Transcript for G-24 Virtual Roundtable Discussion on "Options to Enhance the Role of Special Drawing Rights (SDRs) in the Global Reserve System”

[00:13:19.310] - Marilou Uy

Welcome to all and thank you for joining our first G24 webinar to discuss options to enhance the role of special drawing rights in the global reserve system. We have a good turnout with more than 100 registered participants. Colleagues, developing countries, including G-24 member countries, have called for multilateral cooperation in key areas to support critical efforts to cope with the severe health challenges and economic impact from the COVID-19 pandemic. The availability of adequate liquidity support is one area of priority. Today, we will discuss the important role of one instrument the IMF Special Drawing Rights in boosting global liquidity at this time. The G-24 has been a longstanding advocate for enhancing the role of SDRs in international cooperation. Recently, the Group, in its April 2020 communique, sought continued discussions at the IMF on a new general SDR allocation as what was done in 2019 during the global financial crisis.

[00:15:04.150] - Marilou Uy

Now to start, we have distinguished speakers who have kindly agreed to be with us today, thought leaders in the area. It is an honor to have our G-24 chair, Minister of Finance Kenneth Ofori-Atta join us and provide opening remarks. We also have with us Jose Antonio Ocampo, professor at the School for International and Public Affairs, Columbia University, and former Minister of Finance of Colombia and U.N. Undersecretary General for Economic and Social Affairs. We also have Ousmene Mandeng, Senior Advisor, blockchain and multiparty systems at Accenture. Next speaker is Kevin Gallagher, Professor Pardee, School of Global Studies and director Global Development Policy Center in Boston University. Rakesh Mohan, Senior Fellow, Jackson Institute for Global Affairs, Yale University, distinguished Fellow for Brookings India and former Deputy Governor for Reserve Bank of India and Executive Director in the IMF.

[00:16:06.040] - Marilou Uy

We also have with us to country discussants to kick off the discussion and the Q&A. We have Ms. Veronica Artola, General Manager of the Central Bank in Ecuador and Gerardo Zuniga, Director of International Affairs at Banco de Mexico. After our country discussants speak, I will open the floor to questions and interventions. And on this, let me provide some brief logistical instructions. If you have questions and logistics at any point during the meeting, please let us know through the chat function of Zoom. Just to repeat the chat function. If you wish to ask questions using audio and or video access, please raise your hands using the raise your hand tool on your zoom. Please wait until the moderator calls on you to take the floor. You have the option to keep your video on or not. Alternatively, please write your comments using the Q&A function. They will be directed to the panelists in the order they are received. For those who dialed in by phone, please send your questions via email to the G24 Secretariat at G24@G24.org or WhatsApp at +1-630-901-6445. Please do identify yourself as well. So, with that instructions, let me now give the floor to Minister Ken Ofori-Atta to open the session. Minister.

[00:17:37.280] - Minister Ken Ofori-Atta

All right. Well, good afternoon from here. And Marilou, thank you very much for getting this organized. It's such a crucial issue, the SDRs in the light of the whole global financial architecture and therefore, you know, fundamental question as to whether this architecture is fit for purpose, for the current extraordinary events that we are enduring and for the future as we see it.

[00:18:11.580] - Minister Ken Ofori-Atta

So, G-24 colleagues and fellow panelists, I really warmly welcome all of you for this timely discussion on special drawing rights. As you know, policymakers from many developing countries, including G-24 members and African ministers of finance, have collectively called for a meaningful new general allocation of SDRs and a more effective use of existing SDRs to cushion the financial impact of COVID-19. Colleagues, we are going through a very difficult and uncertain time. The IMF now estimates global GDP to decline by 4.9 percent in 2020, a sharper fall then what was just envisaged some three months ago. 90 percent of developing countries, including countries in sub-Saharan Africa, will register negative capital growth rates, which could set back progress in poverty reduction and human development.

[00:19:15.670] - Minister Ken Ofori-Atta

In fact, most of African countries will lose about five percent growth tail spinning us into negative growth this year. To address the impact of COVID-19, policymakers continue to implement exceptional policies. The financing needs are enormous with IMF estimating about 2.5 trillion on the low end for developing countries. We need to continue to increase spending on health, social protection, and support to private firms to keep them afloat and secure jobs at the same time that exports foreign investment, portfolio flows, remittances and other financial sources are drying up.

[00:19:59.320] - Minister Ken Ofori-Atta

It is clear that external support for new financing as well as debt relief is necessary to alleviate immense financing pressures that greatly limit our policy space and room for maneuver. For example, African countries would welcome the efforts of development partners, in complementing our response to the shock of the COVID-19 pandemic, but when the G20 met and then published an action plan, the IMF managing director did reiterate the need for 2.5 trillion in the communique.

[00:20:42.160] - Minister Ken Ofori-Atta

She actually stated, we stand ready to act promptly and take any further action that may be required. We reiterate our commitment to use all available policy tools to safeguard against downside risk and ensure swift recovery and achieve strong, sustainable, balanced, and inclusive growth while continuing to tackle the global challenges. It also said, we reiterate our commitment to ensure a stronger global financial safety net. While the overall figure for needs cited by the IMF was 2.5 trillion, multilateral and bilateral creditors have pledged about USD 57 billion in financing and relief to Africa. While these funds constitute a good start, additional resources are required to support the African continent to building up its health systems and capacities, as well as widening social safety nets. A global coordinated response that provides adequate support to developing countries is essential. African ministers collectively asked the G20 to urgently consider a hundred billion financing package for Sub-Saharan Africa. G-24 member countries also stressed the urgency of fully leveraging the financial firepower of multilateral development banks and strengthening the global financial safety net to backstop liquidity needs before they turn into solvency crisis.

[00:22:21.170] - Minister Ken Ofori-Atta

The G20 plan said that… Let me actually backtrack a bit, because if one looks at what happened in 2011 to the eurozone debt crisis, when it lands at a scale that even dwarfs current limits, eurozone members in the IMF agreed to bailout packages of 110 billion euros to Greece, approximately eight percent of its GDP, 78 billion dollars for Portugal, approximately 32 percent of GDP, and 67.5 billion for Ireland approximately 28 percent of its GDP. Even though that crisis was smaller and arguably more home grown than the current one, as Ricardo stated in its in his article. So, based on the volume of financial support Africa received during this pandemic, there’s a sense that the West is normalizing for Africa, or rather enacts exceptional interventions for its peers. If we are to come anywhere near to the 2.5 trillion that the IMF say is needed, there should be an additional allocation of around 500 to one trillion in SDRs for emerging economies: one tranche in 2020 and maybe a second tranche in 2022, and in particular, those in the poorest countries. The SDR, as we know, was created to provide the final instrumental enhance global liquidity. At this critical time of COVID-19, a new, meaningful general allocation of SDRs would provide valuable additional liquidity support.

[00:24:15.130] - Minister Ken Ofori-Atta

We should continue to make a strong case for this whilst recognizing that this can happen only if further political will is mustered, especially in the US. We are heartened by George Soros’s intervention and the softer stand that seemed to suggest that we can begin to aggregate SDRs that have not been used close to 200 hundred billion and to then find a reallocation formula for countries that need it. We recognize that the SDRs are falling short of their potential and should therefore call for reforms to make it a more effective instrument in the global reserve system.

[00:24:59.560] - Minister Ken Ofori-Atta

In this regard, I look forward to today's discussion of options that we should put on the table. Finally, my hope is that the global community will overcome the imbalances in the existing global financial architecture to put in place a global response to COVID-19, that provides sufficient support to developing countries. And going forward, we need to continue to work together to put in place a much needed, inclusive system of global financial governance. Thank you very much for this. And I truly look forward to a very engaged and spirited discussion. Thank you.

[00:25:40.640] - Marilou Uy

Thank you very much, Minister. And I really appreciate your opening the session and joining us today. Without much ado, let me turn to our panelists, starting with Jose Antonio. Jose Antonio, you have been a longstanding thought leader in the reform of the international monetary system. In the context of the global response to the pandemic, you have joined a number of policymakers and opinion makers in calling for a major issuance of the IMF's SDRs now. What will a new allocation mean to IMF member countries? What has been the experience so far in the use of SDRs. Jose Antonio, you have the floor.

[00:26:27.420] - Jose Antonio Ocampo

Thank you very much, Marilou, and thanks to the Chair of the Group of 24 for being with us, and of course for all the panelists, friends of mine from a long time. I'm very happy, of course to be able to participate in this discussion of the Group of 24.

[00:26:50.790] - Jose Antonio Ocampo

Let me say that I have been a both cooperating with the G-24 in a technical capacity, but also was a member of the group representing my country in the Group of 24 meetings until last year. So, he's really happy to be with you today. Let me actually share some a small presentation to answer the question said by Marilou. So, the first thing. Excuse me for me, there's a problem here, one second.

[00:27:38.250] - Jose Antonio Ocampo

Well. OK. So, let me say that the SDRs are, of course, an important reserve asset, which is particularly important for emerging and developing countries. And they can play a very important counter-cyclical role as in previous crises. They say, for example, for Latin America, my region, they issued 500 billion that we proposed with Kevin in March, will increase, say, the foreign exchange reserves or Latin America by five percent would be equivalent to about 40 percent of the net capital inflows that the region receive last year.

[00:28:49.210] - Jose Antonio Ocampo

It is also the only means by which most countries in the world are sharing the seigniorage of issuing international money, which is of course the privilege of the of the US and the euro area. They all operate in a very funny way. They were designed as both an asset and liability. So, in a sense, they could also be understood as kind of a conditional overdraft facility that they have in the IMF. The criteria for allocation, according to the IMF, has been that it should be a long-term need of a global kind to complement other reserve assets.

[00:29:29.880] - Jose Antonio Ocampo

In fact, all other estimates that had been done, which basically argued that there could be an issuance of around 200 billion dollars a year are or even in some cases up to 400. Even those issues will only lead to a share of SDRs something like 50 percent or so in 10 years. So, in fact, you know, they really complement the fact that there is no risk that the dollar or the euro will be challenged by the rise of SDRs.

[00:30:04.320] - Jose Antonio Ocampo

But as I point out in the last line here, it is one of the most underutilized instruments of international cooperation, which is a point that I have made in my writings on this topic. Now when you see the history of the allocations, the three major allocations: the one in 2009 included the previous allocation that had not been approved by the U.S. Congress. But, in the case of the share of particular middle-income countries has been increasing, but that of low-income countries has actually been decreasing.

[00:30:42.400] - Jose Antonio Ocampo

But in total, the middle- and low-income countries received about 40 percent of the allocations in 2009, and that's how much they will get out of the say, 500 billion, they would be receiving, let's say, 200 billion dollars. Now, the SDRs are transacted essentially among IMF members. This is my estimate of the history of how much had been used, which is what I call the SDR market. The SDR market has actually worked well through history. There has never been a need for an intervention by the IMF managing director, which is a possibility that is in the agreement. So there has always been buyers, let's say, of the SDRs from the countries that want to sell them. Now you see, basically they have been increasing after every single allocation. You can see the significant increase after the 2008 allocation, which, you know, peaking around 35 billion dollars in 2015 and then falling to about 30 billion dollars last year. As a proportion of the total allocations of gold in 2009, which is the largest allocation in history, led to a significant reduction, but before that, you can say that about 40 percent of the allocated SDRs had been used. May I say that they had been used by both developed and developing countries. Even the United States used the SDRs during its 1980 crisis, and many, many other developed countries had been using. The reduction was of course significant after their allocation, but again, it increased again and it’s around 15 percent of the existing allocations.

[00:32:39.680] - Jose Antonio Ocampo

Now, by countries, by regions, by country by level of development, this is my estimate of who are the net holdings. So, you can see here the U.S., Japan and China are net buyers of SDRs. Japan is probably the largest individual net buyer of SDRs, and the rest of the regions are users. The case of other OECD is actually because many members of the European Central Bank put their SDRs into the European Central Bank. So that is overestimated, but even countries like Saudi Arabia that is high income and non-OECD also are net users of the SDRs. The two largest users of SDRs are in low income countries, which, according to my estimates, at the end of last year were using about 56 percent of the SDRs, and middle income countries, excluding China, which were using around 24 percent. So, there is a very widespread use to actually of SDRs. And I said, you know, since I have reconstructed this through history, I can tell you that many, many, many countries have used SDRs through history.

[00:33:50.570] - Jose Antonio Ocampo

Now, what can we do, which is the topic of this panel, to expand the use of SDRs? So one, in the proposal that we made with Kevin and Ulvich for this mission, we said that as a possibility, the countries that don't use their SDRs could put their money in the hands of others to use it. There are, I think, two alternatives. The first one is that they could put their money in trusts such as the PRGT of the IMF, finance debt relief, for example, funding the CCRT and similar mechanisms that could be created actually in multilateral development banks, or for development assistance in general, which has been a proposal since the creation of SDRs. Or they could put in a fund, which is really our proposal with Kevin, in a specific fund, which has the capacity of the IMF to lend to countries.

[00:35:07.720] - Jose Antonio Ocampo

So, in a sense there will be an alternative to the New Arrangements to Borrow, or a way of financing in a parallel mechanism to the New Arrangements to Borrow. Those are the alternatives that, in our view, are consistent with the existing articles of agreement. But of course, the articles could be reformed, in positive ways, and these are three possibilities that I add here. The first one it is what I call a more radical reform, which is actually to consider the SDRs that are not used by countries as deposits in the IMF, and then the IMF could use it to lend to countries.

[00:35:56.540] - Jose Antonio Ocampo

The second alternative, which had been a discussion actually since the 1960s, is to design a mechanism by which the allocation of SDRs to developing countries would include criteria additional to quotas, which is the way they are allocated today. So, there are many possibilities. So, Williamson, for example, made a proposal many years ago basically saying 20 percent go to high income countries and 80 percent to developing countries, and then within each of those groups, they will be allocated according to their quotas. The other alternative that I have recently suggested is that since developing countries have a much higher demand for foreign exchange reserves, the demand for reserves should be an additional criteria in the allocation of SDRs. And finally, which is the other possibility which had been suggested by many others through the decades is to allow private holdings of SDRs, even in a limited way.

[00:37:11.370] - Jose Antonio Ocampo

For example, I have suggested that the foreign reserve requirements of banks in different central banks as one limited mechanism. But anyway, there could be many, many other ways in which you can think of allocating. Actually, the previous Managing Director even talked about using the SDRs as electronic money, which is of course a possibility that should be discussed. With this, I conclude my presentation. Thank you very much.

[00:37:44.760] - Marilou Uy

Thank you very much, Jose Antonio, for this highly informative presentation and also very concise. Thank you. Let me now turn to Ousmene and I think this is a good segway. Jose Antonio's presentation and conclusions gave a good segway to Ousmene's speaking points. You've also expressed the view that the SDRs are a potent instrument to boost global liquidity, but also emphasized the need for changes in the system to increase the attractiveness and use of the instrument. Can you share with us your views and elaborate on this on this view for our audience? Thank you.

[00:38:25.020] - Ousmene Mandeng

Thank you very much, Marilou. And I'm most grateful to the organizers for the opportunity to present to you today. The COVID-19 induced crisis has reinvigorated calls for the IMF to mobilize more resources, and as has been done here on the call, many IMF members want this to include another SDR allocation. I share the urgency for additional resources, but I'm very skeptical as to the utility of another SDR allocation, in large part due to the fact that the value of SDRs use is simply very small.

[00:38:59.790] - Ousmene Mandeng

The risk is that a lot of scarce political capital would be spent with little, if any, practical effect. I will therefore focus on what changes are needed to make the SDR more attractive as a reserve asset and will argue that those should have priority over, or at least accompany, any new allocation. The SDR is a fascinating and unique instrument. It is an unconditional credit line, Jose Antonio already explained it, that can be used to obtain foreign exchange. Like a bank it’s creating money by issuing a loan.

[00:39:32.130] - Ousmene Mandeng

The IMF issues SDRs by allocating an asset and a liability in the same amount to participants in the IMFs SDR department that is contingent only in the event the IMF cancels SDRs. Unlike a loan, in principle, an SDR never has to be paid back. It is the ultimate form of money creation. The SDR has evolved in its intended role. SDRs are valued on the basis of a basket of currencies and pay interest at market rates. The composition of the SDR allocation basket itself is a reflection of how the IMF’s views have shifted as to what the SDR should be.

[00:40:11.220] - Ousmene Mandeng

The basket has changed from 16 currencies 1974 to five in 1981 to four in 1999, with the adoption of the euro and in 2016 to fight again with the inclusion of the renminbi. The SDR has started as an asset that should be representative of the number of economies in different parts of the world and not be unduly influenced by the currencies of the largest countries. It later became, amid considerable controversy and asset meant to compete with the major reserve assets and to become a unit of account for the private sector.

[00:40:46.740] - Ousmene Mandeng

It never became a serious competitor to any main reserve asset. The relevance of the SDR is questionable. The SDR has been around since 1969 and has remained mostly insignificant as an international reserve asset. While SDRs increase foreign assets, and for some countries, may indeed matter with 204 billion SDRs outstanding, it only represents about two percent of central bank foreign exchange reserves. The 2009 allocation, while important, has affirmed what has been known for some time, namely that SDRs are not really used very much. During the global economic and financial crisis, looking at net uses of SDR, that is a reduction in net SDR holdings of the 2009's SDR allocation of 183 billion SDR, only 1.2 billion was converted into foreign exchange. Since December 2019, to mark the emergence of the COVID-19 induced crisis, declines in holding of SDRs through May 2020 were at 2.6 billion, of which emerging markets, excluding EU countries, reduce their holdings by only 1.7 billion.

[00:41:58.710] - Ousmene Mandeng

The SDR had a troubled history. The idea to issue more SDRs should be accompanied by a review of what went wrong. In 1989, IMF executive director Alexandre Kafka famously noted, “as long as the Fund membership does not have more enthusiasm for the SDR than it has shown recently, the Fund's own basket currency can only remain a basket case.” The remarks followed renewed consideration to enhance the role and attractiveness of the SDR during the 1980s, including through a substitution account.

[00:42:32.190] - Ousmene Mandeng

The 2009 allocation has not changed that. There are obvious and well-known obstacles to the SDRs utility. Allocations are small and obtaining needed majorities for allocations is cumbersome and lack flexibility, the SDR can only be used for transactions within the IMF and some designated agencies, so-called prescribed holders, and trading is archaic and liquidity hugely constrained. For the valuation of SDRs as the currency basket composition that appears arbitrary and its price is not subject to market forces. The IMF relies on voluntary trading arrangements to offer SDR liquidity with a capacity of only about 83 billion.

[00:43:12.710] - Ousmene Mandeng

The market, and is my impression, central banks are struggling to view SDRs as usable foreign assets, implying that any significant effect from holding SDRs is very small, at best. Now, what could be done to make it more attractive? The IMF has led repeated debates about proving the attractiveness of the SDR, notably during the 1980s. The proposed changes included adjusting the SDR interest rate and valuation method so that the SDR can be marked to market, notably by allowing continuous exchange rate and interest rate fluctuations to be reflected in the price, increasing liquidity by simplifying transactions and allowing brokerage activities, enlarging the number of SDR participants, possibly including commercial banks, encouraging central banks to accept SDR denominated deposits from commercial banks, allowing the Fund to maintain a buffer of SDRs and usable currencies to adjust demand and supply and act as a market maker. The IMF to issue debt denominated SDRs increased promotional steps as the SDR is shackled with an unfortunate name, as the IMF staff put it. In 1982, the staff concluded for the SDR to achieve a broader role envisaged by the Second Amendment of the Articles of agreement, its yield and value must be market based, and its uses must be wide ranging, simple, and as well understood as possible. At the time, though, only very few of the proposals were adopted. Some may require amending the articles of agreement, and by possible, it would require considerable effort. Nonetheless, the debate about improving the SDR should start there. To enhance the attractiveness of the SDR, three conditions, I believe, need to be met.

[00:45:07.480] - Ousmene Mandeng

1) The SDR basket should be increased to hold a large number of currencies to position the SDR as a highly differentiated reserve asset; 2) the SDR should be marked to-market, and; 3) commercial banks and other financial sector intermediaries should become prescribed holders of SDRs. A broad SDR evaluation basket would make the SDR more difficult to replicate, and as such adds value to what's foreign exchange reserve diversification. Rather competing with reserve assets, the SDR would complement them. If it contains several smaller currencies, some of which may be more difficult to access and are less liquid, it would add value.

[00:45:48.110] - Ousmene Mandeng

A valuation based on current market exchange rates would help its use as unit of account and analyzes its value as a financial product. The increase in SDR participants would strengthen prospects for greater market liquidity and spur interest by the private sector. To conclude, to make the SDR matter, some proposals that were considered too radical in the past should be revisited today. Without changing many of its key features, the attractiveness of the SDR will remain huge. The large SDR allocation is unlikely to change that. The focus, therefore, on the SDR should be on needed changes. Its strength is being a very different instrument from conventional reserve assets. Thank you, I'll leave it there.

[00:46:36.850] - Marilou Uy

Thank you, Ousmene. Very provocative set of comments, but it is quite clear that there is a need to reform the SDR system to realize its full potential. Now, since you spoke about the political economy od SDR issuance and political capital, let me now turn to the political economy of SDR issuance. So, I’ll pose a question to Kevin: The decision and a new SDR allocation will depend on obtaining the required support among the IMF member countries and a critical voice, of course, is the United States. What obstacles lie behind the recent U.S. opposition to a new SDR allocation and how might that be overcome? If the US does change its policy on SDRs, what kinds of congressional policies and dynamics might arise?

[00:47:26.570] - Kevin Gallagher

Kevin, thank you very much, Marilou. And thanks to the G-24 Secretariat for setting this up, the Minister and my fellow panelists, and all the participants. I want to be clear that while I'll answer this question about the United States, I'm not affiliated with the current U.S. government, nor do I support their public position on SDRs at the moment, but it is changing. I guess, to summarize my point: Setting up a redistributive mechanism within the IMF, where nations could voluntarily on lend their SDR is for use by developing countries, would alleviate the main concerns that the US has voiced about new SDR allocations. Such a trust could be set up A) without a new allocation for starters now and/or B) alongside a new allocation, which would be optimal in my opinion. Currently, the IMF has only approved 77 billion dollars and full participation in the DSSI would only be about another 12 billion.

[00:48:28.980] - Kevin Gallagher

The Repo facility that the Fed set up and the Fed swaps only reach another small handful of emerging market and developing countries; and, like the Minister said, falling far short of the 2.5 trillion dollars that the IMF itself has said that is urgently needed. And the SDRs can play a key role, but the United States, has been the most vocal country, holding back movement on that. The US continues to be under pressure to support an SDR allocation, and while their official position is yet to change, there is lots of signs that the United States may come around. There are five arguments that the US has been publicly making, either in the Treasury or in parts of Congress. And let me list them out. Number one is that the SDRs will support nations that the United States is at odds with. I don't need to mention the names of the countries, but they aren't interested in helping certain countries that the US is in conflict with.

[00:49:34.250] - Kevin Gallagher

Number two, SDR allocations do not come with conditionalities and that the U.S. would be seen as encouraging profligacy. Number three, with SDR allocations, more SDRs flow to countries that don't need or use them, than to those that will need or use them. And the last two are from smaller constituencies, what some might call more fringe elements of Congress, but they're still loud and have an ear in the present administration. So, the number four is that new SDR allocations would lend support to the notion that SDRs should form more of a center of the global monetary system and potentially dethrone dollar hegemony.

[00:50:17.330] - Kevin Gallagher

And the fifth one is that a new SDR allocation would increase inflationary pressure in the world economy. So those are the five concerns that the US has voiced. The first three are the ones that we hear the Treasury Department and the executive directors voicing at the board. Each of these issues could be addressed with the establishment of a trust within the IMF where countries that would not deploy existing or new SDRs could on lend them to developing countries. In fact, this was recommended in the Eminent Persons Report just a few years ago.

[00:50:49.040] - Kevin Gallagher

This could be done with or without a new allocation of SDR. Indeed, the argument can be made to set up a mechanism now so that it would be shovel ready when, and if hopefully, a new allocation comes. And there's real precedent here the PRGT, or the Poverty Relief and Growth Trust, within the IMF is already partly financed by voluntary contributions of SDRs by China, Japan, the United Kingdom, France, the equivalent of only about 8 billion dollars. Having such a redistributive mechanism would alleviate some of the US concerns in a number of ways.

[00:51:27.620] - Kevin Gallagher

Number one like the PRGT, the SDRs in the trust would be made available to countries upon request. And like any other program, require a board vote. Thus, if the IMF membership or the one country with veto power thought that a particular country was unfit to receive those SDRs, they could reject that request. And that nullifies the U.S. concern about certain countries not being able to be receiving them. Number two, if the board thought that a country didn't have the capacity to use the new SDRs in an efficient manner, they could choose to have it go through one of its programs as the PRGT does, rather than a condition free allocation. The PRGT is a vehicle to just make the terms of different programs more affordable.

[00:52:18.700] - Kevin Gallagher

And by definition, the creation of the redistributive mechanism nullifies the concern that SDR will go to the wrong countries. Indeed, those countries can actually make money by on lending their SDRs to such a trust for use to the poor and allow nations to contribute their SDRs to the trust or earn returns while helping poor countries. It would also relieve mounting pressure on the private sector to play a larger role through debt relief, as we know as we watch the Argentine situation. They are highly reluctant to be engaged in debt relief, and there is mounting calls through SDRs, those debts could be repaid, and it would also help avoid credit downgrades that are associated with the debt standstills. The less serious concerns about supplanting the dollar and inflation are coming more from fringe voices in Congress, but those voices do have ears in the Trump treasury. Of course, even trillions in SDR would not impact the dollar, but likely bolster it.

[00:53:21.120] - Kevin Gallagher

And in terms of inflation, we are yet to see rampant inflation after over 11 trillion dollars of advanced economy stimulus and expansionary monetary policy. So, the kinds of financing that we're talking about adding through SDRs just wouldn't have that impact. And there's a great IMF paper by Richard Cooper analyzing the inflationary potential of SDR, which comes to more detailed and technical conclusions. So, let me just move to some of the political issues.

[00:53:50.050] - Kevin Gallagher

So, if and when the United States changes its official position, what would the obstacles be for implementing it in the United States? A redistributive mechanism alone would require a board vote at the IMF and would likely be hard for the US to vote a veto with the arguments that I just made and articulated. Indeed, we have some off the record confirmation that such a mechanism would not be blocked by the US. And there's already conversation about expanding the CCRT or the PRGT through redistributed SDRs. A new allocation would require a board vote, but not a change in the articles of agreement, which is important to understand, and it would have to establish that there is, as Jose Antonio Ocampo said, a global need for additional reserve assets. And indeed, a new allocation, the board vote for that, could be coupled with the creation of a trust at the same time. Another option would be that (obviously, if there is a new allocation that came with a redistributive trust mechanism), if the new allocation is above the US quota at 680 billion dollars roughly, then it would require an act of Congress or legislation.

[00:55:10.400] - Kevin Gallagher

A new allocation of less than 680 billion is thus much more likely in an election year. But in the New Arrangements to Borrow reallocations were slipped into the first stimulus package and largely went unnoticed, so a larger allocation isn't out of the question, but highly unlikely given the US situation. If the US decided to participate in the voluntary distribution trust, even though it wouldn't have to, then the amount that the US on lends to the trust is a budgetary allocation and needs congressional authorization.

[00:55:51.150] - Kevin Gallagher

Even if this U.S. simply allowed a redistributive mechanism and didn't participate in it, and voted for a new SDR allocation, but decided not to or it was stopped by Congress, to contribute to the mechanism, it would still play a vital role. And as nations build arguments at the board and so forth, it might not be prudent to criticize the U.S. if they didn't want to put their SDRs in given the fact that most of the SDRs when they're used, would be swapped for dollars, the United States will play a key role as the dealer to provide those funds. And indeed, when there was a discussion of using SDRs in Europe in 2012 when there was a possibility that the EU was going to use SDRs to help Greece, the United States decided that they weren't going to use some of its SDRs, but it offered obviously to be the dealer and to facilitate and intermediate the financing.

[00:56:56.760] - Kevin Gallagher

So, in some, an optimal solution is to create a new allocation along a redistributive trust mechanism. That's probably the way to get the US involved and that it's probably prudent to try to create a redistributive trust mechanism now, so it's shovel ready before an allocation. The PRGT and the CCRT are useful but would be restricted to just some members in need. As Jose Antonio showed, and as we all know from looking at the numbers, there's a large number of middle-income countries, lower middle income countries that aren't part of the Fed Swaps, aren't part of some of these special debt stand stills that are really in need like Ecuador that I know is on this call. A new allocation would give an injection of fresh, non-conditional liquidity. The redistributive mechanism would supplement that finance and have procedures to buffer some of the US concerns. The US would not have to participate as a donator or an on lender, if the executive branch or Congress didn't want to, but could play a vital role as a dealer for SDR use. Thanks so much.

[00:58:01.050] - Marilou Uy

Thank you very much, Kevin, for outlining the complexities of the political economy of an SDR allocation and distribution. So, let me turn to Rakesh. We've focused a lot on options, mechanisms on how to use SDR. So, I just turn to Rakesh to step back a little bit and give us some broader considerations on the SDR and the role of the IMF.

[00:58:35.070] - Rakesh Mohan

Thanks very much, Marilou and to G-24, for inviting me to this discussion. And it's a real pleasure to have the presence of the chair of the G-24 in this call. So, my comments are really much point to a supplement, particularly to Jose Antonio Ocampo and Kevin Gallagher very detailed proposals. As Marilou said, I wanted to just broaden the discussion to just remind ourselves actually on why the SDRs were founded in the first place.

[00:59:09.050] - Rakesh Mohan

And even though that may not be as relevant to the immediate needs of which Jose Antonio Kevin are focusing on, but I think, it is useful to remind ourselves that. So, in some sense, a broader, longer term view needs to be looked at simultaneously with the current urgent needs for the expansion of the SDRs. So the realist here, as a rule, is really from the old Triffin level in that as the global GDP, as a global economy expands, there will be a greater need for reserves of central banks and greater need for expansion of money supply globally.

[00:59:49.340] - Rakesh Mohan

And as the U.S. dollar does remain, the main reserve currency, what that implies really is that the US then has to keep piling up greater liabilities for the other countries to then have assets in terms of foreign exchange reserves. And so, the objective, of course, is not been that effective, as other commentators have said this morning. That is, the expansion of the SDR does imply an expansion of instruments of global liquidity. Now, looking at the longer term, we can expect that the emerging market weight in the global GDP will continue to increase.

[01:00:34.070] - Rakesh Mohan

There's been already a very large expansion in the rate in the last 20 years and this has continued to increase because we can expect to, abstracting in some sense on the current COVID-19 crisis. We can still expect that the EMEs and low income countries GDP to keep expanding in the next 20 years, whereas in the West that is, Europe and North America combined are not likely to grow at much more than two percent or something of that order. And therefore, the weight of the EMEs and LICs will continue to expand.

[01:01:13.130] - Rakesh Mohan

Which does mean that their money supplies need to expand, hence the balance sheets of their central banks will need to keep expanding. Which does mean that as long enough to keep their own fiscs in order in the sense of there could be a limitation on the supply of government securities in their own countries to expand the central bank balance sheets, that they will need more assets. And to some extent, therefore, if the SDR does become much more effective in some other ways, that Jose Antonio and Kevin have outlined, then the SDRs could actually have a larger role in the next five, 10, 15, 20 years in terms of the liquid assets of central banks in their balance sheets.

[01:01:59.210] - Rakesh Mohan

Now, this at the moment on its own sort of theoretical, it might sound irrelevant, but I do think it's important to keep in mind the original objective of setting up SDRs and the possibility that in the next five, 10, 15, 20 years, that objective might actually become much more important. And of course, as a very low-cost way of doing this, that it is this SDR do have a much lower cost as opposed to piling up foreign exchange reserves.

[01:02:28.820] - Rakesh Mohan

And finally, in this particular context, that one of the comments that was made was that look, there's been no there's no signs of inflation. In fact, there's lots of signs of deflation and not just because of COVID, but because of other reasons as well, partly to do with demographics in the West. So, the SDRs can also allow for global liquidity expansion. Global liquidity in the time of deflation, which could be happening. Of course, all of these are conjectures.

[01:03:02.000] - Rakesh Mohan

But they need to be kept in mind, to my mind, in terms of understanding. Look, understanding the reality that the SDR expansion has always taken place in times of crisis, like in 2008/ 2009 and in 1771 when the Bretton Woods system came to an end. And therefore, in some sense, the current crisis, which can then, is a greater likelihood, even despite the current opposition of the US, as Kevin had outlined, that there's still more likelihood of some agreement coming for a large expansion of something like 500 billion or something of that order as long as less than 650 billion or thereabouts as Kevin outlined, which would not require congressional approval. So, in some sense, this is an opportunity to do this. And, of course, then use the various mechanisms for funding the PRGT or the CCRT, et cetera, that Kevin and most others have outlined. To use them for immediate needs, which, as the chairman outlined right in the beginning, that would be very, very important for Africa. And some of the arguments in some against the use as he again reminded us that the kind of funding that was given to European countries in 2010 to 2012 between Portugal and Greece and Ukraine and others, that this is small potatoes, so to speak. And therefore, given the kind of impact that is almost unprecedented, that low income countries, particularly African countries, have had the need for, this is really the opportune time to do that, to look at some of the different options that have been outlined. Now, I understand, obviously, that, look, what you want is A, approval for this expansion right away. B, to my understanding, there is no way that the US Congress, in its current distribution, plus the attitude of the current U.S. administration, there is no way that there's going to be any congressional approval for any of these kind of proposals, and there's no chance of any amendment to the articles of agreement with the IMF, at least in 2020. What may happen later, one doesn't know. So therefore, we need to concentrate on the kind of actions, the kind of options that are available that we can A actually expand the allocation by at least 500 billion, up to 650 billion or so B allocations to the PRGT or some other trust like that which do not require use approval or which do not require updating the articles of agreement of the IMF. It is also important to point out that, again, Kevin mentioned this, that the US Fed swap lines are available to only a few limited countries. Of course, mostly the developed countries, plus a few EMEs, and the new thing that the US Fed has offered are repo lines. But even those won't be to most countries. And therefore, we need to keep in mind that this is an option this is an alternative to those to those facilities.

[01:06:18.450] - Rakesh Mohan

And once again, to remind ourselves, and the US remind itself, that actually this is good for the United States because it reduces the claims on the United States own resources. Finally, just want to say that the other approved, the other proposal, which can be explored for the future, even though my guess is that the chances of agreement on that in the IMF executive board on the governing body for that matter are very low, but in recognition of by the first points that are made in terms of the need for SDR, spendable liquidity in the future. Assuming that this particular expansion is approved right away, then to start thinking about more regular expansions, more regular allocations every year over two years with two years every five years, as the case may be to sort of be put into process so that it happens as a matter of course, understanding the need for SDRs. Thank you. I think that's all I have to say, Marilou I hope I've kept my time. Thank you.

[01:07:29.850] - Marilou Uy

Thank you, Rakesh, for those insightful comments. And this is actually a good time to go to our prearranged country participants to provide perspectives from their countries. I'd like to give the floor to Ms. Veronica Artola, and she runs the central bank in Ecuador to speak about the experience of Ecuador on the usage of SDRs during the global financial crisis, Veronica.

[01:08:04.260] - Veronica Artola

Thank you, Marilou. Thank you very much for this opportunity to talk in this important group of G-24 about the situation that Ecuador is facing in this really complicated moment of our economy and importance of new allocation of SDRs. First of all, I want to talk to you, and I want to mention that Ecuador is a dollarized economy since 2000 and highly dependent on oil revenues. In that sense, we are very vulnerable to external shocks. Therefore, given the need for a constant flow of working exchange and stock taking risk, especially in terms of liquidity, trade and fiscal policy has focused on one fundamental pillar, the sustainability of dollarization. By optimizing its balance of payments, the promotion of foreign direct investment, and sustainable levels of deficits in its trades balance.

[01:08:56.550] - Veronica Artola

In this process of international financial cooperation, I must emphasize that Ecuador has had an important history with the IMF. IMF has been fundamental in critical moments of our country, and its financial support has allowed us to cope with adverse situation for our economy, such as the earthquake that we had in August 2016 and now the health crisis caused by COVID-19. The international situation derived from the COVID-19 pandemic early this year, and consequently the health emergency measures that were adopted in Ecuador, in March 2020 by the government meant a general stoppage of economic and financial activities in our country.

[01:09:43.980] - Veronica Artola

Also, the effects of the decrease in the price of oil and the high levels of our country risk, which had a direct impact over the financial conditions, exacerbate fiscal prudence and deteriorate the liquidity provision by the government in the Ecuadorian economy. The economic crisis resulting of this far reaching national and international context will lead to an unprecedented economic and social crisis in Ecuador. We are expecting that our real GDP is going to decrease between 7.3 to 9.6 percent.

[01:10:21.860] - Veronica Artola

This situation will weaken the position in the international reserves we have at the central bank, and now the international reserves only represent 3.5 of our nominal GDP. Our GDP in Ecuador is around 100 billion dollars. From a historical point of view, our country has had 19 credit agreements, and the recent one, called the extended fund facility, extended on March 9th, 2019, reflects the strengthening and financial ties with the IMF.

[01:10:57.850] - Veronica Artola

These credit agreements have helped to overcome the lack of a capital in the balance of payments, restoring confidence towards our country int the international context to assume the paths towards sustainability growth. As is common knowledge, countries that are members of the IMF are assigned SDRs under the fields of complementary reserve assets. With the development of international markets and the accumulation of sovereign government reserves, for some years, the dependence of these war reserve assets was lost.

[01:11:34.660] - Veronica Artola

However, in 2009, in the context of the international financial crisis, the IMF gave Ecuador, as a financing, through the Ministry of Finance and the economy, a special allocation of SDRs around 2,800 million. Of that total on 2500 million was transferred to the single current account of the National Treasury in September of 2009, and 33 million were given to their central Bank of Ecuador.

[01:12:14.950] - Veronica Artola

In this sense, and the value of the SDR holding issued by the IMF, is recorded as a path of external assistance held by the Central Bank of Ecuador. That is part of the international reserves that we have at the central bank, and which also are recorded in the country's balance of payments. In addition to acting as a reserve asset, being an instrument that has the capacity or free availability, the government has implemented fiscal adjustment policies to maintain stability and economic growth, using SDRs as a resource of external financing.

[01:12:56.900] - Veronica Artola

As indicated, also, the country has access to a revise on two occasions, one in 2016 and the other one in in 2010. The Ministry of Economy and Finance and the Central Bank of Ecuador request the IMF and extended fund facility for up to three billion dollars, that is 135 percent of the country's quota and equivalent to approximately four point billion dollars. The goal of using this funding is to support serious balance of payments problems that we have now due to structural deficiencies, and also an economy characterized by slow development, and a weakening balance of payments situation. Our country is located in the second case since it has slow economic growth in recent years and a weak balance of payments in terms of current account. Under the Ecuadorian regulatory framework, Ecuador can enter into agreement and contract public debt operation for financing programs. Thus, the operation is aimed at financing program investment projects in infrastructure that have the financial capacity to pay as well as financing extraordinary public debt in better condition.

[01:14:19.450] - Veronica Artola

It is important to note that Ecuador, as a result of obtaining IFR financing in May of this year, can spend the balance of this extended fund facility. As a guarantee of these financing, the Republic of Ecuador issued a promissory note, the value of which is updated, and disbursements are received. The service of the debt contracted with the IMF by the Republic of Ecuador, either through the Ministry of Economy and Finance or the Central Bank, is paid off through automatic debit from the central bank account in the ordinance, for which, in this case, the Central Bank and the Ministry of Finance must sign an interinstitutional condonation agreement, for which the IMF authorizes the debits of its account. In order for the central bank account with the IMF to maintain sufficient balance to cover obligations with the ordinance, SDR acquisitions are made in coordination with the IMF. Additionally, it is necessary to point out that the financing provided by the IMF to the Republic of Ecuador is proportional to the amount of the participation that a member country has in this international ordinance.

[01:15:35.810] - Veronica Artola

The active participation of the international organizations, such as IMF, World Bank, IDB, CAF, among others, liquidity mechanisms will regain importance, not only in our country, but in various world economies furthermore, considering that developing countries have suffered stagnation in their production of goods and services. And in some cases, a contraction in financial dynamics for gaining direct investment will weaken considerably, undoubtedly affecting the balance of payments in Ecuador. We estimate that our exports will decrease in around 5.2 percent and imports will decrease in around 16.1 percent. It is in this sense, the relevance of international organizations, and their support policies through finance and liquidity facilities, will provide relief to member countries against the global economic and financial crisis influencing the positive development in the subsequence months or even next years.

[01:16:41.180] - Veronica Artola

Finally, the work of the Ecuadorian government is based on the transparency of the prosperity plan. So based on its regulation, the public debt report is published with an updated methodology, with the external public debt in addition to maintain the concepts that had been reported, incorporates figures for anticipated all sales, intangible contractual rights and liabilities, and the special drawing rights that the central Bank of Ecuador keeps in the International Monetary Fund. Thank you very much.

[01:17:14.410] - Marilou Uy

Thank you very much, Ms. Artola. I really appreciate your joining us today. Let me now give the floor to Gerardo Zuniga to speak about the views of Mexico.

[01:17:28.350] - Gerardo Zuniga

Thank you very much, Marilou. Thank you very much for the invitation. And thank you to the previous speakers who have provided very insightful views.

[01:17:39.480] - Gerardo Zuniga

And now let me share some of my own. Let me start by saying that these are my own views and not those of Banco de Mexico or its board of governors, so that's very important. So where are we now? Well, we are facing an unprecedented crisis in in terms of its origins, in terms of its effects, and also in terms of the policy response needed. We can say that this crisis has had three dimensions and three different shocks.

[01:18:19.280] - Gerardo Zuniga

One, or the first one of course, is the health shock that has caused enormous costs and suffering around the world. The second is the economic consequences, and we can see this crisis having both the simultaneous supply and demand shock. And this calls for different types of policy responses. The third dimension of this crisis is what we may call a financial shock. And this is basically a reflection of the sudden increase in risk aversion and a flight to quality, increases in risk premia in emerging markets, and depreciating currencies. And this financial dimension has become more complicated due to the fall in commodity prices. And for those emerging markets or developing countries that rely on commodity exports, this is really important. So, what are the consequences of this financial trouble? Let me focus on this last one. Well, as the financial shock causes these capital outflows, increasing risk premia. It may raise concerns about foreign exchange denominated debt, both at the government level and also at the corporate and household level. So, this puts pressures on the balance of payments, and then central banks are required to step in to provide liquidity in foreign currency. And central banks can use international reserves to provide liquidity to the market so that the dollar funding market operates properly, but of course, these international reserves are limited. Now, what are other sources of foreign assets? Well, as it has been mentioned there, is this possibility of establishing swap facilities with reserve currency issuers like the Federal Reserve or the ECB, but, of course, these swap facilities are also limited. Another alternative is going to the global financial safety net and the regional financial arrangements.

[01:21:06.400] - Gerardo Zuniga

So, we may have countries coming to the World Bank, coming to the IMF, trying to get a much-needed liquidity in foreign currency. But coming to the Fund, or to the World Bank at this time may not be attractive to all countries since this may require some conditionality. So it is natural to think about SDR allocations as a fast, well, fast I would put that adjective in a between brackets because last time it was not that fast, and this time around, well, we have seen that it's not fast either. But this is another possibility, thinking about general SDR allocations as a way to provide liquidity, and as the Fund has said, and Professor Ocampo and Rakesh Mohan also mentioned, an SDR allocation is a low-cost way of adding to members international reserves, allowing members to reduce their reliance on more expensive domestic or external debt for building reserves. So, this is a this is an important dimension. Now, I agree, with Ousmene in the sense that this is not an issue of just increasing supply of SDRs. SDRs must be used more widely in order to be effective. So, we kind of face this issue of whether this must be a supply-driven work or task, or it should be a demand-driven challenge.

[01:23:10.780] - Gerardo Zuniga

And I think we should do both. On the one hand, the IMF has been struggling for years on how to give the SDR a more prominent role in the global monetary system, in the international monetary system, without much luck to be honest. And this is, of course, due to the political economy dimensions that Kevin also mentioned. But in order to have this SDR allocation to work and to be useful, we must also think about how the mechanics and the options that countries face a work.

[01:24:03.560] - Gerardo Zuniga

So, I will speak very briefly about the experience in Mexico. And there you can start to see some of the limitations of the SDRs as, both on the supply-side and on the demand-side attractiveness of it. So, for example, in 2009, we thought we had enough international reserves, but of course, after the fact, it was shown that it was not perceived as sufficient international reserves. So, pressure on the peso was very large and a large depreciation of the currency occurred. We were one of the few lucky countries with which the Federal Reserve established a swap facility, and this swap facility was announced in October 2008 and it amounted to 30 billion U.S. dollars.

[01:25:18.880] - Gerardo Zuniga

In April 2009, we were the first country to request an FCL with the IMF. This was for around 43 billion dollars, so if you add the swap facility that we had with the Federal Reserve and then the FCL, we had about 70 billion U.S. dollars of additional liquidity on top of our international reserves. Now, in the last quarter of 2009, as you all know, there was this general allocation of SDR, and Mexico received about four billion additional dollars SDR equivalent. So when you when you compare the magnitudes of those three sources of foreign liquidity, you see that an SDR allocation, even of the size that we had in 2009 is of limited, let's say, impact as compared to other sources of liquidity. So, what is my point here? Capital flows continue to increase to emerging markets. In an environment of very low interest rates for years to come, we could only expect for these capital flows to continue increasing. And this also increases the magnitude of potential balance of payments needs for emerging markets. So, if we want to have this impact of SDR allocations in countries like Mexico, then we would need to have a more regular allocation of SDRs. This has been mentioned by previous speakers. It's not a one-time thing because eventually a this general allocation of SDRs, if you have one time allocation, it may not be enough and it will be over past, let's say, by the magnitude of capital flows and a potential balance of payments needed for emerging markets. So, this needs to be a more regular thing, but this is when the political economy constraints start binding. And we need to face that reality and maybe move in in parallel arenas or parallel roads in terms of increasing the attractiveness of the SDR by making it private institutions have some holdings of SDRs as Ousmene proposed. There are many, many ways, and I agree, that we should continue to explore these and have this as a regular component of our discussions of the G-24, also at the G20, and also at the board of the IMF. So I think we should be moving in many dimensions, this may complicate matters, but if we want to move forward and actually put the SDR and give it a more prominent role, we should not shy away from this. And with this, I will end. Thank you.

[01:28:50.910] - Marilou Uy

Thank you very much. I'll open the floor to questions and comments. But before that, let me turn to the minister to ask the first question, Minister Ofori-Atta.

[01:29:10.940] - Minister Ken Ofori-Atta

Thank you very much indeed, Marilou, and really thank you to the panelists for a pretty sort of comprehensive outlook. I learned quite a few things here. But what I think, you know, undergirding all of this is that the current architecture is not adequate for our needs or for the future. But then you do have some specific integrations, given the extent of the of the pandemic’s impact, at least on our continent right now, that needs to be addressed on the liquidity basis. Currently, I think we are scheduled in Africa to service about maybe 44 billion dollars of loan debt servicing. And that is huge. And it's actually quite instructive that this is also due to the type of ratings that agencies give us. Such that its one way to find triple A wrap around on African debt is that of 44 billion, we may have to be paid 10 billion also. And you ask, what is this 30 billion premium for? Because when you do a statistical analysis of actual financial defaults on the continent, you know, it's next to nothing, so you begin to wonder about that.

[01:30:50.430] - Minister Ken Ofori-Atta

So, for me, the current situation is how do we find a way to at least get the liquidity to either support this debt servicing issue or to defer it for the next three years? Because the tail of this Pandemic is about three years before we can get out of it. And then the real need of fresh capital to intervene in the vulnerabilities of the health infrastructure, and also capital support of our organization, of the firms, et cetera, that will enable us to build up. And I see some solutions within the SDR structure and wonder what the panelists views are to address this issue. And I think it's also particularly important because you are looking at a continent that by 2050 will have a quarter of the world's population and the largest youth population that the world will have. So, there's a certain bit of enlightened self-interest to be able to find a solution to this problem. Thank you, Marilou. I'm sure I'll get a chance to discuss with some of them offline later. But on this, I'll be pleased to get some views from them.

[01:32:18.600] - Marilou Uy

Thank you very much, Minister. I’m going to turn the panelists after this one other question, just to make things more efficient. So, there's a question from Alfonso Guerra from the executive director's office in IMF. "Which proposals do you believe that G-24 should push forward as a group regarding SDRs? The use of SDR is to support PRGT, a new SDR allocation with special distribution arrangements, any other? If you were to choose one, what would it be?”

[01:33:01.490] - Marilou Uy

So, these are the two questions, this question and the minister's question. And let me turn to the panelists. And meanwhile, there is one that asked to be videoed in. His name is Abreau. The secretariat will have to video him in, and meanwhile, let me turn to the panelists for the response. Let me start with Jose Antonio.

[01:33:26.990] - Jose Antonio Ocampo

Thank you very much. I think I should first respond to the question that the Group of 24 should push for an allocation of say 600 billion dollars this year. I agree also with Gerardo, as I put in the presentation, that there could be a place for regular allocations later on. Now, I think what has to be done is, more in line with my last slide and Kevin's presentation, to put the funds of the SDRs that are not used by countries, particularly by high income countries, into trusts of different kinds, which could partly serve the needs of Africa that our chair has pointed out. I, of course, like the idea of reforms of the articles of agreement to include my last three proposals, but that is unlikely to be approved. I would not be on top of that.

[01:34:52.390] - Jose Antonio Ocampo

Let me actually make a small comment to Ousmene. The fact that the SDRs are not used by countries doesn't mean that they are not useful. Because so long as there are additional foreign exchange reserves of countries, they are useful. It's the same line as if Mexico doesn't use the swap facilities that they have with the Fed, doesn't mean that their swap facility isn't good for Mexico. So, it's like a reserve, an insurance, let's say, that you have which is always very, very useful. Thank you.

[01:35:37.730] - Marilou Uy

Thank you. Let's say just quick responses, please. Kevin, do you have any? Then followed by Ousmene.

[01:35:48.070] - Kevin Gallagher

Well, I'll just respond to that to the comment about what our recommendation to the G-24 should be. Of course, I don't represent any nation, but to me, the most immediate thing is to expand the toolkit of liquidity immediately to emerging market and developing countries. And there's so many of them that don't have any of these new windows. So, I would recommend A) to propose setting up a redistributive mechanism now. There's lots of countries that have unused SDRs that could make money on lending them to emerging market and developing countries. And then you have a shovel ready mechanism to continue to push for a larger allocation. I think from a U.S. perspective, the smarter thing in the shorter term is something like a 600-billion-dollar new allocation given the political economy, what's going on in the US.

[01:36:44.430] - Marilou Uy

Thank you, Kevin. By the way, I encourage people to put in their questions at the Q&A function if they would like to pose some questions to the panelists. So, Ousmene.

[01:36:55.950] - Ousmene Mandeng

Thank you, Marilou. Quickly, on the on the point of the minister. My point is not that we don't need additional resources. We do. My point is the SDR is not the right instrument. And I'm saying that because, you know, these efforts are not costless. If the SDR could just be issued because, you know, it's very simple and no political capital would need to be spent, then I would say, yes, why not? You know, it's free. Let's just do it, but this is not how it works. So, my concern is that a lot of energy is spent on pushing for an SDR allocation, which at the end will simply not be effective and helpful to the countries at all. And in fact, to Jose Antonio's point. Of course, it increases foreign assets and may have an important signaling effect, even though it is not used and converted for foreign exchange. But, you know, the amounts are so small that it would become a huge effort that would serve, Mexico is a very good example, that would serve very few countries effectively. So, it's a matter of proportion and it's a matter of relative effort. There are, I believe this is not a part of this discussion, many other ways that I think are far more effective to raise resources for the Fund, and therefore resources for Africa than the SDR. Yeah, that is my point here. Thank you.

[01:38:38.160] - Marilou Uy

Rakesh.

[01:38:44.980] - Rakesh Mohan

Thank you, Marilou. I'll just very briefly. I think that immediately, and I'm not just talking about 2020, that the priority for the G-24 really ought to be the immediate expansion of the SDRs to something less than 650 billion and persuasion of the US Treasury to reach that. And second, I think that given that already the mechanism for education to lending to PRGT exists to really go on with that very quickly and in some other trust accounts to the extent that is feasible. But immediately, in a sense, these are easy, relatively easy. I think they aren’t easy, but relatively easy things to do.

[01:39:33.160] - Marilou Uy

Thank you, Rakesh.

[01:39:35.090] - Rakesh Mohan

Now there's sorry, there's just one more brief comment. On what Jose Antonio also said, the SDRs add to central bank balance sheets and therefore can be effective in terms of multipliers, in terms of adding to liquidity of countries, whereas other instruments like FCLs or swaps don't do that necessarily. They could, but not necessarily. And also, the fact that Mexico, Colombia, and Poland, if I remember correctly, had two large FCLs which were not used, but they were still very useful for them to have them.

[01:40:19.290] - Marilou Uy

Thank you very much, Rakesh. Now I just want to there is one person, Ricardo Abreau from Brazil, who wanted to ask a question. Secretariat. Is he in? Ricardo? I think, Ricardo, you can turn on your video or audio right now. Now, meanwhile, while he's coming in, I must say I'm not a very good chair because we don't have that much time left for further questions. But I think this is such a complex discussion and a very rich discussion that we could follow it up online with a Q&A if we get the questions from our members. But let me see. I can see is Ricardo in now? Sorry, it's not working, so let me read a question. OK. One question is, there's a comment that says that they are very grateful for the proposal, a regular allocation of SDR for most developing countries, including Indonesia. Any amount, if possible, more than 600-billion-dollar allocation would be a new allocation that would be appreciated. So that's clear that there's a tremendous need even from, let's say, a large developing country. There's a question: “Is there merit to the argument that we should engage in a process to promote the SDR as a reserve currency? This can be achieved through promoting the SDR as a medium of exchange. And this could be, over the long term, a way to reduce reliance on the U.S. dollar as a dominant reserve currency.” It's a question and a comment at the same time.

[01:42:29.080] - Marilou Uy

So now there's a question from the Philippines: “Pushing for increasing SDR allocation may be challenging, given that the outstanding SDRs are underutilized. While in theory the SDRs are useful, this is not widely used by members. What are the panelists view on the members reluctance to use the SDR now, especially under the COVID situation?” That's a good question, thank you. So sorry, is Ricardo in. hmm. OK, maybe I would encourage you Ricardo to type your question in the Q&A field. So, meanwhile, since we're running out of time, let me go back to the panelists for quick responses to the last set of questions, and then I will close the webinar. So, let me just go through. Jose Antonio, then Ousmene, then Kevin and then Rakesh.

[01:43:30.160] - Jose Antonio Ocampo

Well, let me say again, that if they SDRs are not used, that doesn't mean they're not useful, in the sense that they are part of the foreign exchange reserves. Of course, if it were possible to allocate all the SDRs, or the 600 billion, to developing countries, that will be better, but that is not possible given the system rules. So, we have to agree with the share that they have in the system which is slightly under 40 percent. Anyway, it's important, for example, as I said in my estimate, with 500 billion dollars, it will give Latin America about five percent additional foreign exchange reserve, which is not small. It's not a small amount. According to a paper by Ted Truman, which had been a strong promoter of this for low-income countries, it can be much larger than that. So even that small allocation granted to what I would hope could be possible. Now, this whole exchange, actually in the panel on SDRs that the IMF had a three years ago, which I was a member actually. There was a proposal to a means of exchange also, but the the expectation that will be possible is not very high. I think they are essentially a reserve asset. I mean, if they are used to the financial system like Ousmene proposes or like I also propose like so many others, then it will also be as I a financial asset, not as a means of exchange. For that, I think we have a much, much longer way to go.

[01:45:35.930] - Marilou Uy

Thank you, Ricardo Abreau, please. Before we lose him again.

[01:45:43.190] - Ricardo Abreau

Hello? Can you hear me? Thank you. I'm sorry, there was a problem with the computers here. I just have a short message from Erivaldo, our Secretary of International Economic Affairs at the Ministry of Economy of Brazil. I congratulate the organizers and the speakers for their realization of this webinar. It's a great opportunity discuss the theme of SDRs. The pandemic and its economic effects have meant turning on effective ways of action from the Global Financial Safety Network. On behalf of the Brazilian government, I would like to reaffirm our position, stated by our Minister at the Spring Meetings, in favor of an adequate IMF quota reform, promoting adequacy in countries representation and resource. Brazil also supports a new SDR allocation and the research of new possible use roads for the SDRs in the International Monetary System. Thank you very much.

[01:47:10.320] - Marilou Uy

OK. Thank you very much, Ricardo. I'll to turn to Ousmene. I'm sorry I disrupted the flow because I wanted to make sure that we didn't lose Ricardo. So Ousmene, Kevin, Rakesh, and then we'll close.

[01:47:22.830] - Ousmene Mandeng

OK. I'd like to go to the question in the chat about the SDR as a reserve currency. It does address what is a fundamental problem in international monetary affairs, of course. I think it's an important one. And we need to be reminded that the high dependence on a very narrow set of currencies is one of the fundamental problems that we face. The SDR is extremely unlikely to fulfill that role because the IMF would be able to act as a central bank, and it simply cannot in light of the current setup. But it doesn't mean that we should not push for greater diversification in the international monetary system. And I'd like to say that with Accenture, we're working on a number of projects now involving central bank digital currencies, and we do see that a huge opportunity to actually make smaller currencies more usable for international exchange. So, this is really the Douglas occasion of the international monetary system is absolutely key. I don't think the SDR would be able to play a meaningful role here. It is up to the central banks. And I think with new technologies around CBDC, we are now able to do a lot of things that we weren't just a few years ago.

[01:48:33.600] - Marilou Uy

Thank you, Ousmene. Kevin, then Rakesh and then I'll wrap up.

[01:48:40.830] - Kevin Gallagher

Again, I'll just reiterate. I think it's important to create some redistributive mechanisms within the Fund and to try to get a new allocation for the immediate liquidity needs. I do find interest in the idea of regular new allocations over time. And obviously in about 10 months we'll be hopefully have flattened curves around the world and we'll be talking about how to how to put together a recovery. And let's remember that there's 16 other development finance institutions that can use SDRs and the idea of creating redistributive recovery trusts within, say, the African Development Bank and some of its kind of parts say the World Bank, Asian Infrastructure Investment Bank. These are a number of development institutions that can use SDRs. And so if you did have a constant increase in allocations, the idea of creating trusts for redistributing, not only within the Fund for immediate liquidity needs, which is what we need right now, but in the more intermediate term, to help get a healthy, sustainable, and inclusive recovery. Thank you very much for the opportunity.

[01:49:53.460] – Marilou Uy

Thank you very much, Kevin, Rakesh.

[01:50:02.640] - Rakesh Mohan

Thank you, Marilou. Just two brief points. One, that the immediate expansion, as we've all talked about, of some 500 billion dollars plus and then followed up with work for regular allocations of SDRs for regular expansion of SDRs. As the magnitude of SDRs and the proportion in reserves expands, that itself will make it more possible for their wider usage. And I think that's something that we need to understand and think about. That part of the problem with less use is it's just too small. But at present, as I understand it, then we fall about four percent of total global reserves. When they were founded in 1771, what it is, around seven percent or thereabouts. So, the point is that its only if they start expanding, that there could be greater possibility of some of the ideas that have been put forward in this webinar on how they can be used more widely. Second point on the use as reserves is that what is clear, as I mentioned earlier, that with the greater diversification of the global economy in terms of weight of the global economy and the reduction of the traditional powers, so to speak. Therefore, there's a greater need for more diversified set of reserves, and SDR can be one element of that. Thank you, and Thank you very much for including me in. This has really been very, very informative and many new ideas that I think are very useful for the future.

[01:51:39.780] - Marilou Uy

Thank you very much Rakesh. Now, I'd like to thank the panelists and the participants in this webinar. This has really been a productive, highly informative conversation, and real options were put on the table. There is broad support for a new SDR allocation among our membership. So, and just how you go about it and how to lay out the options would be critical for the credibility of the views that we will put forth in global discussions. Now, the feedback so far has been positive with the text messages that I've been getting, that it's been informative to the participants, and we would make the materials available to the extent we can at least more broadly to the ones that have registered and our membership. I would like to say that we have kept the attention of more than 100 participants, which is which is very good, and it points to the quality of the discussion. So now I do want to thank you all and I hope that this will not be the last webinar that we can conduct with the G-24, and that this is only the beginning of the conversation we will have on SDRs. Now, finally, I'd like to thank them, the G-24 Bureau, for their support. And of course, the Secretariat Lana, Angela, and Deborah for their tireless efforts in preparing this webinar that we have run ourselves, so thank you very much. And I hope to see you soon personally at some point. Thank you.