**TREASURY RESPONSE TO QUESTIONS ON NOTICE – JOINT STANDING COMMITTEE ON TREATIES HEARING ON LOAN AGREEMENT WITH INTERNATIONAL MONETARY FUND, 27 MARCH 2017**

**1. What are the terms for the repayment of loans under the renewed 2016 bilateral loan agreement with the IMF?**

The terms and conditions for the repayment of funds borrowed by the IMF under the loan agreement are outlined in paragraphs 5, 6 and 8 of the agreement.

- Each drawdown of funds by the IMF under the agreement will have an initial maturity date of three months (paragraph 5(a)).

- The IMF will have sole discretion to extend the maturity date of a drawing by an additional period of three months, up to the tenth anniversary of the date of the drawing.

  - Such an extension will automatically be deemed to have occurred, unless the IMF provides a notification that it does not intend to extend the maturity date of the loan (paragraph 5(a)).

- The maximum maturity date of the drawing may also be extended by up to an additional five years if:

  - the IMF Executive Board has determined that exceptional circumstances exist as a result of a shortage of Fund resources in relation to Fund obligations falling due; and
  - Australia has agreed to the extension (paragraph 5(a)).

- The IMF may choose to repay a drawdown of funds prior to its maturity date, following consultation with Australia (paragraph 5(c)).

- At Australia's request, the IMF will provide an early repayment of outstanding drawings if:

  - Australia represents that its balance of payments and reserve position justifies an early repayment; and
  - the IMF agrees with this representation (paragraph 8).

- The IMF will pay interest on each drawing at the SDR interest rate (paragraph 6).

**2a. Is there a definition of the 'extraordinary circumstances' that are referred to in the last sentence of paragraph 2(b) of the renewed loan agreement?**

The Agreement does not define the term 'extraordinary circumstances' that is referred to in paragraph 2(b).

The IMF has confirmed that it would undertake extensive consultations with creditor countries before taking any action in regard to this provision.

**2b. Would these 'extraordinary circumstances' override either/or both of the provisions for the activation of the agreement outlined in paragraph 2(b), i.e. that:**

- **the modified forward commitment capacity of the IMF falls below SDR100 billion; and**

- **approval is obtained from countries representing at least 85 per cent of the total credit amount committed under the 2016 loan agreements (and who are eligible to vote in accordance with the provisions outlined in paragraph 2(b))?**

This provision does not override the activation conditions outlined in paragraph 2(b) of the Agreement.

The IMF has advised that the provision is an acknowledgement that the IMF Managing Director may still approach and consult with creditors to find a solution to forestall or cope with an 'extraordinary circumstance' that creates the risk of an impairment to the international monetary system, even if the SDR 100 billion activation threshold has not been met.

To the extent that creditors were willing to assist the Fund in such circumstances, the concerned parties would then need to determine how, and under what conditions, such support could be provided despite the agreed activation threshold not being met.

**3. What is the minimum number of countries that would be required to meet the 85 per cent voting threshold referred to in paragraph 2(b) of the agreement?**

Of the 16 renewed agreements that are currently in effect, the commitments of the 9 largest creditor countries comprise 87.5 per cent of the total credit amount committed, so would represent the minimum number of countries to meet the 85 per cent voting threshold. This may change as further agreements come into effect.

**4. Of the 35 countries that hold 2012 loan agreements with the IMF:**

- **which countries are going through the renegotiation process;**
- **have any completed the renewal process; and**
- **have any countries refused to renew their loan agreements?**

The IMF is seeking to renegotiate all 35 of the original 2012 agreements. The IMF is also engaging with additional member countries on the potential for undertaking new agreements. To date, three new countries – Brazil, Canada and Chile – have finalised agreements with the IMF.

As of late March 2017, the IMF had received commitments to undertake 2016 Borrowing Agreements from 35 countries in total, for around SDR 300 billion. As at 28 February 2017, there were 16 renewed agreements that have come into effect (see the attached table) and 15 of the original 2012 agreements remained current (including Australia's).

Given the confidential nature of IMF negotiations with individual countries, information is not available on decisions by countries not to renew or undertake bilateral loan agreements.

**5. Where does Australia rank in terms of the amount we have committed (SDR4.61 billion) under the 2012 and 2016 loan agreements with the IMF relative to the amounts committed by other countries that also hold bilateral loan agreements with the IMF?**

Australia is ranked 16th out of the 31 loan agreements that are currently in effect (which includes both original 2012 agreements still in place and renewed 2016 agreements) in terms of the relative size of funding commitments made under each agreement.

**6. What is the weight/proportion of the US dollar, euro, pound sterling, Chinese renminbi and Japanese yen in determining the Special Drawing Right (SDR) interest rate?**

The SDR is an international reserve asset created by the IMF under its Articles of Agreement. The IMF can allocate SDRs to its member countries in proportion to their IMF quotas. Countries holding SDRs can exchange them for the major currencies that are recognised as 'freely useable' by the IMF (that is, the US dollar, euro, yen, pound sterling and Chinese renminbi).

The SDR also serves as the IMF's unit of account and financial transactions between the IMF and its members are denominated in SDRs.

The SDR interest rate is determined weekly by the IMF, based on the yields on short-term debt instruments (generally three month Treasury bills) in the basket of currencies.

The precise weighting of each currency in the SDR basket moves around in line with changes in market exchange rates. The currency weights used to calculate the SDR interest rate for the last week of March 2017 were approximately:

- US dollar 42.73 per cent;
- Euro 30.65 per cent;
- Japanese yen 7.84 per cent;
- Pound sterling 7.88 per cent; and
- Chinese renminbi 10.83 per cent.

**7. Has the IMF Managing Director written to creditor countries seeking support for the renewal of their bilateral loan agreements with the IMF?**

The IMF Managing Director wrote to the Treasurer on 9 September 2016 seeking a formal commitment from Australia to renew its 2012 bilateral loan agreement with the IMF.

**Related attachments**

1. Letter from IMF Managing Director to the Treasurer

2. Table of bilateral borrowing agreements by individual country