INTERNATIONAL MONETARY FUND

FACTSHEET

Special Drawing Rights (SDRs)

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies. With a general SDR allocation that took effect on August 28, 2009 and a special allocation on September 9, 2009, the amount of SDRs increased from SDR 21.4 billion to around SDR 204 billion (equivalent to about $309 billion, converted using the rate of September 4, 2014).

The role of the SDR

The SDR was created by the IMF in 1969 to support the Bretton Woods fixed exchange rate system. A country participating in this system needed official reserves—government or central bank holdings of gold and widely accepted foreign currencies—that could be used to purchase the domestic currency in foreign exchange markets, as required to maintain its exchange rate. But the international supply of two key reserve assets—gold and the U.S. dollar—proved inadequate for supporting the expansion of world trade and financial development that was taking place. Therefore, the international community decided to create a new international reserve asset under the auspices of the IMF.

However, only a few years later, the Bretton Woods system collapsed and the major currencies shifted to a floating exchange rate regime. In addition, the growth in international capital markets facilitated borrowing by creditworthy governments. Both of these developments lessened the need for SDRs. But more recently, the 2009 SDR allocations totaling SDR 182.6 billion have played a critical role in providing liquidity to the global economic system and supplementing member countries' official reserves amid the global financial crisis.

The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions. 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.

Basket of currencies determines the value of the SDR

The value of the SDR was initially defined as equivalent to 0.888671 grams of fine gold—which, at the time, was also equivalent to one U.S. dollar. After the collapse of the Bretton Woods system in 1973, however, the SDR was redefined as a basket of currencies. Today the SDR basket consists of the euro, Japanese yen, pound sterling, and U.S. dollar. The value of the SDR in terms of the U.S. dollar is determined daily and posted on the IMF's website. It is calculated as the sum of specific amounts of the four basket currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market.

The basket composition is reviewed every five years by the Executive Board, or earlier if the IMF finds changed circumstances warrant an earlier review, to ensure that it reflects the relative importance of currencies in the world's trading and financial systems. In the most recent review (in November 2010), the weights of the currencies in the SDR basket were revised based on the value of the exports of goods and services and the amount of reserves denominated in the respective currencies that were held by other members of the IMF. These changes became effective on January 1, 2011. In October 2011, the IMF Executive Board discussed possible options for broadening the SDR currency basket. Most directors held the view that the current criteria for SDR basket selection remained appropriate. The next review will take place by 2015.

The SDR interest rate

The SDR interest rate provides the basis for calculating the interest charged to members on regular (non-concessional) IMF loans, the interest paid to members on their SDR holdings and charged on their SDR allocation, and the interest paid to members on a portion of their quota subscriptions. The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term debt instruments in the money markets of the SDR basket currencies.

SDR allocations to IMF members

Under its Articles of Agreement (Article XV, Section 1, and Article XVIII), the IMF may allocate SDRs to member countries in proportion to their IMF quotas. Such an allocation provides each member with a costless, unconditional international reserve asset. The SDR mechanism is self-financing and levies charges on allocations which are then used to pay interest on SDR holdings. If a member does not use any of its allocated SDR holdings, the charges are equal to the interest received. However, if a member's SDR holdings rise above its allocation, it effectively earns interest on the excess. Conversely, if it holds fewer SDRs than allocated, it pays interest on the shortfall. The Articles of Agreement also allow for cancellations of SDRs, but this provision has never been used. The IMF cannot allocate SDRs to itself or to other prescribed holders.

General allocations of SDRs have to be based on a long-term global need to supplement existing reserve assets. Decisions on general allocations are made for successive basic periods of up to five years, although general SDR allocations have been made only three times. The first allocation was for a total amount of SDR 9.3 billion, distributed in 1970-72, and the second allocated SDR 12.1 billion, distributed in 1979-81. These two allocations resulted in cumulative SDR allocations of SDR 21.4 billion. To help mitigate the effects of the financial crisis, a third general SDR allocation of SDR 161.2 billion was made on August 28, 2009.

Separately, the Fourth Amendment to the Articles of Agreement became effective August 10, 2009 and provided for a **special one-time allocation of SDR 21.5 billion**. The purpose of the Fourth Amendment was to enable all members of the IMF to participate in the SDR system on an equitable basis and rectify the fact that countries that joined the IMF after 1981—more than one fifth of the current IMF membership—never received an SDR allocation until 2009. The 2009 general and special SDR allocations together raised total cumulative SDR allocations to SDR 204 billion.

Buying and selling SDRs

IMF members often need to buy SDRs to discharge obligations to the IMF, or they may wish to sell SDRs in order to adjust the composition of their reserves. The IMF may act as an intermediary between members and prescribed holders to ensure that SDRs can be exchanged for freely usable currencies. For more than two decades, the SDR market has functioned through voluntary trading arrangements. Under these arrangements a number of members and one prescribed holder have volunteered to buy or sell SDRs within limits defined by their respective arrangements. Following the 2009 SDR allocations, the number and size of the voluntary arrangements has been expanded to ensure continued liquidity of the voluntary SDR market. The number of voluntary SDR trading arrangements now stands at 32, including 19 new arrangements since the 2009 SDR allocations.

In the event that there is insufficient capacity under the voluntary trading arrangements, the IMF can activate the designation mechanism. Under this mechanism, members with sufficiently strong external positions are designated by the IMF to buy SDRs with freely usable currencies up to certain amounts from members with weak external positions. This arrangement serves as a backstop to guarantee the liquidity and the reserve asset character of the SDR.