August 2023

2021 SPECIAL DRAWING RIGHTS ALLOCATION—EX-POST ASSESSMENT REPORT BACKGROUND PAPER

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- The **Staff Report** prepared by IMF staff and completed on August 9, 2023.

Informal Session to Brief:

The report prepared by IMF staff and presented to the Executive Board in an informal session on August 28, 2023. Such informal sessions are used to brief Executive Directors on policy issues. No decisions are taken at these informal sessions. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

[The documents listed below have been or will be separately released.]

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International Monetary Fund
Washington, D.C.

August 7, 2023

2021 SPECIAL DRAWING RIGHTS ALLOCATION—EX-POST ASSESSMENT REPORT—BACKGROUND PAPER

EXECUTIVE SUMMARY

This background note provides additional information to support the discussion and analysis presented in the *2021 Special Drawing Rights Allocation Ex-Post Assessment* Report (the "main paper"). This paper covers the following topics:

- ***Surveys of National Authorities and Mission Chiefs***. This section presents the aggregate results of two surveys conducted to support the analysis of the main paper. Both members' representatives and IMF mission chiefs saw benefits in the allocation (beyond adding to international reserve needs), and for most countries they did not perceive adverse effects on policy discipline, although there were some exceptions.

- ***Functioning of the Voluntary Trading Arrangements (VTA) market.*** This section discusses developments in the VTA market since the 2021 allocation. The number of VTA members has increased, providing additional operational flexibility and strong trading capacity.

- ***Transparency and Accountability of Domestic Holding Structures and Fiscal Use of SDRs.*** This section discusses the modalities of domestic SDR holding structures and the impact of fiscal use on transparency and accountability. Because SDRs are typically held by central banks, shifting them to the government for fiscal use has had an impact on the attendant transparency and accountability arrangements.

- ***Statistical Recording.*** This section describes the statistical impact of the allocation on members' international reserves and implications of reclassifications of SDR positions between the central bank and the government. It also briefly explains the specific modalities of SDR use in regional currency unions, informed by the experience of the Central African Economic and Monetary Community (CEMAC) and the West African Economic and Monetary Union (WAEMU).

- ***Status of Fundraising Efforts.*** This section provides a description of fundraising efforts for the Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST).

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TABLES

Abbreviations and Acronyms

AE	Advanced economy
BCEAO	Central Bank of West African States
BEAC	Bank of Central African States
BIS	Bank of International Settlements
BoP	Balance of payments
CB	Central bank
CCRT	Catastrophe Containment and Relief Trust
CDS	Credit default swap
CEMAC	Central African Economic and Monetary Community
COVID-19	Coronavirus disease 2019
DC	Domestic currency
EA	Euro Area
ECB	European Central Bank
ECCA	Eastern Caribbean Currency Area
ECCU	Eastern Caribbean Currency Union
EM	Emerging market
EMDC	Emerging markets and developing countries
FC	Foreign currency
GFS	Government finance statistics
GIR	Gross international reserves
GDP	Gross domestic product
GRA	General resources account
LIC	Low-income country

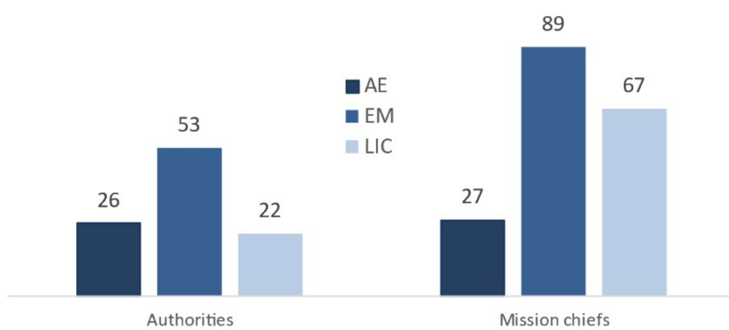
MFS	Monetary and financial statistics
MoF	Ministry of finance
MoU	Memorandum of understanding
NFA	Net foreign assets
PRGT	Poverty Reduction and Growth Trust
RST	Resilience and Sustainability Trust
SDR	Special Drawing Right
STA	IMF Statistics department
TMU	Technical memorandum of understanding
VTA	Voluntary Trading Arrangements
WAEMU	West African Economic and Monetary Union

SURVEYS OF NATIONAL AUTHORITIES AND IMF MISSION CHIEFS

Staff conducted a survey of country authorities about how members perceived the 2021 SDR allocation. In parallel, staff also surveyed IMF mission chiefs about the macroeconomic and policy impact of the allocation and whether its treatment and use were broadly in line with the Fund's policy advice. Both surveys were run in January-February 2023 and assessed as of end-2022. Overall, the two surveys revealed generally positive perceptions about the allocation. Both members' representatives and IMF mission chiefs saw benefits in the allocation (beyond adding to international reserve needs) and for most countries they did not perceive adverse effects on policy discipline, although there were some exceptions.

1. **This section presents aggregate results of the authorities and mission chiefs surveys, maintaining confidentiality of individual responses** (Figure 1). A total of 101 members responded, with broad coverage of advanced economies (AEs) (96 percent of AEs), moderate coverage of emerging markets (EMs) (56 percent), and somewhat lower coverage of low-income countries (LICs) (32 percent).[1] Responses came mostly from central banks (55 percent), the rest being submitted by government officials in ministries of finance or economy (24 percent), sometimes jointly with the central bank (18 percent); in three cases, the survey was completed directly by Executive Directors. On the other hand, 183 mission chiefs responded, with robust coverage of all three country groups (100 percent of AEs, 95 percent of EMs, and 97 percent of LICs).

Figure 1. Number of Responses to the Two Surveys



Source: IMF staff analysis.

2. **Most country authorities and mission chiefs agreed that the SDR allocation alleviated fiscal and external financing constraints, creating additional policy space.** 91 percent and 45 percent of LICs' and EMs' authorities, respectively, considered they have benefited from a relaxation of fiscal constraints, while 91 percent and 56 percent of LICs' and EMs' authorities saw a relaxation of

[1]"LICs" are the 69 PRGT-eligible countries; EMs are defined as the rest of the "Emerging Market and Developing Countries" grouping used for the IMF quota classification; and AEs are the remaining countries. Countries at war, under financial sanctions, or not in close dialogue with the IMF explain some of the missing observations. The limited sample of LICs authorities who responded to the survey is representative in terms of countries with an IMF-supported program. However, proportionally it includes more countries that did not exchanged their SDRs and fewer countries in, or at high risk of debt distress.

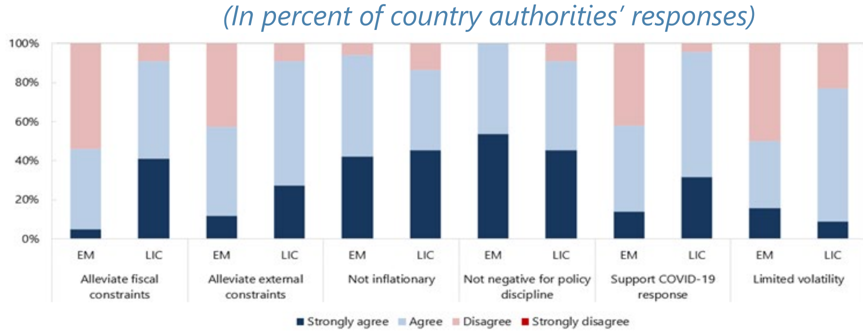
external financing constraints due to the SDR allocation (Figure 2).[2] These results are broadly consistent with responses from mission chiefs (Figure 4a). Mission chiefs considered that 82 percent and 56 percent of LICs and EMs, respectively, experienced an increase in their policy space, of which 68 percent and 39 percent of LICs and EMs, respectively, did so directly, and 14 and 17 percent of LICs and EMs, respectively, did so through higher external buffers (Figure 3). In contrast, only 11 percent of IMF mission chiefs for AEs considered that the allocation created (usable) policy space in these countries, likely reflecting the absence of constraints already before the allocation took place.

3. IMF members and mission chiefs considered that the use of SDR allocation did not add to inflationary pressures in their countries. According to the authorities' survey, for almost 95 percent of EMs and about 85 percent of LICs, the allocation did not create inflationary pressures (Figure 2). Moreover, the authorities in about 50 percent of EMs and over 75 percent of LICs thought that the SDR allocation helped limit macroeconomic volatility. Similarly, mission chiefs responded that the allocation contributed somewhat to higher growth, especially in LICs, but not to higher inflation (Figure 5a).

4. Mission chiefs considered that members' use of policy space created by the allocation did not materially delay needed macroeconomic adjustment and reforms in most countries, with some exceptions (Figure 5b). A key question is whether the additional policy space created by the allocation may have been used to postpone needed adjustment and structural reforms. For 79 percent of EMs and 57 percent of LICs, mission chiefs surveyed considered that the SDR allocation did not delay at all needed macroeconomic adjustment or reform, while for about 8 percent of EMs and 22 percent of LICs mission chiefs responded that the SDR allocation delayed needed adjustment and reforms only marginally. However, 13 percent of EMs and 20 percent of LICs mission chiefs believed that SDR allocation led to a delay in needed macroeconomic adjustment or reforms. Country authorities had a more positive view, with 100 percent of EMs and 91 percent of LICs stating that the SDR allocation was not negative for policy discipline (Figure 2).

Figure 2. Perceived Impact on Recipient Country

(In percent of country authorities' responses)

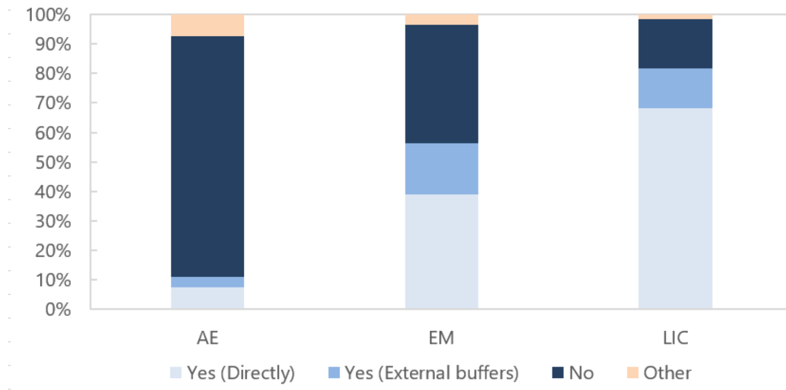


Source: Authorities' survey

[2]EMs that did not see a relaxation of fiscal or external constraints includes countries that were not facing constraints prior to the allocation.

Figure 3. Did the SDR Allocation Create Policy Space?

(In percent)



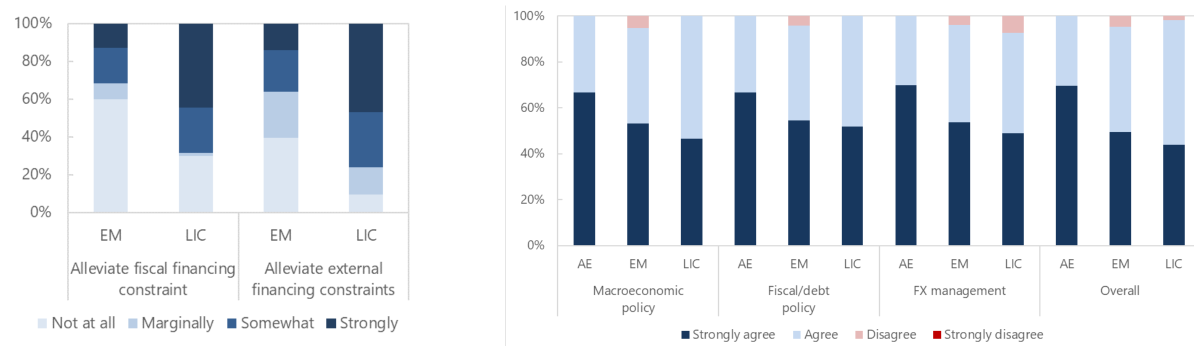
Source: Mission chiefs' survey.

Figure 4. Impact on Financing Constraints and Consistency with Fund Policy Advice

(In percent of IMF Mission Chiefs' responses)

(a) Did the Allocation Contribute to…?

(b) Was the Use of the Allocation in Line with IMF Policy Advice?



Source: Mission chiefs' survey.

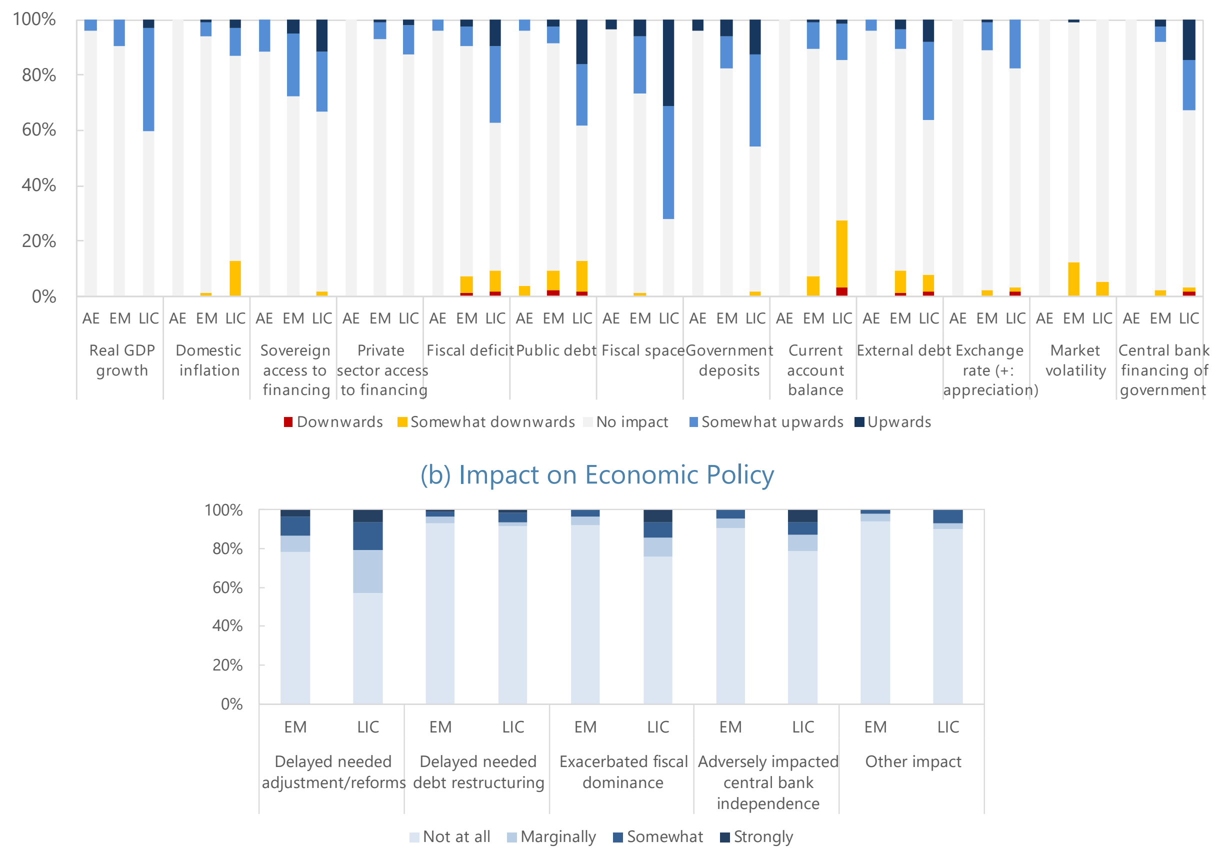
5. Mission chiefs also noted that in most cases the allocation did not delay members from seeking debt restructurings (Figure 5b). Most mission chiefs (93 percent and 92 percent of EMs and LICs, respectively) considered that the SDR allocation did not delay the authorities from potentially seeking debt restructurings.[3] However, in seven cases (three EMs and four LICs), mission chiefs thought that the policy space provided by the allocation contributed to the authorities' delay in seeking a debt treatment. Only two mission chiefs agreed that the allocation strongly delayed the authorities from seeking a debt treatment and in one of these two cases, the member may have been delaying seeking such treatment prior to the allocation and thus the allocation provided the member additional breathing room to delay. Still, there is little evidence of the allocation systematically contributing to slower debt resolution.

[3] This includes countries that were not considering debt restructuring *ex ante*.

Figure 5. Impact of the SDR Allocation on Members

(Percent of Surveyed IMF Mission Chiefs)

(a) Impact on Macroeconomic Variables



Source: Mission chiefs' survey.

6. **Use of the SDR allocation was not perceived to have systematically exacerbated fiscal dominance or adversely impacted central bank independence**. The mission chiefs survey indicates that in over 90 percent of EMs and 76 percent of LICs the SDR allocation did not exacerbate fiscal dominance (Figure 5b). However, for three EMs and nine LICs, mission chiefs reported that the allocation exacerbated fiscal dominance. Furthermore, 91 percent of EM and 79 percent of LIC mission chiefs noted that the allocation did not impact central bank independence. However, in four EMs and eight LICs the allocation appears to have adversely impacted central bank independence, including because of disagreements between the central bank and finance ministry on the appropriate use of the SDR allocation.[4] The transfer of SDR holdings from central banks to fiscal authorities posed challenges for transparency in some cases, which are detailed further in Section V of the main paper.

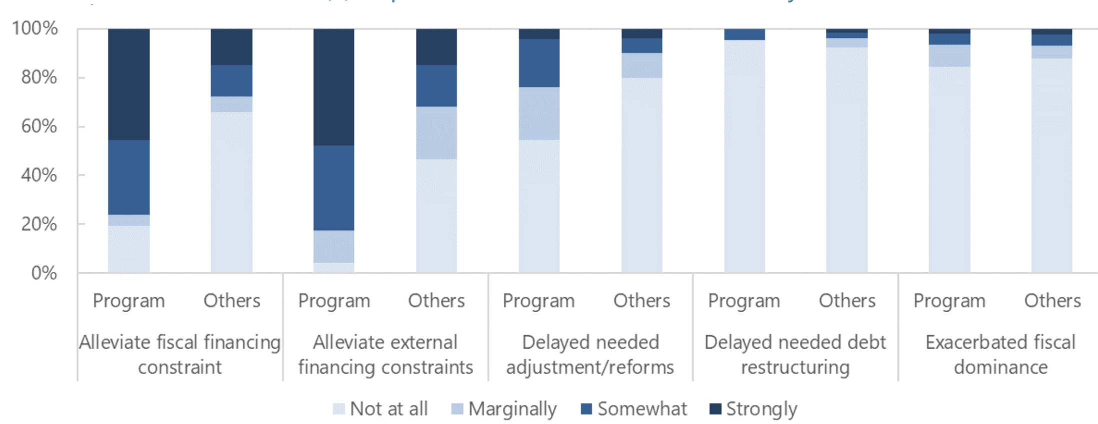
[4]This happened, for instance, where the authorities lacked legal justification for retrocession of the allocation or the MoF and CB disagreed on the prudent use of the allocation.

7. **The allocation generally had a positive impact on countries with Fund-supported programs** (Figure 6). Mission chiefs indicated that the SDR allocation helped alleviate fiscal and external constraints in about 76 and 83 percent of countries with Fund-supported programs, respectively, compared to 28 and 32 percent of non-program countries. Indeed, the allocation increased fiscal space and the fiscal deficit of 73 percent and 34 percent of all countries with Fund-supported programs, respectively, compared to just 28 percent and 14 percent in non-program countries. Regarding use for fiscal purposes, according to the authorities' survey, while non-program countries used a dominant share of their SDRs for pandemic responses (vaccine purchases and support to vulnerable households and firms) and public debt operations, program countries showed more diversified use, including for general budget support (Figure 7).[5] At the same time, the survey results also suggest that the additional policy space created by the allocation may have led to delays in needed adjustment or reforms in some program countries. Specifically, about a quarter of program countries (compared to 10 percent of non-program countries) appear to have delayed needed adjustment or reforms, according to mission chiefs.[6]

Figure 6. Impact of the SDR Allocation: Program vs. Non-Program Countries[1]

(In percent of mission chiefs' responses)

(a) Impact on Members' Economic Policy

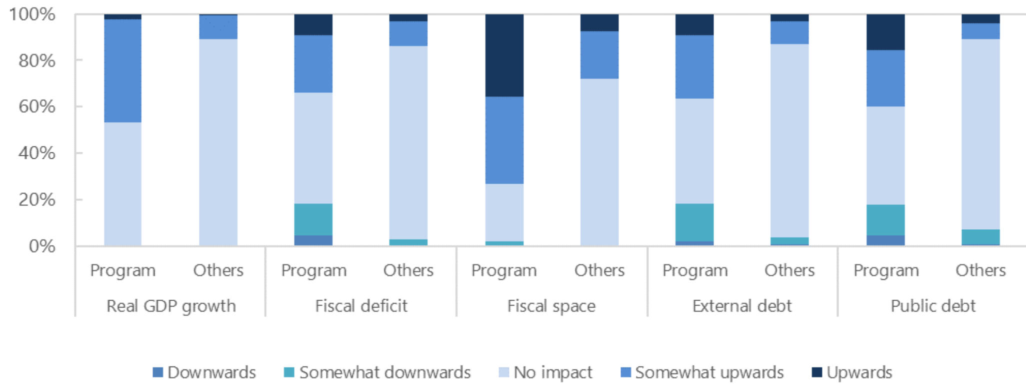


[5]Some of the fiscal uses may have not involved an exchange of SDRs as a few country authorities indicated that the central bank, in response to the SDR allocation, lent to the government in foreign or domestic currency without converting the SDRs.

[6]This finding is consistent with evidence on implementation of structural benchmarks, which deteriorated between 2021 and 2022 for program countries where mission chiefs noted delays, in contrast to other program countries, where structural benchmark implementation improved slightly.

Figure 6. Impact of the SDR Allocation: Program vs. Non-Program Countries (continued)

(b) Impact on Macroeconomic Variables, 2021Q3–2022Q4



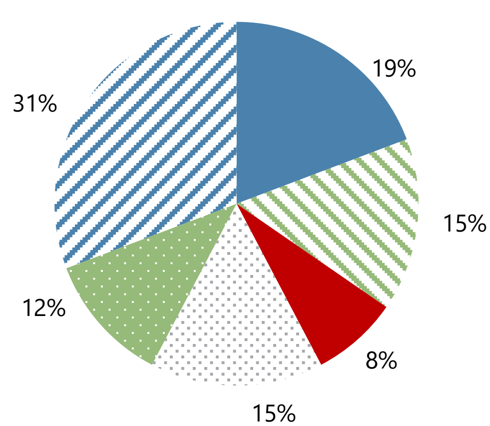
Source: Mission chiefs' survey

[1]The survey covers responses from 183 country mission chiefs, of which 47 were engaged with program countries from August 2021 to end-2022.

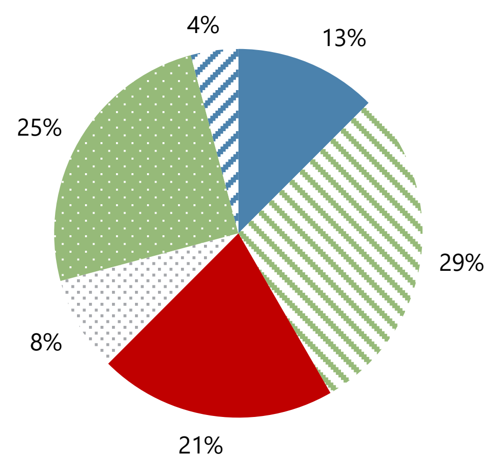
Figure 7. Reported Purpose of Conversions – Program vs. Non-Program Countries

(Share of responses on the use of converted SDRs, multiple responses)

Program Countries (Aug 2021- Dec 2022)1/



Non- Program Countries (Aug 2021- Dec 2022[1]



Official Foreign Reserves management
Vaccines and other pandemic-related spending
Support for households and firms as crisis reponse
Other crisis-related measures
Public debt operations
Other uses

Source: Authorities' survey

1/ Multiple answers among the countries that converted at least some part of the SDR allocation.

FUNCTIONING OF THE VTA MARKET

At the time of the 2021 allocation, the Executive Board noted that the smooth functioning of the voluntary SDR trading market was critical for the successful implementation of the allocation. Executive Directors called for an expansion and strengthening of the Voluntary Trading Arrangements (VTA) market and for increased transparency and accountability in the reporting and use of SDRs. Since the allocation, the number of VTA members has increased from 32 to 40 and the VTA members have provided significant additional operational flexibility. The VTA trading capacity has remained strong and sufficient to absorb the demand for SDR conversions arising from the 2021 allocation. Also, the availability of information on SDR operations has been expanded, including through the publication of an Annual Update on SDR Trading Operations and the publication of additional data on SDR holdings, transactions, and trading.[7]

8. **Participants in the SDR Department and prescribed holders may convert SDRs freely, without the requirement of representing a balance of payments need, to obtain an equivalent amount of currency in a transaction by agreement with another participant or prescribed holder.** VTAs are bilateral arrangements between the Fund and SDR participants or prescribed holders, under which the VTA members agree to buy and sell SDRs within certain limits. For over three decades, most SDR transactions have been arranged through the VTA market with a few transactions agreed bilaterally between participants and/or prescribed holders in the SDR Department. These VTAs, which have a broad regional distribution, support the liquidity of the SDR.

9. **Since the 2021 allocation, the VTA market has been expanded and strengthened.** Specifically, the Fund has welcomed and successfully onboarded eight new members to the SDR trading market—Algeria, Brazil, Estonia, Lithuania, Luxembourg, Mauritius, Oman, and Singapore—that have all finalized new VTAs since the 2021 allocation (Figure 8). This has increased the number of VTA members from 32 to 40 (39 SDR participants and one prescribed holder as of end-April 2023). The addition of Mauritius and Singapore also allowed for further geographical diversification of the VTA market. Moreover, many VTA members provided additional operational flexibilities to further support the smooth functioning of the VTA market. Such flexibilities included increasing or removing transactional limits and expanding trading currencies in the individual VTAs.

10. **Several official entities have recently become new prescribed holders of SDRs.** In February 2023, the Executive Board approved the applications of five institutions to become prescribed holders, which brought the total number of prescribed holders to twenty (IMF 2023).[8] A larger number of prescribed holders will provide more choices for members to use the SDRs and potentially create more opportunities for SDR channeling.

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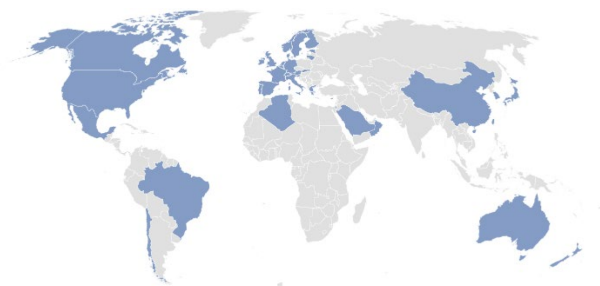
[7]For more details on transparency measures, see section IV. D in the main paper.

[8]The Executive Board approved on February 8, 2023 the applications of the Caribbean Development Bank, the Development Bank of Latin America (known as Corporación Andina de Fomento), the European Bank for Reconstruction and Development, the European Investment Bank, and the Inter-American Development Bank to become prescribed holders in February 2023.

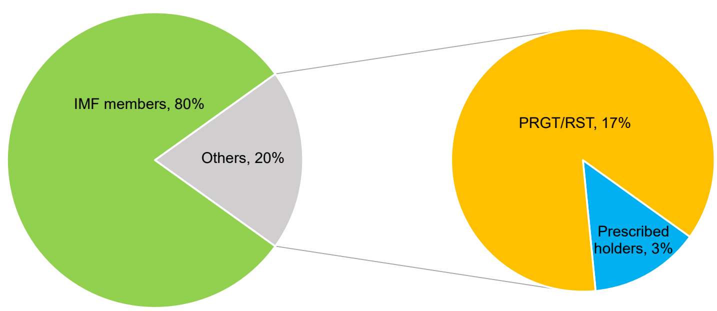
11. The VTA market maintains ample capacity to meet the expected future demand for SDR exchanges into currencies. Trading capacity of the VTAs is determined by comparing the minimum and maximum SDR amounts that VTA members are willing to hold with their actual SDR holdings. As of end-June 2023, the buying and selling capacities of the VTAs stood at about SDR 210 billion and SDR 163 billion, respectively. This reflects updated trading ranges provided by VTA members after the 2021 SDR allocation; the absorption of cumulative SDR sales by VTA members which decreases the total absorptive capacity is compensated by the effect of additional absorptive capacity provided by new VTA members. This capacity, together with the broad regional representation of the VTAs, is expected to support the continued smooth functioning of the SDR market.

Figure 8. VTA Participants and Sales since the 2021 Allocation

VTA Participants



Total SDR Sales through the VTAs by Seller since the 2021 Allocation[1]



[1]PRGT/RST refers to SDR sales facilitating disbursement of loans in currencies funded with SDR resources or SDR sales for the conversion into currencies of SDR contributions to the Trusts.

Source: IMF data.

12. If transactions by agreement (through VTAs or bilaterally) cannot provide for an exchange of SDRs into freely usable currencies, the Articles of Agreement provide for a designation mechanism that guarantees the liquidity of the SDR market. The designation mechanism ensures that, in case of balance of payments need, participants can use SDRs to obtain freely usable currencies at short notice. The IMF prepares a Designation Plan annually, which can be activated in such an event. However, these plans have not been activated and remained precautionary since 1987. Prescribed holders cannot exchange SDRs in transactions by designation.

TRANSPARENCY AND ACCOUNTABILITY OF MEMBERS' HOLDINGS AND FISCAL USE OF SDRS

The transparency and accountability of the use of SDRs depends on how these assets are held domestically. Because SDRs are typically held by central banks (as international reserve assets) at the outset, shifting the SDRs to the fiscal authority (i.e., Ministry of Finance) to facilitate their fiscal use has had an impact on the attendant transparency and accountability arrangements. Focusing on countries subject to the Safeguards Assessment Policy, this section provides more details on those arrangements, as well as an overview of the analytical methodology that underpins the conclusions presented in the main paper.

A. Background and Methodology

13. The analysis presented in this section is based on staff's review of the domestic SDR holding structures and fiscal use patterns for the 94 countries subject to ongoing monitoring under the Safeguards Assessment Policy.[9] While those countries constitute a broadly representative sample of members that have used, or are likely to use, their SDRs, the conclusions cannot be generalized to the entire membership. Moreover, information for some countries was not readily available due to domestic challenges (e.g., ongoing war and/or political instability).

14. The analysis uses the following definitions:

- **Memorandum of Understanding (MoU):** a legal instrument/loan agreement between central banks and fiscal authorities established to govern the respective terms, conditions, and responsibilities for servicing obligations (i.e., payment of charges, repayment of SDRs upon reconstitution) to the IMF.

- **Use of SDRs:** refers to any such use of the 2021 SDR allocation, e.g., to boost international reserves at central banks, for fiscal purposes (i.e., debt repayment, fiscal outlays, external financing needs, or to clear arrears), or a combination of both.

- **Shift in control of SDRs:** refers to the transfer of ownership/control of the allocated SDR from the original holding agency to the entity fiscally using the SDRs, typically done through a legal instrument such as an MoU. This shift may take several forms (i.e., on-lending to the State of foreign exchange in which the SDRs were converted, cession-retrocession operations, or others depending on the legal framework of each country).

[9] When the IMF lends to a country, it seeks assurances that the country's central bank is able to manage the funds it receives and report reliable information. The IMF "safeguards assessments" are a due diligence exercise to fulfill this objective, including an evaluation of transparency and accountability mechanisms through the review of financial reporting and external audit practices. For more information, see the *Safeguards Assessment of Central Banks Factsheet* and the list of *Safeguards Assessments completed to date.*

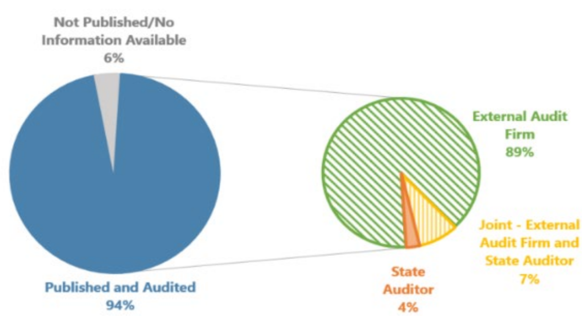
15. The primary sources of staff's analysis stem from the annual financial statements that are publicly available (from central banks and fiscal authorities, typically the MoF). Staff also applied judgment, particularly in assessing the quality of SDR-related accounting treatment and respective publication in financial statements, as well as the controls and modalities/instruments used for underpinning (justifying) the shifts in control of SDRs. Furthermore, this analysis was complemented and corroborated by responses to the surveys of country authorities and mission chiefs. In addition, staff gathered information on the use of SDRs from the IMF's SDR Tracker to compare and corroborate information recorded in the safeguards assessment database. Finally, in many instances, staff has been involved in in-depth discussions with country authorities and requested to provide advice on the modalities of fiscal use of SDRs.

B. Transparency and Accountability of Domestic SDR Holding Structures

Central Banks

16. SDRs held by central banks are typically subject to high degrees of transparency and accountability. Almost all (94 percent) of the SDR-holding central banks included in this review publish annual financial statements that are independently audited to provide the necessary levels of accountability. These audits are performed by external audit firms or State Audit Bodies, thus providing the external independent assurance on the quality of the reporting mechanism.

Figure 9. Do Central Banks Publish Audited Financial Statements?

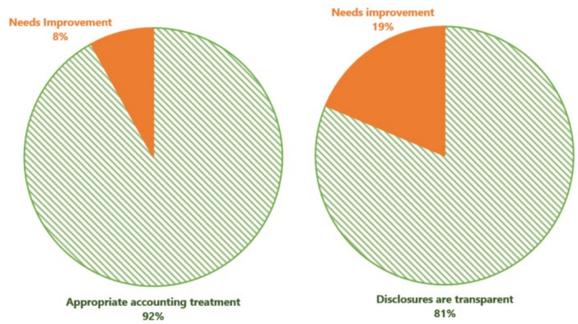


Source: IMF database.

17. Most central banks reinforce this transparency and accountability by appropriate accounting treatment and publication for their SDR holdings. The vast majority (over 90 percent) of the SDR-holding central banks that publish financial statements follow an appropriate accounting treatment for the SDR holding. Likewise, the majority (over 80 percent) of the SDR-holding central banks that publish annual financial statements provide for transparent SDR-related publication notes in those statements.

18. Some central banks, however, had difficulties with the accounting treatment of their SDR holdings. About 8 percent of central banks were not specific (explicit) on the accounting treatment of the SDR holding or made errors in the initial recording and accounting treatment of SDRs. For instance, the recognition and accounting treatment of the SDR allocation for one member had to be revisited since at first the central bank had recorded both the asset (holdings) and the liability (allocation) on its balance sheet, and monetization of the SDRs was channeled through on-lending from the central bank to the government's accounts, reflecting a corresponding receivable as a claim on the government. Subsequently, however, a legal opinion identified the government as the owner of the SDR allocation, which required a correction of this treatment, including through a derecognition of both assets and liability from the central bank's balance sheet.

Figure 10. Are Publication and Accounting of SDRs Appropriate?



Source: IMF database.

Government

19. Challenges emerged when analyzing transparency and accountability practices in government agencies holding SDRs. In the sample of reviewed countries, the number of MoFs holding SDRs (five) is much lower compared to that of central banks (78). Yet, in these cases, staff faced challenges in finding relevant information (e.g., annual financial statements) because of transparency and accountability shortcomings. Specifically, financial statements are sometimes not published, sometimes difficult to locate on external websites (particularly when in a different language), or sometimes not audited by a reputable external audit firm or the State Audit Body, which hinders assurance on the records. As pointed out in the main paper, this must be considered against the backdrop of broader challenges of balance sheet financial reporting by sovereigns.

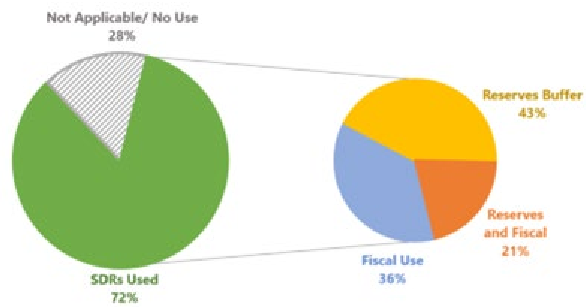
Combined Holding Structures

20. Holding structures combining the central bank and the MoF often pose challenges for reporting on the composition of the member's consolidated SDR position. In several countries, central banks hold the older SDR allocation, whereas the MoF holds the most recent one. Under such a structure, the challenge for members and stakeholders is to have a clear view on the respective portions of the central bank and the MoF in the asset (SDR holding) and liability (SDR allocation) relative to the members' total position *vis-à-vis* the IMF (SDR Department). Having this information is a necessary condition for the central bank and the fiscal authority (through the MoF) to delineate their respective responsibilities regarding the payment of charges to the IMF. Furthermore, a good understanding by the MoF of its position relative to the consolidated position vis-à-vis the IMF is needed for appropriate management of the financial exposure stemming from the fiscal use of SDRs.

C. Transparency and Accountability of Fiscal Use of SDR

21. Transparency on the fiscal use of SDRs has been challenging. Over 70 percent of the analyzed countries used their allocated SDRs, of which 57 percent in the form of fiscal use, either exclusively (36 percent) or in combination with the use of SDRs as an international reserve asset (21 percent). In some cases, the fiscally used SDRs were held at the outset by the government through the MoF, but in many instances the SDRs were originally held by central banks and needed to be transferred to the MoF to facilitate fiscal use. In only 26 cases, central banks transparently provided sufficient information on the modalities of such a transfer.

Figure 11. Use of SDRs



Source: IMF database.

22. Staff has engaged with member authorities on establishing transparent frameworks governing the use of SDRs for fiscal purposes, but traction has been limited. Staff has repeatedly stressed the importance of developing in the MoF appropriate structures to hold the SDRs and manage the exposure stemming from their fiscal use. However, very few countries have made progress in this regard. Staff will continue to help members strengthen fiscal SDR holding structures and, more generally, fiscal balance sheet reporting and sound fiscal management of the resulting financial flows.

STATISTICAL RECORDING

The statistical treatment of SDRs depends on whether the SDRs are recorded on the central bank or government balance sheet, and this is guided by the domestic legal and institutional framework of the member. This section summarizes the different statistical recording options based on the relevant statistical manuals, as well as on specific guidance prepared by the IMF Statistics Department (STA) to help guide authorities and IMF country teams on the recording of the 2021 general allocation. This section also summarizes the specific modalities of SDR use in the case of regional currency unions, based on the experience in the two Sub-Saharan African regional currency unions.

A. Various Holding Structures

23. The 2021 SDR allocation implies an increase in member countries' reserve assets until it is used.[10] The accounting treatment of the allocated SDRs follows each member country's domestic legal and institutional frameworks (IMF, 2021). The SDR allocation is generally recorded in the central bank's balance sheet as an increase of gross international reserves (GIR). However, when the SDRs are converted, the impact on GIR as well as on the level of gross and net external debt and, in certain cases, reclassifications of SDR positions between the central bank and the government, depends on the institutional arrangements within each country.[11]

24. In countries where the domestic legal frameworks allow central bank direct lending to the central government, a lending arrangement has been an option to use SDRs for fiscal support. Based on such arrangements, the central bank would "on-lend" to the central government in either foreign or domestic currency to use SDRs for fiscal purposes. The West African Economic and Monetary Union (WAEMU) countries and Djibouti are among the countries that adopted this type of arrangement. For the WAEMU countries, the BCEAO (the regional central bank) pooled all the SDR holdings/allocation in its balance sheet and extended loans in domestic currency (DC) to the member states. Central African Economic and Monetary Community (CEMAC) countries used a similar type of arrangement with the on-lending taking the form of a perpetuity loan with the Central Bank of Central African States (BEAC). Given Djibouti's currency board regime, the loans extended to the central government are also denominated in DC.

25. In countries where central bank laws do not allow on-lending to the government, the sale of foreign currency has been an option to channel SDRs for fiscal use.[12] In some cases, the government would have to raise funds in domestic currency (for instance, by issuing securities) to pay for the SDRs or foreign currency (FC). Alternatively, central banks may exchange their SDR holdings for freely usable currencies, and then sell the foreign currency proceeds to the government. This type of arrangement between the central bank and the central government does not give rise to monetary financing (which entails an expansion of the monetary base).

26. Other countries have adopted a hybrid arrangement where both the central bank and the central government hold the SDRs through "cession-retrocession" and/or transfer of SDRs to the government (Box 7 in the main paper). In the latter case, the central bank first records the new SDR holdings (asset)/allocation (liability) and then transfers them, fully or partially, to the central government, thereby transferring both the asset and the associated liability *vis-à-vis* the SDR Department to the central government, which can then use the SDRs for fiscal purpose. As a result, both the SDR holdings and allocation are derecognized from the central bank's balance sheet and are recorded on the central government's balance sheet. "Cession-retrocession" refers to the

[10]Following IMF (2009), the new allocation of SDRs to Fund members should be recorded as an increase in GIR (holdings of SDRs), with an equal increase in the members' long-term debt liabilities to the participants of the SDR Department (allocation of SDRs under other investment). This treatment is consistent across macroeconomic statistics manuals (see Annex I of the Guidance Note).

[11]The net external debt position of a country is defined as gross external debt less gross external assets in debt instruments (IMF 2014a, ¶7.50).

[12]For example, Mexico.

scenario where the central bank sells the SDRs to the central government (with the central government assuming both the asset and the underlying liability), while keeping the government's SDR holdings as deposits with the central bank. Country examples of such "cession-retrocession" operation include Tunisia and Jordan.

27. Statistical recording has followed domestic holding structures. SDR positions are more frequently reflected in the members' monetary and financial statistics (MFS) rather than in GFS. As of June 2023, of the 173 economies reporting monthly MFS based on the IMF's standardized report forms (SRFs) to STA, the balance sheets of 146 central bank reporters reflect full or partial SDR allocation.

B. Recording SDRs when the Allocation Is Initially in Central Bank Accounts[13]

28. When the central bank receives the SDRs as per the domestic arrangement, an increase in the SDR holdings will be recorded on the asset side of the central bank's balance sheet with an equal increase in SDR allocation on the liability side. The cumulative SDR allocation belongs to the long-term foreign liabilities of the central bank. Both the GIR and the foreign liabilities of the central bank increase implying no change in NFA.

Central Bank's Balance Sheet Example 1

Assets	Liabilities and Equity
Official Foreign Reserves • SDR Holdings: + X	**Foreign Liabilities** • Allocated SDRs: +X
• **GIR:** +X • **Gross external debt:** +X • **Net external debt/NFA:** no change	

29. Transfers to the government could then take various forms (Box 7 in the main paper):[14]

- **On-lending to the government.** Such on-lending, in either FC or DC, implies no change in the central bank's net claims on the central government as an increase in the government deposit liabilities offsets the increase in the claims on the central government, resulting in no change in either the central bank's NFA or the net domestic assets (NDA). As the government uses the deposits at the central bank, the central bank's NDA will increase reflecting the increase in net claims on the central government. In cases where the government would use FC directly from its FC deposits or obtain FC from the central bank using its DC deposits, the central bank's NFA would decrease as GIR decrease. However, in many countries, central banks are prohibited to lend to the government in FC. If, motivated or backed by SDRs received, the central bank on-

[13]The schematic recording shown in this section ignores interest flows relating to the SDR holdings and allocation, as well as any interest flows related to the other liabilities.

[14]The recording in the central government's balance sheet mirrors that in the central bank's balance sheet.

lends to the government in DC, the monetary base will increase depending on the type of the spending and the cash/deposit ratio of the economy—partly increasing currency in circulation and partly fueling deposits in the monetary base.

Central Bank's Balance Sheet Example 2

Assets	Liabilities and Equity
Official Foreign Reserves	**Foreign Liabilities**
• SDR Holdings: no change	• Allocated SDRs: no change
Domestic Assets:	**Domestic Liabilities**
• Loans to Government (in DC or FC): + X	• Deposits Liabilities of Government (in DC or FC): +X
• **GIR:** decrease if foreign exchange reserves are used	
• **Gross external debt / net external debt / NFA:** no change	

- **Exchange of SDRs for Foreign Currency that is then sold to the Government.** The statistical recording in this case is quite straightforward—the central bank records a change in composition of its foreign assets/reserves and a switch from DC to FC in government deposits on the liabilities side of its balance sheet. Initially, the net claims on the government do not change, but when the government starts using the FC, foreign assets/reserves of the central bank will decrease with an equivalent decrease in government FC deposits, resulting in a decrease in NFA and an increase in NDA. This same outcome would result when the government would use its DC deposit balances to buy FC from the central bank and to use it.

Central Bank's Balance Sheet Example 3

Assets	Liabilities and Equity
Official Foreign Reserves	**Foreign Liabilities**
• SDR Holdings: -X	• Allocated SDRs: no change
• Foreign Currency: +X	**Domestic Liabilities**
	• Deposits Liabilities to the Government in DC: -X
	• Deposit Liabilities to the Government in FC: +X
• **GIR:** decrease if foreign exchange reserves are used	
• **Gross external debt / net external debt / NFA:** no change	

- **Transfer of SDRs.** In the case of a transfer, in accordance with the domestic legislation, the central bank transfers the ownership of part or all the SDR holdings/allocation to the central government. This leads firstly to derecognition of assets (SDR holdings) and liabilities (SDR allocation) on the balance sheet of the central bank and a recognition of the same on the balance sheet of the central government.

Central Bank's Balance Sheet Example 4

Assets	Liabilities and Equity
Official Foreign Reserves: • SDR Holdings: - X	**Foreign Liabilities** • Allocated SDRs: - X
• **GIR:** no change (just reclassification from central bank to government) • **Gross /net external debt:** no change (just reclassification from central bank to government)	

- **Cession-Retrocession of SDRs.** Cession-retrocession refers to the scenario where the central bank sells the SDRs to the central government against the consideration that the central government assumes the underlying liability, while keeping the government's SDR holdings as deposits in the central bank. In this scenario, the SDR allocation will be reduced in the central bank's balance sheet and the deposits of the government on the liability side will be increased. This will imply a decrease in foreign liabilities and an increase in domestic liabilities of the central bank. Further recording will depend on the type of the central government spending (see next section). If the central government's spending is in FC, the NFA will decrease with an equivalent increase in the central bank's NDA. If the government exchanges its FC deposits into DC and spends locally, the NDA and monetary base will increase as in the on-lending scenario described above.

Central Bank's Balance Sheet Example 5

Assets	Liabilities and Equity
Official Foreign Reserves: • SDR Holdings: No change	**Foreign Liabilities** • Allocated SDRs: - X **Domestic Liabilities** • Deposit Liabilities to the Government in FC: +X
• **GIR:** no change • **Gross/net external debt:** no change (just reclassification from central bank to government)	

C. Recording SDRs when the Allocation Is Initially in Government Accounts

30. When the government receives the SDRs as per the domestic arrangement, an increase in the SDR holdings will be recorded on the asset side of the government's balance sheet, together with an equal increase on the liabilities side in SDR allocation. The SDR allocation is part of the long-term external liabilities of the government and as such is part of gross government debt.

Government's Balance Sheet Example 1

Assets	Liabilities
External • SDR Holdings: + X	**External** • Allocated SDRs: +X
• **GIR:** +X • **Gross government/external debt:** +X • **Net government/external debt:** no change	

31. To use the SDR holdings the government will first exchange the SDR holdings for DC or FC.

- Deposits which may then be used to **finance government expenditure**, such as on nonfinancial assets, purchase of goods and services, payments of compensation of employees, or any form of transfer. Cumulative SDR allocation is unaffected, so gross government debt remains unchanged as a result of the allocation.

Government's Balance Sheet Example 2

Expenditure	
+ Y	
Assets	**Liabilities**
External • SDR Holdings: - X **External or Domestic** • Currency and deposits (C&D): + X - Y	**External** • Allocated SDRs: no change
• **GIR:** -X + remaining proceeds kept as foreign exchange reserves • **Gross government/external debt:** no change • **Net government debt:** + Y • **Net external debt:** +Y (if paid externally) / no change (if paid domestically)	

- The proceeds can also be used to **reduce other government external debt liabilities**.

Government's Balance Sheet Example 3

Expenditure	
No change	
Assets	**Liabilities**
External • SDR Holdings: - X • Currency and deposits: + X - Y	**External** • Allocated SDRs: no change • Other External Debt Liabilities**:** - Y
• **GIR:** -Y • **Gross government/external debt:** -Y • **Net government/external debt: no change**	

D. The Case of Currency Unions

32. The modalities of the use of policy space provided by the SDR allocation in regional currency unions warrant specific attention. Regional central banks in Sub-Saharan Africa provided local currency loans (monetary financing) in proportion to the SDR allocation received by member countries, which are serviced by currency union members that make interest payments to the regional central bank at agreed terms. These loans, which are not per se financially linked to the SDRs—there is no "on-lending" of SDR holdings—tend to be classified as domestic debt from the viewpoint of the member (IMF 2021, ¶41).[15] In some cases, currency union members also converted their SDR holdings to freely usable currencies, which could potentially create a currency union-wide net liability to the SDR Department that would need to be serviced.

33. Similar to other central banks that on-lend to the government, higher SDR interest rates may create challenges for the financial autonomy of the regional central banks that partake in these arrangements. In cases where: (i) regional central banks have SDR holdings below their members' combined allocation and (ii) where higher SDR interest rates are not reflected in the repayment terms of the member to the regional central bank in cases of SDR-based monetary financing, it is possible that regional central banks could face an interest rate risk where the repayment terms do not compensate the regional central bank for net interest obligations to the SDR Department.

34. In the Central African Economic and Monetary Community (CEMAC), the authorities have a framework for SDR use like the one adopted for the 2009 SDR allocation. The Bank of the Central African States (BEAC) holds its members' SDRs as an asset and their SDR allocation as a liability. In case a CEMAC member decides to "utilize" (part of) the SDRs for domestic financing, the BEAC makes "available" an equivalent amount in domestic currency to that member state. This operation constitutes an exception to CEMAC's general monetary financing prohibition. The member state assumes responsibility for the charges associated with this use of the SDRs: the amount in domestic currency is transferred only after separate deduction of a "provision" aiming to cover the first 5 years of SDR charges, which uses an "historical estimate" of the SDR interest rate over a 5-year period that is re-estimated every 5 years.

35. Like BEAC, the Central Bank of West African States (BCEAO) in the West African Economic and Monetary Union (WAEMU) lent upon request to members an amount in CFA Francs, the regional currency, equivalent to the SDR allocation. Given the connection with the SDRs, these loans are considered an exception to the general prohibition of monetary financing. These loans are governed by MoUs under the following terms: 20-year maturity (with the option of

[15]For economies in centralized currency unions, BPM6 recommends treating these loans as domestic transactions/positions. This practice is appropriate because the monetary authority functions for member countries in these currency unions are deemed to be carried out by a national (resident) agency. Typically, the regional central bank of a centralized currency union maintains national offices in each member economy. This institutional unit, called "the national agency," acts as the central bank for that economy and must be treated for statistical purposes as an institutional unit that is separate from the headquarters of the regional central bank.

rollover) at a fixed interest rate of 0.05 percent. Per WAEMU's 2023 *Staff Report on Common Policies for Member Countries*, recent SDR sales have brought the net SDR position of the region to close to zero.

STATUS OF IMF FUNDRAISING EFFORTS

There has been significant progress with voluntary SDR channeling since the allocation, although more efforts are needed to deliver on them. The pledges toward IMF fundraising for the PRGT and RST, much of which are in SDRs, have been instrumental in supporting lending to vulnerable countries, and are summarized in the tables below. Some of these pledges have already been turned into effective contribution agreements.

Title Table 1. Status of Pledges for PRGT Loan Resources

(in SDR millions, as of end-June, 2023)

Country	Pledged[1]	Status	Media	2021 SDR Allocation	Pledge relative to Allocation
Australia	500	Effective	SDR	6,299	8%
Belgium	250		SDR	6,144	4%
Canada	500	Effective	SDR	10,566	5%
China	1,000	Effective	SDR	29,216	3%
Denmark	150		TBD	3,297	5%
Finland	300	Effective	SDR	2,310	13%
France	1,000	Effective	SDR	19,318	5%
Italy	1,000	Effective	SDR	14,444	7%
Japan	1,000	Effective	SDR, USD, other	29,540	3%
Korea	450		TBD	8,226	5%
Netherlands	500	Effective	SDR/EUR	8,374	6%
Norway	150	Effective	USD	3,599	4%
Saudi Arabia	2,800	Effective	SDR	9,577	29%
Spain	350	Effective	SDR	9,139	4%
Sweden	150	Effective	SDR	4,246	4%
United Kingdom[2]	1,500	Effective	SDR	19,318	8%
Total	**11,600**				
Target Amount	**12,600**				

Memorandum items:

Share of pledges/loan agreements in SDRs:	
Pledges under the 2021 (ongoing) fundraising round	**94%**
Effected loan agreements under the 2020 fundraising round	**63%**

[1] Some of the pledged amounts are subject to completion of domestic procedures.

[2] The loan resources have been provided at a concessional rate and are estimated will generate about SDR 250 million in implicit subsidies, subject to SDR interest rate assumptions.

Table 2. Status of PRGT Fundraising—Subsidy Contributions

(as of end-June, 2023)

Country	Ask [1]	Modality [2]	Beneficiary Account	Pledged [3]		Received [4]	2021 SDR Allocation (SDR mln)	Investment or concessional loan pledge relative to Allocation
				Media	SDR mln	SDR mln		
Australia	36	Investment in pooled assets	SRA	SDR	36	Effective	6,299	0.6%
Canada	61	Grant	SRA	CAD	60	60		
China	168	Investment in DIA	SRA	SDR	168	Effective	29,216	0.6%
Denmark	19	TBD		SDR	19			
Estonia	1	Investment in DIA	SRA	SDR	0.4	Effective	234	0.2%
France	111	Grant	SRA	EUR	106	32		
Germany	146	Grant	GSA	EUR	82	8		
Greece	13	TBD		SDR	13			
Ireland	19	Grant	SRA	EUR	20			
Italy	83	Grant	SRA	EUR	82	32		
Japan	169	Grant and Investment in DIA	GSA+SRA [5]	US$	171	96	29,540	0.6%
Korea	47	TBD		SDR	41			
Lithuania	2	Grant	SRA	EUR	2	2		
Morocco	-	Investment in DIA	SRA	SDR	0.2	Effective	857	0.0%
Netherlands	48	Grant	GSA	EUR	23	23		
Norway	21	Grant		NOK	9			
Philippines	11	Grant	SRA	US$	4	4		
Portugal	11	Investment in DIA	SRA	SDR	11	Effective	1,975	0.6%
Singapore	21	Grant	SRA	SDR	21			
Slovak Republic	6	Grant	GSA	EUR	6	4		
Spain	52	Grant	SRA	EUR	50	25		
Sweden	24	Grant	GSA	SEK	22	15		
Switzerland	32	Grant	SRA	CHF	41	8		
Thailand	18	Grant	SRA	SDR	8	8		
Trinidad and Tobago	3	Investment in pooled assets		SDR	3		450	0.7%
United Kingdom [6]	111	Concessional loan		SDR	250	Effective	19,318	1.3%
United States	456	Grant	SRA	US$	55	55		
European Commission	-	Grant	GSA, ECS, SCS	EUR	78	78		
Total					**1,380**	**450**		
Total Grant					763	450		
Total Implicit Subsidy					250	-		
Total Investment and Deposit					294	-		
To be Determined (TBD)					73	-		
Target Amount					**2,300**			
Number of asks					61			

[1] Total proposed amount covering the 61 asks equals SDR 2.3 billion in NPV terms as of end-2020.

[2] TBD = to be determined.

[3] Several of the pledged amounts are subject to completion of domestic procedures. The following countries have not yet pledged: Algeria, Austria, Belgium, Botswana, Brazil, Brunei Darussalam, Bulgaria, Chile, Croatia, Cyprus, Czech Republic, Finland, Hungary, India, Indonesia, Israel, Kuwait, Latvia, Luxembourg, Malaysia, Malta, Mauritius, Mexico, New Zealand, Oman, Peru, Poland, Qatar, Romania, Russian Federation, Saudi Arabia, Slovenia, Turkey, United Arab Emirates, and Uruguay.

[4] Subsidy contributions from investments are generated over time in the form of net investment earnings.

[5] Of the total amount pledged, US$50 million have been pledged to the SRA, and additional SDR 74 million is expected from a DIA deposit.

[6] The loan resources have been provided at a concessional rate and are estimated will generate about SDR 250 million in implicit subsidies, subject to SDR interest rate assumptions.

Table 3. Status of RST Funding

(In SDR billions, as of end-June, 2023)

	Country	RST contribution[1/]	SDR allocation in 2021	Contribution as share of 2021 SDR allocation
Contribution package with loan resources[2/]				
1	Australia	0.9	6.3	15%
2	Belgium	0.7	6.1	11%
3	Canada	1.4	10.6	13%
4	China	6.0	29.2	21%
5	France	3.1	19.3	16%
6	Italy	1.9	14.4	13%
7	Japan	5.0	29.5	17%
8	Korea	0.9	8.2	11%
9	Lithuania	0.085	0.4	20%
10	Luxembourg	0.253	1.3	20%
11	Malta	0.023	0.2	14%
12	Netherlands	1.2	8.4	15%
13	Oman	0.039	0.5	7%
14	Singapore	0.7	3.7	20%
15	Spain	1.4	9.1	16%
16	United Kingdom	2.5	19.3	13%
	Subtotal	**26.1**		**15%**
Standalone contributions[2/]				
17	Estonia	0.025	0.2	11%
18	Germany	5.1	25.5	20%
	Grand total	**31.2**		**15%**

Source: Country authorities; IMF staff estimates.

1/ The table reports the amounts pledged or contributed. When pledges are reported, this table shows the amount as pledged by each country. In most of such cases, the pledge amount excludes the reserve account contribution, but at 2 percent of the loan contribution, its impact on the total amount is small. For some countries, pledges are subject to domestic procedures, including budgetary approvals.

2/ The fundraising target of SDR 33 billion was set for contribution packages that provide resources to all three RST accounts (loan, deposit, and reserve accounts). A 'standalone contribution' refers to contributions to the deposit and/or reserve accounts, normally with a maturity of 10 years.

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