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GUIDANCE NOTE FOR FUND STAFF ON THE TREATMENT AND USE OF SDR ALLOCATIONS

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EXECUTIVE SUMMARY

This Note provides guidance for staff on the treatment and use of allocations of Special Drawing Rights (SDRs). It presents a consistent framework for IMF country teams to assess the macroeconomic implications of the SDR allocation at the country level, covering the following areas:

- **Statistical and accounting treatment.** Members should present and disseminate their SDR data in line with the best practices to which they subscribe. Under the latest recording guidelines in the [Balance of Payments and International Investment Position Manual—Sixth Edition \(BPM6\)](#), both gross international reserves and external long-term debt liabilities would increase with the new SDR allocation. Net international reserves (NIR) would also normally be expected to increase, while net foreign assets (NFA) do not change.
- **General macroeconomic implications and advice.** Member countries can use their newly allocated SDRs unconditionally. A central policy question is whether the policy space provided by the allocation should be retained or used, either partially or entirely. This decision should reflect many considerations, including the economic conjuncture and the stage of the COVID-19 pandemic, the adequacy of reserves, the availability of fiscal and monetary policy space, domestic and external debt sustainability and financial stability, financing constraints, and other country-specific factors.

In the circumstances prevailing at the time of the 2021 general allocation of SDRs, given the exceptional nature of the COVID-19 shock, countries that need to prioritize the response to the crisis should act flexibly and swiftly, including by potentially using the policy space provided by the SDR allocation to fight the pandemic. For countries exiting the emergency phase of the COVID-19 pandemic, the policy advice should shift to supporting a resilient, inclusive, sustainable, and green recovery. Staff should advise member authorities to use SDRs consistent with macroeconomic sustainability and in a transparent manner, and to not delay needed macroeconomic adjustment, reforms, and debt restructuring, nor prolong unsustainable macroeconomic policies.

- **Debt sustainability analyses.** The SDR allocation, by itself, does not negatively impact members' debt sustainability and could even enhance it by strengthening reserve buffers and resilience. If the authorities use the policy space provided by the allocation, the overall impact of the SDR allocation on debt sustainability depends on how the allocation is used. This updated guidance supersedes prior staff guidance related to debt sustainability analyses, including the [2018 Debt Sustainability Framework for Low-Income Countries \(LIC-DSF\)](#).
- **Transparency and accountability.** Several elements of the Fund's work on transparency are relevant for the use of SDRs, including the Fund's Safeguards Assessment Policy (SAP), and fiscal transparency. Staff can leverage these frameworks to encourage transparency and accountability in the use of SDRs.

The Fund already publishes quarterly SDR holdings by members and will further enhance transparency in the use of SDRs by publishing those holdings by aggregate category. It will also publish the Board paper *Annual Update on SDR Trading Operations*. Two years after the allocation, staff will prepare an ex-post report on the use of SDRs.

- **Reserve management.** Like other reserve assets, SDR holdings expose central banks to certain financial risks, which need to be understood, measured, and appropriately managed. These include liquidity, currency, interest rate, and credit risks.
- **Implications for Fund-supported programs.** The SDR allocation will generally require an update of Fund-supported programs, particularly a fresh look at reserve adequacy and macroeconomic policies. The following key principles apply: (i) different domestic arrangements for recording SDRs should not lead to different macroeconomic assessments and advice across countries, although possible constraints on the use of SDRs arising from institutional arrangements would need to be considered; (ii) direct program limits on the use of SDR holdings would be inconsistent with their status as an unconditional reserve asset, but program targets may indirectly result in limits via fiscal and monetary conditionality; (iii) the degree to which program targets should be adjusted following the SDR allocation depends on an assessment of reserve adequacy and other relevant macroeconomic considerations; and (iv) the allocation should not delay needed macroeconomic adjustments and reforms nor substitute for debt restructuring, if debt is assessed as unsustainable. Access to financing under Fund arrangements will continue to be guided by the established criteria—including the member's balance of payment need, ability to repay the Fund, and outstanding Fund credit and track record—while considering the impact of the SDR allocation on members' macroeconomic frameworks.

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Abbreviations and Acronyms

BPM6	Balance of Payments and International Investment Position Manual—Sixth Edition
BOPSY	Balance of Payments Statistical Yearbook
CB	Central Bank
CCRT	Catastrophe Containment and Relief Trust
DSA	Debt Sustainability Analysis
EDS	External Debt Statistics
ESS	External Sector Statistics
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GFS	Government Finance Statistics
GFSM	Government Financial Statistics Manual
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
IFS	International Financial Statistics
IFRS	International Financial Reporting Standards
IIP	International Investment Position
IRFCL	International Reserves and Foreign Currency Liquidity
JEDH	Joint External Debt Hub
LIC	Low-Income Country
LIC-DSF	Debt Sustainability Framework for Low-Income Countries
MAC-DSA	Debt Sustainability Analysis for Market-Access Countries
MFS	Monetary and Financial Statistics
MFSMCG	Monetary and Financial Statistics Manual and Compilation Guide
MoF	Government Agency (e.g., Ministry of Finance)
NAFA	Net Acquisition of Financial Assets
NFA	Net Foreign Assets

NIL	Net Incurrence of Liabilities
NIR	Net International Reserves
QEDS	Quarterly External Debt Statistics
QPSDS	Quarterly Public Sector Debt Statistics
PRGT	Poverty Reduction and Growth Trust
RAP	Reserve Asset Portion
SAP	Safeguards Assessment Policy
SDRs	Special Drawing Rights
STA	International Monetary Fund Statistics Department
TMU	Technical Memorandum of Understanding
VTA	Voluntary Trading Arrangements