Handbook for the use of Special Drawing Rights (SDRs) for Fiscal Purposes

Accounting and transparency implications

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Pandemic and SDRs

• Pandemic declared on March 12, 2020
• SDRs were issued on **August 23, 2021**
Amounts allocated

- Latin America and the Caribbean: USD 51.4 billion

<table>
<thead>
<tr>
<th>country</th>
<th>in %</th>
<th>in USD million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2.315</td>
<td>$15,046</td>
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<tr>
<td>Mexico</td>
<td>1.868</td>
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<td>Venezuela</td>
<td>0.780</td>
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<td>Argentina</td>
<td>0.668</td>
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<td>Colombia</td>
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<td>0.146</td>
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<td>Dominican Republic</td>
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<td>$327</td>
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<td>Paraguay</td>
<td>0.0422</td>
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</table>
Pandemic

- Declaration on March 12, 2020.
- Biological and health phenomenon, not a monetary one.
- Responses should be primarily fiscal.
- SDRs issued are about 1% of Latin America and the Caribbean’s GDP.

Figure 1. Divergences in policy support

(Total revenue and spending measures in response to COVID-19; percent of 2020 GDP)

Sources: IMF Fiscal Monitor database of Country Fiscal Responses to COVID-19; and IMF staff calculations.

SDRs are not foreign debt

If a country does not exchange SDRs for dollars
• Obligation to pay back the SDRs: none
• Interest rate of unused SDRs: none.

If a country does exchange SDRs for dollars
• Obligation to exchange the dollars to SDRs: none
• Interest rate of SDRs exchanged for dollars: 0,05% per year
  • Because of this interest rate, the Sixth Balance of Payments Statistics Manual incorrectly recommends that SDRs should be statistically classified as foreign debt.
  • However, IMF guidance says that SDRs should not be considered for external debt sustainability analysis purposes.
SDRs are not foreign debt

440. SDRs are international reserve assets created by the International Monetary Fund to supplement other reserve assets that are periodically allocated to IMF members in proportion to their respective quotas. SDRs are not considered liabilities of the Fund, and IMF members to whom SDRs are allocated do not incur actual (unconditional) liabilities to repay SDR allocations. The Fund determines the value of SDRs daily by summing, in U.S. dollars, the values—which are based on market exchange rates—of a weighted basket of currencies. The basket and weights are subject to revision from time to time. SDRs can be used to acquire other members’ currencies (foreign exchange), to settle financial obligations, and to extend loans. Changes in the SDR holdings of monetary authorities can arise through (i) transactions involving SDR payments to or receipts from the Fund, other participants in the SDR Department of the Fund, or other holders or (ii) allocation or cancellation. Transactions such as those enumerated under (i) are included in the balance of payments; allocations or cancellations are not entered in the balance of payments but are reflected in the international investment position.
¿Stash or spend? What does the IMF say:

• “a general allocation of Special Drawing Rights (SDR) ... should be completed quickly so as to provide liquidity buffers for countries and help them address their essential spending needs” tinyurl.com/blogIMF

• Gerry Rice: “the IMF would advise countries how best to use SDRs to strengthen the reserves of a country; create room for urgent priority spending; and, support better policies.” tinyurl.com/rprensaFMI

• Kristalina Georgieva: “Lebanon would receive about $860 million of SDRs at this critical moment to strengthen the country’s depleted reserves and also to help with the many urgent needs of the Lebanese people. ... This is a precious resource. It must be deployed for the maximum benefit of the country and its people. How to use SDRs, of course, is a sovereign decision. tinyurl.com/libanoKG
Past experiences

After the 2009 SDR issuance, between August 2009 and June 2010

• **Latin America: Ecuador**

• **Europe: Bosnia & Herzegovina, Moldova, Serbia and Ukraine**

• **Africa: Mauritania and Zimbabwe**

• Made fiscal use of the SDRs, according to the IMF and the US Treasury Department.

At the international level, it is not forbidden to use SDRs for fiscal purposes.

• In the US, Canada and the UK, the owner of the SDRs is the ministry of finance and not the central bank.
The allocation was on August 28 and September 9, 2009
Recent experiences in LAC

100% Fiscal Use
- Paraguay
- Ecuador
- Argentina

Internal CB-Treasury financing
- Colombia
- Mexico
- Argentina

Exchanged for USD, fiscal use unknown
- Antigua & Barbuda (100%)
- Guyana (100%)
- Haiti (50%)

Received SDRs
- Trinidad & Tobago
**Artículo 34.** Los Derechos Especiales de Giro (DEG), a ser asignados por el Fondo Monetario Internacional a la República del Paraguay, para cubrir las necesidades de financiamiento derivadas de la Pandemia de la COVID-19, serán asignados a la Cuenta del Tesoro Público como activo financiero independientemente a su fecha de emisión, y en carácter de excepción a lo dispuesto en el artículo 60 de la Ley N° 489/1995 “ORGANICA DEL BANCO CENTRAL DEL PARAGUAY” y su modificatoria.

**Artículo 35.** Facúltase al Banco Central del Paraguay (BCP), en su carácter de Agente Financiero del Estado paraguayo, a llevar a cabo las transacciones y operaciones que sean necesarias para dotar de liquidez a la totalidad de los Derechos Especiales de Giro (DEG) asignados al Tesoro Público, en los términos del artículo 34, en su equivalente a Dólares de los Estados Unidos de América.

El Ministerio de Hacienda, conjuntamente con el Banco Central del Paraguay (BCP), acordarán las condiciones para dichas transacciones y operaciones.

**Artículo 36.** El Ministerio de Hacienda podrá disponer, parcial o totalmente, de los recursos financieros obtenidos mediante las operaciones y transacciones autorizadas en el artículo 35, las cuales deberán ser registradas en la contabilidad gubernamental de conformidad con las reglas contables que sean establecidas por el Fondo Monetario Internacional (FMI).

En caso de que, como consecuencia de la disposición de los Derechos Especiales de Giro (DEG), por parte del Ministerio de Hacienda, dichas operaciones y transacciones requieran ser registradas como un pasivo externo a largo plazo como consecuencia de la definición del Fondo Monetario Internacional (FMI), la autorización del Congreso Nacional requerida por el artículo 202, numeral 10), de la Constitución, se considerará otorgada con la aprobación de la presente ley.

A tales efectos, el Ministerio de Hacienda será responsable del pago de los compromisos financieros que pudiera surgir como consecuencia de las transacciones y operaciones señaladas en el artículo 35.
Why SDRs should be used by states not central banks

Ecuador’s Andrés Arauz argues there’s no legal basis for central banks to appropriate the IMF’s fresh SDR allocation.
Accounting and transparency implications

• If SDRs are exchanged or used to pay the IMF:
  • These net movements will show in the monthly SDR holdings data published by the IMF.

• If SDRs are accounted in Central Banks’ balance sheets:
  • They must comply with IMF’s Data Dissemination Standard as reserve asset holdings
  • But this does not include transactional data for SDRs.
  • Central banks can internally “swap” SDRs and free up hard currency for other uses.
  • Furthermore, the only uses of reserve assets are payments abroad.
  • Central banks, especially those of the developing world, are less transparent.

• If SDR are allocated to Government budgets:
  • They must comply with budget laws, which generally include transparency requirements.
  • Spending must follow participatory, parliamentary, administrative and procurement processes and oversight.
    • Priorities can be established based on social priorities.
  • Civil society understands budgets better than central bank balance sheets.
Four pathways

1. **SDRs belong to member countries, not their central banks.**
2. Sell domestic SDR certificates to central banks (US ESF)
3. Treat SDRs as CBs’ 2021 extraordinary income, then payout dividends to Treasury in 2022.
4. CBs can lend or swap equivalent amounts to Treasuries.
Conclusions

• International law favors government ownership of SDRs (see US, UK, Canada).
• Has been applied in Europe, Africa and Latin America.
• IMF has supported fiscal spending of SDRs.

• Developing countries need more fiscal space to catch up in the economic recovery.
• Vaccine procurement, social and economic recovery require spending, not reserves.

• Government budgets are more transparent than central banks’ balance sheets.
• Budget proformae and budget laws for 2022 are an opportunity to domestically reallocate SDRs from central banks to government budgets.

• There are four possible pathways to get this done.
Thanks

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