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CONSENSUS REMAINS ELUSIVE AMONG G20 COUNTRIES ON FRESH SDR ALLOCATION

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NEW DELHI: The G20 countries at the latest virtual meeting of finance ministers under the chairmanship of Saudi Arabia on Saturday failed to reach an agreement on the possibility of fresh Special Drawing Right (SDR) allocation to member countries or reallocating excess SDRs from rich members to those facing liquidity crisis due to the unfolding coronavirus pandemic.

"The G20 International Financial Architecture Working Group also discussed the possibility of a Special Drawing Right (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," the communique after the G20 Finance Ministers and Central Governors Meeting said.

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

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

Later in June, IMF chief economist Gita Gopinath had 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. However, it seems a consensus could not be reached on the alternative proposal as well.

In its April meeting, the finance ministers had decided to suspend debt repayment to the IMF and the World Bank by the poorest countries distressed by the covid-19 outbreak in an effort to bring financial stability under Debt Service Suspension Initiative (DSSI).

As of 18 July, 42 countries have requested to benefit from the DSSI, amounting to an estimated $5.3 billion of 2020 debt service to be deferred. However, most analysts contend that given the severity of the financial impact of the pandemic, IMF needs to do more to support vulnerable member countries beyond its normal lending facilities.

So far, IMF has received 107 requests for financing, of which 77 have been approved worth SDR 60.4 billion and 30 worth SDR 37.2 billion are pending, as of 2 July, the G20 communique said.

The G20 finance ministers strongly encouraged private creditors to participate in the DSSI on comparable terms when requested by eligible countries in their latest meeting. “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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