

Special Drawing Rights (SDR)- Key Points to Remember



Introduction

Special Drawing Rights (SDR) was created in 1969 by IMF as a fixed exchange rate system to support the Bretton Woods agreement.

SDR Calculation

SDR is calculated based on the basket of five international currencies. The five currencies include

- US Dollar
- Euro
- Yen
- Pound and
- Yuan

Role of SDR

- SDR had a dominant role in the world economy and trade during the fixed rate regime
- SDR role diminished after the collapse of fixed rate regime
- The floating rate regime saw huge accumulations of international currency reserves
- In 2009, SDR regained popularity by allocating 182.6 billion SDR to global economy amidst the global economic crisis
- IMF helped world nations to get out of the financial crisis through SDR allocation
- Now, SDR has become a dominant force in international economic scenario

Value of SDR

- SDR is an international reserve asset
- SDR is not a currency
- It is also not a claim on the IMF
- SDR exchanged for freely usable currencies
- Allocated to members of IMF from time to time
- SDR is a potential claim on the IMF member countries
- 204 billion SDRs is equivalent to \$285 billion in value
- Valuation and weight of the IMF currencies basket done once in 5 years
- Next valuation to be done on September 30, 2021

SDR Weightage

Following is the weight assigned to the basket of five currencies

- US Dollar – 41.73 %
- Euro – 30.93 %
- Yuan – 10.92 %
- Yen – 8.33 %
- Pound Sterling – 8.09 %

Criteria to get added to SDR

- SDR basket of currencies determined by the IMF Executive board
- Export criteria – The exports of the country must have the largest value in five years
- Freely usable criteria – Widely transacted in the international exchange markets
- Earlier in 1999, Euro was included in the SDR basket replacing Franc
- In 2016, Chinese Yuan was included in the SDR basket

SDR Interest Rate

- Interest rate is determined weekly by IMF
- Interest rate charged on IMF loans and SDR allocations
- Interest rate is given to members of IMF based on their SDR holdings
- Interest rate determined on short-term debt instrument basis prevailing in the money market of SDR currency basket

Conclusion

- SDR of IMF is going to play a crucial role in the global economy
- SDR allocations to member countries of IMF is focused on recovering from an economic turmoil
- SDR basket of currencies are considered as a global standard of currency exchange
- The currencies included in the IMF SDR currency basket will play a dominant role in the world economy
- The five nations in SDR are considered to be politically important and dominant in the international affairs
- The recent inclusion of Chinese Yuan is considered a political victory for China over the USA
- World trade is to be dominated by the SDR basket of currencies with a great boost in international relations

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