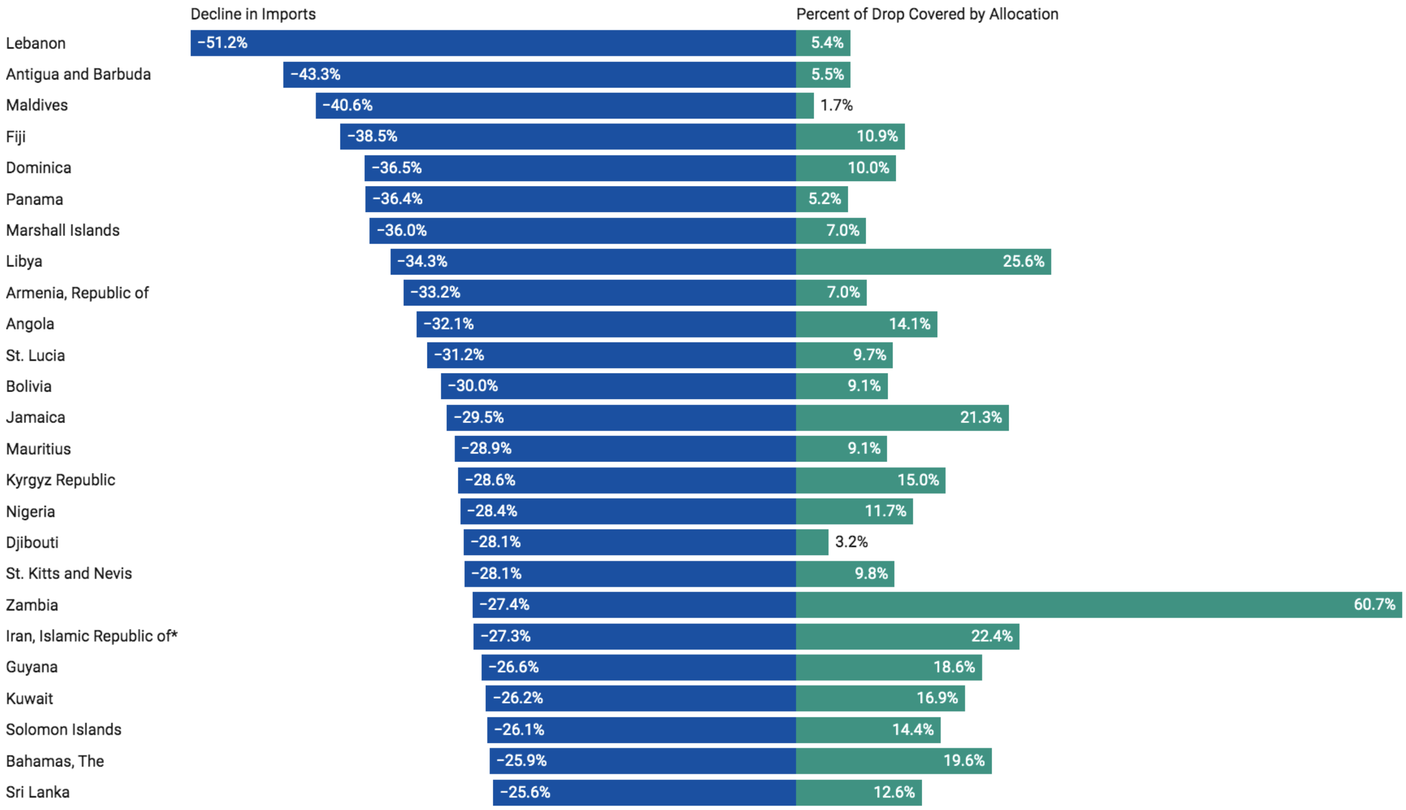
Source: Authors' analysis.

Hard currency is important to import necessities. For example, during the pandemic, imports dropped precipitously in many countries due to supply chain problems, a collapse in demand due to falling GDP, a collapse in available funds, or a combination of these. A key aim of SDRs is to allow for the import of essential items, including health-related goods, that became too expensive in the pandemic; and to prevent currency or balance of payments crises. **Figure 6** shows the top 25 low- and middle-income countries with the largest drop in imports from 2019 to 2020. Of 173 countries with data, 155 saw their imports decrease year-to-year. Of those, 110 countries saw their imports decrease by more than 10 percent. Unsurprisingly, low- and middle-income countries experienced the largest drops, comprising 64 of the top 65 by this measure.[51]

51 The advanced economy with the largest drop in imports was Iceland, but this was the 34th largest drop overall — about 23 percent.

Figure 6
Decline in Imports Compared to 2021 SDR Allocation, Top 25 Low- and Middle-Income Countries

The 2021 Special Drawing Rights allocation allows for some countries to make up for the reduction of imports in 2020



Import data is on a balance of payments basis if possible. Data is available for 173 countries; 155 countries had declines in imports year-over-year. Iceland was the advanced economy with the largest drop in imports (about 23 percent), but only the 34th biggest drop among all countries. An asterisk ("") indicates that the country cannot currently access SDRs (see Box 1).*

Source: Authors' analysis, IMF (2021p, 2022e), and World Bank (2022d, 2022e). .

Fiscal Use

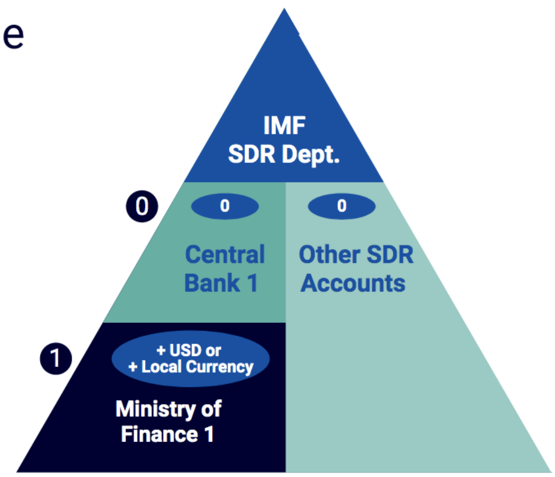
As mentioned, fiscal use is recorded in the internal monetary layer of a member country. The fiscal use of SDRs can happen in two main ways:

- Using SDRs to reduce a country's deficit or debt, and
- Facilitating new spending, such as on health priorities (e.g., vaccines and tests, personal protective equipment), or on social priorities (e.g., income support, subsidies)

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, and a country can also 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.

Figure 7
Fiscal Use



1 Central Bank 1 credits (hard or local) currency to the Ministry of Finance 1's account at Central Bank 1.

0 No SDR movement at the IMF SDR Department is required, but if additional government spending (such as imports) pressures hard currency reserves, Central Bank 1 may exchange SDRs for hard currency (see Figure 5).

Source: Authors' analysis.

It is important to note that there is a strong case that SDRs are owned by governments and not by central banks, especially when considering the historical use of SDRs with respect to IMF loan programs and their closeness to fiscal budgets.[52] Indeed, the IMF Articles of Agreement state that SDRs belong to IMF "members," i.e., national governments (and not central banks).[53] Recent IMF guidance supports these assertions, and indicates there is considerable leeway in what accounting treatment SDRs receive.[54] Governments ultimately have the authority to prescribe certain accounting treatments and incorporate their ownership into law. Latindadd's *Handbook for the Use of Special Drawing Rights SDRs for Fiscal Purposes* goes into more detail regarding the

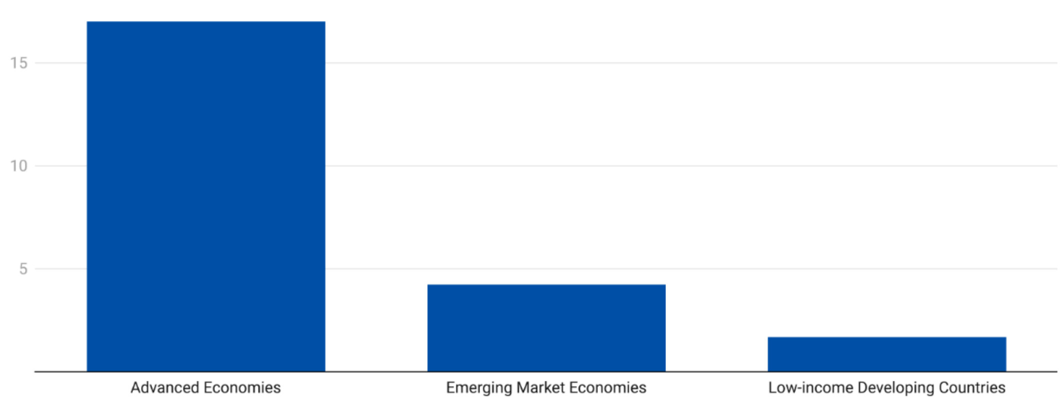
52 Arauz (2021). In the United States, Canada, and the United Kingdom, SDRs are directly accounted in, and owned by, government agencies and not their central banks.
53 Articles XV and XVII of IMF (2010).
54 "Members enjoy a large degree of freedom in how to manage the SDRs allocated to them, including 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 2021e, footnote 13).

legal and accounting possibilities for SDRs.[55] 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. Indeed, other uses for SDRs — as reserves, for example — could be seen as a way to, when used correctly, indirectly open up more fiscal space. 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.[56] The rest of the world — with the vast majority of the world's population — has far fewer options for countercyclical, expansionary fiscal policy, or for relief spending. **Figure 8** shows IMF estimates of the revenue and spending measures for high-income economies versus low- and middle- income countries, immediately before the SDR allocation.[57]

Figure 8
Total Revenue and Spending Measures in Response to COVID-19, Percent of 2020 GDP; 2020 and beyond

Fiscal support in advanced economies has far exceeded similar measures in low- and middle-income countries



The figure includes past and future fiscal measures as listed in the July 2021 vintage IMF Fiscal Monitor.
Source: Adapted from Gopinath (2021).

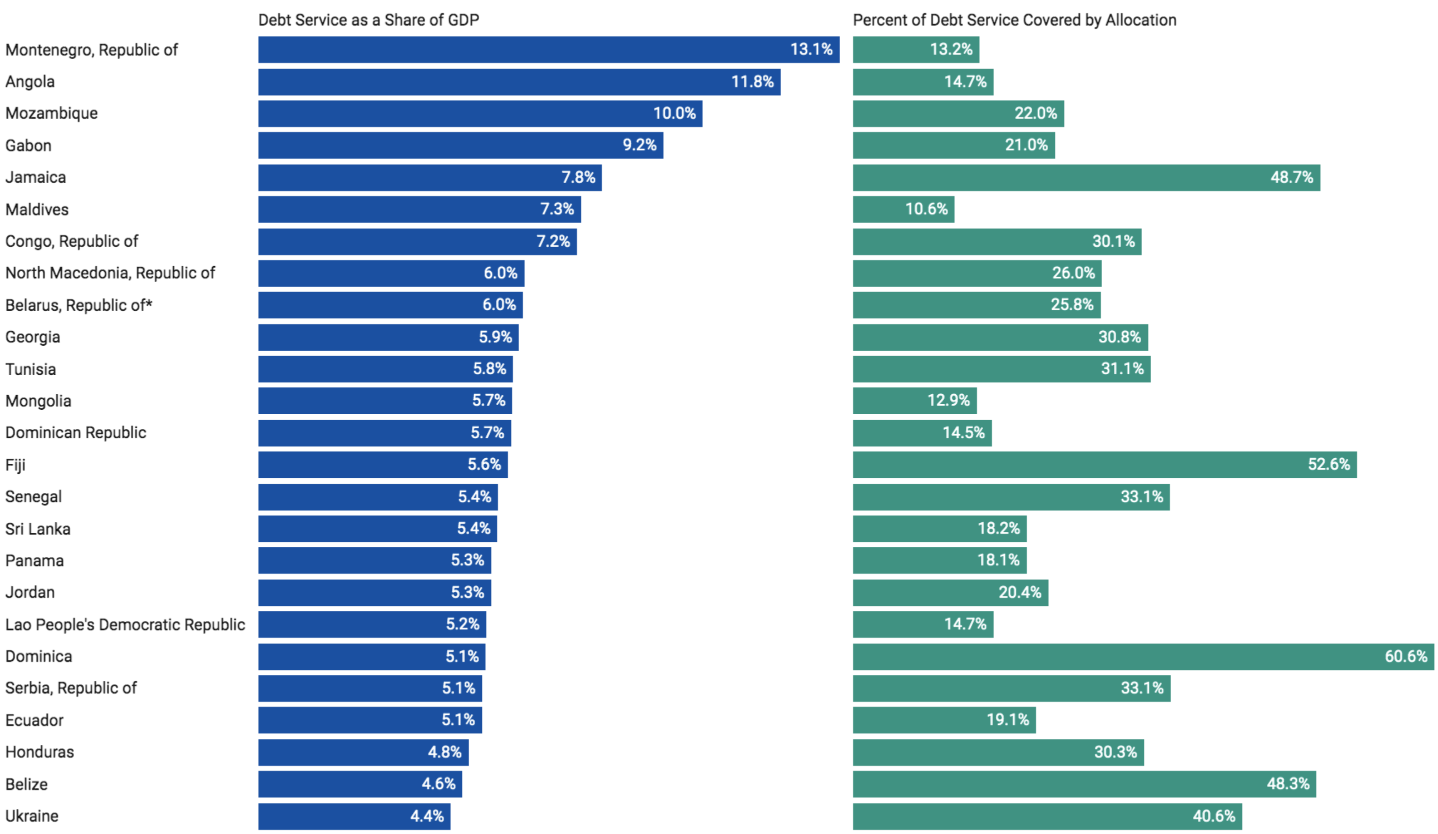
55 Latindadd (2021b).
56 The US Federal Reserve extended unlimited swap lines to the central banks of the European Union, the United Kingdom, Japan, Switzerland, and Canada. Nine other countries received more limited swap lines. Altogether, this meant that 33 countries with about 17.7 percent of the 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).
57 See also: IMF (2021j).

One way to see this fiscal pressure is from high levels of public foreign debt service from 2020. Foreign debt is usually denominated in dollars; therefore in times of crisis, this debt can become a significant burden, especially if countries face shortages of hard currency. **Figure 9** shows the top 25 low- and middle-income countries by the share of public foreign debt service to GDP, for 2020. Of the 117 countries with data available, 66 experienced an increase in their debt service costs relative to GDP from 2019 to 2020. Montenegro had the largest debt service as a share of GDP, at 13.1 percent; SDRs from the 2021 allocation would cover 13.2 percent of this debt service. Dominica has a lower debt service, at 5.1 percent of GDP, but 60.6 percent of this would be covered by the 2021 SDR allocation — the most of any country.

Figure 9

Public Foreign Debt Service as a Share of 2020 GDP as Compared to 2021 SDR Allocation, Top 25 Low- and Middle-Income Countries

Special Drawing Rights from the allocation represent a significant portion of several countries' public debt service in 2020



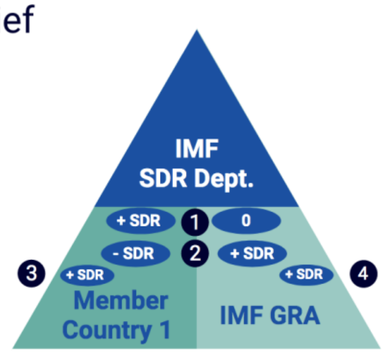
There were 117 countries with data available, all of them low- or middle-income. Of those, 66 experienced an increase in their debt service costs relative to GDP, while 48 experienced a decrease in those costs (although several of these countries are involved in IMF programs or have had debt relief). Debt service includes principal repayments and interest. An asterisk ("") indicates that the country cannot currently access SDRs (see Box 1).*

Source: Authors' analysis, IMF (2022e), and World Bank (2022a).

IMF Debt Relief

Finally, a country can directly use newly created SDRs to pay the IMF for prior IMF loans or obligations (fees, charges, principal, and interest) — without exchanging them for hard currency (**Figure 10**). 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. There is a significant need for this.

Figure 10
IMF Debt Relief



1. The IMF SDR Department allocates new SDRs into Member Country 1's account (see Figure 3).
2. Member Country 1 uses the SDRs to pay the IMF General Resources Account (GRA) for previous obligations. Debt to IMF is extinguished.
3. Every three months, the IMF SDR Department debits interest payments from Member Country 1's SDR accounts on the amount of SDRs used.
4. Likewise, the IMF SDR Department credits interest payments to the IMF GRA.

Source: Authors' analysis.

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.[58] 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 percent 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. Of course, this reduction of reserves for the high-income countries would have virtually no impact on them: first, because they would not convert these SDRs to hard currency or use them for budget support; and second, the fact that markets know that they will not be used would tend to negate their economic impact as reserves.

In December 2021, the IMF reported, "using model-based estimates consistent with the October 2021 World Economic Outlook (WEO) baseline, new demand for Fund programs, including successor arrangements, could reach nearly SDR 148 billion [approximately $204 billion] over FY 2022–23." The IMF projects that by April 2024, 68 countries will have outstanding loans with the IMF for approximately $215 billion, of which 38 will be large loans for around $200 billion.[59]

58 IMF (2022i).
59 IMF (2021i).

How Countries Have Used Special Drawing Rights

A snapshot of country financial positions with the IMF is released monthly and extends to the last day of the previous month.[60] 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.

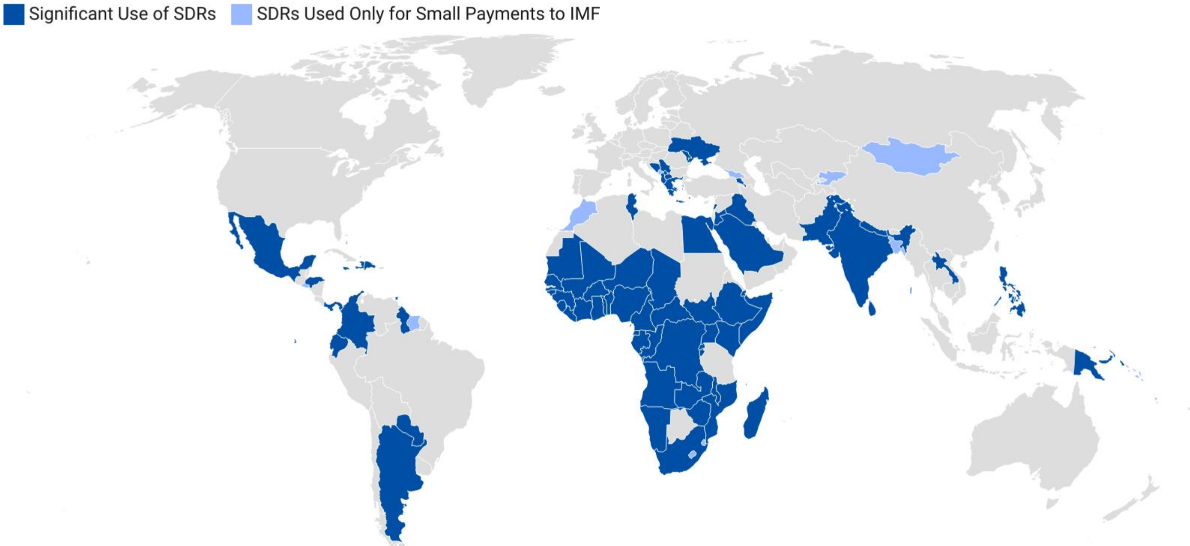
Figure 11 shows a map of the 98 identified countries that used SDRs from the 2021 allocation on August 23, 2021 until March 31, 2022.

Figure 11

Ninety-Eight Countries Have Used Special Drawing Rights from August 23, 2021 to March 31, 2022

These countries have used SDRs for IMF debt relief, exchanged them for hard currency, and/or used them in their national budgets for fiscal uses

Significant Use of SDRs   SDRs Used Only for Small Payments to IMF



A caret ("^") denotes that Saudi Arabia appears to have used its SDRs in order to extend financing to Pakistan and Egypt. Fiscal uses and exchange/IMF debt relief uses are not necessarily additive.

Source: Authors' analysis and IMF (2022e).

See the full map here: *https://www.datawrapper.de/_/vbVcD/*

60 IMF (2022e).

Since the 2021 allocation:

- 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 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. This is over seven times as much as the 2009 allocation. The new SDRs were a lifeline for 23 of those countries, who would not have had enough resources in their holdings to pay the IMF without the new SDRs.
- 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.

Table 4 summarizes these findings, while **Table 5** compares the 2009 and 2021 allocations in inflation-adjusted and percentage terms.

Table 4

IMF Member Countries by their Use of SDRs, August 23, 2021–March 31, 2022

Ninety-eight countries used Special Drawing Rights in some way, representing $105.6 billion in uses

Use of SDRs	Number of Countries	Amount	Notes
Any use	at least 98	$105.6 billion	The total amount of SDR used for international payments (exchanged for hard currency or used for IMF debt payments) is known and reported below. However, SDRs can be used domestically by recording them directly on the governments' accounts or leveraged to finance a concessional hard currency or local currency central bank loan to the government. Domestic transactions that can occur independently of, and in addition to, international payments.
Exchanged for Hard Currency	42	$17.0 billion	42 countries have exchanged a large portion of the SDR allocation for hard currency: Antigua and Barbuda, Argentina, Armenia, Bosnia and Herzegovina, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Djibouti, Ecuador, Egypt, Equatorial Guinea, Ethiopia, Gabon, Guinea, Guyana, Haiti, Honduras, Iraq, Jamaica, Jordan, Laos, Lebanon, Malawi, Maldives, Mauritania, Moldova, Nauru, North Macedonia, Paraguay, São Tomé and Príncipe, Serbia, Somalia, South Sudan, Sri Lanka, Tunisia, Ukraine, and Zimbabwe
IMF Debt Relief	55	$7.6 billion	55 countries have used SDRs for IMF debt relief. The new SDRs were a lifeline for 23 of those countries, who would not have had enough resources in their holdings to pay the IMF without the new SDRs. Those countries are: Albania, Argentina, Armenia, Barbados, Bosnia and Herzegovina, Dominica, Dominican Republic, Ecuador, Egypt, Ghana, Greece, Grenada, Iraq, Jordan, Kenya, Mauritania, Moldova, Namibia, North Macedonia, Sri Lanka, St. Vincent and the Grenadines, Tunisia, and Ukraine.
Fiscal Use	at least 69	at least $81.0 billion	This group of countries is determined from country-by-country research based on IMF staff reports, government websites, and reporting. The majority of countries report spending on COVID-19 relief, capital expenditures, and covering the deficit (avoiding new debt). Note: Many countries have recorded them in their budgets but have not converted them to hard currency. Colombia and Mexico governments received dollar equivalent loans from the central banks. Argentina recorded SDRs in its budget twice and peso-equivalents twice (first two transactions recorded here only). Countries in this group are: Albania, Angola, Antigua and Barbuda, Argentina, Benin, Bosnia and Herzegovina, Burkina Faso, Cabo Verde, Cameroon, Central African Republic, Chad, Colombia, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Ecuador, Egypt, Equatorial Guinea, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Iraq, Kenya, Kosovo, Lebanon, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mexico, Moldova, Mozambique, Nauru, Nepal, Niger, Nigeria, North Macedonia, Pakistan, Palau, Panama, Papua New Guinea, Paraguay, Philippines, Rwanda, São Tomé and Príncipe, Saudi Arabia^, Senegal, Serbia, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Togo, Trinidad and Tobago, Tunisia, Uganda, Ukraine, Zambia, and Zimbabwe.

A caret ("^") denotes that Saudi Arabia appears to have used its SDRs in order to extend financing to Pakistan and Egypt.

Source: Authors' analysis and IMF (2022e).

Table 5
2009 and 2021 SDR Allocations Compared by Use

The 2021 Special Drawing Rights allocation was a considerable success, surpassing the 2009 allocation by every indicator

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	98
Percent Used for IMF Debt Relief	1.30%	3.64%
Percent Used for Hard Currency	6.07%	8.13%
Percent Used for Fiscal Use	4.75%	38.76%

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).

Table 5 shows that the 2021 SDR allocation was a considerable success when compared to the 2009 allocation using select indicators. 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 percentage points higher. Although these indicators do not encompass all uses of SDRs, they clearly show that the 2021 allocation was badly needed and that the use was, in general, much higher.

Table 6 shows the 75 countries that exchanged SDRs for hard currency and/or used them for IMF debt relief, totaling $17.0 billion and over $7.6 billion, respectively.[61] Since the 2021 allocation, 29 countries have used the entirety of the new SDRs as either IMF debt relief or to acquire hard currency. Four of those countries — Armenia, Lebanon, Republic of the Congo, and Argentina — used significantly more, indicating they drew down on SDR holdings that they had prior to the allocation as well.

61 Bangladesh, Senegal, and the Kyrgyz Republic, on net, acquired SDRs in the market. They might do this in anticipation of a future IMF payment or to seek improved yields, for portfolio reasons. In March, Argentina received a $9.6 billion disbursement in SDR as part of a new IMF loan to repay its old IMF loan. In March, Argentina paid $2.8 billion.

Table 6

IMF Member Countries that Exchanged SDRs or Used SDRs for IMF Debt Relief, August 23, 2021–March 31, 2022 (USD millions)

Twenty-nine countries used virtually all of their Special Drawing Rights allocation — or more — to acquire hard currency or for IMF debt relief; abbreviated table, see the full table here: https://cepr.net/report/special-drawing-rights-the-right-tool-to-use/

Member Country	IMF Categorization	Amount 2021 Allocation	Amount Exchanged SDRs	Amount IMF Debt Relief	SDR Holdings Used as Percent of 2021 Allocation
Lebanon	Middle East and Central Asia	$865	$1,121	$0	131.9%
Congo, Republic of	Sub-Saharan Africa	$221	$278	$0	128.0%
Argentina	Latin America and the Caribbean	$4,351	$125	$5,102	122.2%
Armenia, Republic of	Middle East and Central Asia	$176	$162	$36	114.6%
Ukraine	Emerging and Developing Europe	$2,746	$1,870	$901	102.7%
Ecuador	Latin America and the Caribbean	$952	$840	$121	102.6%
Tunisia	Middle East and Central Asia	$744	$655	$92	102.1%
Jordan	Middle East and Central Asia	$468	$453	$16	101.8%
Jamaica	Latin America and the Caribbean	$523	$514	$8	101.5%
Ethiopia	Sub-Saharan Africa	$410	$406	$3	101.3%
Honduras	Latin America and the Caribbean	$341	$336	$3	101.0%
Moldova, Republic of	Emerging and Developing Europe	$235	$222	$11	100.9%
North Macedonia, Republic of	Emerging and Developing Europe	$192	$188	$2	100.9%
Bosnia and Herzegovina	Emerging and Developing Europe	$362	$357	$1	100.8%
Equatorial Guinea	Sub-Saharan Africa	$215	$211	$0	100.1%

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.

Source: Authors' analysis and IMF (2022e).

See the full table here: *https://www.datawrapper.de/_/r0MmZ/*

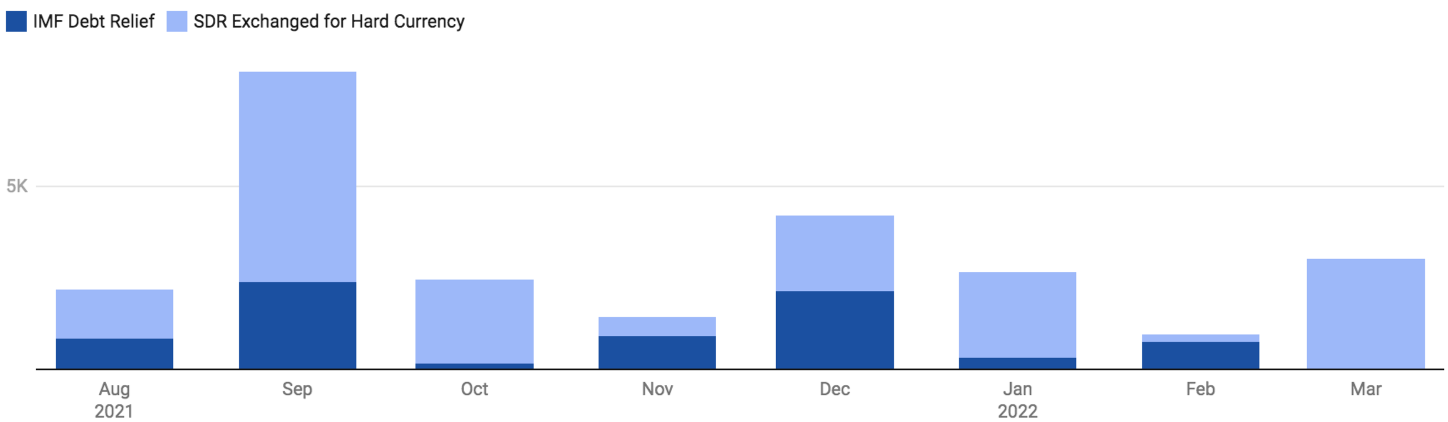
Figure 12 shows the same data aggregated by month. In the last week of August, post allocation, countries obtained about $1.3 billion in hard currency and about $852 million in IMF debt relief. September — the first full month after the allocation — had about $5.8 billion converted to hard currency, 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. The Sri Lankan government was explicit about this: "The authorities appreciate the general allocation of SDRs by IMF in August 2021, under which Sri Lanka received SDR 554.8 million. The authorities are also of the view that an earlier disbursement could have been more useful in preventing undue Sovereign rating downgrades observed across the globe since the onset of the pandemic."[62]

Levels for debt relief and hard currency 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. (See **Appendix Tables A1** and **A2** for breakdowns by country by month.)

Figure 12

SDRs Exchanged for Hard Currency and SDRs Used for IMF Debt Relief, August 23, 2021–March 31, 2022, by Month (USD millions)

Special Drawing Rights were used heavily after the allocation and saw consistent use in the months that followed



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. For a breakdown by country, see Appendix Tables 1 and 2. Exchange or IMF debt relief uses of SDRs are not necessarily additive with fiscal uses.

Source: Authors' analysis and IMF (2022e).

Countries also used SDRs for fiscal purposes. **Table 7** shows 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.

Notable uses include: Argentina paid the IMF $5.1 billion in allocated SDRs as part of an IMF debt inherited from the prior government. In the process, Argentina also accounted for SDRs in its budget twice (see Box 2); Mexico used SDRs to refinance debt on its state-owned oil company; and Saudi Arabia used SDRs to extend financing to Egypt and Pakistan. This shows that fiscal uses of

62 IMF (2022h).

SDRs can significantly increase the amount of resources a country can access, under the right legal and institutional circumstances. Quite a few countries indicated they used SDRs for direct pandemic relief or social needs, including but not limited to Albania, Benin, Cabo Verde, Chad, Comoros, The Gambia, Guinea-Bissau, Guyana, Haiti, Lebanon, Liberia, Madagascar, Nepal, Pakistan, Paraguay, São Tomé and Príncipe, Sierra Leone, South Sudan, Uganda, and Zambia.

As previously discussed, fiscal uses do not necessarily require exchanging SDRs for hard currency. However, it is clear that some countries did exchange SDRs for hard currency in order to use those resources fiscally.

Table 7

IMF Member Countries that Used SDRs for Fiscal Purposes, August 23, 2021–March 31, 2022 (USD millions)

Fifty countries used virtually all of their Special Drawing Rights allocation — or more — for fiscal purposes; abbreviated table, see the full table here: https://cepr.net/report/special-drawing-rights-the-right-tool-to-use/

Member Country	IMF Categorization	Approximate Amount of 2021 Allocation	Amount of Fiscal Use	Fiscal Use as a Percent of 2021 Allocation ▼
Argentina	Latin America and the Caribbean	$4,351	8,554	200.0%
Lebanon	Middle East and Central Asia	$865	1,121	131.9%
Congo, Republic of	Sub-Saharan Africa	$221	278	128.0%
Ecuador	Latin America and the Caribbean	$952	840	102.6%
Ukraine	Emerging and Developing Europe	$2,746	1,870	102.4%
Tunisia	Middle East and Central Asia	$744	655	102.1%
Ethiopia	Sub-Saharan Africa	$410	406	101.3%
Moldova, Republic of	Emerging and Developing Europe	$235	222	100.9%
North Macedonia, Republic of	Emerging and Developing Europe	$192	188	100.9%
Bosnia and Herzegovina	Emerging and Developing Europe	$362	357	100.8%
Equatorial Guinea	Sub-Saharan Africa	$215	211	100.1%
Malawi	Sub-Saharan Africa	$189	186	100.0%
Chad	Sub-Saharan Africa	$191	188	100.0%
São Tomé and Príncipe	Sub-Saharan Africa	$20	20	100.0%
Cabo Verde	Sub-Saharan Africa	$32	32	100.0%

The exchange rate used is SDR 1=1.4 USD. Numbers in the table may not sum to the totals due to rounding. A caret ("^") denotes that Saudi Arabia appears to have used its SDRs in order to extend financing to Pakistan and Egypt. Fiscal uses of SDRs are not necessarily additive with exchange use or IMF debt relief use.

Source: Authors' analysis, IMF (2022e), and various other sources (see table).

See the full table here: https://www.datawrapper.de/_/pa6IG/

Table 8 shows all IMF member countries and whether they had at least one use of SDRs from August 2021 to the end of March 2022, along with selected social and economic indicators. The GDP per capita column has a heat map with three shades at natural breakpoints; darker shades indicate higher GDP per capita. Of the 98 countries that had at least one use of SDRs, no countries were in the highest category of GDP per capita; six countries (the Bahamas, Greece, Panama, Saudi Arabia, Seychelles, and Trinidad and Tobago) were in the middle category of GDP per capita, and only one of those six (Greece) is identified by the IMF as an advanced economy.[63] Other poverty-related indicators — both economic and social — generally correlate with SDR use as well. As a tool, the use of the 2021 allocation of SDRs appears to have been well-targeted to those countries that need the resources.

Table 8

IMF Member Countries by SDR Use and Social and Economic Indicators, August 23, 2021–March 31, 2022

GDP per capita heatmap is divided at three natural breakpoints, darker shading indicates higher values; countries that used Special Drawing Rights tend to have much lower GDP per capita values, and do worse on a variety of social and economic indicators; abbreviated table, see the full table here: https://cepr.net/report/special-drawing-rights-the-right-tool-to-use/

Member Country	At Least One Use of SDRs	GDP per capita (USD PPP)	Sovereign Rating	External Debt (% of GDP)	% with ≥ One Vaccine Dose	Covid Tests per 1,000	Hospital Beds per 1,000
Burundi	Yes	$771		17.4%		28	0.8
Somalia	Yes	$987		52.9%	1.2%	12	0.9
Central African Republic	Yes	$987		18.8%	2.9%	12	1.0
Congo, Democratic Republic of	Yes	$1,141	CCC+ ↑	9.2%	0.1%	3	0.8
Niger	Yes	$1,288		29.3%	1.6%	6	0.4
Mozambique	Yes	$1,297	CCC+	72.7%	5.1%	26	0.7
Liberia	Yes	$1,468		30.2%		25	0.8
Madagascar	Yes	$1,544		26.9%	0.7%	8	0.2
Malawi	Yes	$1,591		18.4%	3.2%	19	1.3
Eritrea+	No	$1,600				129	0.7
South Sudan+	Yes	$1,600			0.5%	18	
Chad	Yes	$1,602		27.2%	0.2%	8	0.4
Sierra Leone	Yes	$1,726		31.5%	2.0%	20	0.4
Guinea-Bissau	Yes	$1,948		49.5%	1.4%	44	1.0
Afghanistan, Islamic Republic of*	No	$2,078		9.7%	1.9%	19	0.4

The heatmap has three natural breakpoints (Jenks) to simulate low-, middle-, and high-income countries; darker shading indicates higher values. The latest data available is used for social and economic indicators. For COVID-19 tests and vaccine doses, data was collected from the closest point to August 23, 2021. External debt stock data is from 2020 at the latest. Sovereign debt ratings are from S&P. GDP per capita is in international dollars (PPP). An asterisk ("") indicates that the country cannot currently access SDRs (see Box 1). A superscript plus sign ("+") denotes that GDP per capita data for these countries are estimates that may be significantly out-of-date or inaccurate.*

Source: Authors' analysis, IMF (2021p), Our World in Data (2022a, 2022b), World Bank (2022a, 2022c, 2022g), Trading Economics (2022), Worldometer (2021), and CIA (2022).

See the full table here: *https://www.datawrapper.de/_/fCfxc/*

63 It is important to note that Saudi Arabia appeared to use its SDRs to extend financing to other countries (Egypt and Pakistan) rather than use them domestically.

Table 9 reinforces the view that 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.[64]

Table 9

IMF Member Countries Using SDRs, by Income Group, August 23, 2021–March 31, 2022 (USD millions)

Special Drawing Rights were extensively used by low- and middle-income countries

Income Group	Countries That Used SDRs	Aggregate Amount of 2021 Allocation for Users	Aggregate SDRs Exchanged	...as a Share of Allocation	Aggregate 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%	$362	2%	$10,741	65%
Middle-income	41 of 84	$84,672	$12,683	15%	$7,191	8%	$70,277	83%
High-income	1 of 36	$3,316	$0	0%	$11	0%	$0	0%

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).

Low-income countries that used SDRs acquired about $4.3 billion in hard currency (26 percent of their aggregate SDR allocation), used $362 million for IMF debt relief (2 percent), and had over $10.7 billion worth of fiscal uses (65 percent). Middle-income countries acquired about $12.7 billion in hard currency (15 percent of their aggregate SDR allocation), used SDRs for $7.2 billion in IMF debt relief (8 percent), and had about $70.3 billion worth of fiscal uses (83 percent). Even though fiscal uses are not necessarily additive — because of the distinct monetary layers — with debt relief or exchange uses, the high percentage of use of SDRs for fiscal uses across both income groups, together with other uses, suggests that if a country decided to use SDRs from the new allocation, it tended to use a significant portion.

64 The Greek economy is still recovering from major crises over the last decade. See Weisbrot and Montecino (2012).

Table 10 shows SDR use by usage type across continents and IMF geographic categories. 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.

Table 10

IMF Member Countries Using SDRs, by Geographic Grouping, August 23, 2021–March 31, 2022 (USD millions)

Special Drawing Rights were critical to many geographic areas — especially Africa — and fiscal uses dominate

Geographic Grouping	Eligible Countries That Used SDRs	Aggregate Amount of 2021 Allocation for Users	Aggregate SDRs Exchanged	...as a Share of Allocation	Aggregate 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%	$855	3%	$20,330	75%
Asia	16 of 40	$44,147	$4,542	10%	$459	1%	$35,973	81%
Europe	9 of 16	$8,130	$3,429	42%	$992	12%	$3,726	46%
North America	14 of 20	$15,913	$986	6%	$33	0%	$7,978	50%
Oceania	6 of 12	$454	$1	0%	$2	0%	$361	80%
South America	6 of 12	$8,793	$1,478	17%	$5,222	59%	$12,650	144%
Emerging and Developing Asia	14 of 30	$23,877	$758	3%	$122	1%	$20,938	88%
Emerging and Developing Europe	8 of 16	$4,815	$3,429	71%	$981	20%	$3,726	77%
Latin America and the Caribbean	20 of 32	$24,706	$2,464	10%	$5,256	21%	$20,628	83%
Middle East and Central Asia	14 of 31	$25,911	$7,051	27%	$865	3%	$18,619	72%
Sub-Saharan Africa	41 of 45	$21,903	$3,282	15%	$329	2%	$17,107	78%

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.

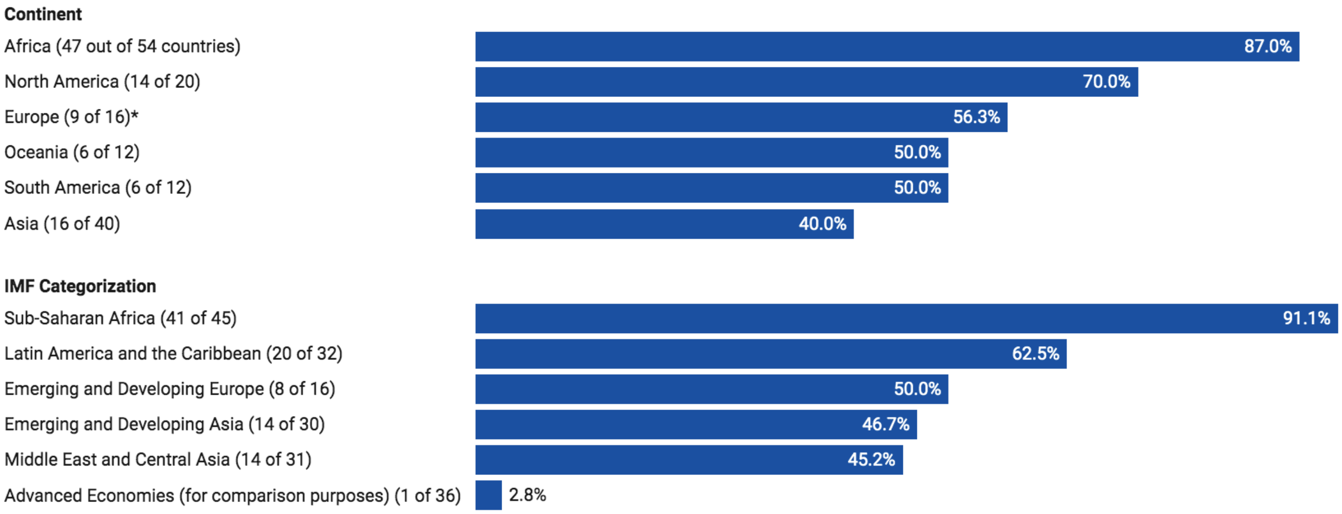
Source: Authors' analysis and IMF (2022e).

Figure 13 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, 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 percent. In contrast, only one advanced economy (Greece, as previously discussed), of 36 total used SDRs.

Figure 13

2021 SDR Allocation and Other Sources of Support; By Country Groupings (USD billions)

African countries used Special Drawing Rights the most, both by number of countries and take up rate



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).

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. Developing countries have long sought a development "link" for SDR allocations.[65] While this link can continue to be discussed as a treaty amendment, or as an *ad hoc* procedure for SDR rechanneling, it is clear that — even with the current distribution — further allocations are justified because the use of SDRs is properly targeted.

There are considerable opportunities for countries that have not used their SDRs in fiscal uses to do so, especially those low-income countries listed in Table 8 as not having used SDRs to date. These countries, if needed, could use their SDRs for spending, although there may be domestic legal considerations that constrain that use. Countries that need fiscal space should endeavor to streamline their laws regarding SDR accounting so that there is clarity that SDRs are the property of national governments. This fits with the IMF framework regarding SDRs and ensures that national governments have as many options available as possible regarding using SDRs.

65 UNCTAD (1985, 82—101).

Box 2. Examples of Fiscal Uses

Paraguay was the first country to preemptively propose legislation to transfer ownership of SDRs to the government, and to leave the central bank responsible only for executing liquidity-related transactions requested by the government.[66] The government receives US dollars in its central bank account for spending purposes. In this design, the Paraguayan government does not incur debt with its central bank. This method has been applied by many countries, including Tunisia, Ecuador, and Bosnia and Herzegovina.[67]

Other countries have applied what the IMF calls "onlending." This is an erroneous term as it would imply that a central bank lends the same SDRs that were received at the IMF SDR Department. What actually happens, as in the case of the Central Bank of the West African Monetary Union, is that the central bank keeps the SDRs on the asset side of its balance sheet and additionally gives out a new loan (new asset) to the corresponding government for an equivalent amount in local currency, thus expanding its balance sheet.[68] The central bank may then decide to convert the SDRs to hard currency. Many countries in Africa have applied this method, mainly on recommendation from the IMF.

Many central banks do not proceed with the transfer or the loans to governments before having converted the SDRs into hard currency. The conversion to hard currency is not necessary, but central banks may be following portfolio management or accounting practices that seek to minimize exchange rate risk in currencies other than the standard unit of account (usually the US dollar).

Colombia applied a different method.[69] It defined that, given the SDR allocation, its reserves were sufficiently high and it could sell an equivalent amount of US dollars to its government in exchange for domestic-currency bonds. In the case of Colombia, government foreign currency assets are not part of the official reserves. The Colombian central bank has not converted any SDRs into hard currency, but the government has more dollar liquidity available as a consequence of the allocation.

Mexico proceeded similarly.[70] The central bank sold foreign exchange to the government in exchange for domestic currency. The government then used the fresh foreign currency to buy back debt issued by its state-owned oil company.

Argentina decreed that the SDRs belong to the government, not the central bank, and domestically recorded the SDRs as above-the-line budget revenue.[71] The government then sold the SDRs to the central bank for pesos. Furthermore, the government then borrowed the SDRs from the central bank (now recorded as below-the-line budget revenue) in exchange for an SDR-denominated, USD-payable, long-term domestic bond. The government

66 Congreso de la Nación Paraguaya (2021).
67 Banque Centrale de Tunisie (2021), IMF (2021d), and Y.Z. (2021).
68 IMF (2022l).
69 Latindadd (2021a).
70 Averbuch, Stillman, and Villammil (2021).
71 Boletín Oficial de la República Argentina (2021).

then used the actual SDRs to pay previous IMF debt in what amounted to debt relief. Most recently, in March 2022, Argentina received SDR 7 billion as the first tranche of a new loan from the IMF, and continued to use SDRs to pay previous IMF debt; in this case, this is no longer

Box 2. Examples of Fiscal Use (cont).

debt relief (and not accounted as such in this report), as the SDRs were not issued and allocated by the IMF's SDR Department, but rather borrowed from the IMF's General Resources Account.[72]

High-Income Countries and Special Drawing Rights

"Advanced economies" — or high-income countries — received over 60 percent 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 (see Table 2).[73] These countries normally have plentiful access to hard currency — including to the currencies they issue and to dollar swaps mentioned above — 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 almost never used. For these reasons — unless there is a true 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.[74]

One key aspect of the mechanism by which SDRs are allocated and used is the Voluntary Trading Arrangements, or VTAs.[75] These bilateral arrangements between the IMF and certain entities allow them to buy and sell SDRs, on the initiation of the counterparty. This process is managed by IMF staff, who distribute purchases and sales across VTA participants by considering a number of

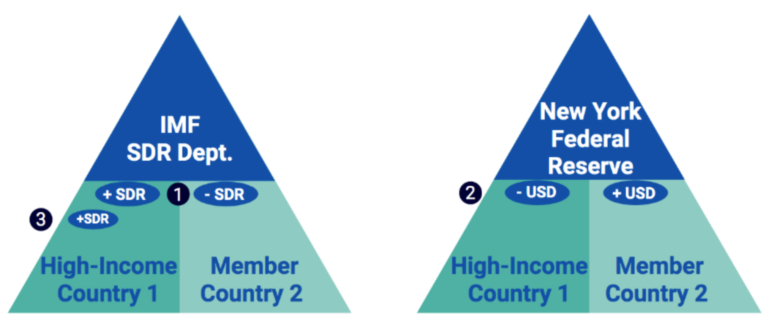
72 IMF (2022a).
73 Bretton Woods Committee (2021).
74 Rich countries do have an important part to play in any SDR allocation. As net buyers of SDRs, these countries earn a modest amount of interest on SDRs that they accept in exchange for hard currencies (see Box 3). It is also important to note that most countries hold hard currencies as reserves, or in a few cases issue them outright as their own domestic currencies (for example the five currencies that comprise the basket that sets the value of an SDR). This means that the majority of high-income countries can readily exchange these currencies for SDRs. In other words, the five entities that issue the currencies that make up the SDR basket are not the sole entities that can exchange hard currencies for SDRs; other high-income countries do as well. In 2020, the composition of total foreign exchange reserves for all economies consisted of: US dollars, 58.9 percent; euros, 21.3 percent; Japanese yen, 6.0 percent; pounds sterling, 4.7 percent; Chinese renminbi, 2.3 percent; other currencies, 6.7 percent (IMF 2022c).
75 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.

factors.[76] 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 (three countries — Oman, Lithuania, and Algeria — joined in 2021 and four are currently in negotiations).[77]

Between August 23, 2021 and March 31, 2022, VTA members plus Brazil purchased a net $17.0 billion worth of SDRs. In the first week after the allocation, VTA members purchased a net $1.0 billion. September was the most active month; they purchased a net $6.1 billion; in October, it was a net $2.7 billion; in November, a net $157 million; in December, a net $2.2 billion; and in January, a net $2.4 billion. VTA members are also sellers of SDRs, since it is important to add liquidity to the SDR market in both directions. In February, VTA members sold a net $435 million worth of SDRs (notably, Norway, Switzerland, and Australia sold a collective SDR 500 million). In March, VTA members bought a net $2.9 billion worth of SDRs.

Apart from the buying and selling of SDRs, 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."[78] **Figure 14** is a simplified illustration of how a high-income country might buy SDRs in exchange for hard currency.

Figure 14
High-Income Country Use



1. High-Income Country 1 executes the request from the IMF SDR Department to exchange hard currency for SDRs and confirms the receipt of SDRs.
2. High-Income Country 1 transfers hard currency (usually US dollars) to the Member Country 2's account at another bank (usually the New York Federal Reserve).
3. Every three months, the IMF SDR Department credits interest to High-Income Country 1's account for the SDRs it received, if they caused its holdings to go above its allocation.

Source: Authors' analysis.

76 IMF (2021b).
77 IMF (2021a).
78 IMF (2021k).

How have individual VTA participant countries used their SDRs since the August 2021 allocation? **Table 11** shows VTA participants plus Brazil based on their net change in SDR holdings from August 2021 to March 2022.

Table 11

IMF Voluntary Trading Arrangements (VTA) Participants Plus Brazil and Change in SDR Holdings, August 23, 2021–March 31, 2022 (USD millions)

Countries that exchanged hard currency for Special Drawing Rights do not face a significant change in the composition of their reserves by participating in these transactions

Member Country	IMF Categorization	Amount of Reserves in 2021	Net Change in SDR Holdings	Net Change in SDR Holdings as Percent of Reserves
United States	Advanced Economies	$251,568	$2,370	0.9%
China	Emerging and Developing Asia	$3,426,908	$1,719	0.1%
Japan	Advanced Economies	$1,405,750	$1,626	0.1%
United Kingdom	Advanced Economies	$239,192	$1,110	0.5%
Canada	Advanced Economies	$106,615	$986	0.9%
Brazil*	Latin America and the Caribbean	$362,204	$822	0.2%
Germany	Advanced Economies	$296,046	$802	0.3%
France	Advanced Economies	$244,513	$773	0.3%
Korea	Advanced Economies	$463,118	$648	0.1%
Italy	Advanced Economies	$227,704	$614	0.3%
Australia	Advanced Economies	$58,640	$612	1.0%
Sweden	Advanced Economies	$62,365	$605	1.0%
Belgium	Advanced Economies	$41,895	$593	1.4%
European Central Bank	n.a.		$590	
Mexico	Latin America and the Caribbean	$207,745	$439	0.2%
Chile	Latin America and the Caribbean	$51,330	$258	0.5%
Spain	Advanced Economies	$92,232	$233	0.3%
Portugal	Advanced Economies	$166,050	$226	0.1%
Algeria	Middle East and Central Asia	$59,434	$210	0.4%
Switzerland	Advanced Economies	$1,109,981	$197	0.0%
Denmark	Advanced Economies	$82,207	$158	0.2%
Austria	Advanced Economies	$33,984	$131	0.4%
Finland	Advanced Economies	$16,750	$114	0.7%
Oman	Middle East and Central Asia	$15,007	$98	0.7%
Ireland	Advanced Economies	$13,240	$91	0.7%
Israel	Advanced Economies	$213,218	$82	0.0%
New Zealand	Advanced Economies	$16,113	$73	0.5%
Slovenia, Republic of	Advanced Economies	$2,268	$65	2.9%
Slovak Republic	Advanced Economies	$9,615	$56	0.6%
Lithuania, Republic of	Advanced Economies	$5,581	$28	0.5%
Cyprus	Advanced Economies	$1,613	$24	1.5%
Saudi Arabia	Middle East and Central Asia	$455,370	$12	0.0%
Greece	Advanced Economies	$14,463	−$11	−0.1%
Norway	Advanced Economies	$84,459	−$39	−0.1%
Netherlands, The	Advanced Economies	$64,508	$705	1.1%
Malta	Advanced Economies	$1,149	−$0	−0.0%

The exchange rate used is SDR 1=1.4 USD. Reserves data is Official Reserves Assets from the IMF's International Reserves and Foreign Currency Liquidity (IRFCL) database for December 2021. Data for Algeria and Oman is from December 2020 and from the World Bank. An asterisk ("") signifies that Brazil is not currently a VTA member but will likely be one in the future.*

Source: Authors' analysis, IMF (2022d), and World Bank (2022h).

As a percentage of the country's reserves, the SDRs that Slovenia bought were the most significant, comprising about 3 percent of its reserves, followed by Cyprus at 1.5 percent. This suggests that VTA participants do not face a significant burden when buying SDRs, given that they represent a very small share of these countries' reserves.

In absolute terms, the United States was the largest net buyer of SDRs over this period, adding about $2.4 billion to its holdings (see **Box 3** for more on the United States' SDR holdings). The United States is followed by China and Japan, purchasing $1.7 billion and $1.6 billion, respectively. It is worth noting two points. The first is that these purchases do not represent a significant percentage of the three countries' respective allocations or reserves. For these countries, the SDRs purchased represent 0.9 percent, 0.1 percent, and 0.1 percent of their total reserves holdings, respectively. Second, China, a country with very large international reserves and with its currency included in the basket that gives the SDR its value, is an important buyer of SDRs. This data settles the question of China's role in SDR exchange. It is not an SDR user; it adds liquidity to the SDR market by selling its hard currency, like the rich countries do.[79]

The data from Table 11 also 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 percent of GDP. While this amount of resources is significant, richer countries responded to the pandemic with fiscal measures orders of magnitude higher than this (see **Figure 8**). 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 percent of these countries' GDP. In addition, this amount would average less than 1 percent of these countries' reserves.

79 For an example of this debate, see Hill (2021).

Box 3. What Is the United States Doing With Its SDRs?

The United States received the largest SDR allocation in 2021, over $113 billion, because it has the largest quota share at the IMF.

As a VTA member, the United States primarily bought SDRs from countries seeking to acquire hard currency in the months following the 2021 allocation. This means the United States earns a modest amount of interest on the SDRs it purchases, given those purchases raise its holdings above its allocation. For example, assume the United States swapped $10 million for an equivalent amount of SDRs with another country. If both countries started at the point where their holdings equaled the amount of SDRs that each respectively was allocated, at the end of the transaction, the other country's holdings would fall below its allocation, and the US's holdings would be above its allocation. The other country would have $10 million of hard currency at its disposal, but would pay a modest amount of interest to the IMF SDR Department. The IMF would forward this amount to the United States based on the difference between its holdings and its allocation.

The data show that US holdings jumped in August 2021 with the allocation on August 23. US holdings over allocation stayed relatively constant until November 2021, when it acquired about SDR 200 million. In December, it acquired SDR 400 million more. During 2022, the US purchased SDR 550 million in January, SDR 4 million in February, and SDR 539 million in March.

In the US, the SDRs are not held by its central bank (the Federal Reserve), they are held by an agency of the Department of Treasury called the Exchange Stabilization Fund (ESF). If the ESF does not have enough dollars at hand, it can issue perpetual domestic bonds, called SDR certificates, to be mandatorily purchased by the Federal Reserve Bank of New York.[80] This process does not entail a cost to the United States.[81] The US's holdings at the end of January 2022 generated at most $275,000 in interest per month.[82] In February, a similar level of holdings generated a maximum of $507,000 per month. In March, this rose to $808,000. This shows that an SDR allocation does not entail a cost to Americans, but rather generates a very small positive income flow.

It should be noted that the media reported in March that the United States had exchanged $560 million for SDR 400 million from Ukraine in December.[83] Due to the ongoing war with Russia, the IMF is establishing a trust for Ukraine that may allow for SDRs to be loaned or transferred to the country.[84]

However, the United States has made no commitment to rechannel, donate, or otherwise make use of its SDRs thus far (see Table 14).

80 US Department of Treasury (2021a).
81 GPO (2022).
82 Since transaction-level data is not available, maximum monthly interest is reported, which assumes that all monthly transactions are completed on the first of the month.
83 Lawder (2022).
84 Martin (2022a).

Box 3. What Is the United States Doing With Its SDRs? (cont.)

Box Table 2

United States SDR Holdings and Approximate Interest Earned by Month, July 31, 2021–March 31, 2022 (SDR millions unless noted)

The United States has very slight net positive interest earnings as a net buyer of Special Drawing Rights

Month	SDR Allocation	SDR Holdings	Holdings Over Allocation	Net Change Compared to Previous Month	Interest Rate	Maximum Monthly Interest (dollars)
Jul. '21	35,316	36,767	1,451	0	0.05%	$84,651
Aug.	114,862	116,316	1,454	3	0.05%	$84,825
Sep.	114,862	116,316	1,454	0	0.05%	$84,825
Oct.	114,862	116,316	1,454	0	0.05%	$84,825
Nov.	114,862	116,512	1,650	196	0.05%	$96,261
Dec.	114,862	116,912	2,050	400	0.06%	$143,035
Jan. '22	114,862	117,462	2,600	550	0.09%	$274,536
Feb.	114,862	117,466	2,604	4	0.17%	$506,681
Mar.	114,862	118,006	3,144	539	0.22%	$807,853
Total Interest						***$2,167,493***

The exchange rate used is SDR 1=1.4 USD. Interest rates are approximate and calculated using weekly data. Monthly data represents the end of the month. Maximum interest assumes new monthly changes occurred on the first of the month.

Source: Authors' analysis, IMF (2021m, 2022k), and Lawder (2022).

More Resources for Low- and Middle-Income Countries

Prior to the pandemic, in 2014, the United Nations estimated that low- and middle-income countries faced an investment gap of $2.5 trillion annually that they would need to meet the Sustainable Development Goals.[85] This grew to about $3.5 trillion annually.[86] 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.[87] Last fall, IMF Managing Director Kristalina Georgieva said, "the pandemic remains the biggest risk to economic health, and its impact is made worse by unequal access to vaccines and large disparities in fiscal firepower."[88] 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.[89]

New Allocations of Special Drawing Rights

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).[90] 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.[91] The US House of Representatives has approved this amount; this provision was included in the

85 UNCTAD (2014).
86 Doumbia and Lauridsen (2019).
87 UNCTAD (2020a, 2020b).
88 Georgieva (2021).
89 IMF (2022b).
90 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).
91 Warren (2022) and Martin (2022b).

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. **Table 12** shows the approximate amount each country would receive with this potential new allocation, while **Table 13** shows the amounts for each IMF category.

Table 12

Approximate Amount of Special Drawing Rights Allocation by IMF Member Country, If There Is a New 1.5 Trillion SDR General Allocation

By country, continent, and IMF categorization; select countries; abbreviated table, see the full table here: https://cepr.net/report/special-drawing-rights-the-right-tool-to-use/

Member Country	Continent	IMF Categorization	SDR 1.5T Allocation (SDR millions)	SDR 1.5T Allocation (USD millions)
World			*1,500,000*	*$2,100,000*
Afghanistan, Islamic Republic of*	Asia	Middle East and Central Asia	1,050	$1,470
Albania	Europe	Emerging and Developing Europe	450	$630
Algeria	Africa	Middle East and Central Asia	6,150	$8,610
Andorra	Europe	Advanced Economies	300	$420
Angola	Africa	Sub-Saharan Africa	2,400	$3,360
Antigua and Barbuda	North America	Latin America and the Caribbean	60	$84
Argentina	South America	Latin America and the Caribbean	10,050	$14,070
Armenia, Republic of	Asia	Middle East and Central Asia	450	$630
Australia	Oceania	Advanced Economies	20,700	$28,980
Austria	Europe	Advanced Economies	12,450	$17,430
Azerbaijan	Asia	Middle East and Central Asia	1,200	$1,680
Bahamas, The	North America	Latin America and the Caribbean	600	$840
Bahrain, Kingdom of	Asia	Middle East and Central Asia	1,200	$1,680

The exchange rate used is SDR 1=1.4 USD. Numbers in the table may not sum to the totals due to rounding. An asterisk ("") indicates that the country cannot currently access SDRs (see Box 1).*

Source: Authors' analysis and IMF (2022f).

See the full table here: *https://www.datawrapper.de/_/ErInd/*

Table 13

New SDR 1.5 Trillion Allocation by IMF Categorization (By broad and narrow categorization, with special aggregates)

Low- and middle-income countries, excluding China, would receive over $688 billion worth of Special Drawing Rights from a new SDR 1.5 trillion general allocation

Broad IMF Categorization	IMF Categorization	Approximate Share of New SDR 1.5 Trillion Allocation (USD millions)	Percent of New SDR 1.5 Trillion Allocation
World		***$2,100,000***	***100.0%***
Advanced Economies	Advanced Economies	$1,289,332	61.4%
Emerging and Developing Economies	Emerging and Developing Economies, total	$810,668	38.6%
	Emerging and Developing Asia	$272,421	13.0%
	Latin America and the Caribbean	$166,506	7.9%
	Middle East and Central Asia	$159,828	7.6%
	Emerging and Developing Europe	$137,985	6.6%
	Sub-Saharan Africa	$73,928	3.5%
Special Aggregates	Advanced Economies, plus China	$1,423,747	67.8%
	Emerging and Developing Economies, total excluding China	$676,253	32.2%
	Emerging and Developing Asia, excluding China	$138,006	6.6%
	Low-Income Countries	$69,203	3.3%

The exchange rate used is SDR 1=1.42426 USD. Numbers in the table may not sum to the totals due to rounding. As with the 2021 allocation, SDRs allocated to advanced economies and countries that do not need them are not wasted and do not effectively represent a net real use (or claim) on resources (see text).

Source: Authors' analysis and IMF (2021p, 2022f, 2022g).

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.[92]

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 their reserves levels and 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

92 Ellsworth (2021).

exporting industries, including the United States, which lost an estimated more than 2 million export-related jobs from January 2020 to May 2021.[93]

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.[94] However, there are legal and institutional obstacles to these rechanneling efforts.[95] 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.[96] In fact, the US Congress failed to include the authorization to recycle its SDRs in its omnibus spending bill approved in March.[97] 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.

In addition, as **Table 14** shows, firm commitments for rechanneling have not materialized from high-income countries. Only about $36 billion — of the nearly $441 billion worth of SDRs allocated to high-income countries and China — has been committed to some sort of rechanneling.

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93 Cashman (2021).
94 Martin (2022a) and Pazarbasioglu and Ramakrishnan (2022).
95 Plant (2022b).
96 This is a poor argument for not investing these SDRs, since seven months ago these reserve assets did not even exist on these countries' balance sheets.
97 Plant (2022a).

Table 14

List of Commitments from Advanced Economies and China to Rechannel SDRs, By Country

Commitments from richer countries and China to rechannel Special Drawing Rights fall far short of what low- and middle-income countries need

Member Country	Approximate Commitment (USD billions)	Percent of 2021 Allocation	Notes
China	$10.0	24.5%	African countries (Ministry of Foreign Affairs, Bloomberg News)
France	$5.4	20.0%	African countries (United Nations)
United Kingdom	$5.4	19.5%	Out of which, on-lend SDR 1 billion to PRGT (Government of United Kingdom)
Spain	$2.6	20.0%	Up to 20 percent to IMF initiatives; on-lend $350 million to PRGT (Twitter)
Italy	$4.0	19.8%	Vulnerable countries (Ministry of Economy and Finance)
Canada	$2.9	19.8%	Support low-income and other vulnerable countries; on-lend $982 million to PRGT (Prime Minister's office)
Japan	$4.0	9.7%	On-lend to PRGT (Ministry of Finance, Institute for Security & Development Policy)
Korea	$0.6	5.5%	On-lend to PRGT and RST (The Korea Herald)
Australia	$0.4	4.1%	On-lend to PRGT (Treasurer of the Commonwealth)
Netherlands, The	$0.4	3.6%	On-lend to PRGT (House of Representatives of the Netherlands)
United States	$0.0	0.0%	No commitment (Secretary of the Treasury)
Total SDRs Allocated to Advanced Economies and China in 2021	***$440.9***	***100.0%***	***n.a.***
Total Rechanneling Commitments	***$35.7***	***8.1%***	***n.a.***

The exchange rate used is SDR 1=1.4 USD. Current exchange rates are used for other currencies. Percentages and amounts are calculated from stated rechanneling commitments, if necessary.

Source: Authors' analysis, IMF (2022e), One Campaign (2022), Plant (2022b), Irish (2021), Todd, Wigens, and Röder (2022), and various other sources (see table).

While debt relief, voluntary rechanneling commitments, and various other proposals (including the new RST) should be supported, the simplest and most straightforward proposal would be for high-income countries and China to 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.

This option maintains the unique benefits of SDR use — no conditionality, no cost for allocations or lending, and very low costs for the countries that exchange SDRs for hard currencies — without creating a new mechanism for this vitally needed support.

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.[98]

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.[99] 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.[100]

98 WFP (2022c).
99 See, for example, Gallagher, Gao, et. al. (2021).
100 UN (2022).

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Appendix

Appendix Table A1

Amount of Special Drawing Rights Used for IMF Debt Relief, August 23, 2021–March 31, 2022

By month and country, SDR; Heatmap is divided into six breakpoints, darker shading indicates higher values

Member Country	Aug. 23–31 '21	Sep.	Oct.	Nov.	Dec.	Jan. '22	Feb.	Mar.	Net Change, Aug.–Mar.
Afghanistan, Islamic Republic of*				1,200,000		1,200,000	450,000		2,850,000
Albania	17,669,565		1,962,500	6,459,677	1,962,517		17,474,934		45,529,193
Angola	11,761,156			13,594,423	28		15,335,588		40,691,195
Argentina	243,640,257	1,326,713,750		274,703,917	1,326,713,794	210,297,313	262,005,402	2,014,213,750	5,658,288,183
Armenia, Republic of	1,247,969	978,333		2,173,982	19,365,842		1,153,204	978,333	25,897,663
Bahamas, The	482,735			482,735	5		490,326		1,455,801
Bangladesh	940,937	9,142,300	27,426,800	940,937	27,426,901			9,142,300	75,020,175
Barbados	1,252,643			1,320,829	13		1,398,823		3,972,308
Benin	218,440			218,440					436,880
Bosnia and Herzegovina							1,025,420		1,025,420
Cameroon				216,755	6				216,761
Comoros	31,374			31,374	28				62,776
Côte d'Ivoire	2,631,301			17,260,401	46,646,470		2,655,367		69,193,539
Dominica				615,000		205,000			820,000
Dominican Republic	1,263,475			1,263,475	1		1,283,343		3,810,294
Ecuador	26,927,069			28,111,438	49		31,196,479		86,235,035
Egypt	93,869,864			100,940,608	60		100,157,114		294,967,646
El Salvador	360,453			760,096	12		772,045		1,892,606
Equatorial Guinea	77,510			138,676	19				216,205
Eswatini, The Kingdom of	207,756			207,756	14		211,028		626,554
Ethiopia	1,034,573			1,034,573	15				2,069,161
Gabon					5,952,489				5,952,489
Georgia	1,732,118				31		1,736,698		3,468,847
Ghana		8,302,500	8,302,500		5,958,000	20,216,500		8,302,500	51,082,000
Greece				3,996,329	13		4,059,167		8,055,509
Grenada				200,000	400,000	404,000			1,004,000
Honduras	590,596			667,726	10		756,571		2,014,903
Iraq				74,013,327	56,874,997				130,888,324
Jamaica	1,876,840			1,845,513			1,778,978		5,501,331
Jordan	2,665,765			3,346,218	878,891		4,190,202		11,081,076
Kenya	584,387		14,384,200	8,089,951	16,419,717		1,080,992		40,559,247
Kosovo	200,723			174,522			150,182		525,427
Kyrgyz Republic	313,354				6				313,360
Lesotho	61,506	568,000							629,506
Mauritania					3,312,000				3,312,000
Moldova, Republic of	2,283,534		1,392,000	1,999,142	17		2,297,288		7,971,981
Mongolia	1,081,285			1,083,359	17		1,150,288		3,314,949
Montenegro, Republic of	160,118			160,118	3		162,636		482,875
Morocco	3,969,334			3,969,334	16		4,031,754		11,970,438
Myanmar*	911,852			911,860			926,192		2,749,904
Namibia	122,163			505,761	4		513,714		1,141,642
Nigeria	6,496,019			6,496,019	10		6,598,164		19,590,212

North Macedonia, Republic of	371,315			371,315	7		377,151		1,119,788
Pakistan	25,311,238			23,372,272			21,678,601		70,362,111
Panama	997,230			997,230	6		1,012,909		3,007,375
Samoa				580,000					580,000
São Tomé and Príncipe			137,428		100,428				237,856
Senegal	702,524			799,345	13				1,501,882
Seychelles	180,230			236,776	51,502		317,689		786,197
Solomon Islands	36,708			36,708			37,286		110,702
Somalia	104,719				8				104,727
Sri Lanka	2,457,203			2,457,203			2,437,904		7,352,310
St. Vincent and the Grenadines	207,500						207,500		415,000
Suriname							42,277		42,277
Tunisia	9,356,286			28,248,947	18,940,920		9,127,853		65,674,006
Ukraine	142,882,363	355,175,833	61,170,833	41,306,746	7		43,242,942		643,778,724
Vanuatu					850,000				850,000

The heatmap has six buckets, from 0 to 100,000 and increasing by a factor of ten thereafter. An asterisk ("") indicates that the country cannot currently access SDRs; transactions indicating use are due to automatic debit transactions initiated by the IMF (see Box 1).*

Source: Authors' analysis and IMF (2022e).

Appendix Table A2

Net SDR Exchanges and Fees, August 23, 2021–March 31, 2022

By month and country, SDR; Heatmap is divided into 20 natural breakpoints, darker shading indicates values closer to two extremes; abbreviated table, see the full table here: https://cepr.net/report/special-drawing-rights-the-right-tool-to-use/

Member Country ▲	Notes	Aug. 23–31 '21	Sep.	Oct.	Nov.	Dec.	Jan. '22	Feb.	Mar.	Net Change, Aug.–Mar.
Afghanistan, Islamic Republic of*		−14,892			−14,891			−20,053		−49,836
Albania		15,761			13,681	17		16,128		45,587
Algeria	VTA participant	24,367			25,893			50,036,770	100,000,000	150,087,030
Andorra		−184			−174			−232		−590
Angola		−340			−1,921	−968,796		−4,946		−976,003
Antigua and Barbuda	Exchange Use	−19,001,577			−3,189			−5,280		−19,010,046
Arab Monetary Fund	Prescribed holder	403		11,446,236	−12,499,506	−76,119	181	289,807		−657,871
Argentina	Exchange Use	−164,439			−261,067	44		−648,610	−88,019,075	−89,093,147
Armenia, Republic of	Exchange Use	−9,115	−79,860,705		−16,099	7		−30,173	−35,607,998	−115,524,083
Australia						225,000,000		−199,618,107		437,102,859
Austria	VTA participant	104,008			−6,387,998			152,658	100,000,000	93,868,668
Azerbaijan		−828			−828			−1,098		−2,754
Bahamas, The		1,787	482,735		1,787	482,730		2,380	490,326	1,461,745
Bahrain, Kingdom of		9,621			9,621			12,797		32,039

Negative numbers indicate a decline in SDR holdings. The heatmap has 20 natural breakpoints (Jenks), darker shading indicates values closer to two extremes; lighter, closer to zero. An asterisk ("") indicates that the country cannot currently access SDRs; transactions indicating use are due to automatic debit transactions initiated by the IMF (see Box 1).*

Source: Authors' analysis and IMF (2022e).

See the full table: *https://www.datawrapper.de/_/CszgP/*