

Box 1 Understanding the special drawing rights component of international reserve assets^{1,2}

South Africa's reserve assets are a major asset class on the South African Reserve Bank's balance sheet. The bulk of these assets falls under the category 'other reserve assets',³ while the balance consists of monetary gold⁴ and special drawing rights (SDRs).⁵ Although 'other reserve assets' continues to be the major category of reserve assets, the contribution of SDRs increased significantly in 2021 following the International Monetary Fund's (IMF) allocation of an all-time high general SDR. These international reserve assets are readily available to, and controlled by, the monetary authority (central bank) and are important for meeting balance of payments financing needs, intervening in foreign exchange markets to affect the exchange value of the currency and for other related purposes.⁶

This box focuses on the SDR component of South Africa's international reserve assets. The SDR⁷ is an international reserve asset created by the IMF in 1969 to supplement the official reserve assets of IMF member countries. SDRs are mainly held by the IMF and its member countries, but the IMF has the authority to approve other institutions such as central banks and multilateral development banks to hold SDRs, with 20 such organisations⁸ approved by the IMF as prescribed holders as at February 2023.

While the SDR is not a currency nor a claim on the IMF, it represents a potential claim on the freely usable currencies of IMF member countries. The value of the SDR is determined by a basket of these currencies, with the composition reviewed every five years. The Chinese renminbi was added to the basket in 2015 when it was deemed to have met the inclusion criteria,⁹ which increased the composition of the basket to

1 The compilation of South Africa's external accounts adheres to the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* published by the International Monetary Fund, available at <https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

2 This box relates to the statistics published on pages S-3, S-84, S-85, S-94 to S-107 and S-110 in this edition of the *Quarterly Bulletin*.

3 Other foreign exchange reserves include securities as well as currency and deposits.

4 Regarding the holdings of gold bullion with the monetary authority, gold is referred to as a financial asset on the central bank's balance sheet.

5 The International Monetary Fund creates SDRs, which are held by the monetary authorities of member countries as part of their reserve assets. These holdings can be converted into other currencies.

6 These include maintaining confidence in the currency and the economy as well as to serve as a basis for foreign borrowing.

7 <https://www.imf.org/en/Topics/special-drawing-right>

8 <https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr>

9 There are two criteria, namely the export criterion and the freely usable criterion. A currency meets the export criterion if the issuing country is an IMF member (or a monetary union that includes IMF members) and is one of the top five world exporters, while a currency meets the freely usable criterion if it is widely used in payments for international transactions and widely traded in the principal exchange markets.



five currencies, with the others being the United States (US) dollar, euro, Japanese yen and British pound. To prioritise work on the coronavirus disease 2019 (COVID-19) pandemic, the IMF's Executive Board postponed the five-yearly review of the currency basket and decided in March 2021 to extend the 2015 basket valuation to July 2022. When the currency basket was reviewed in 2022, the IMF's Executive Board decided to keep the current composition of five currencies in the SDR basket. However, the weights of the US dollar and the Chinese renminbi increased, while the weights of the Japanese yen, the euro and the British pound decreased, as shown in the accompanying table.

The SDR basket's currency composition and weights

Per cent

	US dollar	Euro	Japanese yen	British pound	Chinese renminbi	Total
2000.....	44.20	29.40	14.80	11.60	–	100.00
2005.....	42.92	34.14	11.48	11.46	–	100.00
2010.....	41.94	37.36	11.26	9.44	–	100.00
2015.....	41.73	30.93	8.33	8.09	10.92	100.00
2022.....	43.38	29.31	7.59	7.44	12.28	100.00

Source: IMF

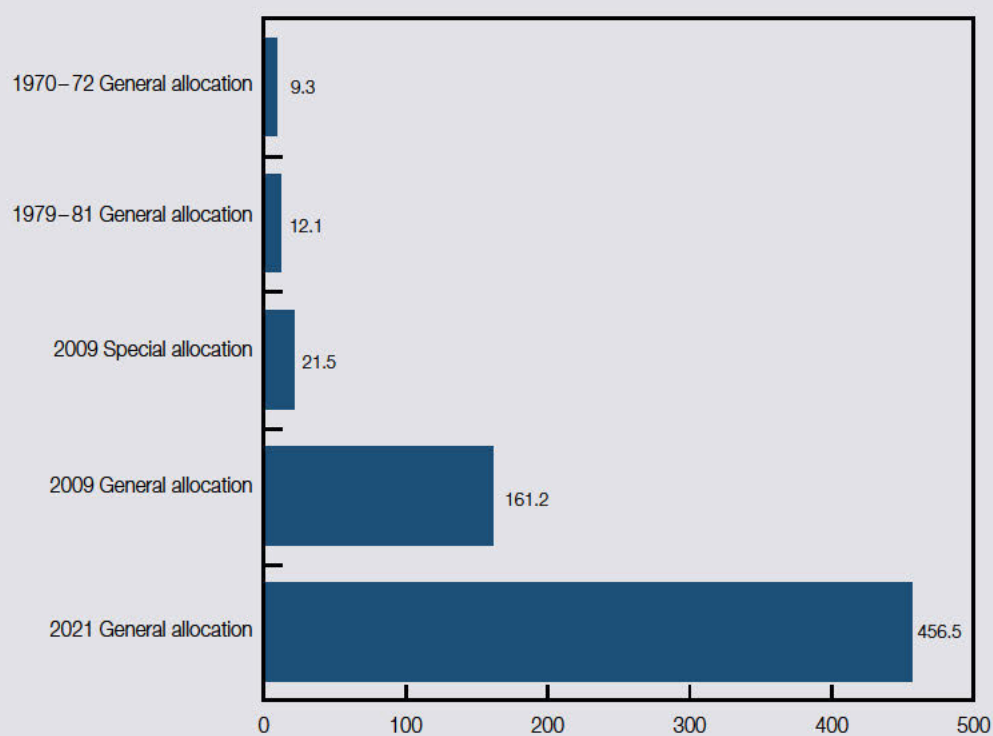
Since the SDR's inception, the IMF has made one special and four general SDR allocations, as shown in the graph on the next page. SDR allocations are made to meet a long-term global need to supplement existing reserve assets. The 2009 and 2021 general SDR allocations were made during the global financial crisis and the COVID-19 pandemic respectively. The purpose of these allocations was to alleviate severe liquidity shortages and fiscal pressures through building reserve asset buffers, thereby enhancing global financial stability and to mitigate the risk of global economic stagnation.

The IMF made the first general SDR allocation between 1970 and 1972, distributing a total of XDR9.3 billion over this period. The second general allocation occurred between 1979 and 1981, with approximately XDR12.1 billion allocated. In response to the 2008–09 global financial crisis, in 2009 the IMF made a third general SDR allocation of XDR161.2 billion and a one-off special SDR allocation of XDR21.5 billion to countries that joined the IMF after 1981 and had therefore never received an SDR allocation. In response to the COVID-19 pandemic, the IMF's Board of Governors approved the fourth and largest-ever general SDR allocation of XDR456.5 billion in 2021. Of this amount, Africa received XDR23.7 billion, with seven countries receiving more than 50% of Africa's total SDR allocation, including South Africa's 12% share of XDR2.9 billion (US\$4.2 billion).¹⁰

¹⁰ The IMF defines the value of the US dollar in terms of the SDR as the reciprocal of the sum of the equivalents in US dollars of the amounts of the currencies in the SDR basket, based on the daily market exchange rates of the five currencies included in the basket.

General and special SDR allocations

SDR billions



Source: IMF

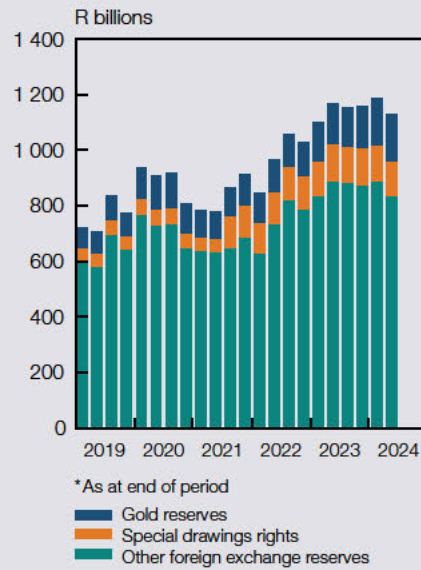
The 2021 SDR general allocation to African countries

Per cent

Country	SDR allocation (in millions of SDRs)	Per cent allocated
South Africa.....	2 924	12
Nigeria.....	2 353	10
Egypt.....	1 953	8
Algeria	1 879	8
Libya	1 508	7
Congo-Brazzaville.....	1 022	4
Zambia	938	4
Other.....	11 157	47
Total.....	23 734	100

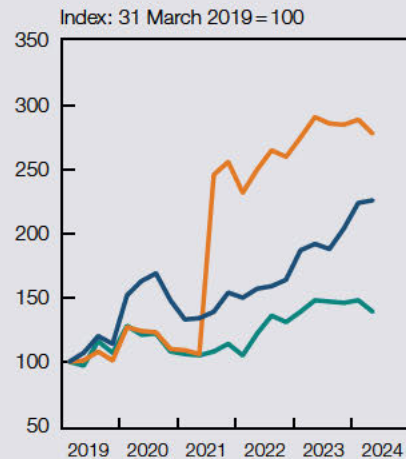
Source: IMF

Composition of South Africa's gross foreign reserves*



Source: SARB

South Africa's gross foreign reserves*



The most recent SDR allocation took place in August 2021 and increased South Africa's gross gold and other foreign reserves from US\$54.5 billion at the end of July 2021 to US\$58.4 billion at the end of August. Consequently, the end-of-quarter value of total gross foreign reserves, expressed in rand terms, increased from R778 billion at the end of June 2021 to R865 billion at the end of September, while the SDR contribution to total gross foreign reserves increased from 6.3% to 13.2%.

According to the IMF, an SDR allocation is a way of supplementing member countries' foreign exchange reserves, allowing members to reduce their reliance on more expensive domestic or external debt for building reserves. SDRs can be utilised for fiscal support and/or external financing needs or can be retained as part of reserve assets. Most advanced economies retained the allocated SDRs as part of their reserve assets, while also channelling some of their allocations to support other countries. Most emerging market economies also retained the allocated SDRs as part of their reserve assets, while some used them for fiscal support and debt repayments. Conversely, most low-income countries used the allocated SDRs for fiscal support and only retained a portion of the SDRs as part of their reserve assets.

The majority of SDRs are allocated to developed countries, based on their share of quotas in the IMF. The most important determinant of IMF quotas is the size of a country's gross domestic product (GDP), with the world's developed countries receiving the largest share of SDR allocations and the low-income countries receiving the smallest amounts. For example, the US received an XDR79.5 billion allocation in the 2021 allocation round, representing about 17% of the total SDR allocation, significantly more than the entire allocation to the African continent of XDR23.7 billion, representing 5% of the total SDR allocation.

However, in October 2021, the world's developed nations pledged to voluntarily channel US\$100 billion (20%) worth of their SDR allocations to support vulnerable countries, with US\$103.4 billion transferred as at June 2023. This was done through the IMF's Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust.

Countries' use of allocated SDRs as at April 2023

