**DEPARTMENT OF THE TREASURY**
**WASHINGTON, D.C.**

April 1, 2021

The Honorable French Hill
Ranking Member
Subcommittee on National Security, International Development and Monetary Policy
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Hill:

On behalf of the Secretary of the Treasury, I am writing to inform you of the Biden-Harris Administration's intent to consider a $650 billion general allocation of Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) to its member countries. Section 6 of the SDR Act, 22 U.S.C. 286q, requires that the Secretary of the Treasury consult with Congress at least 90 days prior to voting in favor of an IMF decision to allocate SDRs. With this letter, the Secretary of the Treasury is initiating the 90-day formal consultation period.

The COVID-19 pandemic has taken an extraordinary toll on the global economy and has strained financial liquidity. Global growth contracted 3.5% in 2020—the worst peace-time recession since the Great Depression—and will likely inflict long-term scars on the global economy. It has substantially weakened external positions in many countries, raised external financing needs, exacerbated debt vulnerabilities, and deepened poverty and inequality. The IMF expects the global adjustment process to be prolonged, weakening global growth prospects and threatening the stability of the international monetary system. An SDR allocation would help build reserve buffers, smooth adjustment, and mitigate the risks of economic stagnation in global growth. Importantly, it could also enhance liquidity for low-income countries to facilitate their much-needed health recovery efforts.

The SDR is a reserve asset created by the IMF that is allocated to member countries in proportion to their IMF quotas. Countries can use their SDRs by exchanging them with other IMF member countries for freely usable currencies. The proposed $650 billion SDR allocation would substantially increase the stock of SDRs outstanding (currently about $292 billion)[12] and supplement the reserves of IMF member countries. As part of this general allocation, the United States would receive additional SDRs equivalent to approximately $113 billion, which is below the current U.S. quota in the IMF of approximately $119 billion.

The proposed allocation of SDRs is consistent with the IMF Articles of Agreement, and in particular, with Article XVIII, Section 1, that with respect to its decisions regarding allocation of SDRs, "the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes

[12] SDR:USD exchange rate as of March 22, 2001 = 1:1.429

and will avoid economic stagnation and deflation as well as excess demand and inflation in the world."

First, the proposed SDR allocation will supplement existing reserve assets in the international monetary system and help meet global demand for liquidity and reserves, allowing countries to avoid undesirable policies that could lead to permanent scarring and further global divergence between advanced high-income and lower-income countries. The international monetary system has a global reserve gap, and the proposed SDR allocation will help fill this long-term need and boost global reserve buffers for emerging market and developing countries' (EMDCs). The proposed SDR allocation would fill a similar share of EMDCs projected global reserve needs as the 2009 allocation.

Second, the proposed SDR allocation would help avoid economic stagnation and deflation by increasing global liquidity. The supplemental reserves would allow EMDCs to better facilitate addressing their health and recovery needs following the COVID-19 pandemic and help the IMF meet its objectives of promoting global financial stability, international trade, and economic growth—all of which are essential to U.S. economic growth. The total allocation of new SDRs to EMDCs, excluding China, would be equivalent to about $212 billion. The IMF projects low-income countries will require additional external financing over the next four years. The proposed SDR allocation could help fill this gap, providing low-income countries with about $21 billion in new reserve assets that they could use to boost reserve buffers or exchange for usable currency.

Third, an SDR allocation is unlikely to cause excess demand or inflation in most countries that decide to use their new SDR assets. Global inflationary pressures remain contained in most countries, and the SDR allocation is unlikely to generate excess global demand given low inflation and the large negative global output gap. After the proposed allocation, Treasury projects that SDRs would make up about 7% of total global reserves, while dollars would comprise about 54%.

As vaccine distribution improves and some economies begin to open, we face a critical window to prevent global divergence and promote a global recovery that benefits the American worker and U.S. economic growth. The proposed SDR allocation would help advance these goals.

If you have any questions, please direct your staff to contact the Office of Legislative Affairs.

Sincerely,

Andy Baukol
PDO Under Secretary for International Affairs
U.S. Department of the Treasury