

## NATIONAL INTEREST ANALYSIS: CATEGORY 1 TREATY

### **Borrowing Agreement between the Government of Australia and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust**

[2020] ATNIA 11

[2020] ATNIF 14

#### **Nature and timing of proposed treaty action**

1. The proposed treaty action is the definitive signature of the *Borrowing Agreement between Australia and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust* (the Agreement).
2. The Agreement will be in place from the effective date of agreement between Australia and the IMF through December 31, 2029 (paragraph 2(a)). The Agreement shall become effective on the last date of signature. Australia will sign the Agreement as soon as practicable following the completion of domestic treaty-making requirements.
3. This Agreement represents the first time Australia has contributed to the Loan account of the International Monetary Fund's (IMF's) Poverty Reduction and Growth Trust (PRGT).

#### **Overview and national interest summary**

4. The Agreement will facilitate Australia's contribution to the Loan account of the IMF's PRGT and will oblige Australia to lend to the IMF the equivalent of Special Drawing Right (SDR) 500 million (approximately A\$981 million as at 29 July 2020). This contribution will assist in maintaining the resources available to the IMF for providing financial assistance to low-income countries (LICs) facing a balance of payments crisis.
5. The IMF derives its resources for lending to member countries from its permanent resource base (provided through quota contributions from member countries) and temporary borrowing arrangements (held with a subset of member countries and institutions). In addition to these general resources, the IMF also maintains a number of Trusts that rely on bilateral contributions from member countries – one of these is the PRGT.
6. As part of a funding round in response to COVID-19, the IMF is seeking up to SDR 12.5 billion in contributions to the Loan account of the PRGT. Japan, the United Kingdom, France, Spain, the Netherlands, Sweden and Norway have already added to their contributions as part of this funding round. Other countries, including Germany and Canada have pledged additional funding also.
7. The PRGT consists of three accounts, the Loan account, Subsidy account and Reserve account. The Loan account contains the loan resources provided by member countries to the IMF, and is used to provide concessional loans to LICs. The Subsidy account contains grant resources provided by member countries and is used to top up the repayments to the IMF. The Reserve account provides security for the loans in the event of delayed

repayments.

### **Reasons for Australia to take the proposed treaty action**

8. Australia benefits from an effective IMF that has the resources available to fulfil its mandate to support global economic and financial stability. The IMF is the central institution of a global financial safety net that promotes international financial and monetary stability by encouraging global monetary cooperation and providing a credible financial backstop for countries in economic difficulty.
9. The Agreement will form part of a broader effort to ensure that the IMF has sufficient financial resources available to it to effectively fulfil its role in responding to an economic crisis. The IMF is playing a vital role in the COVID-19 crisis, responding with unprecedented speed and magnitude of financial assistance to LICs experiencing balance of payments issues. In particular, through the PRGT, the IMF is providing emergency financing at concessional rates to many LICs to ensure they have the capacity to effectively respond to the health and economic crisis caused by COVID-19.
10. Nine countries in the Pacific (Federated States of Micronesia, Kiribati, Marshall Islands, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu) and Timor-Leste, are eligible for PRGT funding, therefore, Australia's contribution to the PRGT is particularly relevant to servicing Australia's interests in the Indo-Pacific region. Under the PRGT, the IMF can provide loans with zero interest rates and with little to no conditionality through instruments such as the Rapid Credit Facility (RCF).
11. As of July 2020, the IMF has provided loans to Samoa, the Solomon Islands, and Papua New Guinea under the RCF in response to the balance of payments issues these countries are facing due to COVID-19. Given ongoing uncertainty and risks in the global economy, confidence in the IMF's ability to respond to these balance of payments needs through concessional financing is critical in maintaining the confidence of LICs to continue to invest and trade.
12. Funding through multilateral means such as the PRGT ensures that Australia can contribute in an efficient and effective manner. By contributing to the PRGT, Australia provides a relatively small portion of financing to a much larger pool that can be drawn on by LICs. This reduces the likelihood that Australia will need to provide direct finance to countries bilaterally that would likely require much larger sums of funding and more credit risk.
13. Any default risk to Australia will be minimal as the IMF borrows from its creditor members with the backing of the PRGT Reserve account.

### **Obligations**

14. The Agreement requires Australia to lend up to SDR 500 million (approximately A\$981 million as at 29 July 2020) (paragraph 1) for the purposes of providing loan resources to the PRGT. The IMF may make drawings under the Agreement as of the effective date of the Agreement (paragraph 2 (a)).

15. The IMF will provide advance notice of its intention to draw under the Agreement (paragraph 2(a)), unless otherwise agreed with Australia. If any instalment of principal or interest is not paid to Australia within a period of ten days after its due date, the IMF will not make further drawings under the Agreement pending consultations with Australia on the matter (paragraph 2(b)). The rate of interest on drawings will be the SDR interest-rate (paragraph 6(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 short-term money market interest rates (currently the US dollar, Euro, Pound Sterling, Yen and Renminbi rates).
16. Australia may also obtain early repayment of all or a proportion of outstanding drawings if there is a need arising from its balance of payments and reserve position (paragraph 9). Australia will also be 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 Agreement (paragraph 8(a)).
17. Any question arising under the Agreement will be settled by mutual agreement between Australia (the Lender) and the Trustee (the IMF) (paragraph 13).

### **Implementation**

18. The *International Monetary Agreements Act 1947* (IMA Act) provides for a standing appropriation and authority to borrow and lend to allow the Australian Government to meet its obligations under the Agreement with the IMF.
19. Paragraphs 8CAB(1)(a) and(b) of the IMA Act states that the Minister may, on behalf of Australia, enter into one or more agreements with the Fund that: provide for Australia to provide loans to the Fund; and contain terms and conditions determined by the Minister.

### **Costs**

20. The Agreement will be included in the budget papers as a measure. The IMF can draw on the agreement when the funds are required to support its lending to member countries, up to a maximum of SDR 500 million (approximately A\$981 million as at 29 July 2020). The Agreement is expected to be drawn upon over the forward estimates as the IMF's current available PRGT resources are insufficient to cover its projected lending activities to LICs in the coming years. This is estimated to have a negative impact on the underlying cash balance of A\$38.02 million over the forward estimates due to an increase in Australia's public debt interest costs, partially offset by the interest received from the IMF on the loan.

### **Future treaty action**

21. The Agreement does not make express provision for amendments. Any future amendments to the Agreement will be subject to Australia's international obligations and its domestic treaty-making requirements.

22. At the request of Australia, calls on our commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2029, in accordance with the terms of paragraph 10 of the Agreement.

### **Termination**

23. The Agreement will expire on 31 December 2029 (paragraph 2(a)).

24. The Agreement does not contain a specific right of termination for either party.

### **Contact details**

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International Economics and Security Division  
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## **ATTACHMENT ON CONSULTATION**

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#### **CONSULTATION**

25. The Agreement is judged to have a negligible impact on the States and Territories and no State or Territory Government representatives were directly engaged in considering the Agreement.
26. The Agreement is judged to have a negligible impact on external stakeholders and none were directly engaged in considering the Agreement.