INTERNATIONAL MONETARY AGREEMENTS AMENDMENT BILL 1978

Date Introduced: 25 May 1978
House: House of Representatives
Presented by: Hon. R.V. Garland, M.P., on behalf of the Treasurer

Short Digest of Bill

Purpose

1. To empower the Government to agree to the increase in Australia's quota subscription to the International Monetary Fund (IMF);

2. To empower the Government to take up an increase in Australia's subscription to the authorised capital stock of the International Bank for Reconstruction and Development (IBRD);

3. To amend the International Monetary Agreements Act 1947 as necessitated by the Second Amendment of the International Monetary Fund's Articles of Agreement; and

4. To provide for certain other minor amendments to the Principal Act.

Background

Review of IMF Quotas

In March 1976, the Board of Governors of the IMF approved a Resolution providing for an increase in the overall size of the Fund by about one-third to SDR 39 billion. The articles of agreement of the Fund provide for general reviews of quotas at intervals of not more than 5 years to enable the size of the Fund to be expanded in line with the growth of international payments and calls on the Fund's resources. The present change constitutes the sixth general review of quotas.

Members' quotas or subscriptions determine the extent of their entitlements to draw from the Fund, their voting power in the Fund, and, if they are participants in the Special Drawing Account, their share of any SDR allocations.

The 75% majority required to give effect to the most recent (the sixth) general review of quotas was reached on 1 April, 1978. Consequently, those members that have consented and paid the additional subscription are now operating on the basis of an increased quota.
With the passage of this Bill, the Government will also be able to consent to the increased quota for Australia and make the consequent payment.

Under the new quotas, the share of the major oil exporters will be doubled, whilst the collective share of all other developing countries will be maintained. The new quota for Australia is SDR 790 million, an increase of 18.8% or SDR 125 million. It should be noted that the payment of the additional quota will take the form of a non-negotiable, non-interest bearing promissory note. It will have no effect on the Budget or on the level of Australia's international reserves.

Because Australia's quota increase is less than proportional to the overall increase, Australia's relative voting strength will be marginally reduced.

At the time the new quotas were proposed, the then Treasurer abstained from voting on them, on the grounds that Australia's quota increase was less than adequate.

**IBRD Capital stock subscription**

As explained by the Minister in his Second Reading Speech, following the approval of the sixth general review of quotas the Board of Governors of the IBRD (or World Bank) approved a resolution entitling most member countries (including Australia) to take up specified increases in their subscription to the capital stock of the Bank so as to maintain roughly the same long-standing relativities between IMF quotas and IBRD subscriptions. The purchase by the Bank's members of additional capital stock requires the making of agreements between each member and the Bank, under the normal terms of which 10% of the additional subscription is paid in and the balance remains on call.

Many countries have already taken up the additional shares. This Bill will provide authority for the Treasurer to make an agreement under which Australia will purchase an additional 779 shares in the capital stock of the Bank, under the normal terms. The total amount involved is about US$94 million, although 90% of this will remain on call and the remainder, US$9.4 million, is payable over the period up to 1981-82.

The IBRD, which is made up of member governments of the IMF, was established in 1947. It has played an important role in the provision of loans to developing countries.

**Second Amendment of the Articles of Agreement of the IMF**

In April 1976, a resolution approving major amendments to the IMF's Articles of Agreement was adopted by the Board of Governors
of the Bank, and was then submitted to member governments for individual ratification. On 1 April 1978, when the necessary three-fifths of the members having four-fifths of the total voting power had assented to the amendments, they came into effect.

The amendments are aimed at bringing the Articles of Agreement more into line with current international economic and financial conditions. The Articles were last amended in 1969 as a consequence of the creation of Special Drawing Rights but have not been comprehensively amended since they entered into force in 1945. In several areas of the IMF's responsibilities and operations, the amendments simply "legalize" the present de facto situation.

When the amendments were first presented to the Governors of the Fund for consideration, the then Australian Treasurer voted in favour of them.

The most important aspects of the amendments relate to exchange rate arrangements, a gradual reduction in the role of gold, changes to the nature and conditions of use of SDR's, and the simplification and expansion of the Fund's financial operations.

Exchange rate arrangements

The provisions of Article IV governing exchange rate arrangements have been amended to reflect the proposition that it is the level of exchange rates, rather than the method of setting those rates, that is of importance in international and economic relationships. The amendments formally recognise the transformation from the par value system, defined at the Bretton Woods Conference in 1944 and incorporated in the Fund's original Articles, to a looser system of floating exchange rates. The amendments, whilst recognising the rights of members to adopt a variety of exchange arrangements of their own, set out the general principles for the orderly operation of the international monetary system and for surveillance by the Fund of the exchange rate and external policies of individual member countries.

Provision has also been made in the amended Articles for a return to a fixed exchange rate system based on stable but adjustable par values at some time in the future if international economic conditions permit and a sufficient number of members favour this course.

Gold

Amendments relating to the role of gold in the Fund's operations should be seen against the background of the decreasing importance of gold in the international monetary system and the consequent reduced need for the Fund to hold gold. Gold will no longer be the Fund's numeraire or unit of account for expressing the values of currencies used in Fund transactions and of the Fund's special drawing rights. The amendments also provide for the abolition of an official gold price, for the avoidance of price fixing for gold by official authorities, and
for an end to all obligatory payments in gold within the Fund.

Furthermore, the amendments provide for the disposal of 50 million ounces (one-third) of the Fund's gold. Over a four-year period, 25 million fine ounces of gold will be restituted by the Fund to members in proportion to their quotas, at the official price of 35 SDR per ounce (well below the current market price). The Minister stated in his Second Reading Speech that Australia had to date had 284,000 ounces of gold restored to it, through transactions which took place in January 1977 and January 1978.

Under similar arrangements, a further 25 million fine ounces of the Fund's gold are being publicly auctioned for the benefit of developing countries.

. Special Drawing Rights

The SDR was created in 1969 with the aim of establishing a supplementary reserve asset. Amendments have been made to the Articles, concomitant with the changes noted above concerning gold, which are aimed at assisting SDR's to become the principal reserve asset of the international monetary system. However, this change is seen as being an evolutionary one, and the Amendments explicitly require that Special Drawing Rights be allocated only if there is a global need to supplement the existing stock of reserve assets.

The main changes concerning the SDR allow participants to use it in transactions between themselves without the necessity for fund approval; broaden the categories of "other holders" of SDR, although not beyond official entities; broaden the range of operations within the Fund for which SDR may be used; and provide greater flexibility in the determination of the rate of interest on SDR holdings.

. Financial transactions of the fund

The remaining changes provide, among other things, for the simplification and expansion of the Fund's financial transactions, in particular those conducted through the General Resources Department of the Fund, and for the possible establishment of a 20 member Council as a new decision-making organ in the Fund.

Other changes

The only amendments to the Principal Act which do not relate to either the Amendments of the Articles of Agreement of the Fund or the reviews of quotas for the Fund and the IBRD are those designed to empower the Treasurer to issue securities in connection with payments required to be made by Australia to the Fund and Bank. Under the present Act the power is conferred on the Governor-General. The Treasurer stated in his Second Reading Speech that the changes were proposed on the grounds of administrative efficiency.
Main Provisions

Part II of the Bill contains alterations to the Principal Act made necessary in order to make the Act consistent with the amended Articles of Agreement of the Fund, and to facilitate operations which are provided for in the amended Articles, particularly those involving SDR. The one exception is clause 9, which empowers the Treasurer, rather than, as at present, the Governor-General, to issue securities in connection with payments required to be made by Australia to the Bank.

Clause 14 repeals the First Schedule to the Principal Act, and substitutes the amended Articles of Agreement of the International Monetary Fund.

Part III of the Bill concerns the additional Australian subscriptions to the Fund and the IBRD. Clause 18 gives the consent of Australia to the increase of its quota in the Fund to 790 million special drawing rights.

Clause 19 authorises the Treasurer to make an agreement with the IBRD providing for the purchase by Australia of 779 additional shares of the capital stock of the Bank at a price of US$100,000 each (old rate) or its up-dated equivalent.

Clause 20 authorises the payment out of the Consolidated Revenue Fund of any money necessary by reason of section 18 or 19.

2 June 1978

Finance, Industries, Trade and Development Group

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