SDRs and Fiscal Space

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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?

- 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**