Web Box 3.1
The IMF's Special Drawing Rights

The Special Drawing Right (SDR) is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves.[1] In addition to its role as a supplementary reserve asset, the SDR serves as the unit of account of the IMF and some other international organizations. It can be held and used by member countries, the IMF, and certain designated official entities referred to as "prescribed holders"—but it cannot be held, for example, by private entities or individuals.

The SDR's value is currently based on a basket of four key international currencies (the euro, Japanese yen, pound sterling, and U.S. dollar). The basket composition and the valuation of the components is reviewed by the Executive Board every five years (or earlier, if the Fund finds that changed circumstances warrant an earlier review. The most review took place in November 2010, and the next is expected to take place by 2015. In October 2011, the IMF Executive Board discussed clarifications and possible reform options of the existing criteria for broadening the SDR currency basket (see chapter text).

The U.S.-dollar equivalent of the SDR is posted daily on the IMF's website. It is calculated as the sum of specific amounts of the four component currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market.

Neither a currency nor a claim on the IMF, the SDR is a potential claim on the freely usable currencies of IMF members, with the IMF acting as an intermediary between members and prescribed holders to ensure that SDRs can be exchanged for these currencies. IMF members often need to buy SDRs to discharge obligations to the IMF, or they may wish to sell SDRs to adjust the composition of their reserves. For more than two decades, the SDR market has functioned through voluntary trading arrangements, under which a number of members and one prescribed holder have volunteered to buy or sell SDRs within limits defined by their respective arrangements. Following SDR allocations in 2009, the number and size of the voluntary arrangements was expanded to ensure continued liquidity of the voluntary SDR market. In the event that there is insufficient capacity under the voluntary trading arrangements, the Fund can designate members with sufficiently strong external positions to buy SDRs, up to a certain amount, using freely usable currencies, from members with weak external positions. This arrangement serves as a backstop to guarantee the SDR's liquidity and reserve asset character.

Under its Articles of Agreement, the IMF may allocate SDRs to member countries, in proportion to their IMF quotas (see Web Box 3.1), providing each member with a costless, unconditional international reserve asset on which interest is neither earned nor paid. However, if a member's SDR holdings rise above its allocation, it earns interest on the excess; conversely, if it holds fewer SDRs than allocated, it pays interest on the shortfall. General allocations must be based on a long-term global need to supplement existing reserve assets. Decisions on general allocations

Web Box 3.1 (*concluded*)

have been made three times. The first allocation, for a total amount of SDR 9.3 billion, was distributed in 1970–72 in yearly installments. The second, for SDR 12.1 billion, was distributed in 1979–81, also in yearly installments. To help mitigate the effects of the global financial crisis, a third general allocation, for SDR 161.2 billion, was made in August 2009.

Separately, the Fourth Amendment to the Articles of Agreement, which became effective in August 2009, provided for a **special one-time allocation of SDR 21.5 billion, to enable** all IMF members to participate in the SDR system on an equitable basis and correct for the fact that countries that joined the Fund after 1981—more than one-fifth of the current IMF membership—had never received an SDR allocation.

With the 2009 general and special SDR allocations, the amount of SDRs allocated increased to about SDR 204 billion.

The SDR interest rate is determined weekly based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies. It provides the basis for calculating the interest charged to members on regular (i.e., nonconcessional) IMF financing, as well as the interest paid to members on a portion of their quota subscriptions.

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[1] For further information on SDRs, see "Factsheet: Special Drawing Rights" (www.imf.org/external/np/exr/facts/sdr.htm).