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PROGRESS ON THE FIFTEENTH GENERAL REVIEW OF QUOTAS—REPORT OF THE EXECUTIVE BOARD TO THE BOARD OF GOVERNORS

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- The **Report**, discussed and adopted by the IMF Executive Board on October 4, 2017.

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International Monetary Fund
Washington, D.C.

Progress on the Fifteenth General Review of Quotas
Report of the Executive Board to the Board of Governors

1. In December 2016, the Board of Governors adopted Resolution No. 72-1 on the Fifteenth General Review of Quotas (hereafter the "Fifteenth Review"), which *inter alia* (i) called on the Executive Board to work expeditiously on the Fifteenth Review in line with existing Executive Board understandings and the guidance provided by the International Monetary and Financial Committee (IMFC) on October 8, 2016, and with the aim of completing the Fifteenth Review by the 2019 Spring Meetings and no later than the 2019 Annual Meetings; and (ii) requested that the Executive Board report to the Board of Governors on progress on the Fifteenth Review semi-annually, with a first report by the 2017 Annual Meetings.

2. This Report seeks to respond to the above request. In line with its agreed work plan on the Fifteenth Review,[1] Executive Directors met as the Committee of the Whole on two occasions in September 2017 for an informal exchange of views on key issues for the Fifteenth Review.[2,3] The discussions covered issues related to the quota formula and realigning quota shares on September 1, and the adequacy of Fund resources on September 15. Directors recognized that these issues are closely interlinked and will ultimately need to be agreed as a package. Many also stressed that IMF bodies should lead the process and determine the outcome.

3. Given the informal nature of these discussions, no formal summing up was issued at their conclusion. Rather, the Chair provided informal remarks reflecting her understanding of the views expressed. The summary below draws heavily on these remarks, but does not purport to capture all nuances that have been expressed to date.

Quota Formula and Realigning Shares[4]

4. The Fifteenth Review provides an opportunity to continue the process of realigning members' quota shares in line with their evolving relative positions in the world economy, building on the 2008 and 2010 reforms. The quota formula seeks to provide a reasonable measure of members' relative economic positions and thereby serves as a guide to changes in the structure of quotas. Considerable support was expressed for the view that the principles that have guided previous deliberations on the formula remain valid: namely, that the formula should (i) be simple

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[1] The work plan was set out in Attachment I of *Fifteenth General Review of Quotas—Report of the Executive Board to the Board of Governors* (11/02/16).

[2] As is customary for general reviews of quotas, the forum for the discussions was the Committee of the Whole. The Committee of the Whole for purposes of the Fifteenth Review was established by the Executive Board on January 30, 2013.

[3] As envisaged in the Executive Board's work plan, these discussions followed and were informed by earlier Board discussions on possible reforms of the Fund's lending toolkit and the collaboration between the IMF and Regional Financing Arrangements (RFAs).

[4] As background for this discussion, staff had prepared the document entitled *Fifteenth General Review of Quotas—Quota Formula and Realigning Shares* (8/1/17).

and transparent; (ii) be consistent with the multiple roles of quotas; (iii) produce results that are broadly acceptable to the membership; and (iv) be feasible to implement statistically based on timely, high quality and widely available data. However, views differed on the extent to which the current quota formula conforms to these principles. One view is that the formula is working well and continues to deliver higher calculated quota shares to dynamic economies. Another view is that the current formula fails to reflect realities in the global economy and requires a major overhaul toward a GDP-centered formula.

5. It was recognized that the formula has already been discussed extensively, including under the 2013 Quota Formula Review (QFR), and many expressed a willingness to build on the progress already made. This included general support for the view that GDP should remain the most important variable, though views continued to differ on its weight and the composition of the GDP blend. There was also continued support from most Directors for dropping variability (though for a number of them, this support is conditional on other elements of the reform package), while a few other Directors are still not convinced. Openness remains important for many Directors, but views varied on its appropriate weight and measurement. Views ranged from increasing the weight of openness and maintaining the current methodology, to lowering its weight, introducing a cap, and excluding intra-currency union trade. Views also remained divergent on whether reserves and compression should be maintained at their current levels, adjusted, or eliminated.

6. Staff's technical exercise to identify reforms that yield results near the midpoint of those implied by the current formula and a GDP-only formula attracted a range of views. A number of Directors found this a useful exercise to illustrate possible pathways toward a middle ground. Many others, while welcoming staff's attempts to look for areas of consensus, felt that it does not adequately represent the range of views being expressed, gives too much prominence to a GDP-only formula, and, in their view, is not in line with the 2013 QFR.

7. Views also remained divided on whether, and if so how, to take account of voluntary financial contributions. Many Directors supported, or were open, to taking account of such contributions in quota adjustments under the Fifteenth Review, with a few preferring their inclusion in the quota formula. Many other Directors continued to oppose or express reservations about such approaches.

8. Directors reiterated their commitment to protect the quota and voting share of the poorest members under the Fifteenth Review. Views varied on the precise definition of poor countries to be protected, and many Directors called for protection also for small member states.

9. Discussions of alternative approaches to distributing quota increases under the Fifteenth Review are at a very early stage. A few Directors highlighted the importance of selective increases and the possible role for ad hoc increases in realigning quota shares and helping to facilitate a compromise. This issue of how to distribute any quota increase is closely linked with the work on resource adequacy.

Adequacy of Fund Resources[5]

10. There remains a shared commitment to a strong, quota-based and adequately-resourced IMF at the center of the global financial safety net (GFSN). In a world of increasingly globalized risks, the Fund's expertise, catalytic role, and central financing role remain critical. Directors generally agreed that the Fifteenth Review will have to consider a longer-term perspective, as any quota increases agreed as part of the Fifteenth Review will likely determine the Fund's permanent resources through at least the middle of the next decade.

11. Directors welcomed the extended two-pillar framework for assessing the adequacy of Fund resources. They appreciated the increased transparency of quantitative analysis using three complementary approaches, with updated and improved methodologies, including robustness checks. However, Directors also acknowledged the uncertainties inherent in projecting the Fund's resource needs, underscoring the important role for judgment. In this context, Directors noted that the scenario analysis presented in the staff's background paper produced a wide range of results, including some that would imply a systemic crisis of unprecedented magnitude. A number of Directors noted that upcoming discussions should begin with realistic assumptions of the demand for Fund resources. In this regard, some Directors felt that in an extreme crisis, the analysis should assume greater use of international reserves and other financing sources.

12. Directors appreciated the analysis of qualitative considerations to complement the quantitative approach and support judgment on the appropriate size of the Fund, including the evolution of the global economy and the international monetary system. They generally shared the analysis in staff's background paper that ongoing global transitions, together with increased interconnectedness, are creating uncertainty and could lead to spillovers, contagion, and systemic risks, thereby having implications for the adequacy of Fund resources. Many Directors considered that the discussion of the qualitative considerations should give more prominence to factors that could reduce the demand on Fund resources, such as the significant expansion of the GFSN and the reforms implemented since the global financial crisis, including financial regulatory reforms and the progress in strengthening the Fund's surveillance and lending toolkit. Many other Directors considered that coverage by other components of the GFSN is uneven and not a substitute for the Fund.

13. Directors generally agreed that the historical practice of backstopping quotas with standing borrowing facilities—New Arrangements to Borrow (NAB) and General Arrangements to Borrow (GAB)—has served the Fund well. The critical role played by the bilateral borrowing agreements as the third line of defense for the Fund to respond to the global financial crisis was also underlined. Going forward, however, many Directors argued that quotas should provide the bulk of the Fund's lending resources, while others called for further work on the appropriate mix. There were also calls for maintaining access to existing borrowed resources, although many Directors stressed that it

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[5] As background for this discussion, staff had prepared the document entitled *Fifteenth General Review of Quotas—Adequacy of Fund Resources—Further Considerations* (7/31/17).

would be important not to pre-suppose future discussions on the possible renewal of the bilateral borrowing agreements.

14. A range of views was expressed on the appropriate size of quotas and the Fund's overall lending capacity. Many Directors supported, or were open to, a quota increase that would at least maintain the Fund's current lending capacity, and many of these called for an increase in the overall lending capacity. Many others had not yet formed a view, with a few noting that the Fund's current quota and NAB resources appear sufficient to handle a range of scenarios. A few Directors also underlined the political cost to members of quota increases. Many Directors stressed the importance of having resources available ex-ante for the Fund to preserve its credibility and effectiveness, while a few others considered that the Fund should be able to raise additional funds quickly should the need arise. In this context, a number of Directors called for well-sequenced discussions, with a clarification on prospects for a quota increase at an early stage.

Next steps

15. The first two informal exchanges on issues related to the Fifteenth Review provided useful feedback and clarifications of views. In line with the agreed work plan, it is envisaged that work on the quota size, formula and distribution will continue with a view to seeking IMFC guidance on key elements of the review in the second quarter of 2018. The Executive Board will also continue to provide semi-annual progress reports to the Board of Governors, in line with the broader goal of completing the Fifteenth Review by the 2019 Spring Meetings and no later than the 2019 Annual Meetings.