



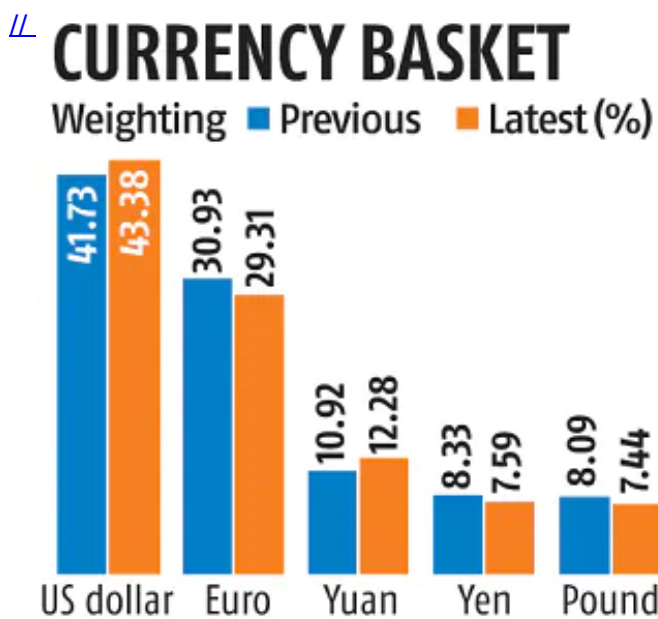
Special Drawing Rights

For Prelims: Special Drawing Rights, International Monetary Fund

For Mains: Important International Institutions

Why in News?

Recently, the **International Monetary Fund lifted the yuan's weighting in the [Special Drawing Rights](#) currency basket**, prompting the Chinese central bank to pledge to push for a further opening of its financial markets.



What are the Key Points?

- The IMF raised the **yuan's weighting to 12.28% from 10.92 %** in its first regular review of the SDR evaluation since the Chinese currency was included in the basket in 2016.
- The **weighting of the US dollar rose to 43.38 % from 41.73 %**, while those of **euro, Japanese yen and British pound declined**.
- The ranking of the currencies' weighting remains the same after the review, with the yuan continuing to be in third place.
- The change came amid a sharp depreciation of the yuan since late April, as **it faces a double whammy of slowing domestic growth because of Covid-induced lockdowns and capital outflows due to its widening monetary policy** divergence with the US.

What is Special Drawing Right?

▪ About:

- The SDR is **neither a currency nor a claim on the IMF**. Rather, **it is a potential claim on the freely usable currencies** of IMF members. SDRs can be exchanged for these currencies.
- The SDR **serves as the unit of account of the IMF** and some other international organizations.
- The currency value of the SDR is determined by **summing the values in US dollars, based on market exchange rates**, of a SDR basket of currencies.
- The SDR basket of currencies includes the **US dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi (included in 2016)**.
- The SDR **currency value is calculated daily (except on IMF holidays or whenever the IMF is closed for business)** and the valuation basket is reviewed and adjusted every five years.

▪ Quota (the amount contributed to the IMF) of a country is denominated in SDRs.

- Members' voting power is related directly to their quotas.
- IMF makes the general SDR allocation to its members in proportion to their existing quotas in the IMF.

▪ India's quota in IMF:

- In 2016, **IMF's quota and governance reforms took place**.
- According to which, **India's voting rights increased by 0.3% from then 2.3% to 2.6%** and China's voting rights increased by 2.2% from then 3.8% to 6%.
- Presently, **India holds 2.75% of SDR quota**, and 2.63% of votes in the IMF.
- **India's foreign exchange reserves** also incorporate SDR other than gold reserves, foreign currency assets and Reserve Tranche in the IMF.

What is the International Monetary Fund?

▪ About:

- The IMF was set up along with the **World Bank after the Second World War** to assist in the reconstruction of war-ravaged countries.
 - The two organizations were agreed to be set up at a conference in Bretton Woods in the US. Hence, they are known as the Bretton Woods twins.
- Created in 1945, the IMF is governed by and accountable to the 190 countries that make up its near-global membership. India joined in December 1945.
- The IMF's primary purpose is to ensure the stability of the international monetary system — the system of exchange rates and international payments that enable countries (and their citizens) to transact with each other.
 - Its mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

▪ Reports by IMF:

- **[Global Financial Stability Report](#)**
- **[World Economic Outlook](#)**.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Recently, which one of the following currencies has been proposed to be added to the basket of IMF's SDR? (2016)

- (a) Rouble
- (b) Rand
- (c) Indian Rupee
- (d) Renminbi

Ans: (d)

Q. Which one of the following groups of items is included in India's foreign-exchange reserves? (2013)

- (a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
- (b) Foreign-currency assets, gold holdings of the RBI and SDRs
- (c) Foreign-currency assets, loans from the World Bank and SDRs
- (d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

Ans: (b)

Source: BS

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