

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is a darker shade of blue. The hourglass is centered on the page.

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Report 98-412

*INTERNATIONAL MONETARY FUND (IMF): COSTS  
AND BENEFITS OF U.S. PARTICIPATION*

Patricia A. Wertman, Economics Division

Updated April 29, 1998

**Abstract.** The International Monetary Fund (IMF) is the international lender-of-last-resort. As Congress considers major funding proposals for the IMF, the costs sustained and the benefits provided by U.S. participation in the IMF have become issues. This report examines both the quantifiable costs and the largely unquantifiable benefits. It also summarizes relevant budgetary conventions, which dictate that U.S. transactions with the IMF have no net impact on the budgetary position of the United States and do not require a compensatory cut in domestic spending.

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# CRS Report for Congress

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## International Monetary Fund (IMF): Costs and Benefits of U.S. Participation

April 29, 1998

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<http://wikileaks.org/wiki/CRS-98-412>

### **ABSTRACT**

The International Monetary Fund (IMF) is the international lender-of-last-resort. As Congress considers major funding proposals for the IMF, the costs sustained and the benefits provided by U.S. participation in the IMF have become issues. This report examines both the quantifiable costs and, briefly, the largely unquantifiable benefits. It also summarizes relevant budgetary conventions, which dictate that U.S. transactions with the IMF have no net impact on the budgetary position of the United States and do not require a compensatory cut in domestic spending. In light of new data presented to the Congress by the Department of the Treasury on April 20, 1998, this report will be updated again this year.

# International Monetary Fund (IMF): Costs and Benefits of U.S. Participation

## Summary

This report examines U.S. costs of participating in the International Monetary Fund (IMF). Under conventions governing U.S. budgetary treatment of the IMF, any expenditures (outlays) arising from transactions with the IMF are offset by the increase in the U.S. reserve position in the IMF and, thus, have no net impact on the budget. Nevertheless, funds for the IMF are both authorized and appropriated.

Expenditures in connection with U.S. participation in the Fund, however, do give rise to three other types of financial flows that enter the budget:

- an increase or decrease in the Treasury's interest costs,
- receipts from the IMF, mostly from interest (remuneration) earned on the U.S. reserve tranche position, and
- foreign exchange gains and losses resulting from exchange rate movements between the Special Drawing Right (SDR) and the U.S. dollar.

For the period July 1, 1969 through December 31, 1982, the U.S. government sustained a loss on its transactions with the IMF that amounted to \$1.4 billion or an annual average of \$107 million.

For the 18-year period extending from April 30, 1980 to April 30, 1997 (IMF fiscal year), the United States had a positive return to the U.S. budget of \$1.3 billion or an annual average of \$73 million. Within the total financial picture of the U.S. government, these sums are modest. For 1997 (IMF fiscal year), for example, the U.S. sustained a loss of \$1.6 billion; this was equivalent to about 0.1 percent of total expenditures or 0.2 percent of discretionary expenditures (U.S. fiscal year).

Gains and losses resulting from transactions with the IMF were largely attributable to exchange rate movements between the U.S. dollar and the SDR, the international reserve asset in which all IMF accounts are denominated.

Benefits of the IMF to the United States, like those arising from most government programs, are difficult to quantify. Perhaps the most important point is that the U.S. government, with 18.25 percent of total IMF quotas (capital) and 17.78 percent of the voting power, is the largest shareholder. It has a veto over major IMF policies and a deciding say over much else, including support programs extended by the IMF within the context of major international financial crises. The IMF is deeply intertwined with U.S. international economic policy. Given the relatively modest financial costs of U.S. participation in the IMF, it would appear that the IMF's performance, policies, and programs are the more critical issue in the current policy debate over funding for the IMF.

This report will be updated in light of later data provided to the House Banking General Oversight and Investigations Subcommittee on April 20, 1998.

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# International Monetary Fund (IMF): Costs and Benefits of U.S. Participation

The International Monetary Fund (IMF) is the international lender of last resort.<sup>1</sup> It extends financial support to countries experiencing balance-of-payments difficulties, particularly in the wake of an international financial crisis. Increases in funding for the IMF — \$14.5 billion for an increase in the U.S. capital or quota subscription and \$3.5 billion for the "New Arrangements to Borrow" (NAB) — are under consideration by the U.S. Congress at this writing.<sup>2</sup>

Within the context of the current congressional debate, the question of financial costs sustained by the United States in connection with its participation in the IMF has arisen. This report examines these costs, and to a lesser extent, the largely unquantifiable benefits growing out of participation in the Fund.

The report is based on data provided by the International Monetary Fund (IMF) to CRS, updating and supplementing earlier data provided to the U.S. Congress by the U.S. Department of the Treasury on an *ad hoc* basis at the time of the 1983 and 1992 quota increases.<sup>3</sup>

The data are presented in two time series: the first period extends from July 1, 1969 to December 31, 1982; the second, from April 30, 1980 to April 30, 1997. The first set of data were prepared by the U.S. Treasury on a U.S. fiscal year basis; the second set, combines U.S. Treasury data and IMF data, both of which were prepared on an IMF fiscal year basis. Because of the difference in fiscal year definition, the two

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<sup>1</sup> For an introduction to the IMF, see *The International Monetary Fund: A Short Overview*, CRS Report 97-228 E, by J.F. Hornbeck.

The author would like to acknowledge comments and suggestions offered on this report during the CRS peer-review process.

<sup>2</sup> These are discussed in detail in CRS Issue Brief #97038, *The International Monetary Fund's "New Arrangements to Borrow" (NAB)*, and CRS Report 98-56 E, *The International Monetary Fund's (IMF) Proposed Quota Increase: Issues For Congress*, both by Patricia A. Wertman.

<sup>3</sup> U.S. Treasury Data is presented in U.S. Congress. Senate. Committee on Appropriations. *International Monetary Fund Quota Increase*. Special Hearing, May 17-18, 1983, 98th Congress, 1st Session, p. 49-53. U.S. Govt. Off. [Washington] 1983. Senate Hearing 98-402, and in U.S. House. Committee on Banking, Finance, and Urban Affairs. Subcommittee on International Development, Finance, Trade and Monetary Policy. *Quota Increase of the International Monetary Fund*. Hearing held July 10, 1991. 102nd Congress, 1st session. U.S. Govt. Print. Off. [Washington] 1991, p. 65-68. Serial No. 102-53.

data series could not be combined into one series and have, therefore, been presented separately. Throughout the report, emphasis has been placed on the more recent data.

The data are not routinely compiled or published by either the U.S. Treasury of the IMF. On April 20, 1998, the U.S. Department of the Treasury provided its estimates on the net benefits and costs of U.S. participation in the IMF to the Committee on Banking and Financial Services, General Oversight and Investigations Subcommittee. In light of this new data, this report will be updated.

## Budgetary Treatment

Quota increases are paid to the IMF by transferring 25 percent of the amount of the increase, the so-called "reserve tranche," to the IMF in the form of international reserve assets and the balance, equal to 75 percent of the increase, in the form of a letter of credit.<sup>4</sup>

The reserve tranche payment to the IMF is made immediately upon acceptance of the increased quota. Payment is made either in "hard currencies" (currencies that are generally acceptable for international transactions) other than a country's own currency or in Special Drawing Rights (SDRs).<sup>5</sup>

The letter of credit, on the other hand, is considered to be a contingent liability of the U.S. government. The letter of credit is encashed by the IMF to meet its requirements for U.S. dollars to be used in making loans to countries that are borrowing from the it.

Both reserve tranche payments and payments to the IMF under the quota letter of credit result in a budget expenditure only as cash is actually transferred to the IMF. When a transfer is made, however, the United States gets an equal and offsetting receipt — an interest-bearing, liquid international monetary asset, specifically the increase in the U.S. reserve position in the Fund. Under current budgetary conventions,<sup>6</sup> these offsetting transactions are treated as an exchange of assets. As a consequence, they do not result in **net** budget outlays, and they do not affect the **net** budgetary position (deficit or surplus) of the federal government. Looked at another way, any debt (liability) incurred through the sale of securities to make this expenditure is balanced by an asset — the U.S. reserve position in the Fund.

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<sup>4</sup> A letter of credit is a non-negotiable document that permits the holder to draw upon it up to a specified sum of money upon presentation of evidence of satisfaction of prescribed conditions. Letters of credit are most widely used in international trade.

<sup>5</sup> The Special Drawing Right (SDR) is an international reserve asset that is created by the IMF. For a discussion of the SDR, see CRS Report 97-738 E. *The IMF's Proposed Special Drawing Rights' (SDRs) Allocation: A Background Paper*, by Patricia A. Wertman.

<sup>6</sup> For more information on the budgetary treatment of U.S. transactions with the IMF, see CRS Report 96-279 E., *U.S. Budgetary Treatment of the International Monetary Fund*, by Patricia A. Wertman.

Under budgetary practices established in consultation with Congress in 1980, funding for the IMF, nevertheless, requires budgetary authorization and appropriation in the full amount. This is an historical development that contravenes the governing accounting convention, but reflects congressional concern regarding the then burgeoning U.S. fiscal deficit

Funding for the IMF also does not require any compensatory cuts in domestic spending. Title X of P.L. 105-33, the “Balanced Budget Act of 1997,” provides for an adjustment to the budget’s discretionary spending limits to allow for U.S. acceptance of the increased financial commitment that would arise in connection with the IMF.

Budgetary treatment for the NAB, which are an arrangement of credit lines that the IMF could tap in the event of a financial crisis, is identical to that of IMF quota increases: an exchange of assets, having no net effect on the U.S. fiscal position and requiring no compensatory cuts in domestic spending. A drawing by the IMF under the NAB would not constitute a contribution to the IMF's capital and would not, therefore, increase the U.S. reserve position in the IMF. Rather, it would constitute an interest-bearing loan to the IMF, repayable within five years.

## **Financial Flows Arising from U.S. Participation in the IMF**

As cash is actually transferred to the IMF, however, a number of financial flows that are distinct from the exchange of assets that has been described above also occur:

- U.S. government borrowing (interest) costs may be either increased or decreased,
- the net debt position of the U.S. Treasury is either increased or decreased,
- interest (remuneration) on the U.S. reserve position in the IMF will be received, and
- valuation gains and losses reflecting exchange rate movements between the U.S. dollar and the SDR are incurred.

Each of these four types of flows that have been listed above are discussed in further detail in the balance of this report.



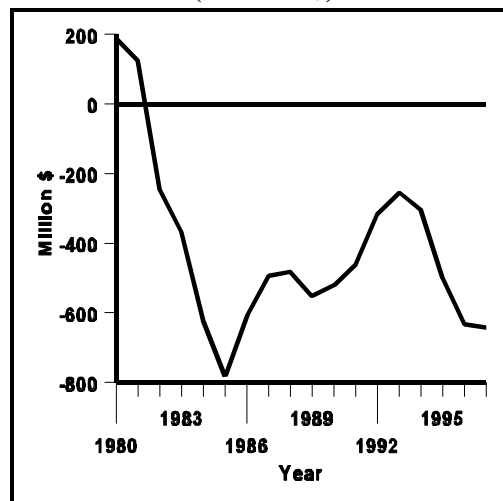
## Estimated U.S. Treasury Borrowing (Interest) Costs

U.S. transactions with the IMF give rise to a budget expenditure only as cash is actually transferred to the IMF. Transfers to the IMF enter the U.S. budget as interest costs. They increase the Treasury's borrowing requirement, that is, Treasury's need to sell securities and, thus, they increase interest costs. Conversely, receipts from the IMF reduce the borrowing requirement. This, in turn, results in a decrease in the imputed interest costs associated with the effect of the transaction on the Treasury's borrowing requirement. Estimated interest costs are, however, not just affected by the amount borrowed, but also, obviously, by U.S. domestic interest rates.

The net effect of U.S. transactions with the IMF on U.S. borrowing costs has varied over the years. They reflect the pattern of U.S. transactions with the IMF and, ultimately, the pattern of IMF lending. Thus, for example, when the United States itself borrowed from the IMF in November 1978, it received an inflow of dollars and, hence, U.S. borrowing requirements were reduced. On the other hand, this was somewhat offset, beginning in 1977, by loans that the United States made to the IMF under the "Supplementary Financing Facility" ((SFF) or the "Witteveen Facility").

As shown in **figure 1**, after the onset of the Third World debt crisis in 1982, U.S. transfers of dollars to the IMF for use in the latter's loan operations accelerated. Fund credit outstanding peaked, for the decade, in 1985, a fact reflected in the increase of U.S. borrowing costs attributable to the IMF. In the late 1980s, repayments made by developing countries that had borrowed earlier from the IMF reduced transfers of dollars by the United States to the IMF, improved the cash position of the U.S. Treasury, and, correspondingly reduced associated borrowing costs. Fund credit outstanding declined until 1990, when it again accelerated in the wake of the emergence of market economies in Eastern Europe and the former republics of the Soviet Union. IMF lending increased by nearly one quarter between 1994 and 1995, with the increase more than accounted for by IMF loans to just two countries — Mexico and Russia.

**Figure 1. U.S. Interest Costs Attributable to Transactions with the IMF, April 30, 1980-April 30, 1997 (Million \$)**



The data that are available indicate that, from July 1, 1969 through December 31, 1982, the estimated cost of Treasury borrowing attributable to the IMF amounted to \$1,753 million or an annual average of \$130 million.<sup>7</sup>

<sup>7</sup> U.S. Treasury data appearing in, U.S. Congress. Senate. Committee on Appropriations. *International Monetary Fund Quota Increase*. Special Hearing, May 17-18, 1983. 98th (continued...)

A second data series, appearing in **appendix table 1**, shows that the estimated borrowing cost for the period April 30, 1980 through April 30, 1997 was \$7,469 million, or an annual average of \$415 million.

The lower estimated borrowing costs during the earlier period undoubtedly reflect the fact that the U.S. was a borrower from the IMF during the period (1970-1972 and 1978). In the later period, the U.S. was a lender to the IMF, causing a rise in the imputed borrowing costs attributable to transaction with the IMF.

## Impact on Net U.S. Treasury Debt Outstanding

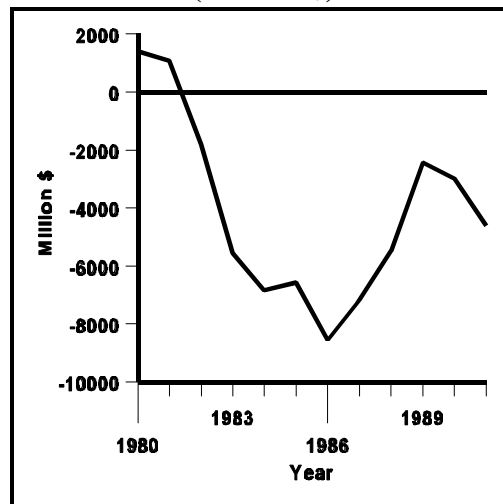
If the U.S. Treasury borrows (sells securities) in order to make payments to the IMF, it increases the level of U.S. government debt outstanding. In the past, the U.S. Treasury has estimated the impact of IMF transactions on the level of net Treasury debt outstanding.

During U.S. fiscal year 1982, the net Treasury debt outstanding attributable to transactions with the IMF amounted to \$5.3 billion, equivalent to about ½ % of the total outstanding Treasury debt of \$1.1 trillion at the end of the fiscal year.<sup>8</sup> During the first quarter of fiscal 1983 (final quarter of calendar year 1982), the net debt outstanding attributable to participation in the IMF was \$6.8 billion.<sup>9</sup>

The annual average net debt outstanding attributable to transactions with the IMF during the period July 1, 1969 through December 31, 1982 was \$1,938 million.

More recent data prepared by the U.S. Treasury were presented not on the basis of U.S. fiscal years, but, rather on the basis of IMF fiscal years. The latter end on April 30 of each year. As shown in **appendix table 2** and **figure 2**, cumulative net debt outstanding attributable to transactions with the IMF amounted to \$4.6 billion, as of January 31, 1991.<sup>10</sup> This was equivalent to less than 0.2% of the \$2,845 billion

**Figure 2. Cumulative Net Debt Outstanding Resulting From U.S. Participation in the IMF, April 30, 1980-January 31, 1991 (Million \$)**



<sup>7</sup>(...continued)

Congress, 1st session. U.S. Govt. Print. Off. [Washington] 1983. Senate Hearing 98-402, p. 51. Herein after referred to as Senate Special Hearing.

<sup>8</sup> *Ibid.*, p. 50-51.

<sup>9</sup> *Ibid.*, p. 51.

<sup>10</sup> Data from the U.S. Treasury, as presented in, U.S. Congress. House. Committee on Banking, Finance, and Urban Affairs. Subcommittee on International Development, Finance, (continued...)

in U.S. government debt outstanding. The annual average of net Treasury debt outstanding attributable to U.S. participation during the period was \$4.1 billion.

Data from the two periods lead to the following conclusions:

- cumulative net debt outstanding attributable to transactions with the IMF was significantly lower at the end of January 1991 than at the end of December 1982, having declined from about \$6,772 million to \$4,617 million, a decline of nearly one-third;
- cumulative net debt arising from transactions with the IMF also declined as a percentage of total U.S. government debt outstanding, from less than 0.5% during U.S. fiscal year 1982 to less than 0.2% at the end of calendar year 1990; and, finally,
- although the fiscal periods differed, the average annual net debt outstanding more than doubled between the two periods, from \$1,938 million (U.S. fiscal year basis) to \$4,117 million (IMF fiscal year basis).

The impact of U.S. transactions with the IMF on the U.S. net debt position is the counterpart to U.S. borrowing costs and, thus, likewise, mirrors U.S. transactions with the Fund. Again, in the earlier period, the United States, as a borrower, was receiving funds from the IMF; in the later period, it was a lender. By the late 1980s, the United States was being paid back for IMF use of its quota following the 1982 debt crisis, but the surge of lending to Eastern Europe and the former republics of the Soviet Union had just begun. It is also not surprising that the average annual net debt outstanding was higher in the later period, again reflecting the U.S. shift from borrower to lender.

At the time this report was written, the U.S. Treasury Department had not provided data for the period since January 1991 to the U.S. Congress.

### **Receipts from the IMF: Interest, "Remuneration," and Refunds**

Interest costs sustained as a result of U.S. Treasury borrowing in connection with U.S. transactions with the IMF are offset by receipts from the IMF. These arise from:

- interest that the United States receives on any loans that have been extended to the IMF, such as under the "General Arrangements to Borrow" (GAB)<sup>11</sup> and, potentially, under the proposed NAB,

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<sup>10</sup>(...continued)

Trade and Monetary Policy. *Quota Increase of the International Monetary Fund*, Hearing held July 10, 1991. 102nd Congress, 1st Session, p. 65-68. U.S. Govt. Print. Off. [Washington] 1991. Serial No. 102-53.

<sup>11</sup>For more information on the General Arrangements to Borrow, see CRS Report 97-467 E, *The IMF's "General Arrangements to Borrow" (GAB): A Background Paper*, by Patricia A. Wertman.

- "remuneration" (interest) received on the U.S. reserve position in the IMF, and, finally,
- refunds from burden-sharing.<sup>12</sup>

Receipts represent a cash inflow into the General Treasury that reduce borrowing requirements and, hence, interest expense.

The largest source of U.S. receipts from the IMF is "remuneration," that is, interest paid on the so-called "remunerated reserve position." The remunerated reserve tranche position is derived from the "reserve tranche." One-fourth of the U.S. quota or capital contribution to the IMF is paid into the IMF immediately in SDRs from the Exchange Stabilization Fund (ESF), the fund used by the U.S. Treasury to stabilize the international value of the U.S. dollar<sup>13</sup>. This "reserve tranche" is considered to be part of an IMF member's international reserve assets, hence the name. Members may draw upon their reserve tranche immediately and unconditionally upon representation of balance-of-payments need. The reserve tranche, therefore, is a liquid asset for IMF members and a liquid liability for the IMF itself. In 1978, the United States, experiencing substantial pressure on the external value of the dollar, made a reserve tranche drawing of SDR 2,275 million (\$3 billion) from the IMF.

In addition to immediate payment of the reserve tranche, the United States also presents the IMF with a non-interest bearing letter of credit on the Treasury general account for the balance (75%) of the quota contribution (except for a small amount (1/4 of 1%) that is in the form of a dollar demand deposit). This is also part of the IMF's capital, but operates much like a credit line. It is activated by the IMF as it needs dollars in its financial operations. As the letter of credit is drawn upon by the IMF in order to use U.S. dollars in its loan operations, the Fund's holdings of dollars (as represented by the unused balance under the letter of credit) decrease and, concomitantly, the U.S. reserve position in the Fund expands; similarly, as IMF drawings under the letter of credit are paid back, the U.S. reserve position contracts.

The "remunerated reserve tranche" is not equal to the reserve tranche. The exact definition of the "remunerated reserve position" is a technical matter. The phrase refers to the amount by which the Fund's holdings of a member's currency are less than the member's "norm." The "norm," in turn, is defined as "an amount equal to 75 percent of the member's quota on April 1, 1978, plus the sum of subsequent increases in the member's quota." In the U.S. case, the U.S. quota on April 1, 1978 was SDR

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<sup>12</sup> Since May 1986, the financial consequences of overdue obligations to the IMF have been shared between debtor and creditor member countries. This has been accomplished by increasing the rate of charge to borrowers and decreasing the rate of remuneration to creditors. When the overdue charges are paid, equivalent amounts are refunded to the members that bore the burden. IMF. Treasurer's Department. *Financial Organization and Operations of the IMF*. Pamphlet No. 45, 4th ed., p. 117-118.

<sup>13</sup> For more information on the Exchange Stabilization Fund, see CRS Report 95-262 E, *The Exchange Stabilization Fund*, by Arlene Wilson.

8,405 million. On that date, therefore, the "norm" was SDR 6,303.75 million. Increases since then have amounted to SDR 18,121.8 million (the current quota of SDR 26,526.8 million less SDR 8,405 million). The U.S. "norm," therefore, currently equals SDR 24,425.55 million or about 92.1% of the total U.S. quota in the IMF. With each successive quota increase, the norm moves closer to 100 percent of quota.

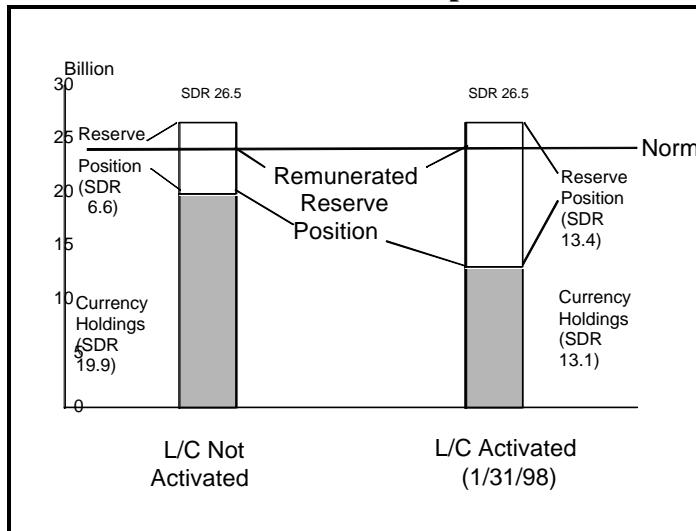
In calculating the level of the Fund's holdings of a member's currency, the IMF excludes currencies held in working balances (IMF No. 2 Accounts) that it uses to handle its administrative expenses and receipts in member countries when they are equal to less than 1/10 of 1% of a member's quota. In the case of the United States, this threshold for exclusion of working balance is quite high, at SDR 26.5 million (currently about \$34.4 million). It is undoubtedly safe, therefore, to assume that working balances in the United States constitute excluded currency holdings. The IMF manages its working balances in such a way as to minimize them, even or, perhaps, especially, in the case of the United States, where it is headquartered. Additionally, currency holdings that reflect a member's borrowings from the IMF are excluded; this does not apply to the United States, which is not a borrower.

**Figure 3** provides two graphic examples of the U.S. remunerated reserve position. In the left-side example, the U.S. reserve position is exactly equal to the reserve tranche, which is equivalent to 25 percent of the U.S. quota or SDR 6.6 billion. The quota letter of credit has not been drawn upon by the IMF. Currency holdings are SDR 19.9 billion. With no allowance for exclusion of working balances, the remunerated

reserve tranche would be equal to SDR 4.5 billion. Given the importance of the U.S. dollar in the IMF's operations, the U.S. would virtually never be in this position, that is, with its quota letter of credit not having been activated.

The example on the right side of figure 3 shows the position of the U.S. accounts in the IMF on January 31, 1998. The quota letter of credit has been activated. At that time, the Fund held the equivalent of SDR 13.1 billion in U.S. dollars. The U.S. reserve position, therefore, was equal to SDR 13.4 billion (that is, the quota of SDR 26.5 billion less the currency holdings.) The remunerated reserve position was SDR 11.3 billion (that is, the "norm" of SDR 24.4 billion less the currency holdings) — simplified again in this presentation by not allowing for working balances (which were, in fact, SDR 3.2 million.)

**Figure 3. Remunerated Reserve Position, Illustrative Examples**



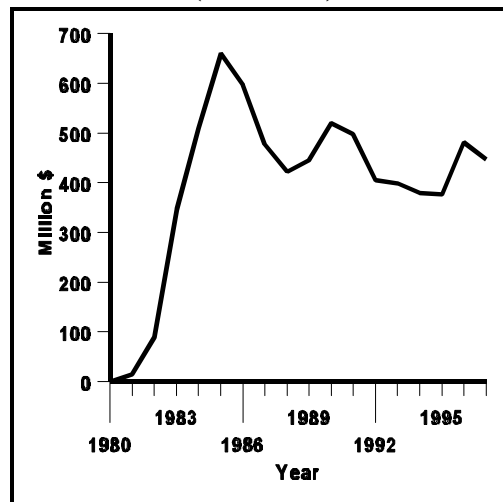
Using IMF data,<sup>14</sup> for calendar year 1997, CRS estimates that the U.S. remunerated reserve position in the IMF fluctuated between a high of SDR 11,309.85 million at the end of December (about \$15.3 billion) and a low of SDR 7,845.25 million at the end of June (about \$10.9 billion). The average U.S. remunerated reserve position for calendar year 1997 was SDR 8,575.6 million (about \$11.8 billion). IMF holdings of U.S. currency ranged from a low of SDR 13,115.7 million (about \$17.7 billion) at the end of December 1997 to a high of SDR 16,580.3 million (about \$23.0 billion) at the end of June 1997. Average currency holdings amounted to SDR 15,849.9 million (about \$21.8 billion). CRS estimates that working balances ranged from SDR 0.5 million at the end of January (about \$0.7 million) to SDR 4.5 million at the end of October (about \$6.2 million), with the average month-end balance being SDR 2.8 million (about \$3.9 million)

Remuneration accrues daily on the remunerated reserve tranche position, which is calculated daily. It is paid quarterly at the SDR interest rate (adjusted for burden sharing, which, for example, retroactively for the first quarter of 1998, reduced the rate of remuneration by 20 basis points). The SDR interest rate is based on the weighted average of interest rates on the three-month paper of the five countries whose currencies are included in the SDR basket — the United States, Japan, Germany, the United Kingdom, and France. Thus, the SDR interest rate is market-based. Because interest rates on some of the constituent currencies, notably the Japanese yen, are lower than U.S. interest rates, the SDR interest rate is currently below U.S. interest rates. The SDR interest rate, for example, during the week beginning April 6, 1998 was 4.26%.

During the period July 1, 1969 through December 31, 1982, interest and remuneration received from the IMF amounted to \$905 million, of which \$225 million was attributable to U.S. loans to the IMF and \$680 million was attributable to remuneration on the U.S. reserve position in the Fund. Annually (U.S. fiscal year), these averaged \$17 million and \$50 million, respectively.<sup>15</sup>

Receipts from the IMF are shown in **appendix table 3** and **figure 4**. During the period April 30, 1980 through April 30, 1997, the United States received \$7,070 million from the IMF. Annually (IMF fiscal year), receipts averaged \$393 million.

**Figure 4. Receipts from the IMF, April 30, 1980-April 30, 1997 (Million \$)**



<sup>14</sup> IMF. *International Financial Statistics*, monthly, March 1997-February 1998 issues.

<sup>15</sup> Senate Special Hearing, p. 51.

## Valuation Gains and Losses

Whereas receipts from the IMF reduce the Treasury borrowing requirement, the impact of the final category of U.S. transactions with the IMF — valuation gains and losses — varies from year to year according to the movement of the exchange rate between the U.S. dollar and the SDR.

All IMF accounts are denominated in SDRs. Since July 1, 1974, the IMF has set the value of the SDR in terms of a basket of currencies. As a result of this method of SDR valuation, however, the dollar value of the U.S. quota in the IMF fluctuates. Under the rules and regulations of the Fund, IMF members must maintain the total value of the Fund's holdings of their currencies constant in terms of the SDR. Stated another way, the purchasing power of the SDR must be maintained. Settlements to maintain the dollar value of the U.S. quota result in foreign exchange losses or gains for the U.S. government.

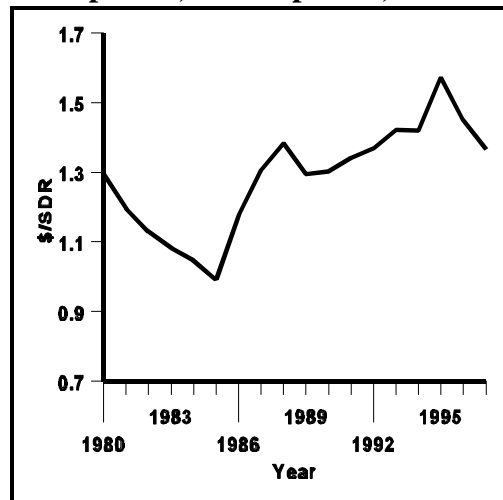
Valuation settlements, in which the member country either makes a payment to or receives a payment from the IMF, are made at least annually, at the end of the IMF's fiscal year, April 30. They are made through a valuation adjustment account that is part of the IMF's holdings of a member's currency.

Whether or not a valuation adjustment payment is required is determined from the point of view of the IMF's accounts, whose value in dollar terms is being maintained. Thus, an appreciation of the U.S. dollar internationally means that the SDR is falling in dollar terms. (or, stated yet another way, each SDR commands fewer dollars), decreasing the dollar value of the U.S. quota in the IMF. Thus, a strong U.S. dollar results in a valuation adjustment payment to the IMF, a budgetary outlay. As shown in **figure 5**, for example, in 1985, when the dollar was strong internationally, the SDR was correspondingly weak, worth about 99¢.

The United States experienced valuation losses against the SDR amounting to \$569 million, as shown in **appendix table 4**. Conversely, when the dollar is declining internationally and, thus, also against the SDR, the dollar value of the U.S. quota is increasing and the U.S. receives a valuation adjustment payment from the IMF. An example to clarify how currency movements affect the valuation settlement is presented in **Appendix II** at the end of this report.

Valuation gains and losses arise out of the market value of the U.S. dollar and the other constituent currencies of the SDR, the German mark, the Japanese yen, the British pound, and the French franc. Since the U.S. dollar is the largest component of the SDR, valuation gains and losses are related, as least in part, to the performance of the U.S. dollar. In turn, the international value of the U.S. dollar, over the

**Figure 5. U.S. Dollars Per SDR, April 30, 1980-April 30, 1997**

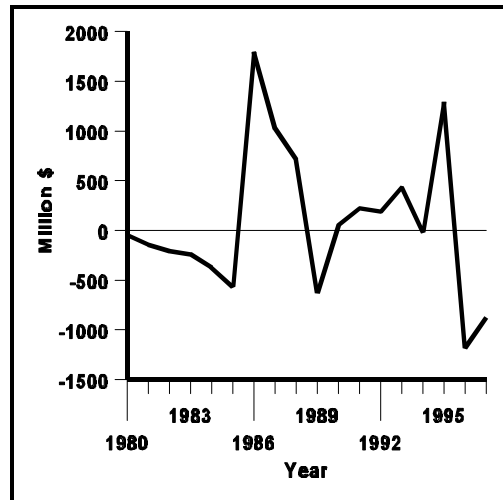


medium- and long-term, reflects the macroeconomic policies of the U.S. government and the performance of the U.S. economy relative to the performance of the other major economies.

During the period July 1, 1969 through December 31, 1982, the U.S. experienced a valuation loss of \$843 million. (Note that before July 1, 1974, the issue of valuation gains and losses did not arise because SDR1 equaled \$1.) This was more than accounted for by a loss of \$1,295 million in 1981. Annually, the United States experienced, on average, a valuation loss of \$62 million.<sup>16</sup>

As shown in **appendix table 4** and in **figure 6** on the preceding page, the U.S. experienced both valuation gains and losses during the period April 30, 1980 through April 30, 1997. For the period as a whole, however, these amounted to a gain of \$1,466 million or an annual average gain of \$81 million.

**Figure 6. Valuation Gains (+) and Losses (-) on the U.S. Position in the IMF, April 30, 1980-April 30, 1997 (Million \$)**



<sup>16</sup> *Ibid.*

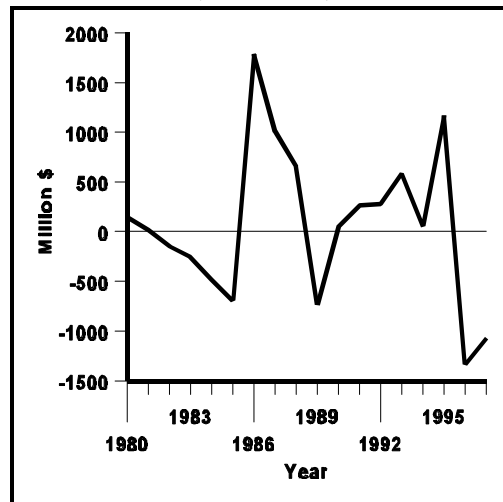


## The "Bottom Line": Net Financial Return

During the period July 1, 1969 through December 31, 1982, the U.S. government sustained a loss on its transactions with the IMF. This amounted to \$1,443 million or an annual average of \$107 million.<sup>17</sup>

Appendix table 5 and figure 7 show the total net gains or losses accruing to the United States from its financial transactions with the IMF for the period 1980 to 1997, taking into consideration borrowing costs (table 1); interest, remuneration, and refunds (table 3); and valuation gains and losses (table 4). In all but six of the eighteen years, the U.S. had a positive return on its transactions with the IMF. Stated another way, the United States sustained losses only one-third of the time. For the entire period, April 30, 1980 through April 30, 1997, the return amounted to \$1,307 million or an annual average of \$73 million.

**Figure 7. Net Financial Return on U.S. Participation in the IMF, April 30, 1980-April 30, 1997 (Million \$)**



## Benefits

Perhaps the "beauty" of costs associated with the IMF, or any other public program, is that they can be quantified. Benefits may not be as easily defined and are often not susceptible to being quantified. In the current discussion of the proposed funding for the IMF — \$3.5 billion for the NAB and \$14.5 billion for a quota increase — debate over the IMF, its role, and programs has been vigorous. More importantly, for some, the benefits provided by the IMF have been at issue.

In the post-war world, it is hard to argue that the international monetary system has been stable; to the contrary, it has frequently been characterized by substantial volatility. Nevertheless, when compared to the exchange rate turmoil of the 1930s, the intellectual reference point for the creators of the Bretton Woods system, the current system has worked relatively well. Perversely, financial crises in the current system are the "flip" side of what is, perhaps, the system's greatest success — its liberalization of financial flows, which has made possible the enormous expansion of international trade, economic growth, and employment that has characterized the post-World War II era. In the broadest terms, therefore, the purposes of the IMF, as expressed in Article I of its Articles of Agreement (**Appendix III**), have, to a great extent, been fulfilled. Emergency financing provided by the IMF has helped to ease the impact of the financial crises that have occurred. It has allowed countries to avoid

<sup>17</sup> *Ibid.*

restricting imports and growth to the levels that would otherwise have been required by the rapid outflow of short-term capital, while at the same time permitting them to undertake needed economic reforms.

The United States itself is the world largest economy, the world's largest international trader, and the world's largest debtor, and, thus, has a major stake in the international monetary system. This dominance is reflected in the structure of the IMF. The IMF is a creature of the major industrial countries, including the United States, its largest shareholder. The United States accounts for 18.25% of the quotas and 17.78% of the votes in the IMF. This position has given it a veto over nearly all major policy decisions of the IMF, including quota increases, allocation of SDRs, and sale of gold. And it has also given the United States a major voice in all IMF loan programs, a deciding one in the support programs that have been developed in the wake of major financial crises, notably for Latin America in the 1980s, for Mexico in 1995, and for Asia in 1997. U.S. international economic policy and IMF policy have been deeply intertwined; if the United States has not achieved substantial benefits from the IMF over its 52-year history, then, to a great extent, it is also U.S. policy that has failed.

## Conclusions

U.S. budgetary conventions governing transactions with the IMF provide that expenditures (outlays) for the IMF are offset by the increased U.S. reserve position in the IMF. These are considered to be an exchange of assets. The transactions themselves, therefore, have no net impact on the budgetary position of the United States, whether it is in deficit or in surplus.

Expenditures in connection with U.S. participation in the Fund, however, do bring about three other types of financial flows that enter the budget:

- an increase or decrease in the Treasury's interest costs,
- receipts from the IMF, mostly from interest (remuneration) earned on its reserve tranche position, and
- foreign exchange gains and losses.

During the 18-year period that has been the primary focus of this report, the impact of these flows on the U.S. financial picture has been modest. From April 30, 1980 to April 30, 1997, these transactions resulted, cumulatively, in an inflow into the U.S. budget of \$1.3 billion or an annual average of \$73 million. In IMF fiscal year 1997, ending April 30, they amounted to a \$1.1 billion outflow, the second largest outflow, after 1996, in the 18-year period. The 1997 outflow was well under 0.1 percent of total U.S. fiscal year expenditures of \$1,601 billion, or less than 0.2 percent of discretionary expenditures of \$548 billion.<sup>18</sup> More importantly, the bulk of this

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<sup>18</sup> Data on U.S. budgetary outlays for FY 1997 from *A Citizen's Guide to the Federal Budget*.  
(continued...)

outflow was attributable to foreign exchange losses, which were equivalent to 89 percent of the total outflow. Indeed, in virtually every year during the 18-year period, the major determinant of the net financial gain or loss arising from U.S. participation in the IMF was attributable to valuation gains or losses, that is, to exchange rate movements.

During the 18-year period, the implied interest costs of U.S. Treasury borrowing exceeded interest (remuneration) and other payments received from the IMF by a cumulative \$227 million, or an annual average of \$12.6 million. After contributing to a reduction of U.S. Treasury borrowing costs in 1980 and 1981, the United States sustained interests costs in the following 16 years. Both estimated U.S. Treasury interest costs and receipts from the IMF were at their highest level in 1985, that is, at the height of the Latin American debt crisis. Implied interest costs in 1997 were at the second highest level for the period.

U.S. Treasury interest costs are affected both by the amount borrowed and by U.S. domestic interest rates. They are not fully offset by receipts from the IMF for three reasons: 1) the composite SDR interest rate is lower than U.S. domestic interest rates, notably because of particularly low Japanese domestic rates; 2) the reserve tranche position is not fully remunerated; and 3) there is an adjustment to the IMF's rate of remuneration for burden-sharing, that is, for countries in arrears to the IMF.

Figures for net debt attributable to transactions with the IMF are available only for the period up to January 1991. The impact of IMF transactions on the U.S. government's net debt position varied during the period. Within the context of the total U.S. debt picture, however, the impact of transactions with the IMF was also modest, with the \$4.6 billion outstanding at the end of calendar year 1990 amounting to less than 0.2% of total U.S. government debt outstanding.

Given that transactions with the IMF have a limited impact on the total financial picture of the U.S. government, it would appear that assessments of the role and programs of the IMF are the more important policy issue.

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<sup>18</sup>(...continued)

Budget of the United States Government, Fiscal Year 1999, p. 12.

## Appendix I

**Table 1. Estimated U.S. Treasury Borrowing Cost Associated with IMF Transactions, April 30, 1980-April 30, 1997\***  
(Million \$)

IMF Fiscal Year Ending April 30	Borrowing Cost (-) or Reduction	IMF Fiscal Year Ending April 30	Borrowing Cost (-) or Reduction
1980	189	1989	-551
1981	125	1990	-521
1982	-246	1991	-460
1983	-370	1992	-315
1984	-621	1993	-254
1985	-782	1994	-304
1986	-609	1995	-501
1987	-493	1996	-633
1988	-482	1997	-641
<b>Total</b>	-3,289		-4,180
<b>Annual Average/ 18-Year Period</b>			-415

\* Estimated at the average annual rate of interest on 3-month Treasury bills. For 1983-1997, this was applied to the average remunerated reserve tranche position for the year.

Source: 1980-1982: U.S. Department of the Treasury; 1983-1997: IMF.

**Table 2. Cumulative Net Treasury Debt Outstanding  
Associated with IMF Transactions,  
April 30, 1980-January 31, 1991  
(Million \$)**

<b>IMF Fiscal Year Ending April 30</b>	<b>Cumulative Net Debt Outstanding</b>
1980	1,418
1981	1,078
1982	-1,817
1983	-5,528
1984	-6,820
1985	-6,557
1986	-8,535
1987	-7,148
1988	-5,464
1989	-2,438
1990	-2,977
1991*	-4,617
<b>Annual Average</b>	<b>-4,117</b>

\* Through January 31, 1991 only.

Source: U.S. Department of the Treasury, as presented in U.S. Congress. Committee on Banking, Finance and Urban Affairs. Subcommittee on International Development, Finance, Trade, and Monetary Policy. *Quota Increase of the International Monetary Fund*. Hearing, July 10, 1991. 102nd Congress, 1st session, p. 67. Serial No. 102-53.

**Table 3. Remuneration, Interest, and Refunds Received from the IMF,  
April 30, 1980-April 30, 1997  
(Million \$)**

<b>IMF Fiscal Year Ending April 30</b>	<b>Remuneration, Interest, and Burden- Sharing Refunds</b>	<b>IMF Fiscal Year Ending April 30</b>	<b>Remuneration, Interest, and Burden- Sharing Refunds</b>
1980	0	1989	445
1981	16	1990	520
1982	88	1991	498
1983	347	1992	405
1984	510	1993	399
1985	661	1994	380
1986	596	1995	378
1987	477	1996	481
1988	422	1997	447
<b>Total</b>	3,117		3,953
<b>Annual Average/ 18- Year Period</b>			393

Source: 1980-1982: U.S. Department of the Treasury; 1983-1997: IMF.

**Table 4. Valuation Gains and Losses on the U.S. Reserve Position in the IMF, April 30, 1980-April 30, 1997**  
(Million \$)

<b>IMF Fiscal Year Ending April 30</b>	<b>Valuation Gains (+) or Losses (-) on U.S. Reserve Position in the IMF</b>
1980	-45
1981	-143
1982	-204
1983	-234
1984	-370
1985	-569
1986	1,797
1987	1,026
1988	712
1989	-629
1990	57
1991	227
1992	192
1993	438
1994	-20
1995	1,292
1996	-1,185
1997	-876
<b>Total</b>	<b>1,466</b>
<b>Annual Average</b>	<b>81</b>

Source: 1980-1982: U.S. Department of the Treasury; 1983-1997: IMF.

**Table 5. Financial Return from U.S. Participation In the IMF,  
April 30, 1980-April 30, 1997  
(Million \$)**

<b>IMF Fiscal Year Ending April 30</b>	<b>Total Net Gains (+) or Losses (-) on U.S. Transactions with the IMF</b>
1980	144
1981	20
1982	-146
1983	-256
1984	-481
1985	-690
1986	1,784
1987	1,010
1988	653
1989	-735
1990	56
1991	265
1992	282
1993	582
1994	56
1995	1,170
1996	-1,337
1997	-1,070
<b>Total</b>	<b>1,307</b>
<b>Annual Average</b>	<b>73</b>

Source: 1980-1982: U.S. Department of the Treasury; 1983-1997: IMF.



## Appendix II

The current U.S. quota equals SDR 26.53 billion. The valuation adjustment may be calculated in two ways.

In order to keep the dollar value of the U.S. quota the same in terms of the SDR at the end of April 30, 1997 as it was at the end of April 30, 1996, as IMF rules require, the valuation adjustment is calculated as follows, **from the point-of-view of IMF accounts:**

1) In terms of the SDR:

April 30, 1996 (SDR1=\$1.45006) SDR26.53 billion x \$1.45006 =  
\$38.47 billion

April 30, 1997 (SDR1=\$1.36553) SDR26.53 billion x \$1.36558 =  
\$36.23 billion

As shown in figure 3, the SDR depreciated against the dollar, that is, each SDR bought fewer dollars on April 30, 1997 (about \$1.37) than on April 30, 1996 (about \$1.45). A valuation payment would be made to the IMF to maintain the dollar value of the U.S. quota, which has fallen in terms of the U.S. dollar.

Looked at **from the point-of-view of U.S. government accounts**, however, the dollar appreciated against the SDR. Thus, the valuation adjustment would be calculated as follows:

2) In terms of the U.S. dollar:

April 30, 1996 (\$1=SDR 0.68963) SDR 26.53 billion ÷ SDR 0.68963 =  
\$38.47 billion

April 30, 1997 (\$1=SDR 0.73232) SDR 26.53 billion ÷ SDR 0.73232  
= \$36.23 billion

The U.S. dollar appreciated against the SDR. Thus, each dollar bought more SDRs on April 30, 1997 (about SDR 0.73) than on April 30, 1996 (about SDR 0.69). The dollar value of the U.S. quota in the IMF would, however, have fallen from \$38.47 billion to \$36.23 billion, a loss.

By either method, the United States, hypothetically, had to pay a valuation adjustment to the IMF of \$2.24 billion in order to maintain the value of its quota constant between April 30, 1996 and April 30, 1997. In fact, this would not have been the amount of the adjustment. The dollar value of the U.S. quota has to be kept constant from the effective date of the last quota increase on November 11, 1991. The above calculation is for illustrative purposes only. As appendix table 3 shows, the United States actually had a valuation loss of \$876 million during IMF fiscal year 1997, ending April 30.

## Appendix III

### Articles of Agreement of the International Monetary Fund

#### Article I

##### Purposes

The purposes of the International Monetary Fund are:

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article