

SDRs and Fiscal Space

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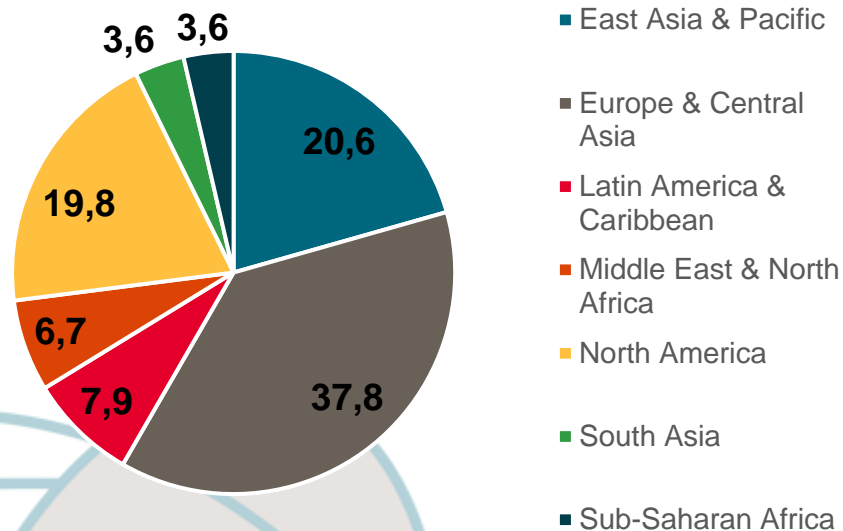
Mark Plant

Questions to guide the discussion

- What will the new SDR allocation yield?
- How can SDRs increase fiscal space?
- How can SDRs be recycled or reallocated?
- What should SDRs be used for?

What will the new SDR allocation yield?

Regional Distribution of SDR allocation (%)



- Global agreement on a new allocation equivalent to **\$650 billion**
 - Amount constrained by US legislation Congressional consultation
- Requires approval by the **IMF Executive Board** and then by the **IMF membership**
- Expected in **August 2021**
- Latin America/Caribbean will receive just over **\$50 billion**

How can SDRs create fiscal space?

- The SDR is a **claim on hard currency** and functions as a **reserve asset**
- SDRs **belong to the country** not the IMF
- **Central bank reserves** are not fiscal space
- If fiscal space is constrained by **lack of foreign exchange**, SDRs may help
- But less clear if fiscal space is constrained by **lack of domestic revenue**
- There is a **cost of using SDRs** – 0.5% per year, but could increase

How can SDRs be reallocated/recycled?

- Rich countries don't need more SDRs – **give them away?**
- G20: find **innovative** ways to use SDRs but maintain their quality as a **reserve asset**
- SDRs are governed by local legislation and by the IMF rules and accounting
- Easiest to do **within the IMF** – loans to the IMF's LIC support facility -- the PRGT
- But what about MICs?
- Hard to do **outside the IMF** – restrictions on SDR holders (e.g. FLAR)
- Lots of **novel ideas** – for example, vaccine fund
- But **why not give reserves instead?**

What should SDRs be used for?

- Call for use in a **transparent and accountable** way (G7, G20 and others)
- No control over initial allocation
- For recycled SDRs controls are possible
- Time is of the essence



Extra slides



What are SDRs and how do they work?

- Reserve asset of the central bank issued by the IMF
- Each **SDR** is a claim on any of the IMF's reserve currencies
- **SDR 1 = US\$1.43**
- Currently **\$318 billion worth of SDRs** in existence
 - Last allocation was in 2009
 - Small part of global reserves (about US\$14.5 trillion according to Fitch)
- Allocated globally according to **IMF quotas**