PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT INTERNATIONAL MONETARY FUND (INCREASE IN SUBSCRIPTION) ORDER 2024

Monday 13 May 2024

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not later than

Friday 17 May 2024

The Committee consisted of the following Members:

Chair: SIR GRAHAM BRADY

Abrahams, Debbie *(Oldham East and Saddleworth)* (Lab)
† Afolami, Bim *(Economic Secretary to the Treasury)*
† Antoniazzi, Tonia *(Gower)* (Lab)
† Burgon, Richard *(Leeds East)* (Lab)
† Fabricant, Michael *(Lichfield)* (Con)
† Hodgson, Mrs Sharon *(Washington and Sunderland West)* (Lab)
Johnson, Kim *(Liverpool, Riverside)* (Lab)
† Largan, Robert *(High Peak)* (Con)
† Mayhew, Jerome *(Broadland)* (Con)
† Morris, James *(Halesowen and Rowley Regis)* (Con)
† Mortimer, Jill *(Hartlepool)* (Con)
† Penrose, John *(Weston-super-Mare)* (Con)
† Siddiq, Tulip *(Hampstead and Kilburn)* (Lab)
† Stuart, Graham *(Beverley and Holderness)* (Con)
† Swayne, Sir Desmond *(New Forest West)* (Con)
† Tarry, Sam *(Ilford South)* (Lab)
† Vickers, Matt *(Stockton South)* (Con)

Aaron Kulakiewicz, *Committee Clerk*

† attended the Committee

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[Sir Graham Brady *in the Chair*]

Draft International Monetary Fund (Increase in Subscription) Order 2024

6 pm

The Economic Secretary to the Treasury (Bim Afolami): I beg to move,

That the Committee has considered the draft International Monetary Fund (Increase in Subscription) Order 2024.

It is a pleasure to serve under your chairmanship, Sir Graham. The International Monetary Fund marks its 80th anniversary this year, and the UK is a founding member. It plays a key role in what is known as the global financial safety net, ensuring global economic stability, facilitating long-term economic growth and prosperity, and supporting poverty reduction around the world.

The IMF operates as a global lender of last resort, providing crucial financial assistance to countries in crisis and supporting their return to a stable economic footing. This helps to prevent economic instability overseas from spilling over into the British economy. The IMF's wider role in providing regular economic and financial monitoring, macroeconomic policy advice and capacity development on critical issues facing the global economy, such as the green transition, digitalisation and artificial intelligence, is welcomed by its many members.

As a major open economy, the UK gets significant value from the IMF's independent assessment and policy advice. That does not mean that we always agree, but open discussions and an exchange of views on the state of the UK economy are vital for both sides. Indeed, the Government look forward to the IMF's managing director visiting London next week as part of the fund's latest fact-finding mission.

It is critical to the IMF's ability to act as the world's lender of last resort that it remains adequately resourced. In December, as part of our efforts to reinforce the role of the IMF at the centre of the global financial safety net, the IMF board of governors, on which the Chancellor of the Exchequer is the UK governor, agreed to reduce the fund's reliance on borrowed resources and restore the primary role of quotas in its lending capacity.

I will explain how this works. The money that the IMF loans to its members comes from member countries through their payment of quotas and borrowed resources. A member's quota reflects its size and relative position in the world economy, and borrowed resources are bilateral agreements between individual members and the fund.

Under the agreement by the board of governors, IMF resources will be maintained at current levels by increasing quotas by 50% while decreasing borrowed resources—formally called new arrangements to borrow and bilateral borrowing agreements—by the same amount. The UK has a responsibility to implement this agreement alongside the other IMF members by 15 November 2024 at the latest.

The UK's subscription to the IMF is denominated in the IMF's unit of account, known as special drawing rights. This draft order will increase the UK's current quota subscription to the IMF by SDR 10 billion, ensuring that we deliver on our share of the overall quota increase. Once in effect, the proposed quota increase will replace the bilateral borrowing agreements.

The overall net increase in the UK's commitment to the IMF will be SDR 3 billion, given the UK's proportionately higher quota share compared with the borrowed resource that the UK currently extends to the IMF. In recent years, the IMF has been at the centre of the international response to many crises with a significant economic impact, such as Russia's illegal war in Ukraine and the covid pandemic. Demands for financial assistance from the IMF remain at record levels, with more than 32 active IMF programmes.

The UK's maximum commitment and legislative ceiling to IMF quota stands at SDR 20.155 billion, which is approximately £21.94 billion at today's exchange rate. The draft order will raise the UK's ceiling for lending to the IMF to SDR 30.2 billion, equivalent to £31.64 billion. I want to make it clear—it is crucial that all hon. Members understand this aspect—that an increase in the UK's quota subscription to the IMF does not represent an up-front financing commitment; rather, it simply increases the potential amount of financing from the UK that the IMF can call on via quota subscriptions.

The increase in quota has no direct impact on public borrowing or debt, because quotas are loans and can be refunded at short notice if needed. A loan to the IMF is a loan to the most creditworthy institution in the world, because the IMF holds preferred creditor status. In essence, that means that the IMF will be repaid by those it has made loans to even if every other creditor is not. When the IMF calls for financing from the UK, we swap some of our assets for a claim on the IMF. That amounts, in effect, to exchanging one class of safe asset for another. Lending to the IMF therefore does not—I repeat, does not—represent public spending and such loans do not detract from money that is needed in the UK.

It is essential that the UK plays its part and fulfils its responsibility to strengthen the multilateral system in a more crisis-prone world by increasing its ceiling for lending to the IMF via quota. In so doing, we are implementing our international agreements. I hope that hon. Members will join me in supporting the draft order, which I commend to the Committee.

6.6 pm

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve under your chairmanship, Sir Graham.

We welcome this draft statutory instrument. The changes are part of the IMF's worldwide resolution to change its funding model to reduce the level of IMF temporary loan facilities, and will increase the funding provided through the quota system to the same extent, as the Minister explained. We believe that the changes serve to make the IMF stronger and more legitimate, and are key to ensuring economic stability.

The official Opposition are completely committed to such stability, which is underpinned by strong fiscal rules, robust independent institutions—the Treasury, the Bank of England and the Office for Budget Responsibility—and international economic institutions such as the IMF, which promote financial literacy, stability and monetary co-operation. We therefore fully support the proposals and for once, I do not have a host of questions for the Minister.

Question put and agreed to.

6.7 pm

Committee rose.