STUDY

THE IMF'S SDR BONANZA:

WHAT GOOD DID THE FREE LIQUIDITY DO JORDAN?

Ahmad M. Awad
Anna Sting

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In 2021, the International Monetary Fund distributed free liquidity, known as Special Drawing Rights (SDRs), to all 191 member countries. The aim was to help countries face the pandemic's socioeconomic repercussions.

Out of a total of 456 billion SDRs (650 billion dollars), each country, received an amount relative to its quota in the Fund. Like for all developing countries, Jordan's allocation was too little compared its financial needs.

Jordan received a total of 468 million dollars' worth of this SDR allocation, equivalent to 7% of its gross financial needs. This study tracks how Jordan spend this money and how transparent and inclusive the decision-making process on the spending was set up in the country.

FRIEDRICH EBERT STIFTUNG

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LIST OF ABBREVIATIONS

BoG	Board of Governors of the IMF
CBJ	Central Bank of Jordan
EFF	Extended Fund Facility
GDP	Gross Domestic Product
IMF	International Monetary Fund
KSA	Kingdom of Saudi Arabia
MoF	Ministry of Finance
RSF	Resilience and Sustainability Fund
RST	Resilience and Sustainability Trust
SDRs	Special Drawing Rights
WB	World Bank

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INTRODUCTION

In August 2021, the IMF Board of Governors (BoG) agreed to boost global liquidity by allocating Special Drawing Rights (SDR) to all its member countries with a total of SDR 456 billion, the equivalent of USD 650 billion. It is the largest SDR allocation in history. The aim of this allocation was to «provide additional liquidity to the global economic system – supplementing countries' foreign exchange reserves and reducing their reliance on more expensive domestic or external debt (…) [and] to support their economies and step up their fight against the crisis», suggested the IMF Managing Director Kristalina Georgieva.[1] This SDR allocation came as a response to the COVID-19 pandemic, which had led to an economic downturn, historic levels of unemployment, increased social inequalities and a healthcare crisis. Overall, the developing world is bearing a heavier burden of the multifaceted crises, with the MENA region among those heavily affected. The region, which is characterized by high unemployment, high public debt and deficient social protection systems also struggles with depleting reserves and debt service repayments that are increasing. Since implementation of this measure, there is very little information about how governments have used this extra non-refundable money they received with no conditions attached.

Jordan has faced chronic economic imbalances - a high public budget deficit, high sovereign debt, high unemployment and poverty rates - over the last decades. As a result, Jordan has repeatedly requested IMF support since 1989 and has so far received nine loans. In 2020, Jordan started a 4-year programme under the IMF's extended funding facility which involves total loans of USD 1.3 billion to Jordan, after the initial amount had been increased to address the impact of the COVID-19 pandemic on the economy. This and other IMF loans to Jordan have been disbursed under the conditions of far-reaching reforms: Jordan is required to implement austerity measures, to restructure the public sector as well as social protection and tax-system in a way that tends to exclude the most vulnerable groups. However, this SDR distribution is different and is not linked to IMF imposed conditions.

SDRs are allocated depending on countries' quotas in the IMF. This quota, as will be outlined below, is linked to a country's GDP. Therefore, around 3% of the USD 650 total SDRs were allocated to lower-income countries, while only around a third (35%) of SDRs were allocated to middle-income countries such as Jordan. Meanwhile, around 62% was allocated to higher-income countries that do not have a problem with their foreign currency reserves and no difficulty borrowing to finance budget deficits.[2] The hope was that governments and the IMF would find a way for higher-income countries to transfer their SDRs to developing countries in need.[3]

The present study examines the use of these SDRs in the MENA region and in particular in Jordan. This study will outline the purpose and structure of SDRs, the allocations and general institutional setup of the IMF when it comes to SDR allocations. The study will then proceed to examine how many SDRs each country received in 2021 and how it was then used by countries, with a particular focus on Jordan, before offering conclusions.

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1 IMF Press Release 23 August 2021, "IMF Managing Director Announces the US$650 billion SDR Allocation Comes into Effect", available at: https://www.imf.org/en/News/Articles/2021/08/23/pr21248-imf-managing-director-announces-the-us-650-billion-sdr-allocation-comes-into-effect

2 Shrock, J. (2022), "SDR Allocations in the Middle East: Helpful, but No Silver Bullet", available at: https://www.washingtoninstitute.org/policy-analysis/sdr-allocations-middle-east-helpful-no-silver-bullet

3 Barry Eichengreen, Jordan Times (2021), available at: https://jordantimes.com/opinion/barry-eichengreen/sdr-allocation-must-be-different

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METHODOLOGY

This study relies on a thorough desk review of literature and secondary data, including national budgets and IMF reports. In addition, key informant interviews (KIIs) have been conducted with experts and officials. A number of unstructured interviews that were conducted provided valuable and indispensable information to complement the publicly available data. It included: a former governor of the Central Bank of Jordan, a former deputy prime minister-economist, a former minister of finance, the head of the economic committee in the Jordanian parliament, experts from the Studies and Research Unit and the Special Drawing Rights Unit at the Central Bank of Jordan.

3

SPECIAL DRAWING RIGHTS

3.1 THE NATURE OF SDRs

Special Drawing Rights were introduced by the IMF in 1969, in the context of the Bretton Woods system, in order to supplement other reserve assets of IMF member countries.[4] SDRs are not a currency and cannot be held by individuals, neither are they a claim. Rather, they are a unit of account. SDRs reflect a basket of currencies, and can be exchanged for these (and only these) currencies, also between governments.[5] After 2016 saw the addition of the Chinese renminbi to this basket and after a re-weighing of the currency in July 2022, one SDR is comprised of:[6]

Table 1
Composition of the SDR as of July 2022 (valid for 5 years).

Currency	Currency amount in SDR currency basket
US dollar	0.58
Euro	0.37
Chinese yuan	1.10
Japanese yen	13.45
Pound sterling	0.08

Source: IMF[7]

The value of the SDR is set daily by the IMF.[8] The SDR's status as a reserve asset is based on the commitments of members to hold and exchange SDRs and accept the value of SDRs as determined by the IMF. The SDR also serves as the unit of account of the IMF and some other international organisations, and financial obligations may also be denominated in SDR.[9]

After SDRs are allocated, SDR department members can hold their SDRs as part of their foreign exchange reserves. In addition, they are free to exchange their SDRs among members or prescribed holders for the currencies that make up the SDR.[10] IMF members can also use SDRs in authorised operations among themselves (e.g. loans, payment of obligations, or pledges) and in operations and transactions involving the IMF, such as the payment of interest on and repayment of loans, or payment for quota increases.[11] SDRs are allocated by a qualified majority (85% of voting power)[12] decision of the BoG, after a proposal by the Fund's managing director.[13]

Usually, SDR allocations take place for so-called »basic periods« of five years,[14] however, the IMF's Articles of Agreement also allow the Fund to «change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of »unexpected major developments».[15]

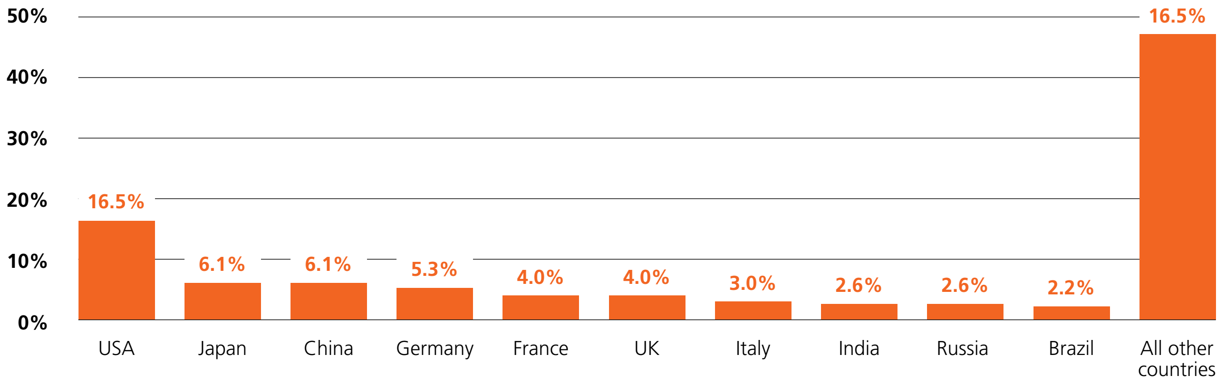
3.2 SDRs, QUOTAS AND VOTING POWERS: ADVANCED ECONOMIES HAVE THE UPPER HAND

SDR allocations for each country depend on the quotas of each of the members in the IMF.[16] The quotas of member states and the voting power in BoG are interlinked.

4 IMF Resolution 23-5, available at: https://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1968.pdf
5 Website of the IMF (2022), at: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR
6 IMF Press Release 29 July 2022, available at: thttps://www.imf.org/en/News/Articles/2022/07/29/pr22281-press-release-imf-determines-new-currency-amounts-for-the-sdr-valuation-basket
7 Website of the IMF at: https://www.imf.org/external/np/fin/data/rms_sdrv.aspx
8 They are set on the basis of fixed currency amounts of the currencies included in the SDR basket and the daily market exchange rates between the currencies included in the SDR basket. Check the Website of the IMF (2022), at: https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR?
9 Website of the IMF (2022) at https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR?
10 This exchange can take place voluntarily or might be mandatory, when the IMF designates members to exchange SDRs of other countries under Art. XIX, Sec. 4–5 of its Articles of Agreement. For more: Art. XIX, Sec. 4–5, IMF Articles of Agreement, available in the English version at: imf.org/external/pubs/ft/aa/pdf/aa.pdf#page=58
11 Website of the IMF (2022) at https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR?
12 Voting powers and quotas for all members can be found at: https://www.imf.org/en/About/executive-board/members-quotas
13 IMF Articles of Agreement, Article XVIII, Section 4.
14 IMF Articles of Agreement, Article XVIII, Section 2.
15 IMF Articles of Agreement, Article XVIII, Section 3.
16 IMF Articles of Agreement, Article XVIII, Section 2.

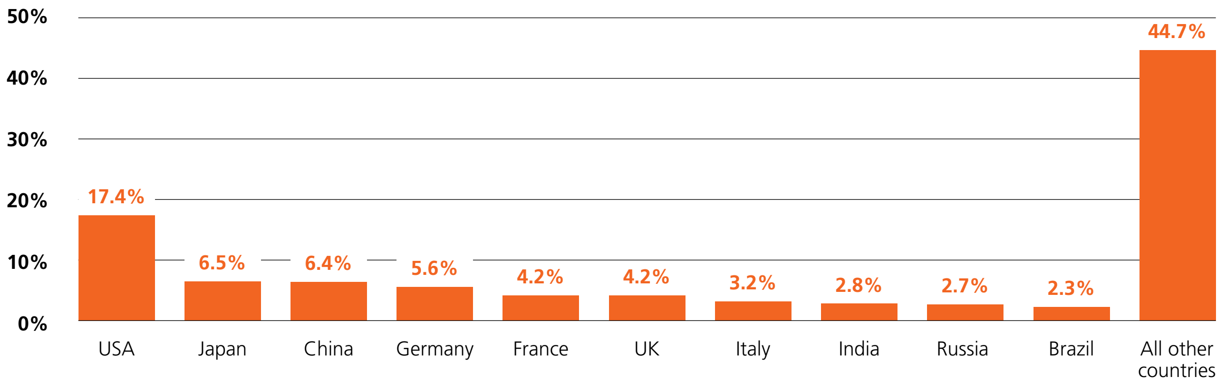
All powers of the IMF are legally vested in the BoG, even though it may delegate some powers to the Executive Board of the IMF. The BoG does not apply a «one country, one vote» principle; rather each country's quota in the IMF determines its voting power in the BoG.[17] As a result, those countries with the strongest economies and corresponding quotas hold the majority of voting powers and are allocated the highest number of SDRs in any allocation. The majority of voting power and quota is accordingly held by the 10 biggest economies, as per the below two figures, as adapted from a figure by the European Parliamentary Research Service.[18]

Figure 1
Member countries' voting powers in IMF BoG.



Source: Adapted from European Parliamentary Research Service, based on publicly available IMF data.[19]

Figure 2
Member countries' SDR quotas in the IMF.



Source: Adapted from European Parliamentary Research Service, based on publicly available IMF data.[20]

17 Website of the IMF on voting powers and quotas in the BoG: https://www.imf.org/en/About/executive-board/members-quotas#1

18 European Parliamentary Research Service (2022)," IMF special drawing rights allocations for global economic recovery", available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733531/EPRS_BRI(2022)733531_EN.pdf

19 Available here: https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733531/EPRS_BRI(2022)733531_EN.pdf

20 Available here: https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733531/EPRS_BRI(2022)733531_EN.pdf

Middle Eastern economies are part of those other members and have low quotas and corresponding voting powers. Saudi Arabia has the biggest regional weight, with a quota of 2.01%. Jordan, for example, currently holds 0.10% of the BoG's overall voting power and 0.07% of the total quota.[21] Other Middle Eastern countries have similarly low quotas and voting powers.[22] Combined, the region has a voting power of 5.29%.

allocation, one commentator noted that the role of the US was critical, given that this is an 85% majority decision. Any decision by the US in the BoG to support an allocation beyond the USD 650 billion would have required approval by the US Congress, which is why a higher allocation had not been tabled at the time.[25] This means that eventually, the domestic legal system in the US can have a major impact on IMF BoG decisions.

Table 2
GDP, IMF quotas and BoG voting powers of selected countries (2020 or 2021).

IMF member state	GDP in mil. USD (2020 and 2021)	IMF quota	Voting power of total BoG
Algeria	163,044	0.41%	0.42%
Bahrain	38,868	0.08%	0.11%
Egypt	404,142	0.43%	0.43%
Iraq	207,898	0.35%	0.36%
Jordan	45,744	0.07%	0.10%
Lebanon	23,131	0.13%	0.15%
Libya	42,817	0.33%	0.34%
Morocco	142,866	0.19%	0.21%
Oman	88,192	0.11%	0.14%
Qatar	179,677	0.15%	0.17%
Saudi Arabia	833,541	2.10%	2.01%
Syria	11,080	0.06%	0.09%
Tunisia	46,686	0.11%	0.14%
UAE	415,021	0.49%	0.49%
Yemen	21,606	0.10%	0.13%
Combined	**2,664,313**	**5.11%**	**5.29%**

Source: Researchers, based on World Bank data and IMF data.[23]

This means that countries with smaller economies have little say in the decisions of the BoG, which takes its decisions by 60-85% of voting power, depending on the issue at hand. As a result, smaller economies can be outvoted by stronger economies in the Global North, particularly the United States. Due to its large quota of 16.5%, the USD has a de facto veto power in qualified majority voting decisions that require a 85% majority.[24] Concerning the 2021

3.3 THE COST OF SDRs: NOT AS FREE AS PUBLICISED.

Whenever a country is allocated SDRs, it can hold them cost-free. SDRs are not loans to be repaid but rather grants – they hold no commercial conditionality on their use, and have no deadline for repayment.[26] An SDR allocation is considered cost-free for member countries. However, it is important to note that this only applies whenever coun-

21 Website of the IMF on voting powers and quotas in the BoG: https://www.imf.org/en/About/executive-board/members-quotas#1

22 Website of the IMF on voting powers and quotas in the BoG: https://www.imf.org/en/About/executive-board/members-quotas#1

23 Website of the IMF on voting powers and quotas in the BoG: https://www.imf.org/en/About/executive-board/members-quotas#1, and Website of the World Bank on: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD

24 Website of the IMF on voting powers and quotas in the BoG: https://www.imf.org/en/About/executive-board/members-quotas#1

25 Also discussed in: International Monetary Fund: Special Drawing Rights Allocation (2021), In Focus, Congressional Research Service, Washington, DC. https://crsreports.congress.gov/product/pdf/IF/IF11835/2

26 UNESCWA (2022), "Special Drawing Rights and Arab Countries", Financing for Development in the Era of COVID-19 and Beyond", available at: https://www.unescwa.org/sites/default/files/pubs/pdf/financing-development-era-covid-19-beyond-english.pdf

tries do not use their SDR allocations.[27] There is no interest transfer if the amount held by the IMF member is at par with its quota, but when members use their SDRs, costs (interests) are being levied on this member. And in contrast, The IMF's SDR Department pays interest on SDR holdings to each member if these holdings exceed the member's allocations of SDR.

So, whenever an IMF member reduces their SDR holdings (i.e. exchanges SDRs for other currencies) they have to pay interest on the difference between their cumulative SDR allocations and their holdings to the SDR Department. This means that while a country does not need to pay back the SDRs to the IMF directly, it does need to pay the SDR Department interest rate as long as it holds less SDRs than it had been allocated. Countries may exchange SDRs in currency under voluntary or mandatory designation bilaterally with other countries. [28] Such interest rate on the SDRs is variable and is determined weekly on the basis of the combined interest rate of the SDR valuation basket with an interest rate floor at 0.05%.[29] Hence, it has been rising during the last year. As of February 2023, the SDR interest rate stands at 3.416%,[30] showing that the SDRs are not immune to the interest rate hikes in the countries whose currencies form the SDR currency basket.

Those countries that have to use their SDRs, mostly lower-income countries, pay fluctuating interest rates to the SDR Department. However, this is still cheaper for some member states than other types of borrowing: Eurobonds are currently issued at an interest rate of up to 3%, meaning that low- and middle-income countries are likely to pay much higher interest rates on other types of borrowing.[31] In that regard, SDR allocations can allow lower-income countries to borrow at similar rates as higher-income countries.

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27 IMF (2022), at https://www.imf.org/en/About/FAQ/special-drawing-right#Q6.%20Can%20existing%20SDRs%20be%20%E2%80%98recycled%E2%80%99%20or%20channeled%20toward%20other%20purposes?

28 Mandatory designation means that the IMF can make it mandatory for countries that issue reserve currency to change their currency for SDRs offered by countries that want to change them. See website of the IMF at: https://www.imf.org/en/About/FAQ/special-drawing-right#Q6.%20Is%20an%20SDR%20allocation%20cost-free?

29 IMF (2022), at https://www.imf.org/en/About/FAQ/special-drawing-right#Q6.%20Can%20existing%20SDRs%20be%20%E2%80%98recycled%E2%80%99%20or%20channeled%20toward%20other%20purposes?

30 IMF (2023), SDR Interest Rate Calculation at https://www.imf.org/external/np/fin/data/sdr_ir.aspx

31 Website of the European Central Bank (2023), https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_area_yield_curves/html/index.en.html

4

THE 2021 SDR ALLOCATION

4.1 AIMS, OBJECTIVES AND PROCEDURES

Since the inception of the SDRs, the IMF has made four general allocations and one special allocation amounting to a total of SDR 660.7 billion (equivalent to about USD 935.7 billion) over the years. The 2009 special allocation was made to adjust for the fact that members who had joined the IMF after 1981 had never received any SDR allocations.

The 2021 SDR allocation has been the largest allocation made to date, equalling around USD 650 billion.[32] This allocation has been described by the IMF itself as a «historic decision»,[33] due to the amount of SDRs allocated in this round. the aim of the allocation was to provide especially lower-income countries with immediate relief to cover COVID-19 related costs.

Given that SDRs are allocated on the basis of each country's quota in the IMF, most SDRs were allocated to higher-income countries. Of the SDR equivalent of USD 650 billion, about USD 375 billion (SDR 264 billion) were allocated to advanced economies, while USD 275 billion (SDR 193 billion) of the allocation were allocated to emerging market and developing countries, including only about USD 21 billion (SDR 15 billion) to lower-income countries.[36]

Table 3
SDR allocations over the years.

Type	Amount	Year
General Allocation	SDR 9.3 billion	1970-1972 (yearly instalments)
General Allocation	SDR 12.1 billion	1979- 81 (yearly instalments)
General Allocation	SDR 161.2 billion	2009
Special Allocation	SDR 21.5 billion	2009
General Allocation	SDR 456.5 billion	2021

Source: IMF[34]

According to the IMF, the allocation «address[es] the long-term global need for reserves, build confidence, and foster the resilience and stability of the global economy. It will particularly help our most vulnerable countries struggling to cope with the impact of the COVID-19 crisis.» [35] While

To address this mismatch between countries in need of SDR allocations and extra liquidity, the 2021 allocation accounted for a voluntary channelling of SDRs from higher-income countries to lower-income countries through the IMF's Poverty Reduction and Growth Trust (PRGT) as one option to increase the SDR holdings of lower-income countries, next to bilateral re-channelling.[37]

32 IMF (2022), at https://www.imf.org/en/About/FAQ/special-drawing-right#Q6.%20Can%20existing%20SDRs%20be%20%E2%80%98recycled%E2%80%99%20or%20channeled%20toward%20other%20purposes?

33 Kristalina Georgieva as quoted in an IMF press release, available at: https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights

34 IMF Website at: https://www.imf.org/en/Topics/special-drawing-right

35 Kristalina Georgieva as quoted in an IMF press release, available at: https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights

36 IMF (2021), "Guidance Note for Fund Staff on the Treatment and use of SDR allocations", available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319

37 Kristalina Georgieva as quoted in an IMF press release, available at: https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights

However, it transpired relatively quickly that this voluntary transfer of SDRs did not happen to the extent envisaged by the IMF. A study by the Centre for Economic Policy Research found that by August 2022, no SDRs had in fact been rechannelled through the IMF.[38]

This comes despite the setting up of the Resilience and Sustainability Trust (RST) which was approved by the IMF Executive Board in April 2022, which aims at providing a mechanism for the orderly re-channelling of SDRs in an attempt to encourage states to transfer SDRs in the form of the Resilience and Sustainability Facility (RSF). The RSF is designed to complement existing IMF lending mechanisms, and takes the shape of a loan-based trust based on voluntary contributions of member states.

As opposed to the general allocations of SDRs, conditions are however attached to loans taken out from the Facility, relating to policy reform aimed at strengthening resilience with regards to climate change and pandemic preparedness. These loans are only accessible to low- and middle-income countries and are capped at 150% of each country's SDR allocation.[39]

When establishing the RST, the IMF estimated that the RST fund would need SDR 33 billion (USD 45 billion) in order to become operational. Despite not reaching that goal, the IMF announced in October 2022 that the Trust had become operational.[40] As of December 2022, the RST has achieved a funding status of SDR 30.5 billion, half of which is pledged with the remaining half finalised in contribution agreements.

Contributions to the RST are provided by Australia, Canada, China, France, Japan, South Korea, Spain[41] and a standalone contribution to the to the deposit and/or reserve accounts from Germany.[42] A first agreement with Barbados has been made under the RST.[43] While the RST has started operating, the voluntary re-channelling of SDRs has so far not achieved great success. In the G20 Bali Leaders' Declaration of November 2022, the G20 would like to see more viable options for the re-channelling of SDRs through multilateral development banks, implying that current arrangements are not deemed sufficient.[44]

4.2 THE 2021 SDR ALLOCATIONS TO THE MENA REGION: LIMITED IMPACT

Countries in the Middle East, due to their low quotas in the IMF, have been allocated comparatively few SDRs. In fact, out of the SDR 456 billion allocated in 2021, only 35 billion dollars worth of SDR were received by Middle Eastern countries (see Table 4 below), corresponding to 5.5% of all SDRs allocated. Saudi Arabia received the most SDRs at 9.6 billion, while Jordan received the fewest number of SDRs at 328 million. For comparison, the US alone received 79 billion worth of SDRs in 2021.[45] Most governments and experts welcomed the SDR allocations at the time but criticized that the allocation was not enough to meet the needs of lower-income countries.[46]

Table 4
SDR allocations (in millions) for selected countries 2021.

SDR Allocations 2021 in SDR Million	
Bahrain	378.6
Egypt	1952
Iraq	1594
Jordan	328.8
Lebanon	607.2
Morocco	857.2
Qatar	704.6
Saudi Arabia	9577.5
Tunisia	522.5
UAE	2215.2
Yemen	466.8
Total	**19,204.40**

Source: Researchers' own compilation based on IMF data.[47]

As a study by the UN Economic and Social Commission for Western Asia (UNESCWA) calculated, the SDR allocation 2021 covered around 7% of Jordan's gross financing needs (only relating to the sum of the forecasted fiscal deficits, debt repayments and amortization), 2% of

38 Centre for Economic Policy Research (2022), "Special Drawing Rights One Year Later, By the Numbers", available at: https://cepr.net/special-drawing-rights-one-year-later-by-the-numbers/

39 IMF (2022) Press Release, "IMF Executive Board Approves the Establishment of the RST" at: https://www.imf.org/en/News/Articles/2022/04/18/pr22119-imf-executive-board-approves-establishment-of-the-rst

40 IMF (2022) Press Release, "IMF Managing Director Kristalina Georgieva Announces Operationalization of the Resilience and Sustainability Trust (RST) to Help Vulnerable Countries Meet Long-Term Challenges", available at: https://www.imf.org/en/News/Articles/2022/10/12/pr22348-md-announces-operationalization-of-rst

41 All of these countries contributed to all three accounts of the RST (loan, deposit, and reserve accounts)

42 Website of the IMF (2023) at https://www.imf.org/en/Topics/Resilience-and-Sustainability-Trust

43 IMF (2022), Press Release, IMF Reaches Staff-Level Agreement with Barbados for a Resilience and Sustainability Trust (RST) program, with an accompanying Extended Fund Facility (EFF), available at: https://www.imf.org/en/News/Articles/2022/09/28/pr22325-imf-reaches-staff-level-agreement-with-barbados-rst-program-with-accompanying-eff

44 Ibid.

45 IMF (2021), "2021 General SDR Allocation", available at: https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation.#U

46 European Parliamentary Research Service (2022)," IMF special drawing rights allocations for global economic recovery", available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733531/EPRS_BRI(2022)733531_EN.pdf

47 IMF Website at: https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation

Egypt's, and 6% of Iraq's, while 34% of Saudi Arabia's financing needs were covered by the SDR allocation. The same study stated that «The new SDR allocation falls far short of what the Arab region requires», [48] which includes financing needs for social protection, implementation of economic reforms and the like.

In similar vein, more than a hundred organisations from Arab countries called for further SDR allocation in October 2022, in order to help lower-income countries to address not only the COVID-19 pandemic, but also the global economic crisis, inflation and rising living costs, as well as climate change-related problems.[49] Their demands also include a reform of the quota system that serves as the basis for calculations for SDR allocations, to allow for a greater SDR share for lower-income countries and those vulnerable to climate change. [50]

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48 UNESCWA (2022), "Special Drawing Rights and Arab Countries", Financing for Development in the Era of COVID-19 and Beyond", available at: https://www.unescwa.org/sites/default/files/pubs/pdf/financing-development-era-covid-19-beyond-english.pdf

49 Arab Watch Coalition (2022), "More than 130 organizations around the world urge the IMF to release a new issuance of SDRs to render Global Crisis Relief", available at: https://arabwatchcoalition.org/2022/10/06/more-than-130-organizations-around-the-world-urge-the-imf-to-release-a-new-issuance-of-sdrs-to-render-global-crisis-relief/

50 Arab Watch Coalition (2022), "More than 130 organizations around the world urge the IMF to release a new issuance of SDRs to render Global Crisis Relief", available at: https://arabwatchcoalition.org/2022/10/06/more-than-130-organizations-around-the-world-urge-the-imf-to-release-a-new-issuance-of-sdrs-to-render-global-crisis-relief/

5

UTILISATION OF SDR ALLOCATION

When the IMF issued the SDRs in August 2021, a guidance note was published at the same time for the treatment and use of SDR allocations.[51] This note reiterates that «member countries can use their newly allocated SDRs unconditionally»,[52] despite the fact that the overall reason for the general allocation was fighting the COVID-19 pandemic. The note reads:

> A central policy question is whether the policy space provided by the allocation should be retained or used, either partially or entirely. This decision should reflect many considerations, including the economic conjuncture and the stage of the COVID-19 pandemic, the adequacy of reserves, the availability of fiscal and monetary policy space, domestic and external debt sustainability and financial stability, financing constraints, and other country-specific factors.[53]

This decision, however, lies entirely with each member country, even though those countries under other IMF programmes will be advised by IMF country staff or during programme review. Institutional arrangements when it comes to the receiving of the SDRs vary between countries, including to what extent central banks are involved in their management and whether the budget can directly be used for budget support.

Despite the unconditionality, the guidance note repeatedly underlines the need for IMF staff to encourage member states to provide for transparency on the use of the allocated SDRs «according to best practices».[54] However, these best practices are not mandatory, in fact, «these […] do not specify in which of the member's domestic institutions SDRs should be recorded. Domestic arrangements for holding SDRs and the accounting treatment should follow all domestic legal and institutional frameworks.»[55] Member states can therefore use and spend their SDRs at their will, as long as any interest rate due is being paid to the IMF.

5.1 THE USE OF SDRs IN THE MENA

As following best practices for providing information on the use of SDRs is not mandatory, nor do governments have to provide a documentation for a specific use or a reform plan, the data available on the way in which countries have used their SDR allocations is scarce and differs considerably between countries, depending on the institutional arrangements in place. Nevertheless, some conclusions can be drawn on the use of SDRs in the MENA region and Jordan in particular.

Already one month after the 2021 allocation, Lebanon, Tunisia and Jordan had already exchanged most of their SDR allocations for hard currency.[56] Lebanon currently only holds SDR 1.2 million of the SDR 800 million that has been allocated to it over the years.[57] As of November 2022, Jordan only holds around SDR 8 million, as opposed to the SDR 490 million that had been cumulatively allocated to it both in 2021 and during the allocations that had taken place before. Therefore, Jordan needs to pay SDR 14 million in interests annually (if the interest rate is at 3.5%) for as long as its holdings are less than its allocations of SDRs.

Given each country's specific circumstances, each country has proceeded to use their SDRs differently. Many other countries have used SDRs to address their fiscal deficit, even though that was not one of the aims of the SDR allocations. Other countries have used the SDRs in order to cover other outstanding external debt, in particular that with the IMF. The Washington Institute found that most countries in the MENA region have in fact opted for this approach, with the exception of Jordan, which has only spent a small amount (around 5%) of its SDRs on direct

51 IMF (2021), Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations", available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319

52 Ibid.

53 IMF (2021), Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations", available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319

54 Ibid.

55 Ibid.

56 CEPR (2021), "September Data Shows Countries Continue to Use Special Drawing Rights to Stabilize Their Economies and Address the Pandemic", available at: https://cepr.net/september-data-shows-countries-continue-to-use-special-drawing-rights-to-stabilize-their-economies-and-address-the-pandemic/

57 IMF (2022), "SDR Allocations and Holdings for all members as of November 30, 2022", available at: https://www.imf.org/external/np/fin/tad/extsdr2.aspx?date1key=2022-11-30

debt relief,[58] matching other calculations that saw around 3.5% going to debt relief:[59]

– Tunisia, for example, has seen a direct transfer of the SDR funds to the general budget after exchanging the SDRs into hard currency.[60]
– Lebanon, on the other hand, converted all of its SDR holdings, including that of previous allocations into hard currency. These funds were then transferred to the treasury and their value will appear as revenue in the 2022 final budget.[61]
– Egypt seemingly exchanged all of its SDRs to US dollars.
– Iraq also exchanged its SDRs counting it as revenues within the 2021 federal budget and paying off debt service, including to the IMF.[62]

The following table by the Washington Institute shows how many SDRs have been exchanged and used by selected countries in the region, as of September 2022. Lebanon exchanged more SDRs than it was allocated in 2021, which makes it likely that it had to draw on past allotments or other potential SDR sources to cover the difference – it now only holds 0.3% of its cumulative SDR allocations.[63]

However, Saudi Arabia, the largest recipient in the MENA region of the last allocation of SDRs by the IMF, seemingly used its increased fiscal space after the SDR allocation in order to extend bilateral financing to Egypt and Pakistan, politically close members, albeit through its own fiscal processes, not through the IMF-brokered voluntary trading arrangements or re-channelling mechanisms.[65] A former Jordanian finance minister, however, stated that it is «unlikely that the Jordanian government asked Saudi Arabia to use its special drawing rights, or to obtain loans in exchange for its share of special drawing rights.»[66] While the minister offered no further information for the reasons behind his assessment, the same was confirmed by a former deputy prime minister and economic expert who stated that «as far as I know, the Kingdom has not requested loans from Arab countries in exchange for its share in the SDRs.»[67] No increased lending from Saudi Arabia to Jordan has been observed, nor has Saudi Arabia pledged any sums to the RSF that could be used in supporting Jordan through this mechanism.[68]

Figure 3
SDR use for debt relief, selected countries (2022).

Country	2021 allocation*	Exchanged for currency	Used for IMF debt relief	Total used	Percentage used	IMF debt before allocation	Current IMF debt**
Egypt	$2,871	$2,118	$566	$2,684	96.5	$20,336	$17,745
Iraq	$2,271	$1,947	$184	$2,131	93.8	$684	$0
Jordan	$468	$440	$23	$463	98.9	$1,229	$1,583
Lebanon	$865	$1,121	$0	$1,121	129.6	$0	$0
Morocco	$1,221	$0	$23	$23	1.9	$2,143	$1,952
Tunisia	$744	$643	$105	$748	100.5	$2,385	$2,073
Yemen	$665	$0	$9	$9	1.4	$50	$25

Source: Washington Institute[64]
*All amounts in millions of USD
**As of September 9, 2022

58 Washington Institute (2022), https://www.washingtoninstitute.org/sites/default/files/2022-09/sdr-usage-imf-POL3647-table.jpg
59 CEPR (2022), "Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges", available at: https://cepr.net/report/special-drawing-rights-the-right-tool-to-
60 If a country wants to use the SDRs, it first needs to exchange the SDRs against on the reserve currencies in the SDR currency basket before it can then proceed to exchange the received amount into its local currency.
61 Oxfam (2023), "Investing Special Drawing Rights: Towards a fair economic recovery in the Middle East and North Africa", forthcoming 2023, draft of study shared with author.
62 Ibid.
63 Website of the IMF (2023) on: https://www.imf.org/external/np/fin/tad/extsdr2.aspx?date1key=2022-07-31
64 Washington Institute (2022), https://www.washingtoninstitute.org/sites/default/files/2022-09/sdr-usage-imf-POL3647-table.jpg
65 Centre for Economic Policy Research (2022), "Special Drawing Rights One Year Later, By the Numbers", available at: https://cepr.net/special-drawing-rights-one-year-later-by-the-numbers/
66 KII with a former Jordanian minister of finance
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68 IMF (2023), "Resilience And Sustainability Trust–2022 Contribution Agreements with Australia, Canada, China, Germany, Japan, And Spain", available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/23/Resilience-And-Sustainability-Trust2022-Contribution-Agreements-with-Australia-Canada-China-530087

5.2 THE USE OF SDRs IN JORDAN

As noted above, Jordan received SDR 328.80 million (USD 440.61 million) in the 2021 SDR allocation. Table 5 shows that this sum represented a small percentage of the government debt and deficit at the time. It could, however, have doubled the social assistance spending.

Table 5
Jordan's 2021 SDR allocation in context.

Percentage of budget deficit 2021	**10%[69]**
Percentage of total outstanding external debt 2021	**2%[70]**
Percentage of repayment of foreign loan instalments 2021	**76%[71]**
Percentage of gross and international reserves at the CBJ	**2.4%[72]**
Percentage of total social assistance spending 2021	**126%[73]**
Percentage of health spending 2021	**35%[74]**

Source: Researchers' calculations, Jordan's selected official data.

In 2020, the budget deficit stood at JOD 2.973 billion (USD 4.19 billion, 9.5% of GDP), thus the SDRs represented 10% of the public deficit in that year. In 2021, the budget deficit was reduced from JOD 2.973 billion to JOD 2.534 billion (USD 3.57 billion, 7.8% of GDP). It remains unclear if this reduction in deficit is due to a retroactive allocation of the SDRs that were transferred to the government in early 2022 to the 2021 budget.[75]

There is limited public data available on how Jordan has used its SDRs so far. Until April 2022, most of the hard currency for which Jordan had exchanged its SDRs was held by the Central Bank of Jordan (CBJ). It had received the SDRs from the IMF and initially built up the CBJ's reserves as noted in the IMF third review under the Extended Fund Facility (EFF),[76] and confirmed in the CBJ 2021 Annual Report, which listed JOD 487.1 million as long-term liabilities.[77] However, the review report from January 2022 also noted that a decision still needed to be taken on the final use of the SDRs, but that «Any use of the SDR allocation should be monitored and reported in line with the best international practices of governance and transparency.»[78]

This phrasing in the review report referred to a decision that was pending at the Special Bureau for Interpretation of Laws[79] concerning a difference in opinion between the CBJ and the Jordanian government. The CBJ had rejected a request submitted by the Ministry of Finance (MoF) to transfer the SDR allocations that had been granted by IMF. The MoF then proceeded to submit a request to the Special Bureau to issue its interpretation of the law: whether the CBJ could keep the SDRs in reserves or whether they needed to be transferred to the treasury of the MoF. The Special Bureau eventually determined that the SDRs were received by the CBJ in its capacity as a bank for the government and its financial agent, which is why the Special Bureau argued that the transfer of the amount was to be made to the government to «spend in accordance with the goals set by the Monetary Fund in light of the pandemic.»[80]

«We deduce that the IMF SDR allocation according to Jordan's quota is a right to the State Treasury. It was deposited at the Central Bank as the Bank of the Government, and its financial agent. That said, then the transfer of this allocation to the treasury to be spent according to the objectives that have been identified by the IMF, in light of the pandemic, is in compliance with the article 13 of the Central Bank law.»[81]

A member of the Research and Studies Department at the CBJ explained that «usually, the general allocation [of SDRs] aims to support currency reserves in countries, but the last [2021] allocation's goal was to help countries overcome the effect of the Corona pandemic – and here was

69 Annual budgets 2020, 2021, Reports by the Ministry of Finance
70 Calculated based on: General budget department, Law No.(5) for the Year 2021, General Budget Law for the Fiscal Year 2021, available at: https://gbd.gov.jo/Uploads/Files/gbd/law-min/2021/en/3.pdf
71 Ibid.
72 In 2021, the international reserves of the CBJ including gold and SDRs stood at USD 18,043 million, CBJ Monthly Statistical Bulletin March 2023, available at: https://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=235
73 Social protection spending 2021 incurred by the Ministry of Social Development, National Aid Fund, The Higher Council for the Rights of Persons with Disabilities, Ministry of Labour (excluding the Social Security Corporation expenditures). Phenix Center (2023), ANND Social Protection Monitor Data Collection for Jordan, based on available budgets of these institutions.
74 Public health 2021 spending as combined from expenditures incurred by the Ministry of Health, the Royal Medical services, the High Health Council, the Jordan Medical Council, and the public Prince Hamzah Hospital, Phenix Center (2023), ANND Social Protection Monitor Data Collection for Jordan, based on available budgets of these institutions.
75 Annual budgets 2020, 2021, Reports by the Ministry of Finance.
76 IMF (2022), "Third Review Under The Extended Arrangement Under The Extended Fund Facility And Request For Modification Of Performance Criteria—Press Release; Staff Report; And Statement By The Executive Director For Jordan", available at: https://www.imf.org/-/media/Files/Publications/CR/2022/English/1JOREA2022001.ashx#:~:text=Washington%2C%20DC%20%E2%80%93%20December%2020%2C,US%24335.2%20million)%20immediately%20available.
77 CBJ annual report 2021
78 IMF (2022), "Third Review Under The Extended Arrangement Under The Extended Fund Facility And Request For Modification Of Performance Criteria—Press Release; Staff Report; And Statement By The Executive Director For Jordan", available at: https://www.imf.org/-/media/Files/Publications/CR/2022/English/1JOREA2022001.ashx#:~:text=Washington%2C%20DC%20%E2%80%93%20December%2020%2C,US%24335.2%20million)%20immediately%20available.
79 A department of the Jordanian Court of Cassation
80 Judgement published in the National Gazette. Article on the judgment available at: https://alghad.com/%d8%a7%d9%84%d8%ad%d9%83%d9%88%d9%85%d8%a9-%d8%aa%d8%b3%d8%aa%d9%81%d8%aa%d9%8a-%d8%a8%d8%b4%d8%a3%d9%86-465-%d9%85%d9%84%d9%8a%d9%88%d9%86-%-d8%af%d9%88%d9%84%d8%a7%d8%b1-%d9%88%d8%aa%d9%81/
81 National Gazette, 28 February 2022, Decision No. 2, 2022.

the problem.»[82] The member added that the main issue at hand was the Public Debt Law, which stipulates that the government may not borrow directly from the CBJ or the banking system, and likewise the legislation pertaining to the CBJ, which prohibits the bank from lending to the government. He further explained that the governor of the CBJ was afraid of breaching these laws.

The Chairperson of the Committee of Economic Affairs at the Jordanian Parliament, Lower House, assessed that the CBJ's hesitance to transfer the SDRs to the treasury was rooted in fears that it could negatively influence inflation rates and the mechanism that pegs the Jordanian dinar to the US Dollar. He then recounted that he «became convinced that if the aim had been to deposit [the SDRs] in the central bank to support the reserves, the IMF would not have announced that they are assistance to countries to overcome the Corona crisis.»[83] He pointed out that, at the time, he also reached out to IMF officials in Jordan for their opinion, who purportedly maintained that the SDR allocation was intended as financial assistance, not to support the reserves.[84]

On the other hand, the former minister of finance stated in an interview for this study that the best way to use SDRs would be to keep it as reserve in the CBJ and transfer specific amounts to the MoF in Jordanian dinar if needed to cover certain expenses. One of the experts interviewed for this study stated that «it seems that the Jordanian government set its eyes on that increase [of SDRs] and decided to withdraw the amount.»[85] However, he also stated that this approach was different to past approaches when Jordan requested loans from foreign countries, such as Germany and Japan, in return for its share in the IMF SDRs, in a way guaranteeing the loans and using the SDRs as a collateral.

The transfer of the value of the SDRs to the government was made in April 2022. As a result, the government has only been able to start spending the SDRs as of this year which might explain why some of the data on their use is not yet available. The IMF, in its fourth review under the EFF, confirmed in July 2022 that the «authorities have drawn the SDR allocation, and are using it for budget financing in lieu of higher domestic debt issuance (thus also boosting reserves).»[86]

However, more information on the use of the SDRs is currently not available, as is also unclear from the general budgets as adopted by the Jordanian government and parliament for 2021 or 2022. This might be due to the fact that the resources were only made available to the government after the 2022 budget law had been drafted. However, as a source from the MoF explained, the SDRs have been included in general state revenue and have been spent on several budget lines. A member of the Research and Studies Department at the CBJ stated that, to his knowledge, the SDRs were mostly spent on public health purposes, but it remains unclear in which year these SDRs were used as part of the general state revenue.

While the government is free to use the SDRs as it deems fit, one of the experts interviewed for this study advised: »In the end, it [the use of SDRs] is a debt and an obligation with interest, therefore it must be well managed.«[87] The latter statement is interesting as it points to an issue that remained pertinent throughout the key informant interviews that were conducted for this study.

Most experts, including those at the CBJ, wrongly considered the SDR allocation a loan. The government has, according to a CBJ staff member, considered the SDRs a good and cheap loan due to the low interest rate applicable to the SDRs, which at the time of allocation was at the floor of 0.05% (and has now spiked to 3.4%). He stated that the SDRs became part of the government's external debt payments.

Here it is important to underline that the SDRs are in fact not a loan. As stated earlier, SDRs do not need to be repaid, but countries bear costs if they use their SDRs in the form of the interest rate they pay to the SDR Department. Therefore, SDRs become «loan-like» as soon as they are used. However, different to ordinary loans, there is no maturity. The sum (principal) never has to be repaid, but the interest on the balance between SDRs held and SDRs originally allocated has to be paid as long as the SDRs are in use, which is why those interest payments may be accounted for in the governmental external debt payments.

The statements above illustrate that the nature of the SDRs might not be clear or to be understood by all of the parties involved, pointing to a need of all involved institutions to coordinate the receipt, use and long-term vision with regards to the SDR use and holdings. In effect, since the government has used all of its SDRs already, it will not be able to tap into the SDR reserves in order to finance future crises or urgent needs, unless it either increases its SDR holding by acquiring new ones, or if the IMF allocated new SDRs.

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82 KII with a member of the Research and Studies Department at the CBJ

83 KII with the Chairperson of the Committee of Economic Affairs at the Jordanian Parliament, Lower House

84 KII with the Chairperson of the Committee of Economic Affairs at the Jordanian Parliament, Lower House

85 KII with the former Deputy Prime Minister of Jordan and economist

86 IMF (2022), Jordan: 2022 Article IV Consultation and Fourth Review Under the Extended Arrangement Under the Extended Fund Facility, Request for Augmentation and Rephasing of Access, and Modification of Performance Criteria-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Jordan, available at: https://www.imf.org/en/Publications/CR/Issues/2022/07/13/Jordan-2022-Article-IV-Consultation-and-Fourth-Review-Under-the-Extended-Arrangement-Under-520668

87 KII with the former Deputy Prime Minister of Jordan and economist

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CONCLUSIONS

- The SDR allocation 2021 was the largest allocation to date and did address the need for global liquidity at the height of the COVID-19 pandemic, in line with the underlying principles of SDR allocations.

- However, the SDR allocation system is unfair and biased towards large economies. Decision-making in the IMF BoG is largely in the hands of those with a high percentage of voting rights, but those in need of extra liquidity have little say in the process.

- The SDR allocation 2021 falls short of the needs of lower-income countries. The SDR allocation system needs to be reformed along with the voting system in the BoG.

- The objective of the SDR allocation 2021, to provide direct relief to lower-income countries has only partly been achieved, as allocated amounts were too small to make a long-term impact.

- To date, only limited re-channelling of SDRs from higher-income countries to lower-income countries has occurred to date through official channels, despite the setting-up of new mechanisms such as the RSF and RST.

- Lending to other countries has taken place outside IMF mechanisms, but likely as a result of the SDR allocations. It appears that Saudi Arabia, the largest recipient of SDRs in the region, has used SDRs in own fiscal space but extended lending to Egypt and Pakistan with these resources. Both countries are strategically important for Saudi Arabia. It remains unclear if other countries have also received similar financing from Saudi Arabia. However, this analysis shows that it is unlikely that Jordan received any SDRs or any out-of-the-ordinary loans or grants from Saudi Arabia.

- The nature of the SDRs is such that member states may spend the SDRs as they deem fit. Most MENA countries have used the SDRs to address their IMF debt, or to consolidate their fiscal deficits or foreign reserves. Jordan used the SDRs as general revenue for its budget and accounts for the interest payments in its external debt payments.

- In Jordan, however, it remains unclear for which specific purposes SDRs were or will be spent. Despite the fact the IMF strongly encourages transparency of SDR use, hardly any information on the SDR use is available to the public.

- There is a disagreement between the CBJ and the MoF with regards to the best use of the SDRs. Economic experts and the CBJ would have strongly preferred to put the SDRs to long-term use in the form of CBJ reserves, instead of spending them on the general budget. However, all institutions are complying with the judgment that required the funds to be transferred to the government.

- SDRs are not specifically mentioned in the budget, but KIIs suggest that they are included under the heading «government revenue» and interest rate payments as «external debt».

- This study suggests that all institutional parties involved need to increase their understanding of the nature of the SDRs and coordinate a long-term vision for the use of SDRs in order to reap the greatest benefits from SDR allocations, instead of focussing on short-sighted gains to fill the gaps in the public deficit.

- As the SDR allocations do not happen regularly, Jordan will now have to find other sources of liquidity in order to finance its deficit, as all SDRs have already been spent.

- In order to comply with international best practices of public finance management and governance, the use of the SDRs should be made more transparent in order to monitor its use, and in order to set an example for sound fiscal management and build up citizen trust in institutions.

7

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ABOUT THE AUTHORS

Ahmad M. Awad is the founder and director of the Phenix Center for Economic and Informatics Studies, based in Amman Jordan.

He is a human rights defender and a researcher, with a particular emphasis on socio-economic human rights.

At the regional and national levels he has sought to promote and advocate for greater CSO involvement in decision -making as well as by conducting and supervising numerous reports, research, policy and position papers on a broad range of political and socioeconomic issues.

Anne Sting, LL.M. works as a project consultant and researcher at phenix Center. With a background in International and European Public Law, she has specialized in economic justice, sustainable development and decent work in Jordan and the Mena region in recent years.

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