Special Drawing Rights: IMF

Recently, the Finance Minister of India opposed a general allocation of new Special Drawing Rights (SDR) by the International Monetary Fund (IMF) because it might not be effective in easing Covid-19 driven financial pressures.

- The Finance Minister was concerned that such a major liquidity injection could produce potentially costly side-effects if countries used the funds for irrelevant purposes.
- The new SDR allocation will provide all 189 members with new foreign exchange reserves with no conditions.

Imp Points

- 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. SDRs can be exchanged for these currencies.
- The SDR serves as the unit of account of the IMF and some other international organizations.
- The currency value of the SDR is determined by summing the values in U.S. dollars, based on market exchange rates, of a SDR basket of currencies.
- The SDR basket of currencies includes the U.S. dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi (included in 2016).
- The SDR currency value is calculated daily (except on IMF holidays or whenever the IMF is closed for business) and the valuation basket is reviewed and adjusted every five years.
- Quota (the amount contributed to the IMF) of a country is denominated (expressed) in SDRs.
  - Members’ voting power is related directly to their quotas.
- India’s Foreign exchange reserves also incorporate SDR.