Special Drawing Rights: IMF

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Why in News

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.**

Key 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.

Source: TH