December 8, 2023

Iran and Special Drawing Rights (SDRs)

The October 7, 2023, attack by Hamas (a U.S.-designated foreign terrorist organization) on Israel and the ensuing conflict have increased U.S. government scrutiny on Iran, a longtime backer of Hamas. The United States maintains broad economic sanctions against Iran and, following the attacks on Israel, some Members have taken renewed interest in further limiting the government of Iran's access to international sources of financing.

The government of Iran's holdings of about $6.6 billion in special drawing rights (SDRs) at the International Monetary Fund (IMF) have emerged as a particular interest for Congress. Some Members have expressed concerns about Iran's SDRs through proposed legislation, letters to the Biden Administration, congressional hearings, and public statements.

What are Special Drawing Rights?

Created by IMF members in 1969, SDRs are international reserve assets. SDRs are different from other reserve assets, however, because SDRs are not physical assets (like gold or silver) and SDRs are not a currency (like dollars or euros, which governments can use to buy things).

Instead, SDRs are claims to the freely-useable currencies (like dollars and euros, also called hard currencies) of IMF members. If a government cannot access hard currency through international markets at a reasonable rate, it can sell some or all of its SDRs to another government in exchange for hard currency. In this way, SDRs provide liquidity support to governments.

To date, IMF members have created SDRs totaling about $878 billion. The IMF generally allocates SDRs in proportion to the size of a member's economy. The United States has the largest SDR allocation, about $153 billion (17.4%).

The SDR as a Unit of Account

The IMF sets the value of an SDR using a basket of major currencies, currently the U.S. dollar, the euro, the renminbi (RMB), the yen, and the pound sterling. The IMF publishes the exchange rate between SDRs and other currencies daily.

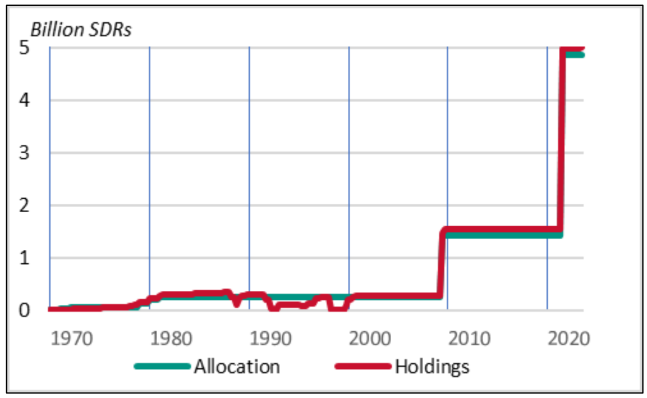
The IMF uses the SDR as a unit of account—meaning that the IMF reports monetary values in SDRs, rather than dollars, euros, or other currency. For example, the IMF reports the size of its loans in terms of SDRs rather than dollars.

The values discussed throughout this report are based on values reported by the IMF in SDRs and converted to U.S. dollars by CRS using the SDR/$ exchange rate of 1.329 on December 7, 2023. Values noted in dollars are approximations because they fluctuate with exchange rates.

Iran's SDRs

Since 2001, Iran has held more SDRs than it has been allocated (**Figure 1**). Countries with surplus SDRs (where holdings exceed allocation) have purchased SDRs from other members in exchange for hard currencies—that is, countries with surplus SDRs have provided liquidity support to other countries. The data suggests that Iran has not liquidated its SDRs for at least two decades, in order to gain hard currencies.

Figure 1. Iran's Holdings and Allocations of SDRs



Source: Figure created by CRS using data from the IMF's International Financial Statistics.

Notes: Abrupt upticks in 2009 and 2021 reflect new SDR allocations.

As of end-October 2023, Iran's SDR holdings totaled about $6.6 billion, while its SDR allocation totaled about $6.4 billion. Iran's share of SDRs is 0.73%.

Countries with surplus SDR holdings earn interest on these holdings. In August 2023, the IMF paid Iran a quarterly interest payment of about $1.8 million on Iran's surplus SDR holdings and added it to its SDR holdings. The data suggests that the Iranian government has not converted that interest into useable currencies.

U.S. Policy

Two provisions in U.S. law require the Secretary of the Treasury to instruct the U.S. Executive Director (USED) at the IMF to oppose SDR transactions with any government that supports acts of international terrorism (often referred to as state-sponsors of terrorism [SSOTs]; see text box on next page). The State Department has designated the government of Iran as an SSOT since 1984.

Additionally, in 2021, the Treasury Department emphasized that it retains the right to refuse SDR transactions with any country whose policies run counter to U.S. interests.

The United States cannot prohibit another country from engaging in SDR transactions with Iran. U.S. sanctions on Iran, however, authorize sanctions on foreign entities that engage in transactions with Iran's central bank. SDR transactions usually occur between central banks, and a country whose central bank engages in an SDR transaction with Iran could potentially face U.S. sanctions.

SDRs and State-Sponsors of Terrorism

Section 1621 of the International Financial Institutions Act (P.L. 95-118, added by P.L. 104-132; 22 USC 262p-4q) requires the Secretary of the Treasury to instruct the U.S. Executive Director at each international financial institution (including the IMF) to use the voice and vote of the United States to oppose "any loan or other use of the funds" to an SSOT.

Sec. 7090(a) of the Department of State, Foreign Operations, and Related Programs Act, 2010 (division F of P.L. 111-117) requires the Secretary of the Treasury to instruct the U.S. Executive Director at the IMF to oppose providing hard currencies in exchange for SDR assets to an SSOT. Congress has since extended this requirement annually, most recently in P.L. 117-328 at section 7054(a) (136 Stat. 5076).

Options for Congress

Although the data suggests that Iran has not liquidated its SDR holdings in at least two decades, some Members are seeking additional assurances that Iran cannot utilize its SDR resources. Congress would have several options for pursuing such assurances, including:

Make permanent Sec. 7090(a) of the Department of State, Foreign Operations, and Related Programs Act, 2010. To remain in force, this provision currently needs to be renewed annually. Congress could incorporate the requirement permanently into legislation that governs U.S. participation in the international financial institutions (IFIs).

Require real-time notification of any countries transacting SDRs with Iran. The IMF publishes data on SDR holdings at the end of each month. The Administration may have more timely insight into SDR transactions through its interactions with the Fund. Congress could require the Administration to report to Congress, upon discovery, any SDR transactions involving Iran.

Require the Administration to report to Congress on the United States' Voluntary Trade Arrangement (VTA) with the IMF. VTAs are bilateral agreements between an SDR participant and the IMF to buy or sell SDRs within certain limits. Congress could request details from the Administration about how the United States' VTA addresses potential SDR transactions with countries of concern, including Iran.

Explicitly link SDR transactions with Iran and secondary sanctions. Congress could pass legislation requiring the Administration to impose sanctions on the central bank of a foreign government that engages in an SDR transaction with Iran, or report to Congress on why such sanctions have not been imposed.

Require congressional authorization for the allocation of new SDRs to Iran. Under current U.S. law, the Administration can support "general" SDR allocations (whereby new SDRs are created and allocated to all members in proportion to IMF quota) below a certain threshold (currently about $633 billion), without congressional authorization (22 USC 286q(a)). Congress could require congressional authorization for the United States to support any SDR allocation that would include increasing Iran's SDR allocation. Congress could also go further and prohibit U.S. support for such an allocation. The United States has unique veto power over all SDR allocations; as a result, SDR allocations cannot go forward without U.S. support.

Some Members have introduced legislation in the 118th Congress related to some of these options (see text box).

Iran and SDRS: Select Legislation in the 118th Congress

No Dollars for Dictators Act of 2023 (S. 3057). Would amend the Special Drawing Rights Act to require Congress' authorization for the United States to support an increase in SDRs for SSOTs or perpetrators of genocide.

IMF Accountability Act of 2023 (S. 3150). Would amend the Special Drawing Rights Act to require Congress' authorization for the United States to vote to allocate SDRs to specific countries of concern, including Iran.

Hamas Sanctions Act of 2023 (S. 3166). Would require reporting and sanctions on entities engaging in SDR transactions with Iran.

Special Drawing Rights Oversight Act of 2023 (H.R. 605). Would require congressional authorization for the United States to support an allocation of SDRs to SSOTs or perpetrators of genocide.

No Support for Terror Act (H.R. 689). Would amend the Bretton Woods Agreements Act to require the Secretary of the Treasury to instruct the U.S. Executive Director to the IMF to oppose SDR allocations for SSOTs or perpetrators of genocide.

No U.S. Financing for Iran Act of 2023 (H.R. 5921). Would direct the Secretary of the Treasury to instruct the U.S. Executive Director to the IMF to oppose the allocation of new SDRs to Iran and to work with other IMF members to block Iran's access to its SDR holdings.

No Funds for Iran-Backed Terror Act (H.R. 5994). Would clarify that Section 1621 of the International Financial Institutions Act applies to SDRs, and would direct the Treasury Secretary to instruct the USED of the IMF to use its voice and vote to prevent Iran from using its SDRs.

End Financing for Hamas and State Sponsors of Terrorism Act (H.R. 6322). Amends permanent law stated in 31 U.S.C. to prohibit the Secretary of the Treasury from using U.S. SDRs for transactions with any SSOT.

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