SDR Allocations in the Middle East: Helpful, but No Silver Bullet

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Brief Analysis

Various governments have made good use of last year's unprecedented IMF allocation, but the Ukraine war, ongoing debt issues, and other economic problems are a reminder that the region cannot sidestep deeper reforms indefinitely.

Last year, the International Monetary Fund dispersed the largest allocation of Special Drawing Rights (SDRs) in its history, more than twice the amount granted in the previous five decades combined. About 7% of the August 2021 allocation went to the Middle East, providing significant relief to countries whose foreign reserves had been strained by the COVID-19 pandemic. In the year since then, governments in the region have exchanged their SDRs for around $910 million worth of IMF debt relief and $6.3 billion worth of foreign currency.

What Are SDRs?

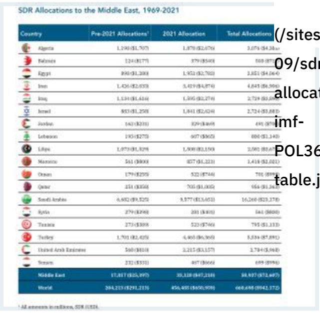
SDRs can be thought of as a currency created by the IMF, with a value that the institution determines in relation to a weighted basket of the U.S. dollar, euro, yuan, yen, and British pound sterling. Unlike normal currencies, however, SDRs cannot be held by private individuals. Rather, they act as a stable asset in a country's international reserves and can also be held by the IMF and a select few **"prescribed holders" (https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR)** —mainly multinational development institutions such as the Arab Monetary Fund. For comparison, SDRs make up **2% of global reserves (https://home.treasury.gov/news/press-releases/jy0095)** while the U.S. dollar makes up 57%.

Distributing the Major 2021 Allocation

Since 1969, the IMF has conducted four general SDR allocations and **one special allocation (https://www.imf.org/en/About/FAQ/special-drawing-right#Q5.%20What%20are%20the%20next%20steps%20that%20follow%20the%20Executive%20Board%E2%80%99s%20approval%20of%20the%20Managing%20Director%E2%80%9**, each time dispersing amounts in proportion to countries' respective ranks in the IMF quota system. The August 23, 2021, allocation was by far the largest ever—in all, roughly SDR 660 billion has been allocated in the program's history, but 456 billion of this total (equivalent to $650 billion) was allocated last August alone. At the time, officials described the unprecedented move as a response to urgent financing needs in the wake of the pandemic.

Approximately $400 billion worth of last year's allocation **went to wealthy countries (https://cepr.net/special-drawing-rights-the-beginning-of-a-paradigm-change/)**, while $230 billion went to middle-income countries and $20 billion went to low-income countries. The G7 and G20 pledged to channel $100 billion worth of their SDRs through two IMF funds designed to help low-income countries and address structural challenges (e.g., climate change). So far, however, **none of the promised rechanneling (https://cepr.net/special-drawing-rights-one-year-later-by-the-numbers/)** has occurred.

The Middle East portion of the 2021 allocation was equivalent to around $47 billion. Although the amounts distributed to needy countries such as Lebanon ($865 million) were dwarfed by what wealthy countries such as the United States received ($35 billion), the allocation still provided the region with significant liquidity at a difficult time.



SDR Allocations to the Middle East, 1969-2021

Country	Pre-2021 Allocations[1]	2021 Allocation	Total Allocations
Algeria	1,198 ($1,707)	1,878 ($2,676)	3,076 ($4,383)
Bahrain	124 ($177)	379 ($540)	[illegible]
Egypt	898 ($1,280)	1,952 ($2,782)	2,851 ($4,064)
Iran	1,426 ($2,033)	3,419 ($4,874)	4,845 ($6,906)
Iraq	1,134 ($1,616)	1,595 ($2,274)	2,729 ($3,890)
Israel	883 ($1,258)	1,841 ($2,624)	2,724 ($3,883)
Jordan	162 ($231)	329 ($469)	491 ([illegible])
Lebanon	193 ($275)	607 ($865)	800 ($1,140)
Libya	1,073 ($1,529)	1,508 ($2,150)	2,581 ([illegible])
Morocco	561 ($800)	857 ($1,221)	1,418 ($2,021)
Oman	179 ($255)	522 ($744)	701 ([illegible])
Qatar	251 ($358)	705 ($1,005)	956 ($1,363)
Saudi Arabia	6,682 ($9,525)	9,577 ($13,651)	16,260 ($23,178)
Syria	279 ($398)	281 ($401)	561 ($800)
Tunisia	273 ($389)	523 ($746)	795 ($1,133)
Turkey	1,701 ($2,425)	4,465 ($6,365)	[illegible]
United Arab Emirates	560 ($810)	2,215 ($3,157)	2,784 ($3,968)
Yemen	232 ($331)	467 ($666)	699 ($996)
Middle East	17,817 ($25,397)	33,120 ($47,210)	50,937 ($72,607)
World	204,213 ($291,213)	456,485 ($650,959)	660,698 ($942,172)

[1] All amounts in millions, SDR (USD).

(/sites/default/files/2022-09/sdr-allocations-imf-POL3647-table.jpg)

Source: IMF, "2021 General SDR Allocation: Special Drawing Rights," August 23, 2021, https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation (https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation).

How Have Middle Eastern Countries Used Their SDRs?

Since the allotment, various security and economic challenges have further disrupted the balance of payments for countries in the region. As mentioned above, the large allocation was originally spurred by the global need for liquidity amid the pandemic, but food and fuel prices have skyrocketed since then amid rising U.S. interest rates, a strengthened U.S. dollar, and the tanking of Middle Eastern currencies such as the Turkish lira and Egyptian pound. The situation has drained foreign exchange reserves in the affected countries as the cost of imports has increased. Globally, **60% of low-income countries (https://www.bloomberg.com/news/articles/2022-08-26/imf-warns-faster-debt-relief-needed-as-more-nations-seek-help)** are debt distressed or at high risk of falling into that category. This in turn has affected how governments use their SDR allocations, including in the Middle East.

SDR Usage for Currency and Debt Relief

Country	2021 allocation[1]	Exchanged for currency	Used for IMF debt relief	Total used	Percentage used	IMF debt before allocation	
Egypt	$2,781	$2,110	$566	$2,684	96.5	$20,306	$17,745
Iraq	$2,271	$1,947	$184	$2,131	93.8	$684	[illegible]
Jordan	$468	$440	$23	$463	98.9	$1,229	$1,283
Lebanon	$865	$1,121	$0	$1,121	129.6	$0	[illegible]
Morocco	$1,221	$0	$23	$23	1.9	$2,143	$1,952
Tunisia	$744	$643	$105	$748	100.5	$2,388	[illegible]
Yemen	$665	$0	$9	$9	1.4	$50	[illegible]

[1] All amounts in millions of USD.
[2] As of September 9, 2022.

(/sites/default/files/2022-09/sdr-usage-imf-POL3647-

table.jpg)

Sources: CEPR, "Special Drawing Rights One Year Later, By the Numbers," August 24, 2022, https://cepr.net/special-drawing-rights-one-year-later-by-the-numbers (https://cepr.net/special-drawing-rights-one-year-later-by-the-numbers) ; IMF, "IMF Credit Outstanding for all members as of July 31, 2021" (table), https://www.imf.org/external/np/fin/tad/extcred2.aspx?date1key=2021-12-31&reportdate=2021-07-31 (https://www.imf.org/external/np/fin/tad/extcred2.aspx?date1key=2021-12-31&reportdate=2021-07-31) ; IMF, "Total IMF Credit Outstanding Movement From September 01, 2022 to September 16, 2022," https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL (https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL) .

Thus far, seven countries in the region have tapped into their 2021 SDRs, with five of them using nearly all of their allocation. Egypt has used the most, in part to pay down its status as the largest IMF debtor in the world apart from Argentina, with $17.7 billion outstanding (https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL) .

Iraq has used SDRs to help pay off its IMF debt entirely—it had an estimated $684 million (https://www.imf.org/external/np/fin/tad/exporta.aspx?memberkey1=%20460&date1key=2021-07-31&dateyear=2021&category=EXC) in outstanding debt to the organization in July 2021, but it has since brought that figure down to zero for the first time since 2004 (https://www.imf.org/external/np/fin/tad/extcred2.aspx?date1key=2004-12-31&reportdate=2004-12-31) , in part by tapping $184 million worth of SDR debt relief. Most other Middle Eastern countries have likewise used the allocation to lower their IMF debt.

One exception is Jordan, whose debt to the institution has actually grown by over $300 million since 2021. This partly reflects the kingdom's decision to use just 5% of its allocation on debt relief compared to 94% exchanged for currency.

Yemen's situation is unique as well. Between April 2020 and April 2022, it received (https://www.imf.org/en/News/Articles/2021/12/20/pr21390-imf-executive-board-extends-debt-service-relief-for-25-eligible-low-income-countries) a total of 47,329,000 in additional SDRs ($61,639,396 at the current exchange rate) via five tranches of debt service relief provided by the Catastrophe Containment and Relief Trust. Of this total, SDR 4,875,000 ($6,349,005) was provided in the past year, so the government was able to continue bringing down its IMF debt significantly without drawing on much of its August 2021 SDR allocation.

Interestingly, Iran has not touched its SDRs despite repeatedly claiming to have major financing needs. Then again, its ability to cash them in may have been affected by international sanctions, perhaps influencing Tehran's thinking on the matter.

As for countries that exchanged substantial SDRs for currency, they tend to have expansionary government spending programs. Although SDRs do not directly finance government budgets, using them for additional foreign currency reserves will generally enable a government to spend more—which in turn increases the country's imports and puts pressure on its foreign currency reserves. Two prominent examples are Tunisia, which exchanged SDRs to help pay a large government wage bill, and Lebanon, which sought to fund social spending. Lebanon now holds a paltry 0.3% of the SDRs it has been allocated (https://www.imf.org/external/np/fin/tad/extsdr2.aspx?date1key=2022-07-31) (as the above table shows, it exchanged more than its 2021 allotment over the past year, so it presumably had to draw on past allotments or other potential SDR sources to cover the difference). Meanwhile, countries such as Algeria, Israel, and Saudi Arabia have participated in Voluntary Trade Agreements to purchase other governments' SDRs in exchange for currency, thereby increasing their holdings over the past year.

Interest Payments

SDRs pay interest, though arguably at a lower rate than central banks could get from alternative investments. Countries receive interest payments on their SDR holdings and pay interest on their SDR allocations, so a government that holds more SDRs than it has been allocated will receive net interest, and vice versa.

Interest Calculations on Middle East SDRs

Country	SDR holdings[1]	Lifetime SDR allocations	Difference	Annual interest received or [illegible]
Algeria	3,127,005,282	3,076,660,983	50,344,299	819,605
Bahrain	445,651,581	502,940,031	-57,288,450	[illegible]
Egypt	175,977,156	2,850,921,101	-2,674,943,945	-43,548,087
Iran	4,972,159,276	4,844,964,735	127,194,541	[illegible]
Iraq	75,989,771	2,729,172,979	-2,653,183,208	-43,193,822
Israel	2,776,531,545	2,724,481,799	52,049,746	847,369
Jordan	9,687,000	490,916,558	-481,229,558	[illegible]
Lebanon	2,606,710	800,468,200	-797,861,490	-12,989,185
Libya	3,180,551,432	2,580,537,157	600,014,275	[illegible]
Morocco	1,454,535,863	1,418,664,228	35,871,635	583,990
Oman	709,076,893	700,600,069	8,476,824	[illegible]
Qatar	981,903,030	955,964,392	25,938,638	422,281
Saudi Arabia	15,431,033,772	16,259,953,154	-828,919,382	-13,494,807
Syria	563,642,202	560,584,793	3,057,409	49,775
Tunisia	20,939,674	785,325,463	-764,385,789	-12,476,761
Turkey	5,508,143,285	5,536,388,310	-28,245,025	-459,829
United Arab Emirates	2,368,358,053	2,783,507,668	-415,129,615	-6,758,310
Yemen	467,408,080	699,010,900	-231,530,820	-3,769,322
Middle East	42,279,380,465	50,311,150,317	-8,031,769,912	-130,757,214

[1] As of July 31, 2022.
[2] At September 5, 2022, rate.

(/sites/default/files/2022-09/sdr-interest-imf-POL3647-table.jpg)

Source: IMF data, author analysis.

Overall, Middle Eastern countries currently hold around SDR 8.0 billion ($10.4 billion) less than what they have been allocated over the years—a debt that will cost the region about SDR 131 million ($169 million) per year in interest. Yet these amounts are relatively small compared to government budgets. For example, Iraq's 2021 budget called for $89 billion in spending, which dwarfs its SDR interest bill of SDR 43 million ($56 million).

Conclusion

For most Middle Eastern countries, the plus-size 2021 SDR allocation served as a nice bonus rather than a lifesaver. In Saudi Arabia, for example, the government was not in desperate need of liquidity, but the extra assets helped it make large deposits in the central banks of Egypt (https://www.arabnews.com/node/1958636/business-economy) and Pakistan (https://www.ft.com/content/7cce70fe-9ddd-4acb-ac4b-5dc827fd4802) , expanding the kingdom's economic influence in both countries. In other cases, governments used the allocation to supplement their existing plans for paying down debt to the IMF.

In contrast, Lebanon and Egypt were so desperate for liquidity that they quickly used up their entire allocations. Of course, both countries are facing much more fundamental problems than a mere short-term need for liquidity. Lebanon is experiencing one of the worst economic crises (https://www.worldbank.org/en/news/press-release/2021/05/01/lebanon-sinking-into-one-of-the-most-severe-global-crises-episodes) in its history, while Goldman Sachs recently estimated (https://www.bloomberg.com/news/articles/2022-08-01/goldman-s-15-billion-view-of-egypt-imf-needs-too-high-for-maait#xj4y7vzkg) that Egypt may need to secure a $15 billion package from the IMF even after using $2.6 billion worth of SDRs in the past year. Solving these problems will require fundamental economic reforms.

Moreover, when the IMF made the allocation in 2021, it could not have foreseen the Russian invasion of Ukraine or the global debt crisis that ensued. The latter challenge will require major debt restructuring and cooperation from China, the world's largest creditor. And while SDRs will likely be part of this solution, they are not a silver bullet.

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