

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

Q4 2005 and Q1 – Q4 2006

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 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 have been laid out in previous reports. The methodology is also summarized briefly in the footnotes attached to the tables. Reports under Section 504(b) are made available to the public on the Treasury website: <http://www.treas.gov/press/reports.html>.

This report provides quarterly data for the fourth quarter of fiscal year 2005 and the full fiscal year of 2006. 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 fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006 are provided in Table 1. For comparison purposes, the previous three fiscal years of data are also provided.³

Similarly, data for net interest income and valuation changes related to U.S. participation in the SDR Department of the IMF during the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006 are provided in Table 2. For comparison purposes, previously-reported data for the last three fiscal years are also provided.

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 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.

³ Data for the second quarter of fiscal year 2005 have been revised. The resultant increase in net interest income is \$3 million.

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

As shown in Table 1, for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006, the financial implications of U.S. participation in the General Department reflected a net interest income effect of negative \$105 million. The valuation change in the U.S. Reserve Position for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006 was \$32 million.⁴

As shown in Table 2, for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006, the net interest income effect of U.S. participation in the SDR Department was negative \$1 million. The valuation change on U.S. SDR holdings for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006 was \$5 million.⁵

Attachments

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 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>

⁵ 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 Department --
U.S. Fiscal Year, Quarterly
(millions of U.S. Dollars)

Fiscal Year Ended 9/30	Transactions with the IMF			Interest Calculations				Valuation	Total	
	Transactions under U.S. Quota (Letter of Credit & Transfers of Reserve Assets) Cumulative		U.S. Loans to IMF (Under SFF, GAB, NAB) Cumulative	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	
	(Col 1+2)			(Col. 4+5+6)				(Col 7+8)		
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	
2004										
Q1: Oct - Dec 03	-\$16,702	\$0	-\$16,702	-\$65	\$78	\$0	\$13	\$903	\$916	
Q2: Jan - Mar 04	-15,886	0	-15,886	-58	79	0	21	-78	-57	
Q3: Apr - June 04	-14,530	0	-14,530	-60	69	0	9	-220	-211	
Q4: July -Sept 04	-13,867	0	-13,867	-67	74	0	7	43	50	
Total				-\$249	\$300	\$0	\$50	\$648	\$698	
2005										
Q1: Oct - Dec 04	-\$12,882	\$0	-\$12,882	-\$73	\$82	\$0	\$9	\$1,026	\$1,035	
Q2: Jan - Mar 05	-9,119	0	-9,119	-\$53	\$88	\$0	\$35	-440	-405	
Q3: Apr - June 05	-9,677	0	-9,677	-\$59	\$71	\$0	\$12	-565	-553	
Q4: July -Sept 05	-7,772	0	-7,772	-\$51	\$75	\$0	\$24	-75	-51	
Total				-\$237	\$316	\$0	\$79	-\$54	\$25	
2006										
Q1: Oct - Dec 05	-2,660	0	-2,660	-\$41	\$69	\$0	\$29	-159	-130	
Q2: Jan - Mar 06	-1,947	0	-1,947	-\$18	\$58	\$0	\$41	69	110	
Q3: Apr - June 06	-2,296	0	-2,296	-\$14	\$40	\$0	\$26	179	205	
Q4: July -Sept 06	-1,023	0	-1,023	-\$12	\$42	\$0	\$30	18	48	
Total				-\$85	\$210	\$0	\$125	\$107	\$232	

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

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)

Fiscal Year Ended 9/30	Net SDR Holdings			Interest Calculations			Valuation	Total
	Dollar Value of SDR Holdings	Dollar Value of Cumulative SDR Allocation	Net SDR Holdings (Col. 1 - 2)	Interest Income on Net SDR Holdings	Interest Expense Associated with Financing Cumulative U.S. SDR Transactions	Net Interest Income (Col. 4 + 5)	Valuation Changes	Total (Col. 6 + 7)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
2003								
Q1: Oct - Dec 02	\$12,166	\$6,661	\$5,505	\$30	-\$21	\$9	\$146	\$154
Q2: Jan - Mar 03	11,392	6,731	4,662	27	-16	11	58	69
Q3: Apr - June 03	11,720	6,864	4,857	21	-15	6	92	97
Q4: July - Sept 03	12,062	7,005	5,057	20	-16	4	100	104
Total				\$97	-\$68	\$29	\$396	\$425
2004								
Q1: Oct - Dec 03	\$12,638	\$7,281	\$5,357	\$20	-\$17	\$3	\$199	\$202
Q2: Jan - Mar 04	12,645	7,228	5,417	21	-17	5	-39	-34
Q3: Apr - June 04	12,659	7,184	5,475	21	-20	1	-33	-32
Q4: July - Sept 04	12,782	7,197	5,585	24	-25	-1	10	10
Total				\$87	-\$79	\$8	\$137	\$145
2005								
Q1: Oct - Dec 04	\$13,628	\$7,609	\$6,019	\$29	-\$34	-\$5	\$319	\$315
Q2: Jan - Mar 05	11,565	7,402	4,162	33	-29	3	-163	-160
Q3: Apr - June 05	11,243	7,137	4,106	26	-32	-6	-149	-155
Q4: July - Sept 05	8,245	7,102	1,143	26	-10	16	-20	-4
Total				\$114	-\$106	\$8	-\$14	-\$5
2006								
Q1: Oct - Dec 05	\$8,210	\$7,003	\$1,207	\$11	-\$12	-\$1	-\$16	-\$17
Q2: Jan - Mar 06	\$8,344	\$7,059	\$1,284	\$9	-\$15	-\$5	\$10	\$5
Q3: Apr - June 06	\$8,618	\$7,248	\$1,369	\$11	-\$17	-\$6	\$34	\$29
Q4: July - Sept 06	\$8,655	\$7,234	\$1,421	\$13	-\$18	-\$5	-\$3	-\$8
Total				\$44	-\$62	-\$17	\$25	\$8

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 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 IMF (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

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. Since U.S. SDR allocations have been constant since 1981, 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 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 the 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).