



Executive Board Minutes 21/65-1

June 25, 2021–2:00 p.m.

Proposal for a General Allocation of Special Drawing Rights

Documents: SM/21/86 and Cor. 1

Staff: Murgasova and Manno, FIN; Corbacho, Tovar Mora, and Kostial, SPR;
Steinki, LEG

Length: 1 hour, 40 minutes

ISSUED: October 27, 2022

APPROVAL: November 3, 2022

CEDA OGADA
Secretary

TABLE OF CONTENTS¹

The Chair’s Summing Up	3
Executive Board Attendance	4
Discussion Record	6
Annex	37
○ Gray Statements	
○ Constituency Codes	

¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE CHAIR'S SUMMING UP

Executive Directors strongly welcomed the opportunity to discuss a proposal for a general allocation of Special Drawing Rights (SDRs), highlighting that the world economy is facing an unprecedented health and economic crisis caused by the COVID-19 pandemic.

Directors expressed their intention to support a general allocation in an amount equivalent to US\$650 billion (about SDR 456 billion) in a single tranche. They concurred that the allocation would help meet the long-term global need to supplement existing reserve assets in a manner consistent with the Articles of Agreement, and help strengthen members' external positions, build confidence, foster the resilience and stability of the global economy, and contribute to the global economic recovery.

Directors agreed that post-allocation exchanges of SDRs for freely usable currencies should continue to be handled primarily via the voluntary trading market to avoid using the designation mechanism. To further expand this market, Directors welcomed staff's engagement with existing participants of the Voluntary Trading Arrangements (VTAs) to confirm or update their terms. They also welcomed staff reaching out to potential new participants to join the VTAs.

Directors agreed on the importance of enhancing transparency and accountability in the reporting and the use of SDRs, while preserving the nature of the SDR as an unconditional reserve asset. They welcomed staff's proposal to publish the *Annual Update on SDR Trading Operations* and additional information on SDR holdings, transactions, and trading. Noting that the liquidity provided through the SDR allocation should not substitute for warranted macroeconomic adjustments or necessary reforms, Directors supported issuing a guidance note to help members use the new SDR allocation in a manner consistent with maintaining macroeconomic sustainability. They also welcomed the proposal to prepare an ex-post report on the use of SDRs for Fund transactions and operations, broad spending patterns, and macroeconomic outcomes about two years after the allocation.

Directors looked forward to receiving, as the next step for their concurrence, the Managing Director's report to the Board of Governors for a general SDR allocation in an amount equivalent to US\$650 billion in a single tranche for the Eleventh Basic Period (running through December 31, 2021), which—following Board of Governor's approval—could then become effective by end-August 2021.

Directors looked forward to discussing a menu of options for voluntarily channeling members' SDRs, in line with their national circumstances and legal requirements, to further support poor and vulnerable countries recover from the pandemic and transform their economies.

EXECUTIVE BOARD ATTENDANCE²

K. Georgieva, Chair

Executive Directors

S. Chodos (AG)
 C. Huh (AP)
 A. Bevilaqua (BR)
 Z. Jin (CC)
 P. Moreno (CE)
 L. Levonian (CO)
 D. Palotai (EC)
 A. Buisse (FF)

S. Bhalla (IN)
 D. Fanizza (IT)
 T. Tanaka (JA)
 H. Hosseini (MD)
 M. Mahmoud (MI)
 P. Hilbers (NE)
 M. Poso (NO)
 A. Mozhin (RU)
 M. Mouminah (SA)
 R. Lim (ST)

S. Riach (UK)

Alternate Executive Directors

O. Odonye (AE)
 R. N'Sonde (AF)

K. Merk (GR)

M. Peter (SZ)

S. Senich (US), Temporary

S. Bhatia, Acting Secretary
 R. Dall'Orto, Summing Up Officer
 D. Jiang, Board Operations Officer
 M. Eddy, Verbatim Reporting Officer

Also Present

African Department: E. Gemayel, M. Kamel Farid Mohamed Farid, V. Kramarenko, C. Mills, H. Teferra. Asia and Pacific Department: R. Anand, W. Bauer Stampfli, O. Brekk, A. Gulde, A. Schipke. Communications Department: W. Amr, N. Ismail, M. Oba, G. Rice.

² For countries in each constituency, please see the Constituency Codes in the annex.

European Central Bank: D. Rakitzis, R. Rueffer. European Department: D. McGettigan. Fiscal Affairs Department: K. Tee. Finance Department: S. Bradbury, G. Everaert, H. Hatanpaeae, B. Khan, T. Krueger, V. Kurcova, B. Lauwers, M. Manno, J. Mburu, D. Moore, F. Moreau, Z. Murgasova, V. Nakafeero, M. Nkusu-Mulumba, E. Okosodo Odibo, S. Saveikyte, M. Schmid, Z. Tan, O. Unteroberdoerster, M. Wang. Institute for Capacity Development: M. Erbenova, R. Nord, K. Westin. Independent Evaluation Office: C. Collyns. Legal Department: Y. Liu, G. Otokwala, H. Pham, B. Steinki, J. Swanepoel, C. Thiemann, R. Weeks-Brown. Middle East and Central Asia Department: A. Arvanitis, N. Gigineishvili, E. Mottu, N. Porter. Monetary and Capital Markets Department: M. Savastano. Office of Risk Management: V. Bakhtina, B. Boulwood, Q. Chen, I. Ivaschenko, J. Manning, J. McCoy. Research Department: Z. Aligishiev. Strategy, Policy, and Review Department: H. Chociay, A. Corbacho, P. Garcia Martinez, K. Kostial, N. Meads, C. Pazarbasioglu Dutz, E. Pondi Endengle, U. Ramakrishnan, N. Shenai, N. Sheridan, M. Takebe, C. Tovar Mora, J. Trevino, D. Velculescu, Y. Wu, T. Zheng, J. Ziegler. Statistics Department: A. Harutyunyan, A. Richter, C. Sanchez Munoz. Western Hemisphere Department: R. Llaudes Sanchez, C. Oner, E. Perez Ruiz. Executive Directors: A. Andrianarivelo (AF), I. Mannathoko (AE), E. Shortino (US), R. von Kleist (GR). Alternate Executive Directors: B. Alhomaly (SA), A. Alhosani (MI), H. Azal (EC), L. Dresse (NE), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), A. Guerra (CE), L. Herrera (AG), Y. Indraratna (IN), C. Just (EC), M. Kashima (JA), M. Massourakis (IT), F. Mochtar (ST), W. Nakunyada (AE), F. O'Brolchain (CO), L. Palei (RU), V. Rashkovan (NE), J. Romero (CE), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), C. White (AP), Z. Zhang (CC). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), M. Alle (AF), H. Andrianometiana (AF), K. Badsı (MD), X. Bai (CC), E. Cartagena (CE), M. Choueiri (MI), Patterson C. Ekeocha (AE), J. Garang (AE), M. Gilliot (FF), R. Goyal (IN), O. Hendrick (AG), M. Ismail (AE), B. Jappah (AE), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), R. Mahabir (BR), M. Maida (AE), L. Marek (EC), S. Naka (JA), T. Nguema-Affane (AF), D. Ong (ST), S. Potapov (RU), C. Quaglierini (IT), J. Rojas (CE), H. Saeed (SA), C. Sassanpour (MD), M. Scholer (NE), L. Smith (CO), N. Thiruvankadam (IN), A. Tolstikov (RU), G. Vasishtha (CO), R. Velloso (BR), J. Weil (CO), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Dennis Bautista (ST), C. Becker (AP), S. Belhaj (MD), B. Boostani (MD), E. Boukpepsi (AF), I. Bustillo (AG), Campbell (UK), T. Chrimes (UK), D. Cools (NE), J. Corvalan (AG), O. Diakite (AF), F. Dogan (EC), R. Edwards (CO), D. Fadhel (MI), K. Florestal (BR), R. Lyngaas (US), T. Iona (AP), T. Krahnke (GR), A. Maciá (BR), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), A. Nainda (AE), L. Nankunda (AF), K. Nelson (UK), K. Osei-Yeboah (MD), B. Piasecki (SZ), A. Ribeiro Mateus (IT), L. Siliva (AP), B. Singh (IN), I. Skrivere (NO), A. Tola (SZ), I. Valdes Fernandez (NO), S. Yoe (ST), J. Yoo (AP), J. Al Saud (SA), J. Barroso (BR), M. Law (CC), F. Lopez (CE).

DISCUSSION RECORD³

The Chair:

As we are all aware, we are about to start one of the most consequential meetings of our Board. It is by far a historic occasion for all of us. And for me as the Chair of the Board, I have no doubt that this will go in history as one where the membership has come together for global benefits that are so very important and timely.

So, let me move to the formal opening of this meeting and start by recognizing that, if our founders were able to look at this today, they would have been proud of what we have done. Why? Because we brought the strength of the collective to support the world economy and to support, in particular, our weaker members at a time of very significant needs.

We all know the context within which we meet today. We have experienced the worst recession in peace times since the Great Depression. We are coming out of it, but it is a very difficult route to travel for many of our members where the pandemic still roams and causes pain on people, loss of lives, and economic harm.

Just this last week, we have seen the third wave of the pandemic hitting Africa, a continent that is ill-equipped to face it, likely to be even worse than the previous waves. In this context, we have asked our staff to reflect on the global reserve needs. And the conclusion they presented to our Board is that these needs are large. The estimated range between \$1.1 and \$1.9 trillion over the next five years indicates that there is a prudent step we can take by responding with the proposed allocation and that the order of magnitude in front of Directors is appropriate given the estimates staff presented to us.

What we are aiming for is to foster the resilience and stability of the global economy by lifting up reserves, which would be particularly significant at the time of uncertainty for countries where reserves are truly weak.

We want to see an injection of confidence that could help us bring a faster recovery than we would have had otherwise. And we want to help mitigate the long-term economic scarring, prevent a deeper and longer-lasting crisis.

³ Edited for clarity.

Let me quote the Articles. They require to put forward an allocation to address long-term global needs for reserve with the goal to help “promote the attainment of the Fund’s purposes and avoid economic stagnation and deflation as well as excess demand and inflation in the world.”

Let me concentrate on the package that staff has prepared in extensive consultations with Directors and their capitals. It is not just to boost reserves. We are also aiming to work towards our common objective to enhance transparency and accountability, in this particular case, in the reporting and use of SDRs.

This will ensure that not only the allocation is used appropriately but that it is done in a way that is more informative for our membership and for the general public. As we recall, once we started talking about Special Drawing Rights (SDR), many people just had no clue whatsoever what we were talking about. Our goal is to use the allocation to also enhance the understanding of the role of SDRs and more broadly the role of the IMF as a collective.

In this period, my proposal includes three key elements in addition to defining the size of the proposed allocation. First, publishing additional information on SDR holdings and trades. Second, preparing a Guidance Note that provides a consistent framework for assessing the macroeconomic implications of the allocation. And third, producing an ex post report to examine the use of SDRs for Fund transactions and operations, broad spending patterns, and macroeconomic outcomes.

We are also working with Directors to ensure the continued smooth functioning of the Voluntary Trading Market to cope with the increase in SDR transactions. We have reached out to many Directors. We will continue to do so. I want to thank participating countries who have already signaled their readiness to further support the Voluntary Trading Arrangement (VTA) market, and I encourage others that find themselves in a strong reserve position to please join these efforts.

With these opening remarks, I want to thank you for the historic gray statement with 22 signatures and thank everybody who has helped us shape up this critical step we are taking as an institution.

*The staff representative from the Strategy, Policy, and Review Department
(Ms. Corbacho):*

Thanks to the Executive Directors for the interactions over the past month and their feedback today.

I would like to address three issues raised in the gray statements: the rationale for the SDR general allocation in the context of current, ample, global liquidity and untapped IMF resources; second, the share of the allocation that would be received by economies with inadequate reserves; and, finally, safeguards to mitigate risks of delays in needed adjustment and reforms.

On the first point, the rationale for the SDR allocation: As required by the Articles of Agreement, the allocation will help meet a long-term global need to supplement reserve assets. As shown in the paper, estimates of reserve needs are large, but the global supply of reserve assets is expected to be more constrained over the long-term.

With advanced economies expected to recover, the government issuance of debt securities will decline, and the sizable liquidity injected by major central banks during the crisis will eventually unwind. So, while global liquidity is currently very ample, it is expected to tighten in the medium- to long-term.

On how this relates to IMF resources: Fund-supported programs and the SDR allocation are distinct tools that complement each other. The proposed allocation helps meet a global reserve need, is unconditional, and would be implemented in a single tranche as proposed.

Programs in turn are designed to address individual members' needs in balance of payments in the near to the medium term. As countries need to adjust and implement reforms over a multiyear period, they may engage in Fund-supported programs while benefiting from the immediate release of the SDR allocation.

On the second question, the impact of the SDR allocation on countries with inadequate reserves: Per the Articles, general SDR allocations are distributed according to paid quota shares, not individual members' reserve needs. However, the allocation will benefit all members, especially those with inadequate reserve levels.

We estimate that, at the end of 2020, about 60 emerging markets and developing countries had insufficient reserve coverage. These countries would receive about \$58 billion of the \$650 billion of the SDR allocation and could see a benefit from declining credit default swap (CDS) spreads of about 44 basis points.

Even with ample global liquidity, many of these countries face limited access to capital markets, so the allocation will supplement their reserves while providing tangible liquidity to fight the pandemic and support the recovery.

In addition, we are working on options for countries in strong external positions to channel their SDRs on a voluntary basis to further support our members.

Finally, on safeguards to mitigate risks of delays in needed adjustment and reforms, our close engagement with the membership, both in surveillance and program context, will focus on mitigating these risks where relevant. The forthcoming Guidance Note will help staff form policy advice adhering to the core principle that any use of SDRs should be consistent with macroeconomic stability. The note will also highlight how Fund-endorsed frameworks of best practices on governance and relevant policies can support transparency in the use of SDRs.

The staff representative from the Finance Department (Ms. Manno):

I will update on the outreach related to the VTAs, which has provided liquidity to the SDR market for the past three decades.

Staff has held useful discussions on VTAs with Executive Directors representing the current 31 VTA participants and with the European Central Bank as a prescribed holder with a VTA arrangement. We also met with potential new VTA members with specific focus on those members in the Fund's financial transactions plan. We would like to thank Executive Directors for the very collaborative engagement.

We received positive responses from current VTA members regarding continued active participation in a voluntary trading market, and several members have indicated additional flexibility in operating their arrangements, including revisions to advanced notification periods and transactional limits. These measures will support the smooth functioning of the voluntary market

in the post-allocation period when we may expect additional requests to exchange SDRs for freely usable currencies.

Based on the responses, the VTA market should have adequate capacity to continue to handle the requests for SDR trades after the general allocation. As indicated in the Board paper, the current purchasing capacity of the VTA market is expected to triple from SDR 72.5 billion to about SDR 240 billion after the allocation.

Broad participation from the membership in the VTAs is important to underpin the collaborative nature of the Fund and promote burden sharing. In terms of new VTA agreements, several members are actively exploring entering into a VTA. Some have requested additional time to finalize internal discussions, as this can be a lengthy process depending on domestic requirements, and we will continue to work with the aim to put new VTAs in place over the summer. We would like to thank those potential new members for their interest and efforts in joining the VTAs.

In closing, we would like to again thank all Executive Directors for the constructive engagement and welcome potential new entrants to the VTAs to further strengthen the SDR market. We stand ready to work with existing and potential new VTA members to finalize amended or new agreements.

The Chair:

Let me just recognize that some Directors might want to also share views on what we have discussed previously on possibly voluntarily reallocating/on-lending newly acquired SDRs by countries in strong positions. I just want to welcome any views Directors want to express today but recognize first things first. Today our job is to finalize the Board discussion on the proposed new allocation.

Ms. Riach:

I am proud to take the floor first on this historic day. We signed the joint gray statement with 21 other Directors, so I can be brief in stating our warm and enthusiastic support for this proposal for a general SDR allocation equivalent to \$650 billion.

As Managing Director said, this is a historic day. It is a proud day for the Executive Board. We offer our thanks to management and staff for getting us to this point.

The proposed SDR allocation will provide support to the whole membership, including those members who, because of debt or for other reasons, it is difficult for us to lend to. This comes at a time when, as Managing Director said, many continue to be very severely impacted by the ongoing COVID-19 crisis.

The allocation in itself is an extremely good and important step, but in order to maximize the benefits of it, we believe that three things are necessary. Firstly, the measures proposed today by staff to improve transparency and accountability around the allocation, we strongly support those proposals.

Secondly, we urge country teams to work closely with those authorities who want to use the increased liquidity to meet immediate spending needs. The planned Guidance Note will be important, and staff's support can help the authorities to target spending on urgent health and social spending needs and to do so in as transparent a way as possible.

Thirdly, as Managing Director mentioned the voluntary channeling of SDRs from countries with strong external positions. G-7 leaders committed to voluntary channeling of SDRs and budget loans to magnify the impact of the allocation to reach a total global ambition of \$100 billion for the most vulnerable countries. We look forward to staff's proposals and to the forthcoming discussion, including how to support much-needed climate-related spending ahead of COP26 in November.

The Chair:

We are scheduling a Fund management meeting to make sure that all are mobilized to help countries, especially the vulnerable countries, make best use of this allocation. In other words, the implementation decision, once the Governors take it, is the responsibility of each and every one of us at the Fund and especially staff working directly with country authorities. We will make sure that the advice is granular and helpful so the Board's decision has the biggest possible impact we can muster.

Secondly, to welcome Ms. Riach's call for us to think of this allocation as resolving problems of today, preventing problems of tomorrow.

Mr. Moreno:

We have issued a joint gray statement that is served by all the countries in my constituency. Indeed, this is a historical moment. The largest SDR allocation of the IMF for SDR 450 billion, more than doubling the current allocations, it constitutes the largest yet and most significant contribution of the Fund to the pandemic. Today is a very good day. It is truly an honor to participate in today's Board meeting, and we thank Managing Director, management and staff, for bringing us to the point. The allocation will have an immediate and useful impact, providing much-needed resources to our member countries, which are still in very uncertain and uneven recovery across countries and regions and, unfortunately, penalizing the most vulnerable countries.

Looking forward, we would like to aim at making the most effective possible use of this allocation and put the SDRs to work, thereby improving what we did in the 2009 allocation. Almost 70 percent of the SDRs are going to be allocated to G-20 countries and the percentage is about 80 percent, if we include other advanced and large emerging economies. The large majority of these countries do not need the SDRs and can make better use of them by channeling them to other countries most in need.

The Poverty Reduction and Growth Trust (PRGT) needs to be strengthened, and this is going to be a good use of the SDRs. We understand that there might be also the option of joint venturing with other global and regional financial institutions, and we will signal the Latin American Reserve Fund.

We would like to highlight and strongly support Managing Director's call for the recycling of SDRs into a new resilience and sustainability trust fund that will also benefit middle-income countries, which also face enormous sustainability challenges that have been exacerbated by the pandemic. This initiative will align our lending policy with the Comprehensive Surveillance Review.

We will have the opportunity to discuss possible design issues, including evenhanded coverage of countries, how can we address sustainability, country-specific macrocritical issues, and the financial design of the trust fund to preserve the reserve nature of the SDRs.

We welcome the very useful engagement with staff on these issues, and we look forward to the upcoming discussion next month on possible alternatives for rechanneling the SDRs.

At this stage, I would just emphasize that it is time to be bold and aim high and that we should do it quickly. There is now a political momentum within the Board and the IMFC, and the window of opportunity may be closed next year when we will be in another stage of the crisis and considering also important electoral processes in a number of our major stakeholders. Using an almost global saying, I would say never leave that until tomorrow which you can do today.

Mr. Tanaka:

As mentioned in the joint gray statement with 21 other chairs, we fully support the historic proposal on the SDR general allocation equivalent of \$650 billion with specific measures to enhance transparency and accountability of SDR usage.

We believe that the allocation could give the member countries precious liquidity to combat the COVID-19 crisis. It would also convey the important message that we will continue to help the membership's needs. Today we will provide the following comments.

First, as Ms. Riach stated also firstly, we emphasize the importance of transparency and accountability regarding the use of SDRs and strongly support the proposed measures. Should the allocated SDR be used for repaying the hidden debt or delaying the necessary policy adjustments? The allocation would not benefit the member countries. Rather, it could harm them.

At the same time, as mentioned in the previous Risk Update, inappropriate usage of SDRs could also damage the Fund's reputation. Against this backdrop, we would expect staff to steadily implement these transparent and accountable measures.

Second, we support the staff's proposal to expand the number of VTA participants given that the well-functioning VTA market is essential for providing liquidity of SDRs.

Given the expected higher trading volume after the allocation, an increase in the number of retail participants would be welcome in light of

burden sharing. We would expect staff to provide timely updates to the Board about the situation.

In relation to VTA market participants, we reiterate that Japan continues to be an active participant in the market.

Lastly, we note that the framework to assess the long-term global reserve needs and to justify the amount of the allocation is basically in line with that of the previous allocation in 2009. We will consider perhaps a further better angle of assessments under the enhanced well-calibrated framework in the future proposal, if any, at a different situation, given that these assessments are critical for the Fund to function as the center of the global financial system network.

That said, as mentioned, we fully support the assessments in the proposal of allocation.

The Chair:

I want to pick up on a point that Mr. Tanaka made that we fully align with. The allocation is to strengthen economic performance, not to weaken the will for reforms. This is why our engagement with countries on a country-by-country basis is going to be so, so important. We do not want to substitute for what is good for the economy and good for people.

Ms. Senich:

We very much welcome this opportunity to discuss the general allocation of SDRs and thank staff and management for the work they have done in bringing us to this point. Upcoming allocation will be integral to supporting members, particularly in low-income countries, in responding to this unprecedented crisis.

We support the proposal and agree that an allocation equivalent to \$650 billion is appropriate and should be implemented in a single tranche.

We joined a gray statement with 21 other Executive Directors so I will make only a few additional points. First, the allocation is a sizable amount of unconditional reserves. The authorities should allocate these resources effectively and transparently. Citizens deserve to know when and how their authorities are using these resources. As Mr. Tanaka just noted and Chair noted too, the SDR allocation is not a substitute for warranted macroeconomic

adjustments or necessary structural reforms. We, therefore, urge staff to be proactive and we are happy to hear, of course, that staff are providing guidance to authorities on the effective use of their allocation, and we welcome the upcoming Guidance Note to support this engagement.

Second, we strongly support staff's proposal to enhance transparency of SDR holdings in transactions, and we welcome the proposals to publish the Annual Report and expand the information included in quarterly reports.

Third, and I'm offering these on the future here, we encourage major economies to send a little portion of the SDR allocations to vulnerable countries. Some of these resources can be channeled through the PRGT, but we also welcome Managing Director's proposal of a resilience to sustainability trust, which can help vulnerable countries in their recovery efforts and longer-term structural transformations. We welcome learning more details on this proposal from staff in the coming weeks.

Finally, we very much look forward to receiving Managing Director report to the Board of Governors on this allocation.

Ms. Levonian:

I just wanted to say thanks to Managing Director for her historic opening remarks and to staff for all of their work on this truly historic allocation.

We issued a gray statement with many of our Board colleagues in which we strongly supported the proposal for this allocation as well as plans to enhance transparency and accountability in the reporting and use of SDRs.

I am going to use my remarks today to underscore a few points, mostly focused on post-allocation issues. So, firstly, like Ms. Senich and as well as staff noted in their paper, the allocation may reduce demand for Fund resources in the near term and could lead to kind of moral hazard and delays in necessary policy adjustment.

We see this as the main risk associated with the allocation, particularly for countries with debt sustainability concerns. Here, we repeat that an SDR allocation is not a substitute for a UCT program. This risk underscores the importance of the updated Guidance Note to set out a current set of principles that can guide staff and members on the appropriate implementation and use of the allocation.

Recognizing that SDRs are ultimately unconditional, advice to the membership on the best use of their allocation will be critical, in particular, when assessing the tradeoffs between responding to the pandemic and rebuilding buffers that are peerlessly low in many EMDEs.

How guidance on the SDRs could be integrated into bilateral surveillance, will be key. Perhaps a dedicated section on this issue could be a standard for the next cycle of Article IVs and, Managing Director's remarks in this respect are much appreciated.

Regarding the functioning of the SDR market, staff are encouraged to continue attracting new members to the voluntary SDR marketplace to ensure that it has the capacity to respond to the largest ever SDR allocation. For its part, Canada is prepared to offer additional operational flexibility under its existing VTA to help accommodate potential increases in demand.

I want to just close with a point on SDR literacy and as Managing Director said this at the beginning, SDRs are a very complicated topic that we have been fortunate to study closely over a year now. The Fund can help the membership by deploying an SDR literacy campaign aimed at the broader public in parallel with the allocation. Such a campaign can convey the benefits and limitations of SDRs and help manage expectations that the allocation will translate into a major boost in global public spending.

The Chair:

I recognize what Ms. Levonian said about the risk, and this is why we want to make the work on the allocation integral to our engagement with countries. In other words, I want mission chiefs to own it.

On the literacy, of course, we have to do our job, all of us.

Mr. Chodos:

I thank Managing Director for this momentous opportunity and the leadership that brought us here. I think that the common gray statement is a testament to the understanding of the challenges of the time by all countries regardless of their differences, emphasis, and approaches. I think that is a good reason to celebrate. I think that it is a momentous moment, and I think it should be marked down.

We wanted to make some specific comments, and I echo most of the words by Mr. Moreno, particularly his support for Managing Director's idea of this trust. We think that the main problem or the main challenge here is going to be mobilization, mobilization, mobilization. We have to understand that either mobilization and redistribution is need driven or it will not happen. So, we should be focused on what is the greater risk. I think again Mr. Moreno struck it right. The greater risk is unuse of the resources and having to reexperience what happened in 2009 when more than 70 percent of the resources were unused. Again, this is a challenge for the mobilization and this has to be a need-driven approach.

In that vein, the idea of the trust I think is one of the many, including VTAs, including bilateral arrangements, including unilateral arrangements, including all sorts of channeling because 650 billion is sufficient enough an amount that no one avenue will fit them all.

Then, I would like to make a note on the concept of what needs could this eventual trust address and some discussions on whether or not climate change challenges are warranted or not. We strongly believe that climate change is a macrocritical issue, but ultimately, we would not believe that macrocriticality should be dislodged from the real challenges from the future. So, we also would support the idea of having these sort of challenges, including in the final objective of those challenges.

Mr. Buisse:

As Managing Director said, it is a historical Board. We thank staff for their excellent paper and helpful outreach to our office. We are very happy that this allocation is moving forward a year and a half into the pandemic. The needs are clearly here and the general allocation of SDR will provide rapidly and efficiently the necessary relief in liquidity to members, including emerging and developing countries with binding credit constraints.

We have been very big supporters of an SDR allocation from the beginning and much has been said in the gray statement so I can be quite brief. First, we agree with the staff proposal to enhance transparency and accountability in the reporting and use of SDRs. We would like to insist on the importance of preserving the confidentiality of individual transactions. In addition, while SDRs are, of course, unconditional, we look forward to reporting on their use after a period of two years.

In addition, the Guidance Note will provide a very useful framework for our country teams and authorities to discuss how best to use this source of liquidity. With that, I would welcome clarification on the process and the timing of how the Fund and more precisely the country teams will provide advice to the authorities. The allocation is coming very quickly now, and from several discussions I had with various teams, my sense is that it is not completely clear yet for everyone.

So as time will really go fast, we are at the end of June and hopefully everything will be in the banks by the end of August, so it will be very important to ensure quick and widespread information to maximize the chances that SDRs are useful and best reasons and do not delay necessary reforms.

Second, regarding the strength of the VTA market, we think staff's two-pronged approach is very adequate, giving priority to an expansion of the number of VTA participants which would enhance the burden sharing and the trading of SDRs. As a matter of fact, Europe alone represents 40 percent of the total amount of SDR sales. Once the allocation is done, we are ready to see if there is a need to adjust our VTA to provide additional operational flexibility. Details would have to be further discussed with my authorities, of course.

Let me just reiterate our interest to be informed on the estimate flow of outgoing transactions in the wake of the SRD allocation and according to what scenarios.

Third and finally, channeling part of the SDR allocation to low-income countries is needed to contribute to the coverage of medium-term financing needs and complementarily explore an allocation of only 21 billion. This would in particular be important in the case of Africa. As Ms. Riach said, the G-7 is resolved to a new deal with Africa, including by magnifying this report from the IMF to reach a total mission of 100 billion.

On options for reallocating SDRs on top of the PRGT, of course, all options should be on the table to ensure that we are able to help vulnerable countries address their long-term challenges so that this allocation can be truly transformational.

Let me just note here that there are inevitable financial architecture constraints if we want to create new trust funds, in particular, the importance

of a reserve coverage, for which one will not be surprised, a gold sale would in my view be a good source of grants on the order of magnitude that we need.

The Chair:

We have a designated Fund management team meeting, and there it will scale down to the teams to define what is expected from staff, but we also did not want to get ahead of our shareholders.

Mr. Mouminah:

I am extremely happy that this is happening now. As Chair said, it is historic and it is actually timely.

We join 21 other chairs to express our strong support for the proposal for the general allocation of SDR equivalent to \$650 billion for the Eleventh Basic Period. This allocation will boost global reserve against the backdrop of unprecedented health and economic crisis. In this regard, we agree that the proposed allocation will have significant benefits for emerging market and developing economies (EMDEs), particularly for low-income countries (LICs) as well. This step demonstrates that the membership continues to be united for the public good or the greater good.

At this stage, I would make very few points for emphasis, and it is very much in line with what has been said already. On enhancing transparency and accountability in the reporting and the use of SDRs, we support staff's proposal. In this context, we also agree on the need to preserve the unconditional use of asset characteristics of SDRs and the confidentiality of individual transactions, as Mr. Buisse just mentioned.

On the Guidance Note, we look forward to this work. This will be very helpful to country teams in providing consistent policy advice tailored to the country-specific circumstances, both surveillance and program context.

The key goal should be to encourage countries not to postpone the needed macroeconomic adjustment for structural reforms, as mentioned by Mr. Tanaka, Ms. Levonian, and Ms. Senich.

Furthermore, as we noted in our joint gray statement, the SDR allocation should not delay debt restructuring in countries where debt levels are unsustainable. I echo the points of importance of communication and

improving literacy of the new SDR and how it can be used. I welcome Chair's comment on that.

On the VTA market, it has worked well for more than three decades. In this context, we support staff's plan to strengthen it to ensure its smooth functioning, given the likely increase in trading activities following the allocation. In particular, we welcome staff's call for additional members to sign the VTAs to expand the capacity of the VTA market to broaden the burden sharing across a wider group of countries. I welcome the positive signs from new members that they will be joining.

Finally, we keenly look forward to discussing staff's work on the menu of options for voluntary channeling of member countries' SDRs. This issue has raised expectations in many countries which are facing weakened external position and higher financial needs in the context of unprecedented global shock of the pandemic. Progress on this work will provide opportunities for countries' recovery efforts.

Staff should remain creative in exploring options, and it is a time to be bold.

Mr. Bevilaqua:

As others, I would like to thank staff for all the work and the well-written report and commend the Managing Director for her leadership in the whole process.

We signed the joint gray statement and very much welcome the proposed allocation and look forward to the next steps leading to its implementation. There is a clear case for a sizable general allocation of SDRs to improve global resilience in the aftermath of the pandemic.

In fact, this chair has been a strong proponent of a general allocation of SDRs since the beginning of the pandemic more than a year ago.

The Fund is in a unique position to immediately help the membership to close gaps in reserve assets, at once reducing short-term risks and improving economic fundamentals. As argued by staff, other alternatives to replenish reserves are not as timely or economical. Concentrating the allocation in a single tranche also contributes to its effectiveness.

That said, the proposed allocation as it is distributed according to quota shares still falls somewhat short of medium-run gaps in reserve assets, particularly in low-income countries, along with small and midsize middle-income countries.

That said, we understand the difficulty of considering an even larger SDR allocation at this juncture. Alternatively, as duly noted by Mr. Moreno, the Fund must engage in best efforts to devise innovative ways to facilitate rechanneling SDRs to low income but also to small and midsize and middle-income countries with implementation hopefully beginning this year.

We fully support the call for more transparency and accountability while respecting the unconditional nature of the SDR allocation. To be clear, the proposed Guidance Note should be based on general principles already supported by the Board and not on new approaches especially designed for this allocation.

Of particular importance, one must be extremely careful not to make policy advice on SDR use binding in the context of programs. Countries should still have full discretion according to existing rules on how to dispose of liquid SDR resources, especially other programs. More transparency in this specific transaction must be fully consistent with the agreements reached in the context of technical assistance TA.

Participating countries should have the option to make transactions confidential if required by the old domestic legislation, for example, at the risk of hindering the proper functioning of the markets.

That said, we fully support heightened transaction transparency and enlarging the VTA market to increase liquidity and make room for potentially sizable purchases.

Mr. Hilbers:

Thanks to Chair, for her strong leadership in the first phase on this important issue, and also let me thank staff for today's paper. I can be brief, as we cosigned the joint gray statement with 21 other chairs in which we support the proposal for the SDR allocation.

Let me make a few very brief points. First, we strongly support the proposals on transparency and accountability in the use of SDRs. Moratorium

use of SDRs is crucial to ensure that the SDR allocation does not disincentivize macroeconomic adjustment when needed.

Second, we very much agree that the network of VTA should be strengthened, and we believe it is important that the VTA market has sufficient capacity and encourage all VTA participants to participate in the VTAs.

We also welcome openness to countries' preferences on not trading in the cases of AML/CFT concerns on international ascensions.

Third, we welcome the planned ex-post report on the use of SDRs two years after the allocation. The size of the allocation is significant, and it would be good to keep monitoring the need for global reserves.

Fourth, the next chapter will be the options for on lending SDRs, and we look forward to detailed proposals in July, which will allow our authorities to decide on this important issue.

Finally, we are pleased that our newest member, Andorra, will be part of the SDR allocation, and we look forward to the upcoming related decision. Let me stop here but only after reminding my colleagues of maybe two interesting historical facts. The first proposal for a new international form of international liquidity came from Mr. John Maynard Keynes, who proposed a so-called "bancor" currency as part of his proposal for an international clearing union, which later became the IMF. That was July 1944, so 77 years ago.

Secondly, this is only the fourth allocation of SDRs since its inception more than 50 years ago, so I think this is really a historical day for the Board.

Mr. Palotai:

As we cosigned the joint gray statement, I will be very brief.

We support the single-tranche implementation of the general SDR allocation in the proposed amount of \$650 billion in line with the IMF's recent call in April.

We are well aware of the uncertainties in the estimate of the long-term global reserve needs but trust that a proposed amount will make a material

contribution to domestic and international reserves, in particular, for those members in need of urgent liquidity support due to the COVID-19 pandemic.

We appreciate the envisaged ex-post report within two years that would see merit of earlier updates to the Board. We look forward to the updated Guidance Note, and we encourage staff to provide policy advice on the effective and appropriate use of SDR allocations in the surveillance and program discussions with the authorities with the view not to delay necessary adjustments.

Finally, we trust that the voluntary rechanneling will help that the liquidity support reaches economies which need it the most. Thank you.

Mr. Merk:

We agree this is a Board meeting that will be remembered in history. We are part of the joint gray statement and would like to reiterate our strong support for the proposal. We thank staff for its excellent work, and we thank for the opening remarks we heard this afternoon.

The volume of allocated SDRs and thus potential access to unconditional liquidity will surpass IMF quotas by far once the proposed allocation will have taken place. Allocated SDRs have the purpose to supplement reserves in case of a global need.

They are, however, not a means to support continuous and structural reserve needs of individual countries or country groups. In these cases, it would be indicated to identify the root causes and to address shortcomings with domestic policies supported by the IMF through its surveillance or, if needed, a regular UCT-quality program.

An SDR allocation might well have positive effects on building confidence, enhancing global financial stability and resilience, as elaborated by staff. Sound macroeconomic policies in the member states are a key prerequisite to reap the potential benefits of an SDR allocation, and that is how I understood Managing Director's opening remarks and the comments of many of my colleagues.

We agree with staff that at present it seems unlikely that an SDR allocation would lead to excess demand and inflation given the large negative output gap. However, allocated SDRs are probably persistent far beyond the

current crisis. The impact of the SDR allocation on demand and inflation could change over time.

We do not fully share staff's channel assessment that SDRs do not contribute to excess global imbalances. The new liquidity may contribute to sustained current account deficits and may delay economic policy adjustments, which makes it even more important that allocated SDRs are used in a responsible and accountable manner, and many of my colleagues have emphasized that.

We welcome staff's proposal to enhance transparency and accountability in the reporting and use of SDRs.

We also strongly support the idea of a review of SDR allocation two years after the allocation. We encourage staff to discuss an outline of such a review in advance with the Executive Board in order to specify its scope and content. As an alternative, such a review could also be conducted by the Independent Evaluation Office (IEO).

We fully agree that a broad VTA participation would be welcome with a view to a wider burden sharing and thus encourage staff to approach members who have not yet provided a VTA. However, our participation as well as the concrete design of the respective individual voluntary VTAs should remain in the sole responsibility of each individual VTA provider while the design of VTAs could be the object of coordination processes in some cases, as currently among central banks in the EU area.

The Chair:

I want to thank Mr. Merk and his authorities for a very constructive engagement so we can come up to the decision we are taking today. I do respect fully the caution Mr. Merk has expressed today.

Mr. Hosseini:

As indicated in our joint gray statement with 21 other chairs, we strongly support the staff's proposal for a general SDR allocation to supplement existing reserve assets during the relevant basic period. We agree that allocation equivalent to \$650 billion is appropriate, and this should be implemented in a single tranche.

The onset of the COVID-19 crisis is having a long-term implication on the global economy and the stability of the international monetary system. Many countries, in particular, low-income countries, are being confronted with growing external financing needs, elevated debt vulnerabilities, and mounting poverty and inequality.

While emergency financial support has been helpful in addressing immediate balance of payments needs, the staff has made a good case for a general SDR allocation to cover a long-term global need, supplementing existing reserve assets.

In our view, sizable general SDR allocation is timely and would provide the membership, particularly the low-income and middle-income countries hit hard by the pandemic, much-needed urgent liquidity support and some welcomed short-term fiscal space.

An SDR allocation reinforces multilateralism and will send a strong signal about the importance of global cooperation to address global challenges.

As noted in the joint gray statement, we support increased transparency in the use of SDRs while respecting their unconditional nature and the confidentiality of individual transactions.

We also support the conduct of an ex-post review of the results of the allocation on the basis of predefined criteria approved by the Board.

Finally, we encourage staff to continue exploring a menu of options for channeling member countries' SDRs in line with their national circumstances and legal requirements to further support countries in need, including to help finance more resilience and sustainable economic recoveries.

Mr. Bhalla:

We issued a detailed gray statement; I will make only two very brief points. My first point relates to the need for issuance of fresh SDRs. The report mentions that more than 60 percent of EMDEs had inadequate reserves before the pandemic, and with economic disruption caused by the pandemic, availability of such reserves has correspondingly worsened. In this regard, the allocation is very much welcome and very helpful to those who need it.

However, as observed by the staff, this allocation mechanism does not strictly reflect individual members' reserve needs. Thus, it is possible that a general allocation of SDRs may go disproportionately to those economies which do not require them.

My second point relates to staff's proposals for enhancing transparency and accountability in the reporting and use of SDRs. While we fully support staff's proposals, in our view, to bring in more transparency, the IMF may consider publishing a granular inter-country exchange data with respect to SDR trades, including transactions through the warranted trading arrangement as well as bilateral exchange of SDRs.

Mr. Peter:

Thanks to Chair for your historical opening remarks and staff for providing a very dense, concise but still very understandable paper.

We also joined this broad consensus in support of a single tranche SDR allocation worth the historic \$650 billion. We have also cosigned the joint gray statement of 22 chairs, and so here I would just like to emphasize four very brief points.

First, we stress that this or, in fact, any SDR allocation should not substitute for a necessary adjustment of policies for structural reforms. The allocation is obviously no panacea to deal with long-standing vulnerabilities and structural weaknesses not already existent before the pandemic.

We expect that the proposed Guidance Note will allow staff to promote solid macroeconomic management and avoid delays in variant policy adjustments or structural reforms. Could staff inform when this Guidance Note is precisely planned to be issued?

Second, we strongly support the proposed measures to enhance transparency and accountability in the reporting and use of SDRs, as stressed by many of my colleagues.

We are convinced that it is possible, too, at the same time to preserve the nature of the SDR as an unconditional reserve asset and ensure the appropriate and productive use of allocated SDRs. In this context, let me just stress that we very much welcome the enhancement to the existing quarterly reports on SDR holdings, the publication of the annual update on SDR trading

operations, the proposed ex-post report on the use of SDRs, and, of course, the Guidance Note that I have already mentioned.

Third, the parallel work on options for SDR on lending on a voluntary basis should be mindful of the legal constraints faced by potential contributors. We are awaiting staff's concrete proposals on how such on lending could help support members in line with the Fund's mandate. We stress the voluntary nature of these options and the need for timely and full engagement of the Executive Board in discussing them.

Fourth and finally, we look very much forward to an expansion of the participants in the VTAs to improve the burden sharing.

The Chair:

I join Mr. Peter in urging more to join the Voluntary Trading Arrangements. I think that call is coming loud and clear from many today.

Mr. Poso:

Let me start by saying that we agree that there is long-term global need for additional reserves and an allocation of about 453 billion SDRs in a single tranche is appropriate for the Fund to meet a significant part of these long-term needs. We also strongly support the proposals to enhance the transparency and accountability in the reporting and the use of SDRs.

Several Directors have spoken about SDR channeling, and we also look forward to the opportunity to discuss various options in July. However, today and in the coming weeks, I think it is important not to overshadow the significance of the allocation decision itself. As Mr. Moreno and Mr. Merk reminded us, the proposed allocation is more than double the amount of all SDRs allocated to date. This is a significant injection of global liquidity and we should be clear on that message in our external communications.

This said, as also stressed in our joint gray statement signed by 22 chairs, the substantial SDR liquidity should not be considered as a substitute for warranted macroeconomic adjustments, sound policies, or necessary structural reforms. It should not delay debt restructurings in countries where debt levels are unsustainable or UCT-quality programs in countries with external balance of payments financing needs.

Lastly, I would like to highlight the importance of ensuring the continued smooth functioning of the VTA market in light of the likely significant increase in SDR trading activity. On our part, I can confirm that the four countries with an existing VTA, Denmark, Finland, Norway, and Sweden, will continue to provide liquidity to the SDR market and review their respective agreements.

Furthermore, and responding to Chair's call, I am happy to announce that both Estonia and Lithuania have decided to start preparations for joining the group of VTA countries.

The Chair:

This is so welcome to hear today that we are already getting a positive response to this call. I want to echo what Mr. Poso said. The allocation on its own is very significant. Let us not lose sight of how significant it is. Again, many Directors spoke about that. It is significant, but it is not a substitute for the right policy in place.

Mr. N'Sonde:

Thanks to Chair for her opening remarks, which stress the need to move ahead with these general SDR allocations, to increase reserve assets in these trying times for the global economy.

Managing Director referred to help sovereign public health and economic situations this year and last year in many parts of the globe, including in Africa currently.

Let me take this opportunity to express the appreciation of our constituency countries for your leadership and advocacy in pursuing this SDR allocation. We also thank staff for the hard work and excellent paper as well as their response to questions from gray statements.

We have cosigned a joint gray statement with 21 other Directors, and I will limit my comments to a few points. First, we fully support the proposal for a general unconditional allocation of SDR. From our members' perspective, this SDR allocation is much welcome and timely given the financing constraints they are facing to support a sustainable recovery while addressing the impact of the pandemic. As underscored by Mr. Hosseini, these constraints include limited fiscal space, higher debt vulnerabilities and, for low-income countries, scarce concessional resources.

Many countries included in our constituency are keen to engage in UCT programs, and they are doing just that. But this allocation will complement other Fund and international initiatives to give them the needed space to secure and distribute vaccines while addressing internal and external vulnerabilities. This is all the more important that many structural reforms initiated to enhance resilience to shocks could take time.

Second, countries in our constituency support also the initiatives to increase transparency and reporting of the use of SDRs while keeping the unconditional nature of their use. Many of them, notably those belonging to currency unions, have already indicated their intention to adopt an approach similar to the one used for the 2009 SDR allocation, which was fully transparent.

We fully support the Guidance Note for staff as a way to provide an evenhanded manner guidance to countries on transparent use of their allocations. As stressed by Mr. Bevilacqua and others this afternoon, such advice should be based on countries' needs, domestic frameworks capacity, and alternative financing options. This should include, where relevant, credible and feasible meeting daunting budget needs.

Finally, we look forward to discussing proposals for a post-allocation rechanneling of SDR next month to help provide another layer of support for those countries that need it the most. In this regard, we strongly support enhancing the lending capacity of the PRGT and welcome other options, including for increasing support to small and middle-income developing countries.

Mr. Odonye:

Thanks to Madam Chair for the overview and spearheading another successful global public good. We thank staff for the proposed general allocation of SDRs to reinforce the long-term global needs amplified by the huge spending to mitigate the impact of the COVID-19 crisis. The IMFC decision in the last Spring Meetings endorsed by the G-7 and G-20 countries are for issuance of the SDR attest to the severity of the problems.

In our gray statement, where we joined 21 others, we support the staff proposal for the SDR 650 billion allocation to supplement reserve assets and wish to emphasize a few points.

One, the COVID-19 fallout has been unprecedented and continues to exert a heavy toll on the global economy, negatively impacting the reserve positions, international capital flows, and liquidity access, especially for many low- and middle-income countries.

Given the uncertainty about the path of the virus and policymakers' current focus on country measures needed to exit the crisis, we support the one-step allocation. We recognize that macroeconomic adjustments in countries with elevated debt levels remains a medium-term goal to be traded by many countries and would invite staff comments on backstopping the authorities in this direction to avoid the risk of delayed reforms.

Two, we agree that transparency and accountability remain an integral part of the reporting and use of SDRs. Consequently, we encourage all member countries to appropriately use their allocations of SDRs to respond to the crisis and welcome the proposed expansion of reporting on SDR allocation holdings while respecting the unconditionality of SDR allocation. We look forward to the ex-post reporting of SDR allocation and the Guidance Note on reporting expectations for member countries.

Three, the planned expansion of the VTA participants will allow an expanded market and enhance reserve access. In this regard, we welcome the two-pronged approach proposed by staff and concur that the 2009 SDR allocation offers 11 lessons to enhance the flexibility of VTAs in assessing their allocation.

We note staff's projection of an additional 50 billion from the new participants if all current VTA members with no VTA were to join the market. We assume participation will also be informed by country circumstances or capabilities.

Four, given the significant impact of COVID-19 on LICs and middle-income countries (MICs) and their sluggish recovery path, we encourage timely exploration of options for post-allocation channeling of SDRs by members with a strong external position and look forward to the upcoming Board discussion. We support the prioritization of PRGT and the rechanneling, we expect the workstream will factor additional options, including the MIC, in their need.

Mr. Huh:

Thanks to Chair for her insightful opening remarks on the history success of the \$650 billion SDR allocation. Also, we highly appreciate Chair's strong and persistent leadership.

As we cosigned the joint gray statement with 22 chairs, I will be very brief. First, we reiterate our strong support on the proposal for general SDR allocation with a single tranche. We also support the proposal for more transparency and accountability on the use of SDR and the issuance of guide notes for staff and further expansion of the retail market participants.

Second, as the main objective of this general SDR allocation is to support the difficulty of developing member countries, we would like to encourage staff to actively explore various options to maximize its effect to overcome the serious impact from COVID-19. We are looking forward to further productive discussion on appropriate use of recycled SDRs now or later.

In addition, I would like to request staff to be well prepared to efficiently channel these excess SDRs to the member countries in most need at each country level, including debt sustainability and appropriate macroeconomic policy issues.

Finally, we hope this new SDR allocation could be a very powerful bullet to overcome the current crisis, even as a silver bullet.

Mr. Fanizza:

I would like to thank staff for the excellent job, for their patience in talking with us, and the Chair, for her leadership and energy in pushing this topic. I am very glad we are here celebrating tonight the success of the proposal.

Managing Director noted our chair was among the early supporters of the SDR allocation, so we are very happy for how things have come. We have signed a mass gray statement that was issued so I do not want to repeat what is written there. And many people said before me, and I tended to agree with most of them, actually. It is not the time for disagreement at the moment but let me say that actually one consideration that made this SDR allocation proposal sellable/palatable to the wide membership was rechanneling the SDRs. So, it is essential that we succeed there. I want to ask staff to redouble

their efforts in that direction because from what we are understanding, it is not a walk in the park. There are technical difficulties. Mr. Buisse has pointed to some of them. And issues will have to be solved.

There I come to another issue. I do not want to spoil the party here. We need also to manage expectations. Yes, it is a great thing that we have done, but let us not get carried away, selling us the best thing after sliced bread. What I mean is that, at least if I have to judge from the number of calls that I have received on this topic from people in many countries, authorities in many countries, I must say that expectations are very, very high and maybe, if anything, we should do it trying to satisfy them but try not to raise them even further to involve disappointment. That should be taken care of in communications carefully and in a careful way.

The Chair:

Yes, we have to make sure that people understand what is desirable, what is possible, and what is not possible. Of course, we will work in this direction. But any way you look at it, it is positive.

Mr. Jin:

Thanks to Chair for her persistent leadership regarding the SDR allocation, especially her efforts in bringing all the key members into an agreement finally, and her opening remarks are also very encouraging.

We appreciate Ms. Riach and her duty office for their bringing law into making this widely cosigned gray possible. We cosigned the joint gray statement because we believe it shows the much-needed solidarity of the membership to serve our common interest.

We generally support staff's proposal. We are among the first group of countries that called for a general SDR allocation. The timely SDR allocation will support the global recovery and alleviate a possible shortage of international liquidity. We also support the smooth operation of VTA markets where we will be glad to continue participating in the VTA.

It is in the interest of the Fund and its members that the SDR serves as a high-quality reserve asset that is not inferior to other similar assets. I would echo Mr. Bevilaqua that fully discretionary use of SDR by members should be facilitated and protected with reasonable accountability and the transparency

requirement satisfied. At the same time, structural reforms remain the key to address countries' long-term balance of payments adjustments.

Meanwhile, concerns expressed by some other Directors, such as Mr. Mozhin and Mr. Bhalla, also make sense and need to be answered and addressed properly. We fully agree with staff's view that the SDR allocation is not a substitute to quota increase and realignment.

Ms. Lim:

We would just like to thank staff as well for bringing forward the proposal for the new SDR allocation as well as special appreciation to Chair for her leadership in bringing us to this historic point. We joined 21 other Directors in supporting this SDR allocation as well as the proposals relating to transparency, that is on the use of SDRs in the VTA market. We believe this SDR allocation will increase global reserves and provide much-needed urgent liquidity support to countries hard hit by the COVID-19 pandemic.

On voluntary rechanneling of SDRs, we strongly encourage members with strong external positions to voluntarily rechannel their SDR holdings to help members in need. While the PRGT is a viable and immediate option to channel SDR resources, we also encourage the Fund to consider how to assist members with specific needs, such as the need to build long-term climate resilience and pandemic partners, as well as members that are not eligible for PRGT but are facing difficulties.

In this regard, we support the call for staff to explore additional mechanisms to recycle SDRs and look forward to the discussions in due time.

Mr. Mozhin:

We have issued our own individual written statement where we supported the decision to proceed with the new SDR allocation in the amount equivalent to \$650 billion. Let me explain why we decided to issue our own statement rather than to join the statement of 22 other chairs.

First of all, I simply cannot sign any document where the term "emerging countries" is used. I have explained on a number of occasions that I find this term to be inappropriate, insulting, and even worse. So, this is one reason.

The second one is that my authorities have yet to decide to make a decision regarding their participation in the VTA market. I simply did not want to be misunderstood on that side in case I signed the joint gray statement.

In fact, what we have heard more recently from staff is something which may make it more difficult for us to take many decisions related to the new SDR allocations. What we hear now is there will be so-called strong expectations that anybody who would provide SDRs will be expected to exchange those SDRs into currencies, which effectively would mean a disappearance of any difference between providing SDRs and providing currencies. This may make it more difficult for some of us even to provide SDRs to the PRGT, which I think was otherwise the most natural decision.

When saying all of this, I certainly do not mean to spoil the celebratory mood. This decision is a big decision, and it will certainly help a large part of the Fund's membership to address their very difficult circumstances. We will have another chance to discuss various modalities, but at this point I think let me simply say that we also recognize the greatness of this decision.

The Chair:

I certainly hope we will find a way to keep the tent as big as possible for all of the membership to participate. We will follow up more in details with your office.

Mr. Mohieldin:

We signed a gray statement with colleagues and I very much associate myself with all points emphasized earlier by Mr. Moreno and Mr. Bevilaqua, Mr. N'Sonde and Mr. Odonye.

We strongly support staff's proposal for general allocation of Special Drawing Rights. We fully support the issuance of a Guidance Note from staff on the treatment and use of SDR allocations, including a section on transparency and accountability, and I would like to add as well the important issues raised by Mr. Mouminah and Ms. Levonian regarding the importance of communication. This hopefully can help me answer the many questions by my daughter, a structural engineer, but getting more and more interested in SDRs and whether investing in them could compensate for the losses that she has been making in her little investments.

We welcome and support the proposed language on the channeling of SDRs. Specifically, we encourage staff to continue exploring a menu of options for channeling countries' SDRs on a voluntary basis. By directing SDRs to the PRGT could be one effective and immediate way to channel resources towards countries with the most need, in addition, of course, to addressing the growing critical needs of middle-income countries through a special dedicated vehicle.

In this regard, we are encouraged by the announcement by Chair that the resilience and sustainability trust fund would be set up before the end of this calendar year. I am very pleased that today the word "historic" regained its true and original meaning that what we are doing today is going to be remembered positively in the future. We know that there are many details, but I am not seeing devils in them. With Chair's leadership, with the show of solidarity today, and with our competent staff, who always rise to the challenge of finding alternative solutions, we will make this day worthy of being historic.

*The staff representative from the Strategy, Policy, and Review Department
(Mr. Tovar Mora):*

I would like to make some clarifications on a few issues raised by the Executive Directors on how we are advising countries related to the allocation, and on the method and timing of how the Fund will provide guidance.

I would like to highlight that staff's close engagement with the membership, both in surveillance and program context, aims to act as a safeguard to mitigate any risks of delayed adjustment.

To this end also, staff has already been disseminating guidance to area departments and has conducted extensive outreach with mission chiefs on the modalities of the SDR allocation.

The SDR Guidance Note is expected to be circulated to relevant departments very soon, both for comment and for their information, and we are actively engaging with country teams on how to incorporate the allocation into macro frameworks and to provide advice on using the allocation in a manner that is consistent with the principles of long-term macroeconomic stability.

The SDR Guidance Note is expected to be finalized well in advance of the allocation and before it is made effective, and would be shared with the Board for information before it is published.

Let me also comment on SDR literacy more broadly. Staff continues to hold outreach sessions with civil society organizations, other international financial institutions (IFIs), and more broadly with stakeholders to ensure that the purpose and impact of the allocation is well understood by a wide audience.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Constituency Codes

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1749

June 23, 2021

**Joint Statement by Mr. Buissé, Mr. Fanizza, Mr. Hilbers, Mr. Pösö, and Mr. von Kleist
on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula
and Realigning Shares
(Preliminary)
Informal Session IS/21/57
June 25, 2021**

We thank Staff for their presentation on the quota formula and realigning quota shares.

We continue to support the commitment by the IMFC and G20 Leaders to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the Global Financial Safety Net. We recognize the confidence-building effects of an adequately resourced IMF.

We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, to be concluded by no later than December 15, 2023.

We recall that, as in the past, issues related to the IMF overall resource envelope, the adequacy of resources, potential quota increases and their distribution, the quota formula, and governance reforms, have to be considered as an integrated package. In line with this package approach, we reiterate that nothing should be considered agreed until everything has been agreed. The process and outcome of the quota review should be fully anchored in the relevant IMF bodies and needs to take into account the interests of the entire membership.

Quota formula

We consider that the four principles that underpinned the 2008 quota reform remain valid, and that the current formula is working well and delivers on the set realignment objectives. We currently fail to see an alternative that could better meet these four principles.

We underscore that the main variables of the quota formula should remain both GDP and openness, which best capture the role and mandate of the IMF.

Openness is an indispensable part of the formula, and its weight should at least be maintained. Countries that are relatively more open to cross-border trade and financial flows, have a greater role in promoting global economic and financial stability, as well as global trade and financial integration. This is in line with the IMF mandate to promote cooperation and facilitate international trade, and with its increased focus on spillovers. The methodology of openness in the formula should also be maintained. There should be no cap on the openness variable introduced in the quota formula.

We will only be able to consider dropping the variability variable as part of an integrated package approach, after it is determined how its weight would be reallocated. We believe that a significant part of its weight should be reallocated to the openness variable.

The weighting of the reserves variable should be small at most. The current level of compression should be maintained.

We believe that voluntary financial contributions should be recognised in the upcoming 16th General Review of Quotas discussions, and some form of compensation should be warranted.

The current composition of the GDP blend variable should not be changed to increase the weight of PPP GDP. It is a highly contentious variable and its introduction in the formula was a delicate compromise.

Realigning Quota Shares

We believe that a realignment of quota shares should not be guided by a predefined target for a possible shift in shares for any particular group of countries, but should instead reflect countries' relative positions and integration in the world economy, while protecting the voice and representation of the poorest members.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1750

June 23, 2021

Statement by Mr. Bevilaqua, Mr. Saraiva, Mr. Velloso, and Mr. Barroso on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realigning Shares (Preliminary) Informal Session IS/21/57 June 25, 2021

We thank staff for their initial considerations on the Quota Formula and Realignment of Quota Shares in the context of the 16th General Review of Quota (GRQ), including the useful historical perspective and detailed review of recent progress on which future work should certainly build. We trust the Fund's tradition of consensus building will help the Executive Board to deliver on the mandate set forth by the Board of Governors and highlighted by staff in their presentation.

Quota reform is critical to ensure legitimacy and efficacy for the Fund in an evolving global landscape. Currently, IMF's quotas and governance do not adequately reflect the weights of our members in the global economy. This credibility gap could ultimately undermine the Fund's ability to fulfill our mandate. To move ahead productively, quota reform should not be seen as a zero-sum game. On the contrary, it must be understood as a win-win proposition for global stability and shared prosperity. Having a strong and representative IMF, which is a key provider of critically important global public goods, is in the best interest of all members. The historic 2010 commitments, reiterated by the Board of Governors, to increase the quota shares of dynamic economies and protect the representation of our poorest members, go exactly in this direction.

Indeed, proper governance and effective policy require, as a matter of principle, a close association of quota shares and the relative economic weight of each member in the global economy. The importance of economic weight in quota distribution has been amply recognized in the 14th GRQ, where ad hoc allocations compensated for the relatively low weight of the GDP blend in the quota formula. The prominence of economic weight has also been repeatedly acknowledged by members during the 2013 Quota Formula Review and the 15th GRQ. While other variables may provide some nuance to the definition of quota shares, economic size should be the main basis for representativeness as it is arguably more tightly related to a member's stake and potential spillover towards global stability.

There are simple adjustments to the quota formula that could move the needle in the direction put forward by the Board of Governors. We take note of staff's conclusion regarding the variability variable based on evidence accumulated since the 2013 Quota Formula Review and well into the 15th GRQ. None of the several variability measures considered by staff were found to be linked to the use of Fund resources, its presumed purpose. Moreover, the variable currently in use is highly correlated with the other variables already in the formula. Therefore, a low hanging fruit is to distribute the weight on this variable into the GDP blend variable, with more weight on the PPP GDP component to better reflect real economic activity. Another low hanging fruit is to impose some discipline in the openness variable, such as capping the boost on calculated quotas and discounting intra-currency union transactions. Such a revised quota formula would provide a more solid basis for calculated quota shares that could better guide quota distributions in this and future reviews.

Ideally, quota distribution should be guided by a new and better quota formula with limited use of ad hoc features. While similar results can be achieved by a combination of selective and ad hoc distribution using the current formula, we strongly prefer that the quota formula itself would capture the importance of GDP in quota allocations. Relying on substantial ad hoc allocation to compensate for intrinsic weaknesses in the formula violates the basic principle of having a simple and transparent formula to guide quota distribution. We could of course consider some ad hoc adjustments along the alternatives proposed by staff – as long as they have a limited impact on quota displacement away from the baseline suggested by the new quota formula and serve the goal of enhancing IMF legitimacy.

Quota shares of our most vulnerable members, the group of all PRGT-eligible and small developing countries, must be protected. While economic weight should be the overarching criteria for determining quota shares, low-income countries and small developing states should not have their shares at the Fund reduced. As shown in the presentation, such protection is a low-cost measure that would improve fairness in quota distribution and avoid undue harm to almost half of our membership.

In our view, out-of-lineness should not be measured by deviations from the current formula. While the current quota formula was a step in the right direction at the time it was introduced, it has already been surpassed by the consensus achieved during the 2010 Governance and Quota Reform. Not surprisingly, 40 percent of the quota allocation under the 14th GRQ was determined nearly solely by GDP (in addition to the GDP blend weight in the quota formula). Hence, it is not constructive to refer solely to under- or over-representation based on the current formula. At the very least, staff should present other, more representative measures of out-of-lineness, for example, based on GDP-PPP.

More generally, as we stated in the discussion of the work program, we cannot afford another failure in this general review of quotas. In this regard, we reiterate our proposal to establish concrete deliverables for each of our semi-annual reports to the Board of Governors, to guide our efforts and benchmark our progress. We remain open to continue pursuing a productive dialogue to help build consensus within the membership.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1751

June 23, 2021

Statement by Mr. Mouminah, Mr. Alhomaly, and Mr. Keshava on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realigning Shares (Preliminary)
Informal Session IS/21/57
June 25, 2021

We thank staff for their informative presentation and helpful outreach. We have the following comments:

General

We are committed to working on all issues related to the 16th Review in a timely manner with a view to concluding it by no later than mid-December 2023. To this end, we consider that it is important to have the discussion on various elements of the 16th Review as part of an integrated package. In this context, we welcome that the discussion in the Committee of the Whole on quota formula and realigning quota shares in September will take place immediately after the discussion on adequacy of Fund resources.

Decisions on the 16th Review should remain within the relevant IMF bodies to reflect the interests of the entire membership. In particular, the role of other bodies should be limited toward facilitating consensus-building among the Fund membership.

Quota Formula

- We agree that the four principles that guided the current quota formula remain valid and should continue for our work during the 16th Review.
- We recall that the current quota formula consistently performed relatively well in delivering higher calculated quota share in favor of EMDCs as a group, as demonstrated at the time of annual quota data updates. We therefore continue to believe that the current formula is working well and look forward to the outcome of this year's quota data update. We also underline that despite extensive discussions

over many years, agreement on a new quota formula could not be reached as the outcomes were not acceptable to the broader membership.

- We continue to have serious reservations about increasing the role of the GDP in any new formula. This will further shift quota shares from smaller to larger economies and aggravate the concentration of voting power, which is against the spirit of quota and governance reform. Furthermore, we need to keep in view the role and mandate of the Fund in any discussion on the formula to command broad support.
- As we start our work on a new formula, we strongly believe that a measure of voluntary financial contributions (VFCS) to the Fund should be included as a variable in the formula. Indeed, inclusion of a measure of VFCS in the formula will incentivize member countries to contribute financial resources regularly to the Fund, which will help in meeting growing needs of the Fund particularly to provide support to low-income countries.

Quota Allocation

- All allocation mechanisms (equiproportional/selective/ad-hoc) should remain under consideration for the 16th Review. As noted in slide 21, the equiproportional mechanism has played an important role in past reviews and should be considered as a practical option for the 16th Review to facilitate consensus-building.
- We see merit in further work on the dilution limits, particularly how to consider those cases where there was substantial loss of the actual quota share in the 14th Review. This will very much help in building broad support and facilitating a successful conclusion of the 16th Review.
- Finally, we support protection of the voice and representation of the poorest members.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1752
Revised: 6/25/21

June 23, 2021

Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Choueiri on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realigning Shares (Preliminary)
Informal Session IS/21/57
June 25, 2021

1. We thank staff for the comprehensive presentation and the outreach with our office.
2. We indicated last March, in the context of the *Adequacy of Fund Resources* discussion, our support for a central and strong role for the IMF in the Global Financial Safety Net. Given the likely continued demands on Fund resources in the current environment, the adequacy of Fund resources is at risk. The 16th General Quota Review provides an opportunity to ensure the primary role of quotas in IMF resources and to assess the adequacy of quotas to meet potential resource demands during the second half of this decade. In this context and given the confidence-building effects of an adequately resourced IMF, we supported a substantial increase in quota resources under the 16th General Quota Review. The discussion on the adequacy of IMF resources is closely related to potential quota increases and their distribution under 16th General Quota Review. We, therefore, welcome the scheduling of Committee of the Whole meetings on both topics next September.
3. We are committed to engage in revisiting the adequacy of quotas and the process of IMF governance reform under the 16th General Review of Quotas by December 15, 2023 and emphasize that decisions on quota and governance reform should remain within the IMF bodies. This is essential to build broad consensus among the membership.
4. With regards to **realigning quota shares**, it is essential for the 16th GRQ to avoid an outcome in which shifts in quota shares to dynamic emerging markets and developing countries (EMDCs) are not largely at the expense of other EMDCs, as was the case in past quota reforms. This is essential to ensure the Fund's legitimacy. It is also important in the context of the COVID-19, which has severely affected many EMDCs.

5. The **quota formula** works well and continues to reflect dynamic developments in the world economy. The principles underpinning the 2008 reform remain valid, and we support an outcome that is broadly acceptable to the membership, avoids increasing the concentration of voting power, and does not adversely impact smaller EMDCs.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1753

June 23, 2021

Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Meizer on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realigning Shares (Preliminary)
Informal Session IS/21/57
June 25, 2021

We thank staff for the insightful presentation as well as the pre-recorded presentation and outreach to our office which helped clarify some technical points. At the current state of the discussions, we would like to offer the following remarks to the presentation.

The work of the 16th GRQ should continue to build on the progress made in recent years. The Board of Governors provided a clear guidance for the 16th GRQ on both the quota formula and the expected outcome of any adjustment in quota shares, reflecting the interests of the entire membership. In our view, the current formula and the results of the analyses in recent years provide a solid basis for the upcoming discussions in this regard, also considering that consensus will need to be reached on a wide range of parameters. While we consider it important to thoroughly examine and evaluate the possibilities of a new quota formula and any realignment of quota shares, we also underscore that these decisions are closely related to other issues, such as the adequacy of Fund resources and other elements of the governance reform to be discussed within the GRQ.

The envisaged quota reform presents a good opportunity to better reflect members' relative positions and integration in the world economy, while protecting the voice and representation of the poorest members also remain critical. We take note that the out-of-lineness (OOL) has increased significantly since the 14th GRQ according to the current formula and the estimated under-representation of a number of dynamic countries confirms the need for further reform. Relatedly, the accelerated structural transformation of the global economy also requires special attention.

We continue to agree on the four principles of the current quota formula which serves the membership well. We consider GDP and openness as the most important components of the formula, which best capture the role and mandate of the IMF, and call for careful consideration of any modifications in this regard. While the current formula has been developed guided by the still-valid general principles we are open to further development of the formula. We support that the GDP blend should remain one of the most

important variables of the formula and maintaining the current composition of this variable seems to be warranted, also considering that the current weight of market and PPP GDP represents a delicate compromise. Openness should also remain an integral part of the formula in line with the core mission of the Fund, given that it indicates well the integration of a member into the global economy and the possibility to contribute to Fund resources. We support to maintain its current methodology and its weight should be at least maintained. In view of the results of the analyses to date we understand that the variability variable may not play its role as intended. We are hesitant to drop it unless an agreement emerges whether and how to replace it. We also support retaining the reserve variable with an unchanged weight. The compression factor can have an important role to play in reducing the dispersion in calculated quota shares, and we agree with the rationale of it. Additionally, stakeholders should also not lose sight of the fact that the existing formula is a result of a complex compromise.

We see merit in combining different allocation methods and tools in case of a realignment of quota shares in order to foster an agreement. The use of selective and ad hoc allocation methods for quota increases successfully facilitated the reduction of the OOL at the time of the 14th GRQ, and thus are still worth employing. Stakeholders' decision on the proportion of allocation methods and the related factors could be guided by several objectives and considerations; therefore, there is a great need for taking a constructive and consensus-building approach to the 16th GRQ. We also thank staff for providing a brief summary about the key considerations that could drive an ad hoc increase. We acknowledge that the voluntary financial contributions (VFCs) play an important role in preserving the Fund at the center of the global financial safety net (GFSN), and also believe that the VFCs could be recognized by limited ad hoc adjustments. We reiterate our commitment to protect the interests of the poorest members.

Our Constituency remains committed to a strong, quota-based, and adequately resourced IMF at the center of the GFSN and we stand ready to engage constructively to the upcoming discussions on the 16th GRQ. We deem it important to strengthen the IMF as a quota-based institution in order to preserve its legitimacy and credibility in the changing global economy, which also call for the quota reform. We stress the importance of taking into account the interests of the entire membership and that an agreement on the 16th GRQ will require compromise from all sides. We also call for strengthening international cooperation and dialogue to ensure that the 16th GRQ will be concluded by no later than December 15, 2023. To facilitate and inform later decisions on the quota formula, we would appreciate if staff could continue to run illustrative simulations of possible reforms.

We look forward to revisiting the key issues of the 16th GRQ at the formal meetings planned for September 2021.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1758

June 24, 2021

**Statement by Mr. Moreno, Mr. Guerra, Mr. Romero Tarazona, Ms. Arevalo Arroyo, and Mr. Lopez on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realigning Shares
(Preliminary)
Informal Session IS/21/57
June 25, 2021**

From the outset, we want to reiterate our compromise with the guiding principle of a strong quota-based and adequately resourced IMF at the center of the global financial safety net. We thank staff for the insightful presentation on quota formula and realignment of quota shares. The discussion on quota related issues is one of the significant elements of the 16th Review of Quota. To reach a final agreement on the Review, we should work on the progress already made and find a compromise to ensure that any quota share adjustment reflects the members' relative positions in the world economy. At the same time, we should protect the voice and representation of poor and small developing members, including exploring avenues for potential reform of the quota formula.

The current consensus on the quota formula was hard to achieve and further refinements should not block reaching an agreement on the way forward. Solutions that focus on the primary goal of ensuring that allocations are based on the relative position of members in the world economy, could be the best way to advance towards a new consensus. To this end, giving a more prominent role to ad-hoc allocations to reduce out-of-lininess could be the most efficient way to progress in the discussion.

The formula should not be the only benchmark for the calculation of out-of-lininess. Existing deficiencies in the current formula impede its use for out-of-lininess calculations, including its large variability. Moreover, the debate on the formula's variables at the Board, calls for the presentation of additional misalignment measures of the quota shares. We call on staff to provide instead with a group of different measures (including variants of the current formula) to have a broader picture of how quotas reflect the countries' weight in the world's

economy according to different metrics. Following this approach, it would help to obtain a robust list of members' countries for which quota shares are significantly out-of-line across the different metrics. This could be a starting point to discuss quota allocations.

On the specifics of the current formula, we continue supporting the guiding principles of simplicity, transparency, consistency with the multiple roles of quota, feasibility to implement statistically and broad acceptance by the membership. In this spirit, we reject any proposal that introduces excessive complexity and fails to reflect the past consensus of the Board. We believe the main variables of the quota formula should continue to be the GDP-blend, openness –while limiting the overall boost countries can obtain from this component–, with reserves playing a less significant role. We also support exploring ways to reduce the weight, or even drop variability from the formula.

We are open to discuss some refinements in the weight and definition of the different variables of the quota formula to better reflect economic realities. For instance, we note that the current definitions of openness overstate the role of global financial centers and bias quota results. Furthermore, the real role of openness would be better captured through trade flows measured in value added terms. Introducing a cap on openness and exploring adjustments to the compression factor could be good avenues going forward to limit these distorting effects on the quota formula. We would also favor exploring changes in the role of variability. Moreover, given the effects of the pandemic, we would support the use of the broadest classification of poor and small developing members.

On the allocation of quota increases, and until the actual flaws in the formula are solved, we continue to prefer an equiproportional allocation that preserves current quota shares versus a selective one. If changes in the formula are not enough to mitigate biases, we would be open to consider a selective increase that includes corrective factors to limit excessive variations in quota shares. If out-of-lineness is robustly calculated, we are also in favor of discussing ad-hoc allocations to correct significant underrepresentation of members, which the current quota does not reflect its actual weight in the global economy.

We are also open to discuss the role of voluntary financial contributions to the Fund in future allocations, as well as exploring options on the role of the GDP as a “soft anchor”. This discussion should also take into account the magnitude and nature of the different forms of voluntary contributions. Furthermore, the perimeter of these contributions should be flexible enough to include any potential contributions envisaged in the future regarding new trust funds or similar instruments to support member countries.

One final caveat, we strongly encourage staff to provide the Board with plausible alternatives to mitigate the distortion introduced by the COVID-19 crisis in the

computation of calculated quota shares in the future. The year 2020 was an unprecedented outlier given the period used for the calculation of the quota-formula. Because of the specific nature of the pandemic, a truly exogenous shock with a very heterogenous impact and envisaged divergent recoveries among members, staff should present proposals to mitigate its impact and avoid distorted results. We underscore that this type of exercise has already been considered in other workstreams of the Fund, such as the External Sector Assessment, where staff presented pandemic related adjustments to the EBA and EBA-lite.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1759

June 24, 2021

Statement by Ms. Mannathoko, Mr. Nakunyada, and Mr. Ismail on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realigning Shares (Preliminary)
Informal Session IS/21/57
June 25, 2021

We thank staff for the helpful series of presentations, including this latest one on the quota formula and realigning quota shares. Like others, we highlight the commitment by the IMFC and G20 Leaders to a strong, quota-based, adequately resourced IMF, and the Board of Governors' Resolution 75-1 which reiterates that the 16 GRQ must ensure the primary role of quotas in IMF resources and preserve the Fund's role at the center of the Global Financial Safety Net.

The Board of Governors resolved last year that adjustment in quota shares should result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members. Hence this discussion on how to reconfigure the quota formula is important to deliver on this resolution.

Protecting the voice and representation of the poorest regions

Our constituency of 23 countries currently has a quota share of just 2.558 percent (which drops to 1.4 percent for 21 countries, if the two largest economies are excluded). It is critical that this miniscule share is not further eroded in a region whose countries are heavily dependent on Fund programs in the face ongoing external shocks, including recurring commodity price shocks, and rising climate and natural disaster shocks. This uncertain context is exacerbated by the current pandemic and major balance of payments shocks expected in the future, as global carbon pricing eventually closes down coal, oil, and other fossil fuel production and exports in these countries. Against this backdrop, it will be important for both the quota formula and the realignment of shares to protect the voice and representation of the poorest regions.

Quota formula

We agree that the four principles that underpinned the 2008 quota reform remain valid, and favor some of the suggestions highlighted by the staff presentation that would deliver on the Board of Governors' resolution while retaining the formula's simplicity.

We agree on the central role of GDP in the formula, and note that there is scope to increase the PPP GDP portion of GDP which better captures real economic activity and the rapid growth seen in the poorest regions such as SSA, more than the Market GDP share. There are PPP/Market blend options that better recognize dynamic economies in line with the Board of Governors' resolution, while still allowing more favorable calculated shares (than under the current formula) for the largest, systemic economies.

We agree with staff and other Directors that variability fails to capture the IMF program demand it is supposed to measure, and in fact reduces the calculated share of many high frequency program countries. If it is retained, it would need to be reframed to actually capture the frequency of all balance of payments shocks – which are the main reason countries are driven to borrow from the Fund.

While we find that the openness variable which captures global dominance in trade of goods, services and capital (and not how open an economy is), re-enforces the weight of larger economies while reducing that of the smallest, we would be open to retaining its current share in the formula to accommodate other perspectives.

Finally, we urge staff to give careful consideration to the marginalizing impact on the poorest countries' quota shares, of current high compression factors.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1762

June 24, 2021

**Statement by Mr. Andrianarivelo, Mr. N'Sonde, Mr. Nguema-Affane, and Mr. Sidi Bouna on Informal Session (to Engage): Sixteenth General Review of Quotas – Quota Formula and Realignment Shares
(Preliminary)
Informal Session IS/21/57
June 25, 2021**

We thank staff for the insightful presentation and continued analysis to help advance quota and governance reforms. We welcome this new discussion on quota formula and realignment in the context of the Sixteenth General Review of Quotas.

We re-emphasize the importance of maintaining a strong and well-resourced Fund to adequately meet higher potential demand from members. We continue to believe that the Fund should remain a quota-based institution to preserve its credibility and legitimacy and have already expressed our support for a substantial increase in quotas in the informal session on Adequacy of Fund Resources last March. A large quota increase is also needed to reduce out-of-lineness that has significantly increased since the Fourteenth General Review of Quotas and is even higher than before that review.

The principles that governed the work towards the current formula—as laid out in Slide 12—remain, in our view, valid. The current round of discussions on a new quota formula should build on the progress achieved to date, notably the outcome of the 2013 Quota Formula Review and the work during the 15th Review--albeit limited--to hopefully reach a broad consensus. However, considering that the quota database has expanded since that work was undertaken, any decision should be informed by an updated assessment. To this end, technical work done years ago might need to be reassessed.

The four variables included in the current quota formula, in our view, are still pertinent, but blend GDP should remain the main variable with a higher weight for PPP GDP. Each variable fulfills a relevant purpose for the function of quotas. In particular,

Variability should be maintained as it is an indicator of demand for Fund resources but its current measurement could be improved. While past analysis on this variable points to its removal from the formula, it is worth recalling that this work is data dependent and was based on old quota data. We would therefore suggest resuming technical work to confirm or refute past results using updated quota data. At the same time, new options on the specification for Variability should be proposed, as it widely differs from the other three variables. Should Variability be removed from the formula, we strongly favor putting its weight on the PPP GDP variable. As regards the compression factor, a lower factor (i.e. greater compression) is needed to further reduce disparity between quota shares. A factor of 0.90 would be a good compromise in that regard.

The driving force in realigning quota shares is reducing the large out-of-liness and bringing most dynamic countries closer to their real positions in the world economy. In this vein we strongly favor a combination of “selective” and “ad hoc” allocations. The proposal of a soft GDP anchor to distribute quota increases under an ad hoc distribution appears reasonable. However, we note that the ad hoc quota distribution methodology always differs from one quota allocation to another. A new methodology is always proposed at each quota increase, without any explanation on why the previous methodology is abandoned. *Staff comments will be welcome.*

Protecting the voice and representation of the poorest members as stressed during the previous review and reiterated by the membership is crucial. We consider that the Fund’s definition of the “poorest members” for the purpose of protecting voice and representation should be consistent with its definition when it comes to access to its concessional resources, namely “PRGT-eligible countries”. Nevertheless, we could go along with the proposal to add small states to the list of protection-eligible members. However, the protection mechanism has some flaws that need to be addressed. In particular, the protection scheme is unfair toward less dynamic members that are not eligible for protection, as it alters their true relative economic positions. Indeed, it is a fact that the poorest members do not have the smallest quota shares regardless of the definition of poorest members considered. As a result, the application of the protection mechanism has led to situations where less dynamic members that are not eligible for protection end up with quota shares lower than those of the closest members eligible for protection. Such unfortunate situations should be avoided, or at least minimized to the extent possible.

Two options could be considered to preserve countries’ relative economic positions while protecting the poorest members. *In the first option*, declines in quota shares of non-eligible members would be limited by the closest lower protected quota share. Under this option, a declining quota share would remain within an interval between the closest higher

protected quota share and the closest lower protected quota share. However, this will introduce greater complexity in setting quota shares. *A second option* which is easier to implement would be setting a quota share or threshold under which all members would be protected. Such threshold could be set at the highest protected quota share under the first option. Both options would reduce somewhat the envelop of quota increases to be distributed but would preserve countries' relative positions. Our chair favors the second option. We support limits on increases and declines in quota shares to command broad support. This feature which was already present in previous quota allocations, could be combined with the abovementioned option 2 to preserve relative positions of non-protected countries.

We still struggle to understand the rationale for considering voluntary financial contributions (VFCs) as an element for quota increases and would not support taking it into consideration. We greatly appreciate members' contributions to Fund resources to help the institution adapt its support to the specific needs of certain members (concessional resources, technical assistance, etc.) or meet spikes in demand for resources (NAB, BBAs). However, making such contributions does not serve any purpose of quotas. Considering VFCs in quota increases could give an incentive to make financial contributions to gain quota shares and could trigger an unhealthy "voluntary financial contributions" race.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/1767

June 24, 2021

**Statement by Mr. Hosseini and Mr. Ahmed on Informal Session (to Engage): Sixteenth
General Review of Quotas – Quota Formula and Realigning Shares
(Preliminary)
Informal Session IS/21/57
June 25, 2021**

We thank staff for an informative presentation on the Quota Formula and Realignment of Quota Shares in the context of the 16th General Review of Quota (GRQ), and their helpful outreach to our office.

We are committed to constructively engage in revisiting the adequacy of quotas and continue the process of Fund governance reforms under the 16th GRQ to be completed by December 15, 2023.

We believe that Quotas should constitute the dominant portion of Fund resources in view of their critical roles in the governance of the Fund. Borrowed resources, on their part, are temporary and should be treated as such. There is no substitute for a permanent increase in Fund's core, own resource base—its quota—that is also consistent with its role at the center of the global financial safety net. A quota-based and adequately resourced Fund is critical for safeguarding and promoting global economic and financial stability. Presently, quotas represent only less than half of the Fund's lending capacity, compared with 84 percent on average during the period preceding the global financial crisis. In our view, it would be prudent for the Fund to revert to the historical pattern and secure a more significant share of permanent resources in its overall resource envelope.

Having said that, we would like to make the following comments on Quota formula and allocation method:

- 1) The principles that underpinned the 2008 quota reform remain broadly valid.

- 2) The 16th GRQ outcome should reflect a fairer distribution and realignment of quota shares between advanced countries and emerging markets and developing countries (EMDCs).
- 3) We agree that GDP blend should remain the most important variable with the largest weight in the formula. Since the current weighting scheme in GDP blend would largely underestimate the GDP of smaller EMDCs, we support increasing the weight of PPP GDP in the GDP blend to appropriately reflect countries' relative weight and position in the global economy.
- 4) *We take note of staff's suggestion to remove the variability factor in the formula and would invite staff to elaborate on the measurement issues faced in drawing this conclusion.* It is important to capture vulnerability to BoP shocks in the quota formula and to reflect the potential need for Fund financing. We, therefore, recommend staff to explore alternative measurements that better reflect countries' BoP difficulties or vulnerabilities. Dropping *variability*, without replacing it with an alternative that captures vulnerability, would increase the weights of other variables. We would have liked to see how different options to allocate the weight of *variability* to other elements of the quota formula would impact the quota shares of countries.
- 5) While *openness* is an important element of the quota formula, we support maintaining its weight but would favour imposing some discipline in the implementation of this variable, including by discounting intra-currency union transactions. *We would also like to understand how staff would deal with measurement issues for countries seriously impacted by non-economic factors including sanctions. Non-economic factors could also affect other variables, i.e. GDP, openness and reserve levels. Staff comments are welcome.*
- 6) We support maintaining the current weight of *reserves* in the quota formula.
- 7) We support limited use of *ad hoc* features to protect the voice and representation of the poorest countries, without reducing the share of middle-income countries.
- 8) A sizable and permanent increase in Fund's quotas will diminish the need for temporary, voluntary financial contributions. We do not support accounting for financial contributions by members that also hold large reserves, in order not to amplify the weight of reserves in the formula. We could, however, support limited adjustment in case of those contributing countries with large current account deficits and limited reserves.

- 9) *Could staff comment on the likely impact of COVID-impacted 2020 and 2021 data on the quota exercise since not all countries have been affected to the same extent and through the same channels?*

Finally, given that the proposed size of the new SDR allocation is almost equal to the current overall quota capital of SDR 477 billion, we underscore that this should not undermine the prospects for a successful 16th GRQ. The 15th Review of Quotas was a disappointment and we cannot afford another failure.

We look forward to further Board discussions on quota-related issues, including the quota formula and realigning shares and quota data updates.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States