EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL MONETARY FUND (LIMIT ON LENDING) ORDER 2020

2020 No. 1054

1. Introduction

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

2. Purpose of the instrument

2.1 To increase the limit on the amount HM Treasury can lend to the International Monetary Fund (IMF).

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

3.2 This instrument applies to the whole of the United Kingdom.

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is the whole of the United Kingdom.

4.2 The territorial application of this instrument is the whole of the United Kingdom.

5. European Convention on Human Rights

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

"In my view the provisions of the International Monetary Fund (Limit on Lending) Order 2020 is compatible with the Convention rights".

6. Legislative Context

6.1 Section 2(1) of the International Monetary Fund Act 1979 (the Act) allows the Treasury to make loans to the IMF in accordance with the IMF's borrowing arrangements.

6.2 Section 2(2) of the Act provides that the Treasury may raise the limit on lending imposed by section 2(1) of the Act.

6.3 This instrument is being made to allow the IMF to maintain its overall resources by raising the limit on lending imposed by section 2(1) of the Act. This will allow the IMF to double the size of the New Arrangements to Borrow (NAB). The NAB is a multilateral framework for borrowing between the IMF and a group of countries (including the United Kingdom).

7. Policy background

What is being done and why?

7.1 In December 2019, finance ministers and central bank governors on the International Monetary and Financial Committee agreed to a package that maintains overall IMF resources at their current level by adjusting the IMF's borrowed resources. Any decrease in IMF resources could impede the IMF's ability to respond to crises and send a negative signal to markets at a precarious time for the global economy. A well-funded IMF is particularly important as the world responds to the COVID-19 pandemic.

7.2 Finance ministers agreed to extend the NAB and double its resources, with each contributor doubling their individual commitment so that their vote shares remain the same. Alongside this, it was agreed that the Bilateral Borrowing Agreements (BBAs) would be reduced by around 57% in size to maintain the overall size of IMF resources.

7.3 Both resources are contingent liabilities and will only show on the UK balance sheet if they are activated by the IMF board.

7.4 As the UK contributes to both the NAB and the BBAs, it must implement the package by adjusting its commitments. The UK currently commits 9.48bn Special Drawing Rights (SDRs) to the NAB, and under the new package will commit 18.96bn SDR. The UK will decrease its commitment to the BBAs from 9.18bn SDR to 3.95bn SDR.

7.5 The SDR is a unit of account used by the IMF. Its value is calculated daily as a weighted average of the US dollar, euro, yen, renminbi and pound sterling.

7.6 This adjustment of UK commitments means that the UK would need to increase its overall commitment to the IMF to implement the package. The current limit on UK lending to the IMF is 18.65 billion SDRs. This is equivalent to approximately £20.37 billion. A new limit of 22.91 billion SDRs (approximately £25.01 billion) will enable an increased UK contribution to the IMF in line with the negotiated package.

7.7 There is no direct fiscal impact of any loan to the IMF, and such loans do not contribute to UK net debt levels or the deficit. Contributions to borrowed resources (the NAB and BBAs) only have balance sheet impacts for the UK if these resources are activated, which occurs only if permanent quota resources have been depleted. Both are currently un-activated.

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act.

9. Consolidation

9.1 There is no intention to consolidate any legislation.

10. Consultation outcome

10.1 The instrument implements an international agreement. No formal public consultation has been undertaken in relation to this Order as there is no impact on individuals, business, charities or voluntary bodies or the public sector.

11. Guidance

11.1 HM Treasury does not plan to issue guidance on this as there is no impact on individuals, business, charities or voluntary bodies or the public sector.

12. Impact

12.1 There is no impact on individuals, business, charities or voluntary bodies

12.2 There is no impact on the public sector.

12.3 An Impact Assessment has not been prepared for this instrument because there is no impact on individuals, business, charities or voluntary bodies or the public sector.

13. Regulating small business

13.1 The legislation does not apply to activities that are undertaken by small businesses.

14. Monitoring & review

14.1 A review provision is not appropriate for this legislation.

15. Contact

15.1 Louisa Graham at the HM Treasury (Telephone: 020 7270 6442 or email: Louisa.Graham@hmtreasury.gov.uk) can be contacted with any queries regarding the instrument.

15.2 Edward Wilson, Deputy Director for International Institutions and Policy, at HM Treasury can confirm that this Explanatory Memorandum meets the required standard.

15.3 John Glen, Economic Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.