FY 2020 Methodological Changes

This report includes two methodological changes to estimate the financial implications of U.S. participation in the IMF. These changes arise due to the theoretical nature of this report and the inherent need for judgment. When the United States lends to the IMF, the United States earns interest on a quarterly basis which can be accounted for through cash deposits into the Treasury General Account. However, the United States does not directly borrow from the public each time the IMF draws from the U.S. letter of credit. Interest expense associated with financing transactions with the IMF must therefore be estimated.

Change #1: calculating stock of IMF lending through quota using the IMF's reserve position

To estimate the interest expense associated with financing quota-based transactions with the IMF, we need to calculate the outstanding stock of lending to the IMF under quota. Prior reports calculated this stock using the cumulative monthly changes in the U.S. letter of credit to the IMF since 1980, net of any valuation changes and quota increases. However, after consultations with IMF staff, we have discovered that this method may count unrelated transfers such as income transfers and gold sales toward the outstanding stock of lending to the IMF. Furthermore, this method does not account for any lending prior to 1980.[1]

IMF staff have recommended that we calculate the outstanding stock of lending to the IMF under quota using the U.S. reserve position at the IMF. The reserve position comprises all outstanding transfers from the United States to the IMF as a part of the U.S. quota subscription, including loans under quota, reserve asset payments under a quota increase, and all gold transfers prior to 1978. To calculate the total stock of transactions with the IMF, we sum the reserve position and the IMF's No. 1 account.[2] Using the non-gold portion of this stock, we estimate interest expense for U.S. dollars and SDRs transferred using the U.S. average cost of funds. For simplicity, we continue to estimate interest expense for foreign currencies transferred to the IMF using the SDR interest rate, since assets transferred are currencies that make up the SDR.

Change #2: estimating interest costs of transferring SDRs using U.S. average cost of funds

There is an inconsistency in how prior reports calculated interest expense for SDR holdings relative to SDR transfers to the IMF. The reports estimated interest expense for SDR holdings using the U.S. average cost of funds, as the United States has to finance U.S. dollars in order to purchase SDRs. However, the reports also estimated interest expense for SDR transfers to the IMF under a quota increase using the SDR interest rate, due to the decrease in interest-bearing assets. To resolve this inconsistency, we only use the U.S. average cost of funds to estimate interest expenses related to SDR holdings and transfers, as the underlying cost is the U.S. dollar.

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[1] Prior to 1980, the U.S. lent 1.675 billion SDR worth of gold (about $2.3 billion in 2018) to the IMF—for which the U.S. neither receives interest nor pays interest to finance—and about $1 billion in U.S. dollars, for which the United States earns interest and incurs an interest expense.

[2] The No. 1 account represents part of the IMF currency holdings held at the Federal Reserve Bank of New York which is used for the IMF's operations, including quota subscription payments, purchases, and repurchases. The United States is required to maintain a minimum in No. 1 account equal to 1/4 of 1 percent of the U.S. quota (currently about $290 million).

Table 3 - Methodology Comparison

-- General Department --
U.S. Fiscal Year, Annually
(millions of U.S. Dollars)

Year	Transactions			Interest Expense			Net Interest Income		
	Total U.S. Transactions with the IMF *Cumulative*			Interest Expense Associated with Financing U.S. Transactions with the IMF			Net Interest Income		
	Prior Methodology	Change #1 Only[1]	Changes #1 and #2[2]	Prior Methodology	Change #1 Only[1]	Changes #1 and #2[2]	Prior Methodology	Change #1 Only[1]	Changes #1 and #2[2]
2001	$15,632	$18,528	$18,528	-$484	-$504	-$539	$7	-$12	-$47
2002	$17,635	$20,977	$20,977	-$337	-$346	-$333	$34	$25	$38
2003	$19,136	$24,200	$24,200	-$283	-$308	-$286	$65	$41	$62
2004	$13,867	$19,577	$19,577	-$249	-$296	-$282	$50	$3	$18
2005	$7,772	$13,428	$13,428	-$237	-$330	-$357	$79	-$14	-$41
2006	$1,023	$6,756	$6,756	-$85	-$142	-$205	$125	$68	$5
2007	-$1,375	$4,616	$4,616	-$4	-$35	-$78	$103	$72	$29
2008	$2,285	$4,838	$4,838	-$5	-$118	-$81	$54	-$59	-$22
2009	$15,655	$13,513	$13,513	-$30	-$38	-$45	$10	$2	-$5
2010	$14,692	$13,082	$13,082	-$60	-$17	-$43	-$36	$6	-$20
2011	$24,395	$28,958	$28,958	-$97	-$80	-$87	-$33	-$17	-$24
2012	$35,180	$35,407	$35,407	-$77	-$76	-$92	-$24	-$24	-$40
2013	$35,892	$33,614	$33,614	-$96	-$79	-$102	-$73	-$55	-$78
2014	$30,467	$28,519	$28,519	-$118	-$88	-$119	-$89	-$60	-$91
2015	$31,612	$19,035	$19,035	-$82	-$43	-$74	-$71	-$33	-$64
2016	$22,231	$18,643	$18,643	-$61	-$26	-$64	-$53	-$18	-$56
2017	$24,470	$19,336	$19,336	-$120	-$98	-$140	-$68	-$46	-$89
2018	$29,761	$20,315	$20,315	-$255	-$191	-$266	-$131	-$68	-$143
2019	$44,419	$25,922	$25,922	-$513	-$342	-$431	-$303	-$132	-$221
2020	$53,569	$33,425	$33,425	-$246	-$143	-$174	-$123	-$20	-$51
Total				**-$3,437**	**-$3,300**	**-$3,800**	**-$478**	**-$341**	**-$841**
Annual Average				**-$172**	**-$165**	**-$190**	**-$24**	**-$17**	**-$42**

Note: Calculations under the SDR Department remain unchanged from previous reports. "Remuneration Received by U.S. from IMF & Refund of Burden Sharing" and "Valuation Changes on U.S. Reserve Position" also remain unchanged from previous reports.

[1] "Change #1 Only" only incorporates methodology change #1, as discussed in the Annex.
[2] "Changes #1 and #2" incorporates change #1 and change #2, as discussed in the Annex. This is the method used in the main body of the paper.