

1. Special Drawing Rights (SDR)

Prelims Syllabus: International Economics

Mains Syllabus: GS-III Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Why in News?

- India is not supporting a general allocation of new Special Drawing Rights (SDR) by the International Monetary Fund (IMF) because it feels it might not be effective in easing COVID-19-driven financial pressures.

What is a Special Drawing Right (SDR)?

- The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.
- The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.
- So far SDR 204.2 billion (equivalent to about US\$281 billion) have been allocated to members, including SDR 182.6 billion allocated in 2009 in the wake of the global financial crisis.

What is the Reason Behind India's Stand?

- The new SDR allocation was supposed to provide all 189 members with new foreign exchange reserves with no conditions.
- Such a major liquidity injection could produce potentially costly side-effects if countries used the funds for “extraneous” purposes.

What is the role of the SDR?

- The SDR was created as a supplementary international reserve asset in the context of the Bretton Woods fixed exchange rate system.
- The SDR serves as the unit of account of the IMF and some other international organizations. 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.

Do SDRs are Reviewed Periodically?

- Yes, the SDR basket is reviewed every five years or earlier if warranted, to ensure that the basket reflects the relative importance of currencies in the world's trading and financial systems.

- The reviews cover the key elements of the SDR method of valuation, including criteria and indicators used in selecting SDR basket currencies and the initial currency weights used in determining the amounts (number of units) of each currency in the SDR basket.

	Current basket	As of 1 October 2016
USD	41,9	41,73
EUR	37,4	30,93
JPY	9,4	8,33
GBP	11,3	8,09
RMB	N.A.	10,92

Source: IMF.