FRENCH HILL
2ND DISTRICT, ARKANSAS
COMMITTEE ON FINANCIAL SERVICES
RANKING MEMBER
SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT, AND MONETARY POLICY
SUBCOMMITTEE ON INVESTOR PROTECTION, ENTREPRENEURSHIP, AND CAPITAL MARKETS
FINTECH TASKFORCE
CARES ACT CONGRESSIONAL OVERSIGHT COMMISSION
COMMISSIONER

Congress of the United States
House of Representatives
Washington, DC 20515

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March 18, 2021

His Excellency Philippe Etienne
The Ambassador of France
4101 Reservoir Road NW
Washington, D.C. 20007

Her Excellency Dame Karen Pierce DCMG
The Ambassador of the United Kingdom
3100 Massachusetts Ave NW
Washington, DC 20008

Her Excellency Emily Haber
The Ambassador of Germany
645 Reservoir Road, NW
Washington, D.C. 20007

His Excellency Koji Tomita
The Ambassador of Japan
2520 Massachusetts Ave NW
Washington, DC 20008

Her Excellency Kristen Hillman
The Ambassador of Canada
501 Pennsylvania Avenue NW
Washington, D.C. 20001

His Excellency Armando Varricchio
The Ambassador of Italy
3000 Whitehaven St NW
Washington, DC 20008

Dear Messrs. and Mesdames Ambassadors:

I write today in response to news articles[1] stating the G7 is discussing a proposal related to an allocation of Special Drawing Rights (SDRs) through the International Monetary Fund (IMF).

Since September 2020, I have publicly opposed an allocation of SDRs when I first wrote an op-ed outlining my concerns in The Hill.[2] In February, given reports that the U.S. Department of the Treasury was contemplating an allocation, I reiterated my views in an op-ed in the Wall Street Journal.[3] Then in response to Secretary Yellen's letter to G20 colleagues on February 25, I wrote a letter enumerating the concerns previously outlined in these op-eds, which are attached as Appendix A. Finally, since House Republicans had received no update from Treasury and given the growing interest in this initiative globally, I introduced legislation that would limit the executive branch's ability to bypass the United States Congress to authorize SDRs, which is attached as Appendix B.

An SDR allocation is not targeted, tailored, or tied to COVID. There is no accountability over these funds, so each country could spend these resources however they see fit. Furthermore, the funding is made in line with the IMF quota which means the bulk of SDRs would go to countries with strong reserve positions that do not need the additional funds. Ultimately, an SDR allocation is intended as a quick infusion of liquidity, which would provide a blank check to a genocidal regime and state sponsors of terrorism, as well as run contrary to the long-term objectives laid out in the IMF's Articles of Agreement.

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[1] https://www.reuters.com/article/us-imf-g7-sdr/g7-agrees-to-boost-imf-reserves-by-650-billion-to-fund-pandemic-relief-kyodo-idUSKBN2B91GA
[2] https://thehill.com/blogs/congress-blog/economy-budget/516335-the-use-and-abuse-of-the-imf-in-the-fight-against-covid-19
[3] https://www.wsj.com/articles/congressional-democrats-plan-to-bail-out-china-11612307799?fbclid=IwAR35pV0jKbjbJgS6nLUa_rA9k57mdeicnZjhYxYhfej5VzRBtzzxFzjXTXo

For these reasons, I encourage you to advise your country to reject an SDR allocation and instead, as I have argued publicly, utilize IMF trust funds and other support through the international financial institutions to target developing countries, as they would provide more tailored aid and ensure greater accountability. Please do not hesitate to reach out on this issue if I can be helpful. I look forward to finding an equitable solution during this challenging global time.

Sincerely,

French Hill

French Hill
Member of Congress

Appendix A:

Rep. French Hill Letter to Secretary Yellen

French Hill
2nd District, Arkansas
Committee on Financial Services
Ranking Member
Subcommittee on National Security, International Development, and Monetary Policy
Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets
Fintech Taskforce
CARES Act Congressional Oversight Commission
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February 25, 2021

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

Dear Secretary Yellen:

I am writing with regard to the letter you released today to G20 colleagues, which lays out areas of potential cooperation to combat the effects of COVID-19. Like you, I believe that we must focus our energies on overcoming the virus, and certain ideas in your letter merit bipartisan support. I am, however, concerned that G20 consideration of a Special Drawing Rights (SDR) allocation through the International Monetary Fund (IMF) would be contrary to our national interest.

As you know, the IMF's Articles of Agreement dictate that SDR allocations should meet a "long-term global need" in reserve assets. This requirement is further codified through congressional consultation procedures in the Special Drawing Rights Act (P.L. 90-349). Supporters of an SDR allocation have been transparent in their arguments that an allocation would not be designed to bolster long-term reserves at all, but rather be spent on COVID-related imports. This alone should disqualify an allocation from Treasury's consideration based on IMF rules and U.S. law.

Others, such as Chinese central bank head Yi Gang, have dismissed the IMF Articles' language by claiming that the virus's "long-term consequences are all but impossible to estimate."[1] Needless to say, "no one knows what the future holds" is an unserious standard for Treasury, the IMF, and others committed to multilateral rules. Moreover, we do have economic estimates for developing countries, and they come from the IMF itself. According to its World Economic Outlook forecast, emerging markets are projected to grow by 6.3 percent this year, and by 5 percent in 2022. Sub-Saharan Africa's growth would reach 3.2 percent in 2021 and 3.9 percent the following year, which will actually exceed the average for advanced economies. As for the continent's reserves, Fitch Ratings has observed, "Official international reserve positions of sub-Saharan African sovereigns actually improved in several cases despite the severe shock from COVID-19, and deteriorated only mildly in even the worst cases."[2]

[1] https://www.ft.com/content/e7efef20-3960-46e7-922b-112dba8f2def

[2] https://www.fitchratings.com/research/sovereigns/sub-saharan-africa-dashboard-foreign-exchange-reserves-13-01-2021

The case for SDRs, such as it remains, is further weakened by those who advocate for certain countries to transfer a new allocation to others. An SDR will not supplement their reserve assets if it is meant to be channeled elsewhere; and such an operation would seem to suggest that a need, long-term or otherwise, is absent. A serious assessment of long-term reserve needs would also not repeatedly conclude that the world just so happens to require an SDR issuance falling below a congressional threshold established in 1983; nor would it arrive at a figure, as called for by other SDR proponents, that is six times greater. And if Treasury's foreign counterparts are eager to pass on resources to other countries, the Eurozone's holdings alone stand at over 40 billion SDRs and could be used for IMF facilities providing assistance to our poorest nations in an effective, targeted manner.

As I note in the attached opinion piece for the *Wall Street Journal*, an SDR allocation would further be objectionable by delivering unconditional liquidity to some of the most brutal dictatorships in the world. It is sobering to think that a Treasury Department which urged sanctioning Nazi Germany after Kristallnacht would now support billions of dollars in no-strings-attached funding for the Chinese Communist Party as it carries out genocide in Xinjiang. This holds true as well for the SDRs that Iran and Russia could acquire, an outcome that would be wholly inconsistent with the goals of ongoing OFAC programs. The controversy over the IMF's recent lending to Myanmar and its use in a post-coup environment also hints at the dangers of having no accountability for SDRs' use. Even if any of these regimes were less objectionable, problems of fungibility would apply.

At the same time, your letter to the G20 puts forth important proposals in areas where there is bipartisan agreement, such as your commitment to the Common Framework for Debt Treatments and debt transparency generally. I would also urge Treasury to exert decisive pressure on China to commit to Paris Club rules as well as to the terms and conditions of the OECD Arrangement on Officially Supported Export Credits. To the extent COVID-19 has revealed debt vulnerabilities in the developing world, China's contempt for a rules-based system has only made those vulnerabilities more acute. I commend Treasury for seeking to hold China more accountable.

The global financial crisis resulted in certain IMF policies that strained the Obama Administration's work with Congress. We should not let COVID-19 do the same, as there are many areas of common interest between the Financial Services Committee and your Department. I look forward to working with you to promote these shared priorities.

Sincerely,

J. French Hill

FRENCH HILL
Ranking Member
Subcommittee on National Security,
International Development,
and Monetary Policy

cc: Ms. Kristalina Georgieva, Managing Director, International Monetary Fund

Appendix B:

H.R. 1568

....
(Original Signature of Member)

117TH CONGRESS
1ST SESSION

H. R. ______

To amend the Special Drawing Rights Act in order strengthen congressional oversight with respect to allocations of Special Drawing Rights by the International Monetary Fund, and to prohibit such allocations for perpetrators of genocide and state sponsors of terrorism without congressional authorization, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. HILL introduced the following bill; which was referred to the Committee on ______________________________

A BILL

To amend the Special Drawing Rights Act in order strengthen congressional oversight with respect to allocations of Special Drawing Rights by the International Monetary Fund, and to prohibit such allocations for perpetrators of genocide and state sponsors of terrorism without congressional authorization, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ‘‘Special Drawing Rights Oversight Act of 2021’’.

SEC. 2. FINDINGS.

The Congress finds as follows:

(1) The allocation of Special Drawing Rights (SDRs) through the International Monetary Fund (IMF) creates unconditional liquidity for IMF member countries.

(2) According to Article XVIII of the Articles of Agreement of the IMF, allocations of SDRs ‘‘shall seek to meet the long-term global need’’ in reserve assets.

(3) SDRs are allocated in proportion to the quotas of IMF members, such that the G20 alone is entitled to approximately two-thirds of a general allocation. At the same time, the Board of Governors of the Federal Reserve System has swap line arrangements with the central banks of eight G20 members, including the European Central Bank, the Bank of Japan, and the Bank of England, for the purpose of providing sufficient liquidity.

(4) The size of SDR allocations has expanded dramatically, rising from 9,300,000,000 SDRs in 1970–1972, to 12,100,000,000 SDRs in 1979–1981, to 204,000,000,000 SDRs in 2009, with proposals

for a new, unilateral allocation that bypasses congressional authorization in an amount of approximately 450,000,000,000 SDRs.

(5) Under current law, the Secretary of the Treasury is able to bypass Congress and approve an allocation of SDRs in a manner that provides unconditional liquidity in the following approximate amounts: $41,700,000,000 to the People's Republic of China; $17,600,000,000 to the Russian Federation; $4,900,000,000 to the Islamic Republic of Iran, and $5,000,000,000 to Venezuela. In addition, current law permits allocations in these amounts to be made in successive years that span two basic periods.

(6) In the 98th Congress, the House of Representatives passed the bipartisan International Recovery and Financial Stability Act, which would have prohibited new allocations of SDRs without congressional authorization.

SEC. 3. STRENGTHENING CONGRESSIONAL OVERSIGHT.

Section 6 of the Special Drawing Rights Act (22 U.S.C. 286q) is amended—

(1) in subsection (a)—

(A) by striking "each basic period" and inserting "any 10-year period"; and

(B) by inserting “25 percent of” before “the United States quota”; and

(2) in subsection (b)—

(A) by inserting “, or consent to or acquiesce in such an allocation,” before “without consultations”;

(B) by striking “90” and inserting “180”; and

(C) by inserting “Chairman and ranking minority members of” before “the appropriate subcommittees”.

SEC. 4. PROHIBITION ON ALLOCATIONS FOR PERPETRATORS OF GENOCIDE AND STATE SPONSORS OF TERRORISM WITHOUT CONGRESSIONAL AUTHORIZATION.

Section 6(b) of the Special Drawing Rights Act (22 U.S.C. 286q(b)) is amended by adding at the end the following:

“(3) Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to allocate Special Drawing Rights under article XVIII, sections 2 and 3, of the Articles of Agreement of the Fund to a member country of the Fund, if the President of the United States has found that the government of the member country—

"(A) has committed genocide at any time during the 10-year period ending with the date of the vote; or

"(B) has repeatedly provided support for acts of international terrorism.".