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IMF Executive Board Informally Discusses Preliminary Considerations and Next Steps in the Twelfth General Review of Quotas

On February 8, 2002 the Executive Board of the International Monetary Fund (IMF) held an informal seminar on conceptual issues involved in assessing the adequacy of the IMF's resource base as part of the Twelfth General Review of Quotas.[1] The seminar provided an opportunity for a preliminary exchange of views on issues raised in a staff paper which considered the implications of developments in the world economy and the evolving role of the IMF for the IMF's resource base. The seminar is the latest in a series of informal discussions to consider issues related to the Twelfth General Review of IMF quotas. Previous seminars focused on possible revisions in the formulas used to calculate members quotas.[2]

Executive Board Discussion

Mr. Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, made the following remarks at the conclusion of the seminar:

"Our meeting today provided a useful opportunity for a preliminary exchange of views on the conceptual issues involved in an assessment of the adequacy of the Fund's resource base as we begin to undertake the Twelfth General Review of Quotas. As Directors noted, this review is being started not only in a context of increased global economic and financial integration as well as of access of a growing number of countries to private capital markets, but also of increased vulnerability to economic shocks and financial market volatility. At the same time, many countries have improved economic policy and performance, leading to a decrease in vulnerability. There is broad recognition that these diverse factors, as well as the Fund's efforts

[1] This PIN summarizes the views of the Executive Board, as expressed during the February 8, 2001 informal seminar, based on the report titled "Twelfth General Review of Quotas—Preliminary Considerations and Next Steps".

[2] For information on these discussions, please see PIN No. 01/118 and News Brief No. 00/90.

to adapt its policies to deal with these challenges of globalization, will have important implications for the future demand for Fund financing, although there is, at this stage, no converging view on the extent to which, on balance, the various developments could affect the required size of the Fund's resource base. Our discussion will provide helpful guidance to the staff for our future work on quotas, but at this stage we have not reached conclusions regarding the future adequacy of the Fund's resource base.

"Directors had a broad-ranging exchange of views on the implications of recent adaptations in the Fund's surveillance and financial policies in face of the changes in the world economy in the past decade, including the significant increase in the size and volatility of members' balance of payments financing needs. They noted that efforts to strengthen the Fund's role in the prevention and resolution of financial crises, as well as to increase private sector contribution, will enable the Fund to respond more effectively and flexibly to the rapidly changing global economic situation and to maintain a central role in an international monetary system in which private capital flows are the primary source of financing for a growing number of countries. The adaptations in the Fund's policies outlined in the next paragraph have implications for the future demand for Fund financial assistance, which, together with other variables, should be taken into account in our approach to assessing the adequacy of the Fund's resource base.

"Directors considered that the Fund is undertaking key steps to encourage the pursuit of sound economic polices and to prevent crises, such as improving surveillance, increasing transparency, promoting international standards and codes, and strengthening financial sector surveillance, which should help countries attract funding from private external and domestic sources as well as reduce the frequency and severity of financial crises. In addition, the provision of contingent and precautionary financing by the Fund to support the adoption by members of sound policy frameworks should facilitate better differentiation by lenders in creditworthiness assessments of sovereign borrowers, and thus help to reduce the incidence of financial contagion and the need for Fund resources. At the same time, several Directors noted that more frequent provision of contingent and precautionary arrangements for crisis prevention, which the International Monetary and Financial Committee (IMFC) has encouraged, could involve substantial commitments of financial resources, including during times when the world economic situation is favorable. As such commitments could be drawn quickly and in large up-front disbursements in the face of significant adverse developments in the world economy, these Directors considered that the Fund would need to have adequate resources to backstop these commitments in order to ensure their credibility. Several other Directors did not see great scope for a strong expansion of contingent financing by the Fund, and expected that its impact, if any, on Fund resources would remain limited.

"On crisis resolution, many Directors noted that the introduction of the Supplemental Reserve Facility (SRF), which does not have explicit access limits, and greater recourse by members to the exceptional access procedures have contributed to an increase in the size and volatility of Fund financial commitments, disbursements, and credit outstanding in recent years. While effective crisis prevention should tend to reduce the disbursement of Fund resources over time, it was recognized that crises and bouts of financial contagion could occur from time to time. In these circumstances the Fund will need to maintain adequate liquidity to be in a position to respond, at times on short notice, to requests for substantial disbursements. At the same time, the discussion highlighted a number of factors that could attenuate future resource needs. Shorter maturities for SRF financing, time-based repurchase expectations, and interest surcharges will help Fund resources revolve more quickly. A number of Directors considered that the improved effectiveness of Fund programs that will result from streamlining conditionality and strengthening country ownership should also facilitate the more efficient use of Fund resources. While it was recognized that quotas should remain the principal financing source of the Fund, a number of Directors also noted that borrowing arrangements, particularly the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB), could be activated to supplement Fund resources on a temporary basis.

"Because the size of official financing will remain limited, Directors stressed the need to involve the private sector in the prevention and resolution of financial crises, including continued efforts to develop and implement the framework for private sector involvement (PSI). Several Directors considered that strong PSI, including progress toward a framework for sovereign debt restructuring, should lead to a reduced need for Fund resources than otherwise and help address moral hazard concerns. They also expected that diminished prospects for large-scale official financing could play an important role in promoting early and effective policy adjustment and more effective PSI. Several other Directors, seeing only little evidence of moral hazard stemming from a larger Fund resource base and Fund intervention, pointed to the need to ensure continued access to Fund resources, which could be large, including in cases in which the Fund is called on to serve as a catalyst for official and private financing or to facilitate an orderly debt workout. As a number of Directors noted, the arrangements for PSI are evolving, and it is difficult at this stage to reach precise judgments regarding the potential impact on the need for Fund financing and the adequacy of the Fund's resource base. In this connection, it was suggested that the elaboration of various scenarios using different assumptions on PSI and related issues of access limits would be useful to inform future judgments. Clearly, the work on PSI and quotas is proceeding on parallel tracks and their interaction will need to be considered carefully as we move ahead on both issues.

"Directors also discussed the role of indicators that have in the past been used to form judgments regarding the adequacy of the Fund's resources. Some Directors recognized that indicators that assess the size of the Fund's resource base relative to aggregate measures of global output and trade as well as potential financing needs appear to have become somewhat less relevant while still being useful, given the greater interdependence and volatility in the world economy and uncertainties regarding private capital flows. Moreover, many Directors considered that given the new approach underlying the financial facilities that the Fund has introduced for crisis prevention, a broadening of the traditional indicators of Fund liquidity and measures of the relative size of the Fund could be useful. While other Directors were not yet prepared to endorse a new approach, it was nonetheless agreed that the staff should consider new indicators for assessing the adequacy of Fund resources that take account of the greater volatility of capital flows and provide information on the Fund's forward capacity to meet potential financing needs under alternative scenarios.

"Directors expressed a wide range of views on the questions of the size and timing of a possible increase in Fund quotas. Some Directors stressed that it would be premature to address these issues at this stage given the preliminary nature of today's seminar and the considerable work that remains to be done to clarify the issues that have been raised. Other Directors, however, were prepared to give more specific indications. Many of these Directors were of the view that, given increased uncertainty and the need to take a forward-looking view to the adequacy of Fund resources, there are strong grounds for increasing quotas at this time. Many other Directors, pointing to the Fund's current adequate liquidity position and the unfolding initiatives to strengthen crisis prevention and resolution as well as to promote the more effective use of Fund resources, saw no need to press ahead with a quota increase at this time. In brief, there is so far no consensus in favor of a quota increase.

"A follow-up paper that the staff will prepare taking into account the views expressed by Directors today will include a quantification of the possible size of the Fund under various scenarios based on new and traditional indicators. Such a paper could be considered after the Spring IMFC meeting. Meanwhile, the staff will also continue the work on alternative quota formulas taking account of the suggestions made at our seminar of last October. Several Directors also expressed views on other issues, such as aspects of quota distribution, including selective quota increases, basic votes, calculated and actual quotas, and representation in the Fund as well as the relationship between access to Fund resources, quotas, and financing needs. Clearly, these are all important issues and we will carefully assess the scope for further discussion and progress on them. Finally, I would add that I sensed a willingness by many Directors to explore constructively how the representation of the African countries in the Fund can be strengthened," Mr. Sugisaki said.