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

DECEMBER 2000

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 methodology used in deriving these figures is laid out in the text that follows and 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.

The first report prepared pursuant to Section 504(b) and submitted to Congress on September 1, 2000, focused 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. This report provides, in addition, 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.

This report covers the quarter ended September 30, 2000.

Data on U.S. participation in the IMF's General Department during this quarter and year-end data for fiscal year 2000 are provided in Table 1. Historical data are also included in this report to reflect a minor methodological adjustment, relative to the September 2000 report.[3]

Data on U.S. participation in the SDR Department of the IMF are provided in Table 2. Because this is the first quarterly report under section 504(b) that includes information on participation in the SDR Department, it also includes the historical context of U.S. participation in the SDR

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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.

[3] In the September 2000 report, the cumulative position on U.S. loans to the IMF – under the Supplemental Financing Facility (SFF) General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) – reflected a small valuation gain, which resulted from a change in the relative value of the dollar and SDR between the time the loan was extended and when it was repaid. In this report, that valuation gain has instead been incorporated in the overall valuation change of the U.S. reserve position in the IMF.

Department, with data extending back to the beginning of U.S. fiscal year 1981 – as well as detailed explanatory information on U.S. participation in the SDR Department.

**PARTICIPATION IN THE GENERAL DEPARTMENT**

This section focuses on participation in the IMF's General Department through its quota subscription and through supplemental borrowing arrangements.

The quota is the financial subscription that each member must pay upon joining the IMF. Each country's quota is based on a set of criteria that relate to various dimensions of its relative size in the world economy. Quotas are generally reviewed every five years, with general increases occurring when necessary for the IMF to have additional liquidity available to serve its role in the international monetary system.

When its quota in the IMF increases, the United States normally is required to pay 25 percent of the increase in reserve assets (such as SDRs or certain foreign currencies) [4] and the remainder in domestic currency. The domestic currency element takes the form of an increase in the non-interest-bearing letter of credit available to the IMF.[5] The IMF draws dollars from the letter of credit as necessary to help finance its operations. When currencies are transferred by the United States to the IMF through the 25 percent reserve asset payment or through encashment of the letter of credit, the United States simultaneously receives an equal, offsetting claim in the form of an increase in the U.S. reserve position in the IMF. The reserve position, including any increases resulting from encashment of the letter of credit, is interest-bearing and liquid – and can be drawn at any time in case of a balance of payments need.[6]

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources under certain circumstances. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).[7] These supplemental arrangements make possible temporary support for IMF lending operations in times of crisis when IMF liquidity is low, such as in 1998. All U.S. loans to the IMF made under these borrowing arrangements have been repaid in full.

Under budget and accounting procedures established by the Congress at the time of the 1980 increase in the U.S. quota, an increase in the U.S. quota or in the U.S. portion of a supplemental borrowing arrangement requires budget authorization and appropriation for the full amount of the increase. However, consistent with budgetary practices developed with and adopted by the Congress in the 1960s, U.S. transactions with the IMF relating to the U.S. quota and the supplemental borrowing arrangements (GAB and NAB), are treated as exchanges of monetary assets and thus are not considered to result in net budgetary outlays. This is because the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which, as indicated above, is interest bearing and can be drawn at any time

[4] In 1978, members were allowed to pay for the quota increase entirely in their own currency, and the United States paid in the 25 percent in U.S. dollars instead of in SDRs or foreign currency.
[5] Approximately one quarter of one percent of quota is maintained in cash dollars.
[6] A member's request to make a purchase from the resources represented by its reserve tranche based upon a balance of payments need is given the "overwhelming benefit of any doubt" by the IMF.
[7] The United States also participated in the Supplemental Financing Facility, which existed from 1979-84.

in case of a balance of payments need – and in practice has been drawn under such circumstances. Similarly, when the IMF transfers dollars to the United States, no net budget receipt results because the U.S. reserve position declines simultaneously by an equal amount.

**Calculating the Financial Implications of U.S. Participation in the General Department**

A number of elements go into calculating the financial implications of U.S. participation in the IMF.

- Interest foregone on reserve assets transferred to the IMF.
- Interest paid on increased borrowing to finance U.S. transfers of dollars to the IMF (under the letter of credit, as part of the quota subscription) and U.S. loans to the IMF (under the GAB or NAB).
- Interest received on the U.S. reserve position in the IMF.
- Changes to the value of the U.S. reserve position in the IMF, as a result of fluctuations in the value of the U.S. dollar relative to the SDR. (The dollar value of the reserve position goes up when the dollar depreciates and declines when the dollar appreciates.)

*Net Interest Calculations*

When the United States transfers reserve assets to the IMF to satisfy obligations resulting from a quota increase, the United States incurs a decrease in interest-bearing assets. The SDR interest rate[8] is used in calculating the interest foregone, since assets transferred are either SDRs or currencies that make up the SDR.

When the IMF draws on its letter of credit with the United States, the Treasury finances the cash transfer by borrowing from the public through additional issuance in the Treasury market. The three-month Treasury Bill rate is used as a proxy for calculating the interest cost, since drawings on the letter of credit are incremental calls on Treasury cash balances, and the three-month Treasury Bill market is the shortest, deepest market for adjusting cash balances. Such a short-term approach to financing IMF drawings is appropriate since the resultant increases in the U.S. reserve position in the IMF can be reversed at any time to meet U.S. balance of payments needs, and since the IMF can transfer dollars back to the United States, replenishing the letter of credit at any time.

When the United States provides financing through the supplemental borrowing arrangements (GAB or NAB), the transactions are similarly financed through additional debt issuance. Again, when the IMF transfers dollars back to the United States in repaying GAB or NAB loans, the U.S. cash position is improved and borrowing requirements are reduced.

The United States earns interest on its reserve position in the IMF, including the increases in the reserve position that result when the letter of credit is drawn down by the IMF – although not on

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[8] The SDR interest rate is 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 – currently the dollar, euro, pound sterling, and yen.

the portion of the reserve position originally paid in gold. [9] This interest is called "remuneration." Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share any financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing contingency accounts to reflect the possibility of non-repayment of relevant principal amounts.[10] As overdue interest is paid, previously deferred remuneration corresponding to the creditors' share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors' share of establishing the contingency accounts will be paid in part when there are no longer any overdue obligations or when the IMF Executive Board determines. Generally, in recent years, the amount of remuneration payments deferred has been about 5 percent of accrued remuneration.

The United States also receives interest on any IMF borrowing under supplemental borrowing arrangements – the GAB and NAB. Loans extended under the GAB earn the SDR interest rate. Loans extended under the NAB earn the SDR interest rate or a higher rate if agreed by eighty percent of the participants in a particular loan.

*Valuation Changes*

Because IMF quotas, and transactions thereunder, are denominated in the SDR, fluctuations in the respective values of the dollar and SDR result in valuation gains or losses for the U.S. reserve position. When the SDR appreciates against the dollar, a valuation gain is recorded on the U.S. reserve position in the IMF because the dollar value of the reserve position has risen.[11] When the SDR depreciates against the dollar, a valuation loss is incurred.

Because the domestic currency portion of the U.S. quota – effectively the letter of credit – is also denominated in SDRs, but payable in U.S. dollars, periodic adjustments are made to maintain the SDR value of the letter of credit in terms of dollars. These adjustments do not involve a flow of funds.

*Overall Outcome*

To help assess the overall financial implications of U.S. participation in the General Department, we have provided "totals" reflecting the sum of net interest and valuation changes. The nature of these figures differs, insofar as net interest generally reflects actual flows and valuation changes primarily reflect unrealized resources. Economic theory suggests that this total should result over time in neither net gains nor net losses as exchange rates among major currencies are generally expected to move inversely with interest differentials. According to this theory, the

[9] See Article V, Section 9 of the IMF Articles of Agreement.
[10] The IMF established the first Special Contingency Account in 1987 to further strengthen its financial position in view of the existence of overdue obligations. The IMF established the second Special Contingency Account (SCA-2) in 1990 to protect against risks associated with its new arrears strategy; accumulation of resources in SCA-2 ceased in 1997, and the account was wound up in 2000. The U.S. share of the SCA-2 was contributed to the IMF's HIPC Trust to help finance IMF participation in the HIPC initiative, with authorization from Congress in 1999.
[11] Valuation changes experienced on U.S. loans to the IMF (through the SFF, GAB, or NAB) are included in valuation changes of the U.S. reserve position.

currency of a country with a lower interest rate is expected to appreciate against the currency of a country with a higher interest rate in an amount that would offset the interest differential. In practice, however, changes in exchange rates and differentials in interest rates rarely fully offset one another for any given period. Hence, the computations reported below reflect substantial fluctuations, with significant totals, either positive or negative, often arising at any given point in time.

## PARTICIPATION IN THE SPECIAL DRAWING RIGHTS DEPARTMENT

This section focuses on U.S. participation in the SDR Department of the IMF.

The SDR is an international reserve asset created in 1969 by the IMF to supplement existing reserves. The SDR is also used as a unit of account by the IMF and other international organizations. Its value is determined by a basket of currencies – currently 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.

SDRs were first allocated and distributed to members participating in the SDR Department in 1970. The amount of allocation to each member was set in proportion to its quota share. Six allocations have been made for a total of SDR 21.4 billion. There has been no increase in net cumulative allocations since 1981.

Member country participants hold SDRs as reserve assets, and the SDR carries a market-based interest rate. Participants in the SDR Department may sell SDRs to other participants in return for foreign exchange. In this manner, countries can acquire SDRs, creating a net holding of SDRs beyond their net cumulative allocations; conversely, other participants in the SDR Department may have holdings below their cumulative allocations, creating a net user position.

Participants may use the SDR in a variety of financial transactions with other participants. Such transactions are generally effected by voluntary transactions, which include transactions by agreement; swap arrangements, forward operations, settlement of financial obligations, loans, or grants are also permitted but occur rarely. In addition, the IMF guarantees that a participating country can use its SDR holdings to acquire foreign exchange through a "transaction with designation,"[12] provided that it faces a balance of payments need and is not seeking solely to change the composition of its reserves. Any participant in a strong enough balance of payments and reserve position can be designated to provide freely usable currency for transactions with designation up to the point at which its SDR holdings equal three times its cumulative SDR allocation. However, no transactions with designation have taken place since September 1987; all purchases or sales of SDRs undertaken since this time have been effected by mutual agreement, with the IMF helping to bring together participants and prescribed holders that are ready to sell or buy SDRs.

[12] Such transactions are described in detail in the User's Guide to the SDR, available on the IMF web site at http://www.imf.org/external/pubs/ft/usrgsdr/usercon.htm.

The SDR Department records and administers all transactions and operations involving SDRs. The SDR can only be held and used by member country participants in the SDR Department, by the IMF, and by official entities identified as prescribed holders.[13] However, synthetic SDR-equivalent assets can be created by the private sector.

The IMF's General Department accepts SDRs in settlement of obligations to the IMF, including loan repayments, payment of interest on these loans, and quota payments. The IMF may also use SDRs in extending credit to members, to pay remuneration on members' reserve position and to pay interest and principal on IMF borrowings.

**Calculating the Financial Implications of U.S. Participation in the SDR Department**

Holdings of SDRs represent an asset, while cumulative allocations received represent a liability. When the United States receives an allocation of SDRs, the United States incurs a liability to the Fund as an offset to its increased holdings of SDRs. The United States can increase its holdings of SDRs by buying SDRs in exchange for dollars. The United States has also elected to receive remuneration (interest on its reserve position in the General Department) in the form of SDRs; this interest is received quarterly and serves to increase U.S. holdings of SDRs. At times, the United States has also used its SDR holdings to acquire foreign currencies or to pay a portion of its quota increases in the IMF – resulting in a reduction in U.S. holdings of SDRs.[14]

As is the case with U.S. participation in the General Department, participation in the SDR Department has both interest-related and valuation-related implications. The dollar value of U.S. holdings of SDRs can fluctuate daily; for purposes of this report, the interest and valuation related implications are calculated on end-quarter holdings.

*Net Interest Calculations*

The United States pays charges on its cumulative SDR allocations and earns interest on its SDR holdings. These charges and interest are paid quarterly;[15] both are calculated based on the SDR interest rate. When U.S. holdings equal the U.S. cumulative allocation, interest received is exactly equal to charges paid. Since 1983, the United States holdings have exceeded its cumulative allocation, resulting in net interest received from the Fund.[16]

Any increase in SDR holdings beyond the cumulative allocation – be it through remuneration received on the reserve asset position in the General Department, net interest earned on U.S. SDR holdings, and/or purchases of SDRs in exchange for dollars – is assumed to have financing implications. As with the calculations for U.S. participation in the General Department, the

[13] The IMF has the authority to prescribe, as other holders of SDRs, non-members, member countries that are not SDR Department participants, institutions that perform the functions of a central bank for more than one member, and other official entities. As of end-November 2000, the IMF has approved 16 institutions as prescribed holders.
[14] In calculating the financial implications of U.S. participation in the SDR Department, the simplifying assumption that transactions have been carried out in dollars is applied.
[15] Interest is paid after the end of each IMF financial quarter (on May 1, August 1, November 1 and February 1).
[16] When the United States sold some of its SDR holdings to acquire foreign exchange in 1978, U.S. holdings fell below the net cumulative allocation.

increase in SDR holdings is assumed to be financed through additional federal borrowing from the public through additional issuance in the Treasury market. The three-month Treasury Bill rate is used as a proxy for calculating the interest implications, since the Treasury Bill market is the shortest, deepest market for adjusting cash balances. The use of a short-term interest rate to determine the financial implications of holding SDRs is appropriate since U.S. holdings of SDRs can be reduced at any time to meet U.S. balance of payments needs.

When the United States sells SDRs in exchange for dollars, the U.S. cash position is improved and federal borrowing requirements are reduced. Given the simplifying assumption that transactions are carried out in dollars, sales of SDRs for other currencies (such as U.S. sales of SDRs in 1978) are also assumed to reduce dollar borrowing requirements and result in interest savings.

*Valuation changes*

Fluctuations in the value of the dollar with respect to the SDR result in valuation gains or losses in dollar terms for the U.S. holdings of SDRs and U.S. cumulative allocations. When the SDR appreciates against the dollar, a valuation gain is experienced, because the dollar value of U.S. holdings has risen. When the SDR depreciates against the dollar, a valuation loss is experienced. When U.S. holdings of SDRs equal cumulative allocations, the valuation changes are offsetting; when U.S. holdings exceed or fall below U.S. cumulative allocations, there is a net valuation change.

*Annual Assessment*

All participants pay an assessment annually to reimburse the Fund for the operating expenses of the SDR Department. The total amount of estimated expenses each financial year is shared among participants in proportion to their net cumulative allocations. The assessment is at the same rate for all participants, normally at the rate of about 0.01 percent or less of each participants' net cumulative allocation. The assessment is charged to participants' SDR accounts at the end of each IMF financial year on April 30 and is reflected through a reduction in SDR holdings.

*Overall Outcome*

Similar to U.S. participation in the General Department, we have provided "totals" reflecting the sum of net interest and valuation changes to help assess the overall financial implications of U.S. participation in the SDR Department. The nature of these figures differs insofar as net interest generally reflects actual flows and valuation changes reflect unrealized resources. Economic theory suggests that this total should result over time in neither net gains nor net losses, as exchange rates among major currencies are generally expected to move inversely with interest differentials. According to this theory, the currency of a country with a lower interest rate is expected to appreciate against the currency of a country with a higher interest rate in an amount that would offset the interest differential. In practice, however, changes in exchange rates and differentials in interest rates rarely fully offset one another for any given period. Hence, the computations reported reflect substantial fluctuations, with significant totals (either positive or negative) often arising at any given point in time.

## OVERVIEW OF THE TABLES

Table 1 shows the net interest and valuation changes related to U.S. participation in the General Department for the quarter ending September 30, 2000 and for U.S. fiscal year 2000 as a whole. Table 2 shows the net interest and valuation changes related to U.S. participation in the SDR Department, also for the quarter ending September 30, 2000 and for U.S. fiscal year 2000 as a whole. The attached footnotes explain the columns shown on each table and provide pertinent information and assumptions used in the calculations.

As shown in Table 1, for the fourth quarter of the fiscal year ending on September 30, 2000, (FY 2000), the financial implications of U.S. participation in the General Department reflected a net interest effect of positive $14 million, and a valuation change of negative $444 million. For FY 2000 as a whole, net interest paid was $13 million. The valuation change on the reserve position was negative $1.1 billion. From fiscal year 1981 through fiscal year 2000 net interest averaged negative $11 million, while net valuation changes averaged positive $31 million.

As shown in Table 2, the annual net interest effect of U.S. participation in the SDR Department averaged positive $4 million over the period FY 1981 through FY 2000. Net valuation changes in U.S. SDR holdings averaged positive $36 million annually.

For the fiscal year ended September 30, 1999 (FY1999), the net interest paid by the United States was $40 million. Over the same period, the valuation change on SDR holdings was positive $33 million.

For the fiscal year ended on September 30, 2000 (FY 2000), the net interest effect was negative $58 million, and the valuation change was negative $247 million. The outcome in FY 2000 reflects appreciation of the dollar against the SDR as well as an interest differential resulting from a higher average U.S. interest rate during the period.

As laid out above in the detailed explanatory information for both the General Department and the SDR Department, economic theory suggests that fluctuations in the SDR against the dollar and differentials in the dollar and SDR interests rates should be offsetting. The overall outcome for FY 2000 in both the General Department and the SDR Department reflects the practical reality that exchange rate changes and interest rate differentials rarely fully offset each other for any given period. This explains the significant negative total in this particular year. The historical average of the overall outcome, however, suggests that the economic theory bears out over time.

Attachments

## Table 1 -- Net Interest and Valuation Changes Related to US Participation in the General Department, IMF
### (U.S. Fiscal Year Basis, in millions of US Dollars)

| | **Transactions with the IMF** | | | **Interest Calculations** | | | | **Valuation Changes** | **Totals** |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year ending 9/30 | Transactions Under US Quota (Letter of Credit &Transfers of Reserve Assets, Cumulative) | US Loans to IMF Under SFF, GAB, NAB (Cumulative) | Total US Transactions with IMF (Col. 1+2) | Interest Associated with Financing US Transactions with IMF | Remuneration Received by US from IMF & Refund of Burden Sharing | Interest Received from IMF Under SFF, GAB, and NAB | Net Interest (Col. 4+5+6) | Valuation Changes on US Reserve Position | Total (Col 7+ 8) |
| | **Col. 1** | **Col. 2** | **Col. 3** | **Col. 4** | **Col.5** | **Col.6** | **Col. 7** | **Col. 8** | **Col. 9** |
| 1981 | -2,061 | -840 | -2,902 | -188 | 22 | 45 | -121 | -365 | -485 |
| 1982 | -3,883 | -1,186 | -5,069 | -491 | 216 | 121 | -153 | -323 | -476 |
| 1983 | -6,564 | -1,685 | -8,249 | -637 | 345 | 138 | -154 | -150 | -304 |
| 1984 | -9,501 | -1,601 | -11,102 | -1,003 | 673 | 175 | -155 | -565 | -720 |
| 1985 | -9,102 | -1,405 | -10,507 | -888 | 644 | 154 | -90 | 547 | 457 |
| 1986 | -8,073 | -1,052 | -9,125 | -659 | 595 | 111 | 47 | 1,444 | 1,491 |
| 1987 | -6,904 | -597 | -7,501 | -480 | 449 | 71 | 40 | 575 | 615 |
| 1988 | -5,846 | -217 | -6,063 | -403 | 406 | 49 | 53 | 135 | 188 |
| 1989 | -5,262 | -3 | -5,265 | -456 | 471 | 22 | 37 | -67 | -30 |
| | | | | | | | | *FY1981-89* | *734* |
| 1990 | -4,686 | 0 | -4,686 | -432 | 546 | 4 | 119 | 810 | 929 |
| 1991 | -5,078 | 0 | -5,078 | -353 | 475 | 0 | 121 | -178 | -57 |
| 1992 | -5,068 | 0 | -5,068 | -267 | 400 | 0 | 133 | 687 | 820 |
| 1993 | -7,752 | 0 | -7,752 | -323 | 422 | 0 | 99 | -336 | -237 |
| 1994 | -7,310 | 0 | -7,310 | -310 | 336 | 0 | 26 | 394 | 420 |
| 1995 | -9,649 | 0 | -9,649 | -412 | 407 | 0 | -5 | 270 | 265 |
| 1996 | -11,051 | 0 | -11,051 | -475 | 475 | 0 | 1 | -695 | -694 |
| 1997 | -10,433 | 0 | -10,433 | -470 | 438 | 0 | -32 | -787 | -819 |
| 1998 | -17,363 | -410 | -17,773 | -714 | 590 | 1 | -124 | 151 | 27 |
| *1Q99* | *-18,378* | *-1,278* | *-19,655* | *-193* | *187* | *5* | *-1* | *570* | *569* |
| *2Q99* | *-19,743* | *0* | *-19,743* | *-205* | *175* | *10* | *-20* | *-778* | *-798* |
| *3Q99* | *-18,336* | *0* | *-18,336* | *-186* | *167* | *6* | *-14* | *-378* | *-391* |
| *4Q99* | *-16,058* | *0* | *-16,058* | *-167* | *157* | *0* | *-10* | *784* | *775* |
| 1999 | -16,058 | 0 | -16,058 | -750 | 686 | 20 | -44 | 198 | 154 |
| | | | | | | | | *FY1990-99* | *808* |
| | | | | | | | | *FY1981-99* | *1,542* |
| Annual Average (FY 1981-99) | | | | -511 | 452 | 48 | -11 | 92 | 81 |
| *1Q00* | *-14,263* | *0* | *-14,263* | *-162* | *147* | *0* | *-15* | *-227* | *-242* |
| *2Q00* | *-14,484* | *0* | *-14,484* | *-168* | *148* | *0* | *-20* | *-316* | *-336* |
| *3Q00* | *-11,301* | *0* | *-11,301* | *-135* | *144* | *0* | *8* | *-132* | *-124* |
| *4Q00* | *-10,004* | *0* | *-10,004* | *-126* | *139* | *0* | *14* | *-444* | *-430* |
| 2000 | *-10,004* | 0 | -10,004 | -591 | 578 | 0 | -13 | -1,119 | -1,132 |
| | | | | | | | | *FY1981-00* | 410 |
| Annual Average (FY 1981-00) | | | | -515 | 459 | 46 | -11 | 31 | 21 |

*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). U.S. loans under the three facilities/arrangements have all since been repaid. Valuation gains experienced on repayments shown in this column in the September 2000 report are now reflected in column 8.

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 (which would translate into an 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. The value indicated includes valuation gains or losses experienced as a result of U.S. loans under SFF, GAB and NAB, which had been reflected in column 2 in the September 2000 report. As a result of the methodological change, the sum of net interest and valuation changes for FY 1981 – 1999 changed from positive $76 million in the September 2000 report to positive $81 million in this report.

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 SDR Department of the IMF (in millions of U.S. dollars)

| | Net SDR Holdings | | | Interest Calculations | | | Valuation Changes | Total |
|---|---|---|---|---|---|---|---|---|
| *fiscal year ending 9/30* | *Dollar Value of SDR Holdings* | *Dollar Value of Cumulative SDR Allocation* | *Net SDR Holdings (Col. 1 minus Col. 2)* | *Interest Earned (or Paid) on Net SDR Holdings* | *Interest Associated with Financing Cumulative U.S. SDR Transactions* | *Net Interest (Column 4 - 5)* | *Valuation Changes* | *Total* |
| | **Col. 1** | **Col. 2** | **Col. 3** | **Col. 4** | **Col. 5** | **Col. 6** | **Col. 7** | **Col. 8** |
| 1981 | 3,896 | 5,608 | (1,712) | (233) | 319 | 87 | 274 | 361 |
| 1982 | 4,809 | 5,254 | (445) | (130) | 122 | (8) | 79 | 71 |
| 1983 | 5,628 | 5,178 | 450 | 10 | (12) | (1) | (11) | (13) |
| 1984 | 5,554 | 4,895 | 660 | 25 | (29) | (4) | (23) | (26) |
| 1985 | 6,847 | 5,191 | 1,656 | 95 | (96) | (1) | 85 | 84 |
| 1986 | 8,295 | 5,945 | 2,350 | 146 | (144) | 2 | 283 | 285 |
| 1987 | 9,078 | 6,270 | 2,809 | 153 | (154) | (1) | 130 | 129 |
| 1988 | 9,074 | 6,322 | 2,751 | 179 | (193) | (13) | 17 | 4 |
| 1989 | 9,487 | 6,270 | 3,217 | 248 | (261) | (12) | (35) | (47) |
| | | | | | | | *FY1981-89* | *848* |
| 1990 | 10,666 | 6,823 | 3,843 | 344 | (298) | 46 | 324 | 371 |
| 1991 | 10,722 | 6,703 | 4,019 | 312 | (237) | 75 | (64) | 11 |
| 1992 | 12,111 | 7,216 | 4,895 | 290 | (167) | 123 | 326 | 449 |
| 1993 | 9,203 | 6,950 | 2,253 | 98 | (63) | 35 | (266) | (231) |
| 1994 | 9,971 | 7,189 | 2,782 | 106 | (101) | 5 | 91 | 96 |
| 1995 | 11,035 | 7,380 | 3,655 | 172 | (209) | (37) | 39 | 2 |
| 1996 | 10,177 | 7,052 | 3,125 | 144 | (192) | (48) | (170) | (218) |
| 1997 | 9,997 | 6,689 | 3,308 | 129 | (165) | (36) | (170) | (205) |
| 1998 | 10,106 | 6,719 | 3,387 | 146 | (176) | (30) | 20 | (10) |
| 1Q-1999 | 10,603 | 6,899 | 3,704 | 34 | (42) | (8) | 91 | 83 |
| 2Q-1999 | 9,682 | 6,653 | 3,029 | 26 | (35) | (9) | (132) | (141) |
| 3Q-1999 | 9,719 | 6,545 | 3,174 | 27 | (37) | (11) | (49) | (60) |
| 4Q-1999 | 10,284 | 6,799 | 3,485 | 29 | (42) | (13) | 123 | 111 |
| *1999* | *10,284* | *6,799* | *3,485* | *116* | *(156)* | *(40)* | *33* | *(7)* |
| 1Q-2000 | 10,336 | 6,717 | 3,619 | 35 | (48) | (13) | (42) | (55) |
| 2Q-2000 | 10,335 | 6,599 | 3,736 | 40 | (55) | (15) | (64) | (79) |
| 3Q-2000 | 10,444 | 6,552 | 3,892 | 43 | (57) | (14) | (27) | (41) |
| 4Q-2000 | 10,316 | 6,359 | 3,957 | 46 | (62) | (15) | (115) | (130) |
| *2000* | *10,316* | *6,359* | *3,957* | *164* | *(222)* | *(58)* | *(247)* | *(305)* |
| | | | | | | | *FY1991-00* | *(48)* |
| | | | | | | | *FY1981-00* | *800* |
| **Annual Average (FY 1981-00)** | | | | **132** | **(128)** | **4** | **36** | **40** |

## 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. An additional allocation of SDRs by the IMF changed the SDR value of cumulative allocations in the second quarter of 1981 from $4,042,220 to $4,899,400. All changes in dollar value of SDR allocations thereafter 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. Negative values in 1981 and 1982 reflect U.S. sales of SDRs in 1978, which took U.S. holdings of SDRS below the level of U.S. cumulative allocations.

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).