Transcript of IMF podcast:

What $650bn in SDRs Means for the Global Recovery

Ceyla Pazarbasioglu:

The SDR allocation should be seen as part of a broad range of support measures that we all have to work on to exit from this crisis and minimize the dangerous divergences across countries.

Bruce Edwards:

Welcome to this podcast produced by the International Monetary Fund. In this program, how a new $650 billion SDR allocation will help support the global recovery. But first, what are they?

Ceyla Pazarbasioglu:

Special Drawing Rights, SDRs, are international reserve assets. The SDR was created in 1969 and serves as the unit of account of the IMF. It is basically a potential claim on the freely usable currencies of IMF members. The value of the SDR is based on a basket of five currencies: the US dollar, the Euro, the Chinese Renminbi, the Japanese Yen, and the British Pound. Member countries that receive SDR can hold them, as part of their official reserves, or use them by converting them into one of these five currencies.

Ceyla Pazarbasioglu:

I'm Ceyla Pazarbasioglu, the Director of the Strategy, Policy, and Review Department at the IMF.

Ceyla Pazarbasioglu:

The purpose of a general SDR allocation is to supplement member countries' existing official reserve assets to help meet a long-term global reserve need. The SDR allocation helps member countries to boost their buffers and strengthens economic resilience. It also reduces the need to rely on more expensive domestic or external debt to build reserves. This is particularly important in times of global crises, as was the case during the global financial crisis in 2008, 2009, and even more so now.

Bruce Edwards:

How are these SDR allocated? I mean, how do they determine how many SDRs countries get?

Ceyla Pazarbasioglu:

SDR allocation is distributed to member countries in proportion to their quota shares at the fund. The quota share for advanced economies is about 58%. Emerging market and developing countries will get about 42% of any SDR allocation.

Bruce Edwards:

And so, there have been a few significant adjustments to the amount of SDRs made available to member countries over the years. How does this allocation compare to the one, say, in 2009, in response to the global financial crisis?

Ceyla Pazarbasioglu:

In 2009, the IMF Board of Governors approved an SDR allocation of about $250 billion. August 2nd, was a historic multilateral response with the approval of an SDR allocation of about $650 billion. This is really unprecedented. It is the largest SDR allocation in the history of the IMF, and it comes at the very critical time when we are facing growing divergence between advanced economies and many emerging market and developing countries due to the differences in vaccine access and ability to provide policy support.

Ceyla Pazarbasioglu:

As our managing director said, it is really a shot in the arm for the global economy at the time of unprecedented crisis. As in 2009, the SDR allocation will benefit all of our members. It will build confidence and strengthen the resilience and stability of the global economy. And this time around, it will particularly help our most vulnerable member countries struggling to cope with the impact of the COVID-19 pandemic, including to pay for vaccines and medical equipment.

Bruce Edwards:

And as you just mentioned there, the vulnerable countries really stand to benefit from this new allocation. But given the distribution, how it works on quotas- as you explained with advanced economies having the largest share. How would these resources be channeled through to the countries that need it the most?

Ceyla Pazarbasioglu:

Emerging market and developing countries share is about 42%, which translates into about $275 billion. That's about 10% of their reserves. This is a substantial boost to reserves and credit worthiness of many countries, especially for those that are highly indebted or fiscally constrained. Of this amount, about $21 billion or so will go to low-income countries. This is not a small amount. It is double the IMF emergency lending to low-income countries in the first year of the pandemic, and much more than the temporary liquidity support provided by the G20 Debt Service Initiative.

Ceyla Pazarbasioglu:

For about 30 low-income countries, SDR allocation will mean between 20 to 80% increase in their reserves. And for many small low-income countries and developing states, this SDR allocation means more than 100% increase in their reserves. In terms of the use of allocated SDRs, 2009 experience is actually very informative. After the 2009 allocation, most advanced economies and countries with no IMF programs held onto their SDRs as part of their official reserves, but this was very different for vulnerable countries that required IMF programs. SDR holdings are below 60% of their allocations and, in some cases, lower than 30%. This means that these countries spent 40 to 70% of their SDR allocations to meet external payment obligations and, in some cases, to smooth the impact of policy adjustments. That was back in 2009.

Ceyla Pazarbasioglu:

This time around, the SDR allocation is much bigger, $650 billion, compared to $250 billion. And to make sure that the allocation goes to countries where it's most needed, the IMFC members, in April, called on us to explore options for voluntary post-allocation of SDRs to support members' recovery efforts. And this was followed by calls in June by G7 leaders, and then in July by G20 finance ministers for contributions from all countries that are able to do so to reach an ambitious target in support of vulnerable countries. We are now working on options for members with strong external positions to voluntarily reallocate part of their SDRs to support vulnerable countries.

Ceyla Pazarbasioglu:

There are three potential options. The first is to scale up the Poverty Reduction and Growth Trust, PRGT, of the IMF to provide concessional financing to low-income countries. This is well tested. Member countries have already lent SDRs to the PRGT, including during this past year. The second is to set up a Resilience and Sustainability Trust to address longer term structural challenges and support a better recovery from the pandemic for member countries. And the third option is to channel SDRs to multilateral development banks, such as the World Bank, the African Development Bank, and others, or to other prescribed holders of SDRs. And we are working on these options and will discuss them with our board over the coming months.

Bruce Edwards:

Are there estimates of how much these poorer, or the more vulnerable, countries of the world will need to get them through the pandemic, and to get their economies up and running again?

Ceyla Pazarbasioglu:

We published a report on this on March 31 titled, Macroeconomic Developments and Prospects in Low-Income Countries. And the financing needs of the poorest countries over the next five years are, indeed, very large. We estimate that low-income countries will need around $200 billion to step up their response to the pandemic, including for vaccinations and to rebuild or maintain reserves. They need an additional $250 billion to avoid further divergence of prospects with advanced economies. Given debt levels in many low-income countries, only a part of this spending could be financed through borrowing, so meeting these needs will really require a strong coordinated and multilateral response. And hence, the importance and relevance of the SDR allocation.

Bruce Edwards:

And so, the channeling of resources from richer to poorer countries you spoke of earlier, would this be in the form of loans? I mean, you mentioned high debt levels. Can these countries afford to take on more debt?

Ceyla Pazarbasioglu:

The most urgent priority, at this time, is to end the COVID-19 pandemic everywhere. We are providing guidance to countries for prudent use of the SDRs allocated to them. We just published a guidance note for fund staff on the treatment and use of SDR allocation. Given the exceptional nature of the COVID-19 shock, countries need to prioritize policies to end the crisis, and this includes potentially using the policy space provided by the SDR allocation to fight the pandemic. By itself, the SDR allocation does not negatively impact members debt sustainability, it could even enhance it by strengthening reserve buffers and resilience. And if the authorities do use the policy space provided by the allocation, the overall impact on debt sustainability will depend on how the allocation is used. And here, the IMF staff are working with member countries advising them to use the SDRs consistent with macroeconomic sustainability and in a transparent manner.

Bruce Edwards:

And there has been, or there have been, many calls for more transparency when it comes to government spending from countries all over the world. How will the IMF ensure these funds are being used appropriately?

Ceyla Pazarbasioglu:

This is a very important issue. The funds work on transparency is relevant for the use of SDRs.

These include the fund safeguards assessment policy and fiscal transparency. We also assess governance and anti-corruption frameworks in the context of our surveillance work, as well as our work of use of fund resources. And staff will leverage these frameworks to encourage transparency and accountability in the use of SDRs. The IMF already publishes quarterly SDR holdings by each member country, and we will further enhance transparency by publishing these holdings by aggregate categories. We will also publish the board paper annual update on SDR trading operations. And two years after the allocation, we will prepare an exposed report on the use of SDRs.

Bruce Edwards:

And finally, the IMF, very early into the recovery, called attention to the issue of divergence in recovery paths around the world. Do you believe that this new allocation of $650 billion will help address that problem?

Ceyla Pazarbasioglu:

It will help by stabilizing emerging market and developing countries. It will help mitigate risks of economic and social fragility, and enhance the stability of the international monetary system. All these are critical to support a sustainable and resilient global recovery. But I do want to stress that, while an SDR allocation is a very useful and important mechanism, especially at this time, to build confidence, to strengthen global economic and financial resilience, it is not a silver bullet. It is part of a broader range of support measures that the IMF has deployed, and will continue to deploy to support our membership throughout the crisis. And that includes our loans, our contingency facilities, the SDR allocation, potential channeling of SDR to vulnerable countries, and also support by others, like multilateral development banks and official bilateral support. The SDR allocation should be seen as part of a broad range of support measures that we all have to work on to exit from this crisis and minimize the dangerous divergences across countries.

Bruce Edwards:

Ceyla Pazarbasioglu, head of the IMF's Strategy, Policy and Review department. Thanks so much for demystifying SDRs for us.

Ceyla Pazarbasioglu:

Thank you.

Bruce Edwards:

Go to imf.org to find out more about Special Drawing Rights, and this historic SDR allocation. There's also a blog at blogs.imf.org. Check out other IMF podcasts wherever you listen. You can also follow us on Twitter at IMF_Podcast. I'm Bruce Edwards. Thanks for listening.