# FACT SHEET: How An Allocation of International Monetary Fund Special Drawing Rights Will Support Low-Income Countries, the Global Economy, and the United States

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The COVID-19 pandemic has taken an extraordinary toll on the global economy and has strained financial liquidity. Global growth contracted 3.5% in 2020—the worst peace-time recession since the Great Depression—and will likely inflict long-term scars on the global economy. The International Monetary Fund (IMF) has warned of a stark divergence in economic growth prospects for advanced economies versus low-income and developing countries. Overall, the IMF projects that 150 economies will have per-capita incomes below their 2019 levels in 2021.

An allocation of IMF Special Drawing Rights (SDRs) would help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. Importantly, it could also enhance liquidity for low-income and developing countries to facilitate their much-needed health recovery efforts. Containing the pandemic across the globe is paramount to a robust economic recovery. To this end, Treasury is working with IMF management and other members toward a $650 billion general allocation of SDRs to IMF member countries. Addressing the long-term global need for reserve assets would help support the global recovery from the COVID-19 crisis. A strong global recovery would also increase demand for U.S. exports of goods and services—creating U.S. jobs and supporting U.S. firms.

An SDR allocation is not a catch-all solution. It is part of a package of broader international efforts to support the global recovery. This package also includes robust support from the IMF, multilateral development banks, and debt relief in some cases—all alongside countries taking necessary reform steps. Bilateral assistance and debt relief under the G20 Debt Service Suspension Initiative and Common Framework, as well as financial support to the COVID-19 Vaccines Global Access (COVAX) Facility, all remain integral to help prevent long-term scarring from the pandemic and worsening global wealth divergence.

As part of our support for an SDR allocation, Treasury is working with the IMF and other member countries to maximize the benefits and limit the possible downsides of an allocation by enhancing transparency, accountability, and equitable burden sharing.

Below are some common questions about the nature and uses of SDRs and the mechanics of an SDR allocation. For more information on SDRs please see the IMF's Factsheet.

## QUESTION: IS THE ADMINISTRATION TRYING TO BYPASS CONGRESS IN APPROVING AN SDR ALLOCATION?

**Answer:** As required by U.S. law, the Administration is consulting Congress on our proposed support for an SDR allocation. Under the Special Drawing Rights Act, Congress has authorized the Secretary of the Treasury to support an SDR allocation without additional legislation where the amount allocated to the United States does not exceed the current U.S. quota in the IMF in the applicable five-year basic period. The proposed SDR allocation is below this level. Based on current global liquidity conditions, Treasury does not support an additional SDR allocation beyond the proposed $650 billion at this time. Treasury would only consider an additional SDR allocation beyond the proposed $650 billion at some point in the future if circumstances justify it at that time.

## QUESTION: DOES AN SDR ALLOCATION IMPOSE A LARGE FINANCIAL BURDEN ON THE UNITED STATES?

**Answer:** An allocation itself imposes no direct cost on the United States. Based on a $650 billion allocation, the United States will receive about $113 billion in SDRs. The idea that an SDR allocation imposes a financial burden arises from potential exchanges of SDRs for U.S. dollars. If countries wish to sell their SDRs to the United States in exchange for dollars, Treasury would exchange SDRs for dollars held in the Exchange Stabilization Fund (ESF). The U.S. cash position would decline, and federal borrowing requirements would increase. However, the United States would also earn interest on the SDRs we purchased, largely (and perhaps entirely) offsetting any increase in Treasury's borrowing costs. This is the case with our existing SDR resources, and the same process would occur with a new allocation. The differential between the SDR interest rate and the interest rate on Treasuries varies over time, so at times there is a small cost and at other times a small benefit to Treasury. This potential implicit cost is much lower than the benefits of a strong global recovery.

## QUESTION: WILL THE UNITED STATES BE REQUIRED TO EXCHANGE DOLLARS FOR SDRS WITH ANY IMF MEMBER ON DEMAND?

**Answer:** Treasury has agreed to voluntarily purchase SDRs up to a certain level from other IMF members to promote an orderly system of exchange rates and to help provide liquidity support to our global partners. The United States retains the right to refuse to purchase SDRs from any country whose policies run counter to U.S. interests. Many large countries, such as most advanced economies and China, already hold excess SDRs and are very unlikely to request to exchange their new SDRs for hard currency.

Even if there is strong demand for dollars after the potential allocation, the United States is not alone in voluntarily agreeing to purchase SDRs. The IMF spreads the transactions across 32 members who have similar voluntary arrangements. We are working with the IMF to further ensure our potential transactions are proportional to others' commitments.

## QUESTION: IS THERE A NEED FOR AN SDR ALLOCATION TO SUPPORT GLOBAL RESERVES?

**Answer:** In 2016, the IMF estimated the global reserves gap to be $430 billion to $1.4 trillion. This shortfall of international reserves is likely larger now. In addition, many low-income and developing countries remain constrained in their ability to issue debt in international markets, either to replenish reserves or to finance fiscal spending. Providing reserves will help prevent countries from engaging in FX purchases that could weaken their currencies and lead to a further buildup of the U.S. trade and current account deficits.

## QUESTION: IS THERE A NEED FOR AN SDR ALLOCATION GIVEN THE GLOBAL ECONOMY IS RECOVERING?

**Answer:** After contracting 3.5% in 2020, the IMF projects a partial recovery in economic growth in 2021 of 5.5%. Yet, this recovery faces significant downside risks, is uneven, and will leave global output below the pre-crisis level over the medium term. Moreover, the global recession has strained central bank foreign exchange reserves in many countries. The proposed SDR allocation will help buffer reserves, supporting governments' efforts to address the health and economic crises. Importantly, an SDR allocation will increase confidence and liquidity needed to promote a global recovery that benefits the American worker and U.S. economic growth.

[1] For more information see the Report to Congress on the Financial Implications of U.S. Participation in the International Monetary Fund here.

Low-income and developing countries have been particularly hard hit in this crisis, and we face a critical window to prevent a permanent global divergence between rich and poor countries. The pandemic is expected to reverse the progress made in poverty reduction across the past two decades with close to 90 million people expected to fall below the extreme poverty threshold during 2020-21. Low-income countries have seen their real annual GDP growth decline by about 5% in 2020. The IMF estimates that low-income countries will need to deploy around $200 billion over the next five years just to fight the pandemic and an additional $250 billion to return to the path of catching up with advanced economies. The IMF forecasts the medium-term output losses for low-income countries will be about 6%, compared to 1% for advance economies. The proposed SDR allocation, by providing liquidity and potential fiscal space, could help low-income and developing countries finance vaccines and other COVID-19 related spending.

For more information see the IMF's blog post on the pandemic's legacy.

## QUESTION: IS AN SDR ALLOCATION A CASH GIVEAWAY?

**Answer:** SDRs are neither money nor currency, but an international reserve asset. SDRs are allocated by the IMF to IMF members, and can only be used by IMF members and a limited number of international institutions. SDRs cannot be exchanged by private entities, and all transactions involving SDRs must go through the IMF's SDR Department. To use SDRs, a country must find an IMF member willing to provide a usable currency (generally, dollars, euros, or yen) in exchange for SDRs. The transaction is thus an exchange of assets. The country pays an interest rate to the IMF if their SDR holdings are below its allocation.

## QUESTION: DOES AN SDR ALLOCATION ONLY BENEFIT RICH COUNTRIES, AS OPPOSED TO THE COUNTRIES THAT NEED IT?

**Answer:** A $650 billion SDR allocation would provide about $21 billion worth of SDRs in liquidity support to low-income countries and about $212 billion to other emerging market and developing countries (excluding China), complementing existing multilateral efforts to assist countries in need. By comparison, the G20/Paris Club Debt Service Suspension Initiative has delivered about $5 billion in liquidity relief to more than 40 eligible countries as of March 2021. The IMF's concessional lending provided about $13 billion in emergency financing in 2020.

We are working with our international partners to pursue ways for advanced economies to lend a portion of their SDR allocation to support low-income countries. For instance, during the current crisis, several countries have used part of their existing SDR holdings to expand the IMF's concessional financing through loans to the IMF's Poverty Reduction and Growth Trust's (PRGT). Total new PRGT loan resources mobilized since the start of the crisis amount to about $24 billion, of which about $15 billion is from existing SDRs.

## QUESTION: IS THERE TRANSPARENCY AND ACCOUNTABILITY IN HOW SDRS ARE USED?

**Answer:** The IMF already reports the SDR holdings of each of its members on a monthly basis. As part of our support for a new SDR allocation, Treasury is working with our international partners and the IMF on a number of initiatives to improve the transparency of SDR transactions and the effectiveness of how countries use SDRs. For example, the IMF could expand quarterly country-level data on SDR transactions, breaking out the transactions that occurred each quarter by major categories (e.g., IMF operations and exchanges with other SDR holders). Moreover, we are encouraging the IMF to publish an ex-ante guidance note on how countries could use and account for SDRs, consistent with macroeconomic and debt sustainability and good governance. We are also urging the IMF to conduct an ex-post review of the results two years after the allocation to describe the various uses. We are working closely with the IMF and other members to advance these initiatives.

## QUESTION: IS AN SDR ALLOCATION A LIFELINE FOR DICTATORS?

**Answer:** The United States retains the right to refuse to purchase SDRs from any countries that we choose, including those under U.S. sanction regimes, and we are working to coordinate with other countries to do the same. Because all IMF members receive an SDR allocation proportionate to their quota share, some countries whose policies the United States opposes will receive an SDR allocation. However, these countries will not necessarily be able to exchange their SDRs for hard currencies. First, the country's authorities must be recognized by the IMF membership. Then, the country would need to find a willing country to provide them with hard currency in exchange for their SDRs. We are working to increase transparency around SDR exchanges.

## QUESTION: WILL AN SDR ALLOCATION PUT AT RISK THE DOLLAR'S RESERVE CURRENCY STATUS?

**Answer:** The dollar currently makes up 57% of global reserves, while SDRs only make up 2%. After the proposed allocation, SDRs as a share of global reserves would only grow to around 7%, while dollars would comprise about 54%, more than three times the next most significant currency. Additionally, restrictions on who can hold and transact SDRs and the IMF's role in clearing all SDR transactions significantly limits the ability of the SDR to function as a replacement for the dollars' reserve currency status.

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