An SDR Playbook for the IMF

Andrés Arauz

Agenda

- SDRs for trade, contingent SDRs, SDRs for donations
- Legal context
- History of SDR accounting
- Main accounting controversies
- BPM7

SDRs for trade crises

Trade and Balance of Payments Crises: new SDRs can help

- 2020 pandemic: 155 of 173 countries experienced a fall in their imports. Fresh SDRs allow countries to finance imports and stabilize without new debt.
- 2021 SDR issuance: 9.4 percent average increase in international reserves for Latin American and Caribbean countries.

Make America Export Again

- Between 2019 and 2020, the US lost $216 billion in exports, $167 billion of which were non-energy related exports.
- A new SDR issuance would directly boost global demand for US exports. Most converted SDRs are exchanged for US dollars and deposited in the US banking system. Weisbrot et al. found an equivalent issuance would create 41,000 jobs in the US.

Contingent SDRs

Table: Crisis-to-Issuance Timelines

Crisis Event	Date	SDR Issuance Response	Date	Time Lag
Lehman Brothers Bankruptcy	September 15, 2008	SDR Issuances ~$255 billion	August 28, 2009	11 months
WHO Pandemic Declaration	March 11, 2020	SDR Issuance ~$650 billion	August 23, 2021	17 months

Swaps are highly selective; SDRs are universal

No need for amendment to Articles of Agreement. On the basis of the "interval" of the allocation **(Article XVIII.4.c.3),** effective issuance dates could be defined not on a calendar but on automatic thresholds:

volatile currency exchange rates, decreases in official reserves, a surge of rapid finance requests at the IMF, among others.

https://cepr.net/publications/an-sdr-playbook-for-the-imf

SDR Donations / MDB Jubilee

26% of advanced economies' unused SDRs is enough to strike out 100% of the entire world's debts to IMF and its trusts

- XDR 114 billion

33% of advanced economies' unused SDRs is enough to strike out 100% of the entire World Bank IDA loan portfolio

- XDR 146 billion

SDR Donations / MDB Jubilee

On the interest incurred for donated SDRs

- Set aside 25 percent of the amount to be used as a buffer for servicing that interest. With a December 2025 rate of 2.798 percent, the interest payments would be covered for 10 years with such a buffer.
- After 10 years, further payments can be covered with fiscal resources or fresh SDR issuances.
- If unpaid, SDR department grants automatic overdraft advances to cover interest payments if a country runs out of SDRs until a new SDR issuance happens.
- Because of the structure of its basket, SDRs have — by design — the lowest currency-risk-weighted interest rate in the market.

SDR Fiscal Use and Donations

Debt vs equity + Net vs gross.

If country-level SDRs follow equity and net accounting (not gross), just like the SDR Department, donations are easier.

Differences in the Accounting Treatment of an SDR Donation

Comparison of accounting treatment of SDR issuance followed by a donation of 10 SDRs between the Balance of Payments Manual-version 5 (BPM5) and the Balance of Payments Manual-version 6 (BPM6).

	BPM5			BPM6		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
Before Issuance	20	0	20	20	20	0
After Issuance	60	0	60	60	60	0
After Donation	50	0	50	50	60	-10

http://www.latindadd.org/wp-content/uploads/2021/08/Handbook-for-the-use-of-SDRs-for-Fiscal__Purposes.pdf
https://www.ft.com/content/eaabbac3-5e44-4beb-ae55-cbdf168bf153
https://cepr.net/publications/more-sdrs-for-latin-america-and-the-caribbean-an-effective-tool-in-an-era-of-multiple-crises
https://policy-practice.oxfam.org/resources/investing-special-drawing-rights-towards-a-fair-economic-recovery-in-the-middle-621480/

Legal context

Are IMF recommendations binding? No.

IMF SDR Treatment and Use Guidance

2021

"The **Articles of Agreement do not prescribe a specific accounting treatment for SDR allocations**. Accordingly, members **are not obliged** under the Articles to follow a specific accounting framework or methodology in respect of their allocations."

https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021059.ashx

IMF SDR Treatment and Use Guidance

2021

"Members enjoy a large degree of freedom in how to manage the SDRs allocated to them, including to what extent central banks are involved in their management and whether the budget **can directly use them for budget support** .

In some countries, authorities record the SDRs in the government balance sheet and **their domestic legislation specifies that a government agency is the ultimate owner of SDRs** ."

https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021059.ashx

IMF SDR GFS Statistical Guidance

"In some jurisdictions, SDR allocations may not be considered as debt liabilities according to national or regional definitions (for example, under the European Union's Stability and Growth Pact's Excessive deficit procedure)."

https://www.imf.org/-/media/Files/Publications/TNM/2022/English/TNMEA2022003.ashx

Balance of Payments Manual, 6th ed.

2008

"1.7 The definitions and classifications in this Manual do not purport to give effect to, or interpret, various provisions (which pertain to the legal characterization of official action or inaction in relation to such transactions) of the Articles of Agreement of the International Monetary Fund."

https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm

Conclusion

IMF accounting recommendations are not legally binding

- It is at the discretion of the member country.
- Central bank or government agency.
- Liability or equity, member decides.

https://www.ft.com/content/eaabbac3-5e44-4beb-ae55-cbdf168bf153

History of SDR accounting

From ‘paper gold’ to ‘perpetual foreign debt’

History of SDR accounting

- Balance of payments manual, 4th ed. (1977)
- Balance of payments manual, 5th ed. (1993)
- Revision of balance of payments manual, 5th ed. (2004)
- Government finance statistics manual (2001)
- Monetary and financial statistics manual (2000)
- Monetary and financial statistics compilation guide (2008)
- Balance of payments manual, 6th ed. (2008)
- Government finance statistics manual (2014)

IMF Balance of Payments Manual, 4th ed.

1977

"34. The **allocation** or cancellation of special drawing rights (SDRs) resembles the previous category involving unrequited transfers in that a resident **acquires** or gives up **a financial asset but does not exchange it for anything having economic value**.

It differs from the definition of an unrequited transfer, however, because only one party, the resident, is involved and thus **no transfer of the asset from one entity to another can be said to occur**. The allocation (credit) or cancellation (debit) itself forms the counterpart that matches the increase (debit) or decrease (credit), respectively, in holdings of the asset."

https://www.imf.org/external/pubs/ft/bop/archives/bpm4.pdf

IMF Balance of Payments Manual, 4th ed.

1977

456. The establishment of the SDR as a new reserve asset has brought into prominence a further kind of change that can have an important effect on reserve holdings. The allocation or cancellation of SDRs is an occurrence that can be considered **almost identical with the monetization/demonetization of gold** in its implications for reserve holdings.

Indeed, **the allocation of SDRs was originally conceived as an alternative to gold monetization, in bringing about an adequate degree of global reserve ease; that is, SDR allocation permits individual economies to register surpluses in their balances of payments without the incurrence of corresponding deficits by other economies** —a function that gold ceased to fulfill when new supplies began to be outstripped by nonmonetary demands.

Therefore, provision is made in the balance of payments for entering the changes in SDR holdings resulting from allocation or cancellation. The offset, however, could hardly be construed as analogous to a commodity export, so a **new category has been set up in the capital account for the specific purpose of making a place in which that counterpart can be entered**.

https://www.imf.org/external/pubs/ft/bop/archives/bpm4.pdf

IMF Balance of Payments Manual, 5th ed.

2004

> 438. Monetary gold is gold owned by the authorities (or by others who are subject to the effective control of the authorities) and held as a reserve asset. [...] **Like SDRs (see paragraph 440), monetary gold is a reserve asset for which there is no outstanding financial liability.**
>
> 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**.

https://www.imf.org/external/np/sta/bop/pdf/ao.pdf

Revision of the Balance of Payments Manual, 5th ed.

2004

> 5.49 It will be noted that SDRs and gold have no counterpart liability.

https://www.imf.org/external/np/sta/bop/pdf/ao.pdf

IMF Government Finance Statistics Manual

2001

"7.18 Monetary gold and SDRs are not financial claims, which means that they are not the liability of any other unit. They do, however, provide economic benefits by serving as a store of value and **they are used as a means of payment to settle financial claims and finance other types of transactions**. As a result, they are, by convention, treated as financial assets.

7.82 **There is no underlying creditor-debtor relationship for** monetary gold and **SDRs**."

https://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf

IMF Government Finance Statistics Manual

2001

"7.95 SDRs are international reserve assets created by the IMF and allocated to its members to supplement existing reserve assets. SDRs are held only by the monetary authorities of IMF member countries and a limited number of authorized international financial institutions. An SDR is a financial asset **for which there is no corresponding liability, and the members to whom they have been allocated do not have an unconditional liability to repay their SDR allocations** . ...

7.96 An SDR represents an unconditional right to obtain foreign exchange or other reserve assets from other IMF members. They can be **sold, loaned, or used to settle financial obligations** ."

https://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf

IMF Government Finance Statistics Manual

2001

“10.47 New allocations of SDRs and cancellations of existing SDRs are treated as changes in financial assets resulting from other volume changes. In most cases, SDRs are allocated to central banks, but **they could be recorded on the balance sheet of a government unit when it undertakes some of the functions of the monetary authority**.”

https://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf

IMF Monetary and Financial Statistics Manual

2000

“121. Monetary gold and SDRs issued by the IMF are financial assets for which there are **no corresponding financial liabilities**.

123. SDRs are international reserve assets created by the IMF and allocated to members to supplement existing official reserves. **IMF members to whom SDRs are allocated do not have an actual (unconditional) liability to repay their SDR allocations.** SDRs are held only by IMF member countries and a limited number of international financial institutions that are authorized holders. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members.”

https://www.imf.org/external/pubs/ft/mfs/manual/pdf/mmfsft.pdf

Monetary and Financial Statistics Compilation Guide

2008

XXX17A...R...{Z}	**SHARES AND OTHER EQUITY**
XXX17AA..R...{Z}	Funds Contributed by Owners
XXX17AAN.R...{Z}	Funds Contributed by Owners NC
XXX17AAF.R...{Z}	Funds Contributed by Owners FC
XXX17AB..R...{Z}	Retained Earnings
XXX17AC..R...{Z}	Current Year Result
XXX17AD..R...{Z}	General and Special Reserves
XXX17.SD.R...{Z}	SDR Allocations
XXX17RV..R...{Z}	Valuation Adjustment

https://www.imf.org/external/pubs/ft/cgmfs/eng/pdf/cgmfs.pdf p.312

IMF Monetary and Financial Statistics Manual and Compilation Guide 2016

IN FORCE

"4.23 SDR holdings and SDR allocations should be recorded as gross assets **and liabilities** in the balance sheet of the entity that under domestic law is responsible for a member's SDR Department positions, usually the central bank and in some cases the central government. Therefore, allocations of SDRs increase claims on nonresidents (reserve assets) and **liabilities to nonresidents (foreign liabilities)**, initially by the same amount."

https://www.imf.org/-/media/files/data/guides/mfsmcg__merged-web-pdf.pdf

IMF Balance of Payments Manual, 6th ed.

2010

BPM6 CHANGES IN TREATMENT OR CLASSIFICATIONS IIP Items			
***BPM6* International Investment Position: Standard Components and Selected Other Items** **Items in italic are supplementary**	**Remapping**	***BPM5* International Investment Standard Components and Additional Detail** **Items in italic are supplementary**	**Comments on Change in Treatment or Clarification**
Special drawing rights (AF12)			* In *BPM6*, the allocation of SDRs to IMF members is recorded as an incurrence of a liability; see *BPM6 8.50*. In *BPM5*, the allocation of SDRs is not recognized as a liability; see *BPM5 440*.
Reserve-related liabilities (memorandum item)			* In *BPM6*, reserve-related liabilities are introduced as memorandum items to the IIP; see *BPM6 6.115 - 6.116 and Box 6.5*.

*[5] Preferably assets and liabilities reported separately, but otherwise a net figure for liabilities less assets, included, by convention, under assets.

*[6] If available for publication.

*[7] Assets and liabilities combined and reported as a net figure for assets less liabilities, included under assets.

https://www.imf.org/external/pubs/ft/bop/2007/pdf/matrix.pdf

"In regard to the rationale for recording SDR allocations as debt, according to BPM6: "Debt instruments are those instruments that require the payment of principal **and/or** interest at some point(s) in the future." (BPM6, paragraph 5.31) SDR allocations meet this definition because they incur interest (at the SDR interest rate). The liability is fixed in amount. "Equity consists of all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met." (BPM6,paragraph 5.21) SDRs do not meet the definition of equity, because they do not provide for participation in the distribution of the residual value of the issuer on dissolution."

https://www.imf.org/external/pubs/ft/bop/2007/bpm6faq.pdf

IMF Balance of Payments Manual, 6th ed.

2008

IN FORCE

"5.31 Debt instruments are those instruments that require the payment of principal **and/or** interest at some point(s) in the future. **Debt instruments consist of SDRs** , currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardized guarantees, and other accounts receivable/payable. The term debt instrument is applicable to both the liability and the corresponding claim."

https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

IMF Balance of Payments Manual, 6th ed.

2008

IN FORCE

“5.35 Holdings of SDRs by an IMF member are recorded as an asset, while the **allocation of SDRs is recorded as the incurrence of a liability** of the member receiving them (because of a requirement to repay the allocation in certain circumstances, and also because interest accrues). The **holdings and allocations should be shown gross, rather than netted**.

7.70 SDR holdings are a reserve asset, while the allocation of SDRs to IMF members is shown as the incurrence of a liability by the recipient and included in other investment. Therefore, for an economy that holds only its original allocation, its reserve assets are increased by the value of SDR holdings, but its net IIP is unchanged.”

https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

IMF Government Finance Statistics Manual

2014

IN FORCE

"7.133 SDR allocations constitute a **(debt) liability of the recipients (and part of the public sector's debt liabilities)** and the SDR holdings are part of the public sector's financial assets. The allocation and holdings are recorded on a gross basis. The macroeconomic statistical **guidelines do not specify on whose balance sheet SDR holdings and allocations should be recorded** (e.g., the central bank or a general government entity such as the ministry of finance or treasury). This is because SDR allocations are made to IMF members that are participants in the SDR Department of the IMF, and **it is for those members to follow domestic legal and institutional arrangements to determine the ownership and recording of SDR allocations and SDR holdings in the public sector**."

https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf

Timeline of accounting changes

1977

SDRs were akin to gold.

Unrequited transfer.

Recorded as equity in BPM4 and as debt-free in BPM5.

2004-2006

BPM5 revision ratified SDRs as debt-free, but Richard Erb (former IMF #2) pushed for SDRs to become debt.

No consensus in Reserves Technical Group (RESTEG): equity or debt.

BOPCOM approved SDRs as debt for BPM6.

2009

SDRs issuance.

All countries still used BPM5.

By 2015, 83 countries still used BPM5.

By 2016, 60 countries still used BPM5.

2021

SDR issuance.

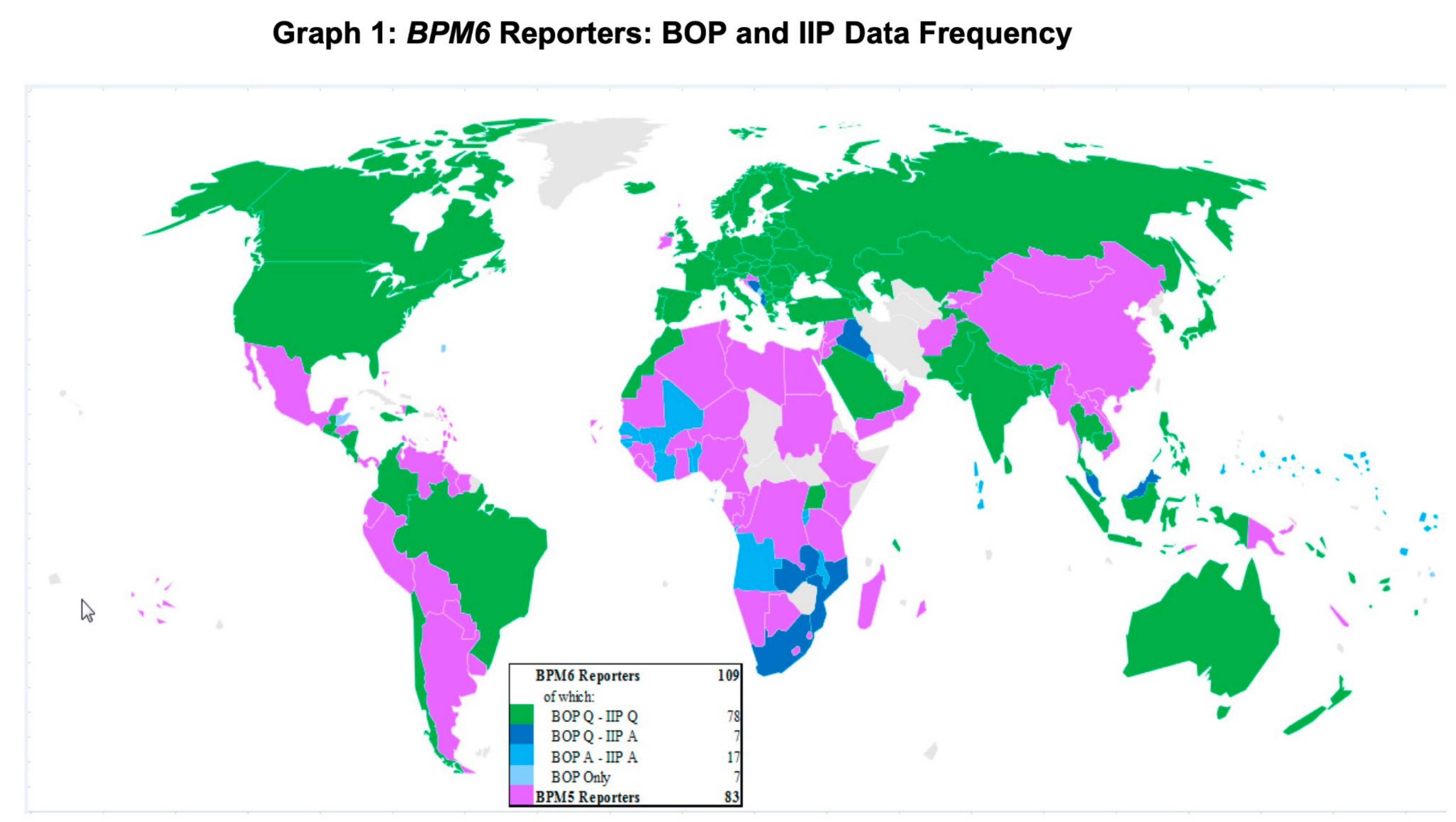
Most countries use BPM6

Most record SDRs allocations as debt.

https://www.imf.org/external/np/sta/bop/pdf/resteg10.pdf
https://www.imf.org/external/pubs/ft/bop/2006/06-28.pdf
https://www.imf.org/external/pubs/ft/bop/2006/06-38.pdf
https://www.ineteconomics.org/uploads/papers/WP_180-Murau-et-al.pdf

Global South transition: BPM5 to BPM6

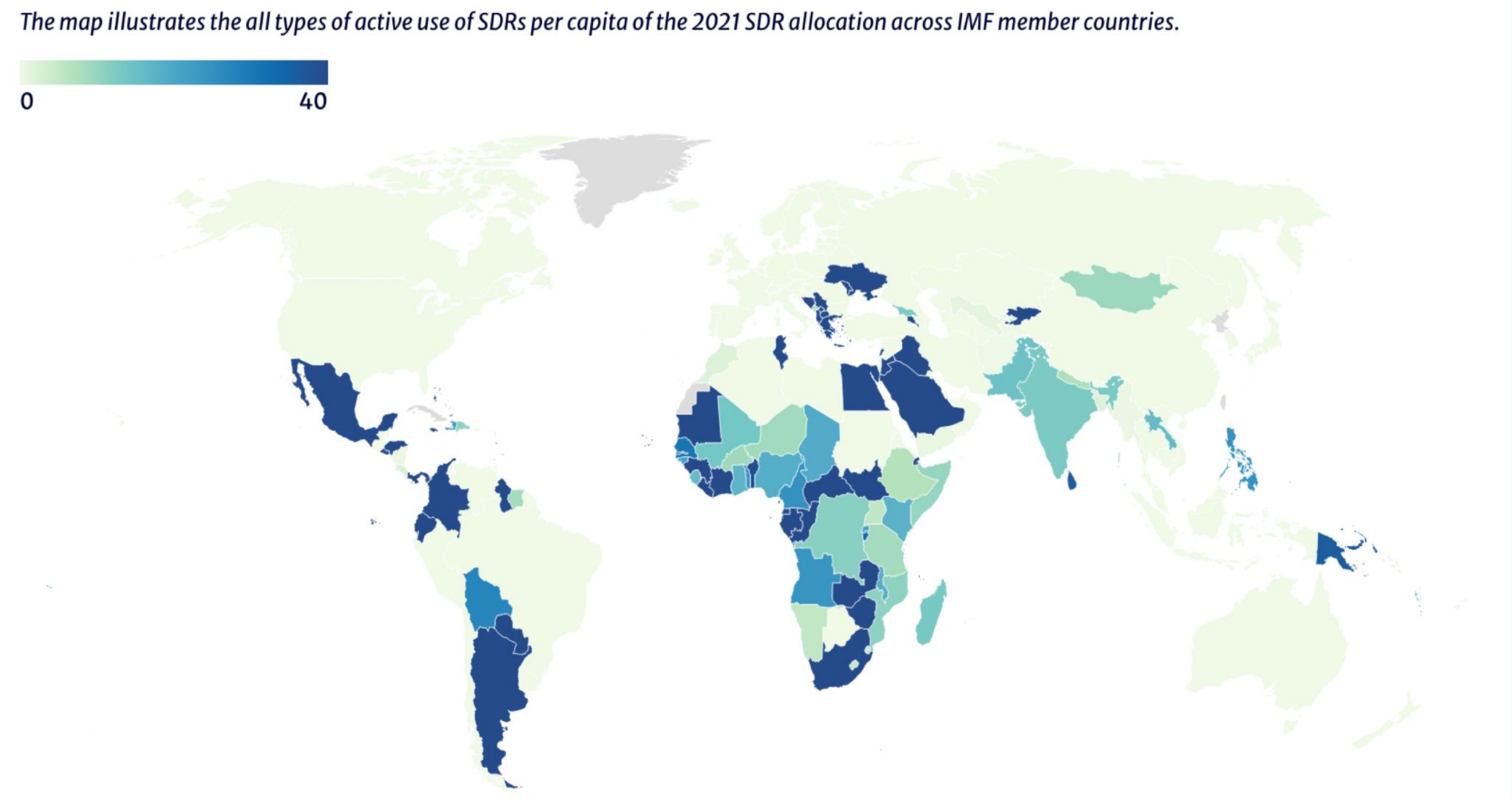
2015



https://www.imf.org/external/pubs/ft/bop/2015/pdf/15-05.pdf
https://www.imf.org/external/pubs/ft/bop/2016/pdf/16-03.pdf

Global South use of SDRs

2021



https://cepr.net/publications/more-sdrs-for-latin-america-and-the-caribbean-an-effec
tive-tool-in-an-era-of-multiple-crises

Main accounting controversies

IMF (Stats) vs IMF (DSA)
Debt versus equity
Net versus gross

IMF SDR Treatment and Use Guidance

2021

"35. The SDR allocation, by itself, is not expected to weaken a member's debt sustainability and could even enhance it. The SDR allocation provides liquid assets to the member (SDR holdings), with **no repayment obligations** absent cancellation or reconstitution of SDRs. A new SDR allocation **does not generate, by itself, net interest payments**, and the net worth of the country is unaffected at the time of the allocation. A member's debt sustainability can benefit from the SDR allocation even if it does not exchange its holdings for freely usable currency or use the policy space provided by the SDR allocation. For instance, **SDR allocations normally lead to an increase in NIR** and can contribute to lowering sovereign financing risks. Enhanced resilience can also boost potential growth and help **improve debt dynamics**."

https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021059.ashx

IMF SDR Treatment and Use Guidance

2021

“38. Under BPM6, the full SDR allocation is included as part of the gross external debt, and the full interest due on the SDR allocation is included under gross external interest payments. Hence, **BPM6 statistics for gross external debt and gross external interest payments will need to be adjusted before they are incorporated in the external DSA**: SDR holdings need to be subtracted from gross external debt and interest earned on SDR holdings needs to be subtracted from gross external interest payments.”

https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021059.ashx

IMF SDR Treatment and Use Guidance

2021

"70. **SDR liabilities are not subject to debt limits in IMF programs**, whether used or not. **SDR liabilities do not fall within the definition of "debt" for program purposes** under the Fund's Guidelines on Public Debt Conditionality in Fund Arrangements. Unlike debt subject to debt limits, **SDR liabilities are not created under a contractual arrangement, they do not mature, and they generally have limited impact on members' debt sustainability**.

The long-term liabilities associated with the SDR allocation are **treated differently from a statistical perspective than from a program and debt sustainability perspective**. Regarding program and DSA treatment, as noted above and in paragraph 35, SDRs are treated similarly to Fund financing: they are **excluded from the debt limits**, but their usage is included in the DSA."

https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021059.ashx

SDR Donations

Debt vs equity + Net vs gross.

If country-level SDRs follow equity and net accounting (not gross), just like the SDR Department, donations are easier.

Differences in the Accounting Treatment of an SDR Donation

Comparison of accounting treatment of SDR issuance followed by a donation of 10 SDRs between the Balance of Payments Manual-version 5 (BPM5) and the Balance of Payments Manual-version 6 (BPM6).

	BPM5			BPM6		
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After Issuance	60	0	60	60	60	0
After Donation	50	0	50	50	60	-10

http://www.latindadd.org/wp-content/uploads/2021/08/Handbook-for-the-use-of-SDRs-for-Fiscal__Purposes.pdf
https://www.ft.com/content/eaabbac3-5e44-4beb-ae55-cbdf168bf153
https://cepr.net/publications/more-sdrs-for-latin-america-and-the-caribbean-an-effective-tool-in-an-era-of-multiple-crises
https://policy-practice.oxfam.org/resources/investing-special-drawing-rights-towards-a-fair-economic-recovery-in-the-middle-621480/

SDR Donations

On the interest incurred for donated SDRs

Set aside 25 percent of donation as a buffer for servicing interest.

If SDRi = 2.798 percent, 10 years of interest payments would be covered. Recall SDRi is lowest risk-weighted interest rate in the global market.

After 10 years, further payments can be covered with ODA, fiscal resources or fresh issuances. In fact, the SDR department grants automatic overdraft advances to cover interest payments if a country runs out of SDRs.

SDR Donations

On the interest incurred for donated SDRs

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What now? BPM7

BPM7 will include changes to SDRs liability accounting.

They will consider SDRs long-term reserve-related liabilities.

This is just one small step away from equity.

Upcoming Balance of Payments Manual, 7th ed. 2025

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They will consider SDRs long-term reserve-related liabilities.

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BPM7 Annotated Outline

H. Special Drawing Rights

- This sub-section will be mostly maintained as in *BPM6* (paragraph 7.84) with the following updates.
  - Net International Reserves (NIR): The allocations of SDRs are recorded as debt liabilities and considered long-term reserve-related liabilities. Therefore, they are not included in short-term foreign currency drains, implying that NIR—if following the *BPM7* standard definition of NIR—would increase with the new SDR allocation. Reference to Section VI.B on NIR from Chapter 6 will be provided.
  - It will be noted that the statistical treatment of SDR allocations for countries that are members of a centralized currency union is provided in Annex 3.
  - The following documents will be reviewed further to incorporate any additional updates as appropriate from the perspective of external accounts: (i) "Guidance Note for Fund Staff on the Treatment and use of SDR Allocations"; (ii) "How to Record the Allocations of Special Drawing Rights in Government Finance Statistics"; and (iii) "Statistical Treatment of SDR Allocation: Frequently Asked Questions".

I. Table A9.1 Summary of Recording of Positions/Transactions with the IMF (in the balance of payments/IIP)

- This table will provide a summary recording of different lending/borrowing arrangements and SDRs in the balance of payments/IIP of the member economy. It will be based on Table 8.1 of the *IRFCL Guidelines.*

https://www.imf.org/en/Data/Statistics/BPM/BPM7-chapters
https://unstats.un.org/unsd/nationalaccount/snaupdate/2025/chapters.asp

Andres Arauz
Senior Research Fellow
@ecuarauz

Center for Economic and Policy Research

Fact-based, data-driven research and analysis to advance democratic debate on vital issues shaping people's lives.

Thank you.