

MASTER FILES
ROOM C-525

0409

BUFF/95/89

August 31, 1995

Concluding Remarks by the Acting Chairman
Eleventh General Review of Quotas - Preliminary Quota Calculations
Committee of the Whole on Review of Quotas
Meeting 95/1, August 28, 1995

This has been a very useful discussion. I would like to draw the following tentative conclusions to help guide us in our future work on the Eleventh Review.

First, Directors concluded that the preliminary quota calculations provided by the staff could broadly serve as a basis for discussions on an increase in quotas under the Eleventh Review. However, all Directors expressed concern--as did the staff and management--about the large amount of estimation that the staff needed to make in preparing the database for these calculations. Indeed, this large amount of estimation came as a surprise, and I hope that Executive Directors will encourage their countries to submit complete and accurate data so that a new set of calculations can be provided before the end of the year.

Second, most Directors again noted that the quota formulas were working broadly as intended and they saw no need to change the quota formulas on which the calculations have been made. Nevertheless, some Directors felt it would be useful to re-examine these formulas and to consider possible changes in them. The staff will in due course circulate a paper on this subject, but I should add that it was generally felt that the current review should be constructed on the basis of the current formulas.

Third, a number of Directors believed that it was premature to come to a view regarding the size of the overall increase in quotas under the Eleventh Review. Directors noted that the appropriate overall size of the Fund would need to be determined with a view to the likely future demand for financing by the Fund, the evolution of the Fund's liquidity position, the access of members to market financing, and related questions, rather than solely on the basis of calculated quotas. A number of other Directors felt that the calculations provide support for a substantial increase in quotas under the Eleventh Review. In this connection, it was observed that an increase in quotas of the order of 60 percent would broadly restore the size of the Fund in terms of the size of the world economy to the 1983 level. Some Directors felt that, given developments in the world economy since that time, a doubling of quotas would not be out of line. Furthermore, Directors' comments at the recent discussion on the role of the Fund would support the conclusion that a large increase in quotas is needed to support the activities of the Fund in the years ahead.

Fourth, many Directors pointed out that the quota calculations provide important indicators of the relative positions of members in the world economy and, in particular, they show the changes in those positions that have occurred since the last adjustment of quotas. Most Directors were of the view that the new calculations presented a reasonable and acceptable indication of their countries' relative economic positions as determined by the quota formulas.

Many Directors observed that the use of market exchange rates in converting GDP expressed in national currency to SDRs has continued to obscure the full importance of the real domestic growth of the economy for some countries. Many Directors did not favor the technique of averaging GDP over a five-year period, and a number of you suggested that an ad hoc approach might be tried to address the anomalies. In that connection, it was suggested that consideration be given to the use of real effective exchange rates based on 1990 or 1985 as a possible alternative to the use of current market exchange rates. The staff will show the effects of using, on an ad hoc basis, a constant real effective exchange rate for conversion purposes in a short paper dealing with these possible anomalies in the calculations.

Fifth, many Directors emphasized that the quota increase under the Eleventh Review should be predominantly equiproportional and that a further erosion of the quota shares of developing countries should be avoided. However, the calculations also show that a relatively large number of countries have shares in calculated quotas that are not reasonably reflected in their shares in actual quotas. A number of Directors, therefore, are of the view that some further restructuring of quota shares would be desirable in the context of the Eleventh Review. In this connection, Directors noted that 16 countries have shares in calculated quotas in excess of 50 percent of their share in actual quotas. I observe from this part of today's discussion that, while some further restructuring of the quota shares is warranted on the basis of the quota calculations, there seemed to be a broadly based feeling that the extent of the restructuring should be smaller than was undertaken in the Eighth and Ninth Reviews, and should focus on those countries whose present quotas are significantly out of line with their relative economic positions. Several speakers also suggested that further consideration be given to amending the Articles of Agreement to increase the number of basic votes, and the staff will present a paper on the effects of such a decision later.

Sixth, the quota calculations discussed today can provide only a broad guideline of the extent to which a realignment of quota shares would seem justified. The issue of how to restructure quota shares goes to the heart of our discussions on quotas. It may, therefore, be useful for the staff to prepare a short paper to show, illustratively, the effects of adopting

different methods of allocating an increase in quotas, in particular to adjust the shares of those countries whose present quotas are significantly out of line, in the context of different illustrative increases in the size of the Fund. The staff will aim to issue this further set of calculations in the next few weeks.

