EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL MONETARY FUND (INCREASE IN SUBSCRIPTION) ORDER 2024

2024 No. 667

1. Introduction

1.1 This explanatory memorandum has been prepared by HM Treasury and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Bim Afolami, Economic Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Claire Macfarlane, Deputy Director for International Financing and Development at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Komal Patel at HM Treasury, Telephone: 0797 1727 333 or email: Komal.Patel@hmtreasury.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Order will authorise an increase in the United Kingdom's subscription to the International Monetary Fund (the "IMF").

Where does the legislation extend to, and apply?

4.2 The extent of this instrument is the United Kingdom.

4.3 The territorial application of this instrument is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The IMF is an international organisation constituted under Articles of Agreement. It works to achieve sustainable growth and prosperity for all of its 190 member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation. The IMF is governed by and accountable to its member countries. Each member country is represented by a Governor on the Board of Governors of the IMF.

5.2 The voting rights of each member depend to a large extent on that member's quota. Quotas are the building blocks of the IMF's financial and governance structure. An individual member country's quota broadly reflects its relative position in the world

economy and determines the maximum amount of financial resources a member is obliged to provide to the IMF.

5.3 In November 2023, the Executive Board of the IMF agreed to maintain the lending capacity of the IMF through a package of governance reforms, whilst restoring the primacy of quota in the IMF's resources. This agreement was followed on 15 December 2023 by a resolution of the Board of Governors of the IMF "Resolution 79-1" proposing a 50 percent increase in quotas, and a reduction in the IMF's two temporary loan facilities, the New Arrangements to Borrow, and the Bilateral Borrowing Arrangements. This will increase the total quota size from Special Drawing Rights ("SDRs")[1] 476.8 billion to SDR 715.7 billion and maintain overall IMF lending capacity due to the reduction of the temporary loan facilities which will be equal to the increase in quota size. The United Kingdom voted in favour of the quota increase.

5.4 The current United Kingdom share of IMF quotas is SDR 20,155.1 million (equivalent to approximately £21.94 billion[2]). The agreed increase in total IMF quota will take the United Kingdom's contribution to SDR 30,232.7 million (approximately £31.64 billion[3]).

5.5 The United Kingdom must pay to the IMF subscriptions for the increase in its quota before the increase becomes effective. Payments to the IMF are offset by the creation of an equivalent UK asset held at the IMF, limiting the fiscal impact to the exchequer. There may be some profit/loss arising from extra government borrowing to fund a portion of the quota payment, which is offset against interest earned from the IMF, but this difference is not expected to be significant. This Order will authorise the payment to the IMF of subscriptions for the quota increase. The IMF has set a deadline for members to consent to their increases in quota to end of 15 November 2024.

5.6 The current round of Bilateral Borrowing Arrangements is due to expire on 31 December 2024. In the event the quota increase is not delivered by this date, the IMF's total lending capacity will reduce, unless transitional arrangements are made to extend the BBAs until the quota increase is delivered. IMF Staff are developing arrangements for the transitional period to ensure the Fund's lending capacity is maintained.

5.7 Recent shocks in the global economy have underscored the need to ensure the IMF has adequate resources to respond to requests for assistance from its members. Given the current economic climate, swift implementation of the quota increase to maintain the IMF's lending capacity is necessary. This will enable the IMF to retain its role at the centre of the global financial safety net.

What was the previous policy, how is this different?

5.8 The previous policy in the International Monetary Fund (Increase in Subscription) Order 2011 authorised an increase in the United Kingdom's quota subscription to SDR 20,155.1 million, to allow the United Kingdom to deliver on the quota increase agreed in December 2010.

5.9 The new policy will increase the United Kingdom's quota subscription by SDR 10,077.6 million, accompanied by a commensurate rollback in the IMF's temporary

[1] The SDR is a unit of account used by the IMF. Its value is calculated daily as a weighted average of the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.
[2] On 23 February 2024. The SDR value is calculated daily and is available on the IMF's website (www.imf.org).
[3] On 23 February 2024.

loan facilities, and maintain the IMF's lending capacity.

6. Legislative and Legal Context

How has the law changed?

6.1 Resolution 79-1 of the Board of Governors of the IMF proposes an increase in the United Kingdom's quota. In order to increase the United Kingdom's quota, the Government must increase the United Kingdom's subscription to the IMF.

6.2 Section 1(1)(a) of the International Monetary Fund Act 1979 provides that the Treasury may, by order, authorise the payment of sums required for subscriptions to the IMF in the event of proposals being made for increases in the United Kingdom's quota under section 3(a) of Article III of the IMF's Articles of Agreement. By this Order the Treasury will authorise the payment for the additional subscription.

6.3 Copies of the Resolution and the Articles of Agreement of the IMF are available on the IMF's website (https://www.elibrary.imf.org/view/journals/007/2023/059/article-A001-en.xml?rskey=gZ4uQ3&result=2) and (https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf).

Why was this approach taken to change the law?

6.4 The IMF has set a deadline for members to consent to their increases in quota by the end of 15 November 2024. This Order is necessary to authorise the Government to increase its subscription to the IMF and deliver on its quota increase within this period.

7. Consultation

Summary of consultation outcome and methodology

7.1 Not relevant in the context of the instrument which relates solely to providing the authority to increase the United Kingdom's subscription to the IMF.

8. Applicable Guidance

8.1 This Order authorises the Treasury to increase the United Kingdom's subscription to the IMF, so guidance is not required.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because no significant direct impact on businesses in the UK is foreseen.

Impact on businesses, charities and voluntary bodies

9.2 There is no, impact on business, charities, voluntary bodies because the IMF does not lend to them.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because although there may be some profit/loss arising from extra government borrowing to fund a portion of the quota payment, which is offset against interest earned from the IMF, this difference is not expected to be significant.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The IMF Board of Governors conducts a general review of quotas at least every five years, which looks at the size of an overall quota increase and the distribution of the increase among members. A general review allows the IMF to assess the adequacy of quotas in relation to both the members' balance of payments, financing needs and the IMF's ability to help meet those needs. It also provides an opportunity for realignments in members' quota shares to reflect changes to their relative positions in the global economy. In addition, a member may request an ad hoc quota adjustment at any time outside of a general review.

10.2 The United Kingdom is an active member of the IMF Executive Board and Board of Governors, which determines whether an overall increase is needed and how to distribute it to members. Any changes in quota requires approval by 85% of the total voting power and a member's own quota cannot be changed without its consent.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None

12. European Convention on Human Rights

12.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the International Monetary Fund (Increase in Subscription) Order 2024 are compatible with the Convention rights.".

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").