QUARTERLY REPORT TO CONGRESS ON
FINANCIAL IMPLICATIONS OF U.S. PARTICIPATION
IN THE INTERNATIONAL MONETARY FUND

MARCH 2001

This report has been prepared in compliance with Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000[1]. The report focuses exclusively on the financial implications of U.S. participation in the IMF and does not attempt to quantify the broad and substantial economic benefits to the United States and the global economy resulting from U.S. participation in the IMF.

As required, the report provides financial information on the net interest and valuation changes associated with U.S. participation in the International Monetary Fund (IMF). The broader context for the financial implications of U.S. participation in the IMF and the methodology used in deriving these figures is laid out in previous reports; the methodology is also summarized briefly in the footnotes attached to the tables. Reports under this provision are prepared quarterly and made available to the public on the Treasury website: http://www.treas.gov/press/releases/reports.htm.

This report covers the quarter ended December 30, 2000. It provides information on U.S. participation in the IMF's General Department (consistent with past practice in providing information to Congress on the financial implications of U.S. participation in the IMF) as well as information related to U.S. holdings of Special Drawing Rights (SDRs)[2] as part of its international reserves and the financial implications of U.S. participation in the SDR Department of the IMF.

Table 1 shows the net interest and valuation changes related to U.S. participation in the General Department for the quarter ending December 31, 2000. Table 2 shows the net interest and valuation changes related to U.S. participation in the SDR Department, also for the quarter ending December 31, 2000. The attached footnotes explain the columns shown on each table and provide pertinent information and assumptions used in the calculations.

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[1] Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000, Public Law 106-113, 113 Stat. 1501A-317 requires that the Secretary of the Treasury prepare and transmit to the appropriate committees of the Congress a quarterly report on the costs or benefits of United States participation in the International Monetary Fund (IMF), detailing the costs or benefits to the United States, as well as valuation gains or losses on the United States' reserve position in the IMF.

[2] The SDR is an international reserve asset created by the IMF. The SDR is used as a unit of account by the IMF and other international organizations. Its value is determined as a weighted average of a basket of currencies -- the dollar, euro, pound sterling and yen. The SDR carries a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.

As shown in Table 1, for the first quarter of the fiscal year beginning on October 1, 2000 (FY 2001), the financial implications of U.S. participation in the General Department reflected a net interest effect of positive $15 million, and a valuation change of positive $56 million.[3]

As shown in Table 2, for the first quarter of FY 2001, the net interest effect of U.S. participation in the SDR Department was negative $17 million. Over the same period, the valuation change on SDR holdings was positive $15 million.[4]

As explained in earlier reports, economic theory suggests that fluctuations in the SDR against the dollar and differentials in the dollar and SDR interest rates should be offsetting. In practice, the exchange rate and interest rate differentials rarely fully offset each other for any given period – so that there may be a significant positive or negative total in any particular quarter(s). Nonetheless, the historical average suggests that the economic theory is borne out over time.

Attachments

[3] For an explanation of the methodology used in deriving these figures, see section on "Calculating the Financial Implications of U.S. Participation in the General Department" in the report prepared for the fourth quarter of fiscal year 2000, submitted in December 2000 and available at http://www.treas.gov/press/releases/reports.htm.

[4] For an explanation of the methodology used in deriving these figures, see section on "Calculating the Financial Implications of U.S. Participation in the SDR Department" in the report prepared for the fourth quarter of fiscal year 2000, submitted in December 2000 and available at http://www.treas.gov/press/releases/reports.htm.

Table 1

Net Interest and Valuation Changes Related to U.S. Participation in the General Department of the IMF, U.S. Fiscal Year, Quarterly (in millions of U.S. Dollars)

	Transactions with the IMF			Interest Calculations				Valuation Changes	Totals
	Transactions Under U.S. Quota (Letter of Credit &Transfers of Reserve Assets, Cumulative)	U.S. Loans to IMF Under SFF, GAB, NAB (Cumulative)	Total U.S. Transactions with the IMF (Col 1+2)	Interest Associated with U.S. Transactions with the IMF	Remuneration Received by U.S. from IMF & Refund of Burden Sharing	Interest Received from IMF Under SFF, GAB, and NAB	Net Interest (Col. 4+5+6)	Valuation Changes on U.S. Reserve Position	Total (Col 7+8)
	Col. 1	**Col. 2**	**Col. 3**	**Col. 4**	**Col.5**	**Col.6**	**Col. 7**	**Col. 8**	**Col. 9**
FY 2001									
Q1	-9,762	0	-9,762	-118	133	0	15	56	71

Detail may not add to total due to rounding.

Footnotes to Columns in Table 1

Column 1: Total cumulative transactions under the U.S. Quota, including drawings by the IMF under the Letter of Credit (75% portion of the U.S. quota) and the transfers of reserve assets to the IMF (generally 25% of the U.S. quota).

Column 2: Total cumulative dollar funding through loans to the IMF made by the U.S. under the Supplementary Financing Facility (SFF, in 1980), the General Arrangements to Borrow (GAB, in FY1998) and the New Arrangements to Borrow (NAB, in FY1999). All U.S. loans under the three facilities/arrangements have been repaid.

Column 3: Total cumulative U.S. transactions with the Fund (horizontal summation of columns 1 and 2).

Column 4: Total interest associated with total cumulative transactions shown in column 3. This includes interest paid on additional public borrowing to fund day-to-day transactions under the Letter of Credit and occasional transfers under loan arrangements (SFF, GAB, NAB), as well as interest income foregone due to the transfer of reserve assets to the IMF at the time of a quota increase. In order to provide resources under the Letter of Credit or under loan arrangements, the Treasury borrows from the public via additional issuance in the Treasury market; the three-month Treasury Bill rate is used as a proxy for calculating the associated interest cost. This portion of the total interest paid enters the U.S. budget as interest on the public debt. For purposes of calculating foregone interest on the transfer of reserve assets to the IMF, the SDR interest rate is used.

Column 5: The U.S. earns interest on the non-gold portion of its reserve position in the IMF. This interest is called remuneration and, in combination with an adjustment by the IMF related to burden-sharing, is paid by the IMF every quarter. If remuneration is paid in SDRs, it is paid to the Exchange Stabilization Fund (ESF) and the ESF transfers the dollar equivalent to the Treasury General Fund. It is recorded in the budget as an offsetting receipt from the public. If the United States took payment in dollars (which it does not now do) the payment would be in the form of a decrease in the U.S. Letter of Credit and a counterpart increase in the U.S. reserve position.

Column 6: These amounts constitute the interest payments the United States has received on its loans to the IMF under the SFF, GAB, and NAB.

Column 7: Total net interest paid, foregone or received as a result of U.S. participation in the General Department of the IMF.

Column 8: The U.S. reserve position in the IMF is denominated in SDRs. The valuation gain (if positive) or loss (if negative) refers to the exchange rate gain or loss on the reserve position due to changes in the dollar value of the SDR. For example, if the SDR appreciates/dollar depreciates, then the dollar value of the reserve position rises and a valuation gain is recorded. This column would also include valuation gains or losses experienced as a result of U.S. loans under SFF, GAB and NAB.

Column 9: The total of net interest and valuation changes, obtained by summing column 7 and column 8.

Net Interest and Valuation Changes Related to U.S. Participation in the SDR Department of the IMF, U.S. Fiscal Year, Quarterly

Table 2

(in millions of U.S. Dollars)

	Net SDR Holdings			**Interest Calculations**			**Valuation Changes**	**Totals**
	Dollar Value of SDR Holdings	Dollar Value of Cumulative SDR Allocation	Net SDR Holdings (Col 1 - 2)	Interest Earned (or Paid) on Net SDR Holdings	Interested Associated with Financing Cumulative U.S. SDR Transactions	Net Interest (Col. 4 - 5)	Valuation Changes on U.S. Reserve Position	Total (Col 6+7)
	Col. 1	**Col. 2**	**Col. 3**	**Col. 4**	**Col.5**	**Col.6**	**Col. 7**	**Col. 8**
FY 2001								
Q1	10,539	6,384	4,155	45	62	-17	15	-1

Detail may not add to total due to rounding.

Footnotes to Columns in Table 2

Column 1: Total stock of U.S. holdings of Special Drawing Rights (SDRs) measured from end of period, converted into dollars at the fiscal year-end exchange rate. Source: IMF.

Column 2: Total stock of U.S. SDR allocations measured from end of period, converted into dollars at the fiscal year-end exchange rate. Changes in dollar value of SDR allocations reflect only exchange rate changes. Source: IMF.

Column 3: Total stock of U.S. SDR holdings minus allocations measured from end of period (Column 1 minus Column 2), converted into dollars at the fiscal year-end exchange rate.

Column 4: Net interest earned on SDR holdings. Derived by subtracting charges on SDR allocations (the SDR end-of-quarter interest rate times SDR allocations) from interest earned on SDR holdings (the SDR end-of-quarter interest rate times SDR holdings). All interest is calculated as compounding quarterly.

Column 5: Net effect on U.S. borrowing costs due to cumulative net SDR purchases or sales, using the simplifying assumption that transactions are carried out in dollars. Derived by multiplying the dollar equivalent of cumulative net SDR purchases by the end-of-quarter three-month Treasury T-bill rate. Interest is calculated on the basis of end-quarter holdings and compounded quarterly.

Column 6: Net Interest (Column 4 minus 5).

Column 7: Derived by subtracting the change in total SDR holdings from the change in the dollar equivalent of total SDR holdings (end-period to end-period) divided by the end-period SDR/dollar exchange rate. The valuation gain (if positive) or loss (if negative) refers to the exchange rate gain or loss on the reserve position due to changes in the dollar value of the SDR. For example, if the SDR appreciates/dollar depreciates, then the impact on the dollar value of U.S. holdings of SDRS is positive, and a valuation gain is recorded.

Column 8: The total net interest and valuation changes (sum of Columns 6 and 7).