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June 24, 2021

**Statement by Mr. Bhalla and Mr. Goyal on Proposal for a General Allocation of Special Drawing Rights  
(Preliminary)  
Executive Board Meeting 21/65  
June 25, 2021**

We thank staff for the helpful report on the proposed fresh allocation of Special Drawing Rights (SDRs). We broadly restrict our comments to the points of discussion set out by the Staff in the proposal.

1. We note that more than 60 percent of Emerging Market Developing Countries EMDC had inadequate reserves before the pandemic and with economic disruption caused by the pandemic, availability of the reserves has correspondingly worsened. Staff observes that distribution of the SDR allocation would be made in proportion to quota shares – this allocation mechanism does not strictly reflect individual members’ reserve needs. Thus, it is possible that a general allocation of SDR may be disproportionately to those economies which do not require them. It would have been helpful if Staff could clearly set out the rationale for supplementing ample global liquidity through SDR allocations, especially when substantial resources of the IMF are still unutilized.
2. *We would request staff to indicate the proportion of total SDR allocation that would be received by the economies which are holding inadequate reserves. Also, it would be informative if the Staff could provide estimates of the number of countries that would be benefited, the total quantum of SDRs to be received by these countries and the weighted average fall in the risk premia for these economies*
3. Staff estimates for global need for reserve assets pertain to the next 5-year period. As noted in the Staff paper, bold monetary policy support by central banks of major advanced economies at the onset of the crisis contributed to stabilizing global liquidity. A sustained and sharp decline in interest rates – LIBOR is nearly 200 bps below the pre-COVID level and corporate bond yields have also stayed below the

pre-COVID level throughout the 2020. One interpretation of this phenomena is an excess of global liquidity. A more likely explanation is that this decline reflects the structural decline in inflation, and economic growth, that has been taking place in the world over the last twenty odd years.

4. Staff has stated that SDR allocation is not expected to generate global inflationary pressures. While short-term spikes in inflation cannot be ruled out, it is very unlikely that there will be an increase in world inflation over what has been experienced over the last two decades. The fresh SDRs constitute just a small proportion of major central banks' base money – a further reason that attributing an increase in world inflation (if there is any) to SDR increase is theoretically, and empirically, invalid. Hence, we agree with the Staff's interpretation and we do not see any major issue with a single tranche allocation of SDRs.
5. As noted by several chairs in the earlier informal meeting on SDR allocation there is a possibility that recipient countries will unduly delay needed macroeconomic adjustment and reforms. We welcome Staff comments as to what safeguards are being envisaged to diminish these risks.
6. We fully support Staff's proposals for enhancing transparency and accountability in the reporting and use of SDRs. To bring in more transparency, the IMF should publish granular inter-country exchange data with respect to SDR trades and other uses related to non-Fund transactions, including transactions by agreement through the voluntary trading arrangement (VTA), bilateral exchange of SDRs for currency amongst participants or with prescribed holders, purchase of SDRs to replenish SDR holdings, the use of SDRs in settlement of financial obligations with prescribed holders or participants and bilateral SDR loans.
7. We note that as per Staff's estimates the size of existing VTAs would rise to SDR 240 billion after fresh general allocation and likely additional demand for exchange of SDRs is not expected to exceed SDR 100 billion in any scenario. A survey of the IMF Mission Chiefs in early May 2021, presented in the report, also suggests that VTA capacity would be sufficient. We agree – and hence that it is unlikely that there would be any need to invoke designation plan following the allocation of fresh SDRs.