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G20 FAILS TO REACH AN AGREEMENT ON ALLOCATION OF FUNDS TO POOR NATIONS

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NEW DELHI : G20 finance ministers, at a meeting on Saturday, under the chairmanship of Saudi Arabia, failed to reach an agreement on the possibility of allocating fresh special drawing rights (SDRs) to member countries or reallocating SDRs from rich members to countries facing a liquidity crisis because of the covid-19 pandemic.

“The G20 International Financial Architecture working group also discussed the possibility of a SDR allocation or of countries that have excess SDRs granting or lending them to countries that need them. There was no consensus on the issue," said the communique on G20 finance ministers and central governors meeting.

SDR is a global reserve asset created by the International Monetary Fund (IMF), comprising the US dollar, euro, yen, sterling and yuan. It is allocated to members in proportion to their quota. India has 13,114 million SDRs on account of its 2.76% quota, while the US accounts for 82,994 million SDRs for its 17.45% quota. China, with 6.41%, accounts for 30,483 million SDRs. One SDR is currently valued at $1.38.

A fresh SDR issue by the IMF would help least developed and developing countries facing a foreign exchange crisis at a time the world economy is projected to contract by 4.9% in 2020. However, the US and India opposed the move. In April, finance minister Nirmala Sitharaman had told G20 finance ministers that national forex reserves should be the first line of defence during a crisis such as this.

In June, IMF chief economist Gita Gopinath said the multilateral lending agency is considering an alternative proposal to redistribute existing unused SDRs of rich member-countries to low-income countries in desperate need.

“There is certainly a lot of appetite for this second strategy and that’s something we are working on," Gopinath had said. But a consensus could not be reached on the alternative proposal either.

In its April meeting, the ministers decided to suspend debt repayment to the IMF and World Bank by the poorest countries distressed by the pandemic to bring financial stability under the debt service suspension initiative (DSSI). As on 18 July, 42 countries sought benefits from DSSI amounting to an estimated $5.3 billion of 2020 debt service to be deferred. However, most analysts said given the severity of the financial impact of the pandemic, the IMF needs to do more than its normal lending facilities to support vulnerable member countries. So far, the IMF has received 107 requests for financing of which 77, worth SDR 60.4 billion, were approved, and 30 requests worth SDR 37.2 billion were pending, as on 2 July, the communiqué said.

The G20 finance ministers urged private creditors to participate in DSSI on comparable terms when requests were made by eligible countries. “We will consider a possible extension of the DSSI in the second half of 2020, taking into account the development of the covid-19 pandemic situation and the findings of a report from the IMF and World Bank on the liquidity needs of eligible countries, which will be submitted to the G20 in advance of our meeting in October 2020," the communiqué said.

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