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

Fiscal Year 2003

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 income 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 have been 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/reports.html.

This report provides quarterly data for the fiscal year 2003. It provides information on U.S. participation in the IMF's General Department as well as information related to U.S. holdings of Special Drawing Rights (SDRs) as part of its international reserves and the financial implications of U.S. participation in the SDR Department of the IMF.[2]

Data on the net interest income and valuation changes related to U.S. participation in the IMF's General Department during the fiscal year 2003 is provided in Table 1. For comparison purposes, previously-reported data for fiscal years 2000, 2001 and 2002 is also provided. (The data for these fiscal years reflects corrections to the information previously provided.)

Similarly, data for net interest income and valuation changes related to U.S. participation in the SDR Department of the IMF during the fiscal year 2003 is provided in Table 2. For comparison purposes, previously reported data for fiscal year 2002 is also provided.

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 fiscal year 2003, the financial implications of U.S. participation in the General Department reflected a net interest income effect of $65 million, relative to $34 million, $7 million, and negative $43 million in fiscal years 2002, 2001 and 2000, respectively. The valuation change on the U.S. Reserve Position for fiscal year 2003 was $1.7 billion, which compares to $446 million, negative $47 million, and negative $1.1 billion in the prior three years.[3]

As shown in Table 2, for the fiscal year 2003, the net interest income effect of U.S. participation in the SDR Department was $17 million, relative to $12 million in the prior period. The valuation change for fiscal year 2003 on U.S. SDR holdings was $396 million, compared to $134 million in 2002.[4]

Attachments

[3] For an explanation of the methodology used in deriving these figures, see the 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/report3073.htm

[4] For an explanation of the methodology used in deriving these figures, see the 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/report3073.htm.

Table 1

Net Interest Income and Valuation Changes Related to U.S. Participation in the IMF

-- General Account --

U.S. Fiscal Year, Quarterly

($M U.S. Dollars)

	Transactions with the IMF			Interest Calculations				Valuation	Total
Fiscal Year Ended 9/30	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 Expense Associated with Financing 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 Income (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
2000									
Q1: Oct - Dec 99	-$14,263	$0	-$14,263	-$165	$147	$0	-$18	-$227	-$245
Q2: Jan - Mar 00	-14,484	0	-14,484	-171	148	0	-24	-316	-340
Q3: Apr - June 00	-12,161	0	-12,161	-146	144	0	-2	-115	-117
Q4: July - Sept 00	-10,864	0	-10,864	-139	139	0	0	-444	-444
Total				**-$621**	**$578**	**$0**	**-$43**	**-$1,102**	**-$1,146**
2001									
Q1: Oct - Dec 00	-$11,949	$0	-$11,949	-$138	$133	$0	-$5	$56	$51
Q2: Jan - Mar 01	-11,378	0	-11,378	-128	139	0	11	-474	-463
Q3: Apr - June 01	-12,389	0	-12,389	-109	115	0	5	-172	-167
Q4: July - Sept 01	-15,632	0	-15,632	-109	105	0	-4	543	539
Total				**-$484**	**$492**	**$0**	**$7**	**-$47**	**-$40**
2002									
Q1: Oct - Dec 01	-$15,547	$0	-$15,547	-$87	$105	$0	$18	-$467	-$449
Q2: Jan - Mar 02	-14,875	0	-14,875	-82	83	0	1	-125	-124
Q3: Apr - June 02	-16,500	0	-16,500	-80	81	0	1	1,157	1,158
Q4: July - Sept 02	-17,635	0	-17,635	-88	103	0	15	-119	-104
Total				**-$337**	**$372**	**$0**	**$34**	**$446**	**$480**
2003									
Q1: Oct - Dec 02	-$18,152	$0	-$18,152	-$79	$97	$0	$18	$580	$598
Q2: Jan - Mar 03	-18,826	0	-18,826	-72	91	0	19	234	253
Q3: Apr - June 03	-18,737	0	-18,737	-67	82	0	15	439	454
Q4: July - Sept 03	-19,136	0	-19,136	-65	78	0	13	469	482
Total				**-$283**	**$348**	**$0**	**$65**	**$1,722**	**$1,787**

Note: Detail may not add to total due to rounding.

TABLE 1

Footnotes to Columns

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 forgone 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; average cost of funds 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 forgone 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, forgone 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 the SFF, GAB and NAB.

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

Table 2

Net Interest and Valuation Changes Related to U.S. Participation in the IMF

-- SDR Department --

U.S. Fiscal Year, Quarterly
($M U.S. Dollars)

	Net SDR Holdings			Interest Calculations			Valuation	Total
Fiscal Year Ended 9/30	Dollar Value of SDR Holdings	Dollar Value of Cumulative SDR Allocation	Net SDR Holdings (Col. 1 - Col. 2)	Interest Income on Net SDR Holdings	Interest Expense Associated with Financing Cumulative U.S. SDR Transactions	Net Interest Income (Col. 4 + Col. 5)	Valuation Changes	Total (Col. 6 + Col. 7)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
2002								
Q1: Oct - Dec 01	$10,783	$6,157	$4,626	$26	-$25	$0	-$115	-$115
Q2: Jan - Mar 02	10,809	6,109	4,700	27	-24	4	-36	-32
Q3: Apr - June 02	11,645	6,519	5,127	30	-26	3	315	318
Q4: July - Sept 02	11,710	6,481	5,229	29	-24	4	-30	-26
Total				**$112**	**-$100**	**$12**	**$134**	**$145**
2003								
Q1: Oct - Dec 02	$12,166	$6,661	$5,505	$26	-$21	$5	$146	$151
Q2: Jan - Mar 03	11,392	6,731	4,662	20	-16	5	58	63
Q3: Apr - June 03	11,720	6,864	4,857	18	-15	3	92	95
Q4: July - Sept 03	12,062	7,005	5,057	20	-16	4	100	104
Total				**$84**	**-$68**	**$17**	**$396**	**$412**

Note: Detail may not add to total due to rounding.

TABLE 2
Footnotes to Columns

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

Column 2: Total stock of U.S. SDR allocations measured at the end of period, converted into dollars at the end of period 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 end of period 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 average cost of funds rate. Interest is calculated on the basis of end-quarter holdings and compounded quarterly.

Column 6: Net Interest (Column 4 plus 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).