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

FY2011 and FY2012

This report has been prepared in compliance with Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000, Public Law No. 106-113 (Nov. 29, 1999). The report focuses exclusively on the financial implications of U.S. participation in the International Monetary Fund (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 IMF. The broader context for the financial implications of U.S. participation in the IMF and the methodology used in deriving these figures has been laid out in previous reports. The methodology is also summarized briefly in the footnotes attached to the tables. Reports prepared under Section 504(b) are made available to the public on the Treasury website: http://www.treasury.gov/resource-center/international/int-monetary-fund/Pages/imf.aspx.

This report provides quarterly data for the full fiscal years 2011 and 2012.[1] 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 fiscal years 2011 and 2012 are provided in Table 1. For comparison purposes, previously-reported data for the last two fiscal years are also provided.

Similarly, data for net interest income and valuation changes related to U.S. participation in the SDR Department of the IMF during fiscal years 2011 and 2012 are provided in Table 2. For comparison purposes, data for the last two fiscal years are also provided.

The footnotes to the tables explain the columns shown and provide pertinent information and assumptions used in the calculations.

[1] Data for the first quarter of fiscal year 2011 was presented in the last report under Section 504(b), but is included in this report for ease of presentation.

[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 fiscal years 2011 and 2012, the financial implications of U.S. participation in the General Department reflected a net interest income effect of negative $57 million. The quarterly figures can fluctuate considerably at times. However, over the period fiscal year 2000 through fiscal year 2012, the average annual net interest income effect of U.S. participation in the General Department was positive $30 million, while the cumulative net interest income effect was positive $391 million. The valuation change in the U.S. Reserve Position for the fiscal years 2011 and 2012 was negative $524 million.[3] Over the period fiscal year 2000 through fiscal year 2012, the average annual valuation change in the U.S. Reserve Position was positive $134 million, while the cumulative valuation change was positive $1,741 million.

Negative net interest income arises from the fact that under current market conditions, the interest rate associated with financing U.S. transactions with the IMF is larger than the interest rate that the IMF pays on the U.S. reserve position in the IMF. Because IMF quotas are denominated in the SDR, when the SDR appreciates against the dollar a valuation gain is recorded, while when the SDR depreciates there is a valuation loss. Tables 1 and 2 show how these non-realized valuation gains and losses fluctuate from quarter to quarter.

As shown in Table 2, for the fiscal years 2011 and 2012, the net interest income effect of U.S. participation in the SDR Department was zero. The valuation change on U.S. SDR holdings for the first to fourth quarters of fiscal years 2011 and 2012 was positive $36 million.[4]

Over the period fiscal year 2000 through fiscal year 2012, the average annual net interest income effect of U.S. participation in the SDR Department was negative $5 million, while the cumulative net interest income effect was negative $66 million. During the same period, the average annual valuation change on U.S. SDR holdings was positive $40 million, while the cumulative valuation change was positive $522 million.

After transmittal this report, as with previous reports, will be posted on the Treasury website.

Attachments

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[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.treasury.gov/press-center/press-releases/Pages/report3073.aspx.

[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.treasury.gov/press-center/press-releases/Pages/report3073.aspx.

Table 1

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

-- General Department --

U.S. Fiscal Year, Quarterly

(millions of 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 GAB, NAB) Cumulative	Total U.S. Transactions with the IMF/1	Interest Expense Associated with Financing U.S. Transactions with the IMF	Remuneration Received by U.S. from IMF & Refund of Burden Sharing	Interest Received by U.S. from IMF under SFF, GAB, and NAB	Net Interest Income	Valuation Changes on U.S. Reserve Position	Total
			(Col 1+2)				(Col. 4+5+6)		(Col 7+8)
	Col. 1	Col. 2	Col. 3	Col. 4	Col.5	Col.6	Col. 7	Col. 8	Col. 9
2009									
Q1: Oct - Dec 08	-1,799	0	-1,799	-$3	$13	$0	$10	$98	$108
Q2: Jan - Mar 09	-2,555	0	-2,555	-$3	$11	$0	$8	-$236	-$228
Q3: Apr -June 09	-10,352	0	-10,352	-$7	$7	$0	$0	$427	$427
Q4: July -Sept 09	-15,655	0	-15,655	-$18	$9	$0	-$9	$259	$250
Total				**-$30**	**$40**	**$0**	**$10**	**$548**	**$558**
2010									
Q1: Oct - Dec 09	-13,775	0	-13,775	-$15	$7	$0	-$8	-$104	-$112
Q2: Jan - Mar 10	-14,357	0	-14,357	-$16	$5	$0	-$11	-$369	-$380
Q3: Apr -June 10	-14,434	0	-14,434	-$15	$5	$0	-$10	-$311	-$321
Q4: July -Sept 10	-14,692	0	-14,692	-$14	$6	$0	-$8	$618	$610
Total				**-$60**	**$23**	**$0**	**-$36**	**-$166**	**-$202**
2011									
Q1: Oct - Dec 10	-14,371	0	-14,371	-$15	$8	$0	-$7	-$125	-$132
Q2: Jan - Mar 11	-20,830	0	-20,830	-$22	$9	$0	-$13	$220	$207
Q3: Apr -June 11	-19,859	-3,795	-23,654	-$34	$16	$0	-$18	$234	$216
Q4: July -Sept 11	-18,163	-6,230	-24,393	-$25	$26	$4	$4	-$555	-$551
Total				**-$96**	**$59**	**$4**	**-$33**	**-$226**	**-$259**
2012									
Q1: Oct - Dec 11	-18,698	-7,481	-26,179	-$17	$18	$4	$6	-$389	-$383
Q2: Jan - Mar 12	-18,902	-8,350	-27,252	-$18	$8	$3	-$7	$206	$199
Q3: Apr -June 12	-19,416	-11,011	-30,427	-$22	$7	$3	-$12	-$494	-$506
Q4: July -Sept 12	-23,305	-11,873	-35,178	-$21	$6	$3	-$12	$379	$367
Total				**-$77**	**$39**	**$13**	**-$24**	**-$298**	**-$322**

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). This does not include cumulative valuation changes.

Column 2: Total cumulative dollar funding through loans to the IMF made by the U.S. under the General Arrangements to Borrow (GAB, in FY1998) and the New Arrangements to Borrow (NAB, in FY1999 and in FY2011). U.S. loans under the GAB and NAB in 1999 have been repaid.

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

Column 4: Total interest expense associated with total cumulative transactions shown in column 3. This includes interest paid on incremental public borrowing to fund the IMF's use of dollars under the Letter of Credit and any transfer of dollars to the IMF under loan arrangements (SFF, GAB, NAB), as well as interest income forgone on reserve assets transferred to the IMF at the time of a quota increase. As Treasury increases its net borrowing from the public in order to provide resources to the IMF under the Letter of Credit or loan arrangements, the interest cost associated with such borrowing is calculated using Treasury's average cost of funds. This interest cost enters the federal budget as part of 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. reserve position in the IMF is an interest-earning asset of the Treasury General Account (TGA). This interest ("remuneration") is paid by the IMF every IMF fiscal quarter and is recorded in the budget as a negative outlay. The IMF normally pays remuneration in SDRs, which become resources of the Exchange Stabilization Fund (ESF). In return, the ESF transfers an equivalent dollar amount to the TGA. The transfer of dollars from the ESF to the TGA has no effect on Treasury's cash position. If the United States were to request payment in dollars, 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, but no flow of cash to the TGA.

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
(millions of 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	Interest Income on Net SDR Holdings	Interest Expense Associated with Financing Cumulative U.S. SDR Transactions	Net Interest Income	Valuation Changes	Total
			(Col. 1 - 2)			(Col. 4 + 5)		(Col. 6 + 7)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
2009								
Q1: Oct - Dec 08	$9,340	$7,547	$1,794	$12	-$4	$8	-$19	-$12
Q2: Jan - Mar 09	$9,082	$7,325	$1,756	$4	-$3	$2	-$53	-$51
Q3: Apr - June 09	$9,437	$7,605	$1,832	$2	-$3	-$1	$67	$66
Q4: July - Sept 09	$57,945	$55,953	$1,992	$2	-$4	-$2	$38	$36
Total				**$20**	**-$14**	**$7**	**$33**	**$40**
2010								
Q1: Oct - Dec 09	$57,814	$55,364	$2,450	$1	-$4	-$3	-$21	-$24
Q2: Jan - Mar 10	$55,992	$53,614	$2,378	$1	-$5	-$4	-$77	-$81
Q3: Apr - June 10	$54,550	$52,227	$2,323	$1	-$4	-$3	-$62	-$64
Q4: July - Sept 10	$57,410	$54,957	$2,453	$2	-$3	-$1	$121	$120
Total				**$6**	**-$17**	**-$11**	**-$38**	**-$50**
2011								
Q1: Oct - Dec 10	$56,828	$54,390	$2,437	$2	-$3	-$1	-$25	-$27
Q2: Jan - Mar 11	$56,544	$55,994	$549	$2	-$1	$1	$72	$73
Q3: Apr - June 11	$53,296	$52,631	$664	$2	-$1	$1	-$33	-$32
Q4: July - Sept 11	$55,872	$55,146	$726	$1	-$1	$0	$32	$32
Total				**$7**	**-$6**	**$1**	**$45**	**$46**
2012								
Q1: Oct - Dec 11	$54,951	$54,215	$736	$1	-$1	$0	-$12	-$12
Q2: Jan - Mar 12	$55,464	$54,711	$753	$0	-$1	$0	$7	$6
Q3: Apr - June 12	$54,341	$53,593	$747	$0	-$1	$0	-$15	-$16
Q4: July - Sept 12	$55,232	$54,463	$769	$0	-$1	$0	$12	$12
Total				**$1**	**-$3**	**-$1**	**-$9**	**-$10**

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

TABLE 2
Footnotes to Columns

Column 1: Total stock of U.S. holdings of 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 the dollar value of cumulative SDR allocations reflect new SDR allocations as well as exchange rate changes. During Q4 2009, as a result of a general SDR allocation on August 31, 2009, and a special SDR allocation on September 9, 2009, cumulative U.S. SDR allocations increased by SDR 27,539,140,146 and SDR 2,877,010,667, respectively. Source: IMF.

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

Column 4: Net interest earned on SDR holdings. Derived by subtracting actual charges on SDR allocations from actual interest earned on SDR holdings.

Column 5: Net effect on U.S. borrowing costs of cumulative net SDR holdings, derived by multiplying the dollar equivalent of cumulative net SDR holdings by Treasury's average cost of funds rate. Interest is calculated on the basis of end-quarter holdings and compounded quarterly.

Column 6: Net interest income (Column 5 plus Column 6).

Column 7: The valuation change refers to the gain or loss over the period 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. The change is calculated by subtracting the beginning of period dollar value of SDR reserves from the same SDR reserve figure converted to dollars using the end of period exchange rate. This isolates changes due to exchange rate movements from changes due to actual SDR transactions over the period.

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