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October 14, 2022

The Honorable Janet Yellen  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, D.C. 20220

Dear Secretary Yellen:

As you participate in the 2022 Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group, I write to you to in opposition to a new allocation of Special Drawing Rights (SDRs).

In July 2022, 46 Congressional Democrats wrote to you urging you to “support a new issuance of at least \$650 billion in SDRs,” describing them as a “simple, rapid, and cost-free way to enable Ukraine, its neighboring allies, and developing countries” to respond to the coronavirus pandemic, the resulting global economic downturn, and the war in Ukraine.<sup>1</sup> However, another general allocation by the IMF would be a gross misuse of SDRs for the following reasons:

- **The IMF is not an aid agency and SDRs should not be used as a tool for foreign development assistance.**

SDRs are not meant to arm countries for short-term spending emergencies, as they were created by the IMF to supplement the long-term global need for central bank reserve assets. Donor countries may want recipient states to use them to focus on public health priorities, but the lack of guardrails associated with a general SDR allocation means that each country can spend them as they see fit with no conditions for how or what they may be used for. This makes SDRs a poor choice to provide targeted aid to developing countries to address challenges like food shortages and rising energy prices. Foreign development assistance should be left to aid agencies, while the IMF should focus on its traditional role of addressing balance of payments problems and advocating for economic reforms.

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<sup>1</sup> [https://progressives.house.gov/\\_cache/files/f/3/f3aa15fe-cca2-40da-a68b-937e3d8646f9/15748EFE144F03BA67ADE35DF1A98155.7-12-22-jayapal-warren-sdr-issuance-letter.pdf](https://progressives.house.gov/_cache/files/f/3/f3aa15fe-cca2-40da-a68b-937e3d8646f9/15748EFE144F03BA67ADE35DF1A98155.7-12-22-jayapal-warren-sdr-issuance-letter.pdf)

- **SDRs are not well targeted to help developing countries in need because they mostly flow to wealthy nations, autocratic regimes, and state sponsors of terrorism.**

Since the IMF must allocate SDRs to countries based on their shareholding weight in the Fund, the main beneficiaries of SDRs are larger nations and not the poorest countries that may need them the most. In their July letter, Democrats acknowledged that less than a third of the \$650 billion in SDRs that the IMF issued in 2021 actually went to developing countries.

Due to SDRs' unconditional nature, another SDR giveaway will almost certainly go to repay China's predatory loans and make restructuring or reforms even less likely. China has fought efforts to shed more transparency on its lending practices and resisted multilateral agreements to suspend debt repayments during the pandemic. I was pleased to see you reiterate these concerns in your remarks at the Center for Global Development on October 6.<sup>2</sup>

Furthermore, a general SDR allocation of \$650 billion would mean sending another blank check worth over \$17 billion to Russia, which would completely undermine sanctions levied against the country and other efforts to cut off financing for the Russian war effort in Ukraine. The United States must not reward Vladimir Putin in the name of responding to the Covid-19 pandemic and should instead send a strong message that multilateral organizations will not be complicit in enabling war.

- **SDRs can be inflationary, which is counter-productive amid elevated global inflation levels.**

While the allocation of SDRs does not affect monetary policy directly, a country's exchange of SDRs with another country's dollars and euros can have an inflationary effect.<sup>3,4</sup> For example, when the U.S. is asked to provide dollars for SDRs but the Department of the Treasury's Exchange Stabilization Fund has an inadequate balance to draw from, the SDRs can be sold to the Federal Reserve, which in turn increases the money supply. This credit would normally be offset through the Fed's open market operations by selling an equivalent amount of U.S. Treasury bills, but this is made more difficult under the current global monetary environment where the largest buyers of U.S. Treasuries are stepping back.

The IMF's general allocation of \$650 billion in SDRs in August 2021 was by far the largest SDR allocation in the history of the Fund, which makes the potential inflationary impact of another \$650 billion SDR allocation particularly concerning. The Department of the

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<sup>2</sup> <https://home.treasury.gov/news/press-releases/jy0997>

<sup>3</sup> <https://www.imf.org/external/np/pp/eng/2011/010711a.pdf>

<sup>4</sup> <https://www.degruyter.com/document/doi/10.1515/ev-2021-0029/html>

Treasury should not support a new SDR allocation and make inflation worse around the world.

41 Republicans urged the Biden Administration in February to cut off Russia's access to its SDRs and oppose any additional SDR allocation that bolsters Russian reserves and evades Western sanctions.<sup>5</sup> Congress also passed bipartisan legislation to prevent Russia from exchanging its SDRs with the U.S. or any other IMF member country, which President Biden signed into law earlier this month.<sup>6</sup> While these were positive steps that further underscore the need for more guardrails around the issuance and exchange of SDRs, the fact that legislation was necessary illustrates how SDRs are blunt instruments that are not targeted to help developing countries in need. China, of course, would not be bound by prohibitions on exchanging newly allocated SDRs for renminbi.

The Department of the Treasury should safeguard the long-term integrity of the IMF by resisting calls for mission creep at the institution. This means opposing a new SDR allocation without clear, bipartisan support in Congress for such action.

I thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink that reads "French Hill". The signature is written in a cursive, flowing style.

French Hill  
Member of Congress

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<sup>5</sup> [https://hill.house.gov/uploadedfiles/2022-02-28 --\\_gop\\_letter\\_to\\_treasury\\_on\\_russia\\_sdrs.pdf](https://hill.house.gov/uploadedfiles/2022-02-28_-_gop_letter_to_treasury_on_russia_sdrs.pdf)

<sup>6</sup> <https://www.whitehouse.gov/briefing-room/legislation/2022/10/04/bills-signed-h-r-5577-h-r-6899/>