1997

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

INTERNATIONAL MONETARY AGREEMENTS AMENDMENT BILL 1997

EXPLANATORY MEMORANDUM

(Circulated by Authority of the Treasurer, the Honourable Peter Costello, MP)

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INTERNATIONAL MONETARY AGREEMENTS AMENDMENT BILL 1997

GENERAL OUTLINE

The *International Monetary Agreements Amendment Bill 1997* will amend the *International Monetary Agreements Act 1947* to enable the Commonwealth of Australia to make loans to the International Monetary Fund (IMF) in the event of calls under the New Arrangements to Borrow; and to introduce a simpler and more transparent framework for the conduct and recording of Australia's financial transactions with the IMF.

The New Arrangements to Borrow will double the IMF's capacity to borrow when supplementary resources are needed to forestall or cope with an impairment of the international monetary system or to deal with a crisis that threatens the stability of that system. The New Arrangements to Borrow were developed following the financial crisis in Mexico late in 1994, which prompted concerns about the adequacy of the IMF's financial resources in the face of a similar crisis.

The Bill provides that any loan to the IMF under the New Arrangements to Borrow will be paid out of the Consolidated Revenue Fund.

Australia undertakes regular financial transactions with the IMF. These transactions include the receipt of interest on Special Drawing Right (SDR) holdings and interest payments on the use of Special Drawing Rights. The Bill introduces a simplified framework for conducting and recording these transactions. This will reduce the administrative costs associated with these transactions and enhance their transparency. It is desirable that these changes be introduced at the same time as Australia adheres to the New Arrangements to Borrow in order that all these transactions are conducted in a consistent framework.

The amendments in the Bill will apply from the date it receives Royal Assent. The NAB will enter into force when participants with 85 per cent of the total credit arrangements, including the five largest, have notified their adherence to it.

FINANCIAL IMPACT STATEMENT

The Bill will have no budgetary impact.

Under the New Arrangements to Borrow, Australia may be asked to lend up to SDR810 million (around $A1.5 billion) to the IMF. Such loans to the IMF would represent monetary assets of the Commonwealth and accordingly the associated transactions would be classified as financing transactions.

None of the changes to conducting and recording Australia's financial transactions with the IMF would have an effect on the Budget. All of the transactions affected by the changes in the simplified framework are financing transactions.

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NOTES ON CLAUSES

Clause 1 - Short Title

1. Clause 1 specifies the short title of this Act.

Clause 2 - Commencement

2. This Act commences on the date the Bill receives Royal Assent.

Clause 3 - Schedule(s)

3. Clause 3 provides for amendments to the *International Monetary Agreements Act 1947* as specified in the Schedule.

SCHEDULE 1 - AMENDMENT OF THE INTERNATIONAL MONETARY AGREEMENTS ACT 1947

4. The main objectives of the Schedule to the *International Monetary Agreements Amendment Bill 1997* are to amend the *International Monetary Agreements Act 1947* to:

- enable the Commonwealth of Australia to make available to the IMF resources in the form of loans up to specified amounts when supplementary resources are needed to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system; and

- introduce a simpler and more transparent framework for the conduct and recording of Australia's financial transactions with the IMF.

Part 1 - Amendments Relating to the New Arrangements to Borrow

Item 1 - Subsection 3(1)

5. This item adds the definition of the New Arrangements to Borrow to subsection 3(1) of the *International Monetary Agreements Act 1947.* The New Arrangements to Borrow are defined as the terms and conditions set out in the decision of the Executive Board of the IMF on 27 January 1997 (Decision No. 11428-(97/6)). The decision of the IMF Executive Board, and therefore the New Arrangements to Borrow, will not come into effect until it has been adhered to by participants with 85 per cent of the total credit arrangements, including the participants with the five largest credit arrangements.

Item 2 - Subsection 6(1)

6. This item amends subsection 6(1) of the *International Monetary Agreements Act 1947* to provide authority for the Treasurer to borrow money for Australia to meet its obligations under the New Arrangements to Borrow.

7. Subsection 6(1) of the *International Monetary Agreements Act 1947* currently provides the authority for the Treasurer to borrow money for Australia to replenish the general financial resources of the IMF as required by way of its membership of the IMF. The Bill amends subsection 6(1) to extend the authority for the Treasurer to borrow by reason of its obligations under the New Arrangements to Borrow as well as its membership of the IMF.

Item 3 - After section 8A

8. This item makes provision for a loan to the IMF under the New Arrangements to Borrow to be paid out of the Consolidated Revenue Fund. Funds may only be appropriated from the Consolidated Revenue Fund where the Treasurer is satisfied that it is necessary for Australia to meet its obligations as a participant in the New Arrangements to Borrow.

Item 4 - At the end of the Act

9. This item inserts a new schedule to the *International Monetary Agreements Act 1947* which reproduces the terms and conditions of the New Arrangements to Borrow as agreed by the Executive Board of the IMF on 27 January 1997.

Part 2 - Amendments Relating to Simplified Financial Transactions

Item 5 - Subsections 3(2) and (3)

10. This item repeals subsections 3(2) and (3) of the *International Monetary Agreements Act 1947*. These subsections include definitions relating to the transfer of Special Drawing Rights between the Commonwealth and the Reserve Bank of Australia to facilitate Australia's financial transactions with the IMF. Under the new framework for financial transactions with the IMF, the necessary Special Drawing Rights will be bought and sold by the Commonwealth and will no longer be transferred to and from the Reserve Bank of Australia.

Item 6 - Subsections 5A(1), (2), (3) and (4)

11. Item 6 amends subsections 5A(1), (2), (3) and (4) of the *International Monetary Agreements Act 1947* to give the Treasurer authority to direct the Reserve Bank of Australia to buy or sell the Special Drawing Rights required to carry out Australia's financial transactions with the IMF.

12. Subsections 5A(1), (2), (3) and (4) currently make provision for Australia's financial transactions with the IMF to be conducted through the transfer of Special Drawing Rights between the Commonwealth and the Reserve Bank of Australia. These transactions have been recorded as changes in the Reserve Bank's holdings of Special Drawing Rights and corresponding changes in the Reserve Bank's retransfer liability to the Commonwealth.

13. Under the new framework for conducting and recording Australia's financial transactions with the IMF, the Commonwealth would purchase the Special Drawing Rights required to make payments to the IMF and sell the Special Drawing Rights it received from the IMF.

Item 7 - Subsection 5A(6)

14. This item amends subsection 5A(6) of the *International Monetary Agreements Act 1947* to replace the transfer of Special Drawing Rights to the Reserve Bank of Australia with the sale of Special Drawing Rights to the Reserve Bank of Australia.

Item 8 - Sections 5B and 5C

15. This item repeals sections 5B and 5C of the *International Monetary Agreements Act 1947*. These sections authorise the transfer of Special Drawing Rights from the Reserve Bank of Australia to the Commonwealth.

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