INTERNATIONAL MONETARY AGREEMENTS (QUOTA INCREASE) BILL 1980

Date Introduced: 21 August 1980
House: House of Representatives
Presented by: Hon. I.M. Macphee, M.P., Minister for Immigration and Ethnic Affairs and Minister Assisting the Treasurer.

Short Digest of Bill

Purpose

To allow Australia to consent to an increase of its quota in the International Monetary Fund (IMF) to 1,185,000,000 special drawing rights (SDR's) and to make the consequent payment.

Background

Australia has been a member of the IMF since 1947. The central functions of the IMF are:

(i) to facilitate the orderly operation of the international monetary system by formulating and implementing guidelines for members' behaviour in the area of exchange rates and agreements.

(ii) to assist in the maintenance of adequate international liquidity; and

(iii) to provide temporary balance of payments support facilities by allowing members to draw foreign currencies to meet balance of payments problems.

The Fund is a fund of national currencies and reserve assets (gold and SDR's) which are subscribed by members as quotas (or "capital") in amounts broadly proportional to each country's relative importance in world trade. The size of each country's quota determines its total drawing rights (i.e. to extent to which it can draw on the Fund's resources in times of balance of payments difficulties) and its voting power in the Fund. The size of a country's quota also determines the amount of SDR's it receives in allocations of SDR's from the Fund. (SDR's are reserve assets created by the IMF to supplement other forms of international liquidity. From time to time the IMF allocates SDR's in proportion to member countries' quotas in accordance with international liquidity requirements).
Australia's quota in the Fund has increased in stages over the years by agreement with the Fund. The last increase was in September 1978 under the IMF's Sixth General Review. Further increases in members' quotas were approved by the Fund's Board of Governors in December 1978 under the Seventh General Review. The agreed resolution on quota increases (to which Australia voted in favour) provided for across-the-board increases of 50 per cent in all members' quotas with additional selective increases for eleven members (mainly OPEC countries). This Bill enables Australia to consent to its increase. The increase is expected to come into force in early 1981. (As noted in the Treasurer's Second Reading Speech to the Bill, the increases agreed under the Seventh General Review will come into effect when members accounting for 72 per cent of existing quotas have consented. As at 12 August 1980 members holding 40.33 per cent of total Fund quotas had consented to the increase.)

The increase will raise Australia's quota (expressed in terms of the IMF's unit of account, the SDR) from SDR 790 million to SDR 1185 million. This additional quota subscription will be paid 25 per cent in SDR's and 75 per cent in the form of a non-interest bearing, non-negotiable promissory note. An appropriation from the Consolidated Revenue Fund (CRF) is required for the SDR component of the increased subscription but the issue of the promissory note will only effect the CRF if it is "called on". This would be when the Fund's use of Australian dollars exceeded its current holding of Australian dollars. (This is unlikely to occur in the near future because the Fund's policies for the selection of currencies for drawings etc. are based on the strength of balance of payments and reserve position of a country).

A Special Appropriation for $115.1 million (the Australian dollar equivalent of the component of the increased subscription to be paid in SDR's) is provided for in the Budget estimates; but it should be noted that transactions with the IMF such as this are regarded as Government financing transactions, i.e. they are "below-the-line" and do not affect the Budget Deficit. (The transaction can be viewed as a way of storing our monetary assets in order to get certain entitlements rather than as an expenditure in the normal sense).

Further information on Australia's financial relations with the IMF may be found in the Treasurer's Annual Reports on the operations of the IMF. These are produced at the end of each financial year.
Main Provisions

Clause 4 approves the giving of consent by Australia to the increase of its quota in the IMF to 1,185,000,000 special drawing rights.

Clause 5 allows part of the quota subscription to be paid in the form of a non-negotiable, non-interest bearing security as provided for in Section 7 of the International Monetary Agreements Act 1947.

10 September 1980

Finance, Industries, Trade & Development Group
LEGISLATIVE RESEARCH SERVICE