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Concluding Remarks by the Acting Chairman
Working of the Quota Formulas and Preliminary Calculations
Committee of the Whole on Review of Quotas Meeting 94/1
March 18, 1994

This has been a useful discussion of the technical issues relating to the working of the quota formulas and the preliminary quota calculations made for the Tenth General Review of Quotas. While these technical issues have important consequences for the broader policy-related issues as regards the conduct of the Tenth Review, these policy issues, as a number of Directors noted, were not on today's agenda. Let me nevertheless note that today's discussion revealed significant differences of view as to whether there should be a quota increase under the Tenth Review and what form it should take, or whether the Tenth review should be promptly concluded without any increase in quotas and work should begin on the Eleventh Review. Thus, we will need to come back to the work related to the Tenth General Review of Quotas, in light of the Board of Governors' Resolution, in which the Executive Board was asked to submit a report, together with appropriate proposals, to the Board of Governors not later than December 31, 1994.

A number of Directors noted that the quota calculations (EB/CQuota/94/1) were made on the basis of data that ended in 1990, which is an updating of the material by the normal period of five years since calculations were made in connection with the Ninth Review. In light of any substantial revision in the data through 1990, the staff could issue a revised set of quota calculations.

A number of Directors noted that the quota calculations indicated a moderate growth in the world economy in the period 1985-90, and that the present size of the Fund in terms of the new calculated quotas is of the order of 33 percent, compared with 28 percent at the beginning of the Ninth Review. The calculations also showed that, while the extent of disparities between actual and calculated quotas has diminished since the Ninth Review, a considerable number of countries have actual quotas that are very much out of line with their calculated quotas, and this provided an important indication that the restructuring of relative quota shares, which was begun in the Eighth Review, is far from complete.

As to the structure of the quota formulas, most Directors supported the principle that the quota formulas should reflect the different economic characteristics of members, and considered that the dual structure of the quota formulas that was introduced in the 1962-63 reflected these characteristics relatively well and should be maintained. To put it differently, a Bretton Woods-type formula, with a relatively large weight for GDP, should continue to be used, along with a formula or formulas that, like the derivative formulas, give greater weight to external trade and to the variability of external receipts, which were characteristic of many economies of the developing countries. This dual structure of the quota formulas is generally representative of most countries' economies.

Many Directors felt that the present quota formulas work reasonably well. In particular, they felt that the quota formulas should be changed only when there was a compelling need to do so. These Directors also noted that an important characteristic of the working of the quota formulas should be to provide a stable basis for adjusting individual quotas in the context of a general review. A number of Directors, however, felt that it would be appropriate to simplify and reduce the number of quota formulas. Any simplification should have a sound technical basis, such as, for example, to eliminate redundant information, as was done in 1982-83, or to avoid perverse relationships in the calculations, such as between calculated quotas and GDP. A number of Directors were in favor of a reduction in the number of quota formulas to two, along the lines suggested by the staff of using a linearized Bretton Woods formula in association with the M4 formula.

Several Directors have pointed out that it would be useful to examine further the following issues.

1. Most Directors were not attracted to the possibility of using a purchasing power parity (PPP) index instead of valuing GDP by using market exchange rates, and cited the data shortcomings described in the staff paper and the considerable shift in shares in calculated quotas that such use of PPP-adjusted GDP would introduce in the calculations. Nor was there much support for the suggestion to use real effective exchange rates to convert GDP, in part because of the difficulty of selecting the appropriate base period. Several Directors supported the staff's recommendation to use an average of GDP over several years, with some preferring a three-year period and others a five-year period.

2. Some Directors commented on the issue of the valuation of gold in members' reserves and felt that the Fund should include gold at a market-related price for purposes of making quota calculations. Other Directors, however, noted the staff's conclusion that using a market-related price for gold valuation would make relatively little difference to the calculations in general.

3. With respect to need-based variables, most Directors commented on the long-term downward trend in the share of the non-oil developing countries as a group in the total of calculated quotas. Some Directors felt that there was an inherent bias in the existing quota formulas; they would, therefore, support the introduction of new variables in the quota formulas to counterbalance this bias. In particular, these Directors supported the introduction of either a poverty index or a variable representing external debt, or a variable that would indicate difficulty in achieving access to international capital markets. Other Directors, however, were firmly opposed to the introduction of such need-based variables in determining shares, particularly in light of the Fund's role as a monetary institution.

4. There was no strong support for including the relative financial importance of countries in the existing formulas. This matter is difficult to capture in the quota formulas, especially as it affects only a few major industrial countries and some relatively small developing countries that operate offshore financial markets.

5. Directors noted that the calculation of quotas for the successor states of the Former Soviet Union--and other countries in similar situations--gave rise to problems that deserved particular attention. The staff would pursue work in this area, including, for example, the issue of measuring trade among the successor states.

Looking to the next steps, I would suggest that further work in connection with the Tenth Review be continued at the time of the Board's discussion of its work program, following the Spring Interim Committee meeting. That would give Directors an opportunity to reflect on today's discussion.