

Special Drawing Rights and Beyond: The Future of Development Finance, Fiscal Spending and Inequality in the Arab region

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General Description of SDRs

- SDRs are a condition-free reserve asset -but nonetheless an asset- allocated to all IMF member countries. Created in 1969. Most recently issued in 2009 and 2021.
- They are issued politically out of thin air, with the vote of IMF Governors.
- They are not loans, and come without conditionality.
- Reserve assets can be exchanged for USD, euros, etc. They can also be lent, donated, swapped. **1 SDR = 1.34 USD**

General Description of SDRs

- Pandemic declared on March 12, 2020
- 3T SDR issuance called in [Financial Times](#)
- \$650bn in SDRs were issued on August 23, 2021

SDR allocation is the fastest global response

- Compare to global BEPS/Digital Tax discussions (5+ years), Green tax (20+ years), Quota reform (20+ years), etc.
- Does not require parliamentary processes (except in the US if above \$680 billion). Because they are a supranational monetary measure, do not entail parliamentary budget authorizations or use of taxpayer funds.

Unique properties of SDRs: non-reimbursable

If a country does not exchange SDRs for dollars

- Obligation to pay back the SDRs: none
- Interest rate of unused SDRs: none.

If a country does exchange SDRs for dollars

- Obligation to repay (exchange the dollars to SDRs): none
- Interest rate of SDRs exchanged for dollars: **3.15% per year**
 - It is a weighted average of lowest government bonds of SDR basket currencies, so by definition will always be lowest interest rate in the variable rate debt market.

Unique properties of SDRs: lowest debt service

- Had a country signed a \$1 billion 2-year **loan** at 6% in 2021, its debt service through 2023 would be **\$1120 million**;

but if it exchanged **\$1 billion worth of SDRs**, at SDR floor rate its debt service through 2023 would be **\$1 million**.

- **if the SDR rate went up to 3.5%:** the loan with variable interest rate raised to 9.5%, which would imply a debt service through 2023 of **\$1190 million**;

the SDR debt service through 2023 would be **\$70 million**;

Unique properties of SDRs: can be fiscal

Opinion FT Alphaville

✓ Added

Why SDRs should be used by states not central banks

Ecuador's Andrés Arauz argues there's no legal basis for central banks to appropriate the IMF's fresh SDR allocation.

ANDRÉS ARAUZ

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Political economy of fiscal use

- By default, in general, SDRs are recorded in the accounting of central banks
- Once SDRs enter the accounting, it is very difficult to get an autonomous or independent central bank to forego its property:
 - Special legislation
 - Emergency measure
 - Agreement between central bank and ministry to assume as debt to central bank

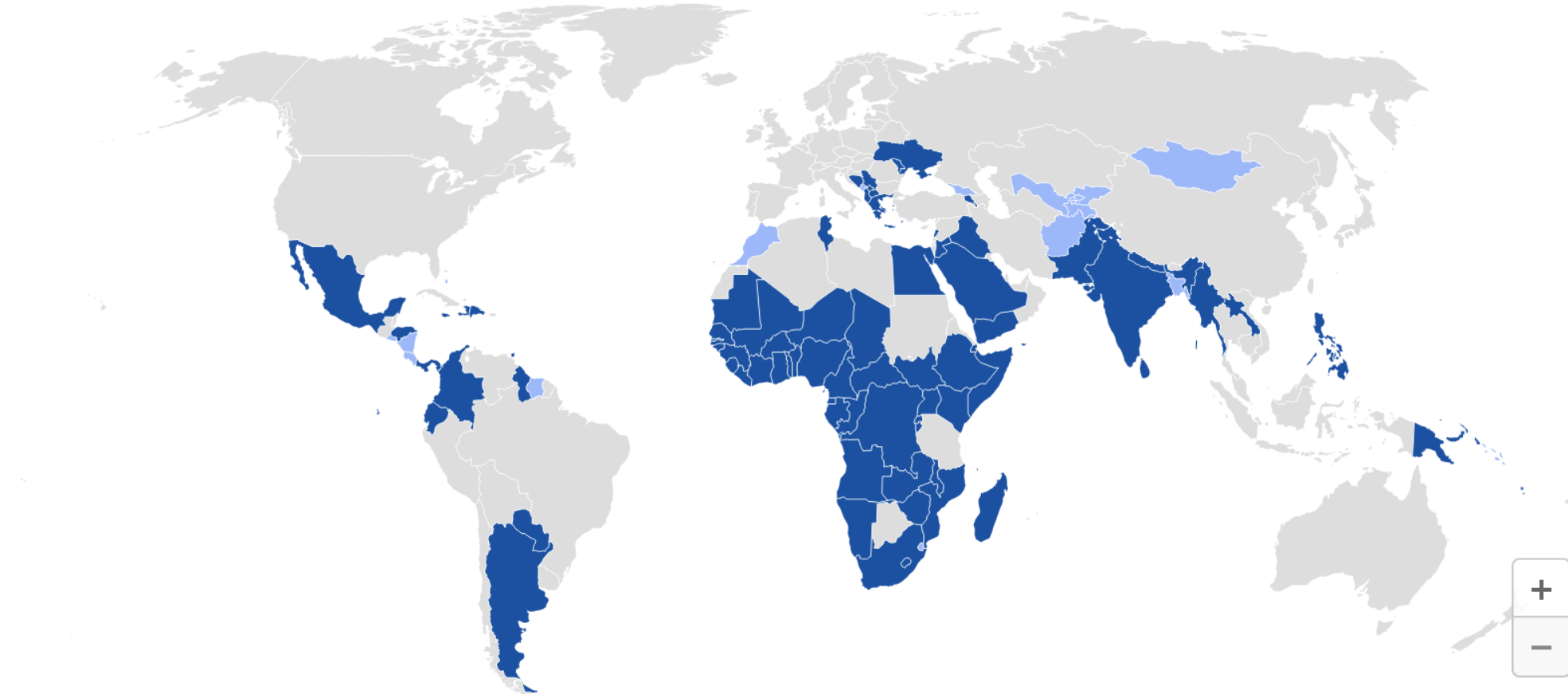
Use of SDRs around the world

- Of 105 countries that used SDRs, **104 were low- and middle-income** countries;
- Excluding use of SDRs as reserves, 15 countries used SDRs in three ways, 27 countries in two ways, and 58 countries in one way;
- \$16.3 billion was exchanged** for hard currency by **42 countries**;
- \$10.9 billion was used, effectively, as IMF debt relief by 79 countries** to some degree, and of that, **\$8.9 billion was used by 34 countries** to a significant degree;
- At least **70 countries have included SDRs totaling \$80.4 billion worth in their government budgets** or used them for fiscal purposes.

Over a Hundred Countries Have Used Special Drawing Rights from August 2021 to July 2022

105 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. An asterisk ("") indicates that the country cannot currently access SDRs and these payments were automatic debits by the IMF.*

Map: Center for Economic and Policy Research • Source: Authors' analysis, IMF, and various other sources.

SDRs Use is Well-Targeted

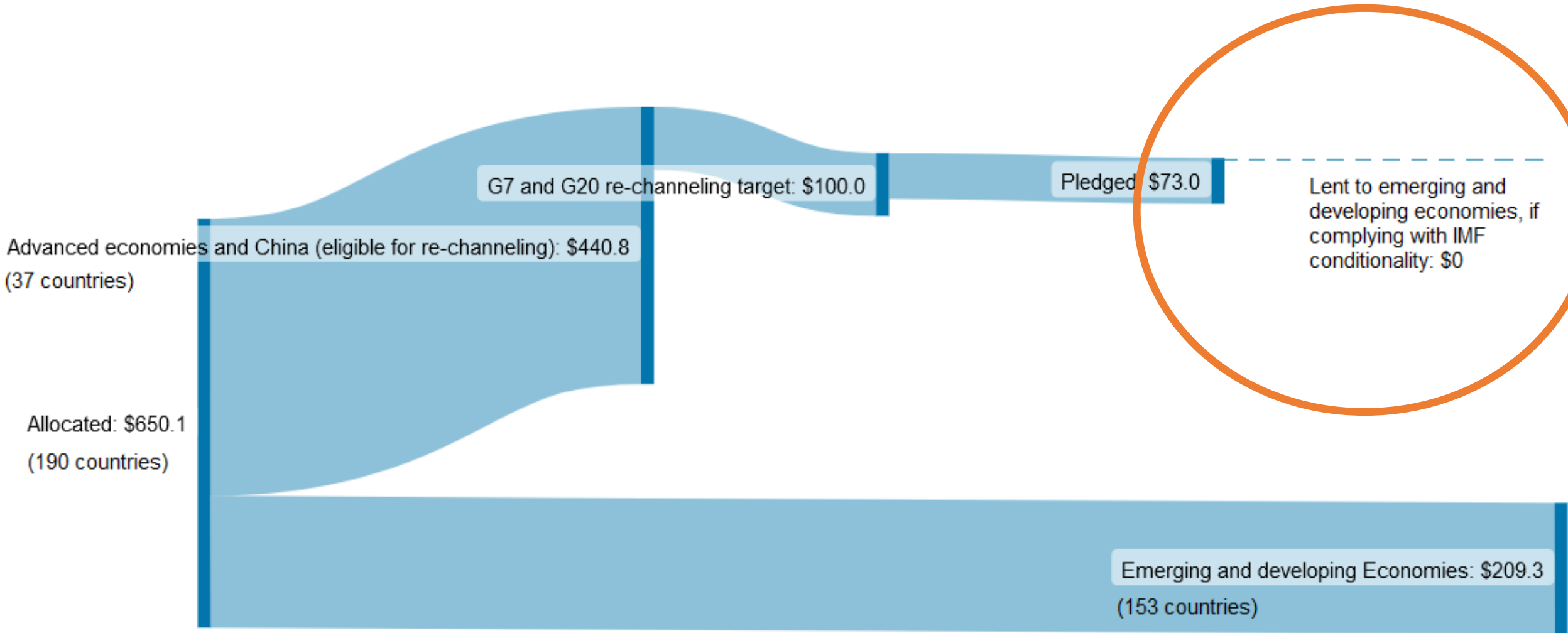
IMF Member Countries Using SDRs, by Income Group, August 2021–July 2022 (USD millions)

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	57 of 70	\$19,488	\$4,052	 21%	\$805	 4%	\$10,549	 54%
Middle-income	47 of 84	\$85,386	\$12,213	 14%	\$7,928	 9%	\$69,844	 82%
High-income	1 of 36	\$3,316	\$0	0%	\$2,130	 64%	\$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.

Table: Center for Economic and Policy Research • Source: Authors' analysis, and IMF.



Fiscal use in practice

- 70 countries
- USD 81 billion +
- The majority of countries report spending on COVID-19 relief, capital expenditures, and covering the deficit (avoiding new debt).
- 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**, El Salvador, 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.
- Rwanda, Tanzania, Greece, Pakistan.

	2021 allocation (SDR million)	2021 allocation (\$m)	Used to pay old IMF debts (\$m)	Exchanged for hard currency (\$m)
Saudi Arabia	9,577	13,408		
United Arab Emirates	2,215	3,101		
Egypt	1,953	2,734	566	2118
Algeria	1,878	2,629		
Kuwait	1,853	2,594		
Iraq	1,595	2,233	184	1947
Libya	1,508	2,111		
Morocco	857	1,200	23	
Qatar	705	987		
Lebanon	607	850		1121
Tunisia	523	732	105	643
Oman	522	731		
Republic of Yemen	467	654		
Kingdom of Bahrain	379	531		
Jordan	329	461	23	440
Syrian Arab Republic	281	393		

SDR allocations and uses in the MENA

Investing SDRs: conclusions

- Governments spent the SDRs (found a way in each country)
 - Sometimes lost to capital flight.
- Our policy considerations suggest investment in structural transformations would be best: food and energy systems + education.
- Magnitude of SDRs are still too small relative to needs.
- Need unconditional rechanneling + new allocation of SDRs.