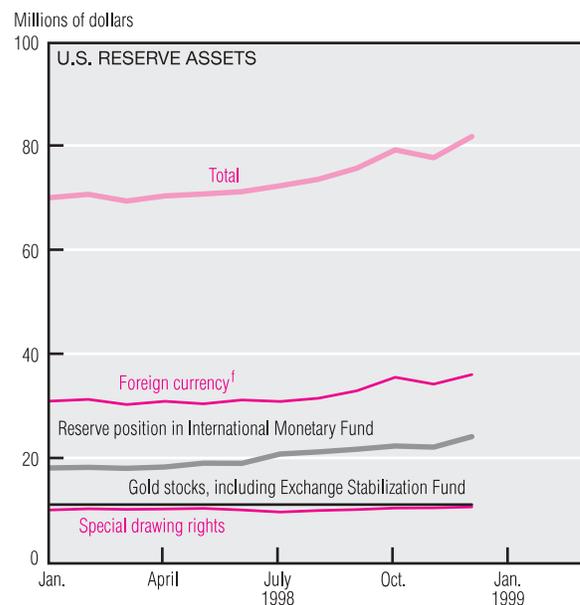


# The Exchange Stabilization Fund

Exchange Stabilization Fund (Millions of dollars as of September 30, 1998)			
Assets		Liabilities	
U.S. Treasury securities	15,981	Accounts payable	48
Special drawing rights <sup>a</sup>	10,106	Special drawing rights certificate	9,200
Foreign exchange <sup>b</sup>	—	Special drawing rights allocations	6,719
Deutschmarks	6,423	Total liabilities	15,967
Japanese yen	8,106	Total capital	24,771
Accounts receivable	122	Total liabilities and capital	40,738
Total assets	40,738		

U.S. Monetary Authorities' Foreign Currency Holdings (Millions of dollars, based on exchange rates for 1998:IVQ)	
Balance as of December 31, 1998 <sup>a</sup>	
<b>Federal Reserve</b>	
Deutschmarks	12,824
Japanese yen	6,847
Total	19,671
<b>Exchange Stabilization Fund</b>	
Deutschmarks	6,494
Japanese yen	9,799
Total	16,294

Reciprocal Currency Arrangements (Millions of dollars)		
	September 30, 1998	December 31, 1998
<b>Federal Reserve</b>		
European Central Bank members <sup>c</sup>	12,750	—
Other banks <sup>d</sup>	12,800	—
Bank of Canada	2,000	2,000
Bank of Mexico	3,000	3,000
Bank for International Settlements <sup>e</sup>	1,850	—
Total	32,400	5,000
<b>Exchange Stabilization Fund</b>		
Deutsche Bundesbank	1,000	—
Bank of Mexico	3,000	3,000
Total	4,000	3,000



- a. Based on a weighted average of exchange rates for selected member countries. U.S. SDR holdings and allocations are valued on this basis beginning July 1974.
- b. Excludes foreign exchange transactions for future and spot delivery.
- c. Includes Austrian National Bank, National Bank of Belgium, Bank of France, Deutsche Bundesbank, Bank of Italy, and Netherlands Bank.
- d. Includes National Bank of Denmark, Bank of England, Bank of Japan, Bank of Norway, Bank of Sweden, and Swiss National Bank.
- e. Includes dollars against Swiss francs and dollars against other authorized European currencies.
- f. Valued at current market exchange rate.

SOURCES: *Treasury Bulletin*, December 1998; and *Federal Reserve Bulletin*, March 1999.

The Exchange Stabilization Fund, operated by the U.S. Secretary of the Treasury with the President's approval, is a major means of giving financial assistance to foreign countries. As of September 30, 1998, the ESF's total assets were \$40 billion. However, of its \$10 billion special drawing rights (SDRs), \$9.2 billion have already been monetized (converted into dollars) by the Federal Reserve. Moreover, the ESF's balance sheet does not reflect commitments to provide future funding.

The ESF is also used to intervene

in foreign exchange markets, with the Fed almost always intervening in the same amount and direction. Like the Fed, the ESF maintains a portfolio of foreign-currency-denominated assets, usually government securities, which can be sold to purchase dollars for supporting a currency's international value. U.S. authorities can obtain additional foreign currencies through reciprocal currency arrangements (swap lines) maintained with some countries.

The size of these swap lines has recently decreased, partly due to the

creation of the European Central Bank and the euro's introduction. It is unclear how these developments will affect demand for official U.S. holdings of foreign currencies.

With the establishment of the International Monetary Fund (IMF), U.S. reserve assets came to include SDRs and the nation's reserve position in the IMF. That reserve position reflects payment of our IMF subscription in reserve assets, the IMF's use of our currency, and our position under various IMF-sponsored borrowing arrangements.