Executive Board Minutes 23/43-3

May 31, 2023–3:00 p.m.

Principality of Liechtenstein—Other Business

Documents: EBD/23/41; EBD/23/42

Staff: Celasun, EUR; Sdralevich, FIN; Christopherson Puh, LEG

Length: 25 minutes

ISSUED: JANUARY 30, 2024
APPROVAL: FEBRUARY 6, 2024

CEDA OGADA
Secretary

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[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 Open Archives Policy.

EXECUTIVE BOARD ATTENDANCE [2]

K. Georgieva, Chair

Executive Directors	Alternate Executive Directors
W. Nakunyada (AE)	
	M. Matungulu (AF)
L. Herrera (AG)	
R. Nicholl (AP)	
A. Bevilaqua (BR)	
	J. Liu (CC), Temporary
	P. De Ramon-Laca Clausen (CE)
	F. O'Brolchain (CO)
	M. Mert (EC)
	C. Roman (FF)
J. Stephan (GR)	
K. Subramanian (IN)	
	M. Massourakis (IT)
J. Mizuguchi (JA)	
	M. El Qorchi (MD)
	M. Merhi (MI), Temporary
	L. Dresse (NE)
	A. Marcussen (NO)
	S. Potapov (RU)
A. BinZarah (SA)	
R. Lim (ST)	
M. Peter (SZ)	
	D. Andreicut (UK), Temporary
	A. Medearis (US), Temporary

C. Ogada, Secretary
J. Morco, Summing Up Officer
M. Guerra Bradford, Board Operations Officer
M. Eddy, Verbatim Reporting Officer

Also Present
Communications Department: J. De Haro. European Department: O. Celasun, M. Horton. Finance Department: Z. Murgasova, C. Sdralevich. Legal Department: K. Christopherson Puh, G. Mathias Alves Pinto. Statistics Department: C. Sanchez Munoz. Executive Director:

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

A. Buisse (FF), A. Guerra (CE), P. Jennings (CO), M. Mohieldin (MI), D. Palotai (EC), F. Sylla (AF), Z. Zhang (CC). Alternate Executive Director: A. Alhosani (MI), M. Alrashed (SA), C. Amarasekara (IN), R. Anwar (ST), J. Betancur Mora (CE), C. Just (EC), M. Kashima (JA), P. Loszewski (SZ), R. Mahabir (BR), R. N'Sonde (AF), O. Parkyn (AP), B. Saraiva (BR), V. Vumendlini (AE). Senior Advisors to Executive Directors: S. Chicas Cienfuegos (CE), M. Choueiri (MI), M. Dueñas (ST), R. Gindrat (SZ), V. Grossmann-Wirth (FF), S. Naka (JA), J. Rojas (CE), C. Sassanpour (MD), B. Yoo (AP). Advisors to Executive Directors: Z. Abdelrahman (SA), A. Abdul Raheem (MI), A. Abdullahi (MI), F. Al-Kohlany (MI), D. Bruns (GR), S. Dash (IN), M. Day (CO), R. Fayez (MI), R. Kraavik (NO), V. Lankester Campos (CE), A. Mateus (IT), R. Moral Betere (CE), A. Olhaye (AF), E. Ondo Bile (AF), Y. Watanabe (JA), F. Yahya (AF), F. Lopez (CE).

DISCUSSION RECORD [3]

The Chair:

Welcome to a happy occasion. It is my great honor to share this good news that our family of nations may be growing with one more. We received on May 26 an application for admission to Fund membership from the Principality of Liechtenstein. The letter is from the Prime Minister and Minister of General Government Affairs and Finance. It has been circulated to Executive Directors, and the application will be considered according to our rules.

The Board is not expected to take any decision at this point. This meeting is to inform you about the status and the steps that will be taken. The first step Liechtenstein has already taken was to ask a Fund Executive Director to serve as a channel of communication during the membership process. I want to thank Mr. Peter for so kindly agreeing to provide that channel.

In terms of steps, first in consultation with the authorities, staff from the European Department, the Finance Department, the Legal Department, and the Secretary's Department will conduct a fact-finding mission. Staff from other Fund departments may join. This is particularly applicable to staff from the Statistics Department for reasons you would all appreciate.

The mission will acquaint the authorities with the membership procedures, and we will conduct an assessment as to whether Liechtenstein meets the criteria for membership, gather data, so we can have a paper that describes the economy of Liechtenstein in detail, and it would recommend a range for the quota of the country.

A delegation of the Liechtenstein authorities did visit the Fund during the Spring Meetings. They had informal discussions with staff in several departments, and also with some other country delegations.

The second step is that in due course, a membership committee will be set. It will be approved by the Board on a lapse-of-time basis. This is an ad hoc committee of six to eight Executive Directors—one of them would serve as a chair—to consider the country's initial quota at the Fund based on the paper that will be delivered by staff.

[3] Edited for clarity.

Third, once Liechtenstein is in a position to accept the initial quota recommendation, the committee's report and a draft membership resolution of the Fund's Board of Governors will be presented to the Executive Board for discussion and approval.

If the Executive Board approves, the fourth step would be the report and a draft Board of Governor's resolution will be sent to the Board of Governors for a vote. If the vote is positive, Liechtenstein would become a member once it takes the legal steps domestically that allow the country to sign—a representative of the country to whom this is delegated to sign the Articles of Agreement and fulfill the obligations of Fund membership. It should provide a written confirmation of this to the Fund.

The last step is the most beautiful one. This is a signing ceremony. It would be scheduled in consultation with the authorities in Liechtenstein and will be held in the Treaty Room at the U.S. Department of State where the original IMF Articles of Agreements are held.

We could not perform this step at the time Andorra joined the Fund because of COVID-19, and I do look forward to a wonderful ceremony this time around. Should this happen, Liechtenstein would be the one-hundred-and-ninety-first member of the IMF.

Liechtenstein is a small country. It borders Switzerland and Austria. In 2006, it celebrated 200 years of existence as a state. It is a constitutional-hereditary monarchy. It has democratically elected parliament and power sharing based on checks and balances. The reason we have this discussion today is because, in August 2022, Liechtenstein's parliament overwhelmingly voted in support of Liechtenstein joining our family at the Fund.

The population of Liechtenstein is 40,000—twice the population of the Cook Islands. It will join the group of small states. Its GDP is around $6 billion. It is a diversified economy, large contributions from services, including financial services, but also manufacturing. They adopted the Swiss franc in 1920. It has participated in a customs union with Switzerland since 1923.

After this Board meeting, our intention is to issue a press release, but before we get to that point, I would like to hear from Mr. Peter.

Mr. Peter:

This is indeed a very happy occasion, and by pure chance, I am speaking for the second time on the same day about a country that is very dear and close to us in Switzerland.

At this point, I just wanted to add my thanks to all the departments and staff members who have already been working on this. This process started last fall. I want to especially acknowledge the big help that we got from the Statistics Department, from the Secretary's Department, from the Finance Department, the European Department, and the Legal Department, so already we have seen a broad cross-section of people involved.

In terms of additional information, like Andorra, Liechtenstein considers membership in the IMF only. The decision by the Parliament last fall gave the government a mandate to negotiate the membership, but the government will have to go back to parliament once we know what the quota will be, and there will be a final decision, which is subject to referendum by the population. That could also be an additional step, but the government is currently very optimistic that the support will be there this time. Last time was about 10 years ago. I also happened to be here. I also happened to be involved in that process. At that time, the popular support turned out to not be there, so this time we hope things will be a bit different, so let us continue to work as we have done so far—very productive work. The Swiss authorities are also helping to the extent that they can, especially with data. We have figured out during this process that Liechtenstein does not have an absolutely crucial set of data for the Fund, namely the balance of payments, because it is fully integrated into the Swiss economy, not just as part of the monetary union, but also a customs union, so there will be some work lying ahead, but everyone is optimistic that this time will be different.

Mr. Dresse:

Since 2020, we have been very proud to have welcomed Andorra, the most recent member to join the IMF, into our constituency. Today we are delighted at the prospect of pressing the button, and if it is deemed useful, we will be happy to share our recent experience to help smooth the process to the membership. The issue that Mr. Peter mentioned, however, is familiar to Andorra in terms of statistics and others.

Mr. Bevilaqua:

We very much welcome the news of Liechtenstein applying for Fund membership and congratulate Mr. Peter for sponsoring this process of negotiating. Our long-standing view is that we should aim at universal membership at the Fund, given the importance of the IMF in providing services through surveillance, financial assistance, and capacity building, which are a global public good. In other words, all of us benefit from a strong and representative IMF. In particular, the application of Liechtenstein to become a member of the IMF is a positive step in the country's engagement with the international community. The country is already a member of several organizations, including the World Trade Organization and the European Economic Area, and as a member of the Fund, Liechtenstein would have the opportunity to adopt international best practices in areas such as financial regulation and supervision, exchange rate management, and exchange of information, and benefit from Fund surveillance.

At this stage, I only want to reiterate some principles underpinning our views regarding the allocation of quotas for new members. Even as we know that the quota share of Liechtenstein will be very low and will not affect the distribution of quotas among the rest of the membership, it is very important that we stick to some principles and give the right signals in the process of welcoming a new member. This is even more important as we are close to the end of the Sixteenth General Review of Quotas, so on determining the Liechtenstein quota, we should first use data from a period similar for the one used for the rest of the membership when we agreed on our last quota increase.

Second, we should be mindful that the group of comparators may be a group that is already overrepresented at the Fund and, hence, may not be a helpful benchmark.

Third, the current quota formula does not gather sufficient consensus within the Board and could reproduce distortions that we have been striving to correct over the past decade. That said, we are more than willing to consider when the time comes staff's calculations suggesting a proper range for Liechtenstein's quota, especially if these concerns are adequately addressed.

With these remarks, let me close by renewing my congratulations in anticipation of Liechtenstein becoming the one-hundred-and-ninety-first member of the IMF.

Mr. Matungulu:

We appreciate the opportunity to participate in this initial deliberation on the principality's application for membership to the Fund. In this connection, we take good note of the authorities' request letter to management dated May 26, 2023.

At this stage, we have no concerns or reservations against the principality's announced plan to become a member of the IMF. We would nevertheless appreciate staff's elaboration on two points. First, we wanted to know the reasons for the authorities' demand to join the IMF at this particular time. We note from the intervention by Mr. Peter that this is the second time that we are doing it, so we wanted to know the reason, if there is anything peculiar or specific that is prompting the authorities to do that.

Secondly, we would like to know more about the related institutional review process ahead and the timetable for finalizing the membership.

Mr. Subramanian:

I would like to warmly extend our welcome to Liechtenstein to become the one-hundred-and-ninety-first member and congratulate Mr. Peter on this excellent move. If I could request the indulgence of my colleagues, I just have a question out of curiosity. The question is, why is it that some countries have not joined the Fund, and this question is just my ignorance. Historically a nation that has been in existence for 200 years, what possibly is the history why some nations decided not to join?

The Deputy Director of the European Department (Ms. Celasun):

In terms of the timing, how long it will take, we only have a preliminary assessment of about a year, but we do not want to preempt in any way the duration of the process, but on average we would expect one year.

The staff representative from the Finance Department (Mr. Sdralevich):

On the reasons for the membership, broadly the authorities have expressed great interest in being part of the international community represented by the IMF, also being supported potentially by the global safety net as provided by the Fund, and they also are very interested in the technical assistance that the Fund can provide. I would say there is a general sense of being as integrated as possible in the international community, in the international financial system.

The Chair:

To your core question of why in 200 years they did not come earlier to the Fund, my understanding is that membership for a very small country brings benefits, but it is also associated with cost, human capital primarily. It was the same with Andorra. Ultimately both in Andorra and the Liechtenstein case, what brings that interest in joining the Fund is the surveillance role of the Fund, the fact that the third party would verify data, especially from the perspective of the financial sector. That is an important part of the economy and the cost of membership for that small country to be outweighed by the benefits. As Mr. Peter indicated, like Andorra, Liechtenstein is not planning to join the World Bank, not because they do not believe in the very important role of the World Bank but because of this capacity constraint issue.

Mr. Peter:

I think the Chair and Mr. Sdralevich summarized the reasons quite well. The government has been attempting to join the IMF several times over the past 30 years, and I think the simple answer was that it was this balance of benefits and costs. They were just not convinced whether they would need the Fund, that they could benefit from that, also being such a small member. But I think what happened during the Global Financial Crisis was a determining factor for them, also given the fact that they do not have a central bank in this sense. They are part of the Swiss Monetary Union without having access to a lender of last resort, and so in this sense, their new financial sector strategy that they put together over the past 10 years essentially foresees or presents the IMF as some form of a lender of last resort. Now the overall picture for the population—where there needs to be ownership for this decision—they are convinced that this would be a good idea. Then as the Chair said, surveillance, the peer review process, what Mr. Bevilaqua said, the possibility to adopt international financial standards or international standards on many fronts—that finally convinced them that the balance was in favor of joining this institution.

Mr. Nakunyada:

I just have one question, following up on the question raised by Mr. Subramanian. For those other countries that are not members of the Fund, it might be worthwhile for us to look closely at some of the factors, is there stigma related, are there cost and benefit issues, or are there other issues? Probably from our communication standpoint, it may help us in terms of how we communicate the important role of the Fund to enhance its appeal for those that might be sitting on the fence and those that are considering joining.

The Chair:

In a world of so much unwelcome surprise, good news is even more valuable, so we wish Liechtenstein all the best and also to our team and to Mr. Peter. A year sounds like a long time, but time is flying fast these days, so we will be welcoming Liechtenstein, provided all the steps are taken.

The Chair adjourned the discussion.

ANNEX

- Constituency Codes

CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, 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
Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, 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, 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