



## Treasury's Exchange Stabilization Fund

The Exchange Stabilization Fund (ESF) is an emergency reserve fund of the Department of the Treasury created by Congress in 1934. The ESF has evolved from its original purpose of maintaining the fixed dollar exchange rate. Now, the value of the dollar is market-determined and the ESF is a fund that the Treasury Secretary can use quickly with few restrictions for any purpose and without congressional approval. Treasury Secretaries have used the ESF for a variety of objectives, including supporting foreign governments, engaging in specific transactions with the International Monetary Fund (IMF), and stabilizing U.S. financial markets. The Treasury Secretary's use of the ESF to provide temporary financial support to Argentina in 2025 has renewed debates about the ESF's function and purpose.

### Background

The ESF was established by Section 10(a) of the Gold Reserve Act of January 30, 1934 (31 U.S.C. §5302), to stabilize the exchange value of the dollar at a time when the international monetary system was being destabilized by competitive currency devaluations. The ESF was established with \$2 billion realized after the 1934 devaluation of the dollar. The ESF is self-financing and does not regularly receive congressional appropriations. Congressional oversight is largely limited to after-the-fact reporting requirements detailing the fund's activities.

After World War II, when the International Monetary Fund (IMF) was established, the ESF was the source of funds for the U.S. contribution. As provided in the Bretton Woods Agreement Act of 1945 (Section 7 of P.L. 79-191), \$1.8 billion of the ESF's capital of \$2 billion was used to make a partial payment on the U.S. subscription to the IMF. The 1945 act also included permanent authority for the ESF.

In 1976, following the end of the quasi-gold standard, where the dollar was pegged to gold and other countries' currencies were pegged to the dollar, Congress struck the explicit purpose of stabilizing the exchange value of the dollar from the ESF's statute, and its purpose was expanded (P.L. 94-564). The phrase "stabilizing the exchange value of the dollar" was deleted, and language referring to "being consistent with U.S. obligations in the IMF regarding orderly exchange arrangements and a stable system of exchange rates" was inserted. As a result, the Treasury Secretary (with the President's approval) has almost unlimited authority to "deal in gold, foreign exchange, and other instruments of credit and securities."

Congress exercises oversight by requiring Treasury to provide it with monthly and annual reporting on the ESF's operations. (Although Treasury has continually published unaudited monthly reports, to date it has not published a FY2025 audited annual report, as required.) Additionally, in 1977, Congress added a restriction that ESF loans could not

exceed six months unless the President notified Congress that "unique or exigent circumstances" were present (P.L. 95-147). Such notifications were provided regarding ESF exposure to Mexico in 1982 and 1995 and to Brazil in 1998.

### ESF Resources

In addition to the ESF's initial capitalization, Congress allowed the ESF to remain outside annual appropriations and imposed no overall size limit. Instead, the ESF retains all of the earnings from its operations. ESF assets include Treasury securities, foreign currencies and securities, and special drawing rights (SDRs, an international reserve asset created by the IMF to supplement foreign exchange reserves). As of February 2026, ESF's liquid assets include \$23.5 billion of Treasury securities and \$4.3 billion of foreign currencies and securities. Because the size of the ESF is finite, one large operation can quickly tie up most of its liquid assets. Furthermore, the ESF is small relative to daily turnover in foreign exchange markets, limiting its potential effectiveness in fulfilling its original purpose of stabilizing the value of the dollar.

To secure more dollars for ESF operations, Treasury could (1) seek an additional appropriation from Congress; (2) monetize its holdings of IMF SDRs, currently valued at \$176.0 billion, by temporarily selling them to the Federal Reserve (the Fed); or (3) engage in a currency swap arrangement called "warehousing"—in which the ESF sells foreign currency to the Fed and agrees to repurchase it at a later date, during which the Fed credits dollar reserves to the ESF for the duration of the swap. The Fed limits warehousing to \$5 billion, but it temporarily raised the limit to \$10 billion in 1989 and \$20 billion in 1995. The last use of warehousing was from 1988 to 1992.

### ESF Uses

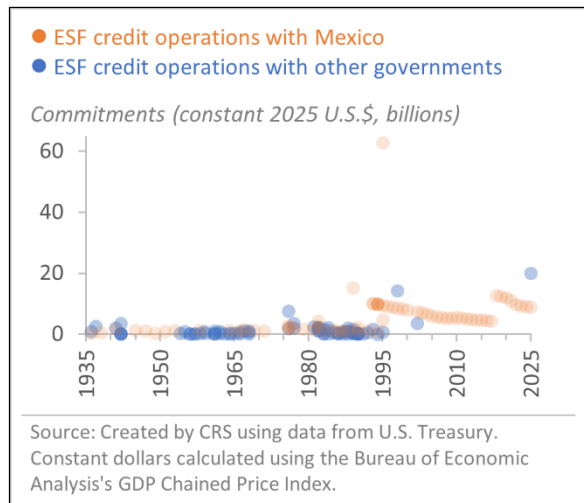
**Foreign Market Interventions.** Between the 1930s and the late 1960s, Treasury regularly used ESF resources to manage the dollar's foreign exchange rate, specifically buying and selling currencies in order to help maintain the exchange rate. The United States moved to a floating exchange rate system in the 1970s that does not require official intervention. As a result, Treasury has rarely used ESF resources for foreign exchange interventions in recent decades. Since the mid-1990s, the United States, in coordination with other countries, has intervened on three occasions—in 1998 (to support the Japanese yen), 2000 (to support the euro following its introduction), and 2011 (to support the yen following an earthquake in Japan)—using ESF and Fed resources.

**Financial Support to Foreign Countries.** Since the 1930s, Treasury Secretaries have also used ESF resources for "credit operations," usually short-term loans or currency swaps, to foreign countries facing economic crises. Since

the mid-1990s, Treasury has also annually renewed a currency swap arrangement with Mexico through the ESF, which was negotiated in the context of the North American Free Trade Agreement (NAFTA, now the U.S.-Mexico-Canada Agreement [USMCA]).

The largest ESF credit operation with a foreign government, adjusting for inflation, was with Mexico in the 1995 “peso crisis” (see **Figure 1**). The second-largest was a \$20 billion agreement with Argentina in 2025, the first new operation with a foreign government since 2002 (outside of the Mexico/NAFTA arrangement renewed annually). Through the agreement, the Treasury Department agreed to buy Argentine pesos in exchange for U.S. dollars. The arrangement was opposed by some Members of Congress because it appeared “to be an effort to unduly influence Argentina’s democratic elections,” among other reasons. Argentina drew \$2.5 billion from the swap in October 2025, which it repaid in December 2025. According to the February 2026 ESF report, the arrangement is still active.

**Figure 1. ESF Credit Operations with Foreign Governments**



**Transactions with the IMF and World Bank.** In 1968, Congress authorized the ESF to hold and transact in SDRs (P.L. 90-349). The ESF holds \$175 billion in SDRs as of February 2026. The United States can use SDRs, for example, to provide liquidity support to other countries by purchasing SDRs in exchange for U.S. dollars. Treasury has also used the ESF to facilitate the clearance of arrears to the IMF and World Bank (Liberia in 2008 and Sudan in 2021).

**Domestic Financial Crises.** Treasury Secretaries have turned to the ESF to respond to fast-moving domestic crises unrelated to the ESF’s original role to support the value of the dollar in two cases. During the 2008 financial crisis, the ESF was pledged to guarantee money market funds (MMFs, a type of mutual fund that generally invest in high-quality, short-term assets). In September 2008, there was a general run on MMFs, as investors attempted to withdraw an estimated \$250 billion of their holdings. To stop the run, Treasury announced an optional program to guarantee holdings in participating money market funds, using the assets in the ESF to finance any losses from this guarantee.

Treasury announced this program without seeking specific congressional authorization, justifying the program on the grounds that guaranteeing money market funds would protect the value of the dollar. The program expired in September 2009. Over the life of the program, Treasury reported no payouts from the money market fund guarantees, and \$1.2 billion in fees had been collected. The Emergency Economic Stabilization Act of 2008 (P.L. 110-343) directed the Treasury Secretary to reimburse the ESF for any funds used for the money market guarantee program and prohibited similar use of the ESF in the future.

In 2020, as part of the U.S. government’s economic response to COVID-19 pandemic, the CARES Act (P.L. 116-136) appropriated \$500 billion to the ESF to support loans, loan guarantees, and investments for businesses affected by COVID-19 through the end of 2020. (P.L. 116-260 rescinded \$429 billion of this total.) Treasury made \$21.1 billion in loans to passenger air and cargo air carriers and \$0.7 billion to businesses critical to national security. Treasury reported that 35 loans were made, of which 12 borrowers defaulted, as of February 2026. The remaining funds could be pledged to support emergency facilities created by the Fed. The ESF made \$215 billion available (of which \$195 billion was from the CARES Act) to backstop Fed facilities for corporate bonds, commercial paper, asset-backed securities, money market funds, municipal debt, and loans to businesses with under 10,000 employees (through the Main Street Lending Program [MSLP]). These funds would cover any future losses on the facilities, which allowed those funds to be leveraged with the Fed’s resources. Only the MSLP still has ESF funding outstanding, with the possibility of losses. All other Fed programs returned a profit to the ESF. In addition, the CARES Act temporarily permitted the use of the ESF to guarantee MMFs, as in 2008. A guarantee was not issued.

### Policy Considerations for Congress

Congress has delegated broad discretion over the ESF to the Treasury Secretary to respond quickly to domestic or foreign crises. The tradeoff is that the ESF is one of the few areas where an Administration can spend funds as it sees fit without congressional input or approval. Assistance to Argentina, which the President framed as based on ideological rather than financial grounds, has raised questions about whether more limitations on the ESF are needed.

For example, Members could legislate more specific limitations on the ESF’s use—such as capping its size, limiting how it can be used, or requiring congressional approval when the Treasury Secretary initiates interventions. Likewise, if Members want to preserve the Treasury Secretary’s discretion to use the ESF during crises while also exerting greater oversight of the fund, they could consider new reporting requirements that improve the flow of information from the Administration to Congress and/or the public. Alternatively, if Members support the ESF as a crisis-response tool, they could increase ESF resources.

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