IMF Special Drawing Rights allocation as a first step towards a new economic order

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Paper no. 1 – January 2022

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ISBN 978-88-946853-0-5

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abstract

This paper is meant to be a general, non-exhaustive collection of historical backgrounds and thoughts about the status of the debate on the possible usage of Special Drawing Rights ("SDRs") as a tool to facilitate the recovery of international trade after the Covid-19 pandemic. The analysis presented ranges from the origins of SDRs, in the late 1960s, when they were thought of as a tool to preserve the stability of the ailing Bretton Woods system for a long period lasting around 30 years, when the IMF made only very limited allocations and there was substantial inactivity on the secondary market for this tool, to the recent developments after the 2009 crisis and, more significantly, to 2021 and the current situation. Some thoughts and possible ideas are also presented on the possible future, and about how SDRs could be reconsidered as a renovated "Bancor", rather than as a tool helping to foster financial stability. The relationship with the US dollar is also examined, in its role as a core international currency in which most trade is still denominated. We would like to explore some questions about the present and future situation and regarding whether SDRs could be a menace to the role of the US dollar or an opportunity to help the international financial system to stabilize in continuity with the history of recent decades; and, also, from a European perspective, how much SDRs can help or hinder the role of the euro. Although it does not seem that all IMF members speak with one voice on all those topics, apparently there is nevertheless consensus on the significant new role that SDRs will likely assume in the coming years, in the hope of having a tool which may help in generating growth and stability, which is currently the only way to respond effectively to the challenges ahead.

Keywords: IMF, Economic Growth, Globalization, Growth, Bretton Woods, EU, US Dollar, Euro.

JEL Classification: F620 Macroeconomic Impacts of Globalization

Acknowledgement: Angelo Federico Arcelli is responsible for the article. Alexander Privitera contributed to Chapter 4. Giorgio Battaglia, Research Fellow, ISEA, did background research work.

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1. Historical background for SDRs and financial stability

The Special Drawing Rights ("SDRs")[1] were created by the International Monetary Fund ("IMF"), in accordance with an amendment to its Article of Agreement[2] in the late 1960s[3] as a

[1] See: https://www.imf.org/en/Topics/special-drawing-right.

[2] See: https://www.imf.org/external/pubs/ft/aa/index.htm – for the entire downloadable official text. "The Articles of Agreement of the International Monetary Fund were adopted at the United Nations Monetary and Financial Conference (Bretton Woods, New Hampshire) on July 22, 1944. They were originally accepted by 29 countries and since then have been signed and ratified by a total of 190 Member countries. As the charter of the organization, the Articles lay out the Fund's purposes, which include the promotion of 'international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems'. The Articles also establish the mandate of the Organization and its members' rights and obligations, its governance structure, and roles of its organs, and lays out various rules of operations including those relating to the conduct of its operations and transactions regarding the Special Drawing Rights. The key functions of the IMF are the surveillance of the international monetary system and the monitoring of members' economic and financial policies, the provision of Fund resources to member countries in need, and the delivery of technical assistance and financial services. Since their adoption in 1944, the Articles of Agreement have been amended seven times, with the latest amendment adopted on December 15, 2010 (effective January 26, 2016). The Articles are complemented by the By-laws of the Fund adopted by the Board of Governors, themselves being supplemented by the Rules and Regulations adopted by the Executive Board.".

[3] See, inter alia, Vreeland, James Raymond, 'The IMF and economic development', Cambridge University Press, 2003; and Wilkie, Christopher, 'Special drawing rights (SDRs): The first international money', Oxford University Press, 2012. (2004): 1-25. Press, 2007; and Despres, Emil, Charles Kindleberger, and William Salant. 1966, 'The Dollar and World liquidity: A minority view'. Economist (February) :526-29; and De Vries, Margaret Garritsen, 'The IMF in a changing world, 1945-85', Washington, DC: International Monetary Fund, 1986; and Diz, Adolfo C. 1984, 'The conditions attached to adjustment financing: Evolution of the IMF practice. In 'The International Monetary System: Forty Years after Bretton Woods', 214-325. Conference Series no. 28. Federal Reserve Bank of Boston, May. Dornbusch, Rudiger. 1976, 'Expectations and exchange rate dynamics', Journal of Political Economy 84: 1161-76; and Ocampo, José Antonio, 13, 'Special Drawing Rights and the Reform of the Global Reserve System in Reforming the International Financial System for Development', pp. 314-342. Columbia University Press, 2011; and Eichengreen, Barry and Jeffrey Sachs (2009), 'Exchange Rates and Economic Recovery in the 1930s', Cambridge University Press.

supplementary international reserve asset linked to the Bretton Woods fixed exchange rate system.
According to the IMF's definition[4] "the SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. So far SDR 204.2 billion (equivalent to approximately US$293 billion at June 2021) have been allocated to members, including SDR 182.6 billion allocated in 2009 in the wake of the global financial crisis. The value of the SDR is based on a basket of five currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling".
The SDR was defined in 1969 as being equivalent to 0.888671 grams of fine gold, which at that time was the value of one US dollar. However, after the end of the Bretton Woods system, the SDR was redefined as a basket of currencies. This basket is assessed every five years, in order to keep pace with the international importance of currencies in terms of their weight on international trade and on reserves held by states and central banks.
At that time, the international system, centred on the US dollar, with all other major currencies fluctuating within bands (2.25 per cent and 6.25 per cent for the weaker ones), was still based on a "gold exchange standard" scheme, providing the possibility to convert the currencies of the countries participating in the system (originally established under Bretton Woods, and then realigned in 1963 and 1968).
Yet the market pressure on the US dollar was rising, in part owing to the continuing imbalance of the US trade accounts. There was a growing demand in the countries exporting goods to the US, which

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[4] See: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR. Note that: "The Articles of Agreement, determine that under certain conditions, the IMF may allocate SDRs to members participating in the SDR Department (currently all members of the IMF). A general allocation of SDRs must be consistent with the objective of meeting the long-term global need to supplement existing reserve assets and receive broad support from the IMF's membership (an allocation requires Board of Governors approval by an 85 percent majority of the total voting power of the members in the SDR Department). Once agreed, the allocation is distributed to member countries in proportion to their quota shares at the Fund. A special one-time allocation in 2009 enabled countries that joined the IMF after 1981 (i.e. after previous allocations) to participate in the SDR system on an equitable basis."

were paid in dollars, to convert these dollars into gold, and to repatriate part of the reserves held in the US. This caused growing tension, which alarmed the US authorities as there was a concrete risk of a crisis for the dollar.

In fact, none of this was unexpected, as a few years before, Jacques Rueff, the economic adviser to President de Gaulle of France, had suggested the famous “tailor paradox” to highlight the risks of a system where trade was permanently unbalanced, and the only way to sustain it was the continuing on-lending of new financial assets (loan or currency purchases) by the exporting countries to the one (the US) which was the main importer of goods. Clearly the system, particularly as it was centred on the US dollar, was only going to remain sustainable as long as trust in the US currency remained unaltered and high, so that exporters were satisfied with detaining an increasing amount of dollars.

At the end of the 1960s, the international financial landscape started to change and did so rather quickly. Several countries, including France, Italy and West Germany, started demanding the conversion of US dollars into gold, creating pressure that posed a problem of potential trust in the dollar as the main international reserve currency. At that time, the World was in the middle of the Cold War era, and such a development also had considerable geopolitical consequences. It was then clear that the Bretton Woods era was coming to an end and the new US Administration (Nixon) understood that a new scenario had to be created to preserve the centrality of the US dollar as the currency used globally for international trade.

Nevertheless, a last try was made to avoid the collapse of the Bretton Woods system, and that was the creation of the SDR by the IMF. The idea behind the SDR was to create a tool, open to all the member countries of the IMF (so not just the group of advanced economies), which could be activated by allocations decided by the IMF board and approved by members.

Such tool was not a currency, as the rules foresaw that it could be detained only by central banks and member states and a limited

number of international institutions[5] – and not any private[6] entity or bank – nor was it a kind of "credit" to the IMF as an institution (as it involved a (limited) interest rate for the entities detaining SDRs, which was an ambiguity that had to be clarified immediately in the preparatory works).
Rather, SDRs were – and are – a reserve asset supplementing the international reserves owned by IMF members participating in the scheme (all of them are currently participating) to be used to settle international payments amongst central banks if the debtor country was unable or unwilling to pay by other means (hard currency, gold). In short, to use the IMF's definition, "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".[7]

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[5] The 15 "prescribed holders" allowed to hold SDRs are the European Central Bank (ECB), the Bank of Central African States, the Central Bank of West African States, and the Eastern Caribbean Central Bank; the BIS, the Arab Monetary Fund, the Latin American Reserve Fund and eight development institutions: the African Development Bank, the African Development Fund, the Asian Development Bank, the International Bank for Reconstruction and Development and the International Development Association, the Islamic Development Bank, Nordic Investment Bank, and the International Fund for Agricultural Development.

[6] See: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR. In particular: "Participating members and prescribed holders can buy and sell SDRs in the voluntary market. If required, the IMF can also designate members to buy SDRs from other participants. SDRs may be used by IMF members and the IMF itself in accordance with the Articles of Agreement and decisions adopted by the Executive Board and Board of Governors. The IMF has the authority to prescribe other holders of SDRs, non-members, member countries that are not SDR Department Participants, institutions that perform the functions of a central bank for more than one member, and other official entities. As of end-January 2021, there were 15 organizations approved as prescribed holders. Prescribed holders may not receive allocations of SDRs. SDRs cannot be held by private entities or individuals".

[7] See also: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR - The weights determined in the 2015 Review (to be amended as of 2022) define the fixed number of units of currency for a 5-year period starting Oct 1, 2016 as follows: the US dollar at 0.58252, the euro at 0.38671, the Chinese yuan at 1.0174, the Japanese yen at 11.900 and the pound sterling at 0.085946. The SDR value in terms of the US dollar is determined daily based on the spot exchange rates observed at around noon London time, and posted on the IMF website. It should be noted that "currencies included in the SDR basket have to meet two criteria: the export criterion and the freely usable criterion. A currency meets the export criterion if its issuer is an IMF member or a monetary union that includes IMF members, and is also one of the top five world exporters. For a currency to be determined

However, that also meant there was the possibility that, in the event that the counterparts (other central banks) were unwilling to accept SDRs, the IMF could activate a system to make compulsory the acceptance of such a tool to some market players – e.g., the most liquid central bank in terms of international reserves – which was supposed to purchase the SDRs in exchange for the hard currency then used by other central banks to settle payments. This "compulsory" mechanism was never adopted, and the few SDR transactions registered have always been voluntary.

2. The crisis of the Bretton Woods system and why SDRs failed to be effective in coping with that situation

Clearly, in a certain sense, it seemed for a moment that SDRs could help to solve the problem of the pressure on the US dollar and on US gold reserves,[8] but it did not.[9] In fact, the first issuance of SDRs was very limited, and it was immediately clear that such a scheme would only have been able to relieve the pressure if the amount of SDRs allocated and available had been huge. However, whilst always

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"freely usable" by the IMF, it must be widely used to make payments for international transactions and widely traded in the principal exchange markets. Freely usable currencies can be used in Fund financial transactions". The SDR is not a currency but can be used as a unit of account. In fact, "the SDR serves as the unit of account of the IMF and some other international organizations". It is important to recall that SDRs' value "is determined weekly based on a weighted average of representative interest rates on short-term government debt instruments in the money markets of the SDR basket currencies, with a floor of 5 basis points. It is posted on the IMF website". It "provides the basis for calculating the interest rate charged to members on their non-concessional borrowing from the IMF and paid to members for their remunerated creditor positions in the IMF. It is also the interest paid to members on their SDR holdings and charged on their SDR allocation".

[8] See Boughton, James M., 'From Suez to Tequila: The IMF as Crisis Manager', Economic Journal, Vol. 110 (January), pp. 273-91, and Boughton, James M. 2001a, 'Silent Revolution: The International Monetary Fund 1979-1989' (Washington: International Monetary Fund).

[9] Ekpenyong, David B, 'Can the special drawing right (SDR) become an acceptable reserve currency of the international monetary fund (IMF) in the midst of strong resistance by developed countries captained by the USA?', Journal of Financial Management & Analysis 20, no. 1 (2007).

concerned by the risks for the dollar, the US authorities were also concerned about the possibility that a growing amount of SDRs, eventually transformed in a sort of international currency (which was never the case)[10] could have become a "new Bancor",[11] thus acquiring the capability to challenge the role and the "exorbitant privilege" (although such a definition was not yet part of the debate) of the US dollar.[12]

The outcome, as all the leading economists and observers were starting to figure out, was the decision of the US Administration to de-peg the dollar from gold convertibility in August 1971, following a deal with the Kingdom of Saudi Arabia and the main international oil producers to maintain the US dollar as the only currency for trading oil. Such a move preserved the international role of the dollar, as all countries were forced to keep reserves in this currency to ensure their oil imports but it also had a few other significant consequences.

The first consequence was, de facto, the collapse of the Bretton Woods system in the period between 1971 and 1973, as all the other main international currencies had to be de-pegged from convertibility into gold and forced into a floating exchange rate regime. So, basically, in less than two years from the August 1971 decision, no currency was still convertible into gold, and the value of a currency just reflected the market trade rules, as currencies were needed to settle import/export payments, and the value of each international currency was mainly determined by the export capacity of a country

[10] See Harrison, Matthew, and Geng Xiao, 'China and Special Drawing Rights—Towards a Better International Monetary System'. Journal of Risk and Financial Management 12, no. 2 (2019): 60 and also Helleiner, Eric, and Bessma Momani, 'The hidden history of China and the IMF. The great wall of money: Power and politics in China's international monetary relations (2014)', 45-70.

[11] See Alessandrini, Pietro. 'Il Bancor'. Working Paper No. 84. Money and Finance Research group (Mo. Fi. R.)-Univ. Politecnica Marche-Dept. Economic and Social Sciences, 2013.

[12] See Wilkie, Christopher, 'Special drawing rights (SDRs): The first international money', Oxford University Press, 2012. (2004): 1-25. Press, 2007. See also Wang, Hongying (2017), 'China and the International Monetary System: Does Beijing Really Want to Challenge the Dollar?', Foreign Affairs, SNAPSHOT, December 19.

rather than by its need to import goods and raw materials.[13] Needless to say, European countries had to bring in a new scheme (the European Monetary System – "EMS") which mirrored, from a continental perspective, and with no gold involved, the old Bretton Woods system.
Another consequence was the sudden, significant, number of US dollars increasingly detained by oil exporting countries (which were rallying in the OPEC), which also caused a significant imbalance. In fact, being aware of the strength that was given them by the deal with the US Administration and the dominant market position of OPEC countries, they were able to decide to raise oil prices by 600% in 1973, causing the first oil crisis, and obliging European countries and Japan to hold considerable/very significant US dollar reserves (to cope with their needs), whilst the US had the opportunity to increase the international money supply without prejudice to the central role of the dollar, rather, implicitly reinforcing it.
Yet it was not just this: the oil producers had significant new reserves to spend, mainly internationally, as their national economies (those of the Arab countries) were still to be developed, and this allowed them to become, at least partially, the "new tailor" to use the old Rueff example scheme, although the Europeans were not loaning money to them, but by buying US dollars on the international markets to ensure oil supplies, they were, de facto, also favouring the Americans.
On the other hand, the oil exporting countries were also selecting the countries in Europe in which to invest their surpluses, and this also caused a distortion, as petrodollars were flowing back mainly into the strongest economies (e.g., West Germany) but were evenly paid out by all European countries. Owing to this combined effect, in practical terms, the weaker countries in Europe saw a growing net outflow of financial assets to the benefit of the stronger ones. This

[13] See Emminger, Otmar (1967), 'Practical aspects of the problem of balance of payments adjustment', Journal of Political Economy 75(August):5 12-22. See also Bordo, Michael D., and Anna J. Schwartz (1989), 'Transmission of real and monetary disturbances under fixed and floating rates. In Dollars, Dejkits and Trade', ed. James A. Dorn and William A. Niskanen, 237-58. Boston: Kluwer Academic.

forced some countries (e.g. Italy) to establish barriers to capital transfers outside the national borders, which lasted until the early 1990s.
The third effect was clearly to lessen the reliance on the SDR as a possible global reserve asset, to the point that the IMF did not generate any new allocations after the first ones until 2009. Since the financial crisis of 2008, in fact, SDRs have returned to the international debate, and some scholars see SDRs as a tool that could help to provide liquidity and supplement member countries' official reserves, without distortions in international trade, and also to help in coping with the limits of the current international financial market failures.
For a relatively long period, SDRs therefore remained a possible tool, with an unexpressed potential, and were, de facto, not used.[14] Allocations were very limited and exchanges, all on a voluntary basis, were minimal; however, things were going to change.

3. The SDRs' new life during the 2008 financial crisis and the events of 2021.

The role of the IMF in the 21st century was already becoming significant in scholars' debates before the start of the new millennium.[15] The 2008 financial crisis led the international community to rethink how the IMF could fulfil its mission regarding financial stability, and this had at least one concrete outcome in the shape of the significant emission of SDRs that took place in 2009

[14] International Monetary Fund. 2018b, 'Considerations on the Role of the SDR', Policy Paper, April 11. See also Kenen, Peter. (2010b), 'An SDR-based Reserve System', Journal of Globalization and Development, this issue.

[15] See Camdessus, Michel (2000), 'An agenda for the IMF at the start of the 21st Century', Remarks at the Council on Foreign Relations, February, New York.

and was the first sizeable allocation since the establishment of this tool.[16]

In 2009, the IMF decided on an allocation of 161.2 billion new SDRs, creating a total availability of 204.2 billion SDRs. After this decision, the SDR debate was once again centre stage, as the tool was perceived as an efficient means to counterbalance certain market failures in periods of great turbulence. In fact, several emerging countries were suffering at that time with supposedly temporary financial issues, regarding their capability/capacity to settle international payments and this seemed a way to cope with such problems, at least partially. Nevertheless, the debate about the need (or not) for an international currency (which the SDR is not) started to regain momentum.

The end of the financial turmoil in 2009-2010, together with the new stability gained by the advanced areas of the world (notwithstanding the issues in Europe relating to the sovereign debt crisis in those years), led the debate subsiding again. China seemed to support the idea of transforming SDRs into a kind of currency, by eventually allowing their transfer to the private sector, something that the US and Europe were not ready to accept.

The new crisis caused by the 2020 Covid pandemic outbreak has once again changed the landscape, however, and the risks associated with the partial freezing in international trade caused by the lockdowns in several countries have regenerated the need for the IMF to facilitate sovereign and central banks in their need for currencies in the event of temporary issues.

After the suggestion issued by G7 in 2021, on July 9th, 2021, the IMF Executive Board proposed[17] a new general SDR allocation to members, equivalent to US$650 billion (which is the largest allocation in the IMF's history to date and since this tool was

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[16] See Alessandrini, Pietro, and Michele U. Fratianni, 'International Monies, Special Drawing Rights, and Supernational Money', Special Drawing Rights, and Supernational Money (July 3, 2009) (2009).

[17] See: https://www.imf.org/en/News/Articles/2021/07/08/pr21208-imf-managing-director-kristalina-georgieva-executive-board-backing-new-us650b-sdr-allocation.

created) intended “to address the long-term global needs for reserves during the worst crisis since the Great Depression”. The new SDRs allocation will be completed by the end of August 2021.[18]
The allocation value of US$650 billion is equal to around 450/470 billion SDRs at current prices. This amount of SDRs will be allocated to members in proportion to their stake in IMF reserves so, for example, a country like Italy, which owns a 2.67% share, will receive around 12 billion SDRs or US$17 billion or around €14 billion. However, given the SDR’s peculiarity of being negotiable only amongst states and central banks, the real impact of any new allocation in terms of expanding money supply levels worldwide will be limited.

4. The path ahead: the IMF, the US, China and a future financial equilibrium

The debate about SDRs also reflects a renewed interest in the debate on the role of the IMF. Clearly it is in the interests of the US and the Western economies to somehow preserve the current scheme, as it is a core pillar of the western world’s leadership in the global economy. On the other hand, however, the emerging economies, and particularly the new powers, such as China, do see a need for the international institutions to better reflect the shift in international economic power which is now increasingly evident.
Furthermore, the Covid challenge has exposed how the IMF is currently not equipped with the financial firepower needed in the event of systemic shocks. While advanced economies responded to the crisis by deploying their full arsenal of fiscal and monetary tools, and injected ample liquidity into the financial system, most emerging economies were not able to do the same. As a result, emerging market economies and developing economies faced sudden stops of/interruptions in capital inflows, causing downward pressure on their exchange rates and widening spreads for their sovereign bonds.

[18] See. https://www.imf.org/en/About/FAQ/special-drawing-right

Once liquidity was restored by advanced economies' central banks, capital inflows resumed. However, the current crisis has increased volatility and the spillover effects of the monetary policies of major central banks make the macroeconomic management of emerging economies more challenging. The crisis has exacerbated weaknesses and has pushed the already very high debt levels of those economies further upwards.

Some experts are advocating an ambitious overhaul of the IMF, comprising a dramatic recapitalization of the fund as well as a systematic deployment of SDRs. Indeed, once the temporary New Arrangements for Borrowing and the bilateral borrowing agreements expire, the IMF's resources will shrink to about US$450 billion. (Brahima Coulibaly and Eswar Prasad, 'The international monetary and financial system: how to fit it for purpose', Brookings Institution, Washington DC, November 2020). It is also worth pointing out that most emerging economies do not benefit from one of the most powerful tools that major central banks have used both during the financial crisis of 2008 as well as in the Covid crisis: swap lines. The Fed successfully offered ample access to dollar liquidity when the financial system was in distress. During Covid, the Fed has done so also by expanding the scope of the measure to include some emerging economies, provided those countries were able to offer sufficient collateral in the form of US treasuries. Of course, such an ad hoc measure only works in the presence of sufficient reserves. It incentivizes countries to build up and keep those reserves for times of stress. A dramatic expansion in the role of SDRs could be an answer to the shortcomings of the current system and its overreliance on the positive spillover effects of advanced economies' central bank action. It is unclear though how the IMF would be able to match the firepower of the Fed or the ECB even under the most benign reform scenario.

Whether an ambitious overhaul of the IMF is at all possible is therefore difficult to say. (here Federico's text resumes) The Chinese position is today/currently evolving but in the past, there was no mystery about China's interest in a renewed scheme possibly

inspired by the Bancor (Keynes' idea at Bretton Woods)[19] aiming to facilitate international trade settlements. Clearly in the background there is China's ambition to challenge the role of the US dollar as the core international currency in which most trade is still denominated, and the exorbitant privilege associated with this role.

One may argue that the scheme that was approved in 2021 seems to continue following/to sustain the point of view of the USA and the Western allies, as the outcome is not a reserve currency or anything similar. Rather, and to the benefit of the prevailing view/stance of the "old" founding members, SDRs remain a tool, and only that.

SDRs are not supposed to become an international or supranational currency, whilst for the new powers, they should probably have been reconsidered as a renovated "Bancor" or become, looking ahead, something different, at least in a transition phase, and certainly not be limited to being a temporary tool cooperating to foster financial stability.

The European perspective and that of many IMF member countries still seems to be evolving; for example, in Europe it is still unclear whether the future of the union is a possible political project, rather than a simple single market with a common currency, also in the long term. This second scenario would likely push the Europeans to lean towards supranational currencies, whilst the former will likely lead to Europe being very/closely aligned to the US in terms of global financial stability and of the frameworks and institutions tasked to protect it. (Alex) The EU and its member countries are willing to push forward with the project of greater strategic autonomy, involving a growing role for the euro, the de facto second

[19] See Zhou Xiaochuan (2009), 'Reform the international monetary system', People's Bank of China, Beijing. http://www.pbc.gov.cn/english//detail.asp?col=6500&ID=178 – and: Zhang, Zhexin (2018), 'The Belt and Road Initiative: China's New Geopolitical Strategy?' China Quarterly of International Strategic Studies 4: 327–43; also, Wang, Hongying (2017), 'China and the International Monetary System: Does Beijing Really Want to Challenge the Dollar?' Foreign Affairs, SNAPSHOT, December 19; and Wang, J. China-IMF Collaboration: 'Toward the Leadership in Global Monetary Governance', Chin. Polit. Sci. Rev. 3, 62–80 (2018). https://doi.org/10.1007/s41111-017-0085-8; and Zhang, Fan, Miaojie Yu, Jiantuo Yu, and Jin Yang (2017), 'The Effect of RMB Internationalization on Belt and Road Initiative: Evidence from Bilateral Swap Agreements',. Emerging Markets Finance and Trade 53: 2845–57.

reserve currency. However, it is currently unclear how to enhance the role of the common currency, especially if the fiscal capacity of common EU institutions remains constrained. One avenue that policymakers are exploring is to introduce a digital euro, probably ahead of the Fed, which still seems more reluctant than the authorities in Frankfurt to fully explore the feasibility of such a project. The role of central banks' digital currencies should not be underestimated, given the quickly/rapidly evolving role of cryptocurrencies. Indeed, they could end up threatening the monetary sovereignty of "public" money issued by governments. Even the debate on the future role of SDRs will therefore have to take place against the backdrop of a dramatically changing financial landscape in which digital public and private money may well end up competing against each other.

Regardless of this, there is apparently consensus on a possible new role that SDRs will likely assume in the coming years, although it is yet to be determined whether it will be significant and new or mostly remain in the context of current rules and institutions. Yet we may hope to have a tool which could help to generate growth and stability, which is currently the only way to respond effectively to the challenges ahead.

In conclusion, it is difficult to say today, and imagine in the future, whether the new allocation is a step towards a renewed financial architecture on the global landscape or just a technical move aiming at increasing the back up of liquidity for central banks. It is likely, however, that this new allocation is and will be only one more step in an evolving/ever-changing scenario.

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