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

Fiscal Year 2016

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 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.

This report provides quarterly data for the full fiscal year 2016 and annual data for full fiscal years 2001-2016. It provides information on U.S. participation in the IMF's General Department as well as the financial implications of U.S. participation in the SDR Department of the IMF. During the last 16 years, the cumulative net valuation and interest effects for U.S. participation in the IMF's General and SDR Departments have reached positive $1.7 billion.

As required, the report provides financial information on the net interest income and valuation changes associated with U.S. participation in the IMF. These data vary over time, and may be positive or negative for any given quarter or year. For example, negative net interest income could arise when U.S. interest rates (associated with financing U.S. transactions with the IMF) are higher than the Special Drawing Right (SDR)[1] interest rate (which is the basis for the rate that the IMF pays the United States for the use of U.S. financing). Negative valuation changes can occur when the U.S. dollar strengthens relative to the SDR.

Economic theory suggests that the fluctuations in interest rates or exchange rates should not result in either net gains or net losses over time as exchange rates among major currencies are generally expected to move inversely with interest rate 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 interest rates differential rarely fully offset one another for any given period. Hence, the computations reported below reflect substantial fluctuations, with significant gains or losses often arising for any given period in time.

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.

Data on the average annual and cumulative income effect and valuation changes related to U.S. participation in the IMF's General Department over the 16-year period from 2001 to 2016 are provided in Table 1a. Data on the net interest income and valuation changes during fiscal year 2016 are provided in Table 1b.

[1] 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 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.

Similarly, data on the average annual and cumulative income effect and valuation changes related to U.S. participation in the SDR Department of the IMF over the 16 year period from 2001 to 2016 are provided in Table 2a. Data on net interest income and valuation changes during fiscal year 2016 are provided in Table 2b.

There are broad and substantial economic benefits to the United States resulting from U.S. participation in the IMF beyond the net interest and valuation effects described in this report. The IMF supports U.S. jobs, exports, and financial markets. During financial crises abroad, the United States leverages the IMF as the first responder to protect our domestic economy by promoting global growth and stability. Through its three main activities—surveillance, lending, and technical assistance—the IMF promotes economic stability and helps prevent and resolve financial crises when they occur. When foreign economies are in crisis, they import less from U.S. businesses, they invest less in the United States, and they can damage our financial markets, hurting the value of 401Ks for American households. U.S. participation in the IMF brings broad benefits for America, for the health of the U.S. economy, and for the prosperity shared by American workers.

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

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 by the United States on reserve assets transferred to the IMF.[2]
- Interest paid by the United States 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 General Arrangement to Borrow or New Arrangements to Borrow).
- Interest received by the United States 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.

Over the period fiscal year 2001 through fiscal year 2016 (Table 1a), the average annual net interest income effect of U.S. participation in the General Department was positive $9 million, while the cumulative net interest income effect was positive $148 million. During that same period, the average annual valuation change in the U.S. Reserve Position was positive $53 million, while the cumulative valuation change was positive $844 million.

However, the annual and even quarterly figures can fluctuate considerably at times. For fiscal year 2016 (Table 1b), the financial implications of U.S. participation in the General Department reflected a net interest income effect of negative $53 million. Negative net interest income in fiscal year 2016 arose because the interest rate associated with financing U.S. transactions with the IMF was higher than the interest rate that the IMF pays on the U.S. reserve position in the IMF. During the same period, the valuation change in the U.S. Reserve Position for the fiscal

[2] 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 is used in calculating the interest foregone, since assets transferred are either SDRs or currencies that make up the SDR.

year 2016 was negative $85 million, reflecting a stronger U.S. dollar.[3] Because IMF quotas are denominated in the SDR, when the dollar depreciates against the SDR, a valuation gain is recorded; when the dollar appreciates, there is a valuation loss.

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 IMF 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, and this causes the U.S. cash position to decline, increasing federal borrowing requirements. When the United States sells SDRs in exchange for dollars, the U.S. cash position is improved and federal borrowing requirements are reduced.

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 quarterly.

As shown in Table 2a, over the period fiscal year 2001 through fiscal year 2016, the average annual net interest income effect of U.S. participation in the SDR Department was zero, while the cumulative net interest income effect was positive $5 million. During the same period, the average annual valuation change on U.S. SDR holdings was positive $43 million, while the cumulative valuation change was positive $691 million.

As shown in Table 2b, for the fiscal year 2016, the net interest income effect of U.S. participation in the SDR Department was negative $4 million. The valuation change on U.S. SDR holdings for fiscal year 2016 was also negative $4 million, again reflecting the effects of dollar appreciation.[4]

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

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.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 1a	Net Interest Income and Valuation Changes Related to U.S. Participation in the IMF					
	-- General Department --					
	U.S. Fiscal Year					
	(millions of U.S. Dollars)					
	Interest Calculations				Valuation	Total
Fiscal Year Ended	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
2001	-$484	$492	$0	$7	-$47	-$40
2002	-$337	$372	$0	$34	$446	$480
2003	-$283	$348	$0	$65	$1,722	$1,787
2004	-$249	$300	$0	$50	$648	$698
2005	-$237	$316	$0	$79	-$54	$25
2006	-$85	$210	$0	$125	$107	$232
2007	-$4	$107	$0	$103	$259	$362
2008	-$5	$59	$0	$54	-$95	-$41
2009	-$30	$40	$0	$10	$548	$558
2010	-$60	$23	$0	-$36	-$166	-$202
2011	-$97	$59	$4	-$33	-$226	-$259
2012	-$77	$39	$13	-$24	-$298	-$322
2013	-$96	$14	$9	-$73	-$184	-$257
2014	-$118	$14	$14	-$89	-$643	-$732
2015	-$82	$5	$6	-$71	-$1,088	-$1,159
2016	-$61	$3	$5	-$53	-$85	-$138
Note: Detail may not add to total due to rounding.						
Average FY2001-FY2016				**$9**	**$53**	
Cumulative FY2001-FY2016				**$148**	**$844**	

Table 1b	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	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	Col. 2	Col. 3	Col. 4	Col.5	Col.6	Col. 7	Col. 8	Col. 9
2016									
Q1: Oct - Dec 15	-19,881	-10,690	-30,572	-$30	$1	$1	-$28	-$118	-$146
Q2: Jan - Mar 16	-12,865	-10,222	-23,086	-$16	$1	$1	-$14	$90	$76
Q3: Apr -June 16	-13,513	-10,073	-23,586	-$8	$1	$1	-$6	-$122	-$128
Q4: July -Sept 16	-12,227	-10,004	-22,231	-$6	$1	$1	-$5	$65	$60
Total				**-$61**	**$3**	**$5**	**-$53**	**-$85**	**-$138**
Note: Detail may not add to total due to rounding.									

TABLE 1b
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 FY 1998) and the New Arrangements to Borrow (NAB, in FY 1999 and in FY 2011-present). U.S. loans under the GAB in FY 1998 and NAB in FY 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 (Supplementary Financing Facility, 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 federal 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 2a	Net Interest and Valuation Changes Related to U.S. Participation in the IMF				
	-- SDR Department --				
	U.S. Fiscal Year				
	(millions of U.S. Dollars)				
	Interest Calculations			Valuation	Total
	Interest Income on Net SDR Holdings	Interest Expense Associated with Financing Cumulative U.S. SDR Transactions	Net Interest Income	Valuation Changes	Total
2001	$176	-$201	-$25	-$20	-$44
2002	$118	-$100	$18	$134	$152
2003	$97	-$68	$29	$396	$425
2004	$87	-$79	$8	$137	$145
2005	$114	-$106	$8	-$14	-$5
2006	$44	-$62	-$17	$25	$8
2007	$63	-$77	-$14	$81	$67
2008	$59	-$44	$15	-$3	$12
2009	$20	-$14	$7	$33	$40
2010	$6	-$17	-$11	-$38	-$50
2011	$7	-$6	$1	$45	$46
2012	$1	-$3	-$1	-$9	-$10
2013	$1	-$3	-$2	-$4	-$6
2014	$1	-$4	-$3	-$27	-$31
2015	$0	-$4	-$3	-$42	-$45
2016	$0	-$4	-$4	-$4	-$8
Average FY2001-2016			**$0**	**$43**	
Cumulative FY2001-2016			**$5**	**$691**	

Table 2b

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
	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	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
2016								
Q1: Oct - Dec 15	$49,688	$48,938	$750	$0	-$1	-$1	-$10	-$11
Q2: Jan - Mar 16	$50,518	$49,753	$765	$0	-$1	-$1	$12	$11
Q3: Apr - June 16	$50,161	$49,401	$759	$0	-$1	-$1	-$5	-$6
Q4: July - Sept 16	$50,054	$49,294	$760	$0	-$1	-$1	-$2	-$3
Total				**$0**	**-$4**	**-$4**	**-$4**	**-$8**

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

TABLE 2b
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.

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).