

NATIONAL INTEREST ANALYSIS

With attachment on consultation

Renewal of the New Arrangements to Borrow

(4 November 2016)

[2017] ATNIA 19

[2017] ATNIF 22

NATIONAL INTEREST ANALYSIS: CATEGORY 1 TREATY

SUMMARY PAGE

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Nature and timing of proposed treaty action

1. The proposed treaty action is the renewal of the International Monetary Fund's (IMF) *New Arrangements to Borrow* (the NAB), as agreed by the IMF Executive Board in Decision No. 16079-(16/99) on 4 November 2016. The Treasury has received advice that the NAB constitutes a treaty for Australia and is binding under international law. However, Australia's entry into the NAB, and subsequent amendments and renewals, were not tabled for consideration by the Joint Standing Committee on Treaties. The Government is now taking the necessary action to complete domestic treaty-making requirements for the NAB as part of its renewal.
2. The NAB is a multilateral borrowing agreement that complements the normal quota-based lending resources of the IMF. Australia is a founding member of the NAB, having provided the IMF with an instrument of adherence signed by the then-Treasurer in 1997. Australia also provided the IMF with a signed instrument in June 2010 consenting to an increase in Australia's commitment under the NAB (in response to the needs of the Global Financial Crisis); and a signed instrument in May 2012 consenting to a rollback in Australia's commitment under the NAB (following an increase in Australia's IMF quota under the 14th General Review of Quotas).
3. On 4 November 2016, the IMF Executive Board (including the Executive Director representing Australia), agreed to renew the NAB for a period of five years from its current expiry date of 16 November 2017 to 16 November 2022. This will continue a (unchanged) line of credit that Australia currently provides to the IMF under the NAB, of up to Special Drawing Rights (SDR) 2.22 billion (around \$A4.05 billion as at 10 July 2017).
4. Apart from the provision amending the duration of the NAB, the renewal will introduce only minor or technical modifications to the broader terms and conditions of the NAB. Pursuant to paragraph 19(b) of the NAB, each NAB participant is deemed to continue to adhere to the NAB as renewed and modified, unless it withdraws its adherence six months prior to the expiration of the NAB (16 November 2017). In the absence of any objection, Australia's membership of the NAB will be deemed to continue until 16 November 2022.

Overview and national interest summary

5. The renewal of the NAB will assist in maintaining the resources available to the IMF to prevent and resolve crises in the balance of payments and reserve position of IMF member countries.

6. Australia's commitment to lend the IMF up to SDR 2.22 billion, if required and in accordance with the terms and conditions, will continue unchanged. Amounts lent under the NAB are repayable in full, with interest paid at the IMF's SDR interest rate.

7. The NAB has been activated ten times since 1 April 2011, including for six consecutive periods between November 2012 and 25 February 2016. The value of Australia's lending under the NAB peaked at SDR 601 million on 3 June 2014 (A\$998 million at the prevailing exchange rate). The amount of Australia's outstanding loans has since fallen to SDR 369.42 million (around A\$674.37 million as at 10 July 2017), as countries that have previously borrowed from the IMF under this facility have made repayments on those loans (e.g. Greece, Ireland and Portugal).

8. The NAB forms part of a broader global effort to ensure the IMF has sufficient financial resources available to it to effectively fulfil its global role in economic crisis prevention and resolution. Since its commencement, the NAB has been used numerous times to help manage crises, including through assistance to developing economies (e.g. Jamaica and Seychelles), transition economies (e.g. Ukraine) and advanced economies (e.g. Ireland, Portugal and Greece). It has therefore proven valuable to the IMF in fulfilling its role in the global financial safety net.

Reasons for Australia to take the proposed treaty action

9. Australia benefits from an effective IMF that has the resources available to fulfil its mandate to support global economic and financial stability. The IMF is the central institution of a global financial safety net that seeks to promote international financial and monetary stability by providing a credible financial backstop for countries in economic difficulty. As a successful open trading economy, Australia's prosperity relies on strong and stable growth in the world economy.

10. The IMF derives its resources for lending from its permanent resource base (provided through quota contributions from member countries) and temporary borrowing arrangements (held with a subset of member countries or institutions). These temporary resources include the NAB and bilateral loan agreements with member countries, which currently comprise around half of the IMF's total lending capacity.

11. The NAB is a multilateral borrowing agreement that complements the normal quota-based lending resources of the IMF. In total, the NAB currently provides the IMF with access to the equivalent of around SDR 180.57 billion (around A\$329.62 billion as at 10 July 2017) from 38 member countries or institutions. South Africa has notified the IMF that it intends to withdraw from the NAB as renewed on 17 November 2017. The total credit committed under the renewed NAB will then reduce to SDR 180.23 billion (around A\$329 billion as at 10 July 2017).

12. The terms and conditions of the NAB will remain largely unchanged, with only minor or technical modifications. For example, obsolete language (relating to previous NAB amendments) will be removed and the resource mobilisation plans (which specify the maximum amount of NAB calls that may be made for each participant) will only be provided bi-annually, rather than quarterly, during periods when the NAB is inactive.

13. Given continuing downside risks to the global economic outlook, confidence in the IMF's ability to respond to a crisis is critical in maintaining the confidence of economic participants to continue to invest and trade. The experience of the Global Financial Crisis indicates that it is important that the IMF has sufficient financial resources in place before a crisis hits, rather than hurriedly having to seek new funding commitments in the midst of a crisis response.

Obligations

14. The NAB requires Australia to lend the IMF up to the equivalent of SDR 2.22 billion (approximately A\$4.05 billion as at 10 July 2017) to meet lending commitments made by the IMF during periods when the NAB is activated (paragraph 2 and Annex I).

15. As the NAB is currently inactive, the IMF cannot undertake new lending from the NAB at this time. However, the IMF can continue to draw down funds from participating countries (including Australia) in relation to commitments that were made during previous periods when the NAB was active. IMF programs generally lend money to recipient countries in instalments over a number of years and payments can often be delayed, for example if program conditions are not met by the recipient country, or other events arise that delay the program. As at 16 March 2017, the IMF's remaining commitments arising from previous activation periods was projected to be around SDR 4 billion (around A\$7.3 billion).

Activation period

16. The NAB can only be activated for one six-month period at a time (paragraph 5(a)). To activate the NAB, the IMF must assess that the quota resources it has available are not sufficient to forestall or cope with an impairment of the international monetary system. The IMF must then obtain agreement from creditor countries representing 85 per cent of the value of all NAB commitments (who are eligible to vote in accordance with certain terms and conditions (paragraph 5(c)) on a specific proposal for the activation of the NAB (paragraph 5(b))). This must also be agreed by the IMF Executive Board (paragraph 5(d)).

Resource mobilisation plans and calls

17. The IMF provides a regular periodic resource mobilisation plan for the NAB that specifies the maximum amount of calls that may be made on Australia. The IMF Executive Board can amend this plan to change the maximum amounts and period for calls at any time (paragraph 6(a)).

18. In accordance with specific criteria and conditions, the IMF's ability to seek drawings from Australia under the NAB will also be determined by Australia's current and prospective balance of payments and reserve position (paragraphs 6(b) and 6(c)).

Repayment by the IMF

19. Loans by the IMF under the NAB have a maximum maturity date of ten years (paragraph 11(a)). The IMF has the option to repay loans in part or in full before this date (paragraph 11(b)), with repayments to be allocated among creditor countries to ensure that drawdowns remain broadly equitable across participating countries or institutions relative to their credit arrangements (paragraph 11(d)).

20. The rate of interest on drawings will be the SDR interest rate (paragraph 6(a)). In accordance with Rule T-1 of the IMF By-Laws, the SDR interest-rate is determined weekly, based on a weighted average of representative interest rates for a basket of currencies (currently the US dollar, euro, pound sterling, yen and renminbi).

21. Any default risk to Australia will be minimal as the IMF borrows from its creditor members with the backing of its full balance sheet and ultimately the resources of its global membership. To date, the IMF has met all repayment requirements under the NAB, in full accordance with the relevant terms and conditions.

22. Australia may obtain an early repayment of all or a proportion of outstanding drawings if there is a need arising from its balance of payments position (paragraph 11(e)). Australia is also able to transfer all or part of any claim on the IMF resulting from outstanding drawings to any IMF member country, subject to limitations set out in the NAB's terms and conditions (paragraph 13).

Implementation

23. Australia's membership of the NAB will be deemed to continue for the renewal period of the NAB (17 November 2017 to 16 November 2022) (Decision No. 16079-(16/99)).

24. The *International Monetary Agreements Act 1947* (IMA Act) must be amended to ensure that there is a standing appropriation and authority to borrow in place to allow Australia to meet its obligations under the renewed NAB (from 17 November 2017).

25. The legislation will need to be introduced to Parliament prior to receipt of the Joint Standing Committee on Treaties' report on the matter to ensure that Australia is able to meet its obligations under the renewed NAB when it commences on 17 November 2017.

26. No action is required by the States or Territories to implement the renewed NAB.

Costs

27. The renewed NAB will continue to be included in the Budget papers as a quantifiable contingent liability.

28. Drawings under the NAB are financing transactions. The NAB has an indirect impact on the underlying cash balance when funds are provided. This impact arises where

the Australian Government's lending to the IMF increases Australia's own borrowing requirement and where the interest payable on any money borrowed by Australia to meet an IMF drawdown differs from the interest paid by the IMF in regard to that drawdown.

Regulation Impact Statement

29. The Office of Best Practice Regulation has been consulted and confirmed that a Regulation Impact Statement is not required.

Future treaty action

30. The NAB contains an express provision for a future renewal and modification of the NAB beyond 16 November 2022, following a review of the functioning of the NAB (paragraph 19(a)). This review will have a particular focus on the experience with the procedures for activation of the NAB and the impact of the 15th General Review of Quotas on the size of the IMF's quota resources (paragraph 19(a)).

31. The IMF will adopt a decision on a renewal or modification of the NAB no later than 12 months in advance of the new expiry date (paragraph 19(b)).

32. Any future renewal, modification or amendment of the NAB will be subject to Australia's domestic treaty-making requirements.

Withdrawal or denunciation

33. Australia cannot withdraw its adherence to the NAB before 16 November 2022, except with the agreement of the IMF and all participants of the NAB (paragraph 16).

Contact details

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ATTACHMENT ON CONSULTATION

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CONSULTATION

34. The IMF's Executive Board of Directors approved the renewal of the New Arrangements to Borrow on 4 November 2016. The Australian Government was represented by an Executive Director on the IMF Executive Board for this decision.

35. The NAB, as renewed, is judged to have a negligible impact on the States and Territories and therefore no State or Territory Government representatives were directly engaged in considering the matter.

36. The NAB, as renewed, is judged to have a negligible impact on external stakeholders and therefore none were directly engaged in considering the matter.