FACT-CHECK

Special Drawing Rights at the International Monetary Fund:

Fact-Checking Republican Senate Leadership

CEPR

WHAT ARE SPECIAL DRAWING RIGHTS (SDRS)?

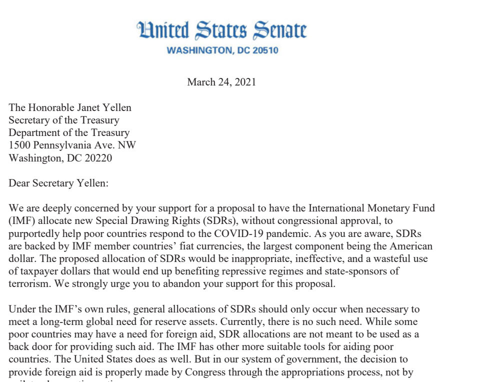
The COVID-19 pandemic has led to a variety of efforts to ensure that low- and middle-income countries have access to sufficient resources to import necessities like food, medicine, and personal protective equipment. One of those efforts involves an issuance of Special Drawing Rights, or SDRs, to the 190 member countries of the International Monetary Fund (IMF).

SDRs are a reserve asset issued by the IMF to its member countries. SDRs have a value that is based on a basket of five major currencies. Governments can exchange SDRs that they are holding for hard currencies, most often the dollar or euro, although the requesting government has to show need in order to do this. The other party to the exchange, who supplies the hard currency, is a government that has a surplus of hard currency reserves and volunteers to make the exchange.

An IMF issuance of SDRs does not cost the United States — or any IMF member country — anything. These reserve assets are not loans that have to be repaid, and therefore do not affect the sustainability of member countries' public debt.

The main advantage of using a new issuance of SDRs during the pandemic, in order to help individual countries in need, as well as to stabilize the world economy, is that the process is simple and can be relatively quick. An IMF issuance of SDRs does not cost the United States — or any IMF member country — anything. These reserve assets are not loans that have to be repaid, and therefore do not affect the sustainability of member countries' public debt. Nor do they have conditionality attached to them.

FACT-CHECKING GOP SENATORS' CLAIMS



United States Senate
WASHINGTON, DC 20510

March 24, 2021

The Honorable Janet Yellen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, DC 20220

Dear Secretary Yellen:

We are deeply concerned by your support for a proposal to have the International Monetary Fund (IMF) allocate new Special Drawing Rights (SDRs), without congressional approval, to purportedly help poor countries respond to the COVID-19 pandemic. As you are aware, SDRs are backed by IMF member countries' fiat currencies, the largest component being the American dollar. The proposed allocation of SDRs would be inappropriate, ineffective, and a wasteful use of taxpayer dollars that would end up benefiting repressive regimes and state-sponsors of terrorism. We strongly urge you to abandon your support for this proposal.

Under the IMF's own rules, general allocations of SDRs should only occur when necessary to meet a long-term global need for reserve assets. Currently, there is no such need. While some poor countries may have a need for foreign aid, SDR allocations are not meant to be used as a back door for providing such aid. The IMF has other more suitable tools for aiding poor countries. The United States does as well. But in our system of government, the decision to provide foreign aid is properly made by Congress through the appropriations process, not by unilateral executive action.

March 24, 2021 letter from Sens. Toomey, Risch, Kennedy, and Hagerty to Treasury Secretary Yellen regarding a new issuance of SDRs.

Letter available at: https://www.scribd.com/document/511840391/Letter-to-Janet-Yellen-from-Republican-Senators-Regarding-a-New-Issuance-of-Special-Drawing-Rights

The Trump administration did not support a new issuance of SDRs when proposed by the IMF Managing Director in March 2020. Because the United States holds veto power at the IMF on votes regarding SDR issuances, the IMF was unable to issue SDRs despite nearly unanimous support from all other member countries. Under the Biden administration, the Treasury Department reversed course and the IMF issued SDRs worth $650 billion in August 2021. The amount falls short of the legislation supporting a 2 trillion SDR allocation that passed the US House twice last year, and that has been reintroduced in both the House and Senate this year. But it is a good first step for providing relief for low- and middle-income countries, and the amount is close to the most that the US Treasury Department can legally vote for at the IMF without getting prior approval from Congress for a greater amount.

Despite the fact that SDRs were successfully issued and used during the 2009 world recession of 2009, they are still not a well-known policy tool among US legislators. This can lead to misconceptions regarding the nature of SDRs, how they are used, and what countries they can help.

Case in point: the following letter from Republican Senators Pat Toomey (R-PA), Jim Risch (R-ID), John Kennedy (R-LA), and Bill Hagerty (R-TN) to Treasury Secretary Janet Yellen, strongly opposing a new issuance of SDRs, is filled with misconceptions and inaccurate information about SDRs.

The following is a fact-check of the March 24, 2021 letter from the Republican senators.

Claim 1:

> *"...SDRs are backed by IMF member countries' fiat currencies, the largest component being the American dollar."*

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Reality:

> This implies that the US is somehow responsible for providing dollars in exchange for SDRs held by member countries, which is not true.

Claim 2:

> *"The proposed allocation of SDRs would be...a wasteful use of taxpayer dollars..."*

(IMF) allocate new Special Drawing Rights (SDRs), without congressional approval, to purportedly help poor countries respond to the COVID-19 pandemic. As you are aware, SDRs are backed by IMF member countries' fiat currencies, the largest component being the American dollar. The proposed allocation of SDRs would be inappropriate, ineffective, and a wasteful use of taxpayer dollars that would end up benefiting repressive regimes and state-sponsors of terrorism. We strongly urge you to abandon your support for this proposal.

Reality:

> This is false. The phrase "wasteful use of taxpayer dollars" cannot be true about any SDR allocation. There are no US taxpayer dollars involved in the issuance or allocation of SDRs. Nor does the issuance or allocation of SDRs require the US government to provide dollars in exchange for SDRs.

Source:

- **QUESTIONS AND ANSWERS ON SPECIAL DRAWING RIGHTS (SDRS)**, International Monetary Fund, https://www.imf.org/en/About/FAQ/special-drawing-right

Claim 3:

> *"While some poor countries may have a need for foreign aid, SDR allocations are not meant to be used as a back door for providing such aid."*

Under the IMF's own rules, general allocations of SDRs should only occur when necessary to meet a long-term global need for reserve assets. Currently, there is no such need. While some poor countries may have a need for foreign aid, SDR allocations are not meant to be used as a back door for providing such aid. The IMF has other more suitable tools for aiding poor countries. The United States does as well. But in our system of government, the decision to

Reality:

> SDRs are not foreign aid; an issuance of SDRs costs the US government nothing.

As the IMF has noted: *"[a]n SDR allocation is cost free. Allocating SDRs does not require contributions from donor countries' budgets. SDRs are a reserve asset, not foreign aid. Most importantly, an SDR allocation does not add to any country's public debt burden."*

Sources:

- **QUESTIONS AND ANSWERS ON SPECIAL DRAWING RIGHTS (SDRS): Q1. What is an SDR?**, International Monetary Fund, https://www.imf.org/en/About/FAQ/special-drawing-right
- **SPECIAL DRAWING RIGHTS 7 THINGS YOU NEED TO KNOW ABOUT SDR ALLOCATIONS**, International Monetary Fund, https://www.imf.org/en/Topics/special-drawing-right/seven-things-you-need-to-know-about-sdr-allocations

Claim 4:

> *"Not only would such an SDR allocation be inappropriate under the IMF's rules…"*

Not only would such an SDR allocation be inappropriate under the IMF's rules, but some have reportedly suggested that the administration structure a $1 trillion allocation in a way to avoid

Reality:

> There is nothing inappropriate about this allocation under IMF rules.

Sources:

- **QUESTIONS AND ANSWERS ON SPECIAL DRAWING RIGHTS (SDRS): Q2. What is a general SDR allocation?**, International Monetary Fund, https://www.imf.org/en/About/FAQ/special-drawing-right

  "The IMF has the authority under its Articles of Agreement to create unconditional liquidity through 'general allocations' of SDRs to participants in its SDR Department (currently, all members of the IMF) in proportion to their quotas in the IMF. The IMF's Articles prescribe the conditions under which such allocations can be made, namely that general allocations of SDRs should meet a long-term global need to supplement existing reserve assets in a manner that will promote the attainment of the IMF's purposes and avoid economic stagnation and deflation, as well as excess demand and inflation; and that these allocations should have the broad support of SDR Department participants."
- **Articles of Agreement, Article XIX: Operations and Transactions in Special Drawing Rights, Section 3. Requirement of need**, International Monetary Fund, https://www.imf.org/external/pubs/ft/aa/index.htm
- *"(a) In transactions under Section 2(a) of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves."*

Claim 5:

> *"In fact, over two-thirds of any allocation would go to G20 countries, which do not need assistance..."*

Even if an allocation of SDRs were appropriate—which it is not—it is an ineffective method of providing foreign aid to low-income countries. As you noted just last year, "in such an allocation, all [IMF] members receive SDRs based on their IMF quotas, so a large share of the money goes to developed countries like the United States."[1] In fact, over two-thirds of any allocation would go to G20 countries, which do not need assistance, and less than ten percent would reach poor countries. There is no rational economic justification for such a poorly targeted distribution of aid.

Reality:

> This is true but none of the high-income countries would be able to convert the SDRs to hard currency because they cannot show need, as required. These SDRs would only be an accounting entry at the IMF, and not involve any use of real resources.

Claim 6:

> *"That means billions of dollars' worth of SDRs would go to China, Russia, Iran, Venezuela, and Syria. These countries would be entitled to exchange their SDRs for hard currency, such as US dollars or Euros, and use them for any purpose whatsoever."*

An allocation would also directly benefit repressive regimes around the world, including U.S. adversaries and state-sponsors of terrorism, since all IMF members would receive SDRs. That means billions of dollars' worth of SDRs would go to China, Russia, Iran, Venezuela, and Syria. These countries would be entitled to exchange their SDRs for hard currency, such as U.S. dollars or Euros, and use them for any purpose whatsoever. There are no strings attached or conditions placed on their use of these funds.

Reality:

> China would not be able to convert SDRs to hard currency because it could not show need. It has more than $3 trillion in international reserves. Furthermore, in 2015 China's own currency became eligible to be added to the basket of currencies used to determine the value of the SDR; this is another reason that it would not be able to show need.

Iran would not be able to convert SDRs to hard currency because of US sanctions, and Venezuela would not be able to convert SDRs to hard currency for the same reason. Also, according to the IMF on April 16, Venezuela would be cut off from all SDRs "until a government is recognized" by the IMF.

Sources:

- **Articles of Agreement, Article XIX: Operations and Transactions in Special Drawing Rights, Section 3. Requirement of need**, International Monetary Fund, https://www.imf.org/external/pubs/ft/aa/index.htm

  "(a) In transactions under Section 2(a) of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves."
- **The IMF's Special Drawing Right and China's Renminbi**, Congressional Research Service, https://crsreports.congress.gov/product/pdf/IF/IF10327/5
- **Venezuela Cut Off From Share of IMF's $650 Billion New Reserves**, Bloomberg, April 16, 2021, https://www.bloomberg.com/news/articles/2021-04-16/venezuela-cut-off-from-share-of-imf-s-650-billion-new-reserves

Claim 7:

> *"To the contrary, it comes at a permanent cost to the US taxpayer. IMF members can demand that a fellow member nation exchange SDRs for hard currency. Ultimately, SDRs can be redeemed from the US government by foreign countries for dollars in the form of 'loans' that do not have to be repaid. These dollars come from the US government, which would need to issue debt to obtain sufficient dollars to meet an SDR demand. That debt will need to be repaid by current and future taxpayers."*

This inappropriate distribution of foreign aid does not come without costs. To the contrary, it comes at a permanent cost to the U.S. taxpayer. IMF members can demand that a fellow member nation exchange SDRs for hard currency. Ultimately, SDRs can be redeemed from the U.S. government by foreign countries for dollars in the form of "loans" that do not have to be repaid. These dollars come from the U.S. government, which would need to issue debt to obtain sufficient dollars to meet an SDR demand. That debt will need to be repaid by current and future taxpayers.

Reality:

> Again, the issuance of SDRs has zero cost to the US government. There will be no debt for current or future taxpayers.

And "SDRs can be redeemed from the US government by foreign countries for dollars" only if the US government chooses to do so. Most IMF members have dollars and other hard currencies that they can exchange for SDRs with countries in need (and many did so, in 2009 after the last special issuance of hundreds of billions of dollars worth of SDRs). Also, it is worth noting that less than 2 percent of the SDRs issued in 2009, during the world recession, were exchanged for hard currency.

Sources:

- **QUESTIONS AND ANSWERS ON SPECIAL DRAWING RIGHTS (SDRS): Q1. What is an SDR?**, International Monetary Fund, https://www.imf.org/en/About/FAQ/special-drawing-right

  "An SDR allocation is 'cost free'. An SDR allocation involves two elements: an increase in the SDR Department participants' (currently all Fund members) allocation of SDRs (liabilities) and a matching increase in its holdings of SDRs (assets). The SDR Department pays interest on SDR holdings to each member and levies charges on SDR allocations of each member at the same rate (the SDR interest rate). Thus, an SDR allocation is 'cost-free' for all members because charges and interest net out to zero if the countries do not use their SDR allocations."
- **FACT SHEET: How An Allocation of International Monetary Fund Special Drawing Rights Will Support Low-Income Countries, the Global Economy, and the United States: QUESTION: DOES AN SDR ALLOCATION IMPOSE A LARGE FINANCIAL BURDEN ON THE UNITED STATES?**, US Department of Treasury, https://home.treasury.gov/news/press-releases/jy0095
- **QUESTIONS AND ANSWERS ON SPECIAL DRAWING RIGHTS (SDRS): Q7. Are there any costs involved in a general SDR allocation? Is there any other cost associated with holding SDRs?**, International Monetary Fund, https://www.imf.org/en/About/FAQ/special-drawing-right

FURTHER READING

> **Republican Senate Leadership on IMF Special Drawing Rights (SDRs): A Fact-Check**, Center for Economic and Policy Research, https://cepr.shorthandstories.com/fact-check-sdrs/index.html

> **A Global COVID-19 Response with Special Drawing Rights**, https://globalcovidresponse.org/

> **The World Economy Needs a Stimulus: IMF Special Drawing Rights Are Critical to Containing the Pandemic and Boosting the World Economy**, Center for Economic and Policy Research and Oxfam America, https://cepr.net/wp-content/uploads/2020/06/2020-06-SDR-Brief-1.pdf

> **First Available Data Shows Countries Are Using Special Drawing Rights to Stabilize Their Economies and Address the Pandemic**, Center for Economic and Policy Research and Oxfam America, https://cepr.net/first-data-shows-countries-using-special-drawing-rights-stabilize-their-economies-and-address-the-pandemic/