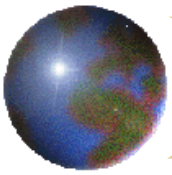


# *The Flight of the Dodo:*

Is there a Future  
For the SDR?

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*Super Dodo Revival?*



## *A little history:*

- ✚ The SDR failed at its original purpose
  - ✚ Too little, too late
  - ✚ The par-value system collapsed



## *But it adapted to survive:*

- ❖ The 4 key changes were:
  - ❖ 1. converted to a currency basket
  - ❖ 2. pared down to four key currencies
  - ❖ 3. given a flexible market interest rate
  - ❖ 4. participants allowed to borrow continuously and permanently



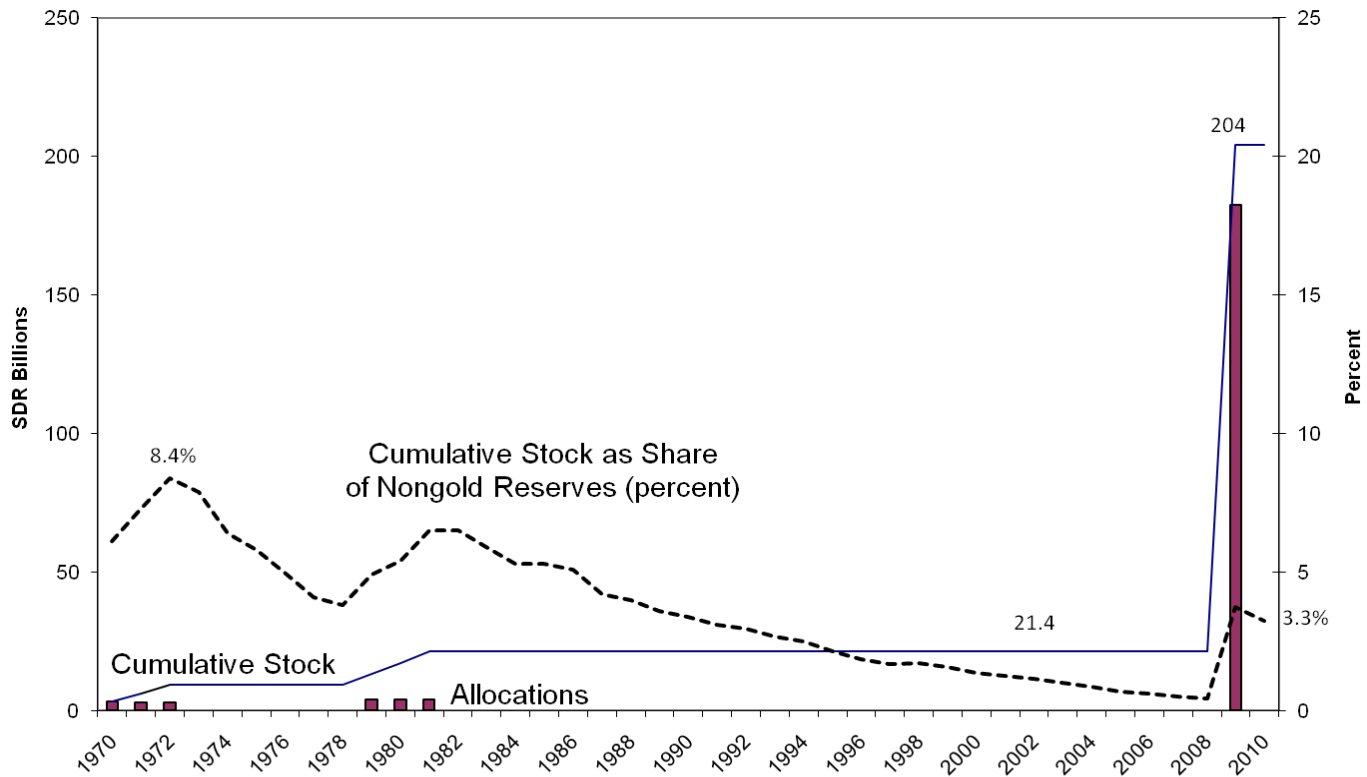
## *The key features of today's SDR:*

- ❖ IMF extends lines of credit to all member countries
- ❖ In aggregate, net holders (above allocation) lend to net users
- ❖ Primarily an official market
- ❖ Liquid, but not money
- ❖ Relatively strong and stable basket



# *But it diminished in importance*

Figure 1. SDR Allocations, 1970-2010





## *Two principal reasons for decline*

- ✚ Some creditor countries object that allocations are
  - ✚ 1. potentially inflationary
  - ✚ 2. indiscriminate and unconditional



## *But benefits may be substantial*

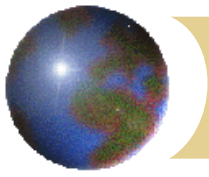
- ✚ Expanding lines of credit is costless
- ✚ Holding SDRs is liquid
- ✚ Using SDRs is low-cost
- ✚ As supplemental source of finance, using SDRs does not weaken incentive to reform policies





## *The SDR can be strengthened*

1. Have regular annual allocations
2. Establish redistribution mechanisms
3. Restore reconstitution requirement
4. Establish a substitution account
5. Modernize and expand the basket



# *Can the Dodo fly?*

