The International Monetary Fund's Special Drawing Rights

Why a New Issuance is Necessary and Feasible at this Time, and Would Save Many Lives

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1. **The SDR issuance last year probably saved hundreds of thousands of lives, if we use, e.g., the Bank for International Settlements' research on the relation between recessions and mortality.**

2. **Yet the US Treasury Department is holding up the proposed issuance for this year and announced just weeks ago that a new allocation of SDRs is "not appropriate at this time."**

   But **the world economy is vastly worse now** than it was on August 2 last year when the SDR issuance was approved by the IMF. In July 2021, the IMF's World Economic Outlook projected a very high 6.0 rate of growth for the world economy in 2021 (which proved accurate). By comparison, the latest IMF projection is for 3.2 percent this year (2022) and for 2.7 percent next year; this is a dramatic crash, and a possible global recession. (There have been only five global recessions in the past 70 years; see the World Bank's most recent research [2020]). The impact on human lives is already large and will grow enormously larger unless more is done to aid developing countries.

3. **A new SDR issuance could make a significant difference in the US economy in the immediate future, due to the loss of export-related jobs here as demand for US exports falls with recessions in other countries.**

   The US economy lost an estimated 2.2 million export-related jobs (January 2020 to May 2021) due to loss of demand for US exports in the rest of the world because of the pandemic recession.[1]

4. **The SDRs last year were by far the largest source of any aid to developing countries in any year since the pandemic.**

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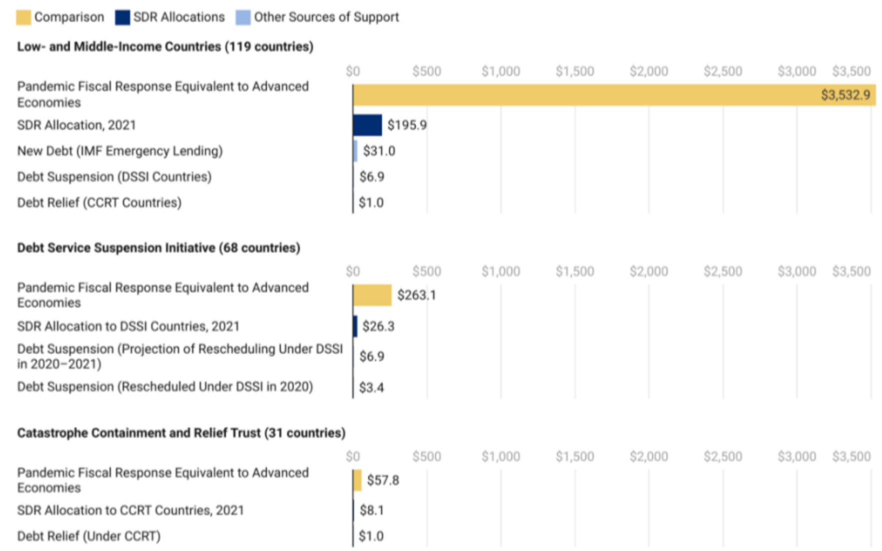
1 Special Drawing Rights Could Help Recover Millions of Export-Related US Jobs, and Create Even More, August 2021. Note also that the International Trade Administration estimates the number of US jobs supported by exports fell by 1.6 million from 2019 to 2020

Figure 1 shows how much **larger the SDR allocation is for each group of developing countries** covered by these initiatives (the Debt Service Suspension Initiative, DSSI; and the Catastrophe Containment and Relief Trust).

Figure 1

SDR Allocations and Other Forms of Global Support



Sources and Notes: Figure 7, No Voice for the Vulnerable: Climate change and the need for quota reform at the IMF, October 2022.

Note also that under the G20 Common Framework for Debt Treatments, DSSI countries are eligible but creditor countries failed to produce a single debt restructuring agreement through the framework since its launch in 2020.[2]

5. **SDRs create no debt and have no conditions attached, making them 100 percent net positive, unlike, e.g., IMF loans.**

This is especially important right now, given the rise in sovereign debt since the pandemic, and rising interest rates, faced by developing countries. IMF Managing Director Kristalina Georgieva said on October 13:

> We also must support vulnerable emerging markets and developing countries. It is tough for everybody, but it is even tougher for countries that are now being hit by a stronger dollar, high borrowing costs, and capital outflows—a triple blow that is particularly heavy for countries that are under a high level of debt [...] especially for low-income countries where **over 60% are at or near debt distress**. *(Emphasis added.)*

2 See also Special Drawing Rights One Year Later, By the Numbers, August 2022.

6. **The US Treasury Department (beginning with former secretary Mnuchin, who immediately killed the proposal for a new allocation of SDRs at the IMF when it was first made by the managing director in March 2020), has made only one argument against an issuance of SDRs**: that more than 60 percent of the issuance goes to high-income countries, and that therefore it is more reasonable to "rechannel" those SDRs rather than issue new ones. This argument is deeply flawed:
   - **I.** It has been more than 14 months since the last issuance of SDRs and few if any SDRs have been effectively rechannelled. This is much too slow; 345 million people are now at risk of starvation, up from 135 million before the pandemic and from 276 million at the start of the year. As soon as Treasury gives the OK to SDRs, they can be unlocked for transfer to IMF member countries within weeks.
   - **II.** There is no waste, creation, or use of resources involved in the SDRs distributed to high-income countries, because they cannot use them (countries must show need in order to convert SDRs to hard currency). China is in the same category as the high-income countries because it has more than $3 trillion in reserves.[3]
   - **III.** Perhaps most importantly, the proposed rechanneling would convert SDRs from an international reserve asset that carries no debt and no conditions, to a loan that both creates debt and has conditionalities attached.[4]

7. There is no downside risk to a new issuance, and no economists have put forth credible economic arguments against an issuance.

8. There is no cost to the US budget, at present, or in the future, from a new issuance.

9. IMF-member countries under US sanctions (e.g., Iran, Venezuela, Russia, Myanmar, Belarus, Afghanistan, and Syria) have not been able to access their holdings of Special Drawing Rights.[5]

10. Finally, a related problem: the imposition of IMF surcharges — additional fees that heavily indebted borrowing countries are forced to pay — is another issue that the US Congress is taking up, because of the regressive nature of the surcharges and the damage they cause, which increases as the world economy worsens. Surcharges are added to interest payments that increase with the Federal Reserve's rate hikes, and with the rising dollar.[6]

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3 See IMF here.
4 The Case for More Special Drawing Rights: Rechanneling Is No Substitute for a New Allocation, October 2022.
5 See figure: *SDR Holdings for Member Countries with Sanctioned Central Banks or Unrecognized Governments, August 2021 and July 2022*: in Special Drawing Rights One Year Later, By the Numbers, August 2022.
6 Why Is the IMF Collecting Surcharges from Developing Countries?, The Hill, October 2022. For more detail, *see* IMF Surcharges: Counterproductive and Unfair, CEPR, September 2021; and A Guide to IMF surcharges, Eurodad, December 2021.