

1991

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

INTERNATIONAL MONETARY FUND (QUOTA INCREASE AND AGREEMENT
AMENDMENTS) BILL 1991

EXPLANATORY MEMORANDUM

(Circulated by authority of the Treasurer, the Honourable
John Kerin, MP)



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INTERNATIONAL MONETARY FUND (QUOTA INCREASE AND AGREEMENT AMENDMENTS) BILL 1991

OUTLINE

The Bill will (i) authorise consent to an increase in Australia's quota in the International Monetary Fund (IMF) and provide for payment of the increase, and (ii) amend Schedule 1 of the International Monetary Agreements Act 1947 (the Agreements Act).

Increase in Australia's quota in the IMF

The Board of Governors of the IMF has agreed to propose a set of increases in members' quotas which would increase them in aggregate by 50 per cent. Quotas are expressed in special drawing rights (SDR), the IMF's unit of account. The proposed increase in Australia's quota is from SDR1619.2 million to SDR2333.2 million, the increase being currently equivalent to \$A1,229 million.

Amendments to Schedule 1 of the Agreements Act

The Schedule reproduces the Articles of Agreement of the IMF. Australia's acceptance of proposed changes to the IMF's Articles of Agreement does not require legislative authorisation or endorsement, but the Schedule should be amended when the IMF's Articles are changed.

The Board of Governors of the IMF has also agreed to propose a set of changes to the Articles which will enable stronger action against members failing to fulfil their obligations under the Articles, notably in refusing to cooperate in the repayment of their arrears to the IMF.

The Bill makes amendments to Schedule 1 which are identical to proposed amendments of the IMF's Articles. This part of the Bill is to commence after the acceptance of the amendments to the Articles by the IMF membership as a whole.

FINANCIAL IMPACT STATEMENT

An IMF quota is in effect a subscription to a pool of currencies from which members may draw in the event of a balance-of-payments need. The recent practice has been for members to pay their quotas partly in SDRs or foreign currencies (representing resources which can immediately be drawn upon by other members) and partly in domestic currencies (representing promises to provide further foreign currency if the IMF should require it).

Payment for the proposed increase in Australia's quota is required to take the form of a 75 per cent Australian dollar component (approximately \$A900 million), with the remaining 25 per cent component (around \$A300 million) to be paid in foreign currency or SDRs. Australia is to pay the 25 per cent component in the form of equal shares of foreign currency and special drawing rights.

The Australian dollar component will be paid as a non-negotiable and non-interest-bearing security and will not require specific appropriation from Commonwealth Consolidated Revenue until such time in the future as it may be redeemed. Payment of the foreign currency and SDR components will require appropriations from Consolidated Revenue.

Any payments from Consolidated Revenue toward Australia's increased quota subscription are to be considered as transactions in financial claims. They will have no direct impact on Budget outlays or receipts, or on the size of the Budget outcome.

The Articles amendment can be expected to bring some improvement in the IMF's arrears position, leading to a reduction in the costs of the arrears burden which are borne by the Fund's membership in general including Australia. The impact of the arrears burden on Australia is currently around \$A1.6 million per year.

PART 1 - PRELIMINARY

Clause 1 - Short title

Provides for the Act to be cited as the International Monetary Fund (Quota Increase and Agreement Amendments) Act 1991.

Clause 2 - Commencement

2. Sub-clause 2.(1) provides that the authorisation of consent to increase Australia's quota in the IMF and the authorisation of payment of the quota increase shall come into operation on the day the Act receives the Royal Assent.

3. Sub-clause 2.(2) provides that Part 3 of the Act - amending Schedule 1 to the Agreements Act - is to come into operation on a day to be fixed by Proclamation. The date of that Proclamation cannot be earlier than the date of the entry into force of the Third Amendment of the IMF's Articles of Agreement - which depends on action by other IMF members outside Australia's control.

4. Sub-clause 2.(3) provides that if a Proclamation date in respect of Part 3 is not fixed within six months following the acceptance of the Third Amendment by IMF members and its entry into effect, then Part 3 will enter into force on the following day. This represents a method, adapted to the circumstances of the Bill, for setting an outside limit on the commencement of Part 3. It would not be appropriate to set that limit by reference to the date of **Royal Assent**, because of the need to ensure that commencement of Part 3 does not occur until after the amendment of the IMF's Articles of Agreement.

Clause 3 - Definitions

Clause 4 - Expressions have the same meaning as in the Agreements Act

5. Clauses 3 and 4 are self explanatory.

PART 2 - INCREASE IN AUSTRALIA'S QUOTA IN THE FUND

Clause 5 - The Treasurer may consent to the increase in Australia's quota

6. Authorises the Treasurer to consent to the increase in Australia's quota in the IMF to 2,333,200,000 special drawing rights.

Clause 6 - Issues of securities

7. Provides that part of the payment of Australia's quota increase may take the form of a non-negotiable and non-interest-bearing security, as referred to in Section 7 of the Agreements Act. Section 7 of the Agreements Act establishes the general use of and appropriation for securities so issued.

8. Australia is to pay 75 per cent of its quota increase in the form of a non-negotiable and non-interest-bearing security.

Clause 7 - Appropriation

9. Appropriates from the Consolidated Revenue Fund the moneys necessary to make payment for that part of Australia's increased quota which is to be in the form of foreign currency. The Commonwealth proposes to purchase the necessary foreign currency from the Reserve Bank of Australia.

10. Appropriation authority for the Commonwealth to purchase special drawing rights for the purpose of making payment for its quota increase is provided in sub-section 5A(6) of the Agreements Act.

PART 3 - AMENDMENTS OF SCHEDULE 1 TO THE AGREEMENTS ACT

Clause 8 - Amendments of Schedule 1 to the Agreements Act

11. Indicates the proposed amendments to the IMF's Articles of Agreement which are to be incorporated in Schedule 1 of the Agreements Act. The amendments strengthen the set of action which may be taken by the IMF in circumstances where members fail to fulfil their obligations under its Articles of Agreement.



