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Concluding Remarks by the Chairman
Eleventh General Review of Quotas -
Distribution of Quota Increase - Illustrative Calculations
Committee of the Whole on Review of Quotas Meeting 95/2
December 5, 1995

I believe we have started a process of clarification, but only that, on the issue of the techniques to be considered in distributing an increase in quotas. Further detailed consideration of distribution techniques will be needed as we progress in our discussions, which will also include the overall size of the quota increase and, as several have noted, the issue of basic votes in the Fund. Some Directors were of the view that the question of distribution could be addressed independently of the issue of size, especially as they felt that it would be premature at the present stage to consider the issue of the overall increase in the size of the Fund. Most other Directors felt that the illustrative range of overall increases in quotas presented by the staff was in line with our preliminary discussions on this matter last July and again in August. Many Directors observed that the issue of distribution depends to a considerable extent on the issue of size, because we have to ensure the general adequacy of quotas for all members, and a large selective element in the context of a small overall increase could result in inadequate quotas for some members. The issue of distribution and size is also linked to the distribution of voting power and balanced representation in the Fund. We will be addressing the issue of the size of the overall increase at the next meeting of this Committee in early January 1996.

The issue of the size of the increase apart, many Directors, especially from developing countries, felt that the techniques of adjustment illustrated in the staff paper resulted in an unacceptable fall in the shares of quotas and voting power of their particular countries, while some Directors were of the view that the staff's illustrative methods did not go far enough in increasing the quota shares for those countries whose present quotas are significantly out of line with their relative economic positions. As Directors observed, achieving the right balance between these two positions will be an important part of our considerations in the Eleventh General Review of Quotas.

Many Directors felt that the amount of the quota increase to be devoted to the selective element, set in the range of 10 percent to 25 percent of the overall increase, was a reasonable starting point. A number of Directors felt that all the illustrative calculations should have been made on the same basis, rather than varying the apportionment of the overall increase as between the equiproportional and selective elements. The staff

will issue a set of calculations showing the application of Method B for an apportionment of equiproportional and selective increases of 75-25. However, a number of Directors felt that to allocate an overall increase in quotas in the proportion of 75-25 did not seem to be in accord with the view that the overall increase should be "predominantly equiproportional." Of course, there is room for further consideration of a selective element of between 10 percent and 25 percent of the overall increase in quotas. I should also note that several Directors have suggested that the selective element could be as much as 40 to 60 percent of the overall increase.

Some Directors prefer, or are willing to consider, the approach of making ad hoc quota increases for the members whose present quota shares are the farthest out of line, and who are prepared to contribute substantially to improving the Fund's liquidity. All others would then receive an equiproportional increase, unless the ad hoc approach were considered in combination with a uniform method to distribute selective increases.

Many Directors also commented on the staff's case-by-case treatment of the few anomaly cases that we discussed in July of this year, when it was felt that a few countries' relatively fast economic growth rates had been masked by the use of market exchange rates to convert local GDP data into SDR equivalents. It was noted that the staff's adjustments were helpful in addressing the anomalies in the calculation of quotas for the members concerned, and it was observed that the adjustments did not affect the distribution of increases in quotas--unless Method A was used. A few Directors noted that the GDP for their countries was underestimated because the size of the nonmonetized sector had not been taken into account. However, some Directors were not convinced that there was a particular need for such adjustments to the data used in determining the calculated quotas of these members; and the adjustments could affect the calculations for other countries' quotas and create unwarranted precedents. It is too early to draw the sense of the Committee on this matter.

All in all, today's discussion has shown that most Directors favor a predominantly equiproportional increase, but there remain considerable differences of view on the share of selective increases in the total as well as on the distribution method. Clearly, we need to pursue both Method A and Method B, as well as the matter of the cutoff ratio; while there was little support for Method D in today's discussion, this method also remains on the table. The approach of ad hoc increases also needs to be further pursued, and, finally, a number of you have expressed support for a possible increase in basic votes. The staff will circulate new illustrative calculations on the various distribution techniques after the Committee has considered the factors bearing on the overall size of the quota increase.