NATIONAL INTEREST ANALYSIS: CATEGORY 1 TREATY

Renewal of the New Arrangements to Borrow

[2020] ATNIA 9
[2020] ATNIF 12

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 renewed NAB), as agreed by the IMF Executive Board in Decision No. 16645-(20/5), dated 16 January, 2020 (the NAB Decision).

2. The current NAB commenced on 17 November 2017 ([2017] ATS 42), and is due to expire on 16 November 2022. Once the NAB Decision takes effect, a new establishment period will be in place from 1 January 2021 to 31 December 2025 and Australia's contingent financial commitment under this agreement will increase from Special Drawing Right (SDR) 2.22 billion (approximately A$4.35 billion at 29 July) to 4.44 billion (approximately A$8.71 billion at 29 July).

3. The modifications adopted by the Executive Board will only become effective when NAB participants representing 85 per cent of total credit arrangements have consented to the amendments to the NAB Decision, and when NAB participants representing 85 per cent of total credit arrangements, including each participant whose credit arrangement is changed, have consented to changes in credit arrangements. Australia intends to notify the IMF of its consent as soon as practicable following the completion of domestic treaty making requirements.

Overview and national interest summary

4. The NAB is a multilateral borrowing agreement that complements the normal quota-based lending resources of the IMF and forms part of a broader global effort to ensure that the IMF has sufficient financial resources available to effectively fulfil its global role in responding to economic crises. Australia is a founding party to the NAB.

5. 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 borrowing arrangements include the NAB and bilateral borrowing agreements (BBAs) with member States, which currently comprise around half of the IMF's total lending capacity.

6. The IMF is seeking to double the aggregate size of the NAB and renew BBAs with up to 40 member countries (including Australia), ensuring the overall size of the IMF's temporary resources remains unchanged.

7. Australia's commitment to lend the IMF up to Special Drawing Right (SDR) 4.44 billion (approximately A$8.71 billion at 29 July), if required and in accordance with the terms and conditions, is considered in association with Australia's other Loan Agreement with the IMF – the BBA. Subject to the finalisation of domestic treaty making processes, it is intended that Australia's new BBA with the IMF will come into effect on 1 January 2021. Upon the increase in credit arrangement for Australia under the renewed NAB, Australia's new BBA credit arrangement will reduce from SDR 4.61 billion down to SDR 1.986 billion (approximately A$9.04 billion down to A$3.90 billion at 29 July). Once in effect, the renewed NAB and BBA will reduce Australia's commitment to the IMF by SDR 0.4 billion (approximately 0.8 billion at 29 July). Amounts lent under the renewed NAB are repayable in full, with interest paid at the IMF's SDR interest rate.

8. The NAB has been activated ten times since 2011, each time for a period of six months. The last activation period began on 1 October 2015. Australia has had 21 calls on our NAB resources totalling over SDR 750 million (approximately A$1.5 billion, as at 29 July 2020), of which, almost SDR 650 million (approximately A$1.3 billion, as at 29 July 2020) has been repaid to date.

9. Since its commencement, the NAB has been used numerous times to help manage crises, including through assistance to developing economies (e.g. Jamaica and Pakistan), 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.

10. It is in Australia's interest that the IMF remains strong, adequately resourced, and at the centre of the global financial safety net. The IMF is responding to the COVID-19 crisis with unprecedented speed and magnitude of financial assistance to protect livelihoods, especially of the most vulnerable. In particular, the IMF is providing emergency financing and debt relief, as well as enhancing liquidity and adjusting existing programs and access limits to ensure countries have the capacity to effectively respond to the health and economic crisis caused by COVID-19.

Reasons for Australia to take the proposed treaty action

11. Australia benefits from an effective IMF that has the resources available to fulfil its mandate to support global economic and financial stability. As a successful open trading economy, Australia's prosperity relies on strong and stable growth in the world economy.

12. Given the current climate with the impact of COVID-19 and risks to the global economic outlook, confidence in the IMF's ability to respond to this 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 to respond to the COVID-19 pandemic with speed and magnitude to assist countries facing liquidity and balance of payments issues resulting from this crisis.

13. It is in Australia's interest to ensure the IMF's total lending capacity as part of the broader global financial safety net is not diminished. The NAB is part of securing this capacity.

14. Funding through multilateral means such as the NAB also ensures that Australia can contribute in an efficient and effective manner by providing a relatively small portion of financing to a much larger pool that can be drawn on by member States. This reduces the likelihood that Australia will need to provide direct finance to States bilaterally that would likely require much larger sums of funding and more credit risk.

Obligations

15. As the Fund is a quota-based institution, Australia's credit arrangements provided under the terms of the NAB shall only be drawn upon when quota resources need to be supplemented in order to forestall or cope with an impairment of the international monetary system (Preamble).

16. The renewed NAB requires Australia to lend the IMF up to the equivalent of SDR 4.44 billion (approximately A$8.71 billion at 29 July), to meet lending commitments made by the IMF during periods when the NAB is activated (paragraph 2 and Annex I). These resources shall be made in the currency of the participant (paragraph 2 (b)), except for as otherwise provided for by the renewed NAB or unless otherwise agreed.

17. Any member or institution not specified in Annex I, may apply to become a new participant at any time (paragraph 3 (b)). After consultation with the Fund, the new member must give notice of their willingness to adhere to the NAB Decision and if the Fund and participants representing 85 per cent of total credit arrangements shall so agree, the member or institution may adhere in accordance with paragraph 3 (c).

18. The admission of a new participant shall lead to a proportional reduction in the credit arrangements of all existing participants whose credit arrangements are above that of the participant with the smallest credit arrangement: such proportional reduction in the

credit arrangements of participants shall be in an aggregate amount equal to the amount of the new participant's credit arrangement less any increase in total credit arrangements decided in accordance with paragraph 4(a), provided that no participant's credit arrangement shall be reduced below the minimum amount set out in Annex I (as per paragraph 3 (b)).

19. When a member or institution is authorised to adhere to the NAB Decision, the total amount of credit arrangements may be increased by the Fund with the agreement of 85 per cent of total credit arrangements; the increase shall not exceed the amount of the new participant's credit arrangements (paragraph 4 (a)).

20. Participants' individual credit arrangements may be reviewed from time to time in light of developing circumstances and changed with the agreement of the Fund and of participants representing 85 per cent of total credit arrangements, including each participant whose credit arrangement is changed (paragraph 4 (b)). This paragraph may only be amended with the consent of all participants.

21. Apart from the provision establishing a new NAB period from 1 January 2021 to 31 December 2025, and a provision in the NAB Decision limiting the activation of bilateral borrowing during the NAB period, the renewed NAB will introduce minor or technical modifications to the broader terms and conditions of the NAB. These include: the reference in paragraph 19(a) "Fifteenth General Review of Quotas" is to be replaced with the "Sixteenth General Review of Quotas"; eliminating the provision under paragraph 21 which addresses the relationship between the NAB and the General Agreements to Borrow (GAB) (the GAB lapsed on December 25, 2018); amending paragraph 23 to allow for the folding in of any claims related to the activation of BBAs prior to the effectiveness of the NAB reform and the removal of paragraph 24 as this provision has become redundant.

22. Pursuant to paragraph 19(b) of the renewed NAB, each NAB participant is deemed to continue to adhere to the NAB as renewed and modified, unless the participant withdraws its adherence not less than six months prior to the expiration of the NAB (31 December 2025) as per paragraph 19(a). In the absence of such notice, a participant shall be deemed to continue to adhere to the decision as renewed.

Activation period

23. The renewed 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. If there is not unanimity among the participants about the proposed activation, 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

24. The IMF provides a regular periodic resource mobilisation plan for the renewed 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)).

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

Repayment by the IMF

26. Loans by the IMF under the renewed 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)).

27. The rate of interest on drawings will be the SDR interest rate (paragraph 9(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).

28. 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

29. Provisions under the *International Monetary Agreements Act 1947* (IMA Act) provide a standing appropriation and authority to borrow and lend to allow the Australian Government to meet its obligations under the renewed NAB (from 1 January 2021).

30. This includes subsection 8B(3) of the IMA Act which authorises the Treasurer giving notice, by legislative instrument, of an amendment or renewal of the NAB by a decision of the IMF Executive Board. This deferred commencement ensures that the Parliament can consider and deal with any future amendment to the New Arrangements to Borrow before they take effect in the IMA Act.

31. The IMA Act also reflects the new definition of 'New Arrangements to Borrow' in section 3 of the IMA Act to list the latest IMF Executive Board Decision (Decision No. 16645-(20/5)), dated 16 January 16, 2020). If this decision is adopted, which will only apply if the decision is agreed to by, and takes effect for Australia, it will renew

the NAB for a five-year period to 31 December 2025.

Costs

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

33. Any drawings under the NAB are financing transactions. The NAB has an indirect impact on the underlying cash balance if the agreement is activated and funds are provided. This impact would arise 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.

Future treaty action

34. Pursuant to paragraph 15(a) the NAB may be amended during any period until 31 December 2025 (paragraph 19(a)) and any subsequent renewal periods only by a decision of the IMF and with the agreement of participants representing 85 per cent of total credit arrangements. The exceptions to this is if an individual participant's (country) circumstances change (e.g. economic situation) requiring a review and subsequent change in credit arrangements (paragraph 4(b)) or, if a participant is opposed to an amendment (paragraph 15(b)) they have the right to withdraw their adherence to the decision provided there is consent of all participants in the NAB (paragraph 16).

35. The renewed NAB also contains an express provision for a future renewal and modification of the NAB beyond 31 December 2025, 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 16th General Review of Quotas on the size of the IMF's quota resources (paragraph 19(a)).

36. 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)).

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

Withdrawal or denunciation

38. Australia cannot withdraw its adherence to the renewed NAB before 31 December 2025, except with the agreement of the IMF and all participants of the NAB (paragraph 16). If Australia decides to withdraw its adherence, it must do so no less than six months prior to the end of the existing agreement, 31 December 2025 (paragraph 19 (b)).

39. If Australia withdraws from membership in the Fund, Australia's credit arrangement shall cease at the same time as the withdrawal takes effect (paragraph 17).

Contact details

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ATTACHMENT ON CONSULTATION

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[2020] ATNIA 9
[2020] ATNIF 12

CONSULTATION

40. The renewed NAB 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.

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